




# FINANCIAL INTERIM REPORT

(FRENCH *CODE DE COMMERCE*)

**Half year ended 30 June 2008**

This document is a translation of the financial interim report of Vallourec for the first half-year ended 30 June 2008.

Its purpose is to assist English speaking readers. The original document has been notified to the French securities regulator (AMF).

	<b>Half-year activity report</b>	<b>1</b>
	Activity	1
	Results	2
	Capital expenditure and financial investments	2
	Highlights	2
	Transactions with related parties	3
	Outlook	3
	<b>Consolidated half-year financial statements</b>	<b>4</b>
	Consolidated balance sheet	4
	Consolidated income statement	6
	Statement of changes in shareholders' equity, Group share	7
	Statement of changes in minority interests	8
	Consolidated cash flow statement	9
	Condensed notes to the consolidated financial statements for the first half of 2008	11
	Notes to the financial statements (index)	13
	<b>Statutory Auditors' review report on the first half-year financial information for 2008</b>	<b>35</b>
	<b>Attestation by the person assuming responsibility for the interim financial report</b>	<b>36</b>

# Half-year activity report

Vallourec's consolidated sales for the first half of 2008 came to € 3,003.3 million, virtually unchanged compared with sales of € 3,012.1 million in the first half of 2007, representing an increase of 3.5% at constant consolidation scope<sup>(1)</sup>.

EBITDA fell by 13.3% to € 772.3 million compared with € 891.2 million in the first half of 2007, giving an EBITDA/sales ratio of 25.7%.

Net income, Group share, came to € 448.4 million in the first half of 2008, down 9.5% compared with the first six months of the previous year.

## ACTIVITY

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Confirming the trend observed in the first quarter, demand remained buoyant across the world and in most applications served by the Group. Vallourec's plants continued to operate at high levels.

Production shipped in the first half totalled 1,398.5 thousand tonnes compared with 1,455.7 thousand tonnes last year, representing a decline of 3.9% on a reported basis but an increase of 0.1% at constant consolidation scope<sup>(1)</sup>.

As a result, the slight decline in sales of 0.3% in the first half consisted of a consolidation scope effect of -3.7%<sup>(1)</sup>, a volume effect of +0.1% and a mix/price/currency effect of +3.4%.

► In **Oil & Gas**, all overall indicators remained positive and trending upwards. In general, our sales were buoyed by the excellent level of drilling activity by oil companies. Nevertheless, at € 1,349 million, first-half sales posted a slight decline of 4.3% compared with the first six months of 2007, affected by the dollar's weakness.

In the North American market, the number of drilling rigs in operation increased further, up by 4.2% in the United States in the first half compared with the average number for the previous year, and currently stands at an all-time high of more than 1,900. Volumes delivered by V & M Star increased in the second quarter, confirming the good level of demand from American distributors.

Lastly, tube selling prices, which had fallen slightly in the second half of 2007, underwent a series of increases, resulting in a rise of more than US dollar 880 per tonne since the start of 2008. The full effect of these increases will be evident in the second-half sales.

In the rest of the world, activity remained upbeat. The latest orders taken by the Group are beginning to reflect the price increases announced and demand is being boosted by a record level of drilling activity.

► In **Power generation**, at € 599 million, sales posted further very strong growth in the first half, up 15.6% compared with the same period in the previous year.

Sales of tubes for power stations remained as buoyant as ever, particularly in China, but also in the rest of Asia (India, South Korea, Indonesia and Taiwan), Europe, the United States and South Africa.

The price increases implemented by Vallourec in recent months boosted sales, while the product mix continued to improve. In this buoyant environment, Vallourec increased its market share, particularly in respect of large international clients, and also posted higher sales to the nuclear energy sector.

► Sales in the **Petrochemicals** activity came to € 302 million in the first half of 2008, down slightly (-1.9%) compared with the same period in 2007.

The market was particularly buoyant in the United States, with higher prices and strong demand, boosted mainly by a handful of large refinery modernisation projects.

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(1) After adjusting 2007 sales to make them comparable with 2008, mainly by taking into account the sale in 2007 of the precision tubes activities (VPE and the Zeithain plant) to Salzgitter and of VPS and VCAV to Arcelor Mittal, as well as the acquisition of Atlas Bradford®, TCA® and Tube-Alloy™, consolidated with effect from 16 May 2008.

## Half-year activity report

### RESULTS

- ▶ Vallourec's performances in **Mechanical Engineering** remained stable at a high level. Sales came to € 380 million, up 2.4% compared with the first half of 2007.

Demand for cranes, lifting equipment and hydraulic cylinders remained strong, while it weakened slightly for truck axles. Prices continued to trend upwards.

- ▶ The **Automotive** activity recorded sales of € 190 million (-27.5% compared with the first half of 2007), dampened by the sale of the precision tubes activities in early July 2007 and that of VPS and VCAV in December 2007. Sales in Brazil, which now accounts for the bulk of this activity, were boosted by the rapidly expanding automotive market.
- ▶ **Others** posted very strong sales growth in the first half of 2008 (+28.7%), buoyed mainly by sales of tubes for use in the construction of large projects (bridges, stadiums, airports, etc.).

## RESULTS

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Impacted by a combination of the dollar's depreciation and higher raw material prices, EBITDA declined by 13.3% to € 772.3 million compared with € 891.2 million in the first half of 2007, giving an EBITDA/sales ratio of 25.7%, which although lower than the ratio of 29.6% achieved in the first half of 2007, was in line with the forecasts announced at the end of 2007.

First-half operating costs increased by 2.7% due to increases in raw materials costs, tempered by changes in other cost items.

Benefiting from the lower corporation tax rate in Germany, the effective tax rate in the first half came to 33.4% compared with 36.5% in the first six months of 2007.

Net income fell by 10.6% to € 462.6 million, equivalent to 15.4% of sales compared with 17.2% in the first half of 2007.

Net income, Group share, fell by 9.5% in the first half of 2008 to € 448.4 million compared with the first six months of the previous year.

The increase in the working capital requirement in the first half of 2008 compared with the first half of 2007 mainly reflected the rise in raw material costs.

At 30 June 2008, the Group' had net debt of € 532.1 million, equivalent to 18.6% of equity.

## CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS

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Capital expenditure continued at a brisk pace. During the first half, capital expenditure totalled € 206.4 million, up 23.2% compared with the first six months of 2007. Of this amount, € 33 million was devoted to the project for a new pipe mill in Brazil.

As for financial investments, the acquisition of Atlas Bradford®, TCA® and Tube-Alloy™ resulted in a cash outflow of almost € 520 million in the first half.

## HIGHLIGHTS

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Construction of Vallourec & Sumitomo do Brasil's new plant in the state of Minas Gerais in Brazil is progressing according to schedule. The excavation and site preparation work are nearing completion and work has recently begun on the foundations.

The process of integrating Atlas Bradford®, TCA® and Tube-Alloy™ got off to a very good start. These three US companies were acquired from Grant Prideco in May. The sales teams are now working together to offer a perfectly seamless service from a customer viewpoint.

The aim of the cost-reduction plan announced in March was to bolster the Group's competitiveness and generate annual cost savings of more than € 200 million out to 2010. The plan is progressing according to schedule and the cost savings will begin to show positive effects this year.

## TRANSACTIONS WITH RELATED PARTIES

The main transactions with related parties in the first half of 2008 concerned purchases of steel rounds from HKM (equity affiliate) totalling € 280 million.

Transactions were entered into with Rothschild & Cie under the consultancy agreement to assist the Management Board. In the first half of 2008, this expenditure totalled € 3.3 million and related mainly to business acquisitions from Grant Prideco.

## OUTLOOK

In terms of activity, the outlook for the second half of 2008 is good:

- ▶ the US **Oil & Gas** market is very buoyant and Vallourec will benefit in this market from its acquisition of Atlas Bradford®, TCA® and Tube-Alloy™. Outside North America, the Oil & Gas order book represents around seven months' sales, due in particular to increased activity in the North Sea and new orders for equipment for oil fields in West Africa (for Total and Petrobras);
- ▶ the **Power generation** market, in which Vallourec is the world leader, remains very buoyant due to a combination of the increasingly stringent requirements for the reduction of CO<sub>2</sub> emissions and the need to replace power plants that are becoming obsolete. The order book remains very healthy at a little over seven months' sales and the product mix is continuing to improve;
- ▶ the **Petrochemicals** business is increasing;
- ▶ **Mechanical engineering** activity remains stable at a good level while the market for structural tubes continues to perform well.

Vallourec's plants are thus expected to operate at high capacity and the Group expects production volumes in the second half of 2008 to be in line with those of the second half of 2007<sup>(2)</sup>.

The Group stresses that it is continuing to implement selling price increases to offset the sharp rises in raw material costs (iron ore, coke, scrap metal and alloys) seen in recent months and to minimize the impact of movements in the euro/dollar exchange rate. A series of price increases has been implemented, both during the first half and subsequent to the balance sheet date. Given that price increases in the Oil & Gas market outside North America cannot be applied retrospectively to orders already taken by the Group, such increases will not be reflected in its sales figures until the first quarter of 2009.

The Group forecasts a sales growth rate in the second half close to that achieved in the first half (+3.5%) on a comparable basis<sup>(3)</sup>.

The effect of the dollar's continued weakness on new orders combined with the exceptionally high increases in raw material costs (iron ore, coke, scrap metal and alloys) will have a greater impact on earnings in the second half than in the first half. In addition, the Group stresses that maintenance operations are seasonal in nature, with the majority of such work being carried out in the second half. Vallourec will, however, benefit from the series of increases in its selling prices and the integration of its recent acquisitions in the United States.

Besides the risks pertaining to the rise in raw material prices and movements in the euro/dollar exchange rate as mentioned above, Vallourec does not anticipate any changes in other risks as described out in Section 4.7 – Risks in the 2007 Reference Document filed with the French securities regulator (*Autorité des Marchés Financiers – AMF*) on 28 April 2008 under reference no. D.08-0316 that are likely to impact the second half of 2008. Nor has Vallourec identified any new risks not already mentioned in this same Section.

Given all the above factors, Vallourec estimates that, in absolute terms, its second-half EBITDA should be close to that achieved in the first half, i.e. an EBITDA/sales ratio of around 23%.

Longer term, the Group has complete confidence in the outlook offered by the **Oil & Gas** and **Power generation** markets in particular. Vallourec will benefit from its cost-reduction programme, the integration of Atlas Bradford®, TCA® and Tube-Alloy™ and the competitiveness of its new pipe mill in Brazil.

<sup>(2)</sup> Consolidation scope effect is immaterial as regards production volume between the second half of 2007 and the same period in 2008.

<sup>(3)</sup> On the same basis as that of the second half of 2008, sales in the second half of 2007 would have totalled € 3,154 million.

# Consolidated half-year financial statements

## CONSOLIDATED BALANCE SHEET

ASSETS <i>in € thousand</i>	Notes	31/12/2007	30/06/2007	30/06/2008
<b>NON-CURRENT ASSETS</b>				
Intangible assets, net	1	21,714	18,505	254,983
Goodwill	1	79,900	85,672	274,179
Gross property, plant and equipment	2	2,002,421	1,854,923	2,252,900
less: accumulated depreciation	2	-736,458	-775,282	-791,616
Property, plant and equipment, net	2	1,265,963	1,079,641	1,461,284
Investments in equity affiliates	3	55,044	61,362	58,826
Other non-current assets	4	43,006	40,852	45,283
Deferred tax assets	5	26,545	26,375	16,998
<b>Total</b>		<b>1,492,172</b>	<b>1,312,407</b>	<b>2,111,553</b>
<b>CURRENT ASSETS</b>				
Inventories and work-in-progress	6	1,168,754	1,235,484	1,332,373
Trade and other receivables	7	1,048,622	1,152,287	1,136,638
Derivatives - assets	8	158,148	86,829	150,247
Other current assets	9	142,753	129,229	202,311
Cash and cash equivalents	10	912,478	1,026,007	509,889
<b>Total</b>		<b>3,430,755</b>	<b>3,629,836</b>	<b>3,331,458</b>
Assets held for sale	11	0	194,207	0
<b>TOTAL ASSETS</b>		<b>4,922,927</b>	<b>5,136,450</b>	<b>5,443,011</b>

## Consolidated half-year financial statements

### CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY <i>in € thousand</i>	Notes	31/12/2007	30/06/2007	30/06/2008
<b>SHAREHOLDERS' EQUITY</b>				
	12			
Capital		212,155	212,155	212,155
Additional paid-in capital		60,655	60,655	60,655
Consolidated reserves		1,418,786	1,410,950	2,040,049
Reserves, financial instruments		70,026	37,393	62,410
Translation reserve		-24,038	17,420	-42,095
Income (loss) for the period		986,205	495,404	448,447
Own shares		-16,020	-7,137	-3,632
<b>Shareholders' equity - Group share</b>		<b>2,707,769</b>	<b>2,226,840</b>	<b>2,777,989</b>
<b>Minority interests</b>	14	<b>81,892</b>	<b>92,799</b>	<b>80,601</b>
<b>Total shareholders' equity</b>		<b>2,789,661</b>	<b>2,319,639</b>	<b>2,858,590</b>
<b>NON-CURRENT LIABILITIES</b>				
Bank loans and other borrowings	15	337,247	489,224	530,734
Employee benefits	17	168,243	199,606	168,176
Other provisions	16	6,882	4,076	5,203
Deferred tax liabilities	5	101,802	71,056	110,622
Other long-term liabilities		441	0	1
<b>Total</b>		<b>614,615</b>	<b>763,962</b>	<b>814,736</b>
<b>CURRENT LIABILITIES</b>				
Provisions for liabilities and charges	16	80,105	78,370	82,244
Overdrafts and other short-term bank borrowings	15	332,841	385,523	511,301
Trade payables		671,900	633,176	721,032
Derivatives - liabilities	8	28,110	24,712	22,656
Tax liabilities		112,933	133,757	62,039
Other current liabilities	18	292,762	708,090	370,413
<b>Total</b>		<b>1,518,651</b>	<b>1,963,628</b>	<b>1,769,685</b>
Liabilities held for sale	11	0	89,221	0
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>4,922,927</b>	<b>5,136,450</b>	<b>5,443,011</b>

## Consolidated half-year financial statements

### CONSOLIDATED INCOME STATEMENT

## CONSOLIDATED INCOME STATEMENT

<i>In € thousand</i>	Notes	2007	First half 2007	First half 2008
<b>Sales</b>	20	<b>6,140,521</b>	<b>3,012,098</b>	<b>3,003,320</b>
Production taken into inventory		97,721	86,994	39,924
Other operating revenues	21	35,215	16,115	13,846
Purchases consumed		-2,265,607	-1,082,455	-1,163,778
Taxes and duties	22	-56,250	-29,386	-28,113
Payroll costs	23	-827,040	-435,870	-414,248
Other operating costs	24	-1,339,775	-662,023	-683,575
Net provisions	25	-34,003	-14,298	4,913
<b>EBITDA</b>		<b>1,750,782</b>	<b>891,175</b>	<b>772,289</b>
Depreciation and amortization	26	-117,973	-61,251	-71,033
Impairment of assets and goodwill		-21,169	-20,821	0
Asset disposals and restructuring costs	27	10,933	5,450	368
<b>OPERATING INCOME</b>		<b>1,622,573</b>	<b>814,553</b>	<b>701,624</b>
Financial income		36,304	20,855	16,898
Interest costs		-40,619	-20,229	-20,947
Net financial costs		-4,315	626	-4,049
Other financial income and charges		-14,936	-4,930	-7,697
Other discounting costs		-9,757	-4,752	-4,790
<b>FINANCIAL INCOME (LOSS)</b>	28	<b>-29,008</b>	<b>-9,056</b>	<b>-16,536</b>
<b>INCOME BEFORE TAX</b>		<b>1,593,565</b>	<b>805,497</b>	<b>685,088</b>
Income tax	29	-575,344	-294,288	-228,723
Net income of equity affiliates	3	6,242	6,463	6,209
<b>NET INCOME FROM CONTINUING OPERATIONS</b>		<b>1,024,463</b>	<b>517,672</b>	<b>462,574</b>
Income (loss) from discontinued operations		0	0	0
<b>CONSOLIDATED NET INCOME</b>		<b>1,024,463</b>	<b>517,672</b>	<b>462,574</b>
Minority interests		38,258	22,268	14,127
<b>Group share</b>		<b>986,205</b>	<b>495,404</b>	<b>448,447</b>
<b>Group share:</b>				
Earnings per share	13	18.9	9.6	8.5
Diluted earnings per share	13	18.8	9.5	8.5

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, GROUP SHARE

<i>In € thousand</i>	Capital	Additional paid-in capital	Consolidated reserves	Translation reserve	Reserves - changes in fair value of hedging instruments - net of tax	Own shares	Income (loss) for the period	Total sharehol- ders' equity - Group share
<b>As at 31 December 2006</b>	<b>212,047</b>	<b>206,568</b>	<b>764,937</b>	<b>634</b>	<b>42,725</b>	<b>-13,514</b>	<b>917,005</b>	<b>2,130,402</b>
Change in translation reserve				16,786				16,786
Financial instruments					-5,332			-5,332
<i>Revenues and costs recognized directly in shareholders' equity</i>			850	16,786	-5,332	6,377		18,681
Net income for the half year ended 30 June 2007							495,404	495,404
<i>Total revenues and costs recognized for the period</i>			850	16,786	-5,332	6,377	495,404	514,085
2006 net income			917,005				-917,005	0
Capital increase and additional paid- in capital	108	94						202
Change in own shares			850			6,377		7,227
Dividends paid		-146,007	-66,446					-212,453
Interim dividend paid by Vallourec			-210,623					-210,623
Share-based payments			5,174					5,174
Changes in consolidation scope and other			53					53
<b>As at 30 June 2007</b>	<b>212,155</b>	<b>60,655</b>	<b>1,410,950</b>	<b>17,420</b>	<b>37,393</b>	<b>-7,137</b>	<b>495,404</b>	<b>2,226,840</b>
<b>As at 31 December 2007</b>	<b>212,155</b>	<b>60,655</b>	<b>1,418,786</b>	<b>-24,038</b>	<b>70,026</b>	<b>-16,020</b>	<b>986,205</b>	<b>2,707,769</b>
Change in translation reserve				-18,057				-18,057
Financial instruments					-7,616			-7,616
<i>Revenues and costs recognized directly in shareholders' equity</i>				-18,057	-7,616			-25,673
Net income for the half year ended 30 June 2008							448,447	448,447
<i>Total revenues and costs recognized for the period</i>				-18,057	-7,616		448,447	422,774
2007 net income			986,205				-986,205	0
Capital increase and additional paid- in capital								0
Change in own shares			650			12,388		13,038
Dividends paid			-370,335					-370,335
Interim dividend paid by Vallourec								0
Share-based payments			4,743					4,743
Changes in consolidation scope and other								0
<b>As at 30 June 2008</b>	<b>212,155</b>	<b>60,655</b>	<b>2,040,049</b>	<b>-42,095</b>	<b>62,410</b>	<b>-3,632</b>	<b>448,447</b>	<b>2,777,989</b>

## Consolidated half-year financial statements

### STATEMENT OF CHANGES IN MINORITY INTERESTS

## STATEMENT OF CHANGES IN MINORITY INTERESTS

<i>In € thousand</i>	Consolidated reserves	Translation reserve	Reserves - changes in fair value of hedging instruments - net of tax	Income (loss) for the period	Minority interests
<b>As at 31 December 2006</b>	<b>14,309</b>	<b>-3,757</b>	<b>-23</b>	<b>82,290</b>	<b>92,819</b>
Change in translation reserve		-1,108			-1,108
Financial instruments			4		4
<i>Revenues and costs recognized directly in shareholders' equity</i>		-1,108	4		-1,104
Net income for the half year ended 30 June 2007				22,268	22,268
<i>Total revenues and costs recognized for the period</i>		-1,108	4	22,268	21,164
2006 net income	82,290			-82,290	0
Dividends paid	-21,134				-21,134
Changes in consolidation scope and other	-50				-50
<b>As at 30 June 2007</b>	<b>75,415</b>	<b>-4,865</b>	<b>-19</b>	<b>22,268</b>	<b>92,799</b>
<b>As at 31 December 2007</b>	<b>54,439</b>	<b>-10,876</b>	<b>71</b>	<b>38,258</b>	<b>81,892</b>
Change in translation reserve		-4,328			-4,328
Financial instruments					0
<i>Revenues and costs recognized directly in shareholders' equity</i>		-4,328			-4,328
Net income for the half year ended 30 June 2008				14,127	14,127
<i>Total revenues and costs recognized for the period</i>		-4,328		14,127	9,799
2007 net income	38,258			-38,258	0
Dividends paid	-11,130				-11,130
Changes in consolidation scope and other	40				40
<b>As at 30 June 2008</b>	<b>81,607</b>	<b>-15,204</b>	<b>71</b>	<b>14,127</b>	<b>80,601</b>

## CONSOLIDATED CASH FLOW STATEMENT

<i>In € thousand</i>	2007	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2008
<b>Consolidated net income (including minority interests)</b>	<b>1,024,463</b>	<b>517,672</b>	<b>462,574</b>
Net charges to amortization, depreciation and provisions	181,409	100,881	69,592
Unrealized gains and losses linked to changes in fair value	5,076	858	2,217
Income and charges linked to share options and equivalent	12,512	5,174	4,743
Capital gains and losses on disposals	-7,834	-5,571	-416
Share of income (loss) of equity affiliates	-6,242	-6,463	-6,209
Dividends (non-consolidated companies)	-1,825	-1,518	-2,228
<b>Cash flow from operating activities after cost of net debt and tax</b>	<b>1,207,559</b>	<b>611,033</b>	<b>530,273</b>
Cost of net debt	4,315	-626	4,049
Tax charge (including deferred taxes)	575,344	294,288	228,723
<b>Cash flow from operating activities before cost of net debt and tax</b>	<b>1,787,218</b>	<b>904,695</b>	<b>763,045</b>
Interest paid	-41,089	-20,695	-19,734
Tax paid	-586,123	-300,300	-273,695
Interest received	36,304	20,855	16,898
<b>Cash flow from operating activities</b>	<b>1,196,310</b>	<b>604,555</b>	<b>486,514</b>
Change in operating working capital requirement	-214,367	-319,597	-171,425
<b>NET CASH FLOW FROM OPERATING ACTIVITIES (1)</b>	<b>981,943</b>	<b>284,958</b>	<b>315,089</b>
Cash outflows for acquisitions of property, plant and equipment and intangible assets	-437,713	-167,475	-206,439
Cash inflows from disposals of property, plant and equipment and intangible assets	11,757	8,169	1,249
Impact of acquisitions (changes in consolidation scope)	-3,618	-3,616	-519,837
Cash of subsidiaries acquired (changes in consolidation scope)	-250	-250	0
Impact of disposals (changes in consolidation scope)	133,066	0	0
Cash of subsidiaries sold (changes in consolidation scope)	8,472	0	0
Other cash flows from investing activities	5,944	1,544	3,013
<b>NET CASH FLOW FROM INVESTING ACTIVITIES (2)</b>	<b>-282,342</b>	<b>-161,628</b>	<b>-722,014</b>
Increase and decrease in shareholders' equity	0	0	0
Amounts received on exercise of share options	202	201	0
Dividends paid during the period			
Dividends paid to shareholders in the parent company	-422,272	0	-370,335
Dividends paid to minority shareholders in consolidated companies	-42,846	-20,448	-8,873
Movements in own shares	-1,841	7,227	13,038
Cash drawn down re new loans	92,728	59,930	335,928
Repayments of borrowings	-41,250	-17,862	-54,643
Changes in loans, guarantees and advances granted	-23,867	2,485	918
<b>CASH FLOW FROM FINANCING ACTIVITIES (3)</b>	<b>-439,146</b>	<b>31,533</b>	<b>-83,967</b>
Impact of changes in exchange rates (4)	-6,591	-1,084	-14,196
Impact of assets and liabilities classified in the balance sheet as held for sale (5)	0	1,740	0
<b>CHANGE IN CASH (1 + 2 + 3 + 4 + 5)</b>	<b>253,864</b>	<b>155,519</b>	<b>-505,088</b>
<b>Opening net cash</b>	<b>543,586</b>	<b>543,586</b>	<b>797,450</b>
<b>Closing net cash</b>	<b>797,450</b>	<b>699,105</b>	<b>292,362</b>
Change	253,864	155,519	-505,088

## Consolidated half-year financial statements

### CONSOLIDATED CASH FLOW STATEMENT

STATEMENT OF CHANGES IN NET DEBT for the first half of 2008 (in € thousand)	Notes	31/12/2007	Change	30/06/2008
Gross cash (1)	10	912,478	-402,589	509,889
Bank current accounts in debit and overdrafts (2)	15	115,028	102,499	217,527
Impact of short-term assets and liabilities classified in the balance sheet as held for sale (3)	15	0	0	0
<b>Cash (4) = (1) - (2) + (3)</b>		<b>797,450</b>	<b>-505,088</b>	<b>292,362</b>
Gross debt (5)	15	555,060	269,448	824,508
Impact of medium- and long-term assets and liabilities classified in the balance sheet as held for sale (6)	15	0	0	0
<b>Net debt = (5) + (6) - (4)</b>		<b>-242,390</b>	<b>774,536</b>	<b>532,146</b>

STATEMENT OF CHANGES IN NET DEBT for the full year 2007 (in € thousand)	Notes	31/12/2006	Change	31/12/2007
Gross cash (1)	10	890,368	22,110	912,478
Bank current accounts in debit and overdrafts (2)	15	358,914	-243,886	115,028
Impact of short-term assets and liabilities classified in the balance sheet as held for sale (3)	15	12,132	-12,132	0
<b>Cash (4) = (1) - (2) + (3)</b>		<b>543,586</b>	<b>253,864</b>	<b>797,450</b>
Gross debt (5)	15	502,202	52,858	555,060
Impact of medium- and long-term assets and liabilities classified in the balance sheet as held for sale (6)	15	-49	49	0
<b>Net debt = (5) + (6) - (4)</b>		<b>-41,433</b>	<b>-200,957</b>	<b>-242,390</b>

STATEMENT OF CHANGES IN NET DEBT for the first half of 2007 (in € thousand)	Notes	31/12/2006	Change	30/06/2007
Gross cash (1)	10	890,368	137,436	1,027,804
Bank current accounts in debit and overdrafts (2)	15	358,914	-16,342	342,572
Impact of short-term assets and liabilities classified in the balance sheet as held for sale (3)	15	12,132	1,741	13,873
<b>Cash (4) = (1) - (2) + (3)</b>		<b>543,586</b>	<b>155,519</b>	<b>699,105</b>
Gross debt (5)	15	502,202	45,689	547,891
Impact of medium- and long-term assets and liabilities classified in the balance sheet as held for sale (6)	15	-49	3	-46
<b>Net debt = (5) + (6) - (4)</b>		<b>-41,433</b>	<b>-109,827</b>	<b>-151,260</b>

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2008

(In thousands of euros unless indicated otherwise).

### A – General information on Vallourec

#### 1 COMPANY NAME AND REGISTERED OFFICE

Vallourec  
27, avenue du Général Leclerc  
92100 Boulogne Billancourt  
France

#### 2 LEGAL STATUS

A French limited liability company (*société anonyme*) with a management structure comprising a Management Board and a Supervisory Board.

#### 3 CORPORATE PURPOSE (ARTICLE 3 OF THE BY-LAWS)

The Company's purpose, in any country, either for its own account or for a third party or directly or indirectly in partnership with third parties, is to carry out all industrial and commercial transactions relating to all methods for the preparation and manufacture, by all processes known or that could be discovered subsequently, of metals and any materials that may replace them in all their applications, and, in general, all commercial, industrial and financial transactions, and transactions in movable and fixed property, directly or indirectly associated with the above purpose.

#### 4 TRADE AND COMPANIES REGISTRY

The Company is registered with the Nanterre (Hauts-de-Seine) Trade and Companies Registry under no. 552 142 200 – APE 7010 Z.

#### 5 FINANCIAL YEAR

The Company's financial year covers a period of twelve months from 1 January to 31 December.

#### 6 CONSULTATION OF ANNUAL FINANCIAL DOCUMENTS (CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS)

The Company's financial documents (annual reports and reference documents – *documents de référence* – filed with the French securities regulator – *Autorité des Marchés Financiers* – AMF) are available on the Company's website: [www.vallourec.com](http://www.vallourec.com).

#### 7 LISTING OF THE COMPANY'S SHARES

The Company's shares are part of the deferred settlement section of the Euronext Paris Eurolist (ISIN code: FR0000120354).

Vallourec shares form part of the Euronext 100, CAC 40, MSCI World Index and SBF 120 indices. FTSE classification: engineering and machinery.

### B – Accounting principles

#### BASIS OF PREPARATION AND PRESENTATION OF THE HALF-YEAR FINANCIAL STATEMENTS

The interim consolidated financial statements for the six months ended 30 June 2008 were approved by the Vallourec Management Board on 30 July 2008.

Pursuant to European Commission regulation no. 1606/2002 adopted on 19 July 2002 for all listed companies in the European Union, Vallourec has prepared its consolidated financial statements for the year ended 31 December 2007 in accordance with International Financial Reporting Standards

(IFRS). The versions of the standards and interpretations used are those applicable as at that date.

The interim consolidated financial statements for the six months ended 30 June 2008 have also been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and the specific provisions of IAS 34 "Interim Financial Reporting".

The aim of the interim financial statements is to provide shareholders and investors with relevant information about significant events and transactions during the period. Such information is given mainly by means of a selection of notes to the financial statements, the purpose of which is to explain significant changes in the balance sheet between

## Consolidated half-year financial statements

### CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007 and 30 June 2008 and the main transactions that have contributed to the Group's results for the first half of 2008. The interim financial statements do not comprise all the information required in the case of full annual financial statements and must be read in conjunction with the Group's financial statements for the year ended 31 December 2007 filed with the AMF under D.08-0316 on 28 April 2008 (available on the Company's website: [www.vallourec.com](http://www.vallourec.com)).

The consolidated financial statements for the half year ended 30 June 2008 have been prepared on the basis of the IFRS standards and interpretations in force which will be applicable to the consolidated financial statements for the year ended 31 December 2008 and the specific provisions of IAS 34.

The Group has not applied early any standards or interpretations adopted by the European Union whose application will become mandatory only in 2009 or later, particularly IFRS 8 "Operating Segments" which becomes applicable on 1 January 2009, the Group continuing to report as at 30 June 2008 in accordance with IAS 14 "Segment Reporting".

The Vallourec Group nevertheless reserves the right, when the 2008 annual consolidated financial statements are published, to amend the accounting options and methods used in the preparation of the 2008 half-year financial statements in

accordance with any changes in the IFRS framework that have been adopted by the European Commission. The Group does not currently anticipate that the current or future exposure drafts will cause any significant changes that will affect the 2008 year-end financial statements.

The accounting principles and measurement methods have been applied in a consistent manner to the periods presented. The interim financial statements have been prepared in accordance with the same rules and methods as those used for the preparation of the annual financial statements. However, in the case of the interim financial statements, and in accordance with IAS 34 unless indicated otherwise, certain measurements may be based more on estimates than is the case in the annual financial statements.

The Group's activity is not significantly affected by seasonal fluctuations.

In preparing the consolidated financial statements for the six months ended 30 June 2008, management used estimates and assumptions in exactly the same areas as those described in the consolidated financial statements for the year ended 31 December 2007, while taking into account specific factors relating to pension costs and tax charges.

## C – Consolidation scope

The main changes in the consolidation scope compared with the first half of 2007 are shown in the table below:

	% interest 30/06/2007	% interest 31/12/2008	% interest 30/06/2008	% control 30/06/2008
<b>Fully-consolidated companies</b>				
Vallourec Précision Étirage (France)	100	-	-	-
Vallourec Précision Soudage (France)	100	-	-	-
Vallourec Composants Automobiles Vitry (France)	100	-	-	-
V & M Atlas Bradford, LP (US)	-	-	100.0	100.0
V & M TCA, LP (US)	-	-	100.0	100.0
V & M Tube-Alloy, LP (US)	-	-	100.0	100.0
<b>Companies accounted for using the equity method</b>				
VAM Dubai (UAE)	-	-	49.0	49.0

On 16 May 2008, Vallourec acquired three tube companies from Grant Prideco:

- Atlas Bradford®, recognised in North America as one of the largest suppliers of premium OCTG joints (renamed V & M Atlas Bradford);
- TCA®, specialising in heat treatment operations and the marketing of tubular products in a variety of high-alloy steels, with particular expertise in orders with short lead times (renamed V & M TCA);
- Tube-Alloy™, which produces and repairs accessories used inside oil and gas wells. It specialises in complex threading operations and the machining of tailor-made parts (renamed V & M Tube-Alloy).

These three companies have been fully consolidated in the Group's financial statements since 16 May 2008.

Their impact on the balance sheet is explained in Note 11. They do not have a material impact on the income statement for the first half of 2008.

The sale in the second half of 2007 of Vallourec Précision Étirage (VPE) and the hot-rolled tube plant in Zeithain (Saxony, Germany) on 2 July 2007, and that of Vallourec Précision Soudage (VPS) and Vallourec Composants Automobiles Vitry (VCAV) on 11 December affect the comparability of the half-year income statements. Their contribution to sales in the first half of 2007 totalled € 140 million.

The marketing company VAM Dubai has been accounted for in the financial statements using the equity method with effect from 1 January 2008.

The Group does not control any special purpose entities.

## NOTES TO THE FINANCIAL STATEMENTS - In € thousand

### SUMMARY

Note 1	Intangible assets and goodwill	13	Note 18	Other current liabilities	27
Note 2	Property, plant and equipment	14	Note 19	Information on related parties	27
Note 3	Investments in equity affiliates	15	Note 20	Sales	27
Note 4	Other non-current assets	15	Note 21	Other operating revenues	27
Note 5	Deferred taxation	16	Note 22	Taxes and duties	28
Note 6	Inventories and work-in-progress	16	Note 23	Payroll costs and average number of employees in consolidated companies	28
Note 7	Trade and other receivables	17	Note 24	Other operating costs	28
Note 8	Financial instruments	17	Note 25	Charges to provisions net of reversals	29
Note 9	Other current assets	19	Note 26	Depreciation and amortization	29
Note 10	Cash and cash equivalents	20	Note 27	Asset disposals and restructuring costs	29
Note 11	Business combinations	20	Note 28	Financial income (loss)	30
Note 12	Shareholders' equity	21	Note 29	Reconciliation of theoretical and actual tax charge	30
Note 13	Earnings per share	21	Note 30	Segment information	31
Note 14	Minority interests	22			
Note 15	Bank loans and other borrowings	22			
Note 16	Provisions for liabilities and charges	24			
Note 17	Employee benefits	24			

### Note 1 Intangible assets and goodwill

	Concessions, patents, licences and other rights	Other intangible assets	Total intangible assets	Goodwill
<b>GROSS VALUES</b>				
<b>At 31/12/2007</b>	<b>41,011</b>	<b>29,992</b>	<b>71,003</b>	<b>79,900</b>
Acquisition of V & M Atlas Bradford, V & M Tube-Alloy and V & M TCA		239,048	239,048	198,509
Other acquisitions	637	7,105	7,742	
Disposals		-9	-9	
Impact of changes in exchange rates	208	-5,041	-4,833	-7,860
Changes in consolidation scope				
Other movements	1,875		1,875	3,630
<b>At 30/06/2008</b>	<b>43,731</b>	<b>271,095</b>	<b>314,826</b>	<b>274,179</b>
<b>AMORTIZATION AND IMPAIRMENT</b>				
<b>At 31/12/2007</b>	<b>-28,121</b>	<b>-21,168</b>	<b>-49,289</b>	
Net amortization charges for the year	-2,188	-7,107	-9,295	
Impairment losses (charges net of reversals)				
Disposals				
Impact of changes in exchange rates	-175	562	387	
Changes in consolidation scope				
Other movements	-1,643	-3	-1,646	
<b>At 30/06/2008</b>	<b>-32,127</b>	<b>-27,716</b>	<b>-59,843</b>	
<b>NET VALUES</b>				
<b>At 31/12/2007</b>	<b>12,890</b>	<b>8,824</b>	<b>21,714</b>	<b>79,900</b>
<b>At 30/06/2008</b>	<b>11,604</b>	<b>243,379</b>	<b>254,983</b>	<b>274,179</b>

## Consolidated half-year financial statements

### NOTES TO THE FINANCIAL STATEMENTS

#### Intangible assets

The main changes that occurred during the first half of 2008 relate to the intangible assets of V & M Atlas Bradford, V & M Tube-Alloy and V & M TCA, which were identified and measured by independent experts as at their acquisition date (see Note 11):

- brands and patents: amortized over between 7 and 15 years;
- order book: amortized over between 5 and 9 months;
- technology and know-how: amortized over between 5 and 25 years;
- customer relations: amortized over between 6 and 14 years.

#### Goodwill

The results of the impairment tests carried out as at 31 December 2007 remain valid as at 30 June 2008.

The goodwill totalling € 198.5 million represents the portion not allocated to specific balance sheet items of the difference between the acquisition price of V & M Atlas Bradford, V & M Tube-Alloy and V & M TCA and the Group's share of the assets and liabilities acquired, including contingent liabilities (see Note 11), measured at their fair value as at the acquisition date. This fair value measurement was carried out by independent experts.

## Note 2 Property, plant and equipment

	Land	Buildings	Technical installations, equipment and industrial tools	Property, plant and equipment in progress	Other property, plant and equipment	Total
<b>GROSS VALUES</b>						
<b>At 31/12/2007</b>	<b>64,293</b>	<b>240,620</b>	<b>1,317,587</b>	<b>209,868</b>	<b>170,052</b>	<b>2,002,421</b>
Acquisition of V & M Atlas Bradford, V & M Tube-Alloy and V & M TCA	4,501	9,166	30,417		752	44,836
Acquisitions	386	10,111	78,849	114,508	12,982	216,836
Disposals	-114		-3,693		-768	-4,575
Impact of changes in exchange rates	655	-1,219	-7,080	610	981	-6,053
Changes in consolidation scope						
Other movements	267	1,155	43,602	-42,266	-3,323	-565
<b>At 30/06/2008</b>	<b>69,988</b>	<b>259,833</b>	<b>1,459,682</b>	<b>282,720</b>	<b>180,676</b>	<b>2,252,900</b>
<b>DEPRECIATION AND IMPAIRMENT</b>						
<b>At 31/12/2007</b>	<b>-17,242</b>	<b>-87,708</b>	<b>-579,514</b>		<b>-51,994</b>	<b>-736,458</b>
Net depreciation charge for the period	-1,040	-4,826	-51,153		-4,719	-61,738
Impairment losses						
Disposals		-225	3,676		429	3,880
Impact of changes in exchange rates	-383	376	2,118		32	2,143
Changes in consolidation scope			1			1
Other movements		379	177			556
<b>At 30/06/2008</b>	<b>-18,665</b>	<b>-92,004</b>	<b>-624,695</b>		<b>-56,252</b>	<b>-791,616</b>
<b>NET VALUES</b>						
<b>At 31/12/2007</b>	<b>47,051</b>	<b>152,912</b>	<b>738,073</b>	<b>209,868</b>	<b>118,058</b>	<b>1,265,963</b>
<b>At 30/06/2008</b>	<b>51,323</b>	<b>167,829</b>	<b>834,987</b>	<b>282,720</b>	<b>124,424</b>	<b>1,461,284</b>

**Capital expenditure**

Industrial investments (property, plant and equipment and intangible assets)	1 <sup>st</sup> half 2008
Europe	101,780
North America and Mexico	36,892
South America	83,202
Asia	2,126
Other	578
<b>TOTAL</b>	<b>224,578</b>

**Note 3 Investments in equity affiliates**

The main equity affiliates (carrying amount greater than € 10 million) are listed below.

	HKM Germany	P.T. CitraTubindo Indonesia	Other	Total
<b>At 31/12/2007</b>	<b>24,939</b>	<b>15,211</b>	<b>14,894</b>	<b>55,044</b>
Changes in consolidation scope			194	194
Capital increase				
Impact of changes in exchange rates		-1,064	-772	-1,836
Dividends paid	-9		-776	-785
Contribution to net income for the period	2,980	1,991	1,238	6,209
Other movements				
<b>At 30/06/2008</b>	<b>27,910</b>	<b>16,138</b>	<b>14,778</b>	<b>58,826</b>

The change in consolidation scope relates to VAM Dubai, which is 49%-owned.

**Note 4 Other non-current assets**

	Other investments in equity instruments	Loans	Other financial investments	Total
<b>At 31/12/2007</b>	<b>2,336</b>	<b>6,099</b>	<b>34,571</b>	<b>43,006</b>
Gross value	5,433	5,597	37,490	48,520
Provisions	-2,650		-587	-3,237
<b>At 30/06/2008</b>	<b>2,783</b>	<b>5,597</b>	<b>36,903</b>	<b>45,283</b>

**Maturities of other non-current assets:**

Gross values at 30/06/2008	Between 1 and 5 years	Over 5 years	Total
Loans	2,205	3,392	5,597
Other investments in equity instruments	427	5,006	5,433
Other financial investments	35,703	1,787	37,490
<b>TOTAL</b>	<b>38,335</b>	<b>10,185</b>	<b>48,520</b>

## Consolidated half-year financial statements

### NOTES TO THE FINANCIAL STATEMENTS

#### Note 5 Deferred taxation

Tax assets and liabilities relating to the same tax entity (e.g. a tax consolidation group) are offset in the balance sheet.

At 30 June 2008, there were no unrecognized deferred tax assets.

The tax losses carried forward at 30 June 2008 related to the following subsidiaries: V & M Florestal (Brazil: € 3,233 thousand), Vallourec Industries Inc (United States: € 2,518 thousand) and VAM Changzhou Oil & Gas Premium Equipments (China: € 2,287 thousand).

#### Note 6 Inventories and work-in-progress

	Raw materials, supplies and goods for resale	Work-in-progress	Finished and semi- finished products	Total
<b>GROSS VALUES</b>				
<b>At 31/12/2007</b>	<b>492,186</b>	<b>340,255</b>	<b>417,011</b>	<b>1,249,452</b>
Acquisition of V & M Atlas Bradford, V & M Tube-Alloy and V & M TCA	12,279	9,307	5,294	26,880
Changes in inventories recognized in the income statement	100,249	49,603	-9,679	140,173
Changes in consolidation scope				
Impact of changes in exchange rates	-3,422	-5,700	-1,123	-10,245
Other movements				
<b>At 30/06/2008</b>	<b>601,292</b>	<b>393,465</b>	<b>411,503</b>	<b>1,406,260</b>
<b>PROVISIONS</b>				
<b>At 31/12/2007</b>	<b>-41,014</b>	<b>-9,254</b>	<b>-30,430</b>	<b>-80,698</b>
Impact of changes in exchange rates	85	239	-207	117
Charges to provisions	-8,540	-2,233	-4,576	-15,349
Reversals of provisions	7,153	3,116	11,774	22,043
Changes in consolidation scope				
Other movements				
<b>At 30/06/2008</b>	<b>-42,316</b>	<b>-8,132</b>	<b>-23,439</b>	<b>-73,887</b>
<b>NET VALUES</b>				
<b>At 31/12/2007</b>	<b>451,172</b>	<b>331,001</b>	<b>386,581</b>	<b>1,168,754</b>
<b>At 30/06/2008</b>	<b>558,976</b>	<b>385,333</b>	<b>388,064</b>	<b>1,332,373</b>

**Note 7 Trade and other receivables**

	Advances and deposits paid on orders	Accounts receivable (gross)	Provisions	Total
<b>At 31/12/2007</b>	<b>27,221</b>	<b>1,032,265</b>	<b>-10,864</b>	<b>1,048,622</b>
Acquisition of V & M Atlas Bradford, V & M Tube-Alloy and V & M TCA		17,409		17,409
Other changes in consolidation scope				
Impact of changes in exchange rates	343	-7,014	-145	-6,816
Changes in gross values	10,760	73,488		84,248
Charges to provisions			-6,825	-6,825
Reversals of provisions				
Other movements				
<b>At 30/06/2008</b>	<b>38,324</b>	<b>1,116,148</b>	<b>-17,834</b>	<b>1,136,638</b>

In 2007 and in the first half of 2008, the increase in "Accounts receivable" and "Advances and deposits paid on orders" is in line with the increase in the Group's activity. The provision

reversals relate mainly to receivables that have become irrecoverable during the period.

**Note 8 Financial instruments****Financial assets and liabilities**

Financial assets and liabilities are measured and presented in the balance sheet in accordance with the various categories specified by IAS 39.

**Impact of IAS 32 and IAS 39 on shareholders' equity and income or loss**

Hedging instruments represented a net asset position of € 130 million at 31 December 2007 and € 127.6 million at 30 June 2008.

The main impact of the effectiveness of the hedges of the forward purchases and sales defined in accordance with the

criteria of IAS 39 was the recognition of a premium/discount of € 10.9 million at the end of June. The change in the first half was a gain of € 7 million over the six months and corresponds to the inversion of the yield curve in the first half.

As regards interest rates, the Group fixed, by means of swaps, a part of its variable-rate debt denominated in euros. At 30 June 2008, the debt swapped to a fixed rate totalled € 410 million. In addition, the US dollar 300 million debt contracted on 17 April 2008 was swapped to a fixed rate. This swap was to be effective as from August 2008. At 30 June, the fair value of the swaps recognized in shareholders' equity was € 11.3 million.

## Consolidated half-year financial statements

### NOTES TO THE FINANCIAL STATEMENTS

Balance sheet items concerned	At 31/12/2007	At 30/06/2008	Movements in first half 2008		
			Total	o/w reserves	o/w income (loss)
<i>1 - Derivatives recognized in the balance sheet, see Note 9 <sup>(1)</sup></i>					
Changes in the intrinsic value of forward sales of currencies and forward purchases <sup>(2)</sup> linked to order books and commercial tenders	97,958	83,273	-14,685	-14,174	-511
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with accounts receivable (and accounts payable <sup>(2)</sup> )	46,598	51,205	4,607		4,607
Changes in the intrinsic value of hedges of raw material and energy purchases linked to order books and commercial tenders	-249	-454	-205	249	-454
Changes in the intrinsic value of hedges of raw material and energy purchases linked to accounts payable					
Recognition of premium/discount	-17,918	-10,919	6,999		6,999
Options to purchase US dollars linked to the acquisition of the premium OCTG activities of Grant Prideco	408		-408		-408
Recognition of changes in the fair value of interest rate swaps	9,337	11,343	2,006	2,006	
Other	-6,097	-6,857	-760		-760
<b>Sub-total: derivatives</b>	<b>130,037</b>	<b>127,591</b>	<b>-2,446</b>	<b>-11,919</b>	<b>9,473</b>
<b>Reclassification as assets and liabilities held for sale</b>					
<i>Of which: derivatives - assets</i>	<i>158,148</i>	<i>150,247</i>			
<i>Reclassification as assets held for sale</i>					
<i>Of which: derivatives - liabilities</i>	<i>28,110</i>	<i>22,656</i>			
<i>Reclassification as liabilities held for sale</i>					
<i>2 - Accounts receivable (accounts payable <sup>(2)</sup>) hedged in currencies - translation gain/loss</i>					
Measurement at period-end exchange rate	-45,273	-50,710	-5,437		-5,437
<b>Impact of hedging operations</b>	<b>84,764</b>	<b>76,881</b>	<b>-7,883</b>	<b>-11,919</b>	<b>4,036</b>
<i>3 - Measurement of construction loans at the effective interest rate</i>					
	-1,671	-2,144	-473		-473
<i>4 - Measurement of marketable securities at fair value</i>					
	693	119	-574		-574
<i>5 - Deferred taxes (on exchange rate and interest rate hedges)</i>					
	-34,170	-29,798	4,372	4,061	311
<b>TOTAL</b>	<b>49,616</b>	<b>45,058</b>	<b>-4,558</b>	<b>-7,858</b>	<b>3,300</b>
<b>Impact - see statement of changes in shareholders' equity</b>					
Revaluation reserves - financial instruments	70,097	62,481		-7,616	
Of which: Group share	70,026	62,410		-7,616	
Of which: minority interests	71	71			
Other consolidation reserves	-19,676	-20,723		-1,047	
Income (loss)	-805	3,300		805	3,300
<b>TOTAL</b>	<b>49,616</b>	<b>45,058</b>		<b>-7,858</b>	<b>3,300</b>

(1) Assets and liabilities offset in this table to give net position: + = net assets, - = net liabilities.

(2) Amounts not material in relation to sales.

### Management of market risk

The industrial companies manage their foreign exchange positions in respect of foreign currency transactions with the aim of hedging against exchange rate fluctuations.

The strategy generally adopted is that as soon as an order is received, forward contracts are entered into.

Receivables, payables and operating cash flows are thus hedged with financial instruments – mainly forward purchases and sales.

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

At 30 June 2008, the following amounts were outstanding under forward foreign exchange contracts to hedge foreign-currency-denominated purchases and sales:

Hedging contracts in respect of commercial transactions - Exchange rate risk	2007	1 <sup>st</sup> half 2008
Forward exchange contracts: forward sales	1,939,536	1,792,593
Forward exchange contracts: forward purchases	152,430	111,178
Currency options: sales	36,296	66,630
Currency options: purchases	249,650	249,651
Commodities and energy: call options	639	3,432
<b>TOTAL</b>	<b>2,378,551</b>	<b>2,223,484</b>

### Contract maturities at 30 June 2008

Contracts in respect of commercial transactions	Total	One year or less	One to five years	Over five years
Foreign exchange contracts: forward sales	1,792,593	1,648,186	144,407	
Foreign exchange contracts: forward purchases	111,178	109,081	2,097	
Currency options: sales	249,651	249,651		
Currency options: purchases	66,630	66,630		
Commodities and energy: call options	3,432	3,432		
<b>TOTAL</b>	<b>2,223,484</b>	<b>2,076,980</b>	<b>146,504</b>	

Forward sales correspond mainly to sales of US dollars (€ 1,580 million of the € 1,792 million total). These contracts were transacted at an average forward EUR/USD exchange rate of 1.44.

### Note 9 Other current assets

	Amounts due from staff and social security bodies	Receivables re taxes excluding income tax	Pre-payments	Receivables re income tax	Other receivables	Total
<b>At 31/12/2007</b>	<b>7,274</b>	<b>63,915</b>	<b>10,117</b>	<b>15,565</b>	<b>45,882</b>	<b>142,753</b>
Impact of changes in exchange rates	10	143	-306	-19	185	13
Other movements	1,414	19,367	-924	18,871	20,817	59,545
<b>At 30/06/2008</b>	<b>8,698</b>	<b>83,425</b>	<b>8,887</b>	<b>34,417</b>	<b>66,884</b>	<b>202,311</b>

## Consolidated half-year financial statements

### NOTES TO THE FINANCIAL STATEMENTS

#### Note 10 Cash and cash equivalents

	Marketable securities (gross)	Cash	Total
<b>At 31/12/2007</b>	<b>637,914</b>	<b>274,564</b>	<b>912,478</b>
Impact of changes in exchange rates	4,776	-11,739	-6,963
Other movements	-432,545	36,919	-395,626
<b>At 30/06/2008</b>	<b>210,145</b>	<b>299,744</b>	<b>509,889</b>

“Cash and cash equivalents” comprises cash in bank current accounts and marketable securities (shares in short-term cash UCITS and mutual and investment funds) that are immediately available (not pledged) and risk-free.

#### Note 11 Business combinations

The intangible assets of V & M Atlas Bradford, V & M Tube-Alloy and V & M TCA, which were measured by independent experts on 16 May 2008, are amortized over the following periods:

- brands and patents: between 7 and 15 years;
- order book: between 5 and 9 months;
- technology and know-how: between 5 and 25 years;
- customer relations: between 6 and 14 years.

Goodwill represents the difference between the acquisition price and the fair value on the acquisition date of the identifiable assets and liabilities. The Group has a period of 12 months in which to finalize the measurement of these assets and liabilities. They will be tested at the level of the V & M North America cash-generation unit (CGU).

The impact of this acquisition on the Group’s assets and liabilities is shown in the following table:

	At 16 May 2008	Value before allocation	Allocation of goodwill
Intangible assets	239,048	698	238,350
Property, plant and equipment	44,836	25,664	19,172
Goodwill	198,509	53,201	145,308
Inventories	26,880	23,244	3,636
Accounts receivable	17,409	17,409	
Cash and cash equivalents	8	8	
Other assets	38	38	
	<b>526,728</b>	<b>120,262</b>	<b>406,466</b>
Trade payables	-4,742	-4,742	
Social security liabilities	-1,621	-846	-775
Tax liabilities	-217	-217	
Other operating liabilities	-311	-311	
<b>TOTAL</b>	<b>519,837</b>	<b>114,146</b>	<b>405,691</b>
<b>Consideration paid in cash</b>	<b>519,837</b>		

Customer relations are the main component of intangible assets.

## Note 12 Shareholders' equity

### Capital

Vallourec's share capital comprised 53,038,720 ordinary shares with a nominal value of € 4 per share fully paid-up as at 30 June 2008 and has remained unchanged since 31 December 2007.

### Reserves, financial instruments

In accordance with IAS 39 on financial instruments, postings to this reserve account are made in respect of two types of transactions:

- effective currency hedges in respect of the order book and commercial tenders. Changes in the intrinsic values at the period end are recognized in shareholders' equity;

- variable-rate borrowings in respect of which interest rate swaps (to a fixed rate) have been entered into. They are accounted for in accordance with the cash flow hedge method. Changes in the fair value of the swap contracts, linked to interest rate movements, are recognized in shareholders' equity.

### Translation reserve

The translation reserve arises as a result of the translation of the shareholders' equity of subsidiaries outside the euro zone. The movement in the reserve corresponds to changes in the exchange rates used to translate the shareholders' equity and income or loss for the period of such subsidiaries. Components of the reserve may be written off to the income statement only in the event of the disposal of the foreign subsidiary concerned.

	USD	GBP	Brazilian Real	Mexican Peso	Others	Total
<b>At 31/12/2007</b>	<b>-72,572</b>	<b>-4,277</b>	<b>61,798</b>	<b>-6,006</b>	<b>-2,981</b>	<b>-24,038</b>
Movements	-29,772	-4,519	18,604	-422	-1,948	-18,057
<b>At 30/06/2008</b>	<b>-102,344</b>	<b>-8,796</b>	<b>80,402</b>	<b>-6,428</b>	<b>-4,929</b>	<b>-42,095</b>

Main exchange rates used (euro/currency) for translation of balance sheet items (closing rate) and income statement items (average rate).

	USD	GBP	Brazilian Real	Mexican Peso
<b>2007</b>				
Average rate	1.37	0.68	2.66	14.96
Closing rate	1.47	0.73	2.60	16.07
<b>1<sup>ST</sup> HALF 2008</b>				
Average rate	1.53	0.78	2.59	16.25
Closing rate	1.58	0.79	2.51	16.23

## Note 13 Earnings per share

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

Diluted earnings per share are calculated by dividing the net income for the period attributable to the ordinary shareholders by the weighted average number of ordinary shares in issue during the period (adjusted for the effects of dilutive options).

Details of the earnings and numbers of shares used to calculate basic and diluted earnings per share are given in the following table:

Earnings per share	2007	1 <sup>st</sup> half 2008
<b>Net income attributable to the ordinary shareholders for basic earnings per share</b>	<b>986,204</b>	<b>448,447</b>
Weighted average number of ordinary shares for basic earnings per share	53,034,478	53,038,720
Weighted average number of own shares for basic earnings per share	-825,444	-179,100
Weighted average number of shares for basic earnings per share	52,209,034	52,859,620
<b>Earnings per share</b>	<b>18.9</b>	<b>8.5</b>
Dilution effect - share purchase and share subscription options and bonus shares	332,131	149,597
Adjusted weighted average number of ordinary shares for diluted earnings per share	52,541,165	53,009,217
<b>Diluted earnings per share</b>	<b>18.8</b>	<b>8.5</b>

## Consolidated half-year financial statements

### NOTES TO THE FINANCIAL STATEMENTS

#### Note 14 Minority interests

	Reserves	Translation difference	Net income	Total
At 31/12/2007	54,510	-10,876	38,258	81,892
<b>At 30/06/2008</b>	<b>81,678</b>	<b>-15,204</b>	<b>14,127</b>	<b>80,601</b>

The statement of changes in shareholders' equity provides an analysis of minority interests.

#### Note 15 Bank loans and other borrowings

##### Liquidity risks

In 2003, Vallourec entered into a € 150 million credit facility with the Crédit Agricole Group. The facility has a five-year term, maturing in September 2008. Vallourec used hedging instruments (swaps) to fix the rate of this borrowing. The loan contract requires the Vallourec Group to maintain its ratio of consolidated net debt to consolidated shareholders' equity at less than or equal to 75%.

In March 2005, a seven-year € 460 million credit facility was made available to Vallourec by a syndicate of banks to finance the acquisition of the 45% stake in V & M Tubes.

This € 460 million facility requires Vallourec to maintain its ratio of consolidated net debt to consolidated shareholders' equity at less than or equal to 75% calculated at 31 December each year and for the first time on 31 December 2005. A change of control of Vallourec could result in the repayment of the loan if so decided by a two-thirds majority of the participating banks. It is also provided that the loan would become immediately repayable if the Group failed to make a repayment in respect of one of its other borrowings ("cross default"), or if a significant event occurred affecting the Group's business or financial situation and ability to repay its borrowings.

As at 30 June 2008, € 355 million of this facility had been drawn down, of which € 260 million is included in non-current liabilities (as at 31 December 2007) and € 95 million is included in current liabilities.

During the first few months of 2007, the Group (V & M Tubes) negotiated five € 100 million medium-term (five year) bilateral lines with the banks with which it has the most dealings.

Each of these lines is subject to commitments of a similar type to those applicable to the € 460 million facility described above.

Finally, on 17 April 2008, Vallourec entered into a five-year US dollar 300 million term loan and a five-year € 350 million revolving facility with a syndicate of seven banks. This loan was swapped to a fixed rate, which took effect as from August 2008.

This loan agreement is subject to commitments of a similar type to those applicable to the € 460 million facility described above.

At 30 June, Vallourec was using the US dollar 300 million term loan, which was equivalent to € 190.3 million, and which is included in non-current liabilities.

As regards interest rates, the Group fixed, through the use of swaps, a portion of its variable-rate debt denominated in euros. At 30 June 2008, € 410 million of the debt had been swapped to a fixed rate. In addition, the US dollar 300 million debt entered into on 17 April 2008 was swapped to a fixed rate, which took effect as from August 2008. At 30 June, the fair value of the swaps recognized in shareholders' equity was € 11.3 million.

In addition, since 2005, V & M do Brasil has put in place several medium-term financing lines, denominated in Brazilian reals, principally from BNDES and, to a lesser extent, from Banco do Nordeste.

The fair value of the Group's borrowings is the same as their carrying amount.

##### Financial liabilities - Non-current liabilities

	Bank loans	Other bank and similar borrowings	Total
<b>At 31/12/2007</b>	<b>335,359</b>	<b>1,888</b>	<b>337,247</b>
New borrowings taken out	205,865	15,748	221,613
Repayments	-6,628	-665	-7,293
Reclassifications			
Impact of changes in exchange rates	2,391	-15,165	-12,774
Changes in consolidation scope			
Other movements	-8,120	61	-8,059
<b>At 30/06/2008</b>	<b>528,867</b>	<b>1,867</b>	<b>530,734</b>

**Financial liabilities - current liabilities**

	Bank overdrafts	Accrued interest on bank overdrafts	Bank loans (< 1 year)	Accrued interest on bank loans	Other bank and similar borrowings (< 1 year)	Total
<b>At 31/12/2007</b>	<b>114,998</b>	<b>30</b>	<b>208,530</b>	<b>741</b>	<b>8,542</b>	<b>332,841</b>
Increase	101,634	42	114,315	1,235		217,226
Repayments			-44,413	-46	-2,938	-47,397
Reclassifications						
Impact of changes in exchange rates	822		-279	-1	-31	511
Changes in consolidation scope						
Other movements	2		8,118			8,120
<b>At 30/06/2008</b>	<b>217,456</b>	<b>72</b>	<b>286,271</b>	<b>1,929</b>	<b>5,573</b>	<b>511,301</b>

**Indebtedness by currency**

	USD	EUR	CAD	REAL	GBP	Others	Total
<b>At 30/06/2008 - currency thousand</b>	<b>661,204</b>	<b>-</b>	<b>-</b>	<b>233,290</b>	<b>11,731</b>	<b>-</b>	<b>n/a</b>
<b>At 30/06/2008 - € thousand</b>	<b>419,439</b>	<b>500,609</b>	<b>-</b>	<b>92,900</b>	<b>14,806</b>	<b>14,281</b>	<b>1,042,035</b>

**Breakdown by maturity of non-current bank loans and other borrowings**

	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
<b>At 30/06/2008</b>	<b>15,135</b>	<b>21,559</b>	<b>14,500</b>	<b>463,312</b>	<b>16,228</b>	<b>530,734</b>

**Indebtedness over one year at the outset, by interest rate**

The following table groups the current and non-current portions of bank loans and other bank and similar borrowings:

	Rate < 3%	Rate 3% to 6%	Rate 6% to 10%	Rate > 10%	Total
<b>At 30/06/2008</b>					
Fixed rates	2,049	435,050	28,969	633	466,701
Variable rates		294,637	46,591	14,649	355,877
<b>TOTAL</b>	<b>2,049</b>	<b>729,687</b>	<b>75,560</b>	<b>15,282</b>	<b>822,578</b>

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

## Consolidated half-year financial statements

### NOTES TO THE FINANCIAL STATEMENTS

#### Note 16 Provisions for liabilities and charges

Non-current liabilities	Provisions for environmental risks
<b>At 31/12/2007</b>	<b>6,882</b>
Allocations for the period	98
Provisions used	-1,920
Impact of changes in exchange rates	143
Other	
<b>At 30/06/2008</b>	<b>5,203</b>

This provision covers, in particular, the costs of soil treatment at industrial sites: the full amount of the likely costs has been provisioned.

The provision also covers the clean-up costs in respect of the mine in Brazil: amounts are provided as and when minerals are extracted, based on the volumes extracted.

Current liabilities	Commercial disputes	Orders outstanding - losses on completion	Reorganization measures	Tax risks (duties, taxes, tax audits, etc.)	Other	Total
<b>At 31/12/2007</b>	<b>25,425</b>	<b>4,857</b>	<b>301</b>	<b>32,930</b>	<b>16,592</b>	<b>80,105</b>
Allocations for the period	8,151	3,932		1,073	2,247	15,403
Provisions used	-12,086	-950			-616	-13,652
Other reversals	-19		-7	-258	-721	-1,005
Impact of changes in exchange rates	105	52		1,199	33	1,389
Other (reclassifications)	-905	1,428		11	-530	4
<b>At 30/06/2008</b>	<b>20,671</b>	<b>9,319</b>	<b>294</b>	<b>34,955</b>	<b>17,005</b>	<b>82,244</b>

#### Note 17 Employee benefits

	Germany	France	United Kingdom	Other	Total
<b>At 30/06/2008</b>					
Net present value of the commitment	165,603	31,325	81,921	23,633	302,482
Retirement	142,966	27,685	81,921	19,075	271,647
Early retirement commitments	9,944	126			10,070
Long-service awards and medical benefits	12,693	3,514		4,558	20,765
Fair value of the plan assets	-30,000	-1,683	-74,793	-7,775	-114,251
Past service costs not recognized	-291	-2,745			-3,036
Actuarial gains and losses	-5,810	-851	-7,315	-3,043	-17,019
Changes in consolidation scope and other					
<b>Provision</b>	<b>129,502</b>	<b>26,046</b>	<b>-187</b>	<b>12,815</b>	<b>168,176</b>

The charges recognized during the period comprise additional rights acquired in respect of the service for the additional period, the change in rights existing at the beginning of the period due to discounting, the past service cost recognized during the period, the expected return on plan assets, the

impact of reductions in or liquidations of plans and the amortization of actuarial gains and losses. The portion relating to the discounting of rights is recognized within financial income or loss and the return on plan assets is recognized within financial income.

An analysis of these charges is provided in the following table:

Charge for the half year:	Germany	France	United Kingdom	Other	Total
<b>At 30/06/2008</b>					
Cost of services rendered	1,831	777	1,029	855	4,492
Interest charges on the commitment	4,094	671	2,305	722	7,792
Expected return on plan assets	-856	-42	-2,406	-339	-3,643
Net actuarial gains/losses recognized during the period	32	9		327	368
Past service costs	44	130			174
<b>Net charge recognized</b>	<b>5,145</b>	<b>1,545</b>	<b>928</b>	<b>1,565</b>	<b>9,183</b>

The amounts recognized at 30 June 2008 result from a forecast prepared on the basis of the measurement of the retirement commitments as at 31 December 2007 using the same assumptions.

At 30 June 2008, a sensitivity test was carried out on the retirement gratuities and long-service awards:

- in France, a 0.5% increase in the discount rate would result in a change of about € 1.2 million in these commitments;

- in Germany, a 0.5% increase in the discount rate would result in a change of about € 6.8 million in these commitments;

- in the United Kingdom, a 1% increase in the discount rate would result in a change of about € 15.4 million in these commitments.

## Other employee benefits (options and bonus shares)

### Share purchase options

The second resolution of the Extraordinary Shareholders' Meeting held on 15 June 2000 authorized the Management Board, during a five-year period and up to a limit of 10% of the share capital, to grant purchase options concerning existing shares that would first have to be bought on the Stock Exchange in accordance with the share repurchase authorizations given by the Meeting.

A first tranche of options was granted under this authorization on 11 June 2003. The main characteristics of these options are shown in the table below.

All figures have been recalculated to take into account the division by 5 of the nominal value of Vallourec's shares on 18 July 2006 and the resulting multiplication by 5 of the number of shares.

	Plan
Date of General Meeting	15 June 2000
Date of Management Board meeting	15 June 2003
Total number of shares employees may purchase	965,000
Adjustment to the number of options following the rights offering on 13 July 2005	14,480
Date from which options may be exercised	11 June 2007
Expiry date	10 June 2010

	2007	1 <sup>st</sup> half 2008
- of which number of options granted to those employees who were members of the Executive Committee at the end of the period	175,000	175,000
- adjustment to the number of options following the rights offering	2,660	2,660
- number of senior managers involved	6	6
- exercise price <sup>(*)</sup>	€ 10.73	€ 10.73
- exercise price adjusted for rights offering on 13 July 2005	€ 10.57	€ 10.57
Number of options cancelled after being granted <sup>(**)</sup>	13,750	13,750
Number of options exercised since date granted	928,616	938,840
(of which number of shares subscribed by members of the Executive Committee)	177,660	-
Number of shares that employees may purchase at the end of the period	37,114	26,890
(of which number of shares subscribed by members of the Executive Committee)	-	-

(\*) Average price for the 20 trading sessions preceding the grant date, not discounted.

(\*\*) Option holders who have left the Group.

In accordance with the transitional provisions specifically provided for by IFRS 1 and IFRS 2, the Group has recognized and measured in accordance with IFRS 2 only the share

purchase option plan. This plan gave rise to payroll costs of € 0.9 million as at 31 December 2004, 2005 and 2006 and € 0.4 million in 2007.

## Consolidated half-year financial statements

### NOTES TO THE FINANCIAL STATEMENTS

#### Share subscription options - granted on 3 September 2007

The seventh resolution of the Extraordinary Shareholders' Meeting held on 6 June 2007 authorized the Management Board to grant share subscription options.

Options were granted under this authorization on 3 September 2007. The main characteristics of the options are shown in the table below.

	Plan
Date of General Meeting	6 June 2007
Date of Management Board meeting	3 September 2007
Total number of options granted	147,300
Date from which options may be exercised	3 September 2011
Expiry date	2 September 2014

	2007	1 <sup>st</sup> half 2008
- of which number of options granted to those employees who were members of the Executive Committee as at 31 December	60,000	60,000
- number of senior managers involved	8	8
- exercise price <sup>(*)</sup>	190.60	190.60
Number of options cancelled after being granted <sup>(**)</sup>	-	-
Number of shares subscribed at the end of the period (1 option = 1 share)	-	-
(of which number of shares subscribed by members of the Executive Committee)	-	-
Number of options that could be exercised at the end of the period	147,300	147,300
(of which number of options that could be exercised by members of the Executive Committee)	60,000	60,000

(\*) Average for the 20 trading sessions preceding the grant date.

(\*\*) Option holders who have left the Group.

Vallourec has recognized and measured the share purchase option plan in accordance with IFRS 2. This plan gave rise to payroll costs of € 0.7 million at 31 December 2007 and € 1.1 million during the first half of 2008.

#### Bonus Share Allocation Plan (PAGA)

##### 16 January 2006 plan

At its meeting on 16 January 2006, Vallourec's Management Board implemented a Bonus Share Allocation Plan (*Plan d'Attribution Gratuite d'Actions – PAGA*) approved by the Supervisory Board.

The share price on 16 January 2006 was € 93.3 (after division by 5 of the nominal value of Vallourec's shares).

The definitive number of shares allocated to beneficiaries on 16 January 2008 was 188,853 bonus shares.

The binomial model of projecting share prices has been used to measure the fair value of the shares allocated. Each employee's benefit corresponds to the fair value of the shares allocated, reduced to take into account the fact that no dividends will be received for two years and the cost to the employee of the fact that the shares may not be transferred for a period of two years.

The charge recognized in the income statement in respect of the 16 January 2006 PAGA was € 8.3 million for the financial year 2006, € 7.2 million for the financial year 2007 and € 0.4 million for the half year ended 30 June 2008.

#### Bonus Share Allocation Plan (PAGA)

##### 3 May 2007 plan

At its meeting on 3 May 2007, Vallourec's Management Board implemented a Bonus Share Allocation Plan (*Plan d'Attribution Gratuite d'Actions – PAGA*) approved by the Supervisory Board.

A theoretical number of Vallourec bonus shares was allocated by the Management Board on 3 May 2007 (111,000 shares). The definitive allocation (number of shares) will be allocated in thirds in 2009, 2010 and 2011 and each third will be based on the Vallourec Group's performance in terms of consolidated EBITDA in 2008, 2009 and 2010. It will be calculated by applying a multiplying factor K, representing this performance, to the theoretical number of shares allocated by the Management Board on 3 May 2007. K can range from 0 to 1.33.

Factor K is calculated for each of the years concerned and is applied to one third of the initial theoretical allocation in respect of each year. The amount resulting from the application of each of the coefficients for 2008, 2009 and 2010 will constitute the definitive number of shares allocated to the beneficiary.

The share price on 3 May 2007 was € 198.50.

The binomial model of projecting share prices has been used to measure the fair value of the shares allocated. Each employee's benefit corresponds to the fair value of the shares allocated, reduced to take into account the fact that no dividends will be received for three years and the cost to the employee of the fact that the shares may not be transferred for a period of two years.

The charge recognized in the income statement in respect of this plan was € 5.4 million for 2007 and € 3.5 million for the first half of 2008.

**Note 18 Other current liabilities**

	Social security liabilities	Tax liabilities	Payables relating to the acquisition of non-current assets	Deferred income	Other current liabilities	Total
<b>At 31/12/2007</b>	<b>192,810</b>	<b>39,815</b>	<b>14,063</b>	<b>8,076</b>	<b>37,998</b>	<b>292,762</b>
Impact of changes in exchange rates	-186	311	183	-79	-843	-614
Other movements	3,995	23,653	21,767	4,434	24,416	78,265
<b>At 30/06/2008</b>	<b>196,619</b>	<b>63,779</b>	<b>36,013</b>	<b>12,431</b>	<b>61,571</b>	<b>370,413</b>

**Note 19 Information on related parties**

The main related party transaction carried out during the first half of 2008 concerned the purchase of steel rounds from HKM (a company accounted for using the equity method) totalling € 280 million.

The transactions carried out with Rothschild & Cie relate to the consultancy agreement to assist the Management Board. The expense recognized during the first half of 2008 totalled € 3.3 million.

**Note 20 Sales**

The main exchange rates used are set out in Note 12.

Income statement items are translated at the average rate.

	2007	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2008
France	444,099	224,228	192,109
Germany	1,101,205	499,191	520,683
Other EU Member States	882,720	455,229	361,973
North America (NAFTA)	1,144,166	648,302	542,917
South America	786,034	335,262	456,478
Asia	1,284,169	601,776	692,094
Rest of the world	498,128	248,110	237,066
<b>TOTAL</b>	<b>6,140,521</b>	<b>3,012,098</b>	<b>3,003,320</b>

Sales in the first half of 2008 totalled € 3,003.3 million and were stable as compared with those of the first half of 2007 (down 0.3%). On a comparable basis, after restating first half

2007 sales on the same basis as those for the first half of 2008, sales increased by 3.4%.

**Note 21 Other operating revenues**

	2007	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2008
Fees for concessions and patents	19,939	11,452	10,643
Operating subsidies and other revenues	15,276	4,663	3,203
<b>TOTAL</b>	<b>35,215</b>	<b>16,115</b>	<b>13,846</b>

“Operating subsidies and other revenues” represent mainly subsidies and reimbursements received from third parties.

## Consolidated half-year financial statements

### NOTES TO THE FINANCIAL STATEMENTS

#### Note 22 Taxes and duties

	2007	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2008
Taxes on remuneration	-9,061	-4,432	-4,792
Business use tax	-26,411	-14,316	-12,162
Property tax	-6,394	-3,541	-3,538
Other taxes and duties	-14,384	-7,097	-7,621
<b>TOTAL</b>	<b>-56,250</b>	<b>-29,386</b>	<b>-28,113</b>

#### Note 23 Payroll costs and average number of employees in consolidated companies

	2007	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2008
<b>PAYROLL COSTS</b>			
Wages and salaries	-543,787	-291,476	-278,754
Employee profit sharing	-61,420	-32,291	-27,441
Charge in respect of share options and bonus shares	-12,522	-5,174	-4,942
Social security contributions	-209,311	-106,929	-103,111
<b>TOTAL</b>	<b>-827,040</b>	<b>-435,870</b>	<b>-414,248</b>

The Group has estimated, and taken into account, the costs that could be incurred in connection with the Individual Training Entitlement (*Droit Individuel à la Formation – DIF*). The *DIF* affects all the French companies. The total commitment at 30 June 2008 is estimated to be € 1,069 thousand.

Details of the costs associated with the share purchase option and bonus share allocation plans and retirement benefits are provided in Note 17.

	2007	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2008
<b>AVERAGE NUMBER OF EMPLOYEES IN CONSOLIDATED COMPANIES</b>			
Executives	1,310	1,373	1,297
Supervisory, clerical and technical staff	3,710	3,767	3,732
Production staff	12,751	13,318	12,182
<b>TOTAL</b>	<b>17,771</b>	<b>18,458</b>	<b>17,211</b>
<b>Employees at end of period</b>	<b>16,835</b>	<b>18,672</b>	<b>17,936</b>

The employees of the US businesses acquired totalled 753.

#### Note 24 Other operating costs

	2007	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2008
Purchases of materials and supplies not for stock, sub-contracting	-328,973	-163,160	-170,167
Energy	-211,930	-114,907	-115,705
Maintenance	-184,716	-76,421	-79,915
Agents' commission, transportation costs	-329,941	-172,979	-160,893
Services, professional fees and other	-284,215	-134,556	-156,893
<b>TOTAL</b>	<b>-1,339,775</b>	<b>-662,023</b>	<b>-683,573</b>

**Note 25 Charges to provisions net of reversals**

	2007	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2008
Provisions for operating liabilities and charges	-57,925	-28,724	-19,909
Provisions against current assets	-41,313	-18,850	-23,630
Reversals of provisions for operating liabilities and charges	48,650	22,799	24,991
Reversals of provisions against current assets	16,585	10,477	23,461
<b>TOTAL</b>	<b>-34,003</b>	<b>-14,298</b>	<b>4,913</b>

The corresponding credit in respect of the provision reversals in the first half of 2008 was to operating costs. The provisions concerned have been used.

**Note 26 Depreciation and amortization**

	2007	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2008
Charges to amortization of intangible assets (see Note 1)	-7,351	-3,493	-9,295
Charges to depreciation of property, plant and equipment (see Note 2)	-110,622	-57,758	-61,738
Reversals of depreciation and provisions on property, plant and equipment			
	<b>-117,973</b>	<b>-61,251</b>	<b>-71,033</b>

The impact of the acquisition of V & M Atlas Bradford, V & M Tube-Alloy and V & M TCA on the amortization charge in respect of intangible assets for the first half of 2008 totalled € 6.1 million.

**Note 27 Asset disposals and restructuring costs**

	2007	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2008
Reorganization measures (net of expenses and provisions)	-133	-121	7
Non-current asset disposals	11,066	5,571	361
	<b>10,933</b>	<b>5,450</b>	<b>368</b>

In 2007, the gains and losses on disposals of non-current assets correspond mainly to the disposal of consolidated participating interests (VPE) and the receipt of additional insurance compensation as a result of losses suffered at VPE

in 2006. The disposals of VPS and VCAV generated neither a profit nor a loss since an impairment loss was recognized in respect of the assets of the two companies as at 30 June 2007.

**Impairment of assets and goodwill**

	2007	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2008
Impairment of assets and goodwill	-21,169	-20,821	0

On 30 June 2007, an additional impairment loss of € 20,058 thousand was recognized in respect of the assets held for sale of VPS and VCAV.

## Consolidated half-year financial statements

### NOTES TO THE FINANCIAL STATEMENTS

#### Note 28 Financial income (loss)

	2007	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2008
<b>Financial income</b>			
Income from marketable securities	17,348	10,508	8,665
Income from disposals of marketable securities	18,956	10,347	8,233
<b>Total</b>	<b>36,304</b>	<b>20,855</b>	<b>16,898</b>
<b>Interest costs</b>	<b>-40,619</b>	<b>-20,229</b>	<b>-20,947</b>
<b>Other financial income and charges</b>			
Income from securities	1,825	1,518	2,228
Income from loans and receivables	1,082	397	412
Exchange losses (-) and gains (+) and changes in premiums/ discounts	-18,138	-6,215	-14,040
Charges to provisions, net of reversals	2,189	339	818
Other financial income and charges	-1,894	-969	2,885
<b>Total</b>	<b>-14,936</b>	<b>-4,930</b>	<b>-7,697</b>
<b>Other discounting costs</b>			
Financial charges: discounting of retirement commitments	-16,144	-7,715	-7,985
Financial income: discounting of certain assets and liabilities	769	164	-494
Financial income from retirement plan assets	5,618	2,799	3,689
<b>Total</b>	<b>-9,757</b>	<b>-4,752</b>	<b>-4,790</b>
<b>FINANCIAL INCOME (LOSS)</b>	<b>-29,008</b>	<b>-9,056</b>	<b>-16,536</b>

#### Note 29 Reconciliation of theoretical and actual tax charge

Breakdown of the tax charge	2007	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2008
Current tax charge	-557,052	-296,464	-203,611
Deferred taxes	-18,292	2,176	-25,112
<b>Net charge</b>	<b>-575,344</b>	<b>-294,288</b>	<b>-228,723</b>
Net income (loss) of consolidated companies	1,018,222	511,209	456,365
Tax charge	-575,344	-294,288	-228,723
<b>Net income (loss) of consolidated companies, before tax</b>	<b>1,593,566</b>	<b>805,497</b>	<b>685,088</b>
Statutory tax rate of consolidating company (see Note 5)	34.43%	34.43%	34.43%
Theoretical tax charge	-548,665	-277,333	-235,876
Impact of main losses carried forward	116	-244	
Impact of long-term capital gains and losses	0	1,325	1,325
Impact of permanent differences	-2,703	-3,152	-925
Impact of differences in tax rates	-23,971	-14,519	7,292
Other effects	-121	-365	-539
	<b>-575,344</b>	<b>-294,288</b>	<b>-228,723</b>
<b>ACTUAL TAX RATE</b>	<b>36.10%</b>	<b>36.53%</b>	<b>33.39%</b>

The permanent differences consist mainly of the net income of the minority interests, withholding taxes and the share of the costs and charges in respect of the dividend distributions.

At interim balance sheet dates, the tax charge is calculated for each of the Group's tax entities by applying to the pre-tax income for the interim period the effective tax rate determined for the current year.

The differences in tax rates mainly reflect the diversity of tax rates applied in each company (France 34.43%, Germany 31.60%, the United States 38% and Brazil 34%). The positive

impact in the first half of 2008 was due mainly to the reduction in the German tax rate from 39.9% to 31.6%.

## Note 30 Segment information

### Business segments

The following tables provide, for each business segment, information on the revenues and results as well as certain information on the assets, liabilities and capital expenditure for the half years ended 30 June 2007 and 30 June 2008 and the financial year 2007.

#### Primary segment reporting format: by business segment

1 <sup>st</sup> half 2008	Seamless tubes	Speciality products	Holding companies & other (*)	Inter-segment transactions	Total
<b>INCOME STATEMENT</b>					
<b>Sales</b>					
Sales to external customers	2,752,467	231,944	18,909		3,003,320
Inter-segment sales	67,573	5,089	14,620	-87,282	0
<b>TOTAL</b>	<b>2,820,040</b>	<b>237,033</b>	<b>33,529</b>	<b>-87,282</b>	<b>3,003,320</b>
Charges to amortization and depreciation	-66,004	-4,229	-1,044	244	-71,033
Operating income (loss)	685,136	30,594	-16,124	2,019	701,625
<b>BALANCE SHEET</b>					
Non-current assets	2,018,368	82,239	1,499,541	-1,488,594	2,111,554
Current assets	2,613,014	223,044	247,639	-262,129	2,821,568
Cash and cash equivalents	374,033	15,050	719,835	-599,029	509,889
<b>TOTAL ASSETS</b>	<b>5,005,415</b>	<b>320,333</b>	<b>2,467,015</b>	<b>-2,349,752</b>	<b>5,443,011</b>
Shareholders' equity	1,969,173	128,061	1,639,528	-958,773	2,777,989
Minority interests	71,597	9,030		-26	80,601
Non-current liabilities	872,408	15,509	454,254	-527,435	814,736
Current liabilities	2,092,237	167,733	373,233	-863,518	1,769,685
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>5,005,415</b>	<b>320,333</b>	<b>2,467,015</b>	<b>-2,349,752</b>	<b>5,443,011</b>
<b>Cash flows</b>					
Capital expenditure: property, plant and equipment and intangible assets	211,900	12,591	87		224,578
<b>Other information</b>					
Average number of employees	15,659	1,386	166		17,211
Payroll costs	365,539	28,509	20,200		414,248

(\*) Vallourec, V & M Tubes and the marketing subsidiaries Vallourec Tubes Canada and Vallourec Inc.

## Consolidated half-year financial statements

### NOTES TO THE FINANCIAL STATEMENTS

2007	Seamless tubes	Automotive & Speciality products	Holding companies & other <sup>(*)</sup>	Inter-segment transactions	Total
<b>INCOME STATEMENT</b>					
<b>Sales</b>					
Sales to external customers	5,405,111	659,934	75,476		6,140,521
Inter-segment sales	171,146	27,692	31,907	-230,745	0
<b>TOTAL</b>	<b>5,576,257</b>	<b>687,626</b>	<b>107,383</b>	<b>-230,745</b>	<b>6,140,521</b>
Charges to amortization and depreciation	-106,737	-9,234	-2,194	192	-117,973
Operating income (loss)	1,588,060	45,865	2,883	-14,235	1,622,573
<b>BALANCE SHEET</b>					
Non-current assets	1,402,591	72,581	908,060	-891,060	1,492,172
Current assets	2,296,558	222,717	291,978	-292,976	2,518,277
Cash and cash equivalents	626,312	32,952	821,632	-568,418	912,478
<b>TOTAL ASSETS</b>	<b>4,325,461</b>	<b>328,250</b>	<b>2,021,670</b>	<b>-1,752,454</b>	<b>4,922,927</b>
Shareholders' equity	2,091,390	140,019	1,356,647	-880,287	2,707,769
Minority interests	70,732	11,187		-27	81,892
Non-current liabilities	342,839	11,860	264,320	-4,404	614,615
Current liabilities	1,820,500	165,184	400,703	-867,736	1,518,651
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>4,325,461</b>	<b>328,250</b>	<b>2,021,670</b>	<b>-1,752,454</b>	<b>4,922,927</b>
<b>Cash flows</b>					
Capital expenditure: property, plant and equipment and intangible assets	410,370	26,091	8,338		444,799
<b>Other information</b>					
Average number of employees	15,206	2,426	139		17,771
Payroll costs	692,930	98,767	35,343		827,040

(\*) Vallourec, V & M Tubes and the marketing subsidiaries Vallourec Tubes Canada and Vallourec Inc.

## Consolidated half-year financial statements

### NOTES TO THE FINANCIAL STATEMENTS

1 <sup>st</sup> half 2007	Seamless tubes	Automotive & Speciality products	Holding companies & other <sup>(*)</sup>	Inter-segment transactions	Total
<b>INCOME STATEMENT</b>					
<b>Sales</b>					
Sales to external customers	2,613,865	358,864	39,369		3,012,098
Inter-segment sales	103,879	22,392	14,971	-141,242	0
<b>TOTAL</b>	<b>2,717,744</b>	<b>381,256</b>	<b>54,340</b>	<b>-141,242</b>	<b>3,012,098</b>
Charges to amortization and depreciation	-54,684	-5,913	-864	210	-61,251
Operating income (loss)	800,070	42,776	-30,488	2,195	814,553
<b>BALANCE SHEET</b>					
Non-current assets	1,220,420	104,245	929,591	-941,849	1,312,407
Current assets	2,327,650	255,834	278,571	-258,227	2,603,828
Cash and cash equivalents	295,625	42,471	1,099,930	-412,018	1,026,008
Assets held for sale	32,731	161,476			194,207
<b>TOTAL ASSETS</b>	<b>3,876,426</b>	<b>564,026</b>	<b>2,308,092</b>	<b>-1,612,094</b>	<b>5,136,450</b>
Shareholders' equity	1,664,702	238,900	1,204,309	-881,071	2,226,840
Minority interests	82,287	10,545		-33	92,799
Non-current liabilities	373,163	23,985	415,043	-48,229	763,962
Current liabilities	1,747,869	209,780	688,740	-682,761	1,963,628
Liabilities held for sale	8,405	80,816			89,221
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>3,876,426</b>	<b>564,026</b>	<b>2,308,092</b>	<b>-1,612,094</b>	<b>5,136,450</b>
<b>Cash flows</b>					
Capital expenditure: property, plant and equipment and intangible assets	143,584	15,403	6,254		165,241
<b>Other information</b>					
Average number of employees	15,271	3,055	132		18,458
Payroll costs	354,606	64,448	16,816		435,870

(\*) Vallourec, V & M Tubes and the marketing subsidiaries Vallourec Tubes Canada and Vallourec Inc.

### Geographical segments

The following tables provide, by geographical segment, information on sales (by geographical location of the Group's customers) and capital expenditure as well as certain information on assets (by location of the companies' operations).

#### Secondary segment reporting format: by geographical area

1 <sup>st</sup> half 2008	Europe	North America and Mexico	South America	Asia	Rest of the world	TOTAL
<b>Sales</b>						
Sales to external customers	1,074,765	542,917	456,478	692,094	237,066	3,003,320
<b>Balance sheet</b>						
Property, plant and equipment and intangible assets (net)	691,839	538,693	438,600	46,527	608	1,716,267
<b>Cash flows</b>						
Capital expenditure: property, plant and equipment and intangible assets	101,779	36,892	83,202	2,126	579	224,578
<b>Other information</b>						
Average number of employees	9,265	1,955	5,444	538	9	17,211
Payroll costs	297,240	49,928	64,998	2,045	37	414,248

## Consolidated half-year financial statements

### NOTES TO THE FINANCIAL STATEMENTS

2007	Europe	North America and Mexico	South America	Asia	Rest of the world	TOTAL
<b>Sales</b>						
Sales to external customers	2,428,024	1,144,166	786,034	1,284,169	498,128	6,140,521
<b>Balance sheet</b>						
Property, plant and equipment and intangible assets (net)	628,243	258,103	354,003	47,275	53	1,287,677
<b>Cash flows</b>						
Capital expenditure: property, plant and equipment and intangible assets	278,536	57,147	93,665	15,398	53	444,799
<b>Other information</b>						
Average number of employees	10,314	1,675	5,304	478		17,771
Payroll costs	596,012	102,588	125,230	3,201	9	827,040

1 <sup>st</sup> half 2007	Europe	North America and Mexico	South America	Asia	Rest of the world	TOTAL
<b>Sales</b>						
Sales to external customers	1,222,816	648,302	335,262	601,776	203,942	3,012,098
<b>Balance sheet</b>						
Property, plant and equipment and intangible assets (net)	502,039	259,224	291,629	45,253		1,098,145
<b>Cash flows</b>						
Capital expenditure: property, plant and equipment and intangible assets	109,419	25,734	19,669	10,419		165,241
<b>Other information</b>						
Average number of employees	11,075	1,649	5,283	451		18,458
Payroll costs	323,846	52,576	57,850	1,598		435,870

# Statutory Auditors' review report on the first half-year financial information for 2008

For the six month period ended June 30, 2008

*This is a free translation into English of the Statutory Auditors' review report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France*

To the shareholders,

Following our appointment as Statutory Auditors by your Annual General Meeting and in accordance with the requirements of articles L. 232-7 of the French Commercial Law (*Code de commerce*) and 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 S.A. for the six month period ended June 30, 2008;
- ▶ the verification of information contained in the half-year management report.

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

## 1 CONCLUSION ON THE FINANCIAL STATEMENTS

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

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

## 2 SPECIFIC VERIFICATION

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

The Statutory Auditors

Paris La Défense and Neuilly-sur-Seine, July 31, 2008

KPMG Audit

Deloitte & Associés

*A division of KPMG S.A.*

Jean-Paul Vellutini Philippe Grandclerc

Jean-Paul Picard Bertrand de Florival

# Attestation by the person assuming responsibility for the interim financial report

I swear that, to the best of my knowledge, the abridged financial statements presented in the interim financial report have been prepared in accordance with the applicable accounting standards and that they give a true and fair view of the assets and liabilities, financial position and results of Vallourec and of the companies included in the consolidated financial statements, 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 a description of the main risks and uncertainties for the remaining six months of the financial year.

Executed in Boulogne-Billancourt, France, on 31 July 2008

Pierre Verluca  
Chairman of the Management Board





French limited liability company (*société anonyme*) with a Management Board and a Supervisory Board  
with share capital of € 212,154,880

Registered office: 27, avenue du Général Leclerc, 92100 Boulogne-Billancourt, France

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