2021

Interim Financial Report

Half-year ended June 30, 2021

vallourec
SMART TUBULAR SOLUTIONS

Summary

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Statement by the person responsible for the interim financial report

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

Boulogne-Billancourt, 27 July 2021

Edouard Guinotte

Chairman of the Board of Directors & Chief Executive Officer

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Half-year activity report

Vallourec Market environment

1. Oil & Gas

Oil & Gas demand and supply balance is the main driver for the evolution of capital expenditures

In 2020, global oil demand decreased to an average of 91 mb/d (-8.6 mb/d comparing with 2019) due to the Covid-19 pandemic. The second quarter of 2020 was the most impacted with a collapse by 16 mb/d year-on-year to reach a quarterly average of 82.9 mb/d. **During the first semester 2021, global oil demand has been recovering to an average of 94.1 mb/d.**

Oil prices

In H1 2021, average WTI price[1] reached USD 62/b (vs. USD 38/b in H1 2020, an increase of c. 63% year-on-year), reflecting a demand recovery since the beginning of 2021 after the economic crisis caused by the global COVID-19 pandemic in 2020.

Following the same trend, average Brent price[2] in H1 2021 was at USD 65/b (vs USD 43/b in H1 2020, an increase of c. 51% year-on-year).

The average gas price[3] in H1 2021 was at USD 2.85/Mbtu, (vs USD 1.82/Mbtu in H1 2020, an increase of c. 57%)

Oil & Gas market in the United States

In the United States, average rig count appears to have bottomed out, after an impressive fall in Q2 and Q3 2020 (from a monthly average of 772 rigs in March 2020 to a monthly average of 250 rigs in August 2020). Since then, the rig count has been recovering to reach 470 active rigs at the end of June 2021.

OCTG prices[4] have reached a low point at USD 1,290/t in August 2020. Since January 2021, they have been recovering significantly to USD 1,824/t (+41% versus August 2020).

The US OCTG consumption[5] per rig has been gradually increasing since 2020 to an average of 462 tons per rig and per month in H1 2021.

Oil & Gas market in Brazil

According to IEA June 2021 Oil Market Report, despite the decline in output during Q2 2021 due to maintenance activities in several fields, the oil production stabilizes above 3 mb/d.

Oil & Gas market in EA-MEA regions

International rig count has continuously decreased from an average of 1,059 units in March 2020 to an average of 665 units in December 2020. Since then, it has slowly increased to an average of 758 in June 2021.

In the MEA region, since July 2019, OCTG prices[6] were globally stable at around USD 1,550-1,600/t. From June 2020, they started to decrease and reached USD 1,330/t in December. At the end of H1 2021, OCTG prices showed a slow recovery at USD 1,500/t.

In Western Europe, OCTG prices[7] showed a steady trend in 2019 to reach USD 1,690/t at end of July 2019, before starting to decrease. At end of June 2021, OCTG prices stood at USD 1,560/t (~8% below July 2019 level).

[1] *Price of WTI: Nasdaq – data collected in July 2021*
[2] *Price of Brent: Nasdaq – data collected in July 2021*
[3] *Price of gas (Henry Hub): Nasdaq – data collected in July 2021*
[4] *Pipe Logix (average Seamless pipes) – June 2021*
[5] *Preston Pipe & Tubes Report– June 2021*
[6] *Rystad (OCTG casing L80 premium connection) – June 2021*
[7] *Rystad (OCTG casing L80 premium connection) – June 2021*

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 is correlated with GDP growth.

EUROPE (GERMANY)

The ifo Business Climate index declined to a low point in April 2020 at 74.2 reflecting the impact of Covid-19 on the German economy. The index has been recovering gradually since then, and reached 101.8 in June 2021 despite companies concerns about material shortages.

BRAZIL

For 2021, GDP is forecasted to increase by 5.26%[8]. An overall recovery is expected, mainly driven by the Industrial sector, including the Automotive. Agriculture continues to play an important role in the Brazilian economy. The industrial tube market is following this demand steep rebound, driven by the higher demand and the restocking process from customers.

Significant events in the first half of 2021

Financial restructuring

- On February 3, 2021, Vallourec announced that it had reached a major step in its financial restructuring, with the entering into an agreement in principle with its main creditors. The agreement in principle provided in particular for a significant €1,800 million debt reduction through capital increases and a debt write-off, as well as the refinancing of residual debt over a five-year period by implementing a revolving credit facility, a state-guaranteed loan and issuance of new senior notes.

- On February 4, 2021, the Commercial Court of Nanterre opened a safeguard proceeding (procédure de sauvegarde) to the benefit of Vallourec to implement this financial restructuring (see Section 3.7 of the Universal Registration Document).

- On March 29, 2021, the Safeguard Plan prepared by the Company and dated March 12, 2021, reflecting the financial restructuring set forth in the agreement in principle, has been approved by the financial lenders' committee and the bondholders' general meeting by a majority of 100% of the votes cast.

- On March 30, 2021, the independent expert appointed by the Supervisory Board concluded that the contemplated financial restructuring of the Company was fair for the Company's shareholders.

- On March 31, 2021, the Autorité des marchés financiers (AMF) approved under number 21-093 the prospectus relating to the share capital increase reserved to the creditors under the RCF and the Bonds and the issuance of the warrants.

- On April 20, 2021, all of the resolutions necessary for the implementation of the financial restructuring were approved at the Company's general shareholders meeting.

- On May 19, 2021, the commercial court of Nanterre, after acknowledging in particular that the necessary regulatory approvals had been obtained, approved the safeguard plan of Vallourec S.A. All creditors of the Company were thus bound by the terms of the safeguard plan.

- On June 3, 2021, the Company announced the launch of a share capital increase with shareholders' subscription rights for an amount of c. €300 million, open from 8 June 2021 until 21 June 2021.

- On June 24, 2021, Vallourec announced the success of its share capital increase with shareholders' subscription rights with a subscription rate of 122.74%

- On June 30, 2021, all financial restructuring transactions as contemplated by the Safeguard Plan were finalized and Apollo and SVPGlobal became new reference shareholders with respectively 23.2% and 12.3% of the share capital.

Sale of Valinox Nucléaire SAS

- On June 1, 2021, Vallourec announced that it had finalized the sale of the company Valinox Nucléaire SAS to Framatome.

[8] *Based on Brazil Central Bank / Focus report, July 12nd, 2021.*

Cost savings objective for 2021-2025

- Vallourec announced a gross cost savings target of €400 million over the 2021-2025 period. The Group's competitiveness will be strengthened through transversal sources of savings that rely on the continuous improvement of production processes through the deployment of Industry 4.0, the intensification of lean initiatives and data analysis, as well as through the reduction of purchasing costs, and regional initiatives in North America, Europe and Brazil.

Increased 2021 outlook

- On April 30, 2021, after completing the periodic business outlook review of its activities, Vallourec announced it now targeted for 2021 a €350 to €400 million EBITDA (versus €250 to €300 million previously targeted) and a (€340) to (€260) million free cash flow (versus (€380) to (€300) million previously targeted). This stemmed from better perspectives on some of the markets where the Group operates, with in particular higher expected volumes and sales prices for OCTG in North America, and a higher contribution from the iron ore mine in Brazil.

Innovation and R&D

- On April 2021, Vallourec announced a worldwide premiere in the manufacturing of offshore equipment: a 3D-printed safety-critical component in the North Sea was delivered to TotalEnergies.

Transactions with related parties

Transactions carried out with equity affiliates in H1 2021 relate mainly to purchases of steel rods from HKM for an amount of €135 million used for the production from rolling mills in the Group European activities.

The Group concluded agreements with Bpifrance Participations and Nippon Steel Corporation, Vallourec reference shareholders until June 30th 2021. These agreements reflect their support to the Group financial restructuring. In accordance with article L. 225-86 of the commercial Code, these support agreements had been previously approved by the Vallourec Supervisory Board. Accordingly, Nippon Steel Corporation (which held 14.6% of the share capital and 14.9% of Vallourec voting rights) and Bpifrance Participations (which held 14.6% of the share capital and 14.8% of the Group voting rights) undertook to subscribe to the rights issue of €300 million with preferential subscription rights completed in June 2021, for respectively c. €35 million and c. €20 million.

Main risks and uncertainties for 2021

Vallourec does not expect any change to its risks, as set out in Chapter 5, Section 5.1 "Risk factors" of the 2020 Universal Registration Document (Document d'enregistrement universel) filed with the Autorité des Marchés Financiers (the French securities regulator) on 29 March 2021, under filing number n° D.21-0226 and the amendment to the Universal Registration Document filed with the AMF on June 2, 2021 under filing number n° D.21-0226-A01.

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	First-half 2020	First-half 2021	Change
Revenue	**1,696**	**1,544**	-9.0%
Cost of sales [a]	(1,399)	(1,133)	-19.0%
Industrial Margin	**297**	**411**	38.4%
(as a % of revenue)	*17.5%*	*26.6%*	*+9.1p.p.*
Sales, general and administrative costs	(173)	(158)	-8.7%
Other	(13)	(25)	na
EBITDA	**111**	**228**	+€117m
(as a % of revenue)	*6.5%*	*14.8%*	*+8.3p.p.*
Depreciation of industrial assets	(111)	(78)	-29.7%
Amortization and other depreciation	(27)	(22)	na
Impairment of assets	(441)	-	na
Asset disposals, restructuring costs and non-recurring items	(46)	99	na
Operating income (loss)	**(514)**	**227**	+€741m
Financial income/(loss)	(115)	(175)	52.2%
Pre-tax income (loss)	**(629)**	**52**	+€681m
Income tax	(30)	(100)	na
Share in net income/(loss) of equity affiliates	(1)	(3)	na
Net income	**(660)**	**(51)**	+€609m
Attributable to non-controlling interests	(93)	(9)	na
Net income, Group Share	**(567)**	**(42)**	**+€525m**

[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	2020	2021	Change
Q1	450	358	-20.4%
Q2	422	381	-9.7%
Total	**872**	**739**	**-15.3%**

In the first half of 2021, volumes decreased by 15% compared with the first half of 2020, mainly driven by Oil & Gas in EA-MEA and North America.

Revenue

CONSOLIDATED REVENUE

Over the first half 2021, revenue totaled €1,544 million, down 9% versus the first half 2020 (+0.4% at constant exchange rate). Volume effect was -15% mainly due to Oil & Gas in EA-MEA and North America, price/mix effect +16% and currency conversion effect -9%.

Revenue by geography

In € million	First-half 2020	As % of revenue	First-half 2021	As % of revenue	Change	At constant exchange rates [a]
France	31	1.9%	51	3.3%	63.8%	63.9%
Germany	115	6.8%	99	6.4%	-13.9%	-13.9%
Other EU Countries [b]	119	7.0%	97	6.3%	-19.4%	-19.5%
Total Europe	**266**	**15.7%**	**247**	**16.0%**	**-7.2%**	**-7.2%**
North America (Nafta)	**482**	**28.4%**	**309**	**20.0%**	**-35.8%**	**-30.3%**
Brazil	313	18.5%	501	32.5%	60.1%	91.6%
Other Central & South America	10	0.6%	8	0.5%	-24.7%	-13.3%
Total South America	**323**	**19.1%**	**509**	**33.0%**	**57.4%**	**88.4%**
China	121	7.1%	76	4.9%	-37.2%	-36.7%
Other Asia and Middle East	346	20.4%	295	19.1%	-14.9%	-6.2%
Total Asia and Middle East	**467**	**27.5%**	**371**	**24.0%**	**-20.6%**	**-14.1%**
CIS	19	1.1%	10	0.7%	-44.3%	-38.8%
Rest of the world	140	8.2%	98	6.3%	-29.5%	-28.8%
Total Rest of the world	**158**	**9.3%**	**108**	**7.0%**	**-31.3%**	**-30.0%**
Total	**1,696**	**100%**	**1,544**	**100%**	**-9.0%**	**0.4%**

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

[b] Other European Union countries, excluding Germany and France.

Revenue by market

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	First-half 2020	As % of revenue	First-half 2021	As % of revenue	Change	At constant exchange rates [a]
Oil & Gas	1,070	63.1%	801	51.9%	-25.2%	-18.4%
Petrochemicals	128	7.5%	86	5.6%	-32.6%	-26.4%
Oil & Gas, Petrochemicals	**1,198**	**70.6%**	**887**	**57.5%**	**-26.0%**	**-19.3%**
Mechanicals	153	9.0%	206	13.4%	34.4%	41.5%
Automotive	27	1.6%	40	2.6%	48.1%	68.3%
Construction & Other	212	12.5%	343	22.2%	61.4%	90.4%
Industry & Other (b)	**393**	**23.2%**	**589**	**38.1%**	**49.9%**	**69.8%**
Power Generation	**105**	**6.2%**	**68**	**4.4%**	**-35.2%**	**-33.8%**
Total	**1,696**	**100%**	**1,544**	**100%**	**-9.0%**	**+0.4%**

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

[b] Including sales of iron ore.

OIL & GAS, PETROCHEMICALS (58% OF H1 2021 CONSOLIDATED REVENUE)

Over the first half 2021, Oil & Gas revenue totaled €801 million, a (€269) million decrease or -25% year-on-year (-18% at constant exchange rates), mainly due to EA-MEA and North America.

In Q2 2021, Oil & Gas revenue reached €438 million, a 15% decrease year-on-year (-10% at constant exchange rates).

- **In North America**, Oil & Gas revenue remained stable over the quarter year-on-year and started to pick-up at the end of the quarter
- **In EA-MEA,** Oil & Gas revenue decreased, reflecting lower shipments as well as an unfavorable price/mix
- **In South America**, Oil & Gas revenue increased, reflecting a better price/mix, despite an unfavorable currency conversion effect.

Over the first half 2021, Petrochemicals revenue totaled €86 million, down 33% year-on-year (-26% at constant exchange rates).

In Q2 2021, Petrochemicals revenue was €40 million, down 40% year-on-year (-37% at constant exchange rates) notably due to lower deliveries in North America and to a lesser extent in EA-MEA.

INDUSTRY & OTHER (38% OF H1 2021 CONSOLIDATED REVENUE)

Over the first half 2021, Industry & Other revenue totaled €589 million, up 50% year-on-year (+70% at constant exchange rates) as a result of a higher contribution from the iron ore mine and higher deliveries in South America and in Europe, despite an unfavorable conversion currency effect.

Industry & Other revenue amounted to €333 million in Q2 2021, a €133 million increase or 66% year-on-year (+78% at constant exchange rates):

- **In Europe**, Industry revenue was up reflecting higher volumes
- **In South America**, Industry & Other revenue was up on account of higher revenue from the iron ore mine, reflecting both higher prices and volumes which reached 2.3Mt (up 23% versus Q2 2020), as well as of higher sales in the Industry markets driven by increased volumes and prices, despite an unfavorable currency conversion effect.

POWER GENERATION (4% OF H1 2021 CONSOLIDATED REVENUE)

For the first half 2021, revenue totaled €68 million, down 35% year-on-year (-34% at constant exchange rates).

Power Generation revenue amounted to €31 million in Q2 2021, down 46% year-on-year (-46% at constant exchange rates), reflecting the closure of the Reisholz facility mid-2020 and the disposal of Valinox Nucléaire SAS on May 31st 2021.

Revenue by quarter

In € million	1st quarter	2nd quarter	First-half
2020	853	843	1,696
2021	702	842	1,544
% change year-on-year			
Volume effect	-20%	-10%	-15%
Forex translation effect	-13%	-6%	-9%
Other effects (price, mix, etc.)	15%	16%	16%

Q2 2021 revenue of €842 million stable compared with Q2 2020, with a volume impact of -10%, a positive price/mix effect of +16%, and a currency conversion effect of -6%. At constant exchange rates, revenue increased by 6%.

EBITDA

In H1 2021, EBITDA reached €228 million, a €117 million increase year-on-year, at 14.8% of revenue.

In Q2 2021, EBITDA reached €148 million (compared with €43 million in Q2 2020), EBITDA margin at 17.6% of revenue.

The following table shows the changes in the principal components of EBITDA in H1 2020 and H1 2021.

In € million	First-half 2020	First-half 2021	Change
Revenue	**1,696**	**1,544**	-9.0%
Cost of sales [(a)]	(1,399)	(1,133)	-19.0%
Industrial Margin	**297**	**411**	38.4%
(as a % of revenue)	*17.5%*	*26.6%*	*+9.1p.p.*
Sales, general and administrative costs [(a)]	(173)	(158)	-8.7%
Other	(13)	(25)	na
EBITDA	**111**	**228**	**+€117m**

[(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 €411 million, up €114 million compared with H1 2020, reflecting a higher contribution of the mine in volumes and prices, higher activity for the Industry market in Brazil and for Oil & Gas in North America, the recognition of Nippon Steel Corporation payment of its residual fixed costs coverage obligation to VSB, along with savings more than offsetting lower activity in O&G in EA-MEA.

The following table shows the breakdown of cost of sales (excluding depreciation) in H1 2020 and H1 2021.

In € million	First-half 2020	First-half 2021	Change
Direct Cost of Sales	(108)	(72)	-33,3%
Cost of raw materials consumed	(517)	(502)	-2,9%
Labor costs	(336)	(271)	-19,3%
Other manufacturing costs [(a)]	(404)	(344)	-14,9%
Change in non-raw materials inventories	(34)	56	na
Total	**(1,399)**	**(1,133)**	**-19,0%**

[(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) down 9% at €158 million, reflecting our adaptation measures, and representing 10.2% of revenue.

The following table shows the breakdown of SG&A expenses (excluding depreciation) in H1 2020 and in H1 2021.

In € million	First-half 2020	First-half 2021	Change
Research and Development expenses	(21)	(18)	-14,3%
Selling and marketing costs	(35)	(30)	-14,3%
General and administrative expenses	(117)	(110)	-6,0%
Total	**(173)**	**(158)**	**-8,7%**

Personnel expenses

Personnel expenses amounted to €377 million in H1 2021.

The following table shows the breakdown of personnel costs.

	First-half 2020	First-half 2021	Change
Wages and salaries	(329)	(291)	-11.6%
Employee profit-sharing and bonuses	(10)	(18)	80.0%
Expenses related to share subscription and share purchase options and performance shares	(2)	(2)	-
Social security costs	(80)	(67)	-16.3%
Total	**(421)**	**(377)**	**-10.5%**

Closing headcount of consolidated companies	First-half 2020	12/31/2020	First-half 2021	Variation
Managers	3,018	2,902	2,600	- 302
Technical and supervisory staff	2,532	2,303	2,446	+ 143
Production staff	11,851	10,757	10,630	- 127
Total	**17,401**	**15,962**	**15,676**	**- 286**

Operating profit/(loss)

In H1 2020, operating income was positive at €227 million comparing to a loss of (€514) million in H1 2020 (which was negatively impacted by impairment charges for €441 million and by €46 million of restructuring costs), resulting from the improvement in EBITDA and the positive effects from the sale of Reisholz buildings and land as well as from the favorable Brazilian Supreme Court decision on PIS/COFINS tax claim.

Financial income/(loss)

Financial income was negative at (€175) million, compared to (€115) million in H1 2020. Net interest expenses amounted to €103 million versus €99 million in H1 2020. Other financial charges of €72 million, compared with €16 million in H1 2020, included notably the positive effects of the PIS/COFINS tax litigation in Brazil for €27 million and the actualization of the DBOT leasing debt for €24 million resulting from exercising the repurchase option, more than offset by (€64) million cost of exercising the option of DBOT repurchase as well as the net impact of the financial restructuring for (€40) million (breaking down into (€55) million of restructuring fees, the accelerated amortization of bonds costs for (€14) million and a €29 million non-cash gain on the equity and debt initial valuations, in application of IFRS standards following the financial restructuring).

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

In € million	First-half 2020	First-half 2021	Change
Financial income	3	2	-33.3%
Interest expenses	(102)	(105)	2.9%
Net interest expenses	**(99)**	**(103)**	4.0%
Other financial income and expenses	**1**	**(42)**	-
Financial Restructuring costs	**-**	**(40)**	-
Interest expenses on leases	**(15)**	**(13)**	-13.3%
Other discounting expenses	**(2)**	**22**	-
Financial income/(loss)	**(115)**	**(175)**	**52.2%**

Income tax expense

Income tax amounted to (€100) million mainly related to Brazil.

Net income/(loss)

The share attributable to non-controlling interests amounted to €9 million in H1 2021, compared to €93 million in H1 2020.

As a result, net income, Group share, amounted to (€42) million, compared to (€567) million in H1 2020.

Liquidity and capital resources

Cash flow

Simplified statement of cash flows

In € million	First-half 2020	First-half 2021
Cash flow from operating activities	(96)	(2)
Change in Operating Working Capital Requirements under the cash flow statement	(99)	(139)
Net cash flow from operating activities (1)	(195)	(141)
Net cash from (used in) investing activities (2)	(62)	37
Cash flow from financing activities (3)	(55)	(109)
Effect of changes in exchange rates (4)	(62)	13
Change in Cash (1+2+3+4)	**(374)**	**(199)**

CASH FLOW FROM OPERATING ACTIVITIES

In H1 2021, cash flow from operating activities was negative at (€2) million compared to (€96) million in H1 2020, mainly due to the higher EBITDA. It included debt restructuring fees (€55 million) and adaptation measures (€21 million).

NET CASH FLOW FROM OPERATING ACTIVITIES

Net cash flow from operating activities was negative at (€141) million for the six months ended 30 June 2021, a deterioration of (€54) million compared with (€195) million in H1 2020.

In H1 2021, operating working capital requirement increased by (€139) million versus an increase of (€99) million in H1 2020.

NET CASH FLOW FROM INVESTING ACTIVITIES

Net cash flow used in investing activities was €37 million in H1 2021, as compared with (€62) million in H1 2020.

NET CASH FLOW FROM FINANCING ACTIVITIES

Net cash flow from financing activities totaled (€109) million for H1 2021, as compared with (€55) million in H1 2020.

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

The capital expenditures in H1 2021 totaled (€56) million, a decrease of €7 million versus H1 2020 that stood at (€63) million. The investments completed during H1 2021 aimed at improving efficiency of existing assets notably located in Brazil and North America.

In € million	First-half 2020	First-half 2021
Europe	(17.0)	(6.5)
North America	(11.5)	(10.6)
Central & South America [a]	(24.0)	(27.4)
Asia	(4.5)	(2.6)
Other	(0.1)	(0.2)
TOTAL INDUSTRIAL CAPITAL EXPENDITURE [b]	**(57.2)**	**(47.3)**
Capital expenditure payments during the fiscal year	(63.1)	(56.1)

[a] *Including €3 million in biological assets as of June 2020 and €2.7 million as of June 2021*

[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.*

Free cash flow

Free cash flow is defined as net cash flow from operating activities minus gross capital expenditures.

Free cash flow for H1 2021 was negative at (€197) million, an improvement of €61 million compared with (€258) million in H1 2020.

In Q2 2021, free cash flow was negative at (€135) million versus (€77) million in Q2 2020.

The following table shows the calculation of free cash flow in H1 2020 and H1 2021.

In € million	First-half 2020	First-half 2021	Change
Cash flow from operating activities (A)	(96)	(2)	+€94m
Change in operating WCR [+ decrease, (increase)] (B)	(99)	(139)	-€40m
Gross capital expenditure (C)	(63)	(56)	+€7m
Free cash flow (A)+(B)+(C)	**(258)**	**(197)**	**+€61m**

Liquidity and Indebtedness

On June 30th 2021, Vallourec SA finalized its financial restructuring, reducing the Group's debt by €1.7 billion further to the completion of the following final steps in the safeguard plan approved by the Nanterre Commercial Court on May 19th 2021:

- a €1,331 million debt-for-equity swap by way of a capital increase without shareholders' preferential subscription rights reserved for the converting creditors, for a gross amount (including issue premiums) of €1,331 million, through the issue of 164,523,927 new shares subscribed by the converting creditors (at a price of €8.09 per share, including issue premiums) by way of set-off against a portion of their claims in respect of the Company's bonds and revolving credit facilities;
- the issue of 30,342,337 share subscription warrants reserved for the commercial banks, subscribed by way of set-off against a portion of their claims in respect of the Company's revolving credit facilities for an amount of €0.3 million;
- a debt write-off granted by the commercial banks in the amount of €169 million;
- the issue of new bonds for a nominal aggregate amount of €1,023 million, subscribed by the converting creditors by way of set-off against a portion of their claims in respect of the Company's bonds and revolving credit facilities;
- the arrangement by the commercial banks of a €462 million revolving credit facility;
- the arrangement by the commercial banks of a State-guaranteed loan (*prêt garanti par l'Etat*) for an aggregate amount of €262 million, and
- the repayment in cash of a portion of the receivables in respect of the Company's bonds and revolving credit facilities for €562 million, financed in particular by the proceeds from the rights issue with preferential subscription rights for a gross aggregate amount (including issue premiums) of €300 million through the issue of 52,954,807 new shares (at a price of €5.66 per share, including issue premiums) subscribed in cash by holders of the Company's preferential subscription rights.

In addition, the commercial banks arranged bonding lines on behalf of Vallourec Tubes and certain subsidiaries, for a total amount €178 million over a period of five years.

Further to these transactions, the former bonds and revolving credit facilities were canceled, and the outstanding bonds were delisted from their respective markets.

Cash as at June 30th 2021 amounted to €1,189 million.

As at June 30th 2021, net debt stood at €720 million, compared with €2,214 million on December 31st 2020.

As at June 30th 2021, gross debt amounted to €1,909 million including €101 million of fair value adjustment under IFRS 9 (which will be reversed over the life of the debt). Long-term debt amounted to €1,398 million and short-term debt totaled €511 million (including €462 million drawing on the revolving credit facility, which will be reimbursed at end of July). The new RCF will be unsecured and will be treated pari passu with the State-guaranteed loans and the new bonds.

The Group's financial resources are composed of 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 and China. Market financing is arranged exclusively by Vallourec.

As at June 30th 2021, lease debt stood at €75 million, compared with €108 million on December 31st 2020.

The following table shows the Group's principal financial indebtedness as at June 30th 2021.

in € million	As at 30 June 2021
Bond issue – maturing in June 2026	1,178
PGE	208
RCF drawing	462
ACC/ACE (Brazil)	46
Other	15
TOTAL GROSS FINANCIAL INDEBTEDNESS	**1,909**

The €462 million RCF includes a covenant stipulating that Vallourec's gearing ratio (consolidated net debt to equity) must not exceed 100%. The gearing ratio is the calculated as the ratio of consolidated net debt (including lease liabilities) to consolidated equity, restated for gains and losses on derivatives and foreign currency translation differences (exchange differences on translating net assets of consolidated foreign subsidiaries).

The covenant will be tested on a trailing 12-month basis on December 31 of each year, with the first test scheduled for end-2023. A breach of the covenant could trigger the mandatory early repayment of the credit facility and redemption of the bond.

The credit facility, State-guaranteed loans and bond also include change-of-control (in favor of a person or a concert party) and cross-default clauses, which in certain circumstances could trigger mandatory early repayment or redemption.

Equity

The Group's equity, Group share, totaled €1,602 million as at June 30th 2021, an increase of €1,789 million compared with (€187) million as at December 31st 2020.

With the completion of the financial restructuring, the value of the equity increased by €1,607 million breaking down into €1,257 million coming from the capital increase reserved to creditors reevaluated at closing share price, €300 million from the capital increase with Preferential Subscription Rights, €59 million coming from BSA at fair market value and (€9) million fees related to the capital increase.

Outlook for 2021

Oil & Gas

In North America, the OCTG market is confirming its progressive improvement driven by the continuous increase in the active rig count.

In EA-MEA, the activity remains impacted by the low order intake in 2020 resulting from delayed or canceled projects due to the pandemic. The sharp decline in deliveries will negatively impact revenue and margin. Nevertheless, tendering activity has started to resume in 2021 and should positively impact 2022.

In Brazil, Oil & Gas deliveries are expected to increase compared with 2020 while costs are impacted by high inflation.

Industry & Other

In Europe, the ongoing economic recovery should continue having a positive impact on volumes and to a lesser extent on prices.

In Brazil, the overall level of activity is expected to continue increasing strongly.

A higher contribution is expected from the iron ore mine, although prices are expected, as per consensus, to gradually decrease along the balance of the year.

Cost savings

Cost saving initiatives will enable the Group to continue lowering its cost base.

A strict cash control will be maintained, and the capex envelope is kept at c.€160 million.

Based on these perspectives, Vallourec has released on July 21st an upgraded outlook for full year 2021:

- **€475 to €525 million targeted EBITDA**
- **(€240) to (€160) million targeted free cash flow**

3

Vallourec Group interim condensed consolidated financial statements for the six months ended June 30, 2021

3.1 Vallourec Group consolidated income statement

In € thousands	Notes	First-half 2020	First-half 2021
Revenue	*3.1*	**1,695,528**	**1,543,635**
Cost of sales[(a)]		(1,398,149)	(1,133,289)
Selling, general and administrative expenses[(a)]		(173,366)	(158,265)
Other		(12,739)	(23,661)
EBITDA	*3.2*	**111,274**	**228,420**
Depreciation and amortization	*3.3*	(138,449)	(100,166)
Impairment of assets and goodwill	*3.4*	(440,967)	-
Asset disposals, restructuring costs and non-recurring items	*3.5*	(45,769)	99,024
Operating income (loss)		**(513,911)**	**227,278**
Interest income	*8.1.2*	3,490	2,176
Interest expense	*8.1.2*	(101,666)	(104,695)
Net interest expense	***8.1.2***	**(98,176)**	**(102,519)**
Other financial income and expenses	*8.1.2*	(16,769)	(32,491)
Net expense attributable to financial restructuring	*2.1 & 8.1.2*	-	(40,248)
Financial income (loss)	*8.1.2*	**(114,945)**	**(175,258)**
Pre-tax income (loss)		**(628,856)**	**52,020**
Income tax		(30,276)	(99,956)
Share in net income (loss) of equity-accounted companies		(1,019)	(3,010)
Net income (loss) from continuing operations		**(660,151)**	**(50,946)**
Net income from assets held for sale		**-**	**-**
Consolidated net income (loss)		**(660,151)**	**(50,946)**
Attributable to non-controlling interests		(92,930)	(8,655)
Group share		**(567,221)**	**(42,291)**
Earnings per share	*7.4*	(49.6)	(3.3)
Diluted earnings per share	*7.4*	(49.6)	(3.3)

[(a)] *Before depreciation and amortization*

3.2 Statement of comprehensive income

In € thousands	First-half 2020	First-half 2021
Consolidated net income (loss)	**(660,151)**	**(50,946)**
Other comprehensive income (loss)	-	-
Actuarial gains and losses on post-employment benefits	(5,845)	23,565
Tax attributable to actuarial gains and losses on post-employment benefits	(270)	(1,497)
Items that will not be reclassified to profit or loss	**(6,115)**	**22,068**
Translation differences on translating net assets of foreign operations	(359,769)	138,236
Change in fair value of hedging instruments	(13,389)	(17,360)
Tax attributable to the change in fair value of hedging instruments	5,191	(442)
Items that may be reclassified subsequently to profit or loss	**(367,967)**	**120,434**
Other comprehensive income (loss) (net of tax)	**(374,082)**	**142,502**
Total comprehensive income (loss)	**(1,034,233)**	**91,556**
Attributable to non-controlling interests	(126,555)	(635)
Group share	**(907,678)**	**92,191**

3.3 Statement of cash flows

In € thousands	Notes	First-half 2020	First-half 2021
Consolidated net income (loss)		**(660,151)**	**(50,946)**
Net additions to depreciation, amortization and provisions	3.6	584,133	95,466
Unrealized gains and losses on changes in fair value		(2,784)	(30,089)
Capital gains and losses on disposals		1,361	(78,123)
Share in income (loss) of equity-accounted companies		1,020	3,009
Other cash flows from operating activities		(355)	(171)
Cash flow used in operating activities after cost of net debt and taxes		**(76,776)**	**(60,854)**
Cost of net debt		98,176	102,519
Tax expense (including deferred taxes)		30,276	99,956
Accelerated amortization of finance costs	2.1	-	14,334
Net expense attributable to financial restructuring	2.1	-	(29,301)
Cash flow from operating activities before cost of net debt and taxes		**51,676**	**126,654**
Interest paid		(101,666)	(63,462)
Tax paid		(49,942)	(67,680)
Interest received		3,488	2,102
Cash flow used in operating activities		**(96,444)**	**(2,386)**
Change in operating working capital in the statement of cash flows	3.7	(98,881)	(139,043)
Net cash flow from operating activities (1)		**(195,325)**	**(141,429)**
Acquisitions of property, plant and equipment and intangible assets	5.3	(63,095)	(56,068)
Disposals of property, plant and equipment and intangible assets	3.5	896	84,082
Impact of acquisitions (changes in consolidation scope)		-	(2,800)
Impact of disposals (changes in consolidation scope)		41	11,694
Net cash of subsidiaries acquired/sold (changes in consolidation scope)		-	266
Other cash flows from investing activities		616	177
Net cash from (used in) investing activities (2)		**(61,542)**	**37,351**
Repayment of shareholder loan		-	(9,066)
Increases/decreases in equity attributable to owners		-	284,244
Dividends paid to non-controlling interests		-	(752)
Movements in treasury shares		(89)	(475)
Proceeds from new borrowings	*8.1.3*	2,653,308	5,190
Repayments of borrowings	*8.1.3*	(2,690,337)	(362,443)
Repayment of lease liabilities		(15,547)	(13,427)
Other cash flows used in financing activities		(1,879)	(11,978)
Net cash used in financing activities (3)		**(54,544)**	**(108,707)**
Impact of changes in exchange rates (4)		(62,591)	13,435
Impact of reclassification to assets held for sale and discontinued operations (5)		-	(15)
Change in net cash (1 + 2 + 3 + 4 + 5)		**(374,002)**	**(199,365)**
Opening net cash		**1,793,635**	**1,386,418**
Closing net cash		**1,419,633**	**1,187,053**
Change		**(374,002)**	**(199,365)**

The statement of cash flows has been prepared on the basis of cash and equivalents as set out in Note 8.1, net of overdrafts and other current bank overdrafts with an initial maturity of less than three months.

Reconciliation of net cash in the statements of cash flows and financial position – June 30, 2021

In € thousands	*Notes*	**Dec. 31, 2020**	**Change**	**June 30, 2021**
Cash and cash equivalents (1)	8.1	1,389,533	(200,259)	1,189,274
Current bank overdrafts (2)	8.1	3,115	(894)	2,221
Net cash (3) = (1) - (2)		**1,386,418**	**(199,365)**	**1,187,053**

Reconciliation of net cash in the statements of cash flows and financial position – June 30, 2020

In € thousands	**Dec. 31, 2019**	**Change**	**June 30, 2020**
Cash and cash equivalents (1)	1,793,843	(373,434)	1,420,409
Current bank overdrafts (2)	208	568	776
Net cash (3) = (1) - (2)	**1,793,635**	**(374,002)**	**1,419,633**

3.4 Vallourec Group statement of financial position

In € thousands	Notes	Dec. 31, 2020	June 30, 2021
Non-current assets			
Net intangible assets	*5.1*	49,515	43,919
Goodwill	*5.1*	24,815	26,551
Net property, plant and equipment		1,718,259	1,747,528
Biological assets		30,236	38,968
Investments in equity-accounted companies		41,912	39,606
Other non-current financial assets	*8.3*	54,033	62,927
Other non-current assets		74,733	77,031
Deferred taxes		186,571	205,308
Total non-current assets		**2,180,074**	**2,241,838**
Current assets			
Inventories	*3.7*	663,891	870,093
Trade and other receivables	*3.7*	467,580	587,929
Other current financial assets		45,283	29,927
Other current assets		195,404	238,976
Cash and cash equivalents		1,389,533	1,189,274
Total current assets		**2,761,691**	**2,916,199**
Assets held for sale and discontinued operations	*11*	106,523	42,047
Total assets		**5,048,288**	**5,200,084**
Equity			
Equity attributable to owners of the parent	*7*	(187,100)	1,601,690
Non-controlling interests		320,777	231,296
Total equity		**133,677**	**1,832,986**
Shareholder loan		**8,613**	**-**
Non-current liabilities			
Loans and other borrowings	*8.1*	1,750,527	1,397,828
Employee benefits	*9*	202,635	169,961
Long-term provisions	*10*	110,328	135,873
Deferred taxes		19,914	16,117
Other non-current financial liabilities	*8.2*	83,638	57,553
Other non-current liabilities	*8.1.2*	32,057	65,782
Total non-current liabilities		**2,199,099**	**1,843,114**
Current liabilities			
Overdrafts and other current bank overdrafts	*8.1*	1,852,984	511,241
Short-term provisions	*10*	104,272	68,037
Trade payables	*3.7*	426,097	530,162
Other current financial liabilities	*8.2*	45,339	32,846
Other current liabilities		241,370	373,746
Total current liabilities		**2,670,062**	**1,516,032**
Liabilities held for sale and discontinued operations	*11*	36,837	7,952
Total equity and liabilities		**5,048,288**	**5,200,084**

3.5 Statement of changes in equity

	Share capital	Additional paid-in capital	Consolidated reserves	Foreign currency translation reserve	Revaluation reserve, net of tax	Treasury shares	Net income (loss) for the period	Equity attributable to owners of the parent	Non-controlling interests	Total equity
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)
Net income (loss) for first-half 2020	-	-	-	-	-	-	(567,221)	(567,221)	(92,930)	(660,151)
Total comprehensive income (loss)	-	-	(5,268)	(328,354)	(6,835)	-	(567,221)	(907,678)	(126,555)	(1,034,233)
Appropriation of 2019 net income (loss)	-	-	(337,549)	-	-	-	337,549	-	-	-
Change in treasury shares	-	-	(1,202)	-	-	1,113	-	(89)	-	(89)
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**
Position as at December 31, 2020	**229**	**2,333,644**	**(225,915)**	**(1,111,512)**	**22,629**	**(44)**	**(1,206,131)**	**(187,100)**	**320,777**	**133,677**
Change in foreign currency translation reserve	-	-	-	130,835	-	-	-	130,835	7,401	138,236
Financial instruments	-	-	-	-	(17,665)	-	-	(17,665)	(137)	(17,802)
Actuarial gains and losses on retirement commitments	-	-	21,312	-	-	-	-	21,312	756	22,068
Other comprehensive income (loss)	-	-	21,312	130,835	(17,665)	-	-	134,482	8,020	142,502
Net income (loss) for first-half 2021	-	-	-	-	-	-	(42,291)	(42,291)	(8,655)	(50,946)
Total comprehensive income (loss)	-	-	21,312	130,835	(17,665)	-	(42,291)	92,191	(635)	91,556
Appropriation of 2020 net income (loss)	-	-	(1,206,131)	-	-	-	1,206,131	-	-	-
Rights issue with preferential subscription rights (52,954,807 shares at €5.66)	1,059	298,665	-	-	-	-	-	299,724	-	299,724
Capital increase reserved for creditors (164,523,927 shares at €8.09)	3,291	1,327,708	-	-	-	-	-	1,330,999	-	1,330,999
Fair value of gross debt	-	-	(74,034)	-	-	-	-	(74,034)	-	(74,034)
Issuance of share subscription warrants	-	303	58,607	-	-	-	-	58,910	-	58,910
Change in treasury shares	-	-	(202)	-	-	(273)	-	(475)	-	(475)
Share-based payments	-	-	1,773	-	-	-	-	1,773	-	1,773
Changes in consolidation scope and other (*)	-	(8,791)	88,533	(82)	43	-	-	79,703	(88,846)	(9,143)
Position as at June 30, 2021	**4,579**	**3,951,529**	**(1,336,058)**	**(980,759)**	**5,007**	**(317)**	**(42,291)**	**1,601,690**	**231,296**	**1,832,986**

(*) "Changes in consolidation scope and other " in first-half 2021 mainly correspond to the acquisition of non-controlling interests in Brazilian subsidiary VSB, as well as costs incurred in connection with the rights issue with preferential subscription rights, deducted from issue premiums.

3.6 Statement of changes in non-controlling interests

In € thousands	Consolidated reserves	Foreign currency translation reserve	Revaluation reserve, net of tax	Net income (loss) for the period	Non-controlling interests
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)
Net income (loss) for first-half 2020	-	-	-	(92,930)	(92,930)
Total comprehensive income (loss)	(847)	(31,415)	(1,363)	(92,930)	(126,555)
Appropriation of 2019 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**
Position as at December 31, 2020	**475,155**	**(33,005)**	**893**	**(122,266)**	**320,777**
Change in foreign currency translation reserve	-	7,401	-	-	7,401
Financial instruments	-	-	(137)	-	(137)
Actuarial gains and losses on retirement commitments	756	-	-	-	756
Other comprehensive income (loss)	756	7,401	(137)	-	8,020
Net income (loss) for first-half 2021	-	-	-	(8,655)	(8,655)
Total comprehensive income (loss)	756	7,401	(137)	(8,655)	(635)
Appropriation of 2020 net income (loss)	(122,266)	-	-	122,266	-
Dividends paid	-	-	-	-	-
Changes in consolidation scope and other	(159,230)	70,473	(89)	-	(88,846)
Position as at June 30, 2021	**194,415**	**44,869**	**667**	**(8,655)**	**231,296**

Notes to the interim condensed consolidated financial statements for the six months ended June 30, 2021

All amounts are expressed in thousands of euros (€ thousands) unless otherwise stated.

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

1.1. Accounting standards

The interim condensed consolidated financial statements for the six months ended June 30, 2021 together with the explanatory notes were approved for issue by the Board of Directors of Vallourec on July 27, 2021.

In application of Regulation No. 1606/2002 of the European Commission, which was adopted on July 19, 2002 for all listed companies in the European Union, the interim condensed consolidated financial statements for the six months ended June 30, 2021 were prepared in accordance with 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 to prepare the 2020 consolidated financial statements, with the exception of any changes made pursuant to the application of the new standards and amendments mandatory for financial periods beginning on or after January 1, 2021.

The interim consolidated financial statements were prepared in accordance with IAS 34 "Interim Financial Information". They therefore do not include all of the information required for a complete set of annual financial statements. Accordingly, they should be read in conjunction with the consolidated financial statements for the year ended December 31, 2020.

The purpose of interim financial statements is to update shareholders and investors with relevant information about the significant events and transactions of the period in a selection of explanatory notes explaining the significant changes in the statement of financial position between December 31, 2020 and June 30, 2021, as well as the main transactions contributing to the Group's results for first-half 2021. The interim financial statements do not comprise all of the information required for a complete set of annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2020, filed with the French securities regulator (*Autorité des marchés financiers* – AMF) on March 20, 2020 (available on the corporate website at www.vallourec.com).

1.1.1. New mandatory standards

The new mandatory standards applicable to financial periods beginning on or after January 1, 2021 are as follows:

- Amendments to IAS 39, IFRS 7 and IFRS 9 "Interest Rate Benchmark Reform – Phase 2"
- Amendments to IAS 1 and IAS 8 "Definition of Material"

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

1.1.2. New standards not early adopted

The Group has not elected to early adopt any other standards or interpretations whose application is not mandatory for financial periods beginning on or after January 1, 2021.

1.2. Measurement basis and presentation of the consolidated financial statements

Estimates

The preparation of interim financial statements may be based to a greater extent on estimates rather than on annual financial data when determining the value of assets and liabilities and assessing positive and negative developments at the closing date, and income and expenses for the period.

The preparation of IFRS consolidated financial statements requires Vallourec's management to use estimates and assumptions that affect the carrying amounts of certain assets and liabilities, income and expenses, as well as certain information in the explanatory notes. The main estimates and assumptions are identical to those described in the notes to the consolidated financial statements for the year ended December 31, 2020. These assumptions take into account the impacts of the completion of the financial restructuring and of the Covid-19 crisis, as described in Note 2.1.

The interim financial statements have been prepared according to the same accounting rules and methods as those used to prepare the annual consolidated financial statements, with the exception of any changes in methods during the period. However, in accordance with IAS 34, for interim financial statements, certain measurements, unless otherwise indicated, may be based more on estimates rather than on annual financial data.

The Group primarily reviewed the following estimates for the interim closing:

- the recoverable amount of property, plant and equipment, intangible assets and goodwill (see Note 5);
- provisions for disputes, onerous contracts and restructuring, and contingent liabilities (see Note 10);
- accounting treatment of the financial restructuring and determining the fair value of new debt and equity instruments (see Note 2.1);

- deferred tax assets recognized on tax loss carryforwards (see Note 4).

Judgment

In addition to the use of estimates, the Group's management uses judgment in determining the appropriate accounting treatment for certain activities and transactions, in particular when existing IFRSs and interpretations do not specifically address the accounting matters in question.

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

Translation of foreign currency

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

	USD	GBP	BRL	CNY
As at June 30, 2020				
Average rate	1.10	0.87	5.41	7.75
Closing rate	1.12	0.91	6.11	7.92
As at June 30, 2021				
Average rate	1.21	0.87	6.49	7.80
Closing rate	1.19	0.86	5.91	7.67

1.3. Features specific to the preparation of interim financial statements

Seasonality

The Group's business is subject to a seasonality effect, particularly as regards working capital days: working capital is generally highest in the first quarter and lowest in the fourth quarter.

Income tax

The current and deferred tax charge is calculated at interim closings for each tax entity by applying the estimated average effective annual tax rate for the current year to taxable income for the period, excluding material non-recurring items. Any material non-recurring items for the period are recognized using their actual tax charge.

Retirement benefits

The cost of retirement benefits for interim periods is determined using actuarial assessments conducted at the end of the previous financial period. These assessments may be adjusted to take account of any significant curtailments, settlements or other non-recurring events 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 plan assets and actual service costs for the period.

2. Key events during the period

2.1. Financial restructuring

On June 30, 2021, Vallourec SA finalized its financial restructuring, reducing the Group's debt by €1.7 billion further to the completion of the following final steps in the safeguard plan approved by the Nanterre Commercial Court on May 19, 2021:

- a €1,331 million debt-for-equity swap by way of a capital increase without shareholders' preferential subscription rights reserved for the converting creditors, for a gross amount (including issue premiums) of €1,331 million, through the issue of 164,523,927 new shares subscribed by the converting creditors (at a price of €8.09 per share, including issue premiums) by way of set-off against a portion of their claims in respect of the Company's bonds and revolving credit facilities;
- the issue of 30,342,337 share subscription warrants reserved for the commercial banks, subscribed by way of set-off against a portion of their claims in respect of the Company's revolving credit facilities for an amount of €0.3 million;
- a debt write-off granted by the commercial banks in the amount of €169 million;
- the issue of new bonds for a nominal aggregate amount of €1,023 million, subscribed by the converting creditors by way of set-off against a portion of their claims in respect of the Company's bonds and revolving credit facilities;
- the arrangement by the commercial banks of a €462 million revolving credit facility;
- the arrangement by the commercial banks of a State-guaranteed loans (*prêts garantis par l'Etat*) for an aggregate amount of €262 million, and
- the repayment in cash of a portion of the receivables in respect of the Company's bonds and revolving credit facilities for €562 million, financed in particular by the proceeds from the rights issue with preferential subscription rights for a gross aggregate amount (including issue premiums) of €300 million through the issue of 52,954,807 new shares (at a price of €5.66 per share, including issue premiums) subscribed in cash by holders of the Company's preferential subscription rights.

In addition, the commercial banks arranged bonding lines on behalf of Vallourec Tubes and certain subsidiaries, for a total amount €178 million over a period of five years.

Further to these transactions, the former bonds and revolving credit facilities were canceled and the outstanding bonds were delisted from their respective markets.

Impact on financial loss for the six months ended June 30, 2021

The Group considered that the conversion into equity instruments (capital increase, issue of share subscription warrants) and the arrangement of new debt instruments with different characteristics (State-guaranteed loans, new bond issue, new revolving credit facility) represented a single complex transaction with multiple components.

At June 30, 2021, the Group considered that the existing debt had been substantially modified within the meaning of IFRS 9 and in application of IFRIC 19, and should be derecognized. Accordingly, the existing debt was derecognized in full and the new debt and equity instruments put in place as part of the restructuring were recognized at fair value.

This complex transaction resulted in:

- the removal from the statement of financial position of the restructured components (bonds, bank drawdowns [bilateral credit lines/revolving credit facilities] and the corresponding accrued interest);

- the recognition of the various restructuring components:
  - capital increase reserved for the converting creditors,
  - rights issue with preferential subscription rights,
  - issue of share subscription warrants reserved for the commercial banks,
  - State-guaranteed loans,
  - issue of new bonds,
  - initial drawdown on the new revolving credit facility.

Accordingly, these new components were recognized at fair value. The amounts on initial recognition differ from the amounts presented in the safeguard plan.

The difference between the carrying amount of the extinguished bond debt and revolving credit facilities and the fair value of the new equity and debt instruments was recognized in financial loss ("Net expense attributable to financial restructuring") in accordance with the provisions of IFRS 9 and IFRIC 19 applicable to financial restructuring transactions.

The difference between the nominal amount of the State-guaranteed loans and its fair value represents a subsidy to be amortized over the term of the loans.

The costs incurred by the Company as part of these transactions were allocated either to the restructuring or to the new debt and equity instruments.

The overall expense attributable to the restructuring breaks down as follows:

(in € millions)	Amount
Rights issue subscribed in cash	(300)
Capital increase by way of set-off of receivables at fair value	(1,257)
New financing share subscription warrants issued at fair value	(59)
New debt instruments (initially recognized at fair value)	(1,902)
Extinguished debt (as per statement of financial position)	3,547
INCOME FROM THE RESTRUCTURING	**29**
Accelerated amortization of finance costs	(14)
Fees and transaction costs recorded in the income statement	(55)
NET EXPENSE ATTRIBUTABLE TO THE RESTRUCTURING	**(40)**

Fees and transaction costs totaling €64 million were recognized against the issue premium from the rights issue with preferential subscription rights (€9 million) and in financial loss (€55 million).

Impact on the financial position and net debt

Further to the financial restructuring, gross debt was reduced by €1.7 billion, breaking down as follows:

	Nominal amount	IFRS 9 impact	Carrying amount as at June 30, 2021	Non-current	Current
Gross debt before restructuring					
Accrued interest			(77)		(77)
Bonds	(1,755)		(1,755)		(1,755)
Revolving credit facility drawdowns	(1,712)		(1,712)		(1,712)
Total	(3,467)		(3,544)		(3,544)
Gross debt after restructuring					
New revolving credit facility	462		462		462
Bond issue – maturing in June 2026	1,023	155	1,178	1,178	
State-guaranteed loans	262	(54)	208	208	
Total	1,747	101	1,848	1,386	462
Change	**(1,720)**		**(1,696)**	**1,386**	**(3,082)**

Impacts on corporate governance

The Company's new governance structure entered into force on July 1, 2021, pursuant to the resolutions adopted by the Ordinary and Extraordinary Shareholders' Meeting on April 20, 2021. Accordingly:

- the Company's general management method has been modified to adopt a single-tier structure with a board of directors rather than the previous two-tier management board and supervisory board organization; and
- the terms of office of the members of the Supervisory Board and of the Management Board expired.

The Company's amended bylaws entered into force on July 1, 2021, notably eliminating double voting rights from that date onwards, and the internal regulations of the Board of Directors were published on the Company's corporate website.

The Company's new Board of Directors met for the first time on July 1, 2021. Further to the resignations and co-optations decided at that meeting, the membership of the Board of Directors is as follows:

- Edouard Guinotte;
- Gareth Turner, on the proposal of Apollo;
- Pierre Vareille, independent director, on the proposal of Apollo;
- William de Wulf, on the proposal of SVPGlobal;
- Corine de Bilbao, independent director;
- Maria Silvia, independent director;
- Hera Siu, independent director; and
- Angela Minas, independent director.

The employee director will be appointed at a later date, in accordance with the applicable laws and with the bylaws.

The Board of Directors elected to combine the functions of Chairman of the Board of Directors and Chief Executive Officer, and entrusted those duties to Edouard Guinotte. Pierre Vareille was appointed Vice-Chairman of the Board of Directors and Lead Independent Director, while Olivier Mallet was appointed Deputy Chief Executive Officer. In addition, Paul Marchand and Conor J. Sutherland, proposed by SVPGlobal and Apollo, respectively, were appointed as Observers (*censeurs*).

The membership of the Board's various committees is as follows:

- Audit Committee:
  - Angela Minas, Chair and independent director,
  - Hera Siu, independent director,
  - Maria Silvia Marques, independent director,
  - Corine de Bilbao, independent director,
  - Gareth Turner, and
  - William de Wulf.
- Nomination, Remuneration and Governance Committee:
  - Pierre Vareille, Chairman and independent director,

  - William de Wulf,
  - Angela Minas, independent director, and
  - Maria Silvia Marques, independent director.
- Strategic and Financial Committee:
  - Gareth Turner, Chairman,
  - William de Wulf, and
  - Corine de Bilbao, independent director.
- Corporate Social Responsibility (CSR) Committee:
  - Corine de Bilbao, Chair and independent director,
  - Angela Minas, independent director,
  - Hera Siu, independent director, and
  - Maria Silvia Marques, independent director.

2.2. Covid-19 crisis

The interim consolidated financial statements for the six months ended June 30, 2021 were prepared on the basis of the information available at that date in the evolving context of the Covid-19 crisis and taking into account the difficulties in assessing its impact and future prospects.

3. Operating activities

The Vallourec Group is a world leader in premium tubular solutions, primarily for 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 whose manufacturing requires significant technological and industrial expertise – in addition to related specialized services that provide customers with a comprehensive range of innovative solutions.

3.1. Segment information

The following tables provide information on the revenue and results of each operating segment for first-half 2021 and first-half 2020, as well as on assets, liabilities and capital expenditure at the reporting date.

Results, assets and liabilities by operating segment

POSITION AS AT JUNE 30, 2021	Seamless tubes	Specialty products	Holding companies and other	Inter-segment transactions	Total
INCOME STATEMENT					
Revenue (*)	1,531,434	11,398	803	-	1,543,635
EBITDA	247,306	(3,092)	(15,794)	-	228,420
Depreciation of industrial assets	(97,815)	-	(2,351)	-	(100,166)
Impairment of assets and goodwill	-	-	-	-	-
Asset disposals, restructuring costs and non-recurring items	99,708	7,016	(7,700)	-	99,024
Operating income (loss)	**249,199**	**3,924**	**(25,845)**	**-**	**227,278**
Unallocated income					2,176
Unallocated expenses					(177,434)
Pre-tax income (loss)					52,020
Income tax					(99,956)
Share in net income (loss) of equity-accounted companies					(3,010)
Consolidated net income (loss)					(50,946)
STATEMENT OF FINANCIAL POSITION					
Non-current assets	2,278,670	19,329	3,396,902	(3,453,063)	2,241,838
Current assets	1,700,468	8	75,128	(48,679)	1,726,925
Cash and cash equivalents	575,823	-	1,106,995	(493,544)	1,189,274
Assets held for sale and discontinued operations	11,165	30,882	-	-	42,047
TOTAL ASSETS	**4,566,126**	**50,219**	**4,579,025**	**(3,995,286)**	**5,200,084**
CASH FLOWS					
Investments in property, plant and equipment, intangible assets and biological assets	46,455	444	429	-	47,328

(*) Sales to external customers

POSITION AS AT JUNE 30, 2020	Seamless tubes	Specialty products	Holding companies and other	Inter-segment 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-accounted companies	-	-	-	-	(1,019)
Consolidated net income (loss)	-	-	-	-	(660,151)
STATEMENT OF FINANCIAL POSITION					
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
TOTAL ASSETS	**5,003,420**	**104,707**	**5,824,078**	**(4,904,311)**	**6,027,894**
CASH FLOWS					
Investments in property, plant and equipment, intangible assets and biological assets	(54,644)	(711)	(1,809)	-	(57,164)

(*) Sales to external customers

Geographic areas

The following tables provide information by geographic area on revenue (by location of customers) and capital expenditure as well as on assets (by location of assets).

First-half 2021	Europe	North America	South America	Asia	Rest of the World	Total
Revenue						
Sales to external customers	247,365	308,928	508,567	370,447	108,328	1,543,635
Statement of financial position						
Property, plant and equipment, intangible assets and biological assets (net)	203,956	887,118	668,744	96,438	710	1,856,966
Cash flows						
Investments in property, plant and equipment, intangible assets and biological assets	(6,541)	(10,634)	(27,445)	(2,590)	(118)	(47,328)

First-half 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
Statement of financial position						
Property, 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						
Investments in property, plant and equipment, intangible assets and biological assets	(17,044)	(11,491)	(24,011)	(4,544)	(74)	(57,164)

3.2. EBITDA

EBITDA breaks down as follows:

	First-half 2020	First-half 2021
Revenue	**1,695,528**	**1,543,635**
Cost of sales	**(1,398,149)**	**(1,133,289)**
of which direct cost of sales	(107,543)	(72,145)
of which cost of raw materials consumed	(517,093)	(501,821)
of which labor costs	(336,308)	(270,869)
of which other manufacturing costs[(a)]	(403,613)	(344,243)
of which change in non-raw material inventories	(33,592)	55,789
Selling, general and administrative expenses	**(173,366)**	**(158,265)**
of which research and development costs	(20,549)	(18,155)
of which selling and marketing costs	(35,465)	(29,856)
of which general and administrative costs	(117,352)	(110,254)
Other	**(12,739)**	**(23,661)**
of which employee profit-sharing, bonuses and other	(8,816)	(16,480)
of which other income and expenses	(3,923)	(7,181)
Total gross operating expenses	**(1,584,254)**	**(1,315,215)**
EBITDA	**111,274**	**228,420**

[(a)] “Other manufacturing costs” mainly include energy and consumables, sub-contracting and maintenance, and provisions.

Personnel expenses

Personnel expenses amounted to €377 million in the first half of 2021, versus €421 million in first-half 2020.

3.3. Depreciation and amortization

Depreciation and amortization breaks down as follows:

	First-half 2020	First-half 2021
Depreciation of industrial assets	(110,849)	(77,766)
Depreciation of right-of-use assets	(14,369)	(11,313)
Depreciation and amortization – research and development	(4,365)	(2,894)
Depreciation and amortization – sales and marketing	(583)	(507)
Depreciation and amortization – general and administrative costs	(8,283)	(7,686)
Total depreciation and amortization	**(138,449)**	**(100,166)**

3.4. Impairment of assets and goodwill

	First-half 2020	First-half 2021
Impairment of goodwill	(336,432)	-
Impairment of property, plant and equipment	(104,535)	-
Total	**(440,967)**	**-**

Further to the impairment tests conducted at June 30, 2020, impairment was recognized against depreciable property, plant and equipment in the amount of €104 million, mainly in the Europe CGU (€95 million), and against indefinite-lived intangible assets (goodwill) in the amount of €336 million (€14 million for the Europe CGU and USD 356 million for the North America CGU, representing €323 million converted at the exchange rate for the first half of the year).

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

	First-half 2020	First-half 2021
Reorganization measures (net of expenses and provisions)	(43,983)	(13,552)
Gains and losses on disposals of non-current assets and other non-recurring items	(1,786)	112,576
Total	**(45,769)**	**99,024**

Further to the announcement at the end of 2020, the Group pressed ahead with reorganization measures in Europe during the first half of the year, which generated costs of €14 million.

Gains on disposals during the first half of 2021 mainly concern the land and industrial buildings of the Reisholz plant in Germany for €70 million.

During the first half of the year, a favorable decision handed down by the Brazilian Supreme Court in connection with tax recovery claims on PIS and COFINS value added taxes led to the recognition of €32 million in non-recurring income (excluding the related translation adjustment, recognized in financial items for €27 million, see Note 8.1.2).

3.6. Reconciliation of net additions to provisions with the statement of cash flows

	Notes	First-half 2020	First-half 2021
Depreciation and amortization	*3.3*	**(138,449)**	**(100,166)**
Impairment of assets and goodwill	*3.4*	**(440,967)**	**-**
Additions to provisions net of reversals included in EBITDA		7,721	(8,139)
Additions to provisions net of reversals included in assets disposals, restructuring costs and non-recurring items		(10,426)	13,486
Additions to provisions net of reversals included in financial loss		(2,012)	(647)
Total		**(584,133)**	**(95,466)**
Net depreciation, amortization and provisions in the statement of cash flows		**584,133**	**95,466**

3.7. Reconciliation of working capital

Changes in working capital during first-half 2021 were as follows:

Gross amounts (in € thousands)	Dec. 31, 2020	Translation difference	Change	Reclassification and other	June 30, 2021
Inventories	768,012	33,676	189,795	5,566	997,049
Trade receivables and supplier advances	474,351	23,593	92,714	8,653	599,311
Trade payables	(426,097)	(14,620)	(84,433)	(5,012)	(530,162)
Working capital	**816,266**	**42,649**	**198,076**	**9,207**	**1,066,198**
Other receivables and payables	49,203	455	(44,957)	(58,451)	(53,750)
Operating working capital	**865,469**	**43,104**	**153,119**	**(49,244)**	**1,012,448**
Impact of hedging instruments			(14,076)		
Total			**139,043**		
Change in operating working capital in the statement of cash flows			(139,043)		

The €58.5 million change in “Other receivables and payables” corresponds mainly to the recognition of subsidies in connection with the State-guaranteed loans (€53.7 million), in accordance with IFRS 9. This payable had no impact on the statement of cash flows.

In June 2021, Vallourec Deutschland entered into a factoring agreement for euro-denominated receivables for €34 million. During the first half of 2021, the Group conducted non-recourse factoring and similar transactions representing an aggregate amount of €72 million.

4. Income tax

RECONCILIATION OF THEORETICAL AND EFFECTIVE TAX EXPENSE

	First-half 2020	First-half 2021
Current tax expense	(36,643)	(102,298)
Deferred taxes	6,367	2,342
Net expense (-), Net benefit (+)	**(30,276)**	**(99,956)**
Consolidated net income (loss)	(659,131)	(47,936)
Tax expense	(30,276)	(99,956)
Pre-tax income (loss)	**(628,856)**	**52,020**
Statutory tax rate applicable to the parent	32.02%	28.40%
Theoretical tax	201,359	(14,774)
Impact of main tax loss carryforwards	(101,616)	(22,497)
Impact of permanent differences	(116,796)	(8,030)
Other impacts	(2,989)	(35,855)
Impact of differences in tax rates	(10,234)	(18,800)
Net expense (-), Net benefit (+)	**(30,276)**	**(99,956)**
Effective tax rate	**-5%**	**192%**

The effective tax rate for the period mainly reflects the items detailed below:

- The year-on-year change in the impact of tax loss carryforwards mainly reflects the absence of deferred tax assets recognized on these items during the period in France, Germany, the United States and China.
- Differences in tax rates mainly reflect the diverse range of tax rates applied in the Group's various countries (Germany 31.6%, United States 21%, Brazil 34.0%, China 25.0%, and Saudi Arabia 20%).
- Permanent differences mainly arise from non-deductible financial expenses at Vallourec SA.
- The other impacts are unrecognized timing differences resulting mainly from financial restructuring.

5. Property, plant and equipment, intangible assets, goodwill and biological assets

5.1. Changes in carrying amounts

Other than translation differences, there were no changes in this caption during the first half of 2021.

5.2. Impairment tests

Vallourec's guidance for full-year 2021 was revised upwards on April 30, to reflect higher anticipated volumes and selling prices for the OCTG business in North America, and a greater contribution from the Brazil iron ore mine. The outlook remained unchanged for the Vallourec Europe cash-generating unit.

On that basis, and further to the sensitivity analyses conducted on its various cash-generating units, the Group determined that there were no indications of impairment at June 30, 2021.

5.3. Reconciliation of outflows related to acquisitions of non-current assets with the statement of cash flows

	First-half 2020		First-half 2021	
	Property, plant and equipment and intangible assets	Biological assets	Property, plant and equipment and intangible assets	Biological assets
Acquisition of intangible assets	406	-	470	-
Acquisition of property, plant and equipment	53,766	2,991	44,145	2,713
Total capital expenditures	**54,172**	**2,991**	**44,615**	**2,713**
Changes in liabilities on non-current assets and partner contributions	5,932	-	8,740	-
Total	**60,104**	**2,991**	**53,355**	**2,713**
Cash outflows in respect of capital expenditure during the period amounted to:	63,095		56,068	

6. Related-party transactions

Related-party transactions mainly concern purchases of steel rounds from HKM, used as raw materials by the European rolling mills of Vallourec Deutschland and Vallourec Tubes France, amounting to €135 million during the first half of 2021.

In the context of the Group's financial restructuring, Nippon Steel Corporation subscribed to the rights issue with preferential subscription rights for €35 million. Further to its completion, Nippon Steel Corporation held 3.4% of the share capital (before the exercise of the share subscription warrants, and 3.0% after). Accordingly, the shareholders' agreement between Vallourec and Nippon Steel Corporation expired.

In the context of the Group's financial restructuring, Bpifrance Participations subscribed to the rights issue with preferential subscription rights for €20 million. Further to its completion, Bpifrance Participations held 2.3% of the share capital (before the exercise of the share subscription warrants, and 2.0% after). Accordingly, the shareholders' agreement between Vallourec and Bpifrance Participations expired.

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

7.1. Equity attributable to owners of the parent

At June 30, 2021, Vallourec's share capital comprised 228,928,428 ordinary shares with a nominal value of €0.02 per share, fully paid up, versus 11,449,694 ordinary shares at December 31, 2020. Changes in the Company's share capital over the first half of the year are shown below:

(in euros, except for share data)	Number of shares	Nominal value	Share capital in euros
Share capital at December 31, 2020	11,449,694	0.02	228,994
Rights issue with preferential subscription rights by issuance of new shares	52,954,807	0.02	1,059,096
Reserved capital increase by set-off of claims	164,523,927	0.02	3,290,479
Share capital at June 30, 2021	**228,928,428**	**0.02**	**4,578,569**

On June 30, 2021, Vallourec SA conducted the following corporate actions:

- A rights issue with preferential subscription rights for a gross aggregate amount (including issue premiums) of €299,724,207.62, through the issue of 52,954,807 new shares subscribed and paid up in cash by holders of preferential subscription rights (at €5.66 per share), this amount having been used for the repayment of a portion of the claims of the converting creditors in respect of the Company's bonds and revolving credit facilities.
- A capital increase without shareholders' preferential subscription rights reserved for the converting creditors, for a gross amount (including issue premiums) of €1,330,998,569.43, through the issue of 164,523,927 new shares subscribed by the converting creditors (at €8.09 per share) by way of set-off against a portion of their claims in respect of the Company's bonds and revolving credit facilities.

  At June 30, 2021, the price of the Vallourec share was €7.64.

7.2. Share-based payments

No share subscription option or performance share plans were authorized during the first half of 2021.

7.3. Share subscription warrants

On June 28, 2021, the Chairman of the Management Board decided on the issue of 30,342,337 share subscription warrants, without preferential subscription rights, reserved for the commercial banks, at a price of €0.01 per share, paid up by way of set-off against certain due and payable claims held by the commercial banks on the Company, in accordance with the terms and conditions of the safeguard plan approved by the Nanterre Commercial Court on May 19, 2021. Each warrant confers entitlement to subscribe to one new share at a price of €10.11. The share subscription warrants may be exercised at any time during a five-year period beginning on June 30, 2021, when the subscription and settlement-delivery of the share subscription warrants was duly recorded by the Chairman of the Management Board.

At June 30, 2021, the share subscription warrants had a market value of €59 million (€7.64 per share).

7.4. Earnings per share

Earnings per share amounted to a loss of €3.30 per share in the first half of 2021, versus a loss of €14.60 per share after adjustment for the reverse share split (€49.60 per share as reported for the first half of 2020 prior to the reverse share split). Diluted earnings per share (taking into account the dilutive effect of options and performance shares) represented a loss of €3.30 per share in the first half of 2021.

7.5. Non-controlling interests

	Dec. 31, 2020	**June 30, 2021**
Vallourec Star – United States	146,591	144,960
VAM USA – United States	65,839	65,115
Vallourec Soluções Tubulares do Brasil – Brazil	93,920	-
Other	14,427	21,221
Total	**320,777**	**231,296**

Certain industrial cooperation agreements between the Group and Nippon Steel Corporation (NSC) and/or Sumitomo Corporation include clauses permitting those two companies to dispose of their interests to the Vallourec Group in the event that any losses recorded by the joint venture concerned exceed certain thresholds and they wish to discontinue their industrial partnership.

(i) VAM USA LLC – Buy-sell offer:
If losses incurred by VAM USA LLC exceed a certain threshold over one or consecutive fiscal years, each party (NSC, Sumitomo Corporation and Vallourec) has the option to offer to sell their shareholding to the other parties, or to purchase the shareholding of the other parties at a price determined by the party exercising the option (buy-sell offer).
Further to the loss incurred by VAM USA LLC in its audited financial statements for the year ended December 31, 2020, this option may be exercised if the parties do not reach unanimous agreement on whether to continue their partnership within a 90-day period. Pursuant to the clauses of the agreement, this period commenced on April 23, 2021, when the parties met to decide whether to continue their partnership in the entity.

On June 30, 2021, this 90-day period had not yet elapsed and accordingly, the buy-sell offer option was not yet exercisable. Since Vallourec did not have an irrevocable obligation to purchase the interests of its partners at that date, no corresponding financial liability was recognized in the interim condensed consolidated financial statements.

(ii) Vallourec Star – Put right:
As of June 30, 2021, Sumitomo Corporation had not yet disclosed its intentions as regards potentially exercising the put option on its 19.5% interest in Vallourec Star, which will be exercisable at the end of a 90-day period in progress at the reporting date, in the event that the parties do not reach agreement. The acquisition of Sumitomo Corporation's interest by the Vallourec Group would be conducted based on an independent expert valuation.

8. Financing and financial instruments

8.1. Net debt

	Dec. 31, 2020			June 30, 2021		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	1,735,860	1,735,860	-	1,178,294	1,178,294	-
Bank borrowings	1,727,709	14,364	1,713,345	682,200	218,970	463,230
Other financial liabilities	136,827	303	136,524	46,354	564	45,790
Current bank overdrafts	3,115	-	3,115	2,221	-	2,221
Total current and non-current loans and borrowings	**3,603,511**	**1,750,527**	**1,852,984**	**1,909,069**	**1,397,828**	**511,241**
Marketable securities	761,597	-	761,597	733,051	-	733,051
Cash at bank and in hand	627,935	-	627,935	456,223	-	456,223
Cash and cash equivalents	**1,389,533**	**-**	**1,389,533**	**1,189,274**	**-**	**1,189,274**
Net debt	**2,213,978**	**1,750,527**	**463,451**	**719,795**	**1,397,828**	**(678,033)**

8.1.1. Significant changes

During the first half of 2021, Vallourec exercised its call option on the DBOT contract in Brazil for an amount of €64 million, giving rise to a €24 million decrease in lease liabilities at June 30, 2021.

As part of its financial restructuring, Vallourec SA restructured all of its financial liabilities on June 30, 2021. The financial restructuring reduced gross debt by €1.7 billion and refinanced the residual debt by means of new debt instruments. Further to these transactions, the previous bonds and confirmed credit facilities were canceled and the outstanding bonds were delisted from their respective markets.

These new debt instruments are analyzed below:

(in € millions)	Nominal amount	Maturity	Nominal interest rate	Fair value interest rate	Fair value at June 30, 2021	Amount in the SOFP as of June 30, 2021
Bond issue – June 2021 (a)	1,023	June 2026	8.500%	5.000%	1,178	1,178
State-guaranteed loans – June 2021 (b)	262	June 2027	1.837%	6.000%	208	208
Confirmed credit facility – June 2021 (c)	462	June 2026	Euribor +5%	5.000%	462	462
Total	**1,747**					**1,848**

(a) Includes a redemption option for the borrower exercisable from June 30, 2023.

(b) State-guaranteed loans with an initial term of June 30, 2022, which can be extended at Vallourec's initiative to June 30, 2027, presented at an effective interest rate of 1.8370%, including the underwriting fee.

(c) At June 30, 2021, this credit facility was drawn down in full with a maturity of one month.

The €462 million confirmed credit facility includes a covenant stipulating that Vallourec's gearing ratio (consolidated net debt to equity) must not exceed 100%. The gearing ratio is the calculated as the ratio of consolidated net debt (including lease liabilities) to consolidated equity, restated for gains and losses on derivatives and foreign currency translation differences (exchange differences on translating net assets of consolidated foreign subsidiaries).

The covenant will be tested on a trailing 12-month basis on December 31 of each year, with the first test scheduled for end-2023.

A breach of the covenant could trigger the mandatory early repayment of the credit facility and redemption of the bonds.

Certain events or circumstances, including a change of control (in favor of a person or a concert party) or cross default, could also trigger mandatory early repayment or redemption of the credit facility, State-guaranteed loans and the bonds.

Commercial paper

Vallourec SA did not issue any commercial paper during the first six months of 2021.

8.1.2. Financial income (loss)

	First-half 2020	First-half 2021
Interest income		
Income from marketable securities	3,906	2,261
Proceeds from disposals of marketable securities	(416)	(85)
Total	**3,490**	**2,176**
Interest expense	**(101,666)**	**(104,695)**
Net interest expense	**(98,176)**	**(102,519)**
Other financial income and expenses		
Income from securities, loans and receivables	583	312
Exchange (losses) and gains and changes in premiums/discounts	(14,444)	(4,884)
Additions to provisions, net of reversals	(416)	587
Other financial income and expenses	15,162	(37,432)
Net expense attributable to financial restructuring (see Note 2.1)	-	(40,248)
Total	**885**	**(81,665)**
Interest expenses on leases	**(15,418)**	**(13,376)**
Other discounting expenses		
Interest expense on discounting pension obligations	(1,597)	(693)
Interest income (expense) on discounting assets and liabilities	(639)	22,995
Total	**(2,236)**	**22,302**
Financial income (loss)	**(114,945)**	**(175,258)**

Other financial income and expenses mainly comprise the cost of exercising the call option on the DBOT contract in Brazil for €64 million, and financial income in respect of a tax dispute (monetary portion) for €27 million further to a favorable decision by the Brazilian Supreme Court (see Note 3.5).

Interest income and expense on discounting assets and liabilities essentially reflects the positive impact of the decrease in lease liabilities on the DBOT contract in Brazil further to the exercise of the call option, in the amount of €24 million.

8.1.3. Reconciliation with financial liabilities in the statement of cash flows

	Dec. 31, 2020	Translation difference	Proceeds from new borrowings	Repayments of borrowings	Financial restructuring	Current/non-current reclassifications and other	June 30, 2021
Non-current financial liabilities	1,750,527	1,118	8,064	(305,676)	(1,326,833)	1,270,628	1,397,828
Current financial liabilities	1,852,984	4,223	(2,865)	(56,767)	(54,037)	(1,232,297)	511,241
Financial liabilities (1)	**3,603,511**	**5,341**	**5,199**	**(362,443)**	**(1,380,870)**	**38,331**	**1,909,069**
Impact of hedging instruments and other (2)			**(9)**	**-**			
Total (1)+(2)			**5,190**	**(362,443)**			
Change in financial liabilities in the statement of cash flows			5,190	(362,443)			

8.2. Other financial liabilities

Other financial liabilities consist primarily of lease liabilities and derivatives.

	Dec. 31, 2020			June 30, 2021		
	Total	Non-current	Current	Total	Non-current	Current
Lease liabilities	107,798	83,638	24,160	75,084	57,553	17,531
Call option on non-controlling interests	7,100	-	7,100	-	-	-
Derivatives	14,079	-	14,079	15,315	-	15,315
Total	**128,977**	**83,638**	**45,339**	**90,399**	**57,553**	**32,846**

During the first half of 2021, Vallourec exercised its call option on the DBOT contract in Brazil for an amount of €64 million (recognized in "Other current liabilities"), giving rise to a €24 million decrease in lease liabilities at June 30, 2021.

8.3. Financial instruments

8.3.1. Financial assets and liabilities – accounting model and fair value hierarchy

Over the first half of 2021, the Group did not make any significant changes to the classification of financial instruments, and there were no significant transfers between different levels of the fair value hierarchy.

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

June 30, 2021	Amortized cost	Fair value through profit or loss	Fair value through other comprehensive income	Fair value of hedging instruments	Total	Fair value
Assets						
Trade and other receivables	578,689	-	-	-	578,689	578,689
Other current and non-current financial assets	72,346	-	7,270	13,238	92,854	92,854
Other current and non-current assets	316,007	-	-	-	316,007	316,007
Cash and cash equivalents	-	1,189,274	-	-	1,189,274	1,189,274
Total financial assets	**967,042**	**1,189,274**	**7,270**	**13,238**	**2,176,824**	**2,176,824**
Total non-financial assets	**-**	**-**	**-**	**-**	**3,023,260**	**3,023,260**
Total assets	**-**	**-**	**-**	**-**	**5,200,084**	**5,200,084**

June 30, 2021	Amortized cost	Fair value through profit or loss	Fair value through other comprehensiv e income	Fair value of hedging instruments	Total	Fair value
Liabilities						
Borrowings	1,909,069	-	-	-	1,909,069	1,909,069
Trade payables	530,162	-	-	-	530,162	530,162
Other current and non-current financial liabilities	75,084	-	-	15,315	90,399	90,399
Other current and non-current liabilities	439,528	-	-	-	439,528	439,528
Total financial liabilities	**2,953,843**	**-**	**-**	**15,315**	**2,969,158**	**2,969,158**
Total non-financial liabilities	**-**	**-**	**-**	**-**	**2,230,926**	**2,230,926**
Total liabilities	**-**	**-**	**-**	-	**5,200,084**	**5,200,084**

8.3.2. Hedging accounting

As at June 30, 2021, hedging instruments had a net negative fair value of €2.1 million, versus a net positive fair value of €22.9 million as at December 31, 2020.

	Accounting classification	OCI reserves(1)	June 30, 2021	Dec. 31, 2020
Currency forward contracts on commercial transactions	Cash flow hedge	(17,329)	3,783	20,885
Currency forward contracts on commercial transactions	Fair value hedge	189	(6,641)	1,187
Currency forward contracts on financial transactions	Fair value hedge	-	362	398
Hedging instruments set up in the context of employee share ownership plans	Fair value hedge	8	419	398
Sub-total derivatives		**(17,132)**	**(2,077)**	**22,868**
Of which derivatives – positive fair value		-	*13,238*	*36,947*
Of which derivatives – negative fair value		-	*15,315*	*14,079*
		-	0	-
Receivables (payables) used for commercial hedges	Cash flow hedge	138	427	289
Receivables (payables) used for commercial hedges	Fair value hedge	-	1,345	(524)
Total		**(16,994)**	**(305)**	**22,633**

(1) Assets and liabilities presented in this table are offset: + = positive fair value, () = negative fair value.

The Group did not make any material changes to its financial risk management policy during the first half of 2021. For risks not listed below, please refer to the notes to the consolidated financial statements for the year ended December 31, 2020.

8.3.3. Financial risk management

On June 30, 2021, Vallourec finalized its financial restructuring further to the successful completion of the safeguard plan approved by the Nanterre Commercial Court on May 19, 2021.

Liquidity risk

The Group's financial resources include financing with banks and on the capital markets.

The vast majority of bank financing was arranged in Europe through Vallourec SA, and to a lesser extent through the Group's subsidiaries in Brazil and China.

As part of its financial restructuring, Vallourec SA restructured all of its financial liabilities on June 30, 2021. The financial restructuring reduced gross debt by €1.7 billion and refinanced the residual debt by means of new debt instruments with a maturity of five years (or a maturity of less than five years that can be extended until June 30, 2027 at the initiative of the borrower).

The fully-drawn €462 million Vallourec SA credit line is not subject to any securities or guarantees, and ranks *pari passu* with the State-guaranteed loans and the bonds.

Capital markets financing is arranged exclusively by Vallourec SA.

9. Employee benefits

At June 30, 2021, post-employment benefit obligations decreased by €33 million versus year-end 2020, reflecting higher discount rates during the first half of 2021 (0.9% in Germany and France and 2% in the United Kingdom, versus 0.5% and 1.40%, respectively, in 2020) and the impact of past restructuring plans, especially in Germany.

10. Provisions for risks, charges and contingent liabilities

	Dec. 31, 2020			June 30, 2021		
	Total	Non-current	Current	Total	Non-current	Current
Disputes and commercial commitments	22,801	8,250	14,551	26,407	19,959	6,448
Backlog – losses on completion	41,981	74	41,907	41,174	368	40,806
Reorganization and restructuring measures	102,222	77,954	24,268	87,836	72,276	15,560
Tax risks (income tax, other levies, inspections, etc.)	9,288	9,288	-	10,113	10,113	-
Other	38,308	14,762	23,546	38,380	33,157	5,223
Total	**214,600**	**110,328**	**104,272**	**203,910**	**135,873**	**68,037**
At January 1	**165,578**	**44,579**	**120,999**	**214,600**	**110,328**	**104,272**
Additions	145,609	31,247	114,362	24,246	4,887	19,359
Utilizations	(65,465)	(6,928)	(58,537)	(34,861)	(4,206)	(30,655)
Reversals of surplus provisions	(4,492)	-	(4,492)	(297)	(222)	(75)
Impact of changes in exchange rates	(20,821)	(9,048)	(11,773)	5,034	4,051	983
Reclassifications and other changes	(4,940)	50,808	(55,748)	(5,142)	20,705	(25,847)
Liabilities held for sale and discontinued operations	(869)	(330)	(539)	330	330	-
At period end	**214,600**	**110,328**	**104,272**	**203,910**	**135,873**	**68,037**

11. Scope of consolidation

On March 31, 2021, the Vallourec Group acquired Nippon Steel's 15.4% interest in the Brazilian joint venture Vallourec Soluções Tubulares do Brasil (VSB). Further to this transaction, the Vallourec Group holds the entire share capital of VSB.

During the first half of the year, Vallourec sold assets classified as held for sale at end-December 2020, chiefly including Valinox Nucléaire SAS (Montbard plant in France), Reisholz assets in Germany, and certain biological assets and forestry assets in Brazil.

12. Subsequent events

Further to its credit review, on July 1, 2021, Standard & Poor's upgraded the Vallourec Group's long-term credit rating to B with a stable outlook, and its short-term credit rating to B. The long-term credit rating assigned to the new bond issue (8.5%, maturing in June 2026) is B+.

On July 27, 2021, the Vallourec Group acquired the non-controlling interests in VAM USA LLC based on a valuation of USD 85 million for the entire share capital, i.e., the acquisition of the 34% interest held by Nippon Steel Oilfield Services Inc for USD 28.9 million and of the 15% held by Sumitomo Corporation of Americas for USD 12.75 million. The agreement stipulates that these transactions be completed on

July 28, 2021. Relations between VAM USA and both Nippon Steel Corp and Sumitomo Corporation will continue on a commercial basis. This transaction terminates the Buy-Sell Offer for VAM USA LLC described in Note 7.5.

4

Statutory Auditors' Review Report on the 2021 Half-yearly Financial Information

For the period from January 1st, 2021 to June 30th, 2021

This is a free translation into English of the Statutory Auditors' review report on the 2021 half-year 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-year 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,

In compliance with the assignment entrusted to us by your Shareholders' Annual General Meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code ("*Code monétaire et financier*"), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of VALLOUREC, for the period from January 1st, 2021 to June 30th, 2021,
- the verification of the information presented in the half-year management report.

Due to the global crisis related to the Covid-19 pandemic, the condensed half-year consolidated financial statements have been prepared and reviewed under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of our review procedures.

These condensed half-year consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France.

A review of half-year 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 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements do not give a true and fair view of the assets and liabilities and of the financial position of the Group as at June 30th, 2021 and of the results of its operations for the period then ended in accordance with IFRSs as adopted by the European Union.

Specific verification

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

Paris-La Défense, July 27, 2021

The statutory auditors

French original signed by

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A French limited company (société anonyme)
with a Board of Directors with share capital of €4,578,568.56