2019

Interim financial report

half year ended
30 june 2019

vallourec
SMART TUBULAR SOLUTIONS

CONTENTS

Statement by the person responsible for the interim financial report

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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, 23 July 2019

Philippe Crouzet
Chairman of the Management Board

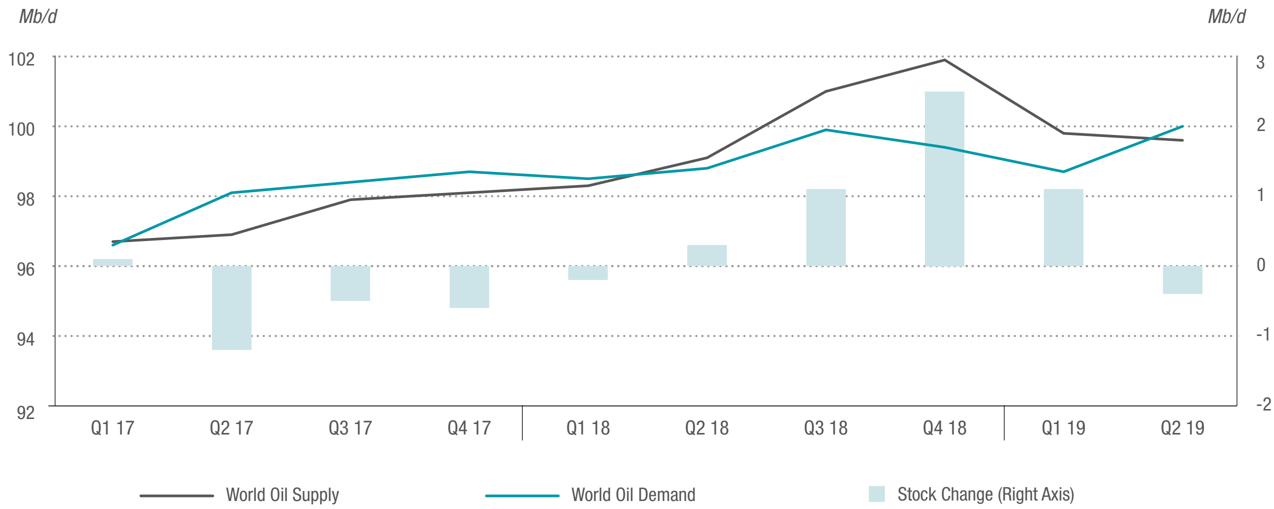
Market environment

1. Oil & Gas

Global Oil & Gas market

Demand for seamless tubes depends primarily on the level of capital expenditures for Exploration and Production (E&P) by participants in the Oil & Gas market. The balance of oil & gas demand and supply, as well as their prices, are the main drivers for the evolution of capital expenditures. The graphic below shows the evolution for the balance of supply and demand in oil through the end of Q2 2019, expressed in millions of barrels per day (mb/d).

Oil Demand/Supply Balance up to Q2 2019

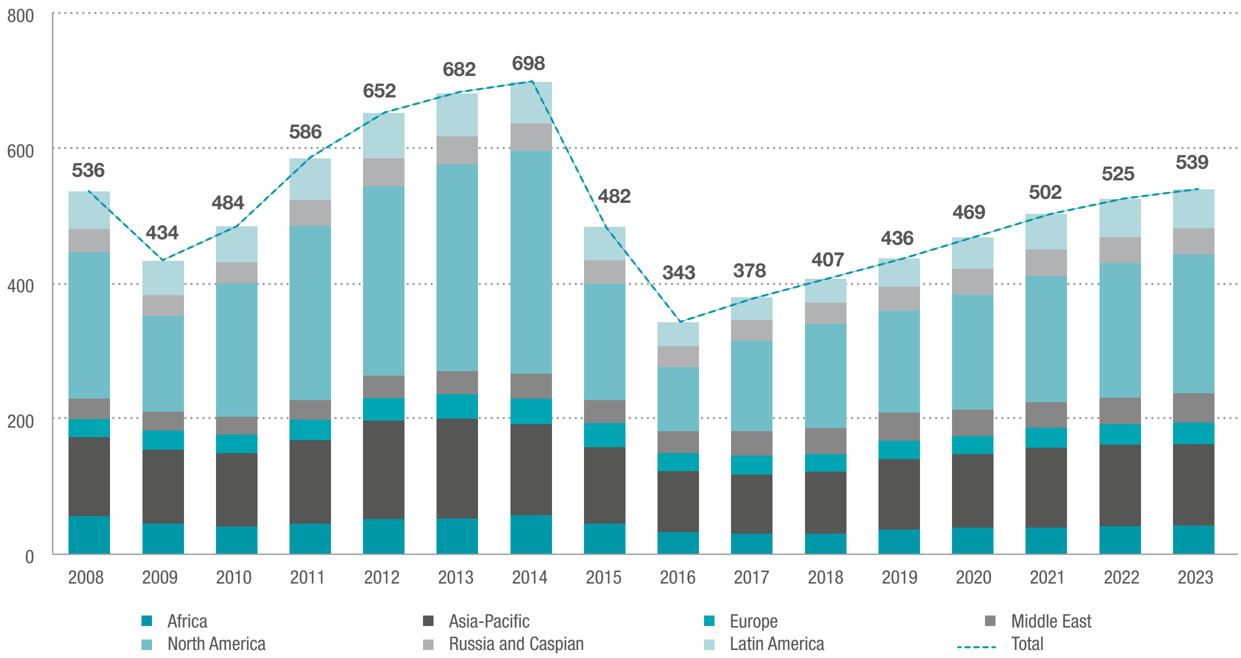


Source: IEA Oil Market Report – July 2019.

The graph below shows the anticipated level of capital expenditures for development and production by participants and by region, according to IHS Markit estimates, at June 2019. Published data indicate an increase of 7% *vs.* 2018, notably reflecting the expected recovery in EA-MEA regions.

Evolution of Upstream Capex by geographical zone

In USD billion



Source: IHS – Global Upstream Spending – June 2019.

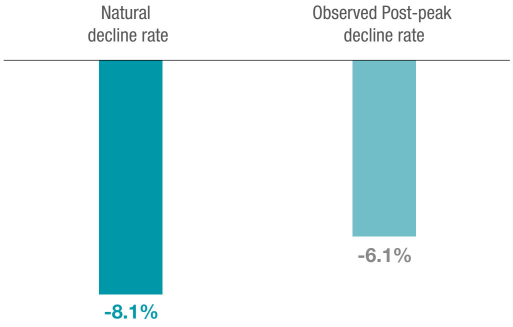
In addition to supply and demand balance, **field depletion is a key driver of demand for oil and gas products**. Over time, oil fields begin to produce less and less oil, until their production declines to a point where oil fields are no longer profitable. The Group's customers must accordingly develop 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 tubular solutions.

"Observed post-peak decline rate" is the annual decline in production from currently producing fields whose production has already peaked even if investments were undertaken in these fields. That decline rate is currently around 6% per year. Just for the conventional output of the post-peak fields to remain flat, the world would need to find an additional estimated 3 mb/d of new production each year (equivalent of the total North Sea production). If no investment occurs on existing fields, the "natural decline rate" would be 8% per year.

The decline rates for "*tight oil*" are even higher.

The graphics on the next page show estimated annual decline rates as well as annual growth rates of oil demand until 2025 (source IEA). They are good indicators to illustrate how future supply, and therefore E&P investment, should evolve in order to (i) compensate the production decline and (ii) to meet demand growth for Oil & Gas.

Production decline rates: 2017-2025

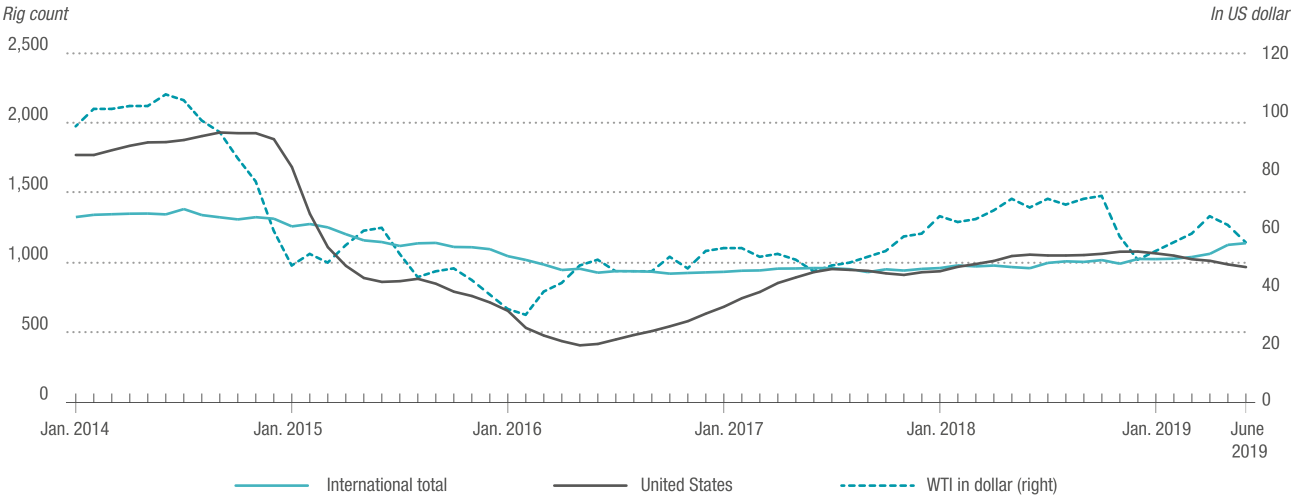


Oil demand growth: 2017-2025

Source : International Energy Agency

In addition, Vallourec considers data relating to drilling rig count (which tends to be correlated to oil prices) as indicative of the market situation. Average rig count in the United States reached a lowest in May 2016 and since have increased steadily. Since January 2019, active rig count declined by 10% in the United States. Operator capital discipline has notably put pressure on the rig count.

Conversely, international[(1)] active rig count increased by 11% year-to-date.



Source: Baker Hughes and IR Nasdaq June, 2019

In H1 2019, average WTI price[(2)] stood at USD 58/b *vs.* USD 65/b in H1 2018, declining thus by 11% year-on-year.

Following the same trend, in H1 2019, average Brent price[(3)] stood at USD 66/b compared to USD 71/b in H1 2018, declining by 7% year-on-year.

The average gas price[(4)] in H1 2019, stood at USD 2.70/Mbtu declining by 6% *vs.* H1 2018 average price of USD 2.80/Mbtu.

(1) EA-MEA + Latin America.

(2) Price of WTI: IR Nasdaq – data collected in June 2019.

(3) Price of Brent: IR Nasdaq – data collected in June 2019.

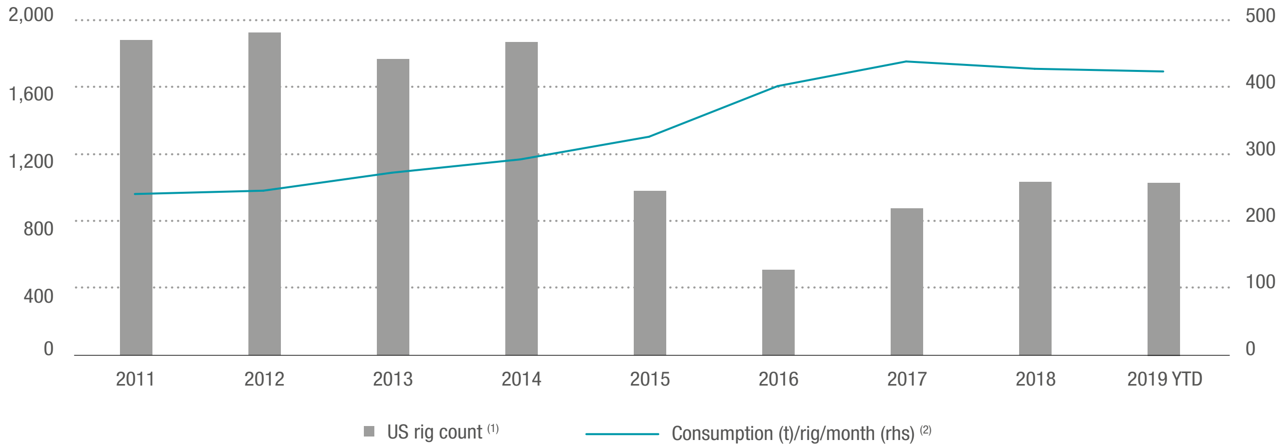
(4) Price of gas (Henry Hub): IR Nasdaq – data collected in June 2019.

Oil & Gas in the United States market

This market has increased considerably since 2017.

The US average number of active rigs calculated for the first 6 months of 2019 stands at 1,017 units. This is a slight decrease when compared with the full year 2018 average number of rigs at 1,032 units.

US OCTG consumption is also driven by improved rig efficiencies, and a higher usage rate of horizontal rigs compared to vertical rigs. The graphic below illustrates this trend and shows that US OCTG consumption per rig is currently at higher levels compared to 2016.



Sources:
(1) Baker Hughes (June 2019).
(2) Preston US OCTG consumption (May 2019).

In the Gulf of Mexico, the number of active drilling platforms at the end of Q2 2019 stood at 24 units[(1)].

Oil & Gas rest of the world market

Brazil: outlook of dynamic growth starting in 2020.

Exploration in **Brazil** will be focused on pre-salt fields with drilling in deep waters and in a highly corrosive environment, requiring highly premium tubular products and solutions.

In Brazil, the Oil & Gas market is heavily dependent on Petrobras's capital expenditure plans, which are regularly updated. The 2019-2023 Business and Management Plan, released on 5 December 2018, forecasts (i) investments of USD 84.1 billion (an increase of 13% or USD 10 billion compared to the previous plan 2018-2022) (ii) continued prioritization on oil E&P projects with 82% of total Capex being dedicated to these projects.

In April 2018, Vallourec renewed its long-term contract with Petrobras for the supply of premium seamless OCTG tubes with premium steel grades and connections using state-of-the-art technology and specialized services.

Same as Petrobras, International Oil Companies (IOCs) are in an intensification phase of their drillings for exploration, following six bidding rounds launched by Brazilian authorities over the two last years. Thanks to its unique offer of products and services, Vallourec is well positioned to support IOCs in this country. A multi-year agreement with Shell in Brazil has thus been signed on January 2019 (Shell being the second largest E&P company in Brazil).

(1) Baker Hughes, North America Rotary rigcounts June 2019.

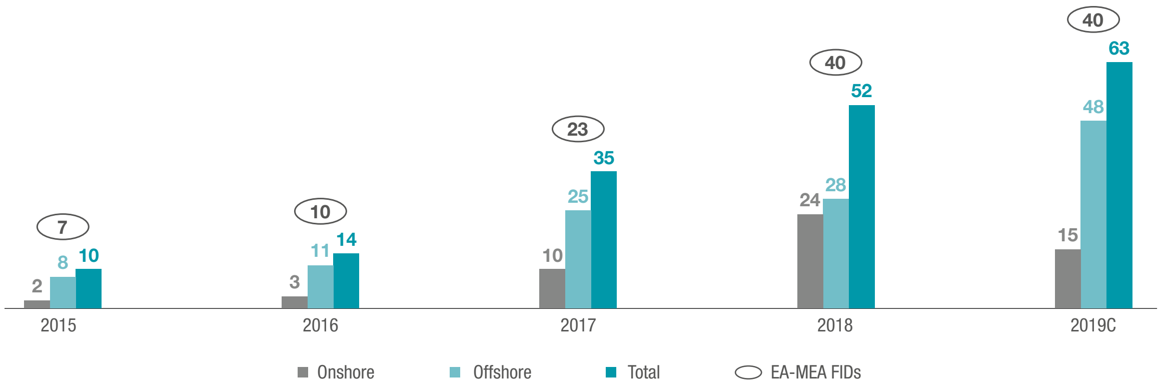
The EA-MEA regions are showing strong recovery.

The context is improving in EA-MEA regions (Europe - Africa - Middle East - Asia), as illustrated by the higher number of projects.

In 2018, 40 projects reached Final Investment Decisions (FID) in these regions.

The graphic below shows the rebound of major final investment decisions from the low point in 2015.

Global Final Investment Decisions [(1)] with reserves >50mbpd



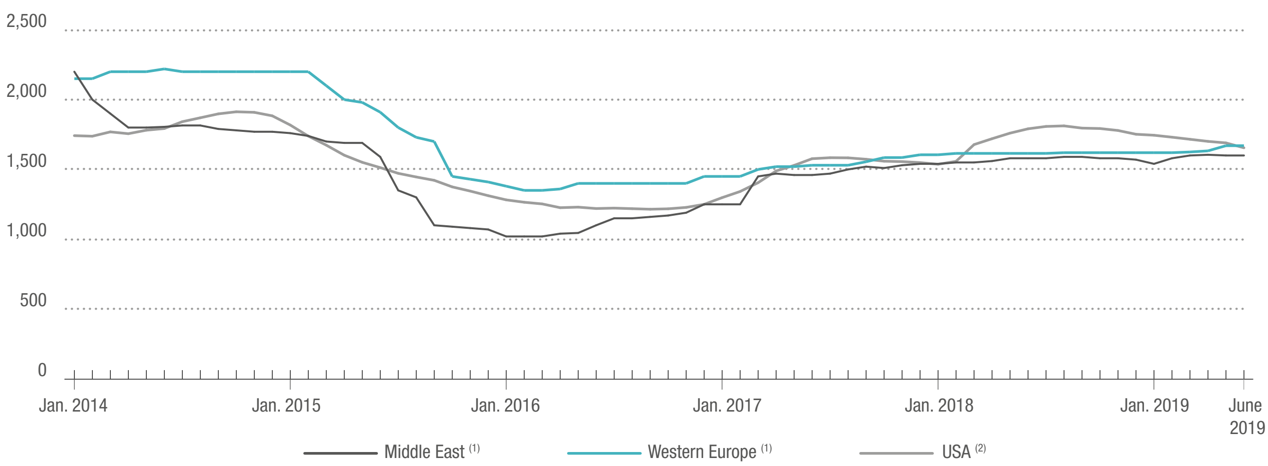
Source: Wood Mackenzie May 2019.
(1) Unconventionnal USA excluded.

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

OCTG pricing evolution for Oil & Gas market

The graph below shows the price evolution of OCTG in the Middle East, in the US and in Western Europe. It is also illustrated that prices have improved since their lowest in 2016.

In US dollar/t



Sources:
(1) MBR (OCTG casing L80 premium connection) – June 2019.
(2) Pipe Logix (average Seamless pipes) – June 2019.

2. 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.

Brazil

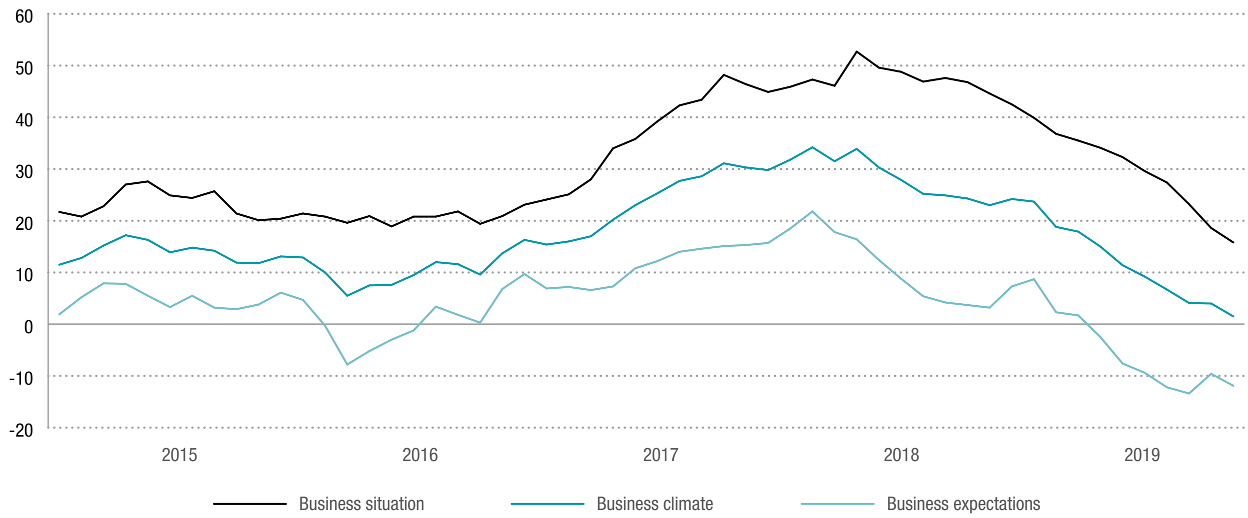
In **Brazil**, the growth estimate for 2019 has been reduced to +0.9% (1) (*vs.*+1.95% previously) reflecting a lower growth environment.

The Brazilian Industry growth recorded on H1 2019 was mainly driven by the automotive sector, with a continuing solid demand in heavy vehicles.

Iron ore production: International prices of iron ore have continued to rise. On H1 2019, average price amounted to 91 USD/t (2) compared with 70 USD/t on H1 2018. On Q2 2019, the average price rose to 100 USD/t, an increase of 20% vs. Q1 2019 (average price stood at 83 USD/t).

Europe

The ifo Business Climate index evolution below reflects the weak German business environment.



Source: ifo Institute June 2019

(1) Central Bank of Brazil – Focus Report – June 2019.

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

3. Power Generation

Demand for seamless tubes in the Power Generation market depends on the construction or maintenance of conventional or nuclear power plants.

Conventional energy

Demand for conventional power plants is declining worldwide.

Given this long-term evolution, the Group announced on February 2019 that it had initiated a plan to divest this activity. The new tariffs recently applied by Chinese authorities on a significant part of the steel pipes produced in Germany for the Chinese conventional powergen market made the divestiture of the Group's conventional power business unlikely. Discussions are ongoing with German employees representatives to assess the future of the dedicated operations.

Nuclear energy

Difficulties of funding, more demanding requirements regarding safety, as well as the political reluctance of some countries, are slowing down the development of nuclear power.

China, with targets of 58 GW of nuclear capacity installed in 2020 (32 GW in 2017) and 150 GW by 2030, is the largest market for the new build.

In Europe, the United Kingdom launched a nuclear program targeting an additional capacity of the nuclear fleet in operation of 16 GW by 2030. In this context, it signed a cooperative agreement with EDF for the Hinkley Point C project.

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

4. Renewables and Energy transition

In the wake of COP21 and Paris agreement, there is a strong push from public authorities as well as private sector for the development of Renewables Energies to pave the way for Energy Transition toward a decarbonized and sustainable living. Vallourec is involved in different innovation projects to enable the group to seize new opportunities linked to energy transition, such as geothermal energy, wind energy and production of "green" Hydrogen.

5. Raw materials

Scrap

Raw material prices impact the Group as a result of its use of scrap metal 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 the United States, average scrap metal prices[1] in H1 2019 stood at USD 322/LT compared to USD 372/LT in H1 2018, declining thus by 13% year-on-year.

The blast furnace and steel mill in Belo Horizonte, Brazil, were closed in July 2018. Steel production in Brazil is now concentrated at the Jeceaba steel mill, a modern site that is equipped with an electric arc furnace (EAF) using srap and with a blast furnace using iron ore supplied by the Group's mine located in Minas Gerais. The mine sells the remaining part of its production to the local market.

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 represents the gain or loss in revenue (or costs) when contracts are invoiced in a currency which is different from the entity's functional currency. The transaction effect is expressed in the functional currency of the entity. It is positive when the functional currency declines and negative when it rises, with a delay resulting from hedges in place.

(1) CRU – Shredded Pittsburgh – $/LT.

Significant events in the first half of 2019

January

- On 28 January 2019, Vallourec announced that the Vallourec tube finishing site in Déville-lès-Rouen is now offering an independent rail connection to the Rouen port, upon having obtained a ministerial authorization to be a rail and port operator (OFP) in late 2018. For Vallourec's heat treatment plant for tubes in Déville-lès-Rouen, this means more flexibility and responsiveness to properly perform its industrial operations, without using a rail company between the plant and the Rouen port.

February

- On 20 February 2019, Vallourec announced that on 19 February 2019, it obtained an extension to February 2021 of €600 million in bank lines that were initially maturing in 2020.
- On 20 February 2019, Vallourec announced an additional gross savings objective of at least €200 million by 2020, in addition to the €445 million already generated at end 2018. These new initiatives are concentrated in European activities, in particular in Germany and in Brazil.
- Concomitantly, was announced on 20 February the search for a partner for the Power Generation activities dedicated to conventional coal-fire power plants, including the Reisholz (Germany) and VCHA (China) plants.
- On 22 February 2019, the Supervisory Board announced the creation of a new special committee in charge of assisting it on issues pertaining to the Corporate Social Responsibility (CSR) strategy.

March

- On 21 March 2019, the Supervisory Board decided to co-opt Ms. Corine de Bilbao as a Supervisory Board member, to replace Mr. José Carlos Grubisich, who resigned.
- On 4 March 2019, Vallourec announced the launch of its new e-commerce platform Smartengo™, which allows its customers to buy some 15 top OCTG threaded welded tubes online. This targeted offer will afford operators greater flexibility, allowing them for example, to very rapidly finish equipping their oil and gas wells in Europe or Africa, as a first step. The Smartengo™ platform will gradually expand its offer for products and services to all sectors of Vallourec's business and in all regions of the world.

April

- On 16 April 2019, Vallourec Soluçoes Tubulares do Brasil has been awarded by TechnipFMC in Brazil to supply around 12,000 tons of seamless steel rigid line pipe with outside diameters 8" and 10". The pipe will be used in the fabrication of the riser and flowline system for interconnecting 13 wells (6 production wells and 7 water alternate gas injection wells), to be installed in the pre-salt field Mero 1, which is part of the giant Libra reservoir.

May

- On 6 May 2019, Vallourec launched its Open Innovation Platform, a website designed to create new partnerships to produce "augmented" pipes. Through its new Open Innovation Platform, Vallourec is demonstrating its commitment to developing regular partnerships with agile, leading-edge companies on new technologies.
- On 24 May 2019, the Shareholders' Meeting renewed the terms of office of Supervisory Board members Ms. Maria-Pilar Albiac-Murillo, Mr. Philippe Altuzarra, Ms.Pascale Chargrasse and ratified the co-optation of Ms. Corine de Bilbao as member of the Supervisory Board.

June

- On 5 June 2019, The "Sociétés de Projets Industriels" funds ("SPI funds"), managed by Bpifrance and subscribed jointly by the French Government and the European Investment Bank under the "Juncker Plan", have invested in the capital of Vallourec Umbilicals, specialized in the manufacture of tubes for umbilicals, to support and finance its phase of industrialization on a larger scale. Thanks to this investment, Vallourec Umbilicals will be able to triple its production capacity enabling it to become a key player in the growing market of offshore umbilical tubes. The Vallourec Umbilicals plant in Vénarey-Les-Laumes (Côte d'Or, France) currently has a production line with an annual capacity of 1,000 kilometers. On November 16, 2018, the SPI funds invested €25m in the capital of Vallourec Umbilicals, becoming a shareholder together with Vallourec, which holds 51% of the capital.

Transformation plan

Gross savings

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

In H1 2019 €48 million of gross savings were achieved *vs.* €52 million in H1 2018.

In Germany, headcount was reduced, during the second quarter, by another 106 which came in addition to the 135 already achieved in the first quarter 2019, out of a target of 600 by the end of 2020.

Conventional Powergen business

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

Iron ore mine expansion project

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

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

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

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

Transactions with related parties

Transactions carried out with equity affiliates in H1 2019 relate mainly to purchases of steel rods from HKM for an amount of €164 million and from Ascoval for an amount of €11 million used for the production from rolling mills in the Group European activities.

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 2018 Registration Document (*Document de référence*) filed with the Autorité des Marchés Financiers (the French securities regulator) on 29 March 2019. 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 to the full year consolidated financial statements.

Consolidated Group results

Income statement

In € million	H1 2018	H1 2019	Change YoY
Revenue	**1,844**	**2,109**	**14.4%**
Cost of sales [(a)]	**(1,611)**	**(1,728)**	**7.3%**
Industrial margin	**233**	**381**	**63.5%**
(as % of revenue)	*12.6%*	*18.1%*	*5.5pts*
SG&A costs [(a)]	(200)	(198)	-1.0%
Other income (expense), net	(15)	(14)	N/A
EBITDA	**18**	**169**	**+€151m**
(as % of revenue)	*1.0%*	*8.0%*	*+7.0 pts*
Depreciation of industrial assets	(134)	(126)	-6.0%
Amortization and other depreciations	(19)	(29)	N/A
Impairment of assets	(13)	(21)	N/A
Asset disposals, restructuring and other	(57)	(11)	N/A
Operating income (loss)	**(205)**	**(18)**	**+€187m**
Net financial income (loss)	(105)	(122)	16.2%
Pre-tax income (loss)	**(310)**	**(140)**	**+€170m**
Income tax	-	(22)	N/A
Share in net income (loss) of associates	1	(1)	N/A
Consolidated net income (loss)	**(309)**	**(163)**	**+€146m**
Non-controlling interests	2	(4)	N/A
NET INCOME (LOSS), GROUP SHARE	**(307)**	**(167)**	**+€140m**

(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	2018	2019	Change 2018/2019
Q1	515	571	10.9%
Q2	572	605	5.8%
H1	**1,087**	**1,176**	**8.2%**

In the first half of 2019, volumes increased 8.2% compared with the first half of 2018, reflecting the higher activity in the EA-MEA regions.

Revenue

Consolidated Revenue

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

Revenue by geography

In € million	H1 2018	As % of revenue	H1 2019	As % of revenue	Change YoY at current exchange rates	Change YoY at constant exchange rates [(a)]
France	43	2.3%	37	1.7%	-14.0%	-14.0%
Germany	141	7.7%	129	6.1%	-8.5%	-8.5%
Other EU Countries [(b)]	111	6.0%	145	6.9%	30.6%	30.6%
Total Europe	**295**	**16.0%**	**311**	**14.7%**	**5.4%**	**5.4%**
North America	**604**	**32.8%**	**668**	**31.7%**	**10.6%**	**3.5%**
Brazil	303	16.4%	321	15.2%	5.9%	11.2%
Other Central & South America	14	0.8%	8	0.4%	-42.9%	-42.9%
Total South America	**317**	**17.2%**	**329**	**15.6%**	**3.8%**	**8.8%**
China	182	9.9%	134	6.4%	-26.4%	-26.4%
Other Asia and Middle East	345	18.7%	415	19.7%	20.3%	18.0%
Total Asia and Middle East	**527**	**28.6%**	**549**	**26.1%**	**4.2%**	**2.7%**
CIS	11	0.6%	17	0.8%	54.5%	54.5%
Rest of the world	90	4.8%	235	11.1%	161.1%	160.0%
Total Rest of the world	**101**	**5.4%**	**252**	**11.9%**	**149.5%**	**148.5%**
TOTAL REVENUE	**1,844**	**100.0%**	**2,109**	**100.0%**	**14.4%**	**12.4%**

(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 by market

In € million	H1 2018	As % of revenue	H1 2019	As % of revenue	Change YoY at current exchange rates	Change YoY at constant exchange rates [(a)]
Oil & Gas	1,106	60.0%	1,395	66.1%	26.1%	22.3%
Petrochemicals	179	9.7%	130	6.2%	-27.4%	-29.6%
Oil & Gas, Petrochemicals	**1,285**	**69.7%**	**1,525**	**72.3%**	**18.7%**	**15.1%**
Power Generation	**180**	**9.8%**	**102**	**4.8%**	**-43.3%**	**-43.3%**
Mechanicals	203	11.0%	202	9.6%	-0.5%	-1.0%
Automotive	78	4.2%	63	3.0%	-19.2%	-16.7%
Construction & Other	98	5.3%	217	10.3%	121.4%	129.6%
Industry & Other [(b)]	**379**	**20.5%**	**482**	**22.9%**	**27.2%**	**29.3%**
TOTAL	**1,844**	**100.0%**	**2,109**	**100.0%**	**14.4%**	**12.4%**

(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 (72% OF CONSOLIDATED REVENUE)

Oil & Gas revenue reached €1,395 million in H1 2019, up 26% year-on-year (+22% at constant exchange rates).

- In the **EA-MEA** regions, Oil & Gas volumes increased significantly year-on-year.
- In **North America**, Oil & Gas revenue increased year-on-year, mainly driven by OCTG prices raised in Q3 2018, although market prices have started to erode.
- In **South America**, Oil & Gas revenue was down compared to H1 2018, reflecting a temporary low point in OCTG offshore deliveries occurring on the second quarter.

Petrochemicals revenue was €130 million in H1 2019, declining by 27% year-on-year (-30% at constant exchange rates), notably due to lower volumes sold in North America and reallocation to higher margin products in Middle-East Asia.

INDUSTRY & OTHER (23% OF CONSOLIDATED REVENUE)

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

POWER GENERATION (5% OF CONSOLIDATED REVENUE)

Power Generation revenue amounted to €102 million in H1 2019, down 43% year-on-year, reported and at constant exchange rates.

The decrease is due to the declining global demand for coal-fired conventional power plants.

Revenue by quarter

In € million	1st quarter	2nd quarter	1st half
2018	862	982	1,844
2019	1,025	1,084	2,109
% change year-on-year	18.9%	10.4%	14.4%
Volume effect	*10.9%*	*5.8%*	*8.2%*
Forex translation effect	*1.7%*	*2.2%*	*2.0%*
Other effects (price, mix, etc.)	*6.3%*	*2.4%*	*4.2%*

Q2 2019 revenue of €1,084 million was up 10% compared with Q2 2018, with a positive volume impact of +6%, price/mix effect of +2%, and a positive currency impact of +2%. At constant exchange rates, revenue grew +8%, reflecting the EA-MEA Oil and Gas recovery.

EBITDA

In H1 2019, EBITDA reached €169 million, improving by €151 million year-on-year.

EBITDA included a positive €16 million IFRS 16 impact and a -€9 million net increase in provisions.

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

The following table shows the changes in the principal components of EBITDA in H1 2018 and H1 2019.

In € million	H1 2018	H1 2019	Change YoY
Revenue	**1,844**	**2,109**	**14.4%**
Cost of sales [(a)]	(1,611)	(1,728)	7.3%
Industrial margin	**233**	**381**	**63.5%**
(as % of revenue)	*12.6%*	*18.1%*	*5.5 pts*
SG&A costs [(a)]	(200)	(198)	-1.0%
Other income (expense), net	(15)	(14)	N/A
EBITDA	**18**	**169**	**+€151m**

(a) Before depreciation and amortization.

Industrial margin

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

Industrial margin amounted to €381 million, up €148 million compared with H1 2018 (up 5.5 p.p.) reflecting primarily higher activity in EA-MEA Oil & Gas. Together with a higher mine contribution, it did largely offset lower contribution in O&G South America.

The following table shows the breakdown of cost of sales (excluding depreciation) in H1 2018 and H1 2019.

In € thousand	H1 2018	H1 2019	Change H1 2018/H1 2019
Direct cost of sales	(108,728)	(118,881)	9.3%
Cost of raw materials consumed	(681,872)	(686,315)	0.7%
Labor costs	(374,444)	(386,363)	3.2%
Other manufacturing costs [a]	(501,397)	(519,138)	3.5%
Change in non-raw material inventories	55,734	(16,986)	-130.5%
TOTAL	**(1,610,707)**	**(1,727,683)**	**7.3%**

(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 €198 million, down 1% compared with H1 2018, representing 9.4%% of revenue compared with 10.8% in H1 2018 and reflecting tight cost control.

The following table shows the breakdown of SG&A expenses (excluding depreciation) in H1 2018 and in H1 2019.

In € million	H1 2018	H1 2019	Change H1 2018/H1 2019
Research and Development costs	(22)	(25)	13.6%
Sales and marketing costs	(40)	(39)	-2.5%
General and administrative costs	(138)	(134)	-2.9%
TOTAL	**(200)**	**(198)**	**-1.0%**

Personnel expenses

Personnel expenses amounted to €488 million.

The following table shows the breakdown of personnel costs.

In € thousand	H1 2018	H1 2019	Change H1 2018/H1 2019
PERSONNEL EXPENSES			
Wages and salaries	(386,182)	(376,848)	-2.4%
Employee profit-sharing	(9,507)	(15,907)	67.3%
Expenses related to share subscription and share purchase options and performance shares	(1,248)	(997)	-20.1%
Social security costs	(108,291)	(93,816)	-13.4%
TOTAL	**(505,228)**	**(487,568)**	**-3.5%**

Closing headcount of consolidated companies	31/12/2018	H1 2018	H1 2019	Change H1 2019 *vs.* 31/12/2018
Managers	3,116	3,137	3,142	0.8%
Technical and supervisory staff	2,703	2,853	2,605	-3.6%
Production staff	12,511	12,620	12,727	1.7%
TOTAL	**18,330**	**18,610**	**18,474**	**0.8%**

Operating profit/(loss)

Operating result improved by 187 million to a loss of (€18) million thanks to a higher EBITDA and lower "asset disposal, restructuring and other" charges (reduced by €46 million), largely compensating a higher impairment charge of (€8) million.

Impairment charges in Q2 2019 included (€21) million related to an asset dedicated to nuclear activity.

"Amortization and other depreciation" included a (€14) million IFRS 16 impact (depreciation of right-of-use).

Financial income/(loss)

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

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

In € thousand	H1 2018	H1 2019	Change H1 2018/H1 2019
Financial income	7,470	7,321	-2.0%
Interest expenses	(90,763)	(90,410)	-0.4%
Net financial cost	**(83,293)**	**(83,089)**	**-0.2%**
Other financial income and expenses	**(16,520)**	**(16,344)**	**-1.1%**
Lease interest expenses	**-**	**(17,814)**	**N/A**
Other discounting expenses	**(5,139)**	**(4,631)**	**-9.9%**
FINANCIAL INCOME/(LOSS)	**(104,952)**	**(121,878)**	**16.1%**

Income tax expense

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

Net income/(loss)

The share attributable to non-controlling interests amounted to (€4) million in H1 2019, compared to €2 million in H1 2018.

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

Liquidity and capital resources

Cash flow

Simplified statement of cash flows

In € thousand	H1 2018	H1 2019
Cash flow from operating activities	**(144,147)**	**9,712**
Change in operating working capital requirement	(235,838)	(116,733)
Net cash flow from operating activities (1)	**(379,985)**	**(107,021)**
Net cash flow from (used in) investing activities (2)	**17,810**	**(32,359)**
Cash flow from financing activities (3)	**291,469**	**116,487**
Impact of changes in exchange rates (4)	(29,779)	6,197
CHANGE IN CASH (1 + 2 + 3 + 4)	**(100,485)**	**(16,696)**

Cash flow from operating activities

Cash flow from operating activities turned positive at €10 million in H1 2019 compared to (€144) million in H1 2018.

Net cash flow from operating activities

Net cash flow from operating activities was negative at (€107) million for the six months ended 30 June 2019, an improvement of €273 million compared with (€380) million in H1 2018.

The change in operating working capital requirement is broken down as follows:

Gross values *(in € thousand)*	31/12/2018	Translation difference	Change	Reclassifications and other	30/06/2019
Inventories	1,274,594	9,559	60,706	7,149	1,352,008
Trade receivables	609,838	3,825	76,491	1,764	691,918
Trade payables	(582,272)	(2,165)	(12,333)	(265)	(597,035)
Working capital requirement	**1,302,160**	**11,219**	**124,864**	**8,648**	**1,446,891**
Other receivables and payables	2,819	1,638	(9,866)	(4,645)	(10,054)
Operating working capital requirement (1)	**1,304,979**	**12,857**	**114,998**	**4,003**	**1,436,837**
Impact of hedging instruments (2)			**1,735**		
TOTAL (1) + (2)			**116,733**		
Change in working capital in the statement of cash flows			**(116,733)**		

Over the first half of 2019, operating working capital requirement increased by €117 million compared to an increase of €236 million in H1 2018. In line with our objectives, net working capital requirement was reduced to 108 days of sales, compared to 114 days at the end of Q2 2018.

Net cash flow from investing activities

Net cash flow used in investing activities was (€32) million in H1 2019, as compared with €18 million in H1 2018. As a reminder H1 2018 included cash from the divestiture of Vallourec Drilling Products.

Net cash flow from financing activities

Net cash flow from financing activities totalled €116 million for H1 2019, as compared with €291 million in H1 2018. As a reminder, in April 2018 a €400 million senior notes was issued.

Capital expenditures

Main investments during the period from 1 January 2019 to 30 June 2019

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' evolving requirements, expanding premium product finishing capacity and reducing production costs. Investments also aim at keeping personnel and facilities safe and complying with legal obligations, such as those relating to the environment.

The following table shows the investments made during the six months ended 30 June 2019.

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

	30/06/2018		30/06/2019	
In € thousand	Intangible assets and property, plant and equipment	Biological	Intangible assets and property, plant and equipment	Biological
Europe	16,568	-	12,189	-
North America	5,501	-	6,962	-
South America	3,909	2,159	9,206	4,310
Asia	5,069	-	2,466	-
Other	66	-	19	-
TOTAL	**31,113**	**2,159**	**30,842**	**4,310**
	33,272		**35,152**	
Note 1: acquisition of intangible assets	1,476	-	1,033	-
Note 2.1: acquisition of property plant & equipment	29,637	2,159	29,809	4,310
Total industrial capital expenditures	**31,113**	**-**	**30,842**	**-**
Change in fixed asset liabilities and partners' contributions	4,965	-	1,120	-
TOTAL	**36,078**	**2,159**	**31, 962**	**4,310**
Cash Flow Statement : capex paid out during the period :	**38,237**		**36,272**	

The capital expenditures in H1 2019 totalled (€36) million and remained stable versus H1 2018 at (€38) million. The investments completed during H1 2019 aimed at improving efficiency of existing assets notably located in Brazil and North America.

Free cash flow

Free cash flow for H1 2019 was negative at (€143) million, an improvement of €275 million compared with (€418) million in H1 2018. Free cash flow is defined as net cash flow from operating activities minus gross capital expenditures.

In Q2 2019 the Group generated a positive free cash flow of €16 million due to a higher Ebitda and an improved performance in working capital management.

The following table shows the calculation of free cash flow in H1 2018 and H1 2019.

In € million	H1 2018	H1 2019	Change
Cash flow from operating activities (FFO) (A)	(144)	10	+154
Change in operating WCR (B) (+ decrease, (increase))	(236)	(117)	+119
Gross capital expenditure (C)	(38)	(36)	+2
FREE CASH FLOW (A) + (B) + (C)	**(418)**	**(143)**	**+275**

Liquidity and Indebtedness

The Company's cash and cash equivalent position as at 30 June 2019 amounted to €729 million.

Vallourec's medium and long-term committed facilities amounted to €2.1 billion. These credit lines do not benefit from a surety or guaranty.

At 30 June 2019, short-term debt amounted to €1,097 million, including 297 million of drawn committed long term credit facilities.

The Group's financial resources include 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, to a lesser extent, the subsidiaries in Brazil. Market financing is arranged exclusively by Vallourec.

The following table shows the Group's principal financial indebtedness as at 30 June 2019.

In € million	As at 30 June 2019
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	230
Non-convertible bond issue – maturing in October 2022	544
Non-convertible bond issue – maturing in October 2023	395
Commercial paper	101
RCF drawings	297
BNDES loan	22
ACC ACE	229
Other	70
TOTAL GROSS FINANCIAL INDEBTEDNESS	**2,840**

All of these bank facilities (confirmed credit facility of €1.1 billion maturing in February 2019, extended once for €1.078 billion maturing in February 2020, and a second time for €1,034 million maturing in February 2021, a confirmed credit facility of €400 million maturing in July 2020, extended by €300 million from July 2020 to February 2021, a confirmed credit facility of €450 million maturing in February 2020, extended by €300 million from February 2020 to February 2021, a bilateral facility of €90 million maturing in February 2021, a bilateral facility of €110 million maturing in 2027) include the respect by Vallourec of an adjusted consolidated net debt-to-equity ratio ("banking covenant") that is less than or equal to 100%, calculated on 31 December of each year.

The Group's banking covenant ratio was 72% as at 31 December 2018. As defined in the banking agreements, the banking covenant ratio is the ratio of the Group's consolidated net debt including the shareholder loan in Brazil and the "financial lease debt" which was recorded in net debt on December 31st 2018 (excluding "operational lease") to the Group's equity, restated for reserves of changes in fair value of financial instruments and foreign currency translation reserve. As at June 30th 2019, the banking covenant ratio was estimated at 79%. IFRS 16 implementation has no impact on ratio.

A change in control of Vallourec could trigger repayment of all or part of the debt, as decided by each participating bank. It is also stipulated that the entire debt will be immediately due and payable if the Group defaults on one of its debt obligations (cross default), or in case of a major event with consequences for the Group's business or financial position and its ability to repay its debt.

Equity

The Group's equity, Group share, totaled €1,664 million as at 30 June 2019, a decrease of €138 million compared with €1,802 million as at 31 December 2018. This decrease is mainly explained by:

- the Group's negative net result recorded in H1 2019 for an amount of (€167) million;
- a change in foreign currency translation reserve of +€37 million.

Main market trends

Oil & Gas

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

Industry & Other

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

Raw materials & currencies

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

The Group targets the solid EBITDA generation achieved in the first semester to be confirmed in the second one.

The moderate slowdown expected on the North American Oil and Gas market should be counterbalanced over the semester by an overall good level of activity in the Group's other markets and the continuation of the Transformation Plan execution.

Outlook for 2019

Based on current economic and market trends [1] **the Group confirms:**

- **the recovery in its Oil and Gas activity primarily driven by international markets;**
- **its targets for 2019, namely:**
  - **strong increase in EBITDA, supported by market trends, additional savings as well as ongoing deployment from the Group's new competitive manufacturing routes,**
  - **continuous improvement in working capital requirement, beyond usual seasonal movements, with a diminishing number of days of working capital requirement on both quarterly average and end of year,**
  - **capex around €180 million, consistent with the needs of its renewed industrial footprint;**

Based on current market trends and on the objectives outlined above, the Group would respect its banking covenant at the end of the year.

(1) This interim financial report contains forward-looking statements. These statements include financial forecasts and estimates as well as assumptions on which they are based, statements related to projects, objectives and expectations concerning future operations, products and services or future performance. Although Vallourec's management believes that these forward-looking statements are reasonable, Vallourec cannot guarantee their accuracy or completeness and these forward-looking statements are subject to numerous risks and uncertainties that are difficult to foresee and generally beyond Vallourec's control, which may mean that the actual results and developments may differ significantly from those expressed, induced or forecasted in the statements. These risks include those developed or identified in the public documents filed by Vallourec with the AMF, including those listed in the "Risk Factors" section of the Registration Document filed with the AMF on March 29th 2019.

Consolidated interim financial statements

3

Condensed consolidated interim financial statements of the Vallourec Group at 30 June 2019

Statement of financial position

Assets

In € thousand	Notes	31/12/2018	30/06/2019
NON-CURRENT ASSETS			
Net intangible assets	1	71,277	64,428
Goodwill	1	358,416	361,094
Gross property, plant and equipment	2.1	5,608,306	5,764,504
less: accumulated amortization and depreciation	2.1	(2,917,667)	(3,093,190)
Net property, plant and equipment	2.1	2,690,639	2,671,314
Biological assets	2.2	59,611	63,957
Equity affiliates	3	134,358	133,056
Other non-current assets	4	156,100	152,034
Deferred taxes – assets	5	250,215	265,912
TOTAL		**3,720,616**	**3,711,795**
CURRENT ASSETS			
Inventories and work in progress	6	1,135,017	1,192,406
Trade and other receivables	7	598,558	684,347
Derivatives – assets	8	3,347	3,442
Other current assets	9	215,931	232,084
Cash and cash equivalents	10	739,576	729,146
TOTAL		**2,692,429**	**2,841,425**
TOTAL ASSETS OF CONTINUING OPERATIONS		**6,413,045**	**6,553,220**
Assets held for sale and discontinued operations	11	-	-
TOTAL ASSETS		**6,413,045**	**6,553,220**

Liabilities

In € thousand	Notes	31/12/2018	30/06/2019
EQUITY	**13**		
Capital		915,976	915,976
Additional paid-in capital		1,417,897	1,417,897
Consolidated reserves		630,674	111,013
Reserves, financial instruments		(9,342)	(1,281)
Foreign currency translation reserve		(648,459)	(611,243)
Net income for the period		(502,455)	(167,180)
Treasury shares		(2,034)	(1,281)
Equity – Group share		**1,802,257**	**1,663,901**
Non-controlling interests	15	**462,019**	**521,111**
TOTAL EQUITY		**2,264,276**	**2,185,012**
Shareholder loan	22	28,892	30,567
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	16	1,796,637	1,743,494
Non-current lease debts	18	-	106,589
Employee benefit commitments	19	214,359	229,363
Provisions	17	40,578	61,137
Deferred taxes – liabilities	5	15,313	15,174
Other long-term liabilities	20	9,217	8,498
TOTAL		**2,076,104**	**2,164,255**
CURRENT LIABILITIES			
Provisions	17	136,298	111,070
Overdrafts and other short-term borrowings	16	1,000,872	1,096,873
Current lease debts	18	-	27,891
Trade payables		582,272	597,035
Derivatives – liabilities	8	31,831	22,558
Tax payables		29,919	37,400
Other current liabilities	20	262,581	280,559
TOTAL		**2,043,773**	**2,173,386**
Liabilities held for sale and discontinued operations	11	-	-
TOTAL EQUITY AND LIABILITIES		**6,413,045**	**6,553,220**

Presentation of performance

Income statement

In € thousand	Notes	H1 2018	H1 2019
Revenue	**23**	**1,843,848**	**2,109,000**
Cost of sales [(a)]	24	(1,610,707)	(1,727,683)
Administrative, sales and research costs [(a)]	25	(199,626)	(198,039)
Others	26	(15,457)	(14,404)
EBITDA		**18,058**	**168,874**
Depreciation of industrial assets	27	(134,488)	(125,572)
Depreciation of rights of use	27		(15,661)
Other depreciation and amortization	27	(18,113)	(13,432)
Impairment of assets and goodwill	28	(13,594)	(21,353)
Asset disposals, restructuring costs and non-recurring items	28	(56,716)	(11,440)
OPERATING INCOME (LOSS)		**(204,853)**	**(18,584)**
Financial income		7,470	7,321
Interest expenses		(90,763)	(90,410)
Net interest expenses		(83,293)	(83,089)
Other financial income and expenses		(16,520)	(16,344)
Interest expenses on leases			(17,814)
Other discounting expenses		(5,139)	(4,631)
FINANCIAL INCOME/(LOSS)	29	**(104,952)**	**(121,878)**
PRE-TAX INCOME/(LOSS)		**(309,805)**	**(140,462)**
Income tax	30	5	(22,366)
Share in net income/(loss) of equity associates	3	552	(580)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS		**(309,248)**	**(163,408)**
NET INCOME (LOSS) OF CONSOLIDATED ENTITY		**(309,248)**	**(163,408)**
Attributable to non-controlling interests		(2,679)	3,772
Group share		**(306,569)**	**(167,180)**
Group share:			
Net earnings per share	14	(0.7)	(0.4)
Diluted earnings per share	14	(0.7)	(0.4)

(a) Before depreciation and amortization.

Statement of comprehensive income

In € thousand	H1 2018	H1 2019
NET INCOME/(LOSS) FOR THE CONSOLIDATED ENTITY	**(309,248)**	**(163,408)**
Other comprehensive income:		
Actuarial gains and losses on post-employment benefits	7,150	(18,592)
Tax attributable to actuarial gains and losses on post-employment benefits	(2,429)	1,527
Items that will not be reclassified subsequently to profit or loss	**4,721**	**(17,065)**
Exchange differences on translating net assets of foreign entities	(123,305)	41,587
Change in fair value of hedging financial instruments	(32,283)	8,059
Tax attributable to the change in fair value of hedging financial instruments	2,774	(88)
Items that may be reclassified subsequently to profit or loss	**(152,814)**	**49,558**
Other comprehensive income/(loss) (net of tax)	**(148,092)**	**32,494**
TOTAL COMPREHENSIVE INCOME/(LOSS)	**(457,340)**	**(130,914)**
Attributable to non-controlling interests	(11,759)	7,479
Group share	**(445,581)**	**(138,393)**

Statement of changes in equity, Group share

In € thousand	Capital	Additional paid-in capital	Consolidated reserves	Foreign currency translation reserve	Reserves - changes in fair value of financial instruments – net of tax	Treasury shares	Net income or loss for the period	Total equity, Group share	Total non-controlling interests	Total equity
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 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**
POSITION AS AT 31 DECEMBER 2018	**915,976**	**1,417,897**	**630,674**	**(648,459)**	**(9,342)**	**(2,034)**	**(502,455)**	**1,802,257**	**462,019**	**2,264,276**
Change in foreign currency translation reserve	-	-	-	37,114	-	-	-	37,114	4,473	41,587
Actuarial gains and losses on retirement commitments	-	-	(16,337)	-	-	-	-	(16,337)	(728)	(17,065)
Financial instruments	-	-	-	-	8,010	-	-	8,010	(38)	7,972
Other comprehensive income/(loss)	-	-	*(16,337)*	*37,114*	*8,010*	-	-	*28,787*	*3,707*	*32,494*
HY 2019 net income/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**(167,180)**	**(167,180)**	**3,772**	**(163,408)**
Comprehensive income/(loss)	-	-	*(16,337)*	*37,114*	*8,010*	-	*(167,180)*	*(138,393)*	*7,479*	*(130,914)*
Appropriation of 2018 net income/(loss)	-	-	(502,455)	-	-	-	502,455	-	-	-
Change in treasury shares	-	-	(2,079)	-	-	753	-	(1,326)	-	(1,326)
Dividends paid	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	997	-	-	-	-	997	-	997
Changes in consolidation scope and other	-	-	213	102	51	-	-	366	51,613	51,979
POSITION AS AT 30 JUNE 2019	**915,976**	**1,417,897**	**111,013**	**(611,243)**	**(1,281)**	**(1,281)**	**(167,180)**	**1,663,901**	**521,111**	**2,185,012**

Statement of changes in non-controlling interests

In € thousand	Consolidated reserves	Foreign currency translation reserve	Reserves - changes in fair value of financial instruments - net of tax	Net income or loss for the period	Non-controlling interests
Position as at 31 December 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 scope and other	6	(19)	-	-	(13)
Position as at 30 June 2018	**431,365**	**18,213**	**(394)**	**(2,679)**	**446,505**
Position as at 31 December 2018	**434,026**	**24,874**	**1,031**	**2,088**	**462,019**
Change in foreign currency translation reserve	-	4,473	-	-	4,473
Actuarial gains and losses on retirement commitments	(728)	-	-	-	(728)
Financial instruments	-	-	(38)	-	(38)
Other comprehensive income/(loss)	*(728)*	*4,473*	*(38)*	-	*3,707*
HY 2019 net income/(loss)	**-**	**-**	**-**	**3,772**	**3,772**
Comprehensive income/(loss)	*(728)*	*4,473*	*(38)*	*3,772*	*7,479*
Appropriation of 2018 net income/(loss)	2,088	-	-	(2,088)	-
Dividends paid	-	-	-	-	-
Changes in scope and other	51,807	(194)	-	-	51,613
POSITION AS AT 30 JUNE 2019	**487,193**	**29,153**	**993**	**3,772**	**521,111**

Cash flow statement

In € thousand	Notes	H1 2018	H1 2019
Consolidated net income (including non-controlling interests)		**(309,248)**	**(163,408)**
Net amortization, depreciation and provisions		165,845	176,505
Unrealized gains and losses linked to changes in fair value		5,529	(1,889)
Income and expenses linked to share options and equivalent		1,248	997
Capital gains and losses on disposals		18,018	4,524
Share of net income in associates	3	(552)	580
Dividends reclassified as cash flows from investing activities		(562)	(279)
Cash flow from operating activities after net financial cost and taxes		**(119,722)**	**17,030**
Net financial cost	29	83,293	83,089
Tax expense (including deferred taxes)	30	(5)	22,366
Cash flow from operating activities before net financial cost and taxes		**(36,434)**	**122,485**
Interest paid		(90,763)	(90,409)
Tax paid		(24,341)	(29,602)
Interest received		7,391	7,238
Cash flow from operating activities		**(144,147)**	**9,712**
Change in operating working capital requirements	12	(235,838)	(116,733)
NET CASH FLOW FROM OPERATING ACTIVITIES (1)		**(379,985)**	**(107,021)**
Cash outflows for acquisitions of property, plant and equipment and intangible assets	2.1	(36,078)	(31,962)
Cash outflows for acquisitions of biological assets	2.1	(2,159)	(4,310)
Cash inflows from disposals of property, plant and equipment and intangible assets		6,493	2,256
Impact of acquisitions (changes in consolidation scope)		(1,851)	(5)
Impact of disposals (changes in consolidation scope)		50,837	1,650
Other cash flows from investing activities		568	12
NET CASH FLOW FROM (USED IN) INVESTING ACTIVITIES (2)		**17,810**	**(32,359)**
Increase and decrease in equity	15	-	51,804
Dividends paid during the year		-	-
• Dividends paid in cash to shareholders in the parent company		-	-
• Dividends paid to non-controlling interests		(268)	-
Movements in treasury shares		-	(1,326)
Proceeds drawn from new borrowings	12	817,467	785,693
Repayments of borrowings	12	(508,282)	(701,126)
Repayment of lease debts		-	(15,603)
Other cash flows from financing activities		(17,448)	(2,955)
CASH FLOW FROM FINANCING ACTIVITIES (3)		**291,469**	**116,487**
Impact of changes in exchange rates (4)		(29,779)	6,197
CHANGE IN CASH (1 + 2 + 3 + 4)		**(100,485)**	**(16,696)**
Opening net cash		**1,010,323**	**737,049**
Closing net cash		**909,839**	**720,354**
Change		(100,485)	(16,696)

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 H1 2019

	Notes	31/12/2018	Change	30/06/2019
Gross cash (1)	10	739,576	(10,431)	729,146
Bank current accounts in debit and overdrafts (2)	16	2,527	6,265	8,792
CASH (3) = (1) - (2)		**737,049**	**(16,696)**	**720,354**
Gross financial debt (4)	16	2,794,982	36,593	2,831,575
Finance lease debts reclassification as at 1 January 2019 as lease debt (IFRS 16) (5)		-	59,157	-
Net financial debt = (4) - (3) + (5)		**2,057,933**	**112,446**	**2,111,221**

Table of changes in indebtedness H1 2018

	31/12/2017	Change	30/06/2018
Gross cash (1)	1,021,035	(102,130)	918,905
Bank current accounts in debit and overdrafts (2)	10,712	(1,646)	9,066
CASH (3) = (1) - (2)	**1,010,323**	**(100,485)**	**909,839**
Gross financial debt (4)	2,552,627	291,743	2,844,370
Net financial debt = (4) - (3)	**1,542,304**	**392,227**	**1,934,531**

Condensed consolidated interim financial statements of the Vallourec Group at 30 June 2019

(In € thousand unless stated otherwise)

A – Consolidation principles

1. FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

The interim consolidated financial statements as at 30 June 2019, as well as the notes relating thereto were approved by the Vallourec Management Board on 22 July 2019.

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 half year ended 30 June 2019, in compliance with the International Financial Reporting Standards (IFRS), based on the standards[1] and interpretations applicable at that date.

The consolidated interim financial statements are drawn up in accordance with IAS 34 "Interim Financial Information". They therefore do not include all the information required for full annual financial statements. As such, they must be read in conjunction with the consolidated financial statements as at 31 December 2018.

The accounting principles and measurement methods applied are identical to those applied in the 2018 consolidated financial statements and described in Note A of the notes to the 2018 consolidated financial statements, with the exception of changes made by the application of new mandatory standards from 1 January 2019 as described below.

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 statement of financial position between 31 December 2018 and 30 June 2019, as well as the primary operations that contributed to the net profit for H1 2019. 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 2018, registered with the French securities regulator (*Autorité des Marchés Financiers*) on 29 March 2019 (available on the Company website at www.vallourec.com).

New mandatory standards to be applied starting on 1 January 2019

IFRS 16 "Leases"

IFRS 16 "Leases" introduces a new accounting model for lease agreements, which will be mandatory as from 1 January 2019. This standard requires that lessees recognize, for leases within the scope of the standard, all lease payments remaining payable in the form of a right of use and a lease debt. The accounting and measurement principles now applicable to lease agreements and the effects of its application are detailed below in paragraph 2.1.1.

IFRIC 23 "Uncertainty over Income Tax Treatments"

This interpretation specifies that the provisions of IAS 12 "Income Tax" shall apply as concerns the recognition and measurement of tax when there is a tax uncertainty. The applicable methods and impacts are described below in paragraph 2.1.2.

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

Other mandatory standards

Other mandatory standards relate to:

- amendments to IAS 19 "Plan Amendment, Curtailment or Settlement";
- amendments to IAS 28 "Long-Term Interest in Associates and Joint Ventures";
- amendments to IFRS 9 "Prepayment Features with Negative Compensation".

These standards have no impact on the Group's financial statements.

The accounting methods and options used in approving the 2019 interim financial statements could be modified according to changes in IFRS that are adopted by the European Commission between now and 31 December 2019.

2. ACCOUNTING PRINCIPLES AND METHODS

2.1 General measurement principles

The accounting principles and measurement methods have been applied consistently to the periods presented, with the exception of the changes made by the application of the new mandatory standards to be applied as from 1 January 2019.

2.1.1 IFRS 16 "Leases"

Accounting method and measurement standard

Lease agreements, as defined by IFRS 16 "Leases", are recognized in the statement of financial position, which is reflected by the recognition:

- of an asset that corresponds to the right of use of the leased asset during the term of the lease;
- of a debt owed under the obligation to pay.

The Group's leases are primarily real property and industrial equipment used to manufacture and transport products.

The Group uses the following exemptions permitted by the standard:

- exclusion of short-term leases (term of less than 12 months);
- exclusion of leases for which the underlying asset is of low value (unit value when new that is less than USD 5,000);
- exclusion of leases of intangible assets.

The right of use of assets

On the effective date of a lease agreement, the right of use is measured at its cost and includes:

- the initial amount of the debt to which are added, if applicable, the advance payments made to the lessee, net, where appropriate, of benefits received from the lessor;
- where appropriate, the initial direct costs incurred by the lessee in concluding the agreement and estimated refurbishment costs.

The right of use is amortized linearly over the term of the lease.

Measurement of lease debt

On the effective date of the agreement, the lease debt is recognized in an amount equal to the current value of lease payments over the term of the agreement. The amounts taken into account for lease payments in debt measurement are:

- fixed lease payments (including fixed lease payments in substance);
- variable lease payments based on a rate or an index, using the rate or index on the effective date of the agreement;
- payments to be made by the lessee under a residual value guarantee;
- penalties to be paid in the event of the exercising of an option for termination or non-renewal of the lease, if the term of the lease was determined on the assumption that the lessee would exercise it.

Discount rates are calculated individually over the ultimate term of the lease.

Changes in lease debt are as follows:

- it is increased by interest expenses determined by applying the discount rate to the debt, at the start of the period;
- and reduced by the amount of payments made.

Impact as at 1 January 2019

In the scope of its initial application of IFRS 16, the Group has selected the simplified retrospective transition method, recognizing the cumulative effect of the initial application of the standard on the date of initial application, without restating comparative periods.

The lease assets are primarily real property and industrial equipment used to manufacture and transport products. The impact on the opening statement of financial position as at 1 January 2019 is an increase of €86 million in property, plant and equipment, in consideration of the recognition of a lease debt. Previous fiscal years are not restated.

The reconciliation between the lease debt and the amount of future minimum payments under the simple leases mentioned in Note 34 of 31 December 2018 is presented below:

In € thousand

Amount of long-term leases published as at 31 December 2018	**147,873**
Leases not covered by the scope of IFRS 16	(2,751)
New gross lease debt as at 1 January 2019	**145,122**
Discounting	(56,204)
Others	(2,795)
New lease debt discounting as at 1 January 2019	**86,123**
Reclassification of finance lease debts as at 1 January 2019 as lease debt	59,157
LEASE DEBT RECOGNIZED AS AT 1 JANUARY 2019	**145,280**

The average discount rate used to measure the lease debt in the first half of 2019 is 12%. The Group has used discount rates reflecting the maturity of the leases.

The application of the new IFRS 16 standard does not have an impact on the indebtedness ratio according to the definition of the current banking covenants, the latter excluding the impact linked to the application of IFRS 16 from the calculation of the covenants ("banking covenant").

2.1.2 IFRIC 23 "Uncertainty over Income Tax Treatments"

Pursuant to the IFRIC 23 interpretation, a tax asset or liability is recognized when there is an uncertain tax treatment. When it is likely that the tax administration will not accept a tax treatment, the Group recognizes a tax liability. In the event that the Group considers it likely that the tax administration will reimburse it for a tax already paid, it recognizes a tax asset. Tax assets and liabilities relating to these uncertainties are measured on a case-by-case basis based on the most likely amount.

This standard has had no impact on the financial statements as at 30 June 2019.

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 fiscal 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 that 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 be taken into account. 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 fiscal year ended 31 December 2018.

The Group primarily reviewed the following estimates for the end of the first half: the valuation 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 2019, the Group analyzed the situation of the various cash generating units (CGUs) and concluded, on the basis of an updating of sensitivity analyses, that there was no impairment loss index, with the exception of the recognition of an impairment loss of €21 million for an asset dedicated to nuclear activity due to the deterioration of its medium-term outlook.

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

B – Consolidation scope

The Group has not had a significant change of scope since 31 December 2018.

C – Notes to 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 AMOUNTS				
As at 31/12/2018	**85,871**	**480,225**	**566,096**	**553,088**
Acquisitions	44	989	1,033	-
Disposals	(477)	(1,018)	(1,495)	-
Impact of changes in exchange rates	235	3,057	3,292	3,161
Other changes	924	(760)	164	-
AS AT 30/06/2019	**86,597**	**482,493**	**569,090**	**556,249**
DEPRECIATION AND IMPAIRMENT				
As at 31/12/2018	**(72,674)**	**(422,145)**	**(494,819)**	**(194,672)**
Net depreciation expenses for the period	(2,142)	(5,601)	(7,743)	-
Disposals	471	1,019	1,490	-
Impact of changes in exchange rates	(193)	(2,716)	(2,909)	(483)
Other changes	-	(681)	(681)	-
AS AT 30/06/2019	**(74,538)**	**(430,124)**	**(504,662)**	**(195,155)**
NET VALUES				
As at 31/12/2018	**13,197**	**58,080**	**71,277**	**358,416**
AS AT 30/06/2019	**12,059**	**52,369**	**64,428**	**361,094**

Note 2.1 Property, plant and equipment

	Land	Buildings	Technical installations, industrial equipment and tools	Current property, plant and equipment	Other tangible assets	Total
GROSS AMOUNTS						
As at 31/12/2018	**127,786**	**807,997**	**4,248,591**	**101,889**	**322,042**	**5,608,306**
Acquisitions	-	27	6,452	20,710	2,620	29,809
Disposals	-	(70)	(7,927)	-	(3,064)	(11,061)
Impact of changes in exchange rates	1,616	6,437	33,993	757	4,091	46,894
Initial impact of IFRS 16 [(a)]	-	(4,601)	(101,937)	-	-	(106,538)
Other changes	-	5,875	14,476	(13,844)	(4,353)	2,154
As at 30/06/2019 (excluding rights of use)	**129,402**	**815,665**	**4,193,648**	**109,512**	**321,336**	**5,569,564**
Rights of use as at 30/06/2019 (see details below)	2,652	60,168	115,010	-	17,110	194,940
AS AT 30/06/2019	**132,054**	**875,833**	**4,308,658**	**109,512**	**338,446**	**5,764,504**
DEPRECIATION AND IMPAIRMENT						
As at 31/12/2018	**(32,042)**	**(366,010)**	**(2,321,945)**	**(3,341)**	**(194,329)**	**(2,917,667)**
Net depreciation expenses for the fiscal year	(577)	(14,217)	(102,947)	-	(7,518)	(125,259)
Impairment losses (see Note 2.3)	(428)	-	(20,925)	-	-	(21,353)
Disposals	-	70	5,835	-	1,234	7,139
Impact of changes in exchange rates	(395)	(2,220)	(12,940)	(16)	(1,938)	(17,509)
Initial impact of IFRS 16 [(a)]	-	3,025	52,114	-	-	55,139
Other changes	-	(5,187)	27	-	1,310	(3,850)
As at 30/06/2019 (excluding rights of use)	**(33,442)**	**(384,539)**	**(2,400,781)**	**(3,357)**	**(201,241)**	**(3,023,360)**
Rights of use as at 30/06/2019 (see details below)	(692)	(8,919)	(56,683)	-	(3,536)	(69,830)
AS AT 30/06/2019	**(34,134)**	**(393,458)**	**(2,457,464)**	**(3,357)**	**(204,777)**	**(3,093,190)**
NET VALUES (INCLUDING RIGHTS OF USE)						
As at 31/12/2018	**95,744**	**441,987**	**1,926,646**	**98,548**	**127,713**	**2,690,639**
AS AT 30/06/2019	**97,920**	**482,375**	**1,851,194**	**106,155**	**133,669**	**2,671,314**

(a) Reclassification of property, plant and equipment from finance leases (IAS 17) to right of use as at 1 January 2019.

Capital expenditure excluding changes in scope

	30/06/2018		30/06/2019	
	Intangible assets and property, plant and equipment	Biological	Intangible assets and property, plant and equipment	Biological (see Note 2.2)
Europe	16,568	-	12,189	-
North America	5,501	-	6,962	-
South America	3,909	2,159	9,206	4,310
Asia	5,069	-	2,466	-
Others	66	-	19	-
TOTAL	**31,113**	**2,159**	**30,842**	**4,310**
	33,272		**35,152**	
Note 1: acquisition of intangible assets	1,476	-	1,033	-
Note 2.1: acquisition of property, plant and equipment	29,637	2,159	29,809	4,310
Total capital expenditure	**31,113**	**-**	**30,842**	**-**
Changes in fixed asset liabilities and partner contributions	4,965	-	1,120	-
TOTAL	**36,078**	**2,159**	**31,962**	**4,310**
Cash flow statement: capital expenditure paid out during the period amounts to:	**38,237**		**36,272**	

Rights of use

	Right of use – Land	Right of use – Buildings	Right of use - Tech. installations, equipment & tools	Right of use – Other property, plant and equipment	Total
GROSS AMOUNTS					
As at 31/12/2018	**-**	**-**	**-**	**-**	**-**
Acquisitions	17	1,985	1,935	479	4,416
Disposals	-	-	-	-	-
Impact of changes in exchange rates	(5)	(473)	(1,760)	(258)	(2,496)
Initial impact of IFRS 16	2,640	58,628	114,986	16,897	193,151
Other changes	-	28	(151)	(8)	(131)
AS AT 30/06/2019	**2,652**	**60,168**	**115,010**	**17,110**	**194,940**
DEPRECIATION AND IMPAIRMENT					
As at 31/12/2018	**-**	**-**	**-**	**-**	**-**
Net depreciation expenses for the fiscal year	(697)	(5,926)	(5,492)	(3,546)	(15,661)
Disposals	-	-	-	-	-
Impact of changes in exchange rates	5	30	898	8	941
Initial impact of IFRS 16	-	(3,025)	(52,114)	-	(55,139)
Other changes	-	2	25	2	29
AS AT 30/06/2019	**(692)**	**(8,919)**	**(56,683)**	**(3,536)**	**(69,830)**
NET VALUES					
As at 31/12/2018	**-**	**-**	**-**	**-**	**-**
AS AT 30/06/2019	**1,960**	**51,249**	**58,327**	**13,574**	**125,110**

Note 2.2 Biological assets

Change in biological assets	Total
As at 31/12/2018	**59,611**
Investments	4,310
Valuation at fair value	7,128
Net depreciation expenses for the period	(6,007)
Reclassification to inventory	(1,895)
Impact of changes in exchange rates	1,266
Other changes	(456)
AS AT 30/06/2019	**63,957**

Note 2.3 Impairment tests

As at 30 June 2019, the Group analyzed the situation of the various cash generating units (CGUs) and concluded, on the basis of an updating of sensitivity analyses, that there was no impairment loss index, with the exception of the recognition of an impairment loss of €21 million for an asset dedicated to nuclear activity due to the deterioration of its medium-term outlook.

Note 3 Equity affiliates

The Group's main equity affiliates are listed below:

	HKM	Vallourec Umbilicals	Other income (expense), net	Total
Activity	Steel mill	Welded tubes		
Business location	Germany	France		
As at 31/12/2018	**80,690**	**25,418**	**28,250**	**134,358**
Impact of changes in exchange rates	-	-	(722)	(722)
Contribution to net income of the period	-	(662)	82	(580)
AS AT 30/06/2019	**80,690**	**24,756**	**27,610**	**133,056**

Note 4 Other non-current assets

	Other equity interests	Loans	Other financial assets	Other non-current assets	Provisions	Total
As at 31/12/2018	**5,642**	**20,425**	**39,092**	**114,741**	**(23,800)**	**156,100**
Impact of changes in exchange rates	66	-	599	1,611	(107)	2,169
Changes in gross amounts	1	-	17	(2,731)	-	(2,713)
Increase in provisions	-	-	-	-	(122)	(122)
Reversals of provision	-	-	-	-	100	100
Other changes	266	-	109	(3,922)	47	(3,500)
AS AT 30/06/2019	**5,975**	**20,425**	**39,817**	**109,699**	**(23,882)**	**152,034**

Other financial investments consist mainly of interest-bearing security deposits, particularly paid in connection with tax disputes in Brazil (€28.6 million as at 30 June 2019; see also Note 17).

Other non-current assets consist mainly of €99 million in deferred tax receivables in Brazil and the United States.

Maturities of other non-current assets:

30/06/2019	1 to 5 years	5 years or more	Total
Loans	18,446	1,979	20,425
Other equity interests	-	5,975	5,975
Other financial assets	106,641	42,875	149,516
TOTAL	**125,087**	**50,829**	**175,916**

Note 5 Deferred taxes

	31/12/2018	30/06/2019
Deferred tax assets	250,215	265,912
Deferred tax liabilities	15,313	15,174
NET DEFERRED TAX ASSETS/(DEFERRED TAX LIABILITIES)	**234,902**	**250,738**

Changes in deferred taxes are broken down as follows:

Assets/(Liabilities) net of tax	
BALANCE AS AT 1 JANUARY 2019	**234,902**
Impact of changes in exchange rates	4,542
Recognized in profit or loss	11,545
Recognized in reserves	(193)
Other changes	(58)
AS AT 30 JUNE 2019	**250,738**

The amount of the unrecognized deferred tax related to loss carryforward accounts for €729 million as at 30 June 2019. This mainly corresponds to unrecognized deferred tax as at 31 December 2018 (€663 million of past tax deficits) completed by unrecognized deferred tax of the period (€66 million of loss carryforward).

Note 6 Inventories and work in progress

	Raw materials and merchandise	Goods in production	Intermediate and finished goods	Total
GROSS AMOUNTS				
As at 31/12/2018	**438,952**	**383,351**	**452,291**	**1,274,594**
Changes in inventories recognized in the income statement	31,705	41,260	(12,259)	60,706
Impact of changes in exchange rates	3,373	1,086	5,099	9,558
Other changes	6,569	-	580	7,149
AS AT 30/06/2019	**480,599**	**425,697**	**445,711**	**1,352,007**
IMPAIRMENT				
As at 31/12/2018	**(55,578)**	**(37,679)**	**(46,320)**	**(139,577)**
Impact of changes in exchange rates	(226)	(77)	(313)	(616)
Allowances	(7,897)	(11,253)	(14,463)	(33,613)
Reversals	10,147	261	9,251	19,659
Other changes	(15,539)	10,544	(459)	(5,454)
AS AT 30/06/2019	**(69,093)**	**(38,204)**	**(52,304)**	**(159,601)**
NET VALUES				
As at 31/12/2018	**383,374**	**345,672**	**405,971**	**1,135,017**
AS AT 30/06/2019	**411,506**	**387,493**	**393,407**	**1,192,406**

Note 7 Trade and other receivables

	Advances and partial payments on orders	Trade and other receivables (gross)	Provisions for depreciation	Total
As at 31/12/2018	**9,683**	**600,155**	**(11,280)**	**598,558**
Impact of changes in exchange rates	4	3,821	(93)	3,732
Changes in gross amounts	5,877	70,615	-	76,492
Increase in provisions	-	-	(1,781)	(1,781)
Reversals of provision	-	-	7,159	7,159
Other changes	136	1,627	(1,576)	187
AS AT 30/06/2019	**15,700**	**676,218**	**(7,571)**	**684,347**

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 IFRS 9.

Impact of IAS 32 and IFRS 9 on equity and net income

From a net liability position of €28 million as at 31 December 2018, hedging assets moved to a net liability position of €19 million as at 30 June 2019.

Fluctuations in the euro against the US dollar in H1 2019 accounted for most of the €8.1 million change in the currency impact of hedges of forecast sales and purchases in foreign currencies and the €1.7 million change in the currency impact 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 31/12/2018	As at 30/06/2019	Changes in H1 2019		
			Total	Reserves	Net income
1 – Derivatives recognized in the statement of financial position [(a)]					
Changes in the currency impact of forward sales of currencies and forward purchases [(b)] associated with order books and commercial tenders	(11,495)	(3,398)	8,097	7,809	288
Changes in the currency impact of forward sales of currencies (and forward purchases) associated with trade receivables (and accounts payable [(b)])	(5,448)	(3,740)	1,708	-	1,708
Changes in the currency impact of forward sales of currencies (and forward purchases) associated with financial receivables (and financial payables)	380	1,250	870	-	870
Recognition of premium/discount	(12,965)	(14,289)	(1,324)	3	(1,327)
Recognition of changes in fair value of interest rate swaps	-	-	-	-	-
Changes in values linked to hedging instruments set up under employee share ownership plans	1,044	1,061	17	5	12
SUBTOTAL: DERIVATIVES	**(28,484)**	**(19,116)**	**9,368**	**7,817**	**1,551**
• Of which derivatives – assets	3,347	3,442			
• Of which derivatives – liabilities	31,831	22,558			
2 – Receivables (payables) used for commercial hedges					
Order book	2,278	1,946	(332)	(332)	-
Trade receivables	(1,644)	342	1,986	-	1,986
3 – Receivables (payables [(b)]) hedged in currencies – translation gain/loss					
Measurement as at the reporting date exchange rate (trade payables [(b)] and accounts receivable)	7,105	1,758	(5,347)	-	(5,347)
Measurement as at the reporting date exchange rate (trade payables [(b)] and financial receivables)	(380)	(1,250)	(870)	-	(870)
TOTAL OF IMPACT OF HEDGING TRANSACTIONS	**(21,125)**	**(16,320)**	**4,805**	**7,485**	**(2,680)**

(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 2018, was -€11.5 million. During H1 2019, around 62% of the positive change in fair value attached to the order book and commercial tenders at the end of 2018 was transferred from equity to the statement of comprehensive 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 2018, which were fully or partially unwound or converted into receivables during H1 2019.

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 2018.

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.

Total liabilities

31/12/2018	Other income (expense), net borrowings	Cash
Fixed rates on date granted	2,654,662	-
Variable rate on date granted swapped to fixed rate	-	-
Fixed rate	**2,654,662**	**-**
Variable rate	**142,847**	**739,576**
TOTAL	**2,797,509**	**739,576**

30/06/2019	Other income (expense), net borrowings	Cash
Fixed rates on date granted	2,834,685	-
Variable rate on date granted swapped to fixed rate	-	-
Fixed rate	**2,834,685**	**-**
Variable rate	**5,682**	**729,146**
TOTAL	**2,840,367**	**729,146**

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.

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 amount 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%, and €55 million for 15 years with an annual coupon of 4.125%;
- on 30 September 2014, a €500 million bond issue, maturing in September 2024, with a fixed annual coupon of 2.25%;
- on 27 September 2017, a €250 million bond issue, consisting of bonds convertible and/or exchangeable for new shares and/or 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, 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 12 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 €101 million.

As at 30 June 2019, financial debt exposed to changes in variable interest rates was €5.7 million (about 0.2% of total debt).

No significant line of fixed-rate financing will reach contractual maturity during the 12 months after 30 June 2019, except for:

- private bonds of €400 million maturing in August 2019;
- drawing of €297 million on the confirmed bank facilities;
- €101 million in outstanding commercial paper maturing in more than one year;
- €24 million for various lines of financing in the Group's subsidiaries.

Given the Group's interest rate hedge accounting policy, the impact of a 1% rise on short-term rates in the eurozone, on Brazilian and Chinese rates and on UK and US money market rates would result in a €0.1 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 maturity of more than one year or on short-term cash investments (with a maturity 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 2019, net income (loss), 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 (loss), Group share, of around €0.6 million.

In addition, the Group's sensitivity to long-term foreign exchange risk is reflected in the changes that have occurred in recent fiscal years in the foreign currency translation reserves booked to equity (-€611.2 million as at 30 June 2019) which, in recent years, have been linked mainly to movements in the US dollar and Brazilian real.

Foreign currency translation reserve – Group share	31/12/2018	30/06/2019
USD	251,022	257,022
GBP	(12,031)	(11,965)
BRL	(880,712)	(855,066)
CNY	16,192	17,285
Others	(22,930)	(18,519)
TOTAL	**(648,459)**	**(611,243)**

TRANSACTION RISK

The Group is subject to foreign exchange risks owing 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 40% of Group revenue in 30 June 2019) 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 the Brazilian real, are influenced by the level of the US dollar. They are therefore indirectly and at some time in the future affected by movements in the US currency.

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

Orders, receivables, payables and cash flow from operating activities are thus hedged with financial instruments, mainly forward purchases and sales.

Order cancelations could therefore result in the cancelation 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 €74 million decrease or increase in the currency impact recognized in consolidated equity as at 30 June 2019. 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 IFRS 9, 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 2019, 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	31/12/2018	30/06/2019
Forward exchange contract: forward sales	1,158,870	1,035,180
Forward exchange contract: forward purchases	30,339	39,746
Currency options: sales	-	-
Currency options: purchases	-	-
Raw materials and energy – purchases, options	-	-
TOTAL	**1,189,209**	**1,074,926**

Contract maturities as at 30 June 2019

Contracts on commercial transactions	Total	< 1 year	1 to 5 years	> 5 years
Foreign exchange contracts: forward sales	1,035,180	1,010,530	24,651	-
Foreign exchange contracts: forward purchases	39,746	39,746	-	-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Raw materials and energy – purchases, options	-	-	-	-
TOTAL	**1,074,926**	**1,050,275**	**24,651**	**-**

Forward sales (€1,035 million of the €1,075 million total) correspond mainly to sales of US dollars. These contracts were transacted at an average forward EUR/USD rate of 1.19 and an average forward USD/BRL rate of 3.91.

In 2019, as in 2018, 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 of GBP 51.5 million (EUR 57.6 million);
- forward sales of CNY 250.0 million (EUR 31.5 million);
- forward sales of USD 13.9 million (EUR 12.5 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 2019, 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 whose 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 Group 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 valued using the effective interest rate method applied to the expected cash flows until the maturity date of these loans (contractual interest rates may be lower).
2. Security deposits and tax receivables due to the Group in Brazil: there is no specific risk in respect of these receivables, even if the outcome of disputes is unfavorable, since the risk has already been assessed and a provision recognized in respect of 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 over the lifetime of the asset. At each closing date, they are also subject to an impairment test if there is an impairment loss indicator.

The Group considers that as at 30 June 2019 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 €33 million as at 30 June 2019, or 5.0% 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 2019, trade receivables not yet due amounted to €514.3 million, or 76.9% of total net trade receivables.

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

As at 30/06/2019	0 to 30 days	30 to 60 days	60 to 90 days	90 to 180 days	> 180 days	Total
Trade receivables outstanding	392,354	59,429	23,649	26,442	12,437	514,310

4. Concerning the derivatives that have a positive 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 2019 include:

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

In this context, Vallourec holds:

- 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, after definitive allocation of 94,600 shares in 2014, 225,684 shares in 2016 and 78,585 shares in 2017 under the various performance share plans;
- 89,753 treasury shares acquired in 2014 after definitive allocation of 128,689 shares in 2017, 81,558 shares in 2018 and 177,893 shares in 2019 under the various performance share plans;
- 615,000 treasury shares acquired in 2019.

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:

30/06/2019	Notes	Category [a]	Gross value as at 30/06/2019	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed equity interests		A – FVOCI	-	-	-	-
Other equity interests		A – FVOCI	5,975	-	5,975	-
Loans		AC	20,425	20,425	-	-
Other financial assets		AC	39,817	39,817	-	-
Trade and other receivables	**7**	**AC**	**676,218**	**676,218**	**-**	**-**
Derivatives – assets	**8**					
Hedging financial instruments		CFH	162	-	162	-
Hedging financial instruments [d]		A – FVTPL	3,280	-	-	3,280
Speculative financial instruments		A – FVTPL	-	-	-	-
Other current assets	**9**	**AC**	**232,084**	**232,084**	**-**	**-**
Cash and cash equivalents	**10**	**A – FVTPL**	**729,146**	**-**	**-**	**729,146**
LIABILITIES						
Other financial liabilities [b] [c] from credit institutions	**16**	**AC – EIR**	**333,223**	**333,223**	**-**	**-**
Other income (expense), net	**16**	**AC – EIR**	**376,335**	**376,335**	**-**	**-**
Bond issues	**16**	**AC – EIR**	**2,122,017**	**2,122,017**	**-**	**-**
Current bank overdrafts	**16**	**AC – EIR**	**8,792**	**8,792**	**-**	**-**
Lease debts	**18**	**AC – EIR**	**134,480**	**134,480**	**-**	**-**
Trade and other payables		**AC**	**597,035**	**597,035**	**-**	**-**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	3,493	-	3,493	-
Hedging financial instruments [d]		L – FVTPL	18,998	-	-	18,998
Speculative financial instruments		L – FVTPL	66	-	-	66
Tax and other current liabilities	**20**	**AC**	**280,559**	**280,559**	**-**	**-**

(a) A – FVTPL: Financial assets measured at fair value through profit or loss.
CA: Amortized cost.
A – FVOCI: Financial assets measured at fair value in Other Comprehensive Income (not recyclable).
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) Borrowings classified within non-current liabilities maturing in more than 12 months.

(c) 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 swap contracts, linked to interest rate movements, are recognized in equity to the extent of their effectiveness. Otherwise, they are recognized under financial income.

(d) Hedges of foreign currency receivables and payables.

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

30/06/2019 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	A – FVOCI	-	-	-	-
Other equity interests	A – FVOCI	5,975	-	5,975	-
Derivatives – assets					
Hedging financial instruments	CFH	3,442	-	3,442	-
Speculative financial instruments	A – FVTPL	-	-	-	-
Cash and cash equivalents	**A – FVTPL**	**729,146**	**729,146**	**-**	**-**
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	22,491	-	22,491	-
Speculative financial instruments	L – FVTPL	66	-	66	-

31/12/2018	Notes	Category (a)	Gross value as at 31/12/2018	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed equity interests		A – FVOCI	-	-	-	-
Other equity interests		A – FVOCI	5,642	-	5,642	-
Loans		AC	20,425	20,425	-	-
Other financial assets		AC	39,092	39,092	-	-
Trade and other receivables	**7**	**AC**	**600,155**	**600,155**	**-**	**-**
Derivatives – assets	**8**					
Hedging financial instruments		CFH	631	-	631	-
Hedging financial instruments (d)		A – FVTPL	2,716	-	-	2,716
Speculative financial instruments		A – FVTPL	-	-	-	-
Other current assets	**9**	**AC**	**215,931**	**215,931**	**-**	**-**
Cash and cash equivalents	**10**	**A – FVTPL**	**739,576**	**-**	**-**	**739,576**
LIABILITIES						
Other financial liabilities (b) (c) from credit institutions	**16**	**AC – EIR**	**117,415**	**117,415**	**-**	**-**
Other income (expense), net	**16**	**AC – EIR**	**509,424**	**509,424**	**-**	**-**
Finance leases	**16**	**AC – EIR**	**50,791**	**50,791**	**-**	**-**
Bond issues	**16**	**AC – EIR**	**1,717,647**	**1,717,647**	**-**	**-**
Non-convertible bond issues	**16**	**AC – EIR**	**399,705**	**399,705**	**-**	**-**
Current bank overdrafts	**16**	**AC – EIR**	**2,527**	**2,527**	**-**	**-**
Trade and other payables		**AC**	**582,272**	**582,272**	**-**	**-**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	11,771	-	11,771	-
Hedging financial instruments (d)		L – FVTPL	19,704	-	-	19,704
Speculative financial instruments		L – FVTPL	356	-	-	356
Tax and other current liabilities	**20**	**AC**	**262,581**	**262,581**	**-**	**-**

(a) A – FVTPL: Financial assets measured at fair value through profit or loss.
CA: Amortized cost.
A – FVOCI: Financial assets measured at fair value in Other Comprehensive Income (not recyclable).
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) Borrowings classified within non-current liabilities maturing in more than 12 months.

(c) 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 swap contracts, linked to interest rate movements, are recognized in equity to the extent of their effectiveness. Otherwise, they are recognized under financial income.

(d) Hedges of foreign currency receivables and payables.

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

31/12/2018 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	A – FVOCI	-	-	-	-
Other equity interests	A – FVOCI	5,642	-	5,642	-
Derivatives – assets					
Hedging financial instruments	CFH	3,347	-	3,347	-
Speculative financial instruments	A – FVTPL	-	-	-	-
Cash and cash equivalents	**A – FVTPL**	**739,576**	**739,576**	**-**	**-**
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	31,475	-	31,475	-
Speculative financial instruments	L – FVTPL	356	-	356	-

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 31/12/2018	**5,429**	**84,884**	**42,532**	**36,032**	**47,054**	**215,931**
Impact of changes in exchange rates	40	1,187	345	588	306	2,466
Provision allowances or reversals	-	-	-	-	(323)	(323)
Other changes	4,423	6,499	(3,148)	5,528	708	14,010
AS AT 30/06/2019	**9,892**	**92,570**	**39,729**	**42,148**	**47,745**	**232,084**

Other changes in tax receivables represent the activation of PIS COFINS receivables in Brazil.

Note 10 Cash and cash equivalents

	Investment securities (gross)	Cash and cash equivalents	Total
As at 31/12/2018	**401,895**	**337,681**	**739,576**
Impact of changes in exchange rates	5,825	282	6,107
Other changes	(36,841)	20,304	(16,537)
AS AT 30/06/2019	**370,879**	**358,267**	**729,146**

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

Note 11 Assets held for sale and discontinued operations

As at 31 December 2018 and as at 30 June 2019, no disposal in the scope of IFRS 5 was identified.

Note 12 Change in cash flow

Change in Working Capital Requirements

Gross values	31/12/2018	Translation difference	Change	Reclassification and other	30/06/2019
Inventories	1,274,594	9,559	60,706	7,149	1,352,008
Trade receivables	609,838	3,825	76,491	1,764	691,918
Trade payables	(582,272)	(2,165)	(12,333)	(265)	(597,035)
Working Capital Requirement	**1,302,160**	**11,219**	**124,864**	**8,648**	**1,446,891**
Other receivables and payables	2,819	1,638	(9,866)	(4,645)	(10,054)
Operating Working Capital Requirement (1)	**1,304,979**	**12,857**	**114,998**	**4,003**	**1,436,837**
Impact of hedging instruments (2)			**1,735**		
TOTAL (1) + (2)			**116,733**		
Change in Operating Working Capital Requirement under the cash flow statement			(116,733)		

Change in financial liabilities

	31/12/2018	Translation difference	Net cash inflow from new borrowings	Repayments of borrowings	Current/ non-current reclassifications and other	30/06/2019
Non-current financial liabilities	1,796,637	604	5,019	-	(58,766)	1,743,494
Current financial liabilities	1,000,872	8,291	782,676	(700,710)	5,744	1,096,873
Financial liabilities (1)	**2,797,509**	**8,895**	**787,695**	**(700,710)**	**(53,022)**	**2,840,367**
Impact of hedging instruments and other (2)			**(2,002)**	**(416)**		
TOTAL (1) + (2)			**785,693**	**(701,126)**		
Change in financial liabilities in the cash flow statement			785,693	(701,126)		

Inflows and repayments of current financial liabilities primarily correspond to drawings and repayments of market financing and confirmed credit lines.

Note 13 Equity

Capital

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

Reserves, financial instruments

These reserves for change in fair value of hedging instruments (net of tax) arise primarily from two types of transaction:

- effective currency hedges assigned to the order book and commercial tenders. Changes in the currency impacts at 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 income (expense), net	Total
As at 31/12/2018	**251,022**	**(12,031)**	**(880,712)**	**16,192**	**(22,930)**	**(648,459)**
Changes	6,000	66	25,646	1,093	4,411	37,216
AS AT 30/06/2019	**257,022**	**(11,965)**	**(855,066)**	**17,285**	**(18,519)**	**(611,243)**

Main exchange rates used (euro/currencies): translation of statement of financial position items (closing rate) and income statement items (average rate).

	USD	GBP	BRL	CNY
31/12/2018				
Average rate	1.18	0.88	4.31	7.81
Closing rate	1.15	0.89	4.44	7.88
H1 2019				
Average rate	1.13	0.87	4.34	7.67
Closing rate	1.14	0.90	4.35	7.82

Note 14 Earnings per share

Basic earnings per share are calculated by dividing the net income for the fiscal 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 fiscal 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 2018	H1 2019
Net income (loss) attributable to ordinary shareholders for basic earnings per share	**(306,569)**	**(167,180)**
Weighted average number of ordinary shares for basic earnings per share	457,987,760	457,987,760
Weighted average number of treasury shares for basic earnings per share	(140,882)	(496,449)
Weighted average number of shares for basic earnings per share	457,846,878	457,491,311
EARNINGS PER SHARE *(in €)*	**(0.7)**	**(0.4)**

Note 15 Interest attributable to non-controlling interests

	Reserves	Translation difference	Net income/(loss)	Total
As at 31/12/2018	435,057	24,874	2,088	462,019
Change	53,129	4,279	1,684	59,092
AS AT 30/06/2019	**488,186**	**29,153**	**3,772**	**521,111**

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

Note 16 Bank loans and other financial liabilities

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 via Vallourec and to a lesser extent via the subsidiaries in Brazil.

Vallourec's credit lines (€2,128 million) do not benefit from any securities or guarantees.

Market financing is arranged exclusively by Vallourec.

IN EUROPE

In February 2014, Vallourec established a confirmed credit line 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 2019, this line was drawn down in the amount of €160 million.

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 2019, this line was drawn down in the amount of €13 million.

In September 2015, Vallourec established a confirmed credit line for the amount of €400 million, maturing in July 2019. An initial extension of one year (until July 2020) was granted in July 2016 for the full amount. A second extension was granted in February 2019, extending this financing from July 2020 to February 2021 in the amount of €300 million. As at 30 June 2019, this line was drawn down in the amount of €57 million.

In May 2016, Vallourec established a confirmed credit line for €450 million maturing in February 2020. An extension of one additional year was granted in February 2019, allowing this financing to be extended from February 2020 to February 2021 in the amount of €300 million. As at 30 June 2019, this line was drawn down in the amount of €67 million.

In May 2018, Vallourec established 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 and Development, and Digitization projects. As at 30 June 2019, this line had not been drawn down.

Each of these bank facilities requires Vallourec to maintain its indebtedness ratio ("banking covenant") at less than or equal to 100%, calculated as at 31 December each year. As defined in the bank loan agreements, the banking covenant ratio is the ratio of the Group's consolidated net debt (including the financial lease debt and the shareholder's loan in Brazil) to the Group's equity, restated for gains and losses on derivatives and for foreign currency translation reserves (gains and losses of consolidated subsidiaries in foreign currency).

As at 30 June 2019, the indebtedness ratio was estimated at 79%, as calculated under the Group's bank loan covenant and tested annually as at 31 December. The implementation of IFRS 16 has no impact on the indebtedness ratio.

Banking covenant	31/12/2018	H1 2019
Net debt (excluding financial lease debt)	1,998,776	2,111,221
Financial lease debt [(a)]	59,157	56,028
Net debt	**2,057,933**	**2,167,249**
Shareholder loan	28,892	30,567
Restated net debt (1)	**2,086,825**	**2,197,816**
Equity	2,264,276	2,185,012
Foreign currency translation reserves [(b)]	623,585	582,090
Reserves - changes in fair value of financial instruments [(b)]	8,311	288
Equity restated (2)	**2,896,172**	**2,767,390**
Ratio of banking covenant restated = (1)/(2)	**72%**	**79%**

(a) Included in net debt as at 31 December 2018.

(b) Including minority interests.

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.

As at 30 June 2019, Vallourec had an outstanding debt of €100.5 million for maturities of up to one year. This commercial paper program was 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%, and €55 million for 15 years with an annual coupon of 4.125%.

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

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 12 April 2018, Vallourec issued a €400 million bond, 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.

As at 30 June 2019, the market value of these fixed-rate bond issues was €400.6 million, €64.3 million, €537.0 million, €560.7 million and €412.2 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 early repayment 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 2019, the Group complied with its covenants and the terms and conditions for obtaining and maintaining all of the above facilities. Together, the above resources as at 30 June 2019 were sufficient to cover the Group's cash requirements.

Financial liabilities – Non-current liabilities

	Bank borrowings	Convertible bond issue	Non-convertible bond issue	Other financial liabilities	Total
As at 31/12/2018	**27,564**	**227,379**	**1,490,268**	**51,426**	**1,796,637**
Issuance of new debt	-	-	-	-	-
Current/non-current reclassifications	(7,286)	-	(250)	-	(7,536)
Impact of changes in exchange rates	604	-	-	-	604
Initial impact of IFRS 16 [(a)]	-	-	-	(50,791)	(50,791)
Other changes	(77)	2,696	1,969	(8)	4,580
AS AT 30/06/2019	**20,805**	**230,075**	**1,491,987**	**627**	**1,743,494**

(a) Reclassification of finance lease debts (IAS 17) as at 1 January 2019 as lease debt.

Financial liabilities – Current liabilities

	Bank overdrafts	Non-convertible bond issue	Bank borrowings (< 1 year)	Accrued interest not yet due on bank borrowings	Other financial liabilities (< 1 year)	Total
As at 31/12/2018	**2,527**	**399,705**	**89,851**	**25,291**	**483,498**	**1,000,872**
Impact of changes in exchange rates	(89)	-	1,176	2	7,202	8,291
Current/non-current reclassifications	-	250	7,286	-	-	7,536
Initial impact of IFRS 16 [(a)]	-	-	-	-	(8,366)	(8,366)
Other changes	6,354	-	214,105	18,722	(150,641)	88,540
AS AT 30/06/2019	**8,792**	**399,955**	**312,418**	**44,015**	**331,693**	**1,096,873**

(a) Reclassification of finance lease debts (IAS 17) as at 1 January 2019 as lease debt.

Debt by currency

	USD	EUR	BRL	Other income (expense), net	Total
As at 31/12/2018 *(in thousands of currency unit)*	325,956	2,398,712	391,156	n/a	n/a
As at 31/12/2018 *(in € thousand)*	284,678	2,398,712	88,019	26,100	2,797,509
As at 30/06/2019 *(in thousands of currency unit)*	**214,490**	**2,606,836**	**95,615**	**n/a**	**n/a**
AS AT 30/06/2019 *(in € thousands)*	**188,480**	**2,606,836**	**21,975**	**23,076**	**2,840,367**

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 31/12/2018	**11,011**	**11,736**	**784,995**	**407,474**	**581,421**	**1,796,637**
Other non-current borrowings	155	1,780	777,892	399,311	564,356	1,743,494
AS AT 30/06/2019	**155**	**1,780**	**777,892**	**399,311**	**564,356**	**1,743,494**

Breakdown by maturity of current loans and other financial liabilities

	< 3 months	> 3 months and < 1 year	Total
Non-convertible bond issues	-	399,705	399,705
Bank borrowings	77,116	12,735	89,851
Other financial liabilities	258,088	217,144	475,232
Finance lease liabilities	2,089	6,277	8,366
Accrued interest on borrowings	96	25,195	25,291
Bank overdrafts (negative cash and cash equivalents)	2,423	4	2,427
As at 31/12/2018	**339,812**	**661,060**	**1,000,872**
Non-convertible bond issues	399,955	-	399,955
Bank borrowings	297,782	14,637	312,419
Other financial liabilities	206,189	125,654	331,843
Accrued interest on borrowings	19,805	24,210	44,015
Bank overdrafts (negative cash and cash equivalents)	8,641	-	8,641
AS AT 30/06/2019	**932,372**	**164,501**	**1,096,873**

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 rates on date granted	755,175	947,825	951,662	-	2,654,662
Variable rates on date granted swapped to fixed rates	-	-	-	-	-
Fixed rates	755,175	947,825	951,662	-	2,654,662
Variable rates	2,392	75,588	8,298	56,569	142,847
As at 31/12/2018	**757,567**	**1,023,413**	**959,960**	**56,569**	**2,797,509**
Fixed rates on date granted	652,613	1,229,476	952,596	-	2,834,685
Variable rates on date granted swapped to fixed rates	-	-	-	-	-
Fixed rates	652,613	1,229,476	952,596	-	2,834,685
Variable rates	176	-	5,506	-	5,682
AS AT 30/06/2019	**652,789**	**1,229,476**	**958,102**	**-**	**2,840,367**

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 and restructuring measures	Tax risks	Others	Total
As at 31/12/2018	**14,633**	**7,046**	**15,284**	**3,615**	**40,578**
Provisions for the period	319	-	149	433	901
Provisions used	-	(1,938)	(345)	(14)	(2,297)
Impact of changes in exchange rates	312	6	327	34	679
Current/non-current reclassifications	-	20,351	-	-	20,351
Other income (expense), net	-	-	109	816	925
AS AT 30/06/2019	**15,264**	**25,465**	**15,524**	**4,884**	**61,137**

Provisions for environmental risks

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

Provisions for tax risks

This provision mainly relates to risks in connection with tax disputes not in the scope of IAS 12 in Brazil, some of which are covered by security deposits (see Note 4).

Provisions for reorganization and restructuring measures

Provisions for adaptation and restructuring measures that have a maturity of more than one year have been reclassified from current liabilities to non-current liabilities.

Current liabilities	Disputes and commercial commitments	Unfilled orders – losses on completion	Reorganization and restructuring measures	Provisions for environmental risks	Others	Total
As at 31/12/2018	**21,467**	**28,010**	**55,609**	**10,530**	**20,682**	**136,298**
Provisions for the period	9,692	9,104	5,963	216	3,405	28,380
Provisions used	(6,294)	(8,572)	(15,674)	-	(2,767)	(33,307)
Other reversals	(447)	-	-	-	-	(447)
Impact of changes in exchange rates	223	90	1	209	304	827
Current/non-current reclassifications	-	-	(20,351)	-	-	(20,351)
Other income (expense), net	-	-	(330)	-	-	(330)
AS AT 30/06/2019	**24,641**	**28,632**	**25,218**	**10,955**	**21,624**	**111,070**

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 reorganization and restructuring measures

Provisions for reorganization and restructuring measures cover the estimated costs of the plans announced in 2015, 2016 and 2018 that primarily concern Europe. They include the following costs:

- termination and end of employment contract payments paid to staff for which the Company expects no more in counterparty;
- maintenance costs for staff after stoppage of the activity and until closure of the site (advanced notice payment is not made, for example);
- payment for break in contract paid to suppliers;
- rents still to run after stoppage of the activity until expiry of the rental contract, etc.

Additional restructuring measures taken in Germany in the first half of the year resulted in the recognition of a new provision of approximately €5.4 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 Lease debt

	Non-current lease debt	Current lease debt	Total
As at 31/12/2018			
Initial impact of IFRS 16 – Recognition of new agreements	64,554	21,569	86,123
Initial impact of IFRS 16 – Reclassification of finance lease debts as at 1 January 2019 as lease debt	50,791	8,366	59,157
Impact of changes in exchange rates	715	(180)	535
Current/non-current reclassifications	(12,181)	12,181	-
Other changes	2,710	(14,045)	(11,335)
AS AT 30/06/2019	**106,589**	**27,891**	**134,480**

Maturity schedule	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
AS AT 30/06/2019	**22,801**	**16,733**	**15,770**	**15,225**	**36,060**	**106,589**

Note 19 Employee benefits commitments

	Germany	France	United Kingdom	Others	Total
As at 30/06/2019					
Present value of the obligation	**341,075**	**36,022**	**109,621**	**105,775**	**592,493**
Retirement benefits	267,063	34,428	109,621	105,775	516,887
Early retirement commitments	57,155	-	-	-	57,155
Long service awards and medical benefits	16,857	1,594	-	-	18,451
Fair value of plan assets	(188,033)	(5,160)	(127,460)	(42,477)	(363,130)
NET LIABILITY/(ASSET)	**153,042**	**30,862**	**(17,839)**	**63,298**	**229,363**

Changes in net liability

	Germany	France	United Kingdom	Others	Total
Net Liability/(Asset) as at 31/12/2018	**145,051**	**27,418**	**(14,244)**	**56,134**	**214,359**
Expense for the period	11,329	1,048	110	4,194	16,681
Amount recognized in Other comprehensive income – revaluation	13,680	2,720	(2,319)	4,511	18,592
Benefits or contributions to funds	(17,018)	(324)	(1,516)	(2,422)	(21,280)
Impact of changes in exchange rates	-	-	130	781	911
Changes in scope and other	-	-	-	100	100
NET LIABILITY/(ASSET) AS AT 30/06/2019	**153,042**	**30,862**	**(17,839)**	**63,298**	**229,363**

As at 30 June 2019, the main commitments were reviewed to take into account the changes in the discount rate based on sensitivity analyses performed at 31 December 2018.

The significant hedge funds were valued at their fair value as at 30 June 2019.

Main actuarial assumptions	Germany	France	United Kingdom	Others
31/12/2018				
Discount rate	1.70%	1.70%	2.80%	from 4% to 9.09%
Actual return on plan assets	1.70%	1.70%	2.80%	from 4% to 9.09%
30/06/2019				
Discount rate	0.90%	0.90%	2.40%	from 3.75% to 8.50%
Long-term return on plan assets	0.90%	0.90%	2.40%	from 3.75% to 8.50%

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 fiscal year due to discounting, 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	Others	Total
As at 30/06/2019					
Current service cost	8,269	693	323	1,786	11,071
Interest expenses	2,737	276	1,496	2,853	7,362
Actual return on plan assets	(1,498)	(43)	(1,709)	(862)	(4,112)
Net actuarial losses/(gains) recognized during the period	-	122	-	417	539
Impact of any curtailments or settlements [a]	1,821	-	-	-	1,821
NET CARRYING AMOUNT	**11,329**	**1,048**	**110**	**4,194**	**16,681**

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

OTHER EMPLOYEE BENEFITS (OPTIONS AND PERFORMANCE SHARES)

Share subscription plans

Characteristics of the plans

With regard to the characteristics of the plans agreed before 31 December 2018, please see the Group's consolidated financial statements for the fiscal year ended 31 December 2018.

Change in number of unexpired options

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

(in number of options)	
Options outstanding as at 1 January 2019	**3,674,986**
Options exercised	-
Options lapsed	-
Options canceled	(302,547)
Options distributed during the period	354,220
OPTIONS OUTSTANDING AS AT 30 JUNE 2019	**3,726,659**
• Options available for exercise	2,305,538

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.

Valuation of the new plan introduced during the half year [a]

	2019 Plan
Assumptions	
Price of share on allocation date	€2.23
Volatility [b]	32.00%
Risk-free rate [c]	0.10%
Exercise price	€2.20
Dividend rate [d]	3.00%
Fair value of the option [e]	€0.48
Number of options granted	354,220

(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) 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 Group Management Committee is €0.48 for the 2019 plan.

Performance share allocation plans

Characteristics of the plans

With regard to the characteristics of the plans agreed before 31 December 2018, please see the Group's consolidated financial statements for the fiscal year ended 31 December 2018.

For all 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 2019	**2,251,685**
Shares delivered during the period	(178,126)
Shares canceled	(241,085)
Shares allocated during the period	836,630
NUMBER OF SHARES BEING VESTED AS AT 30 JUNE 2019	**2,669,104**

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 2019 are as follows:

	2019 Plan
Price of share on allocation date	€2.23
Risk-free rate [a]	-0.25% (France), -0.36% (other countries)
Dividend rate [b]	3.00%
Fair value of the option	€1.93 (French residents) or €1.97 (non-French residents)
Number of shares granted	836,630

(a) 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 and non-current liabilities

Other long-term liabilities

Other long-term liabilities	
As at 31/12/2018	**9,217**
Impact of changes in exchange rates	17
Other changes	(736)
AS AT 30/06/2019	**8,498**

The other long-term liabilities mainly consist of other non-operating liabilities due in more than one year.

Other current liabilities	Social security liabilities	Tax liabilities	Liabilities associated with the acquisition of assets	Deferred income	Other current liabilities	Total
As at 31/12/2018	**184,198**	**29,286**	**7,382**	**1,777**	**39,938**	**262,581**
Impact of changes in exchange rates	1,106	218	131	3	(61)	1,397
Other changes	14,299	7,308	(2,028)	24	(3,022)	16,581
AS AT 30/06/2019	**199,603**	**36,812**	**5,485**	**1,804**	**36,855**	**280,559**

Note 21 Information on related parties

	Sales to related parties	Purchases from related parties	Related party net receivables	Related party payables
As at 30/06/2019				
HKM	1,266	163,651	37	87,105
Ascoval	1,840	11,545	456	426

Note 22 Shareholder loan

NSSMC shareholder loan	
As at 31/12/2018	**28,892**
Repayment of debt	-
Impact of changes in exchange rates	615
Fair value of debt	1,060
AS AT 30/06/2019	**30,567**

Vallourec Soluções Tubulares do Brasil benefits from shareholder loans granted by Nippon Steel Sumitomo Metal Corp. These loans are subject to a maturity of BRL 44 million for the second half of 2019, 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 for the relevant period.

Note 23 Revenue

	H1 2018	H1 2019
Europe	295,246	310,276
North America (NAFTA)	603,824	668,065
South America	317,469	329,419
Asia and Middle East	527,019	549,166
Rest of the world	100,290	252,074
TOTAL	**1,843,848**	**2,109,000**

Note 24 Cost of sales

	H1 2018	H1 2019
Direct cost of sales	(108,728)	(118,881)
Cost of raw materials consumed	(681,872)	(686,315)
Labor costs	(374,444)	(386,363)
Other manufacturing costs	(501,397)	(519,138)
Change in non-raw material inventories	55,734	(16,986)
TOTAL	**(1,610,707)**	**(1,727,683)**
Depreciation and amortization	(134,488)	(125,572)
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**(1,745,195)**	**(1,853,255)**

Note 25 Sales, general and administrative costs

	H1 2018	H1 2019
Research and Development costs	(21,647)	(25,466)
Sales and marketing costs	(39,650)	(38,948)
General and administrative costs	(138,329)	(133,625)
TOTAL	**(199,626)**	**(198,039)**
Depreciation and amortization [(a)]	(18,113)	(29,093)
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**(217,739)**	**(227,132)**

(a) Includes depreciation of rights of use from 1 January 2019.

Personnel expenses and average headcount of consolidated companies

Personnel expenses	H1 2018	H1 2019
Wages and salaries	(386,182)	(376,848)
Employee profit-sharing and bonuses	(9,507)	(15,907)
Expenses related to share subscription and share purchase options and performance shares	(1,248)	(997)
Social security costs	(108,291)	(93,816)
TOTAL	**(505,228)**	**(487,568)**

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	31/12/2018	H1 2018	H1 2019
Managers	3,116	3,137	3,142
Technical and supervisory staff	2,703	2,853	2,605
Production staff	12,511	12,620	12,727
TOTAL	**18,330**	**18,610**	**18,474**

Note 26 Other

	H1 2018	H1 2019
Employee profit-sharing and bonuses	(7,231)	(12,897)
Other income and expenses	(8,226)	(1,507)
TOTAL	**(15,457)**	**(14,404)**

Provision allowances, net of reversals	H1 2018	H1 2019
Provision allowances net of reversals included in EBITDA amounted to	14,110	(8,515)

Note 27 Depreciation and amortization

	H1 2018	H1 2019
By function		
Depreciation of industrial assets	(134,488)	(125,572)
Depreciation and amortization – Research and Development	(4,805)	(4,472)
Depreciation and amortization – Sales and Marketing Department contracts	(4,373)	(553)
Depreciation and amortization – General and administrative expenses	(8,935)	(8,407)
Depreciation - Rights of use [(a)]	-	(15,661)
TOTAL	**(152,601)**	**(154,665)**
By type		
Net amortization of intangible assets (see Note 1)	(12,322)	(7,743)
Net depreciation of property, plant and equipment (see Note 2.1) [(a)]	(135,803)	(140,915)
Net depreciation and amortization of biological assets	(4,476)	(6,007)
TOTAL	**(152,601)**	**(154,665)**

(a) Includes depreciation of rights of use from 1 January 2019.

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

	H1 2018	H1 2019
Reorganization measures (net of expenses and provisions described in Note 17)	(28,833)	(10,878)
Gains and losses on disposals of non-current assets and other	(27,883)	(562)
TOTAL	**(56,716)**	**(11,440)**

	H1 2018	H1 2019
Impairment of property, plant and equipment (see Note 2.1)	(13,594)	(21,353)
TOTAL	**(13,594)**	**(21,353)**

As at 30 June 2019, asset depreciation relates to an impairment loss of €21 million on an asset dedicated to nuclear activity due to the deterioration of its medium-term prospects.

Note 29 Financial income/(loss)

	H1 2018	H1 2019
Financial income		
Income from investment securities	7,719	7,383
Income from disposals of investment securities	(249)	(62)
TOTAL	**7,470**	**7,321**
Interest expenses	**(90,763)**	**(90,410)**
Other financial income and expenses		
Income from securities	562	280
Income from loans and receivables	518	481
Exchange (losses) and gains and changes in premiums/discounts	(17,432)	(17,890)
Provision allowances, net of reversals	(693)	(2,459)
Other financial income and expenses	525	3,244
TOTAL	**(16,520)**	**(16,344)**
Interest expenses on leases	**-**	**(17,814)**
Other discounting expenses		
Interest expense discounts on pensions	(2,669)	(3,571)
Financial income from discounted assets and liabilities	(2,470)	(1,060)
TOTAL	**(5,139)**	**(4,631)**
FINANCIAL INCOME	**(104,952)**	**(121,878)**

Note 30 Reconciliation of theoretical and actual tax expense

Breakdown of the tax expense	H1 2018	H1 2019
Current tax expense	(15,328)	(33,923)
Deferred taxes	15,333	11,557
NET EXPENSE	**5**	**(22,366)**
Consolidated net income (loss)	(309,800)	(162,828)
Tax expense	5	(22,366)
CONSOLIDATED NET INCOME/(LOSS) BEFORE TAX	**(309,805)**	**(140,462)**
Statutory tax rate of consolidating company	34.43%	34.43%
Theoretical tax	106,666	48,361
Impact of main tax loss carryforwards	(89,963)	(56,368)
Long-term impact of capital gains or losses	879	226
Impact of permanent differences	(3,191)	(6,425)
Impact of differences in tax rates	(13,902)	(8,531)
Other impacts	(484)	371
NET EXPENSE	**5**	**(22,366)**
ACTUAL TAX RATE	**0%**	**-16%**

The rate of 16% 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) in the tax losses during the period of the French tax consolidation group and in Germany, in China and in UK subsidiaries.

Ongoing differences consist mainly of 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 2018 and 2019.

Information on results, assets and liabilities by operating segment

H1 2019	Seamless tubes	Specialty Products	Holdings & miscellaneous (a)	Inter-segment transactions	Total
Income statement					
Sales to external customers	2,101,964	6,400	636	-	2,109,000
EBITDA	186,975	(9,191)	(8,910)	-	168,874
Depreciation and amortization	(150,352)	(2,653)	(1,660)	-	(154,665)
Impairment of assets and goodwill	35	(21,388)	-	-	(21,353)
Asset disposals and restructuring costs	(11,832)	-	392	-	(11,440)
OPERATING INCOME/(LOSS)	**24,826**	**(33,232)**	**(10,178)**	**-**	**(18,584)**
Unallocated income					7,321
Unallocated expenses					(129,199)
Pre-tax income					(140,462)
Income tax					(22,366)
Net income of associates					(580)
Consolidated net income					(163,408)
Statement of financial position					
Non-current assets	3,629,252	66,136	4,401,179	(4,381,391)	3,715,176
Current assets	2,057,353	47,384	103,906	(87,792)	2,120,851
Cash	526,925	383	831,341	(629,503)	729,146
Assets held for sale and discontinued operations	-	-	-	-	-
TOTAL ASSETS	**6,213,530**	**113,903**	**5,336,426**	**(5,098,686)**	**6,565,173**
Cash flow					
Property, plant and equipment, intangible assets and biological assets	34,827	131	194	-	35,152

(a) Vallourec and Vallourec Tubes.

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	-	1,843,848
EBITDA	42,286	(13,297)	(10,931)	-	18,058
Depreciation and amortization	(145,267)	(7,294)	(435)	395	(152,601)
Impairment of assets and goodwill	(13,594)	-	-	-	(13,594)
Asset disposals and restructuring costs	(53,489)	18	(3,245)	-	(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 flow investments					
Property, plant and equipment, intangible assets and biological assets	32,768	426	78	-	33,272

(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 2019	Europe	North America	South America	Asia	Rest of the world	TOTAL
Revenue						
Sales to external customers	310,276	668,065	329,419	549,166	252,074	2,109,000
Statement of financial position						
Properly, plant and equipment, intangible assets and biological assets (net)	551,780	1,389,065	921,811	296,601	1,536	3,160,793
Cash flow investments						
Property, plant and equipment, intangible assets and biological assets	12,189	6,962	13,516	2,466	19	35,152

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						
Properly, plant and equipment, intangible assets and biological assets (net)	570,542	1,423,953	930,581	339,622	281	3,264,979
Cash flow investments						
Property, plant and equipment, intangible assets and biological assets	16,568	5,501	6,068	5,069	66	33,272

Note 32 Contingent liabilities and commitments

Off-statement of financial position commitments received (excluding financial instruments)	31/12/2018	30/06/2019
Firm non-current asset orders	5,462	5,684
Guarantees and commitments received	63,983	15,576
Other commitments received	10,797	8,761
TOTAL	**80,242**	**30,021**

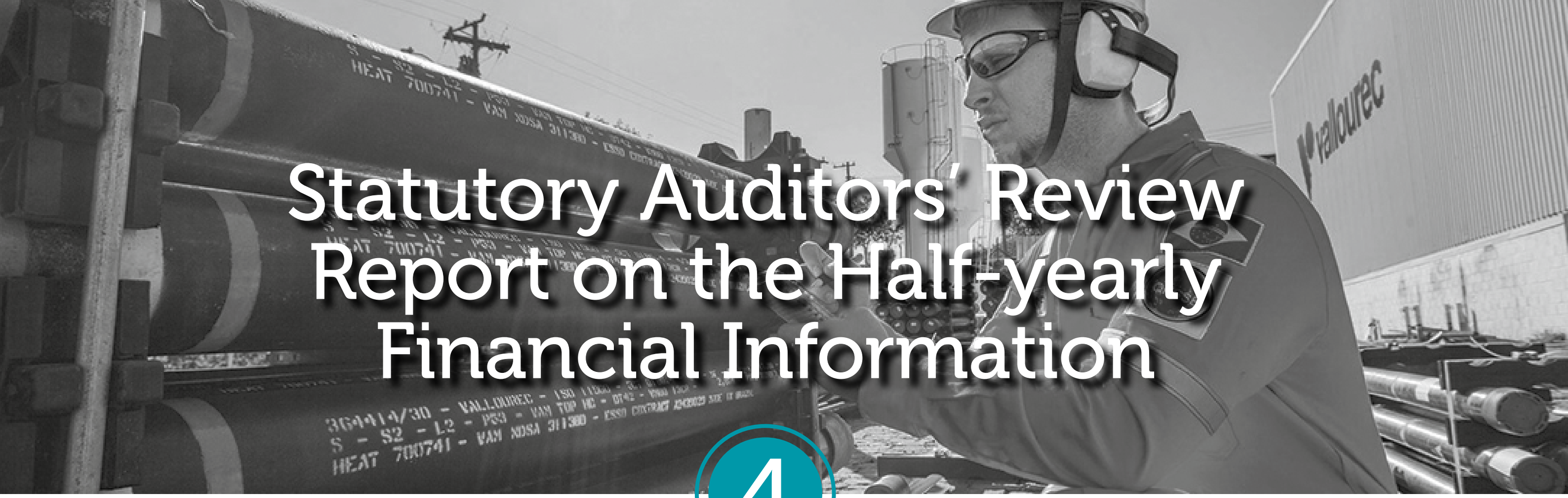
Commitments given by maturity

	30/06/2019	< 1 year	> 1 year	> 5 years
Statement of financial position				
Long-term financial debts	2,840,367	1,096,873	1,179,138	564,356
Off-statement of financial position				
Market guarantees and letters of credit given	48,501	47,847	654	-
Other securities, mortgages and pledges given	1,431	620	336	475
Firm asset orders given	5,684	5,261	423	-
Other obligations	60,467	46,542	12,181	1,744
TOTAL	**116,083**	**100,270**	**13,594**	**2,219**

	31/12/2018	< 1 year	> 1 year	> 5 years
Statement of financial position				
Long-term financial debts	2,797,509	1,000,872	1,215,216	581,421
Off-statement of financial position				
Market guarantees and letters of credit given	90,296	61,866	28,430	-
Other securities, mortgages and pledges given	1,401	607	329	465
Long-term lease	147,873	36,128	69,472	42,273
Firm asset orders given	5,462	5,076	386	-
Other obligations	77,397	49,507	26,183	1,707
TOTAL	**322,429**	**153,184**	**124,800**	**44,445**

Note 33 Subsequent events

No subsequent events to the end of the reporting period at closing accounts.



Statutory Auditors' Review Report on the Half-yearly Financial Information

4

For the period from January 1st, 2019 to June 30, 2019

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 users. This report includes information relating to the specific verification of information given in the Group's half-yearly management 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,

Following our appointment as statutory auditors by your General Meeting, and in accordance with article L.451-1-2 III of the French Monetary and Financial Law ("*Code monétaire et financier*"), we hereby report to you on:

- the review of the accompanying interim condensed consolidated financial statements of VALLOUREC for the six-month period ended June 30, 2019;
- the verification of information contained in the half-yearly management report.

These interim condensed consolidated financial statements are the responsibility of your management Board. Our role is to express a conclusion on 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 and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France. Consequently this 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 interim condensed consolidated financial statements are not prepared in all material respects in accordance with IAS 34 – the standard of IFRS as adopted by the European Union applicable to interim financial reporting.

Without qualifying our conclusion, we draw your attention to the note A-2.1.1 of the interim condensed consolidated financial statements, which discloses the impact of the application of IFRS 16 "Leases", new standard adopted in the European Union and applicable for financial years beginning on or after January 1st, 2019.

II – Specific verification

We have also verified information presented in the half-yearly management report on the interim condensed consolidated financial statements that were subject to our review. We have no matters to report as to its fair presentation and consistency with the interim condensed consolidated financial statements.

Paris-La Défense, July 23, 2019

The Statutory auditors

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