2020

Interim financial report

Year ended June 30, 2020

vallourec

SMART TUBULAR SOLUTIONS

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Statement by the person responsible for the interim financial report

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

Boulogne-Billancourt, 28 July 2020

Edouard Guinotte

Chairman of the Management Board

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Half-year activity report

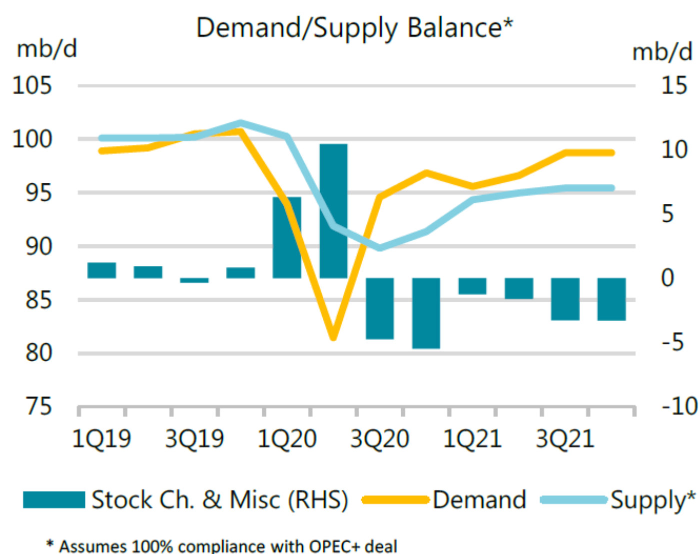
Vallourec Group Market environment

1. Oil & Gas

GLOBAL OIL & GAS MARKET

Anticipated Oil & Gas demand and supply 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 and as per the International Energy Agency "IEA" last Oil Market Report, expressed in millions of barrels per day (mb/d).



Source: IEA Oil Market Report – June 2020.

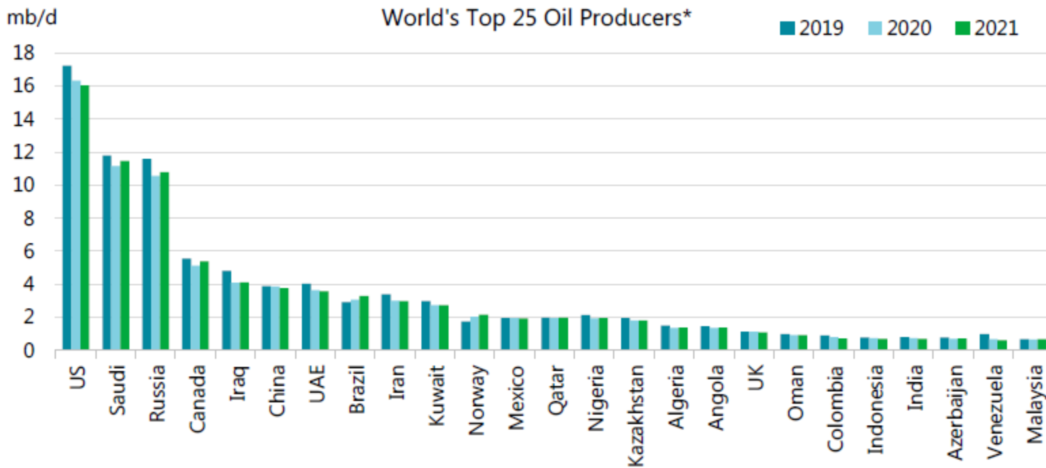
Global oil demand is expected to fall by a record 8.1 mb/d year-on-year in 2020, the largest decrease in history and with most of the collapse occurring in the first half of the year (-11.4 mb/d) and more particularly during the second quarter (-17.8 mb/d). The impact of containment measures has been to bring mobility almost to a halt. Nevertheless, in its June Oil Market Report, IEA rose its forecasts for 2020 by 500 kb/d to 91.7 mb/d compared to its May report.

IEA forecasts a significant recovery of 5.7 mb/d in 2021 oil demand, reaching 97.4 mb/d which would be still 2.4 mb/d below 2019 level. This is explained by the unprecedent crisis that the airlines industry is facing as jet fuel and kerosene demand are not expected to recover 2019 level before 2022.

Global oil supply plunged by 11.8 mb/d in May, after OPEC+ forged a historic deal to cut production by 9.7 mb/d over May, June and July from an agreed baseline level. According to IEA, OPEC+ reduced supply during May by 9.4 mb/d versus April, to deliver a compliance rate of 89%. Saudi Arabia and Russia achieved a rate at or near 100%, while other Gulf producers came in above 90%. Starting from August and until the end of 2020, OPEC+ agreement stipulates output reduction by 7.7 mb/d and then, from January 2021 through April 2022, output decline by 5.8 mb/d. The group also agreed on strict measures to ensure that producers fully respect supply targets. As such, several countries (Iraq, Nigeria, Angola and Kazakhstan) with outputs above quotas stated for May will need to make further cuts in 3Q20 to compensate the excess of production.

Additional reductions come from other countries with the US and Canada seeing the largest declines. Total non-OPEC output falls could reach 5.2 mb/d in 4Q20, and for the whole year output may be 3.1 mb/d lower than in 2019 (compared to an expected growth of 2.1 mb/d as of IEA December report). Then, IEA forecasts a moderate non-OPEC supply growth, which could reach 0.8mb/d in 2021.

Following the sharp decline by 7.2 mb/d on average in 2020, global production is forecasted to show a modest recovery of 1.8 mb/d in 2021 assuming that OPEC+ cuts ease further, Norway, Brazil and Guyana deliver gains and Libya manages to sustain a rebound in production.

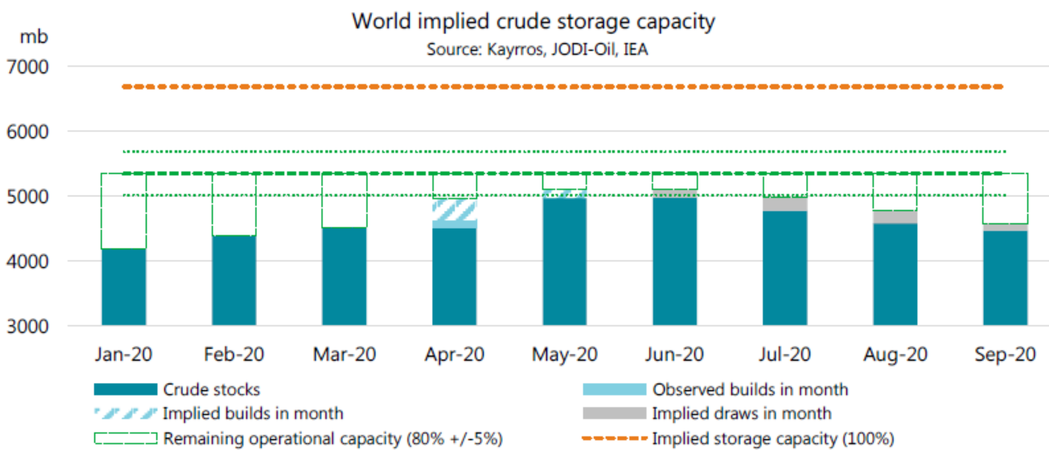


Source: IEA Oil Market Report – June 2020.

** Ranked by 2020 production. Assumes 100% compliance with OPEC+ cuts from June 2020.*

Crude stocks soaring due to the oversupply momentum

The oil demand/supply unbalance led in H1 2020 to a situation of oversupply, as the coordinated response from new OPEC+ deal combined with production shut in North America was not enough to fully absorb the oil demand shock. In its June Market Report[1], IEA estimates that the global crude storage fill level at the end of May 2020 was 5.1 billion barrels, representing a capacity utilization rate of 76%. Pressure might ease if OPEC+ as well as non-OPEC countries maintain supply cuts and refineries activity recover.



Source: IEA Oil Market Report – June 2020.

Demand for seamless tubes depends on the level of capital expenditures for Exploration and Production (E&P) by participants in the Oil & Gas market

The forecasted level of upstream capital expenditures for exploration and production by region is shown in the graph below.

IHS Markit June 2020 updated estimates show a significant upstream capex decline by 30% in 2020 comparing to 2019. Among all regions, North America is the main contributor to capex reduction with USD 83 bn capex spending forecasted in 2020 comparing to USD 166 bn in

[1] IEA uses several sources for its assessments: the IEA' Monthly Oil Data Service (MODS) for OECD countries, Kayrros which analyse satellite images of storage tanks and JODI-Oil mainly for non-OECD countries.

2019, a 50% decline year-on-year. The capex reduction was in a large part launched following Covid-19 impact that led to the oil demand collapse. Indeed, in its December 2019 update, IHS Markit forecasted only an 8% decline in North America capex spending for 2020.

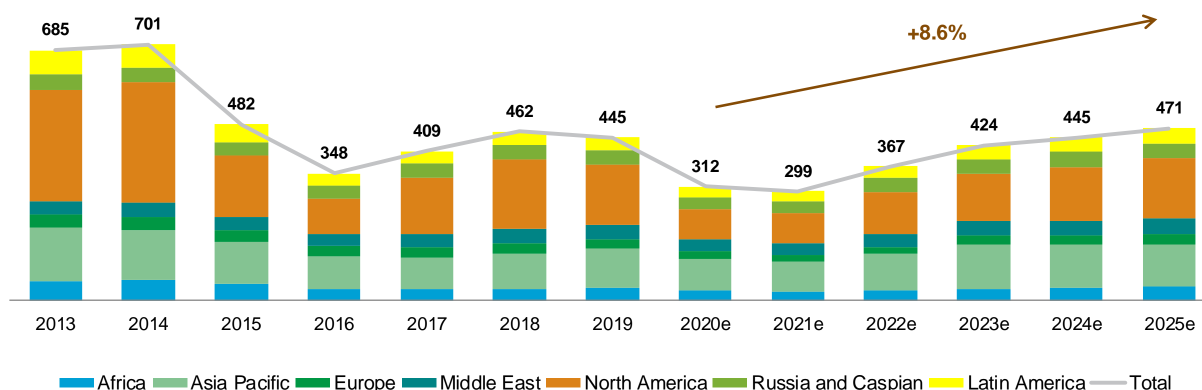
IHS Markit estimates that global capex spending will continue to decrease in 2021 by 4%, leading to 2019-2021 global upstream E&P capex spending reduction of 33% to USD 299 bn.

While bottoming out in 2021, upstream E&P capex would start to gradually recover in 2022 according to IHS Markit; 2020-2025 Compound Annual Growth Rate is forecasted to reach 8.6% (USD 471 bn, higher than 2018 level that stood at USD 462 bn).

Although North America is the main contributor to global E&P capex spending decline in 2020-21, the region is forecasted to be the main driver of the recovery starting from 2022 with a Compound Annual Growth Rate of 14.6% over the period 2020-2025.

Evolution of Upstream E&P Capex by geographical zone

In USD billion



Source: IHS – Global Upstream Spending – June 2020.

In terms of breakdown of global upstream E&P capex, IHS Markit forecasts that the current oil demand and supply crisis will mostly benefit to the offshore spending.

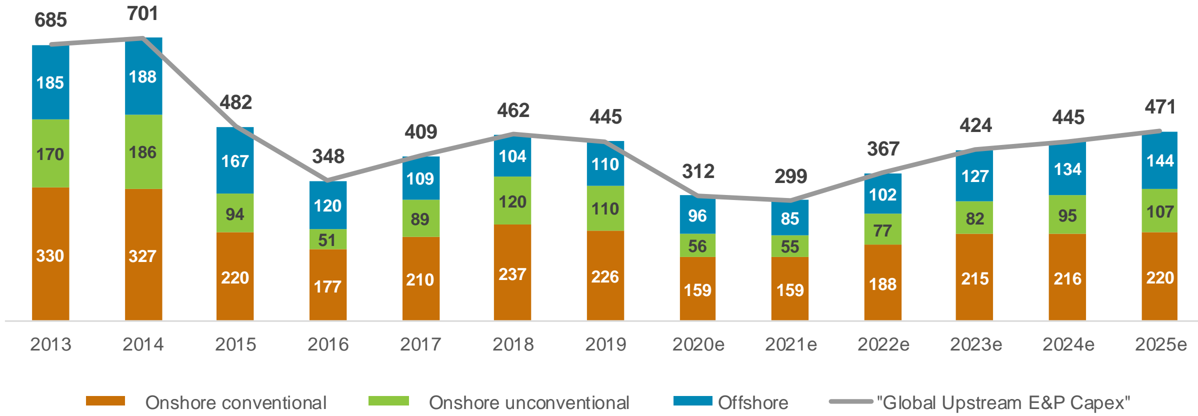
As shown in the below graph, offshore representing 25% of upstream E&P capex in 2019, which is equivalent to the unconventional onshore spending, will be boosted to reach ~30% of upstream E&P capex starting from 2020.

Unconventional onshore capex, mostly related to the US activities, are expected to significantly decline in 2020 (-49% YoY) to USD 56 bn and would represent only 18% of the total Upstream E&P capex. Then, the recovery is forecasted to be gradual, starting in 2022 and would remain below 2019 level, even in 2025e (USD 107 bn, or 23% of global Upstream E&P capex).

Following a 29% decline in 2020, conventional onshore capex are expected to steadily increase as from 2021 and would represent around half of total upstream capex during the period 2020-2025.

Global Upstream E&P Capex driven by Offshore activities

In USD billion



Source: IHS – Global Upstream Spending – June 2020.

Field depletion is a key driver of drilling activity and demand for oil and gas tubular solutions

Over time, oil fields begin to produce less and less oil, until their production declines to a point where they are no longer profitable. The operators must accordingly develop new projects to replace lost volumes, thereby creating demand for the Group's oil and gas tubular solutions.

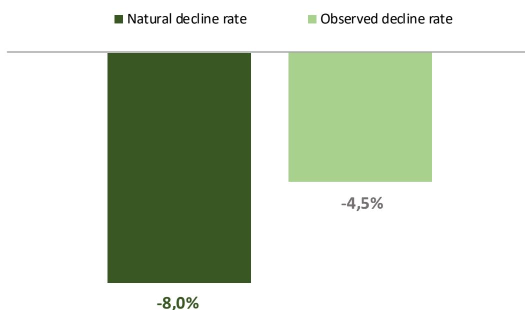
"Observed decline rate" is the annual decline in production if only investments to enhance already producing fields output are made, no new field being brought on. In its 2019 World Energy Outlook, the International Energy Agency (IEA) forecasts the Observed decline rate to stand at around 4.5% per year.

"Natural Decline Rate"(*) is the production evolution if no investment is made, either to bring new field onstream or to enhance already producing field output. According to the IEA estimates in 2019 World Energy Outlook, Natural Decline Rate reaches 8% per year.

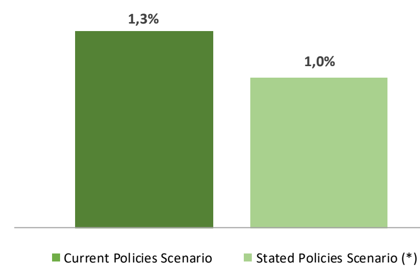
The graphics below show estimated annual decline rates as well as annual growth rates of oil demand until 2025 (source IEA). They are good indicators to illustrate how future supply, and therefore upstream E&P investment, should evolve in order to (i) compensate the production decline and (ii) meet demand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

The IEA only makes annual updates of its World Energy Outlook and no changes has been disclosed since 2019.

Production decline rates



Oil demand growth: 2018-2025



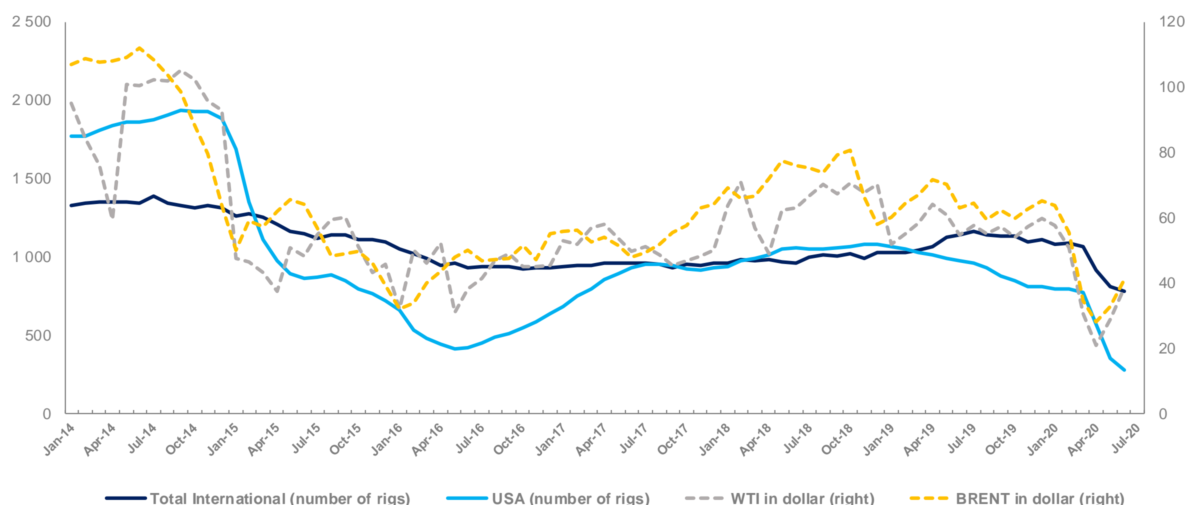
Source: International Energy Agency, « World Energy Outlook » – November 2019.

"*Observed post peak decline rate*" is not followed anymore as it was only considering fields that have already past their production peak and not all the producing fields.

(*) *Formerly known as "New Policies Scenario", "Stated policies scenario" consider today's policy ambitions detailed by States on the energy sector.*

Long term trend for oil price and rig count

Rig count *BRENT & WTI prices*



Source: Baker Hughes and IR Nasdaq June, 2020

As illustrated in the graph above, for the first semester 2020, average WTI price[2] stood at USD 38/b vs. USD 57/b in H1 2019, declining thus by 33% year-on-year, reflecting both OPEC+ temporary failure to find an agreement in March 2020 resulting in Saudi Arabia decision to increase its oil supply, and the economic crisis caused by the global COVID-19 pandemic.

Following the same trend, average Brent price[3] for the first semester 2020 stood at USD 42/b compared to USD 66/b in H1 2019, declining by 36% year-on-year.

The average gas price[4] for the first semester 2020 stood at USD 1.82/Mbtu declining by 26% vs. H1 2019 average price of USD 2.67/Mbtu.

Drilling activity in the United States

In the United States, average rig count appears to be close to the trough, after an impressive fall over the past months.

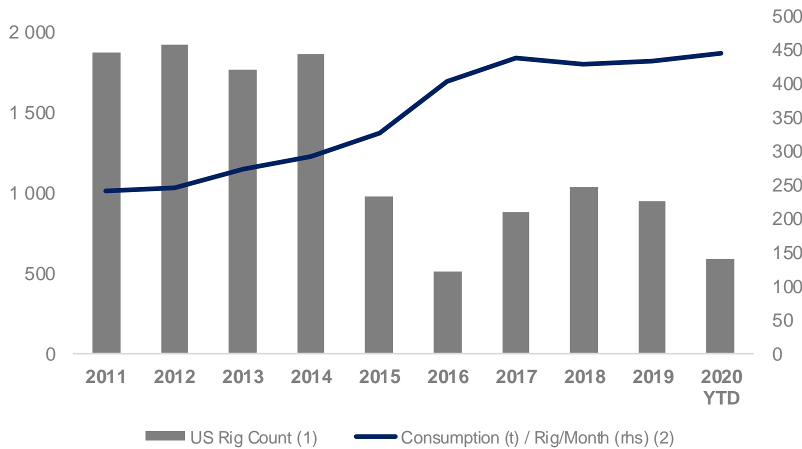
Since December 2019 (804 rigs in average), the significant oil demand decline due to Covid-19 pandemic resulted in a sharp oil prices decline. Consequently, most US producers started to reduce their drilling activity, anticipating an unprofitable output. In June 2020, average rig count was 274 units, a 66% decline versus the average of December 2019, with the sharpest rigs removal taking place between March (monthly average of 772 rigs) and June (monthly average of 274 rigs).

The number of DUC wells in the seven[5] USA oil-dominant regions has increased significantly since the end of 2017 (6,276) to reach a peak in May 2019 (8,544). Since then and because of cash constraints that lead operators to focus on margins instead of growth, operators are prioritizing completion of existing wells instead of new drillings. Since then, the number of DUC wells has been continuously decreasing: at the end of June 2020, DUC wells count totaled 7,659 units representing a decline of 10% versus May 2019 peak.

OCTG consumption

Despite a lower rig count during 2020 first semester, the graphic below shows that US OCTG consumption per rig remained at a higher level in H1 2020 compared to 2016. While consumption per rig was flat during the 2017-2019 period at around 430 tons per rig, it slightly increased in H1 2020 to an average of 444 tons per rig.

[2] *Price of WTI: IR Nasdaq – data collected in June 2020.*
[3] *Price of Brent: IR Nasdaq – data collected in June 2020.*
[4] *Price of gas (Henry Hub): IR Nasdaq – data collected in June 2020.*
[5] *Anadarko, Appalachia, Bakken, Eagle Ford, Haynesville, Niobrara and the Permian.*



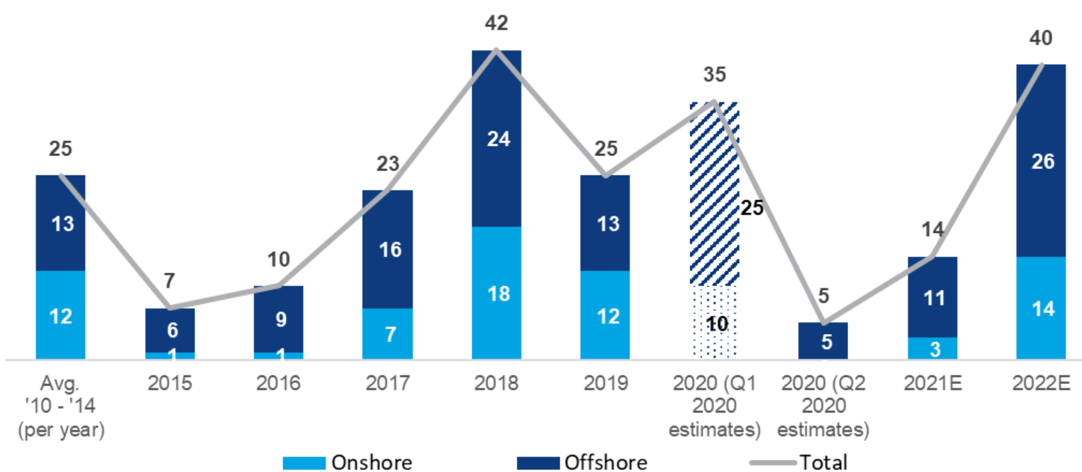
Sources:
(1) Baker Hughes (July 2020).
(2) Preston US OCTG consumption (July 2020).

In the Gulf of Mexico, the number of active drilling platforms started to decline in mid-March 2020 to stand at 11 units[6] at the end of June 2020, comparing to 22 units at the end of 2019 and 26 units at end of June 2019. Since March 2020, all the drilling platforms are dedicated to oil exploration and production while no gas rig is active (comparing to an average of 3 gas platforms in H1 2019 and an average of 2 gas platforms in FY 2019).

Oil & Gas projects in the EA-MEA regions

After the low point reached in 2015, the number of projects approved[7] in EA-MEA regions (Europe - Africa - Middle East - Asia) increased significantly to reach a peak at 42 FIDs in 2018. In 2019, 25 FIDs were sanctioned, a level comparable to the period 2010-2014.

Final Investment Decisions with reserves >50mbpd



Source: Wood Mackenzie June 2020 (latest available).

In its June 2020 update, Wood Mackenzie excludes from the analysis projects with PRMS classifications of 'Development on hold' and 'Development unclarified'.

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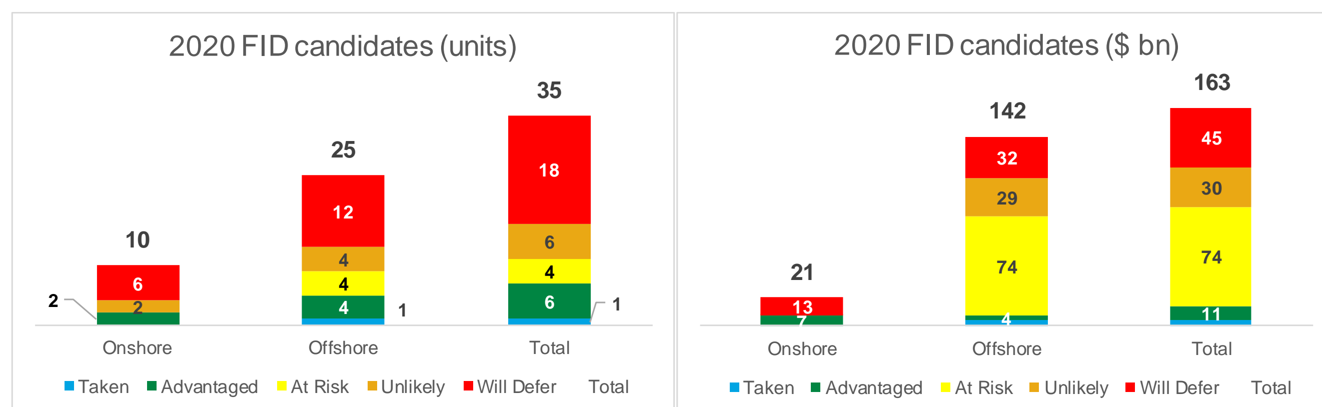
[6] *Baker Hughes, North America Rotary rig count March 2020*
[7] *Major projects with reserves above 50mboe*

In its March 2020 update, Wood Mackenzie estimated 35 FIDs to be approved in 2020, 10 onshore and 25 offshore. However, Wood Mackenzie pointed that 18 of those FIDs projects were likely to be deferred and 10 others were "unlikely" to be sanctioned, as mentioned in the graph below.

In its most recent update as from June 2019, Wood Mackenzie revised drastically downward the number of FIDs expected to be approved in 2020 and only five are now anticipated, all of them being offshore for total Capex of ~USD 54 bn. The June 2020 FID projects update includes "*Qatar New Megatrains*", an LNG brownfield with estimated Capex at USD 43 bn.



Source: Wood Mackenzie March 2020.

Oil & Gas projects in Brazil

Brazil: pre salt is the key driver of offshore investments with rising presence of IOCs.

Deep Offshore (mainly pre salt) will drive Brazil oil production growth. The Oil & Gas Brazilian market is still dependent on Petrobras' capital expenditure plans, although International Oil Companies are increasing their presence in the country.

Petrobras has been one of the leading players in the 9 offshore bidding rounds since 2017: the company acquired several high potential deep-water blocks (25 offshore blocks of which 10 pre-salt) representing approximately US$ 18 billion "signature bonuses". Additionally, International Oil Companies acquired through those bidding rounds 45 offshore blocks of which 6 pre-salt representing US$ 9 billion, confirming their high interest for Brazil.

Petrobras updated its 2020-2024 capex program in December 2019: it forecasted total investments of USD 75.7 billion of which USD 64 billion (85%) for Exploration & Production. Priority is still given to the pre-salt areas with 59% of the E&P investments allocated (USD 38 billion). As result, pre-salt production share is expected to increase from 63%[8] of Petrobras total production in 2020 to 66% in 2024.

Due to the oil demand contraction impacted by Covid-19 pandemic, Petrobras announced on April 2020 a Resilience Plan, with new measures that comprise reduction of oil production, postponement of cash disbursement and reduction of operational costs. The company would reduce 2020 total CAPEX by 29% (E&P CAPEX by 27%), from USD 12bn to USD 8.5bn. One remark is that around 60% of company investments are in local currency BRL, so the drop in activity should be lower than this. Petrobras informed that it will continue to prioritize pre-salt production development activities.

Petrobras CAPEX in Q1 2020 summed USD 2.4 billion (E&P represented USD 2.1 or 88% of total), 6% higher than the first quarter 2019, in a good pace compared to the full year forecast. Investments in pre salt production development reached USD 1 billion. Total production of oil was 2,320 kbpd in Q1 2020, 17% higher than Q1 2019. Pre salt represented 63% of total production. The negative effects of the global recession did not substantially impact production performance in Q1 2020. Following the Resilience Plan, Petrobras updated its breakeven points for 2020, being FCF breakeven[9] at USD 20/bbl and Neutral Cash breakeven[10] at USD 24/bbl, demonstrating the company's ability to manage the crisis and preserve liquidity.

International Oil Companies "IOCs" have also launched short-term cost reduction measures, still keeping a high level of commitment in the country.

- Equinor is suspending temporarily the production on the post salt Peregrino field but is moving forward with the plans for Bacalhau pre salt project development phase, expected to start early next year.
- Total did put the development of LapaSW pre salt project on hold. However, the deepwater post salt block CM-541 (acquired last October) is on the radar to start exploration campaign by next year.

[8] *Petrobras Investor Day released on Dec. 4th of 2019.*
[9] *avg. Brent price that equalizes Operational Cash Flow to the CAPEX at an exchange rate of USD/BRL 5.*
[10] *avg. Brent price to reach a minimum cash of USD 5bn, and gross debt of USD 87bn, considering the financial obligations in the period.*

- Shell and Exxon are adopting safety measures, but no postponement was disclosed. Shell is progressing well with the exploratory campaign of the high profile pre salt field Saturno, and concluded the pre salt Gato do Mato field' exploratory well. Exxon confirms its plans to move forward with the exploratory drilling programs for Titã pre salt field, Campos Deepwater and SEAL Deepwater basins expected to begin in Q4 2020, Q1 2021 and H2 2021 respectively.

With regard to the number of projects to reach Final Investment decision (FIDs), three new deep-water projects have been approved in 2019, all from Petrobras in pre-salt: Mero 2, Buzios 5 and Sepia project. In 2020, three deepwater FID projects (to be operated by Petrobras) for total capex of USD 5.9 bn should be submitted according to Wood Mackenzie June 2020 estimates. In its March 2020 forecasts, Wood Mackenzie was anticipating six FID projects to be sanctioned during the year, representing USD 15.8 bn, but highlighted that only two pre-FIDs might be sanctioned.

Oil shock and coronavirus pandemic slow down the growth pace

The number of offshore wells in Brazil should nevertheless still grow in 2020 and 2021, according to Vallourec estimates[11].

Petrobras closed 2019 with 15 rigs in its portfolio and is expected to close 2020 with 20 units. Petrobras closed 2020 first semester with 19 contracted rigs and drilled 23 new offshore wells (vs. 14 wells in H2 2019).

The IOCs are also contracting rigs: there were five units operating in 2019 for Equinor, Shell and Total. For 2020, Equinor will remain with the same portfolio. Exxon is currently tendering for one ultradeep unit which should start by the end of the year.

Vallourec is very well positioned in Brazil. In April 2018, Vallourec renewed its long-term contract with Petrobras for the supply of premium seamless OCTG pipes and accessories with premium steel grades and connections using state-of-the-art technology and specialized services. This contract has just been extended for 2 additional years until 2023. Regarding IOCs, the Group has already signed multi-year comprehensive agreements (pipes and services) with Majors.

OCTG PRICING EVOLUTION FOR OIL & GAS MARKET

The graph below shows the price evolution of OCTG in the Middle East, the US and Western Europe.

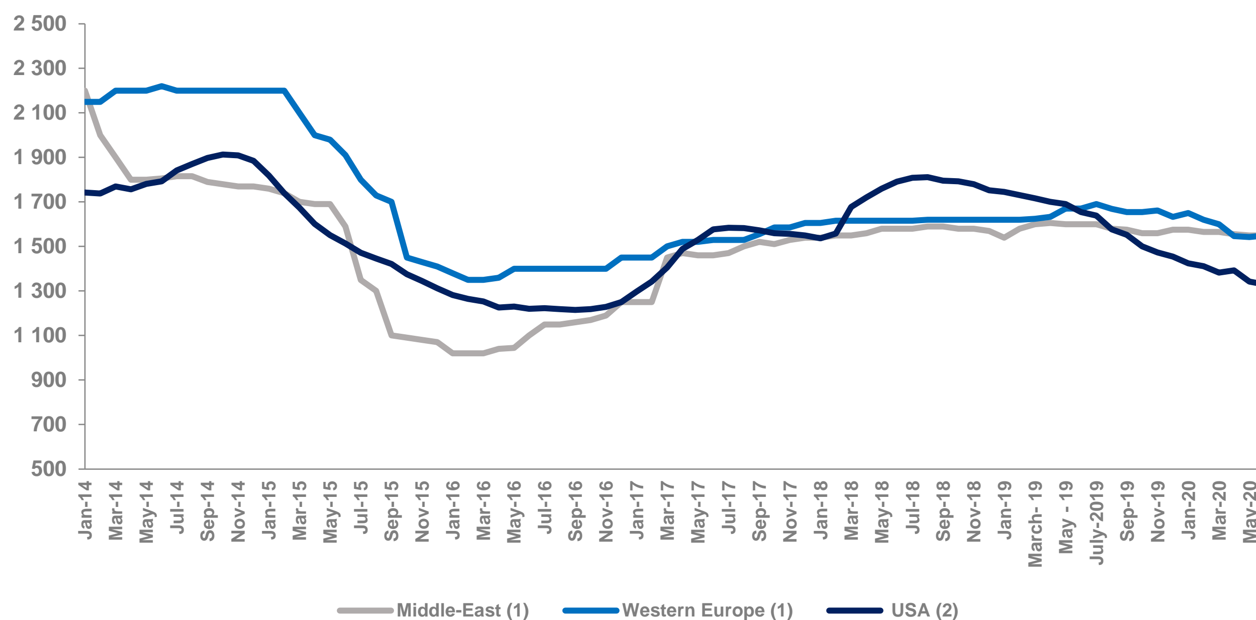
Prices are broadly stable in the MEA region around USD 1,550-1,600 since July 2019.

While OCTG prices in Western Europe showed a steadily upward trend in 2019 to reach a peak of USD 1,690 at end of July 2019, we notice a decrease in price since then. At end of June 2020, Western Europe OCTG prices stood at USD 1,550 (~8% below July 2019 level).

After a peak reached in August 2018 (at USD 1,812), US OCTG prices have been continuously decreasing to stand at USD 1,329 at end of June 2020: this represents a 7% decline since the beginning of the year and 20% decline since June 2019 level.

[11] *Based on public data and collaborative relationships with customers that offer visibility on drilling plans.*

In US dollar/t



Sources:

(1) MBR (OCTG casing L80 premium connection) – June 2020.

(2) Pipe Logix (average Seamless pipes) – June 2020.

2. Industry and other markets

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

General economic outlook is impacted by the Covid-19 pandemic that started in China and quickly disseminated across Europe, the US and South America since February 2020. From the supply point of view, global economy has been paralyzed with several plant closures and logistic line disturbances. The lockdown measures adopted by many countries also affected global demand that has been plummeting since then. Consequently, the international economic institutions are expecting the European, the US and more globally the worldwide GDP to be strongly negatively impacted in 2020 before a certain recovery in 2021.

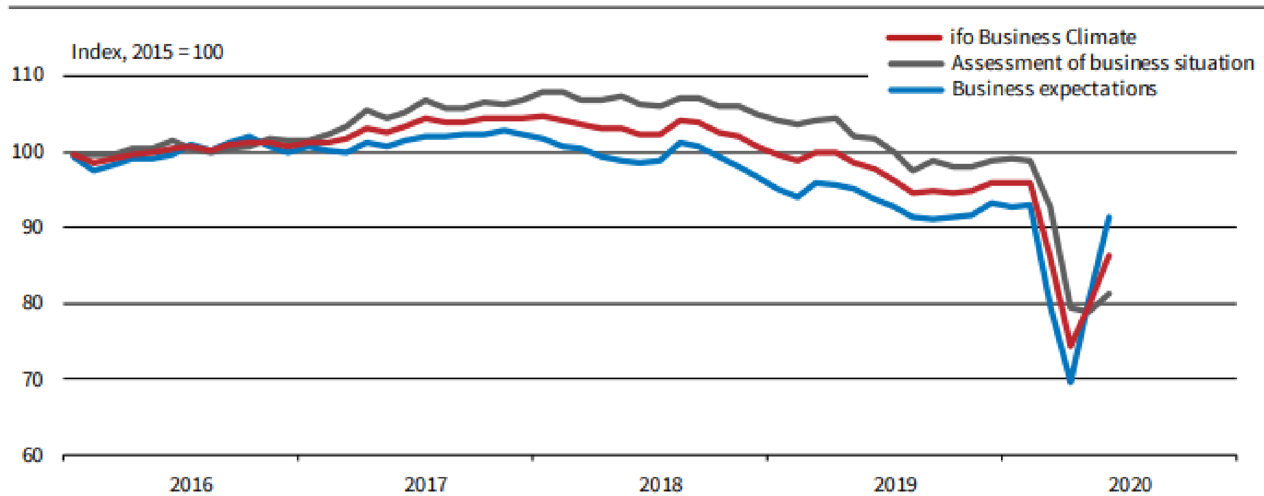
EUROPE

The ifo Business Climate index sharp decline since March 2020 reflects the impact of Covid-19 on the German economy. The ifo Business Climate Index collapsed from 95.9 points in February to 74.3 points in April, the steepest fall and the lowest value ever recorded. Companies are pessimistic about the current business situation and the expected short-term outlook.

In manufacturing, the index fell to its lowest level since March 2009 due to the collapse in industrial products demand and the decline impacted all branches of industry as several companies have announced plans to curtail production.

Regarding the service activities, the business climate indicator saw the greatest fall since this data was first recorded in 2005.

Following the extremely low points reached, the ifo Business Climate index recovered significatively from 79.7 points in May to 86.2 in June, which is considered as the sharpest increase ever recorded according to the ifo institute. Both the current and expected situations are perceived as improving markedly from part of companies.



Source: ifo Institute June 2020.

BRAZIL

The GDP growth in 2019 was +1.1%. Agriculture and services were the main drivers for growth while manufacturing and civil construction were relatively stable. Automotive sector was negatively impacted by the Argentina crisis, partially compensated by growing domestic demand for heavy vehicles.

For 2020, GDP forecast has been dramatically reviewed downwards to -6.5%[12] (comparing to -3.34% initially reported by the Brazil Central Bank in April 2020), reflecting the new scenario due to Covid-19 outbreak. Overall industries should be negatively impacted, particularly the automotive sector. Construction and mining segments would be also affected but relatively less than auto business. Agriculture is still resilient and continues to play an important role in Brazilian economy.

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 2020 that it had initiated a plan to divest this activity. The decision to close the Reisholz mill (Germany), specialized in tubes for conventional power plants, has been taken. It will occur in second semester of 2020.

NUCLEAR ENERGY

The development of nuclear power is slowing down due to a combination of several factors: difficulties of funding, more demanding requirements regarding safety, as well as the political reluctance of some countries.

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 market is mostly maintenance driven, with the supply of tubes to extend the lifetime of existing reactors. In France, a major revamping program is ongoing to refurbish the French nuclear park (Grand Carenage Programme handled by EDF).

With regard to the new built business, the United Kingdom has initiated a nuclear program targeting an additional capacity of the nuclear fleet in operation of 16 GW by 2030.

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[12] *Based on Brazil Central Bank / Focus report, July 6th,2020.*

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.

While the move to zero-carbon energy, in the short-term, is likely to be slowed as traditional energy companies may shift priorities from environmental and corporate social responsibility initiatives preferring instead to focus on employee safety, cost cuts and immediate sources of profits due to covid-19 impacts, on the long term, European oil majors are embarking down a path toward emission reductions and the diversification of their businesses into renewables, among others. Also, many oil companies might intensify their energy transition and diversification efforts in the long term and come to view renewables opportunities as a serious hedging strategy against future oil crisis.

Vallourec is involved in different projects to enable the group to seize new opportunities linked to energy transition. Demand for tubular solutions could be enriched by:

- Geothermal energy for power generation. It represents today approximately ~1% of total installed renewable energy generation capacities), concentrated mostly on the volcanic hot spots (Western US, Indonesia, East Africa…). Capacity is expected to grow by 5% annually up to 2040.
- Wind energy represents nearly half of renewable energy installed capacity with steady growth rates of approximately 10% per year in the last years. Inside this segment, offshore wind is still a relatively small segment, essentially in the North Sea, but is expected to continue to grow strongly in the coming decades.
- Carbon Capture Utilization and Storage (CCUS): CCUS is still an emerging technology which needs to go through demonstration phases before reaching commercial scale-up. Emissions targets would require to capture, store or re-use some 850 million tons of carbon dioxide annually by 2030, according to the IEA. Recent increase of carbon prices in EU, the launching of a carbon market in China in 2017, and 45Q tax credit reform in the US (granting $50 in tax credit for every ton of CO2 captured and stored) are signs that new perspectives are opening.
- The production of 'blue' (linked with carbon capture) and 'green' Hydrogen (produced through electrolysis) could be a competitive solution with high opportunities. Development of Hydrogen applications would be facilitated by reductions in the cost of electrolysis coming from scale effect, as well as public support to ease the deployment of the infrastructure needed (refueling stations, hydrogen products).

5. Raw materials

SCRAP

Raw material prices impact the Group as a result of the 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[13] for the first semester of 2020 stood at USD 272/LT compared to USD 322/LT in H1 2019, declining thus by 16% year-on-year. Scrap metal price was high at the beginning of the year (USD 305/LT) pursuing an upward trend that started since October 2019. Nevertheless, the impact of the pandemic crisis on the manufacturing sector led to a significant scrap metal price decline in April (USD 235/LT, or -18% comparing to March 2020).

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 scrap 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.

IRON ORE

During 2020 first semester, iron ore average international price[14] was USD 91/t, a level comparable to H1 2019 (USD 91/t) and slightly below the average international price for the full year 2019 (USD 93/t). After the decline that took place in April 2020 (USD 83.4/t) due to the pandemic crisis, iron ore average international prices soared to USD 102.92/t in June, a level not reached since July 2019.

[13] *CRU – Shredded Pittsburgh – $/LT.*
[14] *Platts SBB – IODEX Iron ore fines 62% CFR North China $/T.*

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.

Significant events in the first half of 2020

February

- At its meeting on 18 February 2020, the Supervisory Board, in accordance with the succession plan announced on 17 September 2019, appointed Edouard Guinotte as a member and Chairman of the Management Board for a four-year term commencing 15 March 2020. Olivier Mallet was reappointed as a member of the Management Board and Chief Financial Officer of the Group and will serve until the end of the 2023 Ordinary Shareholders' Meeting.
- On 19 February 2020, Vallourec announced its intention to continue to improve its competitiveness with the launch of a new program, called Acceleration, aimed at achieving additional gross savings of €200 million over 2021-2022 through cross-business and regional initiatives.
- Vallourec also announced plans on 19 February 2020 to launch a capital increase for an amount of approximately €800 million, with preferential subscription rights combined with a new credit line of €800 million in order to reduce the Group's debt, decrease its financial expenses and provide the increased flexibility needed for the successful implementation of its strategy. However due to the new environment and adverse market conditions related to the Covid crisis, these refinancing operations were not carried out.

March

- On 20 March 2020, Vallourec suspended the guidance previously communicated: the coronavirus epidemic (Covid-19) in the countries where the Group is present, combined with the sudden decline in the price of oil, will have an impact on the Group's activities, especially in North America where unconventional oil and gas operators are announcing drastic reductions in their drilling plans.

April

- Vallourec announced that the Combined Shareholders' Meeting, held on 6 April 2020, behind closed doors with a quorum of 39.69%, adopted all the resolutions put to the vote.
- On 6 April 2020, Vallourec announced the reduction of its workforce in North America in response to the unforeseen, sudden and significant drop of activity confirmed by its Oil and Gas customers. This reduction will affect over 900 positions (over one third of our total workforce and contractor positions in North America) across all plants as well as support functions.
- On 23 April 2020, Vallourec announced the launch of a reverse stock split on an exchange basis of 40 existing shares for 1 new share approved by the Company's shareholders at the Combined Shareholders' Meeting held on 6 April 2020.
- Following the reverse stock split finalized on 25 May 2020, Vallourec announced on 26 May 2020, the completion of the reduction in the nominal value of its shares with immediate effect.

May

- On 13 May 2020, Vallourec announced its contract with Equinor in Brazil was extended to March 2024. The scope of the contract has been expanded to include new seamless steel tubes and OCTG accessories used for Equinor's operations in Brazil, as well as storage, maintenance, rig preparation, collaborative planning, rig return, inspection and repair services.

June

- On 15 June 2020, Vallourec unveiled its newest connection, VAM® SPRINT-SF, the first in a series of semi-premium high torque products innovatively designed for extreme shale applications. In the fast-moving onshore drilling industry, operators are constantly looking for ways

to mitigate risks and extend laterals while reducing costs. VAM® SPRINT-SF was designed with these priorities in mind and was tested using “Fit for Shale” VAM® protocol that simulates real-world conditions during the life of the well.

- On 25 June 2020, Vallourec announced its ambitions in terms of reducing its direct and indirect carbon emissions by 2025, taking 2017 as a reference year. These objectives have been approved by the Science Based Targets initiative (SBTi), making the Group the first in the oil and gas sector to obtain this recognition. The Group, which is already a low emitter of greenhouse gases, is committed to:
  - Reduce its direct emissions by 20% (scopes 1 and 2)
  - Reduce both direct and indirect emissions by 25% (scopes 1, 2 and 3)

Transformation plan

Announced cost savings target overachieved

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

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

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

As a result of these measures and the deployment of new routes, manufacturing and SG&A costs per ton have been reduced by c.40% between 2016 and 2019 to €1,035/t.

Adaptation Measures

In order to face this unprecedented crisis and in addition to a restored competitiveness thanks to successful implementation of the Transformation Plan, Vallourec launched extensive costs cutting in order to achieve €130m gross savings in 2020 (in addition to full adaptation of variable costs, including direct labor cost).

In North America, a workforce reduction of more than 1/3 (more than 900 positions) across all plants as well as support functions has been decided and mostly effective since May 2020.

€51 million of the 2020 gross savings target were already achieved in H1.

Acceleration Program

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

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

Regional initiatives will encompass the following:

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

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.

Vallourec owns a very competitive iron ore mine in Brazil, where the capacity expansion for an additional 3 million metric tons will help increase EBITDA generation. The corresponding investment, for an amount of around €65 million, will be spread over 2021 and 2022, with a return on investment of some 2.5 years.

Transactions with related parties

Transactions carried out with equity affiliates in H1 2020 relate mainly to purchases of steel rods from HKM for an amount of €132 million used for the production from rolling mills in the Group European activities.

Main risks and uncertainties for 2020

Vallourec does not expect any change to its risks, as set out in Chapter 5, Section 5.1 “Risk factors” of the 2019 Universal Registration Document (Document d’enregistrement universel) filed with the Autorité des Marchés Financiers (the French securities regulator) on 20 March 2020, except for liquidity and going concern risks.

As of June 30, 2020, the Group had confirmed bank credit facilities of €1,934 million, including €123 million unused, and cash of €1,420 million. The Group therefore had liquidity assets of €1,543 million.

These credit facilities of €100 million are due to in July 2020 and €1,724 million in February 2021. Drawn credit lines will therefore need to be repaid by these deadlines.

In this regard, the Group announced on February 19, 2020 its intention to launch a capital increase of 800 million euros combined with a new credit line of €800 million. This operation was adopted by the Shareholders meeting on April 6, 2020.

However due to new environment and adverse market conditions linked to Covid crisis, these refinancing operations were not carried out. Vallourec continues discussions, in particular with its reference shareholders and its banks, in order to define a new refinancing plan, taking into account the consequences of the Covid and oil markets crises on its activity and allowing it to deal with its upcoming maturities and rebalance its financial structure.

On this basis, management closed the accounts in application of the going concern principle.

However, such situation generates significant uncertainty on the going concern. If these discussions are unsuccessful, the company may not be able to realize its assets and reimburse its debts in the normal course of its business.

A description of market and liquidity risks is provided in Chapter 3, Notes 2.2 and 8.5.3 of the Half-Year report.

Furthermore, Vallourec has not identified any new risks that would not be already mentioned in this section.

Consolidated Group results

Income statement

In € million	H1 2019	H1 2020	Change
Revenue	**2,109**	**1,696**	-19.6%
Cost of sales [(a)]	(1,728)	(1,399)	-19.0%
Industrial Margin	**381**	**297**	-22.0%
(as a % of revenue)	*18.1%*	*17.5%*	*-0.6p.p.*
Sales, general and administrative costs	(198)	(173)	-12.6%
Other	(14)	(13)	na
EBITDA	**169**	**111**	-€58m
(as a % of revenue)	*8.0%*	*6.5%*	*-1.5p.p.*
Depreciation of industrial assets	(126)	(111)	-11.9%
Amortization and other depreciation	(29)	(27)	na
Impairment of assets	(21)	(441)	na
Asset disposals, restructuring costs and non-recurring items	(11)	(46)	na
Operating income (loss)	**(18)**	**(514)**	-€496m
Financial income/(loss)	(122)	(115)	-5.7%
Pre-tax income (loss)	**(140)**	**(629)**	-€489m
Income tax	(22)	(30)	na
Share in net income/(loss) of equity affiliates	(1)	(1)	na
Net income	**(163)**	**(660)**	-€497m
Attributable to non-controlling interests	4	(93)	na
Net income, Group Share	**(167)**	**(567)**	**-€400m**

(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 tons	2019	2020	Change
Q1	571	450	-21.2%
Q2	605	422	-30.2%
Total	**1,176**	**872**	**-25.9%**

In the first half of 2020, volumes decreased by 26% compared with the first half of 2019, mainly driven by Oil & Gas.

Revenue

CONSOLIDATED REVENUE

Over the first half of 2020, Vallourec recorded revenue of €1,696 million, down 20% compared with the first half of 2019 (-16% at constant exchange rates). Volume effect was -26%, price/mix +10% and currency conversion effect -4%.

Revenue by geography

In € million	H1 2019	As % of revenue	H1 2020	As % of revenue	Change	At constant exchange rates [(a)]
France	37	1.7%	31	1.9%	-14.4%	-14.4%
Germany	129	6.1%	115	6.8%	-10.4%	-10.4%
Other EU Countries [(b)]	145	6.9%	119	7.0%	-17.8%	-17.7%
Total Europe	**311**	**14.7%**	**266**	**15.7%**	**-14.4%**	**-14.4%**
North America (Nafta)	**668**	**31.7%**	**482**	**28.4%**	**-27.9%**	**-29.3%**
Brazil	322	15.2%	313	18.5%	-2.7%	-62.3%
Other Central & South America	8	0.4%	10	0.6%	28.2%	na
Total South America	**329**	**15.6%**	**323**	**19.1%**	**-1.9%**	**44.5%**
China	135	6.4%	121	7.1%	-10.4%	na
Other Asia and Middle East	415	19.7%	346	20.4%	-16.5%	-97.3%
Total Asia and Middle East	**549**	**26.1%**	**467**	**27.5%**	**-15.1%**	**-27.0%**
CIS	18	0.8%	19	1.1%	6.3%	6.6%
Rest of the world	235	11.1%	140	8.2%	-40.4%	-40.4%
Total Rest of the world	**252**	**11.9%**	**158**	**9.3%**	**-37.1%**	**-37.0%**
Total	**2,109**	**100%**	**1,696**	**100%**	**-19.6%**	**-15.9%**

[(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

Due to rounding, numbers presented throughout the following table may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

In € million	H1 2019	As % of revenue	H1 2020	As % of revenue	Change	At constant exchange rates [(a)]
Oil & Gas	1,395	66.2%	1,070	63.1%	-23.3%	-21.7%
Petrochemicals	130	6.2%	128	7.5%	-1.5%	0.8%
Oil & Gas, Petrochemicals	**1,525**	**72.3%**	**1,198**	**70.6%**	**-21.4%**	**-19.8%**
Mechanicals	202	9.6%	153	9.0%	-23.9%	-20.7%
Automotive	63	3.0%	27	1.6%	-57.3%	-51.7%
Construction & Other	217	10.3%	212	12.5%	-2.2%	16.8%
Industry & Other (b)	**482**	**22.9%**	**393**	**23.2%**	**-18.5%**	**-7.8%**
Power Generation	**102**	**4.8%**	**105**	**6.2%**	**2.6%**	**4.3%**
Total	**2,109**	**100%**	**1,696**	**100%**	**-19.6%**	**-15.9%**

[(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 (71% OF CONSOLIDATED REVENUE)

Oil & Gas revenue reached €1,070 million in H1 2020, a (€325) million decrease or -23% year-on-year (-22% at constant exchange rates).

Oil & Gas revenue reached €518 million in Q2 2020, a (€205) million decrease or -28% year-on-year (-26% at constant exchange rates), reflecting mainly lower revenue from North America and EA-MEA.

- **In North America,** Oil & Gas revenue decrease was driven by lower deliveries due to the unprecedented decrease in rig count, as well as to lower prices.
- **In EA-MEA**, Oil & Gas revenue decrease reflected lower shipments, partially offset by a better price-mix related notably to high alloy deliveries.
- **In South America**, Oil & Gas revenue strong increase reflected a pick-up in offshore deliveries as well as better price-mix, despite unfavorable currency conversion effect.

Petrochemicals revenue was €128 million in H1 2020, down 1% year-on-year (+1% at constant exchange rates).

Petrochemicals revenue was €67 million in Q2 2020, up 6% year-on-year (+10% at constant exchange rates) notably due to higher sales in Middle East Asia and North America.

INDUSTRY & OTHER (23% OF CONSOLIDATED REVENUE)

Over the first half 2020, **Industry & Other** revenue totaled €393 million, down 19% year-on-year (-8% at constant exchange rates) primarily as a result of lower shipments as well as unfavorable conversion currency effect.

Industry & Other revenue amounted to €200 million in Q2 2020, down 19% year-on-year (-4% at constant exchange rates):

- In Europe, Industry revenue was down year on year reflecting lower volumes and prices.
- In South America, Industry & Other revenue was down, reflecting lower Automotive volumes and unfavorable currency conversion effect, partially offset by higher volumes in Mechanical Engineering.
- In Brazil, the increase in iron ore mine revenue reflected both higher volumes sold (+18% compared to Q2 2019) and resilient prices, despite an unfavorable conversion currency effect.

POWER GENERATION (6% OF CONSOLIDATED REVENUE)

Power Generation revenue for the first half 2020 totaled €105 million, up 3% year-on-year (+4% at constant exchange rates).

Power Generation revenue amounted to €57 million in Q2 2020, up 10% year-on-year (+13% at constant exchange rates), as a result of timing of project deliveries.

As a reminder, the closure of the Reisholz site in Germany, dedicated to coal-fired conventional power plants, will be effective in H2 2020.

Revenue by quarter

In € million	1st quarter	2nd quarter	1st half
2019	1 025	1 084	2 109
2020	853	843	1,696
% change year-on-year			
Volume effect	-21%	-30%	-26%
Forex translation effect	-2%	-6%	-4%
Other effects (price, mix, etc.)	6%	14%	10%

Q2 2020 revenue of €843 million was down 22% compared with Q2 2019, with a major volume impact of -30%, a positive price/mix effect of +14%, and a currency conversion effect of -6%. At constant exchange rates, revenue decreased -17%.

EBITDA

In H1 2020, EBITDA reached €111 million, a €58 million decrease year on year, at 6.5% of revenue.

In Q2 2020, EBITDA reached €43 million (compared with €102 million in Q2 2019), at 5.1% of revenue.

H1 2020 EBITDA included a positive €17 million IFRS 16 impact and a €7 million net decrease in provisions.

Excluding changes in provisions and IFRS 16 impact, H1 2020 EBITDA amounted to €87 million, compared with €162 million in H1 2019.

The following table shows the changes in the principal components of EBITDA in H1 2019 and H1 2020.

In € million	H1 2019	H1 2020	Change
Revenue	**2,109**	**1,696**	-19.6%
Cost of sales [(a)]	(1,728)	(1,399)	-19.0%
Industrial Margin	**381**	**297**	-22.0%
(as a % of revenue)	*18.1%*	*17.5%*	*-0.6p.p.*
Sales, general and administrative costs [(a)]	(198)	(173)	-12.6%
Other	(14)	(13)	na
EBITDA	**169**	**111**	**-€58m**

[(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 €297 million, down €84 million compared with H1 2019, reflecting primarily lower activity in Oil & Gas in North America and in Industry, partially offset by i) savings ii) positive contribution of high alloy deliveries in EA-MEA and iii) higher mine contribution.

The following table shows the breakdown of cost of sales (excluding depreciation) in H1 2019 and H1 2020.

In € million	H1 2019	H1 2020	Change
Direct Cost of Sales	(119)	(108)	-9.2%
Cost of raw materials consumed	(686)	(517)	-24.6%
Labor costs	(386)	(336)	-13.0%
Other manufacturing costs [(a)]	(519)	(404)	-22.2%
Change in non-raw materials inventories	(17)	(34)	n.a.
Total	**(1,728)**	**(1,398)**	**-19.1%**

[(a)] *"Other manufacturing costs" mainly include the costs of energy and consumables, and the costs of outsourcing, maintenance and provisions.*

Selling, general and administrative costs

Sales, general and administrative costs (SG&A) amounted to €173 million, down 13% compared with H1 2019, reflecting our adaptation plan, and representing 10.2% of revenue.

The following table shows the breakdown of SG&A expenses (excluding depreciation) in H1 2019 and in H1 2020.

In € million	H1 2019	H1 2020	Change
Research and Development expenses	(25)	(21)	-16.0%
Selling and marketing costs	(39)	(35)	-10.3%
General and administrative expenses	(134)	(117)	-12.7%
Total	**(198)**	**(173)**	**-12.6%**

Personnel expenses

Personnel expenses amounted to €421 million.

The following table shows the breakdown of personnel costs.

	H1 2019	H1 2020	Change
Wages and salaries	(377)	(329)	-12.7%
Employee profit-sharing and bonuses	(16)	(10)	-37.5%
Expenses related to share subscription and share purchase options and performance shares	(1)	(2)	100.0%
Social security costs	(94)	(80)	-14.9%
Total	**(488)**	**(421)**	**-13.7%**

Closing headcount of consolidated companies	H1 2019	12/31/2019	H1 2020	Variation
Managers	3,142	3,130	3,018	- 112
Technical and supervisory staff	2,605	2,595	2,532	- 63
Production staff	12,727	12,375	11,851	- 524
Total	**18,474**	**18,100**	**17,401**	**- 699**

Operating profit/(loss)

In H1 2020, operating result decreased by (€496) million to a loss of (€514) million, reflecting mainly i) an impairment charge of the total amount of the CGUs North America and Europe goodwills in Q2 2020 for (€337) million, and ii) an impairment charge for (€104) million in Q2 2020 related to tangible assets in Europe.

These impairment charges, which are entirely non cash, were driven by an increase in discount rates for our North America and European businesses and a downward revision of long term perspectives in North America O&G, in the context of difficulties to predict long term market conditions.

Higher “asset disposal, restructuring and other” charges (increased by €35 million) included restructuring provisions related to the closure of the Reisholz site in Germany, the adaptation plan in North America and Brazil. Lower depreciation of industrial assets was recorded.

Financial income/(loss)

Financial result was negative at (€115) million, compared to (€122) million in H1 2019, reflecting higher financial expenses being offset by other financial income, including mainly the settlement of a dispute in Brazil for €24 million.

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

In € million	H1 2019	H1 2020	Change
Financial income	7	3	-57.1%
Interest expenses	(90)	(102)	13.3%
Net interest expenses	**(83)**	**(99)**	19.3%
Other financial income and expenses	**(16)**	**1**	-106.3%
Interest expenses on leases	**(18)**	**(15)**	-16.7%
Other discounting expenses	**(5)**	**(2)**	-60.0%
Financial income/(loss)	**(122)**	**(115)**	**-5.7%**

Income tax expense

Income tax amounted to (€30) million mainly related to Brazil.

Net income/(loss)

The share attributable to non-controlling interests amounted to €93 million in H1 2020, compared to (€4) million in H1 2019.

As a result, net loss, Group share, amounted to (€567) million in H1 2020, compared to (€167) million in H1 2019.

Liquidity and capital resources

Cash flow

Simplified statement of cash flows

In € million	H1 2019	H1 2020
Cash flow from operating activities	10	(96)
Change in Operating Working Capital Requirements under the cash flow statement	(117)	(99)
Net cash flow from operating activities (1)	(107)	(195)
Net cash from (used in) investing activities (2)	(32)	(62)
Cash flow from financing activities (3)	116	(55)
Effect of changes in exchange rates (4)	6	(62)
Change in Cash (1+2+3+4)	**(17)**	**(374)**

CASH FLOW FROM OPERATING ACTIVITIES

Cash flow from operating activities was negative at (€96) million in H1 2020 compared to €10 million in H1 2019, mainly due to the lower EBITDA and to a lesser extent to higher restructuring cash-out and income taxes paid.

NET CASH FLOW FROM OPERATING ACTIVITIES

Net cash flow from operating activities was negative at (€195) million for the six months ended 30 June 2020, a deterioration of (€88) million compared with (€107) million in H1 2019.

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

Gross values - In thousand Euros	12/31/2019	Translation difference	Change	Reclassification and other	6/30/2020
Inventories	1,122,361	(72,065)	46,703	1,525	1,098,524
Trade receivables	644,071	(46,166)	10,803	847	609,555
Trade payables	(579,739)	17,302	59,416	(512)	(503,534)
Working Capital Requirements	**1,186,693**	**(100,929)**	**116,922**	**1,859**	**1,204,546**
Other receivables and payables	5,091	(12,606)	(19,099)	11,139	(15,475)
Operating Working Capital Requirements	**1,191,784**	**(113,535)**	**97,823**	**12,999**	**1,189,071**
Impact of hedging instruments			1,058		
Total			**98,881**		
Change in Operating Working Capital Requirements under the cash flow statement			(98,881)		

Over the first half of 2020, operating working capital requirement increased by €99 million compared to an increase of €117 million in H1 2019. Net working capital requirement increased to 115 days of sales, compared to 108 days at the end of Q2 2019, reflecting customer mix and fixed inventories.

NET CASH FLOW FROM INVESTING ACTIVITIES

Net cash flow used in investing activities was (€62) million in H1 2020, as compared with (€32) million in H1 2019.

NET CASH FLOW FROM FINANCING ACTIVITIES

Net cash flow from financing activities totaled (€55) million for H1 2020, as compared with €116 million in H1 2019.

Capital expenditures

MAIN INVESTMENTS DURING THE PERIOD FROM 1 JANUARY 2020 TO 30 JUNE 2020

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 2020.

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

In € million	H1 2019	H1 2020
Europe	(12.2)	(17.0)
North America	(7.0)	(11.5)
Central & South America [(a)]	(13.5)	(24.0)
Asia	(2.5)	(4.5)
Other	-	(0.1)
TOTAL INDUSTRIAL CAPITAL EXPENDITURE [(b)]	**(35.2)**	**(57.2)**
Capital expenditure payments during the fiscal year	(36.3)	(63.1)

[(a)] Including €4.3 million in biological assets as of June 2019 and €3 million as of June 2020

[(b)] The difference between capital expenditure payments made during the fiscal year and the total of industrial capital expenditure corresponds to the change in amounts payable on fixed assets.

The capital expenditures in H1 2020 totaled (€63) million, an increase of €27 million versus H1 2019 that stood at (€36) million. The investments completed during H1 2020 aimed at improving efficiency of existing assets notably located in Brazil and Europe.

Free cash flow

Free cash flow for H1 2020 was negative at (€258) million, a decrease of €115 million compared with (€143) million in H1 2019. Free cash flow is defined as net cash flow from operating activities minus gross capital expenditures.

In Q2 2020 free cash flow was negative at (€77) million versus a generation of €16 million in Q2 2019.

The following table shows the calculation of free cash flow in H1 2019 and H1 2020.

In € million	H1 2019	H1 2020	Change
Cash flow from operating activities (A)	10	(96)	-€106m
Change in operating WCR [+ decrease, (increase)] (B)	(117)	(99)	+€18m
Gross capital expenditure (C)	(36)	(63)	-€27m
Free cash flow (A)+(B)+(C)	**(143)**	**(258)**	**-€115m**

Liquidity and Indebtedness

The Company's cash and cash equivalent position as at 30 June 2020 amounted to €1,420 million.

Vallourec's committed facilities amounted to €1,934 million. These credit lines do not benefit from a surety or guaranty.

At 30 June 2020, short-term debt amounted to €2,000 million, including 1,811 million of drawn committed credit facilities.

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

The majority of 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 2020.

In € million	6/30/2020
Private placement – maturing in August 2027	54
Bond issue maturing in September 2024	499
Convertible bond issue – maturing in October 2022	546
Non-convertible bond issue – maturing in October 2022	236
Non-convertible bond issue – maturing in October 2023	396
Commercial paper	18
RCF drawings	1,811
ACC ACE	119
Other	68
TOTAL GROSS FINANCIAL INDEBTEDNESS	**3,747**

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 confirmed bilateral facility of €90 million maturing in February 2021, a confirmed 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 81% as at December 31, 2019. As defined in the banking agreements, the banking covenant ratio is the ratio of the Group's consolidated net debt (including financial lease and the shareholder loan in Brazil) to the Group's equity, restated for gains and losses on derivatives and valuation differences (gains and losses on the consolidated subsidiaries in foreign currencies).

Based on June 30, 2020 financial results, the banking covenant ratio, as defined in the banking contracts, would be at 124%. As it is tested once a year on December 31st, according to the contracts, this does not affect Vallourec's ability to draw down its committed banking facilities in 2020.

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 €561 million as at 30 June 2020, a decrease of (€906) million compared with €1,467 million as at 2019. This decrease is mainly explained by:

- the Group's negative net result recorded in H1 2020 for an amount of (€567) million;
- a change in foreign currency translation reserve of (€328) million.

Outlook for 2020

Outlook confirmed and supported by resilience levers.

Oil & Gas

- **In EA-MEA,** Middle East and North Africa NOC's generally maintain sustained activity. Delayed projects mainly from IOC's are offset by strong deliveries of high alloys.
- **In North America**, after the sharp drop in drilling activity of shale operators (rig count down 70% since December 19), the rig count is expected to stabilize close to current level and OCTG prices to remain at a low level.
- In **Brazil,** the number of drilled wells is forecasted to increase. As anticipated, deliveries of premium OCTG are planned to continue to accelerate in H2.

Industry & Other

- In **Europe and Brazil**, demand from Industry is expected to continue being impacted by Covid-19 crisis.
- Volume of **iron ore** produced in Brazil is expected to be slightly higher than in 2019, while iron ore prices are so far staying at favorable levels.

Adaptation Measures

- Adjustment of working hours to the activity in each country (short-time work, furlough,…).
- €130 million gross savings targeted in 2020 of which €51 million already achieved in H1 2020 (In addition to full adaptation of variable costs, including direct labor).
- 2020 capex envelope reduced by 20% compared to initial envelope, to c. €160 million.
- Working capital requirements reduction reflecting activity decline, ongoing action plans and usual seasonality towards the end of the year.

Free cash flow targeted positive in H2, including a significant release of working capital.

3

Condensed consolidated interim financial statements of the Vallourec Group as at June 30, 2020

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3.1 Vallourec Group consolidated income statement

In € thousand	Notes	H1 2019	H1 2020
Revenue		**2,109,000**	**1,695,528**
Cost of sales[(a)]	*3.2*	(1,727,683)	(1,398,149)
Sales, general and administrative costs[(a)]	*3.2*	(198,039)	(173,366)
Other	*3.2*	(14,404)	(12,739)
EBITDA	*3.2*	**168,874**	**111,274**
Depreciation	*3.3*	(154,665)	(138,449)
Impairment of assets and goodwill	*3.4*	(21,353)	(440,967)
Asset disposals, restructuring costs and non-recurring items	*3.5*	(11,440)	(45,769)
Operating income (loss)		**(18,584)**	**(513,911)**
Financial income		7,321	3,490
Interest expenses		(90,410)	(101,666)
Net interest expenses		**(83,089)**	**(98,176)**
Other financial income and expenses		(38,789)	(16,769)
Financial income	*8.1.1*	**(121,878)**	**(114,945)**
Pre-tax income (loss)		**(140,462)**	**(628,856)**
Income tax		(22,366)	(30,276)
Share in net income/(loss) of equity affiliates		(580)	(1,019)
Net income/(loss) from continuing operations		**(163,408)**	**(660,151)**
Consolidated net income		**(163,408)**	**(660,151)**
Attributable to non-controlling interests		3,772	(92,930)
Group share		**(167,180)**	**(567,221)**
Group share:			
Net earnings per share[(b)]	*7.2*	(0.4)	(49.6)

(a) Before depreciation and amortization

(b) Before the consolidation of shares (see Note 7.1)

3.2 Statement of comprehensive income

In € thousand	H1 2019	H1 2020
Consolidated net income	**(163,408)**	**(660,151)**
Other comprehensive income (loss):		
Actuarial gains and losses on post-employment benefits	**(18,592)**	**(5,845)**
Tax attributable to actuarial gains and losses on post-employment benefits	**1,527**	**(270)**
Items that will not be reclassified to profit or loss	**(17,065)**	**(6,115)**
Exchange differences on translating net assets of foreign entities	**41,587**	**(359,769)**
Change in fair value of hedging financial instruments	**8,059**	**(13,389)**
Tax attributable to the change in fair value of hedging financial instruments	**(88)**	**5,191**
Items that may be reclassified subsequently to profit or loss	**49,558**	**(367,967)**
Other comprehensive income/(loss) (net of tax)	**32,494**	**(374,082)**
Total comprehensive income/(loss)	**(130,914)**	**(1,034,233)**
Attributable to non-controlling interests	**7,479**	**(126,555)**
Group share	**(138,393)**	**(907,678)**

3.3 Cash flow statement

In € thousand	Notes	H1 2019	H1 2020
Consolidated net income (including non-controlling interests)		**(163,408)**	**(660,151)**
Net amortization, depreciation and provisions	3.6	176,505	584,133
Unrealized gains and losses linked to changes in fair value		(892)	(2,784)
Capital gains and losses on disposals		4,524	1,361
Share of net income from equity affiliates		580	1,020
Dividends reclassified as other flows linked to investing activities		(279)	(355)
Cash flow from operating activities after cost of net financial debt and taxes		**17,030**	**(76,776)**
Cost of net financial debt	8.1	83,089	98,176
Tax expense (including deferred taxes)		22,366	30,276
Cash flow from operating activities before cost of net financial debt and taxes		**122,485**	**51,676**
Interest paid		(90,409)	(101,666)
Tax paid		(29,602)	(49,942)
Interest received		7,238	3,488
Cash flow from operating activities		**9,712**	**(96,444)**
Change in operating Working Capital Requirement under the cash flow statement	3.7	(116,733)	(98,881)
Net cash flow from operating activities		**(107,021)**	**(195,325)**
Cash outflows for acquisitions of property, plant and equipment, and intangible and biological assets	5.3	(36,272)	(63,095)
Cash inflows from disposals of property, plant and equipment and intangible assets		2,256	896
Impact of acquisitions (changes in consolidation scope)		(5)	-
Impact of disposals (changes in consolidation scope)		1,650	41
Cash from subsidiaries sold (changes in consolidation scope)		5	-
Other cash flows from investing activities		7	616
Net cash from (used in) investing activities		**(32,359)**	**(61,542)**
Increase or decrease in equity		51,804	-
Movements in treasury shares		(1,326)	(89)
Proceeds drawn from new borrowings	8.1.2	785,693	2,653,308
Repayments of borrowings	8.1.2	(701,126)	(2,690,337)
Repayment of lease debts		(15,603)	(15,547)
Other cash flow from financing activities		(2,955)	(1,879)
Cash flow from financing activities		**116,487**	**(54,544)**
Effect of changes in exchange rates		**6,197**	**(62,591)**
Change in cash		**(16,696)**	**(374,002)**
Opening net cash		**737,049**	**1,793,635**
Closing net cash		**720,355**	**1,419,633**
Change		(16,696)	(374,002)

The cash flow statement is drawn up on the basis of the cash in Note 8.1, net of overdrafts and other short-term bank borrowings that have an initial maturity of less than three months.

Reconciliation of cash in the cash flow statement and the balance sheet—first half of 2020

In € thousand	*Note*	**12/31/2019**	**Change**	**06/30/2020**
Cash and cash equivalents (1)	8.1	1,793,843	(373,434)	1,420,409
Current bank overdrafts (2)	8.1	208	568	776
Cash (3)=(1)-(2)		**1,793,635**	**(374,002)**	**1,419,633**

Reconciliation of cash in the cash flow statement and the balance sheet—first half of 2019

In € thousand	**12/31/2018**	**Change**	**06/30/2019**
Cash and cash equivalents (1)	739,576	(10,431)	729,146
Current bank overdrafts (2)	2,527	6,265	8,792
Cash (3)=(1)-(2)	**737,049**	**(16,696)**	**720,354**

3.4 Vallourec Group statement of financial position

In € thousand	Notes	12/31/2019	06/30/2020
Non-current assets			
Net intangible assets	*5.1*	63,405	58,047
Goodwill	*5.1*	363,983	25,740
Net property, plant and equipment	*5.1*	2,642,079	2,265,657
Biological assets		62,486	44,686
Equity affiliates		129,421	127,873
Other non-current financial assets	*8.3*	43,134	29,514
Other non-current assets		87,660	81,332
Deferred taxes		248,582	206,916
Total		**3,640,750**	**2,839,765**
Current assets			
Inventories		987,975	963,469
Trade and other receivables		638,120	600,338
Other current financial assets	*8.3*	7,221	18,028
Other current assets		237,527	185,885
Cash and cash equivalents	*8.1*	1,793,843	1,420,409
Total		**3,664,686**	**3,188,129**
Total assets		**7,305,436**	**6,027,894**

In € thousand	Notes	12/31/2019	06/30/2020
Equity			
Equity—Group share	*7.1*	1,467,337	561,401
Non-controlling interests		512,708	386,080
Total equity		**1,980,045**	**947,481**
Shareholder loan	*8.4*	**20,560**	**15,759**
Non-current liabilities			
Bank loans and other borrowings	*8.1*	1,747,061	1,746,264
Employee benefits		227,787	220,379
Provisions		44,579	53,190
Deferred taxes		9,499	9,786
Other non-current financial liabilities	*8.2*	103,560	95,084
Other non-current liabilities		16,867	19,988
Total		**2,149,353**	**2,144,691**
Current liabilities		0	
Overdraft and other short-term borrowings	*8.1*	2,077,321	2,000,253
Provisions		120,999	92,910
Trade payables	*3.7*	579,739	503,534
Other current financial liabilities	*8.2*	48,119	44,127
Tax and other current liabilities		329,300	279,139
Total		**3,155,478**	**2,919,963**
Total equity and liabilities		**7,305,436**	**6,027,894**

3.5 Statement of changes in equity, Group share

	Capital	Additional paid-in capital	Consolidated reserves	Foreign currency translation reserve	Reserves—changes in fair value of financial instruments—net of tax	Treasury shares	Net income or loss for the period	Total equity—Group share	Total non-controlling interests	Total equity
Position as at December 31, 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
Financial instruments	-	-	-	-	8,010	-	-	8,010	(38)	7,972
Actuarial gains and losses on retirement commitments	-	-	(16,337)	-	-	-	-	(16,337)	(728)	(17,065)
Other comprehensive income (loss)	-	-	(16,337)	37,114	8,010	-	-	28,787	3,707	32,494
Profit/loss as at March 31, 2019	0	0	0	0	0	0	(167,180)	(167,180)	3,772	(163,408)
Comprehensive income	-	-	(16,337)	37,114	8,010	-	(167,180)	(138,393)	7,479	(130,914)
Allocation 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 June 30, 2019	**915,976**	**1,417,897**	**111,013**	**(611,243)**	**(1,281)**	**(1,281)**	**(167,180)**	**1,663,901**	**521,111**	**2,185,012**
Position as at December 31, 2019	**915,976**	**1,417,897**	**106,000**	**(636,741)**	**2,912**	**(1,158)**	**(337,549)**	**1,467,337**	**512,708**	**1,980,045**
Change in foreign currency translation reserve	-	-	-	(328,354)	-	-	-	(328,354)	(31,415)	(359,769)
Financial instruments	-	-	-	-	(6,835)	-	-	(6,835)	(1,363)	(8,198)
Actuarial gains and losses on retirement commitments	-	-	(5,268)	-	-	-	-	(5,268)	(847)	(6,115)
Other comprehensive income (loss)	-	-	(5,268)	(328,354)	(6,835)	-	-	(340,457)	(33,625)	(374,082)
Profit/(loss) as at June 30, 2020	-	-	-	-	-	-	(567,221)	(567,221)	(92,930)	(660,151)
Comprehensive income	-	-	(5,268)	(328,354)	(6,835)	-	(567,221)	(907,678)	(126,555)	(1,034,233)
Allocation of 2019 net income/(loss)	-	-	(337,549)	-	-	-	337,549	-	-	-
Change in treasury shares	-	-	(1,202)	-	-	1,113	-	(89)	-	(89)
Dividends paid	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	1,774	-	-	-	-	1,774	-	1,774
Changes in consolidation scope and other (*)	(915,747)	915,747	(508)		565	-	-	57	(73)	(16)
Position as at June 30, 2020	**229**	**2,333,644**	**(236,753)**	**(965,095)**	**(3,358)**	**(45)**	**(567,221)**	**561,401**	**386,080**	**947,481**

(*) the line “Changes in consolidation scope and other” as at June 30, 2020 corresponds primarily to the reduction of the nominal value of the shares (See Note 7.1).

3.6 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	Total non-controlling interests
Position as at December 31, 2018	**434,026**	**24,874**	**1,031**	**2,088**	**462,019**
Change in foreign currency translation reserve		4,473			4,473
Financial instruments			(38)		(38)
Actuarial gains and losses on retirement commitments	(728)				(728)
Other comprehensive income (loss)	(728)	4,473	(38)	-	3,707
2019 net income/(loss)				3,772	3,772
Comprehensive income	(728)	4,473	(38)	3,772	7,479
Allocation of net income/(loss)	2,088			(2,088)	-
Dividends paid					-
Changes in consolidation scope and other	51,807	(194)			51,613
Position as at June 30, 2019	**487,193**	**29,153**	**993**	**3,772**	**521,111**
Position as at December 31, 2019	**485,875**	**28,406**	**981**	**(2,554)**	**512,708**
Change in foreign currency translation reserve		(31,415)			(31,415)
Financial instruments			(1,363)		(1,363)
Actuarial gains and losses on retirement commitments	(847)				(847)
Other comprehensive income (loss)	(847)	(31,415)	(1,363)	-	(33,625)
2020 net income/(loss)				(92,930)	(92,930)
Comprehensive income	(847)	(31,415)	(1,363)	(92,930)	(126,555)
Allocation of net income/(loss)	(2,554)			2,554	-
Dividends paid					-
Changes in consolidation scope and other	(73)				(73)
Position as at June 30, 2020	**482,401**	**(3,009)**	**(382)**	**(92,930)**	**386,080**

Notes to the consolidated financial statements for the financial period ended June 30, 2020

In € thousand (€k) unless stated otherwise.

1. Accounting standards and basis for the preparation of the consolidated financial statements

1.1. Accounting standards

The interim consolidated financial statements as at June 30, 2020, as well as the notes relating thereto were approved by the Vallourec Management Board on July 28, 2020.

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

The accounting principles and valuation methods applied are identical to those used for the 2019 financial statements, with the exception of any changes made pursuant to the application of the new mandatory texts on or after January 1, 2020.

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 December 31, 2019.

The purpose of the interim financial statements is to provide shareholders and investors with pertinent information about major events and transactions for the period. This information is notably provided through a selection of attached notes, which are intended to explain significant changes in the balance sheet between December 31, 2019 and June 30, 2020, as well as the primary operations that contributed to the net income for H1 2020. 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 December 31, 2019, registered with the French securities regulator (Autorité des Marchés Financiers) on March 20, 2020 (available on the Company website at www.vallourec.com).

1.1.1. New mandatory standards

As of January 1, 2020, mandatory standards concern:

- Amendments to IAS 39, IFRS 7 and IFRS 9 – Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: definition of the significant term

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

1.1.2. New standards not applied early

The Group has not opted for early application of any other standards or interpretations that will be mandatory for fiscal years beginning on or after January 1, 2020.

1.2. Measurement basis and presentation of the consolidated financial statements

Estimates

Drafting of the interim financial statements may be based to a greater extent on estimates other than the annual financial data when determining the value of assets and liabilities, when assessing positive and negative changes on the closing date, and the income and expense figures for the financial year.

The preparation of the financial statements under IFRS leads Vallourec’s management to use estimates and formulate assumptions that affect the carrying amount of certain assets and liabilities, income and expenses, and some of the information in the notes to the financial statements. The main estimates and assumptions are identical to those described in the notes to the consolidated financial statements for the fiscal year ended December 31, 2019. These assumptions and estimates have evolved over the six-month period to take into account the economic impacts of the Covid crisis as described in Note 2.1.

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 possible 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 Group primarily reviewed the following estimates for the end of the first half:

- The recoverable value of goodwill, intangible assets and property, plant and equipment (see Note 5);
- Provisions for disputes, onerous contracts and for restructuring and contingent liabilities (see Note 10);
- Tax loss carryforwards recognized as deferred tax assets (see Note 4).

Judgment

In addition to the use of estimates, the Group's management used its judgment in determining the appropriate accounting treatment of a number of activities and transactions, in particular when the existing IFRS standards and interpretations do not specifically address the accounting issues in question.

In particular, the Group used its judgment in assessing the nature of the control.

Forex

The main exchange rates used (euro/currency) are as follows:

	USD	GBP	BRL	CNY
As at 12/31/2019				
Average rate	1.12	0.88	4.41	7.74
Closing rate	1.12	0.85	4.52	7.82
As at 06/30/2020				
Average rate	1.10	0.87	5.41	7.75
Closing rate	1.12	0.91	6.11	7.92

1.3. Features specific to the drafting of interim financial statements

Seasonality

The Group is subject to a seasonality effect in its activity, with particular regard to WCR days: in general, the highest level is observed in the first quarter, while the lowest is noted the fourth quarter.

Income tax

With regard to interim orders, the tax charge, both current and deferred, is calculated for each fiscal entity by applying the estimated average effective annual rate for the current year to the taxable income for the period, excluding significant exceptional items. Any significant exceptional items for the period are recorded with their actual tax charge.

Retirement benefits

The cost of retirement benefits for an interim period is calculated on the basis of actuarial assessments conducted at the end of the previous financial period. These assessments are adjusted to take account of any significant reductions, liquidations or other non-recurring events that occurred during the period. In addition, the amounts recorded in the statement of financial position for defined benefit plans are adjusted to take account of changes in discount rates, the fair value of hedging assets and actual services paid over the period.

2. Key events during the period

2.1. The Covid-19 crisis and the Group's adaptation

The environment in which the Group operates has undergone significant changes in recent weeks.

The Covid-19 epidemic caused the Group disruption, leading it to temporarily stop production from February 2020 onwards. The steps taken by the Group ensured that the production sites were able to restart quickly, in accordance with decisions made by the authorities and safety conditions for teams, so as to contain the financial impact of the epidemic. However, there is still uncertainty in terms of how long the epidemic will last and its impact on the company.

In March 2020, oil prices fell sharply, mainly due to a fall in demand in relation to the Covid-19 epidemic, leading to significant changes in the environment in which Vallourec operates, and more specifically in North America, where many non-conventional oil and gas operators reduced their drilling plans. In this context of uncertainty as to the impact of these factors on the performance and objectives for 2020, on March 20 Vallourec suspended its previously disclosed forecasts.

In response to the significant, abrupt decline in business scheduled by its oil and gas customers, at the end of March Vallourec decided to reduce its workforce in North America by more than 900 across all plants and support functions, and continued its adaptation plan in Europe. Vallourec also put tight controls on its expenditure (hiring freeze, travel ban, and partial unemployment measures).

2.2. Liquidity risk and business continuity

As of June 30, 2020, the Group had confirmed bank credit facilities of €1,934 million, including €123 million unused, and cash of €1,420 million. The Group therefore had liquidity assets of €1,543 million.

As mentioned in Note 8.1., credit facility of €100 million are due to in July 2020 and €1,724 million in February 2021. Drawn credit lines will therefore need to be repaid by these deadlines.

In this regard, the Group announced on February 19, 2020 its intension to launch a capital increase of 800 million euros combined with a new credit line of €800 million.

This operation was adopted by the Shareholders meeting on April 6, 2020. However due to new environment and adverse market conditions linked to Covid crisis, these refinancing operations were not carried out. Vallourec continues discussions, in particular with its reference shareholders and its banks, in order to define a new refinancing plan, taking into account the consequences of the Covid and oil markets crises on its activity and allowing it to deal with its upcoming maturities and rebalance its financial structure.

On this basis, management closed the accounts in application of the going concern principle.

However, such situation generates significant uncertainty on the going concern. If these discussions are unsuccessful, the company may not be able to realize its assets and reimburse its debts in the normal course of its business.

3. Operational activities

The Vallourec Group is a world leader in premium tubular solutions, primarily aimed at the Oil & Gas, Industry, and Energy markets. Originally based in France and Germany, Vallourec now has frontline positions in the United States, Brazil, Europe, the Middle East and Asia. The Group provides a wide range of premium tubular solutions—high-performance solutions the manufacturing of which requires significant technological and industrial expertise—in addition to related specialized services that provide customers with a complete range of innovative solutions.

3.1. Segment information

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 the first half years of 2020 and 2019.

Information on results, assets and liabilities by operating segment

POSITION AS AT JUNE 30, 2020	Seamless tubes	Specialty products	Holdings & miscellaneous	Cross-sector transactions	Total
INCOME STATEMENT					
Revenue (*)	1,675,668	19,558	302	-	1,695,528
EBITDA	126,689	(5,658)	(9,757)	-	111,274
Depreciation of industrial assets	(134,368)	(1,811)	(2,270)	-	(138,449)
Impairment of assets and goodwill	(323,201)	-	(104,000)	(13,766)	(440,967)
Asset disposals, restructuring costs and non-recurring items	(66,186)	4	20,413	-	(45,769)
Operating income (loss)	**(397,066)**	**(7,465)**	**(95,614)**	**(13,766)**	**(513,911)**
Unallocated income					3,490
Unallocated expenses					(118,435)
Pre-tax income (loss)					(628,856)
Income tax					(30,276)
Share in net income/(loss) of equity affiliates					(1,019)
Consolidated net income					(660,151)
BALANCE SHEET					
Non-current assets	2,868,187	59,181	4,184,961	(4,272,564)	2,839,765
Current assets	1,703,062	45,100	66,169	(46,611)	1,767,720
Cash and cash equivalents	432,171	426	1,572,948	(585,136)	1,420,409
Assets held for sale and discontinued operations	-	-	-	-	-
TOTAL ASSETS	**5,003,420**	**104,707**	**5,824,078**	**(4,904,311)**	**6,027,894**
CASH FLOWS					
Property, plant and equipment, intangible assets and biological assets	54,644	711	1,809	-	57,164

(*) Sales to external customers

POSITION AS AT JUNE 30, 2019	Seamless tubes	Specialty products	Holdings & miscellaneous	Cross-sector transactions	Total
INCOME STATEMENT					
Revenue (*)	2,101,964	6,400	636	-	2,109,000
EBITDA	186,975	(9,191)	(8,910)	(0)	168,874
Depreciation of industrial assets	(150,352)	(2,653)	(1,660)	-	(154,665)
Impairment of assets and goodwill	35	(21,388)	-	0	(21,353)
Asset disposals, restructuring costs and non-recurring items	(11,832)	-	392	-	(11,441)
Operating income (loss)	**24,826**	**(33,232)**	**(10,178)**	**-**	**(18,584)**
Unallocated income					(7,321)
Unallocated expenses					(129,199)
Pre-tax income (loss)					(140,462)
Income tax					(22,366)
Share in net income/(loss) of equity affiliates					(580)
Consolidated net income					(163,408)
BALANCE SHEET	-	-	-	-	-
Non-current assets	3,629,252	66,136	4,401,179	(4,381,390)	3,715,177
Current assets	2,057,353	47,384	103,906	(87,792)	2,120,851
Cash and cash equivalents	526,925	383	831,341	(629,503)	729,145
TOTAL ASSETS	**6,213,530**	**113,903**	**5,336,426**	**(5,098,686)**	**6,565,173**
CASH FLOWS	-	-	-	-	-
Property, plant and equipment, intangible assets and biological assets	34,827	131	194	-	35,152

(*) Sales to external customers

Geographical regions

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

2020	Europe	North America	South America	Asia	Rest of the World	Total
Revenue						
Sales to external customers	266,585	481,563	323,065	466,662	157,653	1,695,528
Balance sheet						
Properly, plant and equipment, intangible assets and biological assets (net)	436,636	1,020,072	655,706	274,767	6,949	2,394,130
Cash flows						
Property, plant and equipment, intangible assets and biological assets	(17,044)	(11,491)	(24,011)	(4,544)	(73)	(57,163)

June 30, 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
Balance sheet						
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 flows						
Property, plant and equipment, intangible assets and biological assets	12,189	6,962	13,516	2,465	19	35,152

3.2. EBITDA

EBITDA is broken down as follows:

	H1 2019	H1 2020
Revenue	**2,109,000**	**1,695,528**
Cost of sales	**(1,727,683)**	**(1,398,149)**
of which direct cost of sales	(118,881)	(107,543)
of which cost of raw materials consumed	(686,315)	(517,093)
of which labor costs	(386,363)	(336,308)
of which other manufacturing costs[a]	(519,138)	(403,613)
of which change in non-raw material inventories	(16,986)	(33,592)
Sales, general and administrative costs	**(198,039)**	**(173,366)**
of which research and development costs	(25,466)	(20,549)
of which selling and marketing costs	(38,948)	(35,465)
of which general and administrative costs	(133,625)	(117,352)
Other	**(14,404)**	**(12,739)**
of which employee profit-sharing, bonuses and others	(12,897)	(8,816)
of which other income and expenses	(1,507)	(3,923)
Total gross operating expenses	**(1,940,126)**	**(1,584,254)**
EBITDA	**168,874**	**111,274**

[a] "Other manufacturing costs" mainly include energy and consumables costs, and maintenance and provisions costs.

Personnel expenses

Personnel expenses amounted to €421 million as at June 30, 2020, compared to €488 million as at June 30, 2019.

3.3. Depreciation

Depreciation and amortization breaks down as follows:

	H1 2019	H1 2020
Depreciation of industrial assets	(125,572)	(110,849)
Depreciation of rights of use	(15,661)	(14,369)
Depreciation and amortization – Research and Development	(4,472)	(4,365)
Depreciation and amortization – Sales and Marketing Department contracts	(553)	(583)
Depreciation and amortization – general and administrative costs	(8,407)	(8,283)
Total depreciation and amortization	**(154,665)**	**(138,449)**

3.4. Impairment of assets and goodwill

	H1 2019	H1 2020
Property, plant and equipment	(21,353)	(104,535)
Goodwill	-	(336,432)
Total	**(21,353)**	**(440,967)**

The impairment tests conducted on June 30, 2020 (Note 5.2) led to depreciation of depreciable tangible assets for €104 million, mainly in the Europe CGU (€95 million), and depreciation of €336 million on non-depreciable intangible assets (goodwill), i.e. €14 million in the Europe CGU and $356 million in the North America CGU (€323 million converted at the rate of the first half of the year).

3.5. Asset disposals, restructuring costs and non-recurring items

	H1 2019	H1 2020
Reorganization measures (net of expenses and provisions)	(10,878)	(43,983)
Gains and losses on disposals of non-current assets and other non-recurring items	(562)	(1,786)
Total	**(11,440)**	**(45,769)**

During the first half of 2020, adaptation measures (€44 million, o/w €10 million in provisions) correspond chiefly to departures in Germany (contract termination and severance pay, early retirement, sundry social security measures), and the cost of the restructuring plan for more than 900 people in North America implemented during the half year, as well as adaptation expenses in Brazil.

3.6. Reconciliation of net provisions with the cash flow statement

	Notes	H1 2019	H1 2020
Depreciation	*3.3*	**(154,665)**	**(138,449)**
Impairment of assets and goodwill	*3.4*	**(21,353)**	**(440,967)**
Provision allowances net of reversal included in EBITDA		(8,655)	7,721
Provision allowances net of reversal included in assets disposals, restructuring costs and non-recurring items		14,198	(10,426)
Provision allowances net of reversal included in financial income/(loss)		(6,030)	(2,012)
Total		**(176,505)**	**(584,133)**
Net amortization, depreciation and provisions of cash flow statement		**176,505**	**584,133**

3.7. Reconciliation of working capital requirement

The change in working capital requirements during fiscal year 2020 was as follows:

Gross values	12/31/2019	Translation difference	Change	Reclassification and other	06/30/2020
Inventories	1,122,361	(72,065)	46,703	1,525	1,098,524
Trade receivables	644,071	(46,166)	10,803	847	609,555
Trade payables	(579,739)	17,302	59,416	(512)	(503,534)
Working Capital Requirements	**1,186,693**	**(100,929)**	**116,922**	**1,859**	**1,204,546**
Other receivables and payables	5,091	(12,606)	(19,099)	11,139	(15,475)
Operating Working Capital Requirement	**1,191,784**	**(113,535)**	**97,823**	**12,999**	**1,189,071**
Impact of hedging instruments			1,058		
Total			**98,881**		
Change in operating Working Capital Requirement under the cash flow statement			(98,881)		

4. Taxes

RECONCILIATION OF THEORETICAL AND ACTUAL TAX EXPENSE

	H1 2019	H1 2020
Current tax expense	(33,923)	(36,643)
Deferred taxes	11,557	6,367
Net expense (-), Net proceeds (+)	**(22,366)**	**(30,276)**
Consolidated net income/(loss)	(162,828)	(659,131)
Tax expense	(22,366)	(30,276)
Consolidated net income/(loss) before tax	**(140,462)**	**(628,855)**
Statutory tax rate of consolidating company	34.43%	32.02%
Theoretical tax	(48,361)	201,359
Impact of main tax loss carryforwards	(56,368)	(101,616)
Impact of permanent differences	(6,425)	(116,796)
Other impacts	597	(2,989)
Impact of differences in tax rates	(8,531)	(10,234)
Net expense (-), Net proceeds (+)	**(22,366)**	**(30,276)**
Actual tax rate	**-16%**	**-5%**

The 5% rate mainly reflects the items detailed below:

- The impact of tax loss carryforwards and timing differences mainly concerns the non-recognition of deferred tax assets (DTAs) for the year in France, Germany, and the United States.
- Differences in taxation mainly reflect the range of tax rates applied in each country (Germany 31.6%, United States 21%, Brazil 34.0%, China 25.0%, and Saudi Arabia 20%).
- The permanent differences are mainly due to impairment losses on the goodwill recorded as at June 30.

5. Goodwill, intangible and tangible assets, and biological assets

5.1. Changes in net book value

	12/31/2019			06/30/2020		
	Gross value	Depreciation and impairment	Net value	Gross value	Depreciation and impairment	Net value
Goodwill	560,612	(196,629)	363,983	553,758	(528,018)	25,740
Intangible assets	576,645	(513,240)	63,405	570,637	(512,590)	58,047
Property, plant and equipment (a)	5,850,221	(3,208,142)	2,642,079	5,558,502	(3,292,845)	2,265,657
Biological assets	84,468	(21,982)	62,486	64,976	(20,290)	44,686

(a) of which €116 million in net rights of use as at June 30, 2020

	Vallourec do Brasil	Vallourec North America	Vallourec Europe	Total
As at 12/31/2018	**34,305**	**310,562**	**13,549**	**358,416**
Impact of changes in exchange rates	(498)	5,971	94	5,567
As at 12/31/2019	**33,807**	**316,533**	**13,643**	**363,983**
Allocation to provisions for the period	-	(322,665)	(13,766)	(336,431)
Impact of changes in exchange rates	(8,067)	6,132	123	(1,812)
As at 06/30/2020	**25,740**	**-**	**-**	**25,740**

5.2. Impairment tests

The oil and gas industry experienced significant disruptions during the first half of 2020, with the fall in global demand for oil caused by the COVID-19 pandemic leading to a significant drop in oil prices. In this context, some Oil & Gas operators, particularly in North America, announced their intention to significantly reduce their investments.

The Group judged that this situation represented an impairment index, leading it to update the impairment tests carried out on December 31, 2019 to take into account the impact of the expected fall in business over the coming years, and the long-term effects of the economic plans engaged, particularly in North America.

In the medium term, the Group anticipates that it will face the adverse impact of the current crisis by way of a fall in orders, offset in part by the adjustment of the cost structure to reflect market conditions and current levels of business. Furthermore, on its fixed-cost basis, the Group intends to conserve the benefit of the adaptation measures implemented beyond the crisis period, thus helping to enhance its long-term profitability.

Future cash flows

The forecasts used are those of the five-year strategic plan, revised at the end of June 2020 and presented to the Supervisory Board on July 21, 2020. The plan relies on macroeconomic assumptions per market, based on external sources (E&P Oil&Gas investment forecasts by region, price per barrel and gas price, currencies, raw materials, inflation, etc.). In particular, several external sources, such as IEA, IHS and Wood Mackenzie, were taken into account to estimate the volumes of E&P Oil&Gas investments by region. On the basis of these elements, the regions, under the coordination of the central Development and Innovation (D&I) and Technology and Industry (T&I) Departments, establish their sales forecasts (volumes and prices).

It should be noted that the bulk of our turnover comes from the sale of seamless tubes and connections for the oil industry (tubing and casing for oil and gas wells, pipelines, refining tubes and petrochemicals, etc.). The buying patterns of our clients may differ based on their own business model and how they adapt structurally to price trends (cost structure, stock policy, risk aversion, project portfolio, financing capacity). The experience and know-how of our teams are key elements in the preparation of our forecasts.

The valuation calculations were made using the same methodology as that described in the Notes to the Consolidated Financial Statements 2019.

The perpetuity growth rates and discount rates were revised on June 30, 2020. These parameters were calculated in line with the currency of the CGUs' future cash flows. The perpetuity growth rates are the result of long-term inflation forecasts for the currency selected for each CGU.

The discount rates selected stood at 9.5% for the Vallourec Europe CGU, 9.7% for Vallourec North America and 13% for Vallourec do Brasil, compared with 8.4%, 8.8% and 11.1%, respectively, at the end of 2019.

Impairment test results

The Vallourec Europe and Vallourec North America CGUs are highly sensitive to changes in parameters (growth rate, discount rate, EBITDA, etc.). The sensitivity analyses are presented below.

For the Vallourec do Brasil CGU, the recoverable value greatly exceeds the book value and no reasonably feasible change in the test assumptions would result in an impairment as at June 30, 2020.

Sensitivity analyses

The sensitivity analyses presented in the table below were calculated by changing a single parameter.

Analysis of the CGUs (in € million)		**Vallourec Europe**	**Vallourec North America (a)**
Net values			
- Current part		193	122
- Non-current part		785	1,337
Bases tested at 06.30.2020		978	1,459
CGU value in use		**869**	**1,142**
Impairment loss		**(109)**	**(317)**
Of which loss on goodwill		**(14)**	**(317)**
Of which loss on property, plant and equipment		**(95)**	
Sensitivity analyses of the CGUs (in € million)			
Sensitivity to the discount rate	+0.5 pt	812	1,066
	-0.5 pts	934	1,266
EBITDA sensitivity	-10% per year	755	967
	+10% per year	982	1,316
EUR/USD foreign exchange rate sensitivity	+5 cts	416	1,093
	-5 cents	1,314	1,195
Perpetuity growth rate sensitivity	+0.5 pt	910	1,195
	-0.5 pts	832	1,094

[a] *Tests conducted in dollars and impairment loss ($356 million) converted into euros at the closing rate.*

The table above shows that CGU flows are sensitive to changes in the value of their export transactions denominated in a currency other than that of the country where they are based (mainly USD).

5.3. Reconciliation of outflows related to fixed asset acquisitions on the cash flow table

	H1 2019		H1 2020	
	Intangible assets and property, plants and equipment	Biological assets	Intangible assets and property, plants and equipment	Biological assets
Acquisition of intangible assets	1,033	-	406	-
Acquisition of property, plant and equipment	29,809	4,310	53,766	2,991
Total capital expenditures	**30,842**	**4,310**	**54,172**	**2,991**
Changes in fixed asset liabilities and partner contributions	1,120	-	5,932	-
Total	**31,962**	**4,310**	**60,104**	**2,991**
Statement of cash flows: investments disbursed during the year stood at:	36,272		63,095	

6. Transactions entered into with related parties

Related party transactions mainly concern purchases of steel rounds from HKM, which are used as raw manufacturing materials by the European rolling mills of Vallourec Deutschland and Vallourec Tubes France in the amount of €132 million in the first half of 2020.

7. Equity, share-based payment and earnings per share

7.1. Equity—Group share

Vallourec's issued capital comprises 11,449,694 ordinary shares with a nominal value of €0.02 per share, fully paid up. April 23, 2020. Vallourec announced the launch of its share consolidation by way of an exchange of 40 existing shares for 1 new share, approved by the Company's shareholders at the Combined General Meeting held on April 6, 2020. The number of shares went from 457,987,760 to 11,449,694 shares.

The final amount of the capital reduction was 915,746,526.12. This amount was allotted to the "Premiums" item, and is not distributable. This technical adjustment has no impact on the value of Vallourec securities held by shareholders and shareholders' equity.

7.2. Share-based payments

Share subscription plans

Characteristics of the plans

With regard to the characteristics of the plans agreed before June 30, 2020, please see the Group's consolidated financial statements for the fiscal year ended December 31, 2019.

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	H1 2020
Options outstanding on January 1	**137,039**
Options exercised	-
Options lapsed	-
Options canceled	(61,406)
Options distributed	80,407
Options outstanding as at December 31	**156,040**
Options available for exercise	51,036

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)

	2020 Plan
Share price on the allocation date	€41.94
Volatility[b]	32%
Risk-free rate[c]	0.03%
Exercise price	€37.36
Dividend rate[d]	3%
Fair value of the option[e]	€10.30

(a) The binomial model of projecting share prices has been used to measure the fair value of the options granted.
(b) Volatility corresponds to historical volatility observed over a period corresponding to the duration of the plans.
(c) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries—Institut des Actuaires).
(d) The expected dividend rates have been determined on the basis of analysts' expectations and the Group's dividend policy.
(e) The fair value for the Management Board and the Operational Committee is €10.30 for the 2020 plan.

Performance share allocation plans

Characteristics of the plans

With regard to the characteristics of the plans agreed before June 30, 2020, please see the Group's consolidated financial statements for the fiscal year ended December 31, 2019.

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

In number of shares	H1 2020
Number of shares being vested as at January 1	**64,470**
Shares delivered over the year	(12,448)
Shares canceled	(4,569)
Shares allocated over the year	34,090
Number of shares being vested as at December 31	**81,543**

The reported figures correspond to the number of shares, 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 January 1, 2020 are as follows:

Measurement of plans[a]	2020 Plan
Share price on the allocation date	€41.94
Risk-free rate[b]	-0.52%
Dividend rate[c]	3%
Fair value of the share	€38.28

(a) The binomial model of projecting share prices has been used to measure the fair value of the shares granted. The employee benefit corresponds to the fair value of the shares allocated, taking into account the impossibility of receiving dividends during the vesting period and the cost to the employee of the non-transferability of shares during the holding period.
(b) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries—Institut des Actuaires).
(c) The expected dividend rates were determined based on analysts' expectations (external information) and the Group's dividend policy.

Vallourec acquired 2,500 shares during the first half of 2020 to hedge these share allocation plans in the amount of €89 thousand.

7.3. Earnings per share

Euro net earnings per share stood at -€49.60 per share in the first half of 2020 (after the consolidation of shares as per Note 7.1), compared with -€0.40 per share, as published in the first half of 2019, i.e. €14.60 recalculated after the consolidation of shares. Euro net diluted earnings per share (after the dilution of options and performance shares) stood at -€49.60 per share in the first half of 2020, compared with -€0.40 per share in the first half of 2019.

8. Financing and financial instruments

8.1. Net financial debt

	12/31/2019			06/30/2020		
	Total	Non-current	Current	Total	Non-current	Current
Bond issues	1,726,538	1,726,538	-	1,731,139	1,731,139	-
Bank borrowings	1,737,712	20,142	1,717,570	1,834,014	14,872	1,819,142
Other financial liabilities	359,924	382	359,543	180,588	253	180,335
Current bank overdrafts	208	-	208	776	-	776
Total current and non-current bank loans and other borrowings	**3,824,382**	**1,747,061**	**2,077,321**	**3,746,517**	**1,746,264**	**2,000,253**
Investment securities	925,505	-	925,505	720,893	-	720,893
Cash and cash equivalents	868,338	-	868,338	699,516	-	699,516
Cash and cash equivalents	**1,793,843**	**-**	**1,793,843**	**1,420,409**	**-**	**1,420,409**
Net financial debt	**2,030,539**	**1,747,061**	**283,478**	**2,326,108**	**1,746,264**	**579,844**

8.1.1. Significant changes

During the first half of 2020, €194 million of confirmed credit lines matured. Accordingly, the depreciation of these lines resulted in the partial repayment of the the amounts drawn.

Other significant changes mainly relate to the reimbursement of commercial papers maturing in the first half of the year. At June 30, 2020, Vallourec S.A. had outstandings of €18.4 million for maturities of no more than one year, representing a fall in outstandings of €91.6 million compared to December 31, 2019. This commercial paper program was rated B by Standard & Poor's.

Credit facilities

Confirmed credit lines (in € million)	Amount	initial due date	extended due date	Amount drawn as at June 30, 2020
Line of €1.1 billion—February 2014	1,034	Feb. 2019	Feb. 2021 for €1,034m	1,029
Bilateral of €90 million—June 2015	90	Feb. 2019	Feb. 2021 for €90m	89
Line of €400 million—September 2015	400	Jul. 2019	Jul. 2020 for €100m Feb. 2021 for €300m	396
Line of €450 million—May 2016	300	Feb. 2020	Feb. 2021 for €300m	297
Bilateral of €110 million—May 2018—EIB available to finance the Group's R&D and Digitization projects	110	Apr. 2027	-	-
TOTAL	**1,934**			**1,811**

Covenant applicable to credit lines

Each of these bank facilities requires Vallourec to maintain its indebtedness ratio (“banking covenant”) at less than or equal to 100%, calculated on the basis of the financial statements as at December 31 published 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 June 30, 2020, the indebtedness ratio was estimated at 124%, as calculated under the Group’s bank loan covenant and tested annually as at December 31:

Banking covenant	12/31/2019	06/30/2020
Net debt (excluding financial lease debt)	2,030,539	2,326,108
Financial lease debt	50,042	34,502
Net debt	**2,080,581**	**2,360,610**
Shareholder loan	20,560	15,759
Restated net debt (1)	**2,101,141**	**2,376,369**
Equity	1,980,045	947,481
Foreign currency translation reserve—Group share[a]	608,335	968,104
Reserves—changes in fair value of financial instruments[a]	(3,893)	3,818
Equity restated (2)	**2,584,487**	**1,919,403**
Ratio of banking covenant restated (1)/(2)	81%	124%

[a] *including minority interests*

At June 30, 2020, Vallourec’s short-term liquidity position as regards the banking covenant remained unchanged. In fact, this banking covenant estimate does not entail a contractual liability for the €1,811 million drawn as at June 30, 2020. In addition, this estimate does not affect Vallourec’s ability to draw its bank facilities, which were confirmed in 2020.

Covenant applicable to bond issues

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 the Group’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.

8.1.2. Financial income

	H1 2019	H1 2020
Financial income		
Income from investment securities	7,383	3,906
Income from disposals of investment securities	(62)	(416)
Total	**7,321**	**3,490**
Interest expenses	**(90,410)**	**(101,666)**
Net interest expenses	**(83,089)**	**(98,176)**
Other financial income and expenses		
Income from securities, loans and receivables	761	583
Exchange (losses) and gains and changes in premiums/discounts	(17,890)	(14,444)
Provision allowances, net of reversals	(2,459)	(416)
Other financial income and expenses	3,244	15,162
Total	**(16,344)**	**885**
Interest expenses on leases	**(17,814)**	**(15,418)**
Other discounting expenses		
Interest expense discounts on pensions	(3,571)	(1,597)
Financial income from discounted assets and liabilities	(1,060)	(639)
Total	**(4,631)**	**(2,236)**
Financial income	**(121,878)**	**(114,945)**

"Other financial expenses and income" recorded during the first half of 2020 relate primarily to non-recurring items (charges for option premiums paid and income received thanks to the settlement of a dispute from 2010 (impact of inflation on the interest on mandatory loans reimbursed by Eletrobras, an electricity supplier in Brazil).

8.1.3. Reconciliation of financial liabilities with the cash flow statement

	12/31/2019	Translation difference	Proceeds drawn from new borrowings	Repayments of borrowings	Current/non-current reclassifications and others	06/30/2020
Non-current financial liabilities	1,747,061	(5,219)	4,819	(141)	(256)	1,746,264
Current financial liabilities	2,077,321	(53,300)	2,648,424	(2,690,196)	18,004	2,000,253
Financial liabilities (1)	**3,824,382**	**(58,519)**	**2,653,243**	**(2,690,337)**	**17,748**	**3,746,517**
Impact of hedging instruments and others (2)			**65**	**-**		
Total (1)+(2)			**2,653,308**	**(2,690,337)**		
Change in financial liabilities in the statement of cash flows			2,653,308	(2,690,337)		

8.2. Other financial liabilities

Other financial liabilities consist primarily of lease debts and derivatives.

	12/31/2019			06/30/2020		
	Total	Non-current	Current	Total	Non-current	Current
Lease debt	133,684	103,560	30,124	122,089	95,084	27,005
Derivatives	17,995		17,995	17,122		17,122
Total	**151,679**	**103,560**	**48,119**	**139,211**	**95,084**	**44,127**

8.3. Other financial assets

	12/31/2019			06/30/2020		
	Total	Non-current	Current	Total	Non-current	Current
Loans	3,311	2,866	445	3,252	2,977	275
Other financial assets	35,943	35,106	837	28,663	22,108	6,556
Derivatives	5,847		5,847	11,118		11,118
Other financial assets	5,254	5,162	92	4,510	4,429	79
Total	**50,355**	**43,134**	**7,221**	**47,543**	**29,514**	**18,028**

8.4. Shareholder loan

Vallourec Soluções Tubulares do Brasil benefits from a shareholder loan granted by NSSMC. This loan is set to depreciate gradually until 2022, with the next due date being in August 2020. The change over the period is the result of the conversion of this loan at the rate seen on June 30, 2020.

	12/31/2019	06/30/2020
Shareholder loan	20,560	15,759

8.5. Financial instruments

8.5.1. Financial assets and liabilities accounting model and fair value level

Over the first half of 2020, the Group did not make any significant changes to the classification of financial instruments, nor did it note any significant transfers between different levels of fair value.

The amounts recognized in the balance sheet are based on the measurement methods used for each financial instrument.

06/30/2020	Amortized cost	Fair value through profit or loss	Fair value through comprehensive income	Fair value derivatives	Total	Fair value
Assets						
Trade and other receivables	583,406	-	-	-	583,406	583,406
Other current and non-current financial assets	31,847	-	4,577	11,118	47,542	47,542
Other current and non current assets	267,217	-	-	-	267,217	267,217
Cash and cash equivalents	-	1,420,409	-	-	1,420,409	1,420,409
Total financial assets	**882,470**	**1,420,409**	**4,577**	**11,118**	**2,318,574**	**2,318,574**
Total non financial assets	**-**	**-**	**-**	**-**	**3,709,320**	**3,709,320**
Total assets	**-**	**-**	**-**	**-**	**6,027,894**	**6,027,894**
Liabilities						
Borrowings	3,746,517	-	-	-	3,746,517	3,818,656
Trade payables	503,534	-	-	-	503,534	503,534
Other current and non-current financial liabilities	122,089	-	-	17,122	139,211	139,211
Other current and non current liabilities	299,127	-	-	-	299,127	299,127
Total financial liabilities	**4,671,267**	**-**	**-**	**17,122**	**4,688,389**	**4,760,528**
Total non financial liabilities	**-**	**-**	**-**	**-**	**1,339,505**	**1,339,505**
Total equity and liabilities	**-**	**-**	**-**	**-**	**6,027,894**	**6,100,033**

8.5.2. Hedging accounting

From a net liability position of €12.1 million as at December 31, 2019, hedging assets moved to a net liability position of €6 million as at June 30, 2020.

	Accounting treatment	OCI reserves	06/30/2020(1)	12/31/2019(1)
Currency forward contracts on commercial transactions	Cash flow hedge	129	4,425	2,126
Currency forward contracts on commercial transactions	Fair value hedge	(1)	(11,411)	(15,177)
Currency forward contracts on financial transactions	Fair value hedge	-	432	497
Hedging instruments set up under employee share ownership plans	Fair value hedge	(3)	550	406
Subtotal derivatives		**125**	**(6,004)**	**(12,148)**
Of which derivatives—assets			*11,118*	*5,847*
Of which derivatives—liabilities			*17,122*	*17,995*
Receivables (payables) used for commercial hedges	Cash flow hedge	(12,896)	(11,149)	1,747
Receivables (payables) used for commercial hedges	Fair value hedge	-	(12,046)	(1,129)
Total		**(12,771)**	**(29,199)**	**(11,530)**

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

The significant change in Brazil's exchange rates over the period strongly impacted the value of the financial instruments used to hedge future commercial transactions.

8.5.3. Financial risk management

During the first half of 2020, the Group made no significant changes to the management of its financial risks. For risks not listed below, please refer to the notes to the Financial Statements of December 31, 2019.

Liquidity risk

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

The vast majority of bank financing has been put in place in Europe via Vallourec SA and to a lesser extent via the subsidiaries in Brazil.

Vallourec SA's credit facilities (€1,934 million) do not benefit from any securities or guarantees.

Market financing is arranged exclusively by Vallourec SA.

As at June 30, 2020, 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 June 30, 2020 were sufficient to cover the Group's cash requirements.

As at June 30, 2020, the Group had confirmed bank credit facilities of €1,934 million, including €123 million unused, and cash of €1,420 million. The Group therefore had liquid assets of €1,543 million at its disposal.

As mentioned in Notes 2.2. and 8.1., €100 million matures in July 2020, followed by €1,724 million in February 2021. Drawn credit lines will therefore need to be repaid by these deadlines.

9. Employee benefits

Staff commitments decreased by €7 million primarily due to the cumulative effects of the rise in discount rates over the first half of 2020, and the past effects of restructuring plans, particularly in Germany.

	Germany		France		United Kingdom		Other		Total	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Net Liability/(Asset) at opening	**145,051**	**152,487**	**27,418**	**30,958**	**(14,244)**	**(15,253)**	**56,134**	**59,595**	**214,360**	**227,787**
Total expenses for the fiscal year	27,105	7,486	2,038	922	216	78	(1,092)	2,488	28,267	10,974
Amount recognized in Other comprehensive income - Remeasurement	13,630	2,025	2,117	(158)	2,078	465	10,522	3,513	28,347	5,846
Benefits or contributions to funds	(33,299)	(14,232)	(587)	(559)	(2,563)	(1,172)	(6,379)	(1,873)	(42,828)	(17,836)
Foreign exchange differences	-	-	-	-	(740)	1,056	307	(7,298)	(433)	(6,242)
Changes in scope and other	-	-	(28)	-	-	-	103	(149)	75	(149)
Net Liability/(Asset) at closing	**152,487**	**147,766**	**30,958**	**31,163**	**(15,253)**	**(14,826)**	**59,595**	**56,276**	**227,787**	**220,379**

The main actuarial assumptions used for the measurement of post-employment benefit obligations, taking account of the plans' durations, are 0.80% in Germany and France, and 1.50% in the United Kingdom, compared to 0.75% and 2.00% respectively at the end of 2019.

10. Provisions for risks, charges and contingent liabilities

The provisions for risks and charges fell by €20 million, due mainly to foreign currency translation differences for €18 million.

	12/31/2019			06/30/2020		
	Total	Non-current	Current	Total	Non-current	Current
Disputes and commercial commitments	18,264	277	17,987	15,364	3,177	12,187
Unfilled orders - losses on completion	34,060	759	33,301	18,848	140	18,708
Reorganization and restructuring measures	52,378	9,602	42,776	61,372	22,243	39,129
Tax risks (income and other taxes, inspections, etc.)	13,810	13,810	-	10,142	10,142	-
Other	47,066	20,131	26,935	40,374	17,488	22,886
Total	**165,578**	**44,579**	**120,999**	**146,100**	**53,190**	**92,910**

11. Scope

During the first half of 2020, the Group has not had a significant change of scope.

12. Subsequent events

No significant events occurred after the close of the year.

13. Correspondence table

Previous notes	Reference	New notes	Reference
Intangible assets and goodwill	Note 1	Goodwill	Note 4.1
		Intangible assets	Note 4.3
Property, plant and equipment	Note 2.1	Property, plant and equipment	Note 4.4
Biological assets	Note 2.2	Biological assets	Note 4.5
Impairment of intangible assets and property, plant and equipment	Note 2.3	Impairment tests	Note 4.2
Equity affiliates	Note 3	Investments in equity affiliates	Note 5
Other non-current assets	Note 4	Other assets and liabilities	Note 2.8.3
		Other financial assets	Note 7.3
Deferred taxes	Note 5	Deferred tax assets and liabilities	Note 3.2
Inventories and work-in-progress	Note 6	Inventories and work-in-progress	Note 2.8.1
Trade and other receivables	Note 7	Trade and other receivables	Note 2.8.2
Impact of IAS 32 and IFRS 9 on equity and net income	Note 8.1	Hedging accounting	Note 7.5.3
Information on the nature and extent of market risk and how it is managed by the Group	Note 8.2	Financial risk management	Note 7.5.4
Classification and measurement of assets and liabilities	Note 8.2	Financial assets and liabilities accounting model/Fair value level	Note 7.5.1 / 7.5.2
Other current assets	Note 9	Other assets and liabilities	Note 2.8.3
		Other financial assets	Note 7.3
Cash and cash equivalents	Note 10	Net financial debt	Note 7.1
Assets held for sale and discontinued operations	Note 11	N/A for 2019	
Change in Working Capital Requirement	Note 12	Reconciliation of working capital requirement	Note 2.8.4
Change in financial liabilities	Note 12	Reconciliation of financial liabilities with the cash flow statement	Note 7.1.7

4

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

For the period from January 1st, 2020 to June 30, 20120

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, 2020;
- the verification of information contained in the half-yearly management report.

These interim condensed consolidated financial statements were prepared under the responsibility of your Management Board on July 28th, 2020 on the basis of the information available at that date in the evolving context of the crisis related to Covid-19 and of difficulties in assessing its impact and future prospects. Our role is to express a conclusion on these financial statements based on our review.

I – Conclusion on the financial statements

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.

We draw attention to note 2.2 to the consolidated financial statements "Liquidity risk and going concern" which describes the uncertainty resulting from events or conditions that may cast doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

II – Specific verification

We have also verified the information presented in the half-yearly Management Board report prepared on July 28th, 2020, commenting 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 28, 2020

The Statutory auditors

KPMG Audit Département de KPMG S.A.	Deloitte & Associés
Alexandra SAASTAMOINEN	Véronique LAURENT

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A French limited company (société anonyme)
with Management and Supervisory Boards and issued capital of €228,993.88