



Interim Financial Report

Half year ended 30 June 2010

This document is a translation of the interim financial report of Vallourec for the first half-year ended 30 June 2010.

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

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Attestation by the person assuming responsibility for the interim financial report

I attest that, to the best of my knowledge, the condensed half-year financial statements 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.

Boulogne-Billancourt, France, on 28 July 2010,

A handwritten signature in black ink, appearing to read 'P. Crouzet', is positioned above the printed name and title.

Philippe Crouzet

Chairman of the Management Board

Half-Year activity report

In the first half of 2010, the Group recorded consolidated sales of € 1,999.2 million, down 17% compared with sales of € 2,395.0 million in the first half of 2009.

EBITDA declined by 29% to € 412.8 million compared with € 577.8 million in the first half of 2009, corresponding to an EBITDA/sales ratio of 20.6%.

Net income totalled € 186.7 million in the first half of 2010, down 40% compared with the first half of the previous year (€ 311.1 million).

MARKET ENVIRONMENT OF VALLOUREC

1 Oil & Gas

Global oil demand is forecast to grow by 1.5 mb/d in 2010, driven by China, the Middle East, Latin America and Asia. International E&P expenditure is expected to grow by 12%¹ to \$447 billion, slightly ahead of the previous forecast, driven notably by the United States and by national oil companies in the rest of the world.

In the United States, natural gas prices averaged \$4.3/mbbtu in the second quarter compared to \$5.1/mbbtu in the first quarter. Despite the lower gas prices, the US rig count continued to rise reaching 1,557 at the end of June, up 6% since the end of March, up 31% since the start of the year and up 64% compared to prior year. Conventional gas drilling has slowed down, however, this has been more than offset by an increase in non-conventional gas drilling (horizontal rigs +49% since the start of the year) and drilling for oil (oil rigs +40% since the start of the year). This translated into a strong demand for OCTG, notably for premium pipes, with distributor inventories now back to normal levels.

Following the introduction of a moratorium by the US administration, the number of offshore drilling rigs in the Gulf of Mexico fell significantly during the second quarter to just a dozen platforms operating today, compared to 53 in early April. Offshore activity in this area may be partially transferred to other regions in the coming quarters.

In the rest of the world, the international rig count reached 1,099 rigs at the end of June, up 2% since the end of March, up 7% since the start of the year, and just marginally below the record level reached in September 2008. Within that figure, the offshore rig count totalled 312, up 11% compared to year end 2009. The increased tendering activity experienced during the first quarter was prolonged at a similar level during the second quarter, and some significant tenders are in progress for the OCTG and offshore line pipe markets. Active regions include the North Sea, the Middle East and North Africa, Brazil and South East Asia.

2 Power Generation

The market for power generation has stabilized at a low level with very few new projects. In the US and Europe, demand during the quarter was mostly driven by distribution orders for the maintenance market, as new investments were limited. In India and China, new power generation projects are underway in a very competitive environment. Demand of tubes for nuclear power plants around the world continues to be strong.

3 Petrochemicals

The market for petrochemicals has been improving throughout the first and second quarters, as destocking reached an end and distributors in the US, the Middle East and South East Asia replenish inventories in line with a pick up in demand. Engineering companies have started to place orders for major new projects in the Middle East.

4 Other applications

Worldwide industrial production is forecast to grow by 8% in 2010, driven by China, India and Brazil. During the first half of the year, European based distributors have been increasing orders in anticipation of higher demand, amplifying the effect of the recovery. Stronger global demand and depreciation of the Euro should support European exports manufacturing throughout 2010 even as the rate of growth stabilizes in the second half of the year.

¹ *Barclays Capital E&P Spending Survey – June 2010 – Estimate of \$439 billion in December 2009*

5 Raw materials

In the first half 2010, the prices of both scrap and iron ore increased strongly. The trends remain uncertain as we enter into the second half of the year.

6 Currency

Both the US Dollar and the Brazilian Real have appreciated against the Euro during the first half of the year, although the Euro has strengthened since early June.

ACTIVITY

1 Sales by market

In € million	H1 2010	H1 2009	Change
Oil & Gas	1,000	1,214	-18%
Power generation	413	583	-29%
Petrochemicals	159	229	-30%
Total Energy	1,572	2,026	-22%
<i>% of total sales</i>	<i>79%</i>	<i>85%</i>	
Mechanical	181	202	-10%
Automotive	144	82	+76%
Constuction & Other	102	85	+20%
Total non-Energy	427	369	+16%
<i>% of total sales</i>	<i>21%</i>	<i>15%</i>	
Total	1,999	2 395	-17%

In **Oil & Gas**, sales amounted to € 1,000 million in H1 2010, 18% below H1 2009 (€ 1,214 million), which benefited from the high prices and volumes of orders booked in 2008.

In the US, sales of premium pipe and connections benefited from the strong rise of active rigs, with a marked shift from conventional to unconventional shale gas drilling and a significant increase in oil drilling. Robust demand for OCTG and distributor inventories returning to normalised levels have driven higher capacity utilisation for the mills. Vallourec's mill in Youngstown, Ohio is expected to operate at full capacity during H2 2010 while the slowdown of activity in the Gulf of Mexico should be of limited impact. In a context of stronger demand and higher raw material costs, price increases were applied as of 1 April and 1 July.

In the rest of the world, sales increased sequentially, reflecting the pick-up in tenders by national oil companies (Brazil, North Africa and Middle East) at the end of 2009. Bookings continued to increase steadily throughout the second quarter, with some significant orders placed for the Middle East and Asia. Sales in H2 2010 will benefit from the integration of Serimax and from numerous subsea line-pipe projects.

In **Power generation**, sales amounted to € 413 million in H1 2010, significantly below prior year (-29%) due to the sharp decline in bookings taken in 2009. Bookings during Q2 2010 were essentially driven by distributor demand of standard carbon steel tubes for the maintenance market, as the low level of new super critical and ultra super critical projects has reduced demand for high value added alloy tubes. Furthermore, the level of prices in emerging markets is impacted by intense local competition. These combined effects will negatively impact the price/mix going forward.

In **Petrochemicals**, sales in H1 2010 remain below prior year at € 159 million (€ 229 million in H1 2009). In H1 2010, orders were booked for a number of major new projects in North Africa and the Middle East.

In **Non-energy markets (Mechanical engineering, Automotive and Construction & Other)**, sales amounted to € 427 million in H1 2010, up 16% year-on-year, reflecting the improved economic fundamentals in Brazil and European export markets notably in Q2 2010. Moreover, during the first half year, new orders from distributors amplified the effect of higher final demand.

RESULTS

1 Summary consolidated income statement

For H1 2010, sales volume amounted to 828 thousand tonnes, just 4% below the prior year period (859 thousand tonnes).

Consolidated sales for H1 2010 totalled € 1,999 million, 17% below prior year (€ 2,395 million in H1 2009) due to a negative price/mix effect (-19.7%). Year-on-year, volume was down 3.6%; the consolidation scope² increased following the integration of PTCT in Indonesia and VAM Drilling (DPAL and Protools) in the Middle East (+3.8%) and currency translation contributed positively (+3.8%) due to the appreciation of the US dollar and Brazilian real.

EBITDA for H1 2010 amounted to € 412.8 million, 29% below prior year compared to prior year, representing 20.6% of sales, versus 24.1% in H1 2009. Cost of sales and SG&A represented 66.7% and 11.8% of sales respectively in H1 2010, compared to 65.4% and 9.8% for the same period of the previous year, reflecting lower volumes sold and the resulting lower absorption of fixed costs.

With the pick-up in activity, the number of hours worked increased and plant utilisation rates continued to progress, notably in the US and Brazil. The Group remains focused on generating cost efficiencies across all its business activities, through the successful execution of "Cap Ten" cost savings programme and ongoing streamlining measures in Europe.

Depreciation of industrial assets amounted to € 83.9 million for H1 2010, up 18% versus H1 2009, notably following the integration of PTCT in Indonesia and VAM Drilling in the Middle East.

The effective tax rate amounted to 33.8% in H1 2010 versus 32.3% in H1 2009.

For the first half of 2010, net income, Group share amounted to € 186.7 million, down 40% versus prior year.

2 Cash flow

In H1 2010, gross cash flow from operations came to € 323.6 million compared with € 472.3 million for the same period in the previous year, reflecting the decline in the Group's results from one year to the next (EBITDA of € 412.8 million in H1 2010 compared with € 577.8 million in H1 2009). Working capital requirements increased by € 185.9 million in H1 2010, reflecting the rebound in activity seen during this period, whereas they fell by € 261.1 million in the same period of the previous year. All in all, cash flows from operations reached € 137.7 million in H1 2010, compared with € 733.4 million in H1 2009.

Gross capital expenditure amounted to € 303.4 million during H1 2010 of which expenditure relating to strategic projects (VSB plant in Brazil, the new tube mill in the US, and new capacities in France for nuclear power plants) totalled € 182 million.

Financial investments of € 161.1 million during H1 2010 include the acquisition of Serimax, a leading provider of welding solutions for offshore line pipes in June 2010.

Dividends paid by the Group during H1 2010 amounted to € 82.9 million, of which € 71.9 million, was paid by Vallourec to its shareholders in respect of the financial year 2009.

Net debt amounted to € 14.5 million at 30 June 2010 versus a positive cash balance of € 406.7 at the end of 2009. Shareholders' equity amounted to € 4,272.0 million.

At 30 June 2010, the Group's cash exceeded its overdrafts and short term borrowings by € 652 million. Of the € 897 million of bank loans and other borrowings, 42% has a maturity in excess of 2 years. Vallourec maintains its undrawn confirmed credit lines of around €1.2 billion with maturities in 2012 and 2013.

² PTCT Indonesia – majority control acquired from 1 July 2009; DPAL FZCO Dubai – acquired on 1 October 2009; Protools Abu Dhabi – acquired on 9 February 2010.

CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS

In H1 2010, the Group financed investments totalling € 303.4 million. This amount, up 18.2% compared with the first six months of 2009 (€ 256.5 million), includes expenses relating to the construction of Vallourec & Sumitomo Tubos do Brasil's integrated site, together with other strategic investments. Financial investments are described in the highlights below.

HIGHLIGHTS

In February 2010, the Group, through VAM Drilling Dubai, acquired Protools, the largest producer of drill stem components in the Middle East. This operation enables the Group's VAM Drilling business to offer an integrated solution for the entire drill string.

On 15 February 2010, Vallourec announced its decision to build a new state-of-the art small diameter tube mill in Youngstown (Ohio, United States) for an investment of USD 650 million. This decision was made on the basis of the long-term development of unconventional gas production in the US which is driving increased demand for premium quality, small diameter OCTG tubes. This new mill will initially produce 350,000 tonnes per year and provide heat treatment and threading facilities. Construction will begin during the second quarter of 2010, and production at the mill is scheduled to start towards the end of 2011.

On 8 June 2010, Vallourec has completed the acquisition of 100% of Serimax, a global leader in the provision of fully integrated welding solutions for offshore line pipes. This acquisition will complement Vallourec's existing line pipe operations which account today for approximately 10% of the Group's total Oil & Gas sales.

Vallourec has decided to expand its finishing plant in China, V & M Changzhou, to produce 60,000 tonnes of seamless pipe per year using a new proprietary technology. The expansion of V & M Changzhou will enable the local production of large diameter premium tubes specifically designed to meet the needs of the new generation of supercritical and ultra-supercritical power plants. The capital expenditure for this project amounts to Euro 160 million and operations are expected to begin by mid 2012.

Payment of the 2009 dividend was made on 30 June 2010, through the creation of 993,445 new shares (1.7% of the capital) delivered and listed on Euronext Paris on 30 June 2010, and a cash amount of €71.9 million.

TRANSACTIONS WITH RELATED PARTIES

The main transaction with related parties in the first half of 2010 concerned purchases of steel billets from HKM totalling €181.7 million.

As regards Vallourec & Sumitomo Tubos do Brasil, which is proportionately consolidated, it has total assets of €931.8 million. During the first half of 2010, the Group invested capital totalling €219.5 million in the company but did not carry out any commercial transactions with it.

MAIN RISKS AND UNCERTAINTIES FOR THE SECOND HALF OF 2010

Besides the risks pertaining to the rise in raw material prices and movements in the euro/dollar exchange rate, Vallourec does not anticipate any changes in other risks as described out in chapter 4, section 4.1 – "Main Risks" in the 2009 Reference Document filed with the French securities regulator (Autorité des Marchés Financiers – AMF) on 19 April 2010 under reference no. D.10-0285, that are likely to impact the second half of 2010. Nor has Vallourec identified any new risks not already mentioned in this same Section. A description of pending market and liquidity risks is provided in the notes 8 and 14 to the condensed consolidated financial statements.

2010 OUTLOOK

After the rebound in Q2 2010, the positive sales trend is expected to continue at a more modest pace during H2 2010.

The recent increase in the raw material prices will impact production costs in the coming quarters, while selling prices are being progressively increased. However the negative price/mix effect in the power generation business will impact margins. Moreover, Brazil will incur additional operational expenses as the new mill Vallourec & Sumitomo Tubos do Brasil (VSB) starts up production in Q4.

As a result Vallourec expects an EBITDA margin (EBITDA / sales) for H2 2010 slightly below H1 2010.

Consolidated half-year financial statements

Condensed consolidated financial statements of the Vallourec Group for the half year ended 30 June 2010

Consolidated statement of financial position

(in € thousand)

ASSETS		31/12/2009	30/06/2010
NON-CURRENT ASSETS			
Intangible assets, net	Note 1	250 295	301 844
Goodwill	Note 1	397 803	543 276
Gross property, plant and equipment	Note 2	3 333 009	3 925 766
less: accumulated depreciation	Note 2	-965 984	-1 083 241
Property, plant and equipment, net	Note 2	2 367 025	2 842 525
Investments in equity affiliates	Note 3	56 682	65 418
Other non-current assets	Note 4	188 215	205 592
Deferred tax assets	Note 5	36 400	46 613
Total		3 296 420	4 005 268
CURRENT ASSETS			
Inventories and work-in-progress	Note 6	927 239	1 135 616
Trade and other receivables	Note 7	611 906	805 134
Derivatives - assets	Note 8	23 742	38 533
Other current assets	Note 9	152 920	162 103
Cash and cash equivalents	Note 10	1 157 803	882 648
Total		2 873 610	3 024 034
TOTAL ASSETS		6 170 030	7 029 302
EQUITY AND LIABILITIES			
		31/12/2009	30/06/2010
EQUITY			
	Note 11		
Issued capital		229 123	233 097
Additional paid-in capital		361 838	487 845
Consolidated reserves		2 721 552	3 042 642
Reserves, financial instruments		-7 019	-57 862
Foreign currency translation reserve		48 112	396 292
Profit or loss for the period		517 707	186 730
Own shares		-10 814	-16 800
Equity attributable to owners of the Company		3 860 499	4 271 944
Non-controlling interests	Note 13	241 477	285 440
Total equity		4 101 976	4 557 384
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	Note 14	634 930	666 047
Employee benefits	Note 16	132 828	139 251
Provisions	Note 15	5 602	6 485
Deferred tax liabilities	Note 5	125 711	129 111
Other long-term liabilities		1 310	18 062
Total		900 381	958 956
CURRENT LIABILITIES			
Provisions	Note 15	140 474	150 347
Overdrafts and other short-term bank borrowings	Note 14	116 231	231 110
Trade payables		482 846	552 747
Derivatives - liabilities	Note 8	29 517	145 527
Tax liabilities		66 201	71 806
Other current liabilities	Note 17	332 404	361 425
Total		1 167 673	1 512 962
TOTAL EQUITY AND LIABILITIES		6 170 030	7 029 302

Financial performance reporting

Consolidated income statement

(in € thousand)

		1st half 2009 (A)	1st half 2010
Sales	Note 19	2 395 027	1 999 206
Cost of sales (1)	Note 20	-1 566 911	-1 333 919
Selling, general and administrative costs (1)	Note 21	-234 902	-235 450
Other	Note 22	-15 372	-17 092
EBITDA		577 842	412 745
Depreciation of industrial assets	Note 23	-71 260	-83 943
Other depreciation and amortization	Note 23	-19 015	-18 976
Impairment of assets and goodwill	Note 24	-5 548	-1 515
Asset disposals and restructuring costs	Note 24	-8 920	-1 249
OPERATING PROFIT		473 099	307 062
Financial income		9 949	9 022
Interest costs		-26 691	-19 928
Net financial costs		-16 742	-10 906
Other financial income and charges		30 343	5 666
Other discounting costs		-6 243	-4 209
FINANCIAL INCOME (LOSS)	Note 25	7 358	-9 449
PROFIT BEFORE TAX		480 457	297 613
Income tax	Note 26	-154 996	-100 725
Net profit of equity affiliates	Note 3	4 349	6 080
NET PROFIT FROM CONTINUING OPERATIONS		329 810	202 968
CONSOLIDATED NET PROFIT		329 810	202 968
Profit attributable to:			
Non-controlling interests		18 705	16 238
Owners of the Company		311 105	186 730
Profit attributable to owners of the Company:			
Earnings per share	Note 12	5,8	3,3
Diluted earnings per share	Note 12	5,8	3,3

(A) The financial statements published for the first half of 2009 have been restated and presented in accordance with the new income statement format showing expenses analyzed by function, adopted by the Group as from 1 January 2010 (see Note B of the notes to the financial statements on accounting principles - "Framework for the preparation and presentation of the interim financial statements"). Sales, EBITDA and operating profit remain unchanged.

Previously, the Group published an income statement using a format that analyzed expenses according to their nature.

(1) Before depreciation and amortization

Consolidated statement of comprehensive income

(in € thousand)

		1st half 2009	1st half 2010
CONSOLIDATED NET PROFIT		329 810	202 968
Other comprehensive income:			
Exchange differences arising on translating the net assets of foreign operations		91 663	389 268
Change in fair value of hedging financial instruments		58 535	-78 198
Change in fair value of available-for-sale securities			809
Tax relating to the change in fair value of hedging financial instruments		-19 298	27 030
Tax relating to the change in fair value of available-for-sale securities			64
Other comprehensive income (net of tax)		130 900	338 973
TOTAL COMPREHENSIVE INCOME		460 710	541 941
Profit attributable to non-controlling interests		8 554	57 872
Profit attributable to owners of the Company		452 156	484 069

Consolidated statement of changes in equity

	Issued capital	Additional paid-in capital	Consolidated reserves	Foreign currency translation reserve	Reserves - changes in fair value of hedging instruments - net of tax	Own shares	Profit or loss for the period	Total equity - owners of the Company	Total non-controlling interests	Total equity
As at 31 December 2008	215 155	105 438	2 048 204	-131 081	-54 359	-17 789	967 191	3 132 759	99 171	3 231 930
<i>Other comprehensive income</i>				101 764	39 287			141 051	-10 151	130 900
Consolidated net profit for the half year ended 30 June 2009							311 105	311 105	18 705	329 810
<i>Total comprehensive income</i>				101 764	39 287		311 105	452 156	8 554	460 710
Appropriation of 2008 net profit			967 191				-967 191			
Capital increase and additional paid-in capital										
Change in own shares			903			882		1 785		1 785
Dividends paid			-320 822					-320 822	-20 063	-340 885
Interim dividend paid by Vallourec										
Share-based payments			2 984					2 984		2 984
Changes in consolidation scope and other			8 933					8 933	134 305	143 238
As at 30 June 2009	215 155	105 438	2 707 393	-29 317	-15 072	-16 907	311 105	3 277 795	221 967	3 499 762
As at 31 December 2009	229 123	361 838	2 721 554	48 112	-7 021	-10 814	517 707	3 860 499	241 477	4 101 976
<i>Other comprehensive income</i>				348 180	-50 841			297 339	41 634	338 973
Consolidated net profit for the half year ended 30 June 2010							186 730	186 730	16 238	202 968
<i>Total comprehensive income</i>				348 180	-50 841		186 730	484 069	57 872	541 941
Appropriation of 2009 net profit			517 707				-517 707			
Capital increase and additional paid-in capital										
Change in own shares			733			-5 986		-5 253		-5 253
Dividends paid (1)	3 974	126 007	-199 649					-69 668	-13 048	-82 716
Interim dividend paid by Vallourec										
Share-based payments			2 215					2 215		2 215
Transactions with non-controlling interests and other			82					82	-861	-779
As at 30 June 2010	233 097	487 845	3 042 642	396 292	-57 862	-16 800	186 730	4 271 944	285 440	4 557 384

(1) Amounts net of €2.3 million representing equalization payment.

Statement of changes in non-controlling interests

(in € thousand)

	Consolidated reserves	Foreign currency translation reserve	Reserves - changes in fair value of hedging instruments - net of tax	Profit or loss for the period	Non-controlling interests
As at 31 December 2008	47 383	-5 795	83	57 500	99 171
<i>Other comprehensive income</i>		-10 101	-50		-10 151
Net profit for the half year ended 30 June 2009				18 705	18 705
<i>Total comprehensive income</i>		-10 101	-50	18 705	8 554
Appropriation of 2008 net profit	57 500			-57 500	
Dividends paid	-20 063				-20 063
Changes in consolidation scope and other	134 305				134 305
As at 30 June 2009	219 125	-15 896	33	18 705	221 967
As at 31 December 2009	245 372	-22 766	100	18 771	241 477
<i>Other comprehensive income</i>		41 088	546		41 634
Net profit for the half year ended 30 June 2010				16 238	16 238
<i>Total comprehensive income</i>		41 088	546	16 238	57 872
Appropriation of 2009 net profit	18 771			-18 771	
Dividends paid	-13 048				-13 048
Transactions with non-controlling interests and other	-861				-861
As at 30 June 2010	250 234	18 322	646	16 238	285 440

Consolidated statement of cash flows

(in € thousand)

	1st half 2009	1st half 2010
Consolidated net profit (including non-controlling interests)	329 810	202 968
- Net charges to amortization, depreciation and provisions	147 966	107 054
- Unrealized gains and losses linked to changes in fair value	-603	-1 909
- Income and charges linked to share purchase and share subscription option plans and equivalent	2 984	2 215
- Capital gains and losses on disposals	-642	1 047
- Share of profit (loss) of equity affiliates	-4 349	-6 080
- Dividends (non-consolidated companies)	-2 114	-674
Cash flow from operating activities after cost of net debt and tax	473 052	304 621
- Cost of net debt	16 742	10 906
- Tax charge (including deferred taxes)	154 997	100 725
Cash flow from operating activities before cost of net debt and tax	644 791	416 252
- Interest paid	-26 174	-19 503
- Tax paid	-155 707	-81 707
- Interest received	9 949	9 022
Cash flow from operating activities	472 859	324 064
- Change in operating working capital requirement	261 114	-185 856
NET CASH FLOW FROM OPERATING ACTIVITIES (1)	733 973	138 208
- Cash outflows for acquisitions of property, plant and equipment and intangible assets	-256 484	-303 438
- Cash inflows from disposals of property, plant and equipment and intangible assets	1 456	1 269
- Impact of acquisitions (changes in consolidation scope)		-96 299
- Cash of subsidiaries acquired (changes in consolidation scope)		2 559
- Impact of disposals (changes in consolidation scope)	146 319	
- Cash of subsidiaries sold (changes in consolidation scope)		
- Other cash flows from investing activities	-6 271	1 130
NET CASH FLOW FROM INVESTING ACTIVITIES (2)	-114 980	-394 779
- Increase and decrease in equity		17 191
- Dividends paid during the period		
. Dividends paid to shareholders in the parent company		-71 929
. Dividends paid to non-controlling shareholders in consolidated companies	-29 123	-11 002
- Movements in own shares	1 785	-5 253
- Cash drawn down re new loans	62 376	81 960
- Repayments of borrowings	-74 177	-101 597
- Change in loans, guarantees and advances granted	-122 252	-5 243
CASH FLOW FROM FINANCING ACTIVITIES (3)	-161 391	-95 873
Impact of changes in exchange rates (4)	11 290	42 470
	468 892	-309 974
CHANGE IN CASH (1 + 2 + 3 + 4)		
Opening net cash	504 145	1 146 761
Closing net cash	973 037	836 787
Change	468 892	-309 974

Net cash represents cash and cash equivalents less bank overdrafts with an initial maturity of less than three months. The figures for the first half of 2009 have been restated to comply with this definition.

STATEMENT OF CHANGES IN NET DEBT first half of 2010		31/12/2009	Change	30/06/2010
Gross cash (1)	Note 10	1 157 803	-275 155	882 648
Bank current accounts in debit and overdrafts (2)	Note 14	11 042	34 819	45 861
Cash (3) = (1) - (2)		1 146 761	-309 974	836 787
Gross debt (4)	Note 14	740 119	111 176	851 295
Net debt = (4) - (3)		-406 642	421 150	14 508

STATEMENT OF CHANGES IN NET DEBT first half of 2009		31/12/2008	Change	30/06/2009
Gross cash (1)	Note 10	528 146	515 172	1 043 318
Bank current accounts in debit and overdrafts (2)	Note 14	24 001	46 280	70 281
Cash (3) = (1) - (2)		504 145	468 892	973 037
Gross debt (4)	Note 14	850 657	23 544	874 201
Net debt = (4) - (3)		346 512	-445 348	-98 836

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2010

(In thousands of Euros unless stated otherwise)

A. General information on Vallourec

1. Company name and registered office

Vallourec
27 avenue du Général Leclerc
92660 Boulogne Billancourt, France

2. Legal status

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

3. Corporate purpose (Article 3 of the Memorandum and Articles of Association)

The Company's object, 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 any methods for the preparation and manufacture, by any processes that are 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 object.

4. Trade and Companies Registry

The Company is registered with the Nanterre (Hauts-de-Seine) Trade and Companies Registry under number 552 142 200 – APE 7010 Z.

5. Financial year

The Company's financial year covers a period of 12 months from 1 January to 31 December.

6. Consultation of the annual financial reports (company and consolidated financial statements)

The financial documents (annual reports and reference documents filed with the AMF, the French securities regulator) are available on the Company's website: www.vallourec.com.

7. Listing of the Company's shares

The Company's shares are listed on the Euronext Paris Eurolist (ISIN code: FR0000120354-VK). They are eligible for the SRD, the deferred settlement system.

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

B. Accounting principles

Framework for the preparation and presentation of the interim financial statements

The interim consolidated financial statements for the six months ended 30 June 2010 were approved by the Vallourec Management Board on 27 July 2010.

Pursuant to European Commission regulation no. 1606/2002 adopted on 19 July 2002 for all listed companies in the European Union, Vallourec prepared its consolidated financial statements for the year ended 31 December 2009 in accordance with International Financial Reporting Standards (IFRS). The versions of the standards and interpretations used were those applicable as at that date.

The interim consolidated financial statements for the six months ended 30 June 2010 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 statement of financial position between 31 December 2009 and 30 June 2010 and the main transactions that have contributed to the Group's results for the first half of 2010. The interim financial statement 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 2009 filed with the AMF under D.10-0285 on 19 April 2010 (available on the Company's website: www.vallourec.com).

The consolidated financial statements for the half year ended 30 June 2010 have been prepared on the basis of the IFRS and interpretations in force that will be applicable to the consolidated financial statements for the year ended 31 December 2010 and the specific provisions of IAS 34.

The Group has opted for early application at 1 January 2009 of IFRS 3 revised "Business Combinations" and the amended version of IAS 27 "Consolidated and separate financial statements". The main consequences of these new standards were described in the Notes to the consolidated financial statements for the year ended 31 December 2009 and are reiterated below given the material impact they may have:

The Group measures goodwill on acquisition as the surplus of:

The total of:

- the fair value of the consideration transferred,
- the amount of all non-controlling interests in the company acquired (minority interests measured at fair value (overall goodwill) or at carrying amount (partial goodwill))
- the fair value on the acquisition date of the interest previously owned by the acquirer in the company acquired in the event of a business combination achieved in stages;

over:

- the net amount, on the acquisition date, of identifiable assets acquired and liabilities assumed.

Each business combination concerned offers a choice between application of the partial or total goodwill method.

In accordance with the provisions of IFRS 3 Revised and IAS 27 amended, the Group recognises in shareholders' equity the difference between the price paid and the share of minority interests purchased in companies previously controlled.

Acquisition expenses incurred by the Group in order to carry out a business combination such as commissions paid to business providers, legal fees, due diligence costs and other professional and consulting fees are recognised in expenses.

The new standards, amendments and interpretations adopted by the IASB and the European Union have no material impact on the Group's financial statements for the six months ended 30 June 2010.

The Group has chosen not to apply early any of the standards¹ or interpretations whose application will be mandatory only for annual periods beginning on or after 1 January 2011.

¹ The IFRS framework as adopted in the European Union is available on the European Commission's website: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm.

The accounting options and methods used for the financial statements for the first half of 2010 could be modified to reflect any changes in the IFRS framework adopted by the European Commission between now and 31 December 2010. At present, however, the Group does not anticipate any material changes that are likely to affect the 31 December 2010 closing as a result of current or future exposure drafts.

The accounting principles and valuation methods have been applied in a consistent manner for the period 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.

With effect from 1 January 2010, the Group has opted to present its income statement by purpose of the items, in accordance with the practices of other companies in its sector. Previously, the Group published an income statement by type of item. The financial statements for the first six months of 2009 have thus been restated in the new format. Sales, EBITDA and operating income remain unchanged.

Operating income represents the difference between income and expenses, before tax, other than those of a financial nature and those pertaining to the results of companies accounted for using the equity method and excluding the results of discontinued operations or those held for sale.

EBITDA is a key indicator for the Group that measures the Group's recurring performance. It is obtained by starting with the operating income before depreciation and amortisation and deducting from this certain operating income and expense items that are unusual in terms of their nature or occurrence, namely:

- impairment of goodwill and non-current assets recognised in connection with impairment tests conducted in accordance with IAS 36;
- material restructuring charges and charges incurred in downsizing the workforce, concerning far-reaching events or decisions;
- gains and losses on disposals;
- material income and expenses that could arise from legal action or major deployment and capital operations (cost of integrating a new activity, etc.).

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

Preparation of the consolidated financial statements in accordance with IFRS requires management to use assumptions and estimates that affect the amounts of the assets and liabilities reported in the statement of financial position, the contingent assets and liabilities disclosed in the notes, and the expenses and income shown in the income statement. The final amounts may differ from the amounts based on these assumptions and estimates. The main estimates and assumptions are identical to those described in the notes to the consolidated financial statements for the year ended 31 December 2009. The Group has essentially reviewed the following estimates when preparing the interim financial statements: provisions for disputes, provisions for pension obligations, asset impairment tests, deferred tax and the measurement of financial instruments. Where applicable, tests have been performed in order to measure the sensitivity of these estimates. Given the current economic and financial crisis, the uncertain nature of specific estimates may be compounded and, in particular, may make it more difficult to get an understanding of the Group's economic prospects for the purpose of conducting asset impairment tests. No indicators of loss of value were identified by the Group at 30 June 2010. The following events would constitute such indicators of loss of value: the Group's share value being less than its consolidated net asset value over a given business cycle or negative prospects due to the economic, legal or technological environment or to the business segment in which the Group operates.

C. Consolidation scope

The main changes in the consolidation scope since the first of 2009 are shown in the table below:

	% interest 30/06/2009	% interest 31/12/2009	% interest 30/06/2010	% control 30/06/2010
Fully-consolidated companies				
HMS 634 Ltd (UK)	-	-	100	100
Kestrel Wave Investment Ltd (Hong Kong)	-	100	100	100
Pacific Tubular Limited (Jersey)	25	-	-	-
PT Citra Tubindo (Indonesia)	-	78	78	78
Seamless Tubes Asia Pacific (Singapore)	-	100	100	100
SERIMAX Angola Ltd (UK)	-	-	100	100
SERIMAX Do Brasil Serviços de Soldagem e Fabricação Ltda (Brazil)	-	-	100	100
Serimax Holding SAS (France)	-	-	100	100
SERIMAX Ltd (UK)	-	-	100	100
SERIMAX North America Llc (US)	-	-	100	100
SERIMAX Russia SAS (France)	-	-	100	100
SERIMAX SAS (France)	-	-	100	100
SERIMAX South East Asia Pte Ltd (Singapore)	-	-	100	100
SERIMAX Welding Services Malaysia sdn bhd (Malaysia)	-	-	100	100
V&M Al Qahtani (Saudi Arabia)	-	65	65	65
V&M TCA, LP (US) (merged with V&M STAR on 1 July 2009)	81	-	-	-
V&M TWO Llc (US)	-	100	100	100
Vallourec Inc (US)	100	-	-	-
VAM Drilling Middle East FZE (United Arab Emirates)	-	100	100	100
VAM Drilling Protocols Oil Equipment Manufacturing Llc (Abu Dhabi)	-	-	100	100
Companies accounted for using the equity method				
Kestrel Wave Investment Ltd (Hong Kong)	40	-	-	-
PT Citra Tubindo (Indonesia)	36	-	-	-

The main change in the consolidation scope in the first half of 2010 concerned the first-time consolidation of Serimax and its subsidiaries: on 8 June 2010, Vallourec signed an agreement to acquire 100% of Serimax, world leader in integrated welding solutions for offshore line pipes. This acquisition complements Vallourec's activities in the field of offshore line pipes, which currently represents around 10% of the Group's sales in Oil & Gas markets. Vallourec's consolidated financial statements for the six months to 30 June 2010 include this sub-group's opening statement of financial position. Apart from the acquisition expenses, the income statement is unaffected by this first-time consolidation, which, for practical reasons, takes effect on 30 June 2010. Serimax's consolidated sales for the first six months of 2010 came to € 68 million.

The Group does not control any special purpose entities.

D. Notes to the consolidated financial statements

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D- NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in € thousand)

Note 1 INTANGIBLE ASSETS AND GOODWILL

	Concessions, patents, licences and other rights	Other intangible assets	Total intangible assets	Goodwill
Gross values				
At 31/12/2009	51 466	327 477	378 943	397 823
Acquisitions	32	279	311	
Disposals	-16		-16	
Impact of changes in exchange rates	2 846	53 410	56 256	77 952
Changes in consolidation scope	17 963	13 779	31 742	67 524
Other movements	140	-65	75	
At 30/06/2010	72 431	394 880	467 311	543 299
Amortization and impairment				
At 31/12/2009	-38 137	-90 511	-128 648	-20
Net amortization charges for the period	-1 314	-19 342	-20 656	
Impact of changes in exchange rates	-1 862	-14 301	-16 163	-3
At 30/06/2010	-41 313	-124 154	-165 467	-23
Net values				
At 31/12/2009	13 329	236 966	250 295	397 803
At 30/06/2010	31 118	270 726	301 844	543 276

Intangible assets:

The main increases that occurred during the first half of 2010 were due to the effects of exchange rate fluctuations and changes in consolidation scope (valuation of the customer base and technology of Sérimax and its subsidiaries with the help of independent experts: these intangible assets are amortized over a maximum period of 15 years).

Goodwill

Origin of goodwill

In 2010, goodwill was recognized in respect of the acquisition of controlling interests in companies in the Sérimax group (€72.4 million) and VAM Drilling Protocols Oil Equipment Manufacturing LLC- Abu Dhabi (€5.6 million). Goodwill represents the difference between the acquisition price and the fair value on the acquisition date of the identifiable assets and liabilities and contingent liabilities. The Group has a period of 12 months in which to finalize the valuation of said assets and liabilities. The residual goodwill of €78 million is justified mainly by the defensive and commercial synergies expected from these acquisitions.

Impairment testing

In the context of the current economic and financial crisis, the uncertain nature of certain estimates may be increased and make it more difficult to assess the Group's economic outlook for the purposes of asset impairment testing. A stock market value of the Group below its consolidated net assets during a business cycle, or negative prospects associated with the economic, legislative or technological environment or a business sector, would constitute evidence of impairment. No indications of diminution in value, which would have required the CGUs to be tested for impairment, were identified by the Group at 30 June 2010.

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
Gross values						
At 31/12/2009	109 545	344 384	1 956 494	451 992	470 594	3 333 009
Acquisitions	550	2 620	26 435	87 597	170 640	287 842
Disposals	-46	-142	-6 960		-467	-7 615
Impact of changes in exchange rates	12 728	26 341	134 799	62 793	62 277	298 938
Changes in consolidation scope	180	3 120	24 099	6 755	1 141	35 295
Reclassifications and other movements	-718	558	3 088	-38 050	13 419	-21 703
At 30/06/2010	122 239	376 881	2 137 955	571 087	717 604	3 925 766
Depreciation and impairment						
At 31/12/2009	-22 388	-113 807	-760 437	-69 352	-69 352	-965 984
Net depreciation charges for the year	-339	-7 874	-68 156		-5 894	-82 263
Impairment losses			-1 515			-1 515
Disposals		60	5 114		415	5 589
Impact of changes in exchange rates	-2 866	-6 469	-45 670		-5 690	-60 695
Reclassifications and other movements	337	2 360	18 542		388	21 627
At 30/06/2010	-25 256	-125 730	-852 122	-80 133	-80 133	-1 083 241
Net values						
At 31/12/2009	87 157	230 577	1 196 057	451 992	401 242	2 367 025
At 30/06/2010	96 983	251 151	1 285 833	571 087	637 471	2 842 525
Capital expenditure						
Industrial investments (property, plant and equipment and intangible assets)						
	1st half 2010					
. Europe	64 104					
. North America and Mexico	28 530					
. South America	190 833					
. Asia	4 203					
. Other	483					
Total	288 153					

Note 3 INVESTMENTS IN EQUITY AFFILIATES

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

	HKM Germany	Tubos Soldados Atlantico	Others	Total
At 31/12/2009	34 094	12 386	10 202	56 682
Impact of changes in exchange rates		1 608	1 504	3 112
Dividends paid			-455	-455
Contribution to net profit of the period	7 300	-1 143	-78	6 079
At 30/06/2010	41 394	12 851	11 173	65 418

Note 4 OTHER NON-CURRENT ASSETS

	Other investments in equity instruments	Loans	Other financial investments	Total
At 31/12/2009	136 414	4 652	47 149	188 215
Gross value	132 493	4 717	70 670	207 880
Provisions	-1 705		-583	-2 288
At 30/06/2010	130 788	4 717	70 087	205 592

Maturities of other non-current assets:

	At 30/06/2010	Between 1 and 5 years	Over 5 years	Total
Loans		2 016	2 701	4 717
Other investments in equity instruments		37 384	95 109	132 493
Other financial investments		68 228	2 442	70 670
Total		107 628	100 252	207 880

At 30 June 2010, other investments in equity instruments consisted mainly of:

- the investments held by P.T. Citra Tubindo in unlisted companies not directly controlled by Vallourec (€37.4 million),
- the Sumitomo Metal Industries participating interests, listed on the Tokyo Stock Exchange, which were acquired during 2009 at an average price per share of JPY 230.8 (€81.9 million), which had a fair value of €88.1 million at 30 June 2010. In accordance with Group principles and in the absence of a material or long-term change, the change in fair value was recognized in Group equity.

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 2010, unrecognized deferred tax assets totalled €3.4 million and related to tax losses in respect of which no deferred tax assets have been recognized.

Note 6 INVENTORIES AND WORK-IN-PROGRESS

	Raw materials, supplies and goods for resale	Work-in-progress	Finished and semi-finished products	Total
Gross values				
At 31/12/2009	463 517	274 702	287 858	1 026 077
Changes in inventories recognized in the income statement	25 964	61 586	26 185	113 735
Changes in consolidation scope	26 810	-743	3 069	29 136
Impact of changes in exchange rates	31 719	27 637	26 652	86 008
Other movements	581		-511	70
At 30/06/2010	548 591	363 182	343 253	1 255 026
Provisions				
At 31/12/2009	-57 845	-13 925	-27 068	-98 838
Impact of changes in exchange rates	-4 309	-2 115	-2 800	-9 224
Charges to provisions	-17 387	-10 282	-4 320	-31 989
Reversals of provisions	17 402	2 537	9 655	29 594
Changes in consolidation scope	-8 884			-8 884
Other movements	403		-472	-69
At 30/06/2010	-70 620	-23 785	-25 005	-119 410
Net values				
At 31/12/2009	405 672	260 777	260 790	927 239
At 30/06/2010	477 971	339 397	318 248	1 135 616

Note 7 TRADE AND OTHER RECEIVABLES

	Advances and deposits paid on orders	Accounts receivable (gross)	Provisions	Total
At 31/12/2009	13 766	611 132	-12 992	611 906
Impact of changes in exchange rates	2 602	44 427	-506	46 523
Charges to provisions				
Reversals of provisions				
Changes in consolidation scope	803	45 282	-2 970	43 115
Other movements	13 370	88 155	2 065	103 590
At 30/06/2010	30 541	788 996	-14 403	805 134

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 equity and profit or loss

The position regarding hedging instruments changed from net liabilities of €5.7 million at 31 December 2009 to net liabilities of €107 million at 30 June 2010.

This change is due mainly to the hedging of commercial transactions entered into by the European subsidiaries in US dollars. The movement of the euro against the US dollar during the first half of 2010 mainly explains the €74 million decrease in the intrinsic value of hedges in respect of purchase and sale forecasts denominated in foreign currencies and the €23 million decrease in the intrinsic value of hedges backed by receivables and payables.

In view of the effectiveness of the hedges in accordance with the criteria of IAS 39, the impact to be recognized in the income statement concerns mainly the premium/discount, changes in the value of which at the end of the reporting period gave rise to a loss of less than €0.1 million in respect of the first half of 2010.

Financial instruments of a speculative nature remain exceptional and arise when a hedging relationship is ineffective under the terms of IAS 39. Their changes in value do not have a material impact on foreign exchange gains or losses.

Balance sheet items concerned	At		Movements in first half 2010		
	31/12/2009	30/06/2010	Total	o/w reserves	o/w profit or loss
1- Derivatives recognized in the balance sheet, see note 9 (1)					
- changes in the intrinsic value of forward sales of currencies and forward purchases (2) linked to order books and commercial tenders	8 269	-65 409	-73 678	-71 846	-1 832
- changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with accounts receivable (and accounts payable (2))	4 918	-17 609	-22 527		-22 527
- changes in the intrinsic value of hedges of raw material and energy purchases linked to order books and commercial tenders					
- changes in the intrinsic value of hedges of raw material and energy purchases linked to accounts payable					
- Recognition of premium/discount	-68	-103	-35		-35
- Recognition of changes in fair value of interest rate swaps	-25 156	-32 650	-7 494	-7 494	
- Changes in values linked to hedging instruments implemented under the terms of the employee share ownership plans	6 759	8 601	1 842		1 842
- Changes in value due to derivatives not classified as such	-497	176	673		673
- Other					
Sub-total: Derivatives	-5 775	-106 994	-101 219	-79 340	-21 879
<i>Of which: derivatives - assets</i>	23 742	38 533			
<i>Of which: derivatives - liabilities</i>	29 517	145 527			
2 - Accounts receivable (accounts payable (2)) hedged in currencies - translation gain/loss					
Measurement at period-end exchange rate	-5 566	11 408	16 974		16 974
Impact of hedging operations	-11 341	-95 586	-84 245	-79 340	-4 905
3 - Measurement of receivables (payables (2)) not hedged in currencies - translation gain/loss	1 543	5 649	4 106		4 106
4 - Measurement of construction loans at the effective interest rate	-1 576	-1 481	95		95
5 - Measurement of marketable securities at fair value	36	23	-13		-13
6 - Measurement of other investments in equity instruments at fair value	6 564	7 373	809	809	
7 - Deferred taxes (on exchange rate and interest rate hedges)	4 673	34 594	29 921	24 683	5 238
Total	-101	-49 428	-49 327	-53 848	4 521
Impact - see statement of changes in equity					
- Revaluation reserves - financial instruments	-6 921	-57 216		-50 295	
- of which: attributable to owners of the Company	-7 021	-57 862		-50 841	
- of which: attributable to non-controlling interests	100	646		546	
- Other consolidation reserves	17 250	3 267		-13 983	
- Profit (loss)	-10 430	4 521		10 430	4 521
Total	-101	-49 428	-49 327	-53 848	4 521

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

(2) Amounts not material

The change in the fair value of financial instruments hedging the exchange rate risk which affected equity as at 31 December 2009 was €8.3 million. During the first half of 2010, around 35% (75% excluding Valinox Nucléaire) of the negative change in fair value allocated to the order book and commercial tenders at the end of 2009 was transferred from equity to the income statement, within the Group's foreign exchange gain or loss. This amount represents the impact of the changes in value of the exchange rate hedges in respect of the order book and commercial tenders at 31 December 2009, which have been fully or partially unwound or converted into receivables during the first half of 2010.

This impact corresponds to the hedges of receivables in US dollars, which represent most (nearly 93%) of the changes in fair value of the hedges affecting equity as at 31 December 2009.

Information on the nature and extent of the market risk and the manner in which it is managed by the Group

Market risks are composed of interest rate, exchange rate, credit and share price risks. Liquidity risk is dealt with in Note 14.

Interest rate risks

Management of medium- and long-term financing within the eurozone is centralized in Vallourec and the sub-holding company V & M Tubes.

Total debt:

31/12/2009 (in € million)	Other loans	Cash and cash equivalents
Fixed rate on date granted	159 851	
Variable rate on date granted swapped to fixed rate	468 775	
Fixed rate	628 626	
Variable rate	122 535	1 157 803
Total	751 161	1 157 803

30/06/2010 (in € million)	Other loans	Cash and cash equivalents
Fixed rate on date granted	154 366	
Variable rate on date granted swapped to fixed rate	505 611	
Fixed rate	659 977	
Variable rate	237 180	882 648
Total	897 157	882 648

Part of the variable rate debt was swapped to a fixed rate: €260 million (maturity: March 2012) was swapped at 3.55% excluding the spread; USD 300 million (maturity: April 2013) was swapped at 4.36% excluding the spread.

In addition, a new €100 million loan granted by the Crédit Agricole Group in October 2008 at a fixed rate (3.75% excluding the spread) was drawn down at the end of January 2009.

The Group is exposed to an interest rate risk on its variable-rate debt.

Its bank debt exposed to changes in variable interest rates amounted to about €237.2 million (about 26.4% of total gross debt) at 30 June 2010.

No significant element of the Group's finance reaches contractual maturity during the 12 months following the 30 June 2010 closing.

After taking into account the Group's interest rate risk hedging policy, the impact of a one-percentage-point rise in interest rates applied to short-term rates of the eurozone, to Brazilian and Chinese rates and to UK and US money market rates would result in a €2.4 million increase in the Group's annual financial costs, based on the assumption that the level of debt and exchange rates remained completely stable and after taking into account the effects of any hedging instruments. This impact has not taken into account the interest rate risk on cash and cash equivalents, since they have been invested for the short term.

In addition, according to our simulations, the impact of a half-percentage-point rise or fall in interest rates applied to all yield curves would result in an increase or reduction of €6 million in the measurement of the swaps in place at 30 June 2010 (at Vallourec S.A. level).

Exchange rate risk

▪ **Translation risks**

The assets, liabilities, revenues and costs of the Group's subsidiaries are expressed in various currencies. The Group financial statements are presented in euros. The assets, liabilities, revenues and costs denominated in currencies other than the euro have to be translated into euros at the applicable rate so that they can be consolidated.

If the euro rises (or falls) against another currency, the value in euros of the various assets, liabilities, revenues and costs initially recognized in that other currency will fall (or rise). Therefore, changes in the value of the euro may have an impact on the value in euros of the assets, liabilities, revenues and costs not denominated in euros, even if the value of these items in their original currency has not changed.

During the half year, about 68% of the net profit attributable to owners of the Company was generated by subsidiaries that prepare their financial statements in foreign currencies (mainly in US dollars and Brazilian reals). A 10% change in exchange rates would have an impact on the net profit attributable to owners of the Company of around €12.7 million.

In addition, the Group's sensitivity to long-term exchange rate risk is reflected in the changes that have occurred in recent years in the foreign currency translation reserve booked to equity (+€348.1 million during the first half of 2010) which, in recent years, have been linked mainly to movements in the US dollar and Brazilian real (Note 11).

Foreign currency translation reserve attributable to owners of the Company	31/12/2009	30/06/2010
USD	-51 922	99 770
GBP	-13 717	-10 050
MXM (Mexican peso)	-12 292	-4 000
BRL (Brazilian real)	126 791	289 318
Others	-748	21 254
	48 112	396 292

▪ **Transaction risk**

The Vallourec Group is subject to exchange rate risks due to its commercial exposure linked to sales transactions entered into by some of its subsidiaries in currencies other than their operating currency.

The main foreign currency used is the US dollar (USD): a significant proportion of Vallourec's transactions (around 20% of Group sales for the half year ended 30 June 2010) is invoiced by companies whose operating currency is not the US dollar

Exchange rate fluctuations between the euro and the US dollar may therefore affect the Group operating margin. Their impact is, however, very difficult to quantify for two reasons:

1. there is an adjustment phenomenon on selling prices denominated in US dollars related to market conditions in the various sectors of activity in which Vallourec operates;
2. certain sales, even if they are denominated in euros, are influenced by the level of the US dollar. They are therefore indirectly and at some time in the future affected by movements in the US currency.

The Group actively manages its exposure to exchange rate risk in order to reduce the sensitivity of its profit or loss to changes in exchange rates by implementing hedges as soon as the order is placed and sometimes as soon as a quotation is given.

Orders, and then receivables, payables and operating cash flows are thus hedged with financial instruments, which are mainly forward purchases and sales. The Group sometimes uses options.

Cancellations of orders could therefore result in the cancellation of hedges implemented. This could lead to the recognition in the consolidated income statement of gains and losses in respect of these cancelled hedges.

We estimate that a 10% rise or fall in the currencies used in all hedges implemented by the Group would result in a €87 million decrease or increase in the intrinsic value recognized in consolidated equity at 30 June 2010. Most of these amounts would be due to changes in the US dollar against the euro.

Vallourec does not hedge the financial assets and liabilities in foreign currencies in its consolidated balance sheet.

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 in a foreign currency is received, forward contracts are entered into. Receivables, payables and operating cash flows are thus hedged with financial instruments, which are 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 2010, the following amounts were outstanding under forward foreign exchange contracts to hedge foreign-currency denominated purchases and sales:

	31/12/2009	30/06/2010
Hedging contracts in respect of commercial transactions - Exchange rate risk		
Forward exchange contracts: forward sales	755 136	1 241 097
Forward exchange contracts: forward purchases	28 331	175 888
Currency options: sales	-	-
Currency options: purchases	-	-
Commodities: call options	-	-
Total	783 467	1 416 985

Contract maturities at 30 June 2010

Contracts in respect of commercial transactions	Total	One year or less	One to five years	Over five years
Foreign exchange contracts: forward sales	1 241 097	1 200 211	40 886	-
Foreign exchange contracts: forward purchases	175 888	33 236	142 652	-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Commodities: call options	-	-	-	-
Total	1 416 985	1 233 447	183 538	-

Forward sales correspond mainly to sales of US dollars (€1,241 million of the €1,417 million total). These contracts were transacted at an average forward EUR/USD rate of 1.35. In 2009 and 2010, hedges usually covered an average period of 12 months (excluding Valinox Nucléaire due to the specific nature of its business) and mainly hedged highly probable future transactions and foreign currency receivables. In 2009, in addition to hedges of its commercial operations, Vallourec implemented a USD 205 million (€142.7 million) currency swap to hedge its US dollar debt. This currency swap matures in April 2013, when the hedged debt matures.

Credit risks

Vallourec is subject to credit risk in respect of its financial assets against which no impairment provision has been made whose non-recovery could affect the Company's results and financial position.

The Group has identified four main types of receivables that have these characteristics:

- 1% building loans granted to the Group's employees,
- security deposits paid in connection with tax disputes and tax receivables due to the Group in Brazil,
- trade receivables,
- derivatives that have a positive fair value.

1. 1% building loans: these loans do not expose the Group to any credit risk since the full amount of the loan is written off as soon as any delay is experienced in the collection of the amounts due.

It should be noted that these loans are measured in accordance with the effective interest rate method applied to the expected cash flows until the maturity dates of the loans (the contract interest rates may be lower than the effective interest rate).

2. Security deposits and tax receivables due to the Group in Brazil: there is no specific risk in respect of these receivables even if the outcome of these disputes is unfavourable since the risk has already been assessed and a provision booked in respect of the receivables and the funds already paid in whole or in part.

3. Trade receivables:

The Group's policy as regards providing against trade receivables is to recognize a provision as soon as any indications of impairment are identified. The amount of the provision is the difference between the carrying amount of the asset and the present value of the expected future cash flows, taking into account the position of the counterparty.

The Group does not consider it appropriate to assume that it is subject to any risk in respect of its receivables against which no provision has been made that are less than 90 days overdue. The total amount of trade receivables that were more than 90 days overdue and against which no provision had been made was €34.8 million at 30 June 2010, i.e. 4.5% of Vallourec considers that the risk is limited given its existing customer risk management procedures, which include:

- the use of credit insurance and documentary credits;
- the long-standing nature of the Group's commercial relations with major customers;
- the commercial collection policy.

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

At 30/06/2010	0 to 30 days	30 to 60 days	60 to 90 days	90 to 180 days	> 180 days	Total
Trade receivables not yet due	493,1	101,2	28,7	8,0	-	631,0

Share price risks

The own shares held by Vallourec at 30 June 2010 comprised:

- on the one hand, shares allocated for use in the Group's employee share ownership plans.

Vallourec held 136,944 own shares acquired on 5 July 2001, 50,000 own shares acquired in 2008 and 10,000 shares acquired in June 2010 under the terms of the share buy-back plan.

The Management Board, in conjunction with the Supervisory Board, decided to allocate these treasury shares in the following manner:

- to cover performance shares allocated on 3 May 2007, the definitive quantity of which will not be known until 2011,
- to cover performance shares allocated on 1 September 2008, the definitive quantity of which will not be known until 2011,
- to cover performance shares allocated on 16 December 2008, the definitive quantity of which will not be known until 2013,
- to cover performance shares allocated on 31 July 2009, the definitive quantity of which will not be known until 2013,
- to cover performance shares allocated on 17 November 2009, the definitive quantity of which will not be known until 2014,
- to cover performance shares allocated on 17 December 2009, the definitive quantity of which will not be known until 2013,
- to cover performance shares allocated on 15 March 2010, the definitive quantity of which will not be known until 2014.
- any balance to cover future allocations to certain Group employees, managers or officers, in accordance with the procedures to be defined jointly by the Management Board and the Supervisory Board.
- on the other hand, 60,000 shares held under the terms of the liquidity contract with Crédit Agricole Chevreux, the value of which was €8.6 million.

In 2007 Vallourec implemented a liquidity contract with Crédit Agricole Chevreux, under the terms of the annual general share buy-back authorization granted by the Ordinary Shareholders' Meeting on 1 June 2006 (16th resolution). To implement this contract, €20 million was transferred to the liquidity account.

Classification and measurement of financial assets and liabilities

The amounts stated in the balance sheet are measured in accordance with the measurement procedures used for each financial instrument.

30/06/ 2010	Category (1)	Carrying amount at 30/06/2010	Amortized cost	At fair value through equity	At fair value through profit or loss
ASSETS					
Other non-current assets					
Listed participating interests	Note 4	88 063		88 063	
Other investments in equity instruments		44 430	-	44 430	-
Loans		4 717	4 717	-	-
Other financial investments		70 670	70 670	-	-
Trade receivables	Note 7	788 996	788 996	-	-
Derivatives - assets					
Hedging financial instruments (6)	Note 8	38 357		3 030	35 327
Speculative financial instruments		176	-	-	176
Other current assets	Note 9	162 103	162 103	-	-
Cash and cash equivalents	Note 10	882 648	-	-	882 648
EQUITY AND LIABILITIES					
Bank loans and other borrowings (3) (5)					
	Note 14	897 157	897 157	-	-
Other		115 831	115 831	-	-
Overdrafts and other short-term bank borrowings	Note 14	45 859	45 859	-	-
Trade payables		552 747	552 747	-	-
Derivatives - liabilities					
Hedging financial instruments	Note 8	145 527	-	99 868	45 659
Speculative financial instruments		-	-	-	-
Other current liabilities	Note 17	361 425	361 425	-	-

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

HTM Held-to-maturity investments
L & R Loans and receivables
AVS Available-for-sale financial assets
CFH Cash flow hedge
L - FVTPL Financial liabilities measured at fair value through profit or loss
AC Amortized cost
AC - EIR Amortized cost according to the effective interest

(2) In the Vallourec Group, the only assets in this category are security deposits and guarantees

(3) Borrowings classified within non-current liabilities mature in more than 12 months

(4) Borrowings that must be repaid within 12 months are classified as current liabilities

(5) Variable rate borrowings for which interest rate swaps have been entered into are accounted for in accordance with the cash flow hedge method. Changes in the fair value of swaps, linked to movements in interest rates, are recognized in equity to the extent that they are effective, with the ineffective portion being recognized in financial income (loss).

(6) Including the "Value 08" and "Value 09" warrants, the fair value of which was €8.6 million at 30 June 2010

The financial instruments measured at fair value are classified by category on the basis of their measurement method. Fair value is determined as follows:

(a) the main method used is based on listed prices on an active market. Participating interests are measured in this manner.

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

30/06/2010	Category (1)	Total fair value in balance sheet	Fair value		
			Listed prices (a)	Internal model with observable parameters (b)	Internal model with non-observable parameters
ASSETS					
Listed participating interests	AVS	88 063	88 063		
Other investments in equity instruments	AVS	44 430		44 430	
Derivatives - assets					
Hedging financial instruments	CFH	38 357		38 357	
Speculative financial instruments	L-FVTPL	176		176	
Cash and cash equivalents	A-FVTPL	882 648	882 648		
EQUITY AND LIABILITIES					
Derivatives - liabilities					
Hedging financial instruments	CFH	145 527		145 527	
Speculative financial instruments	L-FVTPL				

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

HTM Held-to-maturity investments
L & R Loans and receivables
AVS Available-for-sale financial assets
CFH Cash flow hedge
L - FVTPL Financial liabilities measured at fair value through profit or loss
AC Amortized cost
AC - EIR Amortized cost according to the effective interest rate method

2009	Category (1)	Carrying amount at 31/12/2009	Amortized cost	At fair value through equity	At fair value through profit or loss
ASSETS					
Other non-current assets					
Listed participating interests	Note 4	88 249	-	88 249	-
Other investments in equity instruments		49 855	-	49 855	-
Loans		4 652	4 652	-	-
Other financial investments		47 663	47 663	-	-
Trade receivables	Note 7	611 132	611 132	-	-
Derivatives - assets					
Hedging financial instruments (6)	Note 8	23 742	-	9 415	14 327
Speculative financial instruments		-	-	-	-
Other current assets	Note 9	152 920	152 920	-	-
Cash and cash equivalents	Note 10	1 157 803	-	-	1 157 803
EQUITY AND LIABILITIES					
Bank loans and other borrowings (3) (5)					
Other	Note 15	694 085	694 085	-	-
Overdrafts and other short-term bank borrowings	Note 15	46 034	46 034	-	-
Trade payables		11 042	11 042	-	-
Derivatives - liabilities	Note 8	482 846	482 846	-	-
Hedging financial instruments		29 035	-	26 911	2 124
Speculative financial instruments		482	-	-	482
Other current liabilities	Note 18	332 404	332 404	-	-

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

HTM Held-to-maturity investments

L & R Loans and receivables

AVS Available-for-sale financial assets

CFH Cash flow hedge

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

AC Amortized cost

AC - EIR Amortized cost according to the effective interest

(2) In the Vallourec Group, the only assets in this category are security deposits and guarantees

(3) Borrowings classified within non-current liabilities mature in more than 12 months

(4) Borrowings that must be repaid within 12 months are classified as current liabilities

(5) Variable rate borrowings for which interest rate swaps have been entered into are accounted for in accordance with the cash flow hedge method. Changes in the fair value of swaps, linked to movements in interest rates, are recognized in equity to the extent that they are effective, with the ineffective portion being recognized in financial income (loss).

(6) Including the "Value 08" and "Value 09" warrants, the fair value of which was €6.8 million at 31 December 2009

The financial instruments measured at fair value are classified by category on the basis of their measurement method. Fair value is determined as follows:

(a) the main method used is based on listed prices on an active market. Participating interests are measured in this manner.

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

2009	Category (1)	Total fair value in balance sheet	Fair value		
			Listed prices (a)	Internal model with observable parameters (b)	Internal model with non-observable parameters
ASSETS					
Listed participating interests	AVS	88 249	88 249	-	-
Other investments in equity instruments	AVS	49 855	-	49 855	-
Derivatives - assets					
Hedging financial instruments	CFH	23 742	-	23 742	-
Speculative financial instruments	L-FVTPL	-	-	-	-
Cash and cash equivalents	A-FVTPL	1 157 803	1 157 803	-	-
EQUITY AND LIABILITIES					
Derivatives - liabilities					
Hedging financial instruments	CFH	29 035	-	29 035	-
Speculative financial instruments	L-FVTPL	482	-	-	482

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

HTM Held-to-maturity investments

L & R Loans and receivables

AVS Available-for-sale financial assets

CFH Cash flow hedge

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

AC Amortized cost

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

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
At 31/12/2009	6 646	45 384	18 960	26 479	55 451	152 920
Impact of changes in exchange rates	171	1 488	2 256	4 130	3 394	11 439
Changes in consolidation scope	262	1 006	2 229	2 210	14 418	20 125
Other movements	4 645	5 653	-6 091	-12 064	-14 524	-22 381
At 30/06/2010	11 724	53 531	17 354	20 755	58 739	162 103

Note 10 CASH AND CASH EQUIVALENTS

	Marketable securities (gross)	Cash	Total
At 31/12/2009	967 194	190 609	1 157 803
Impact of changes in exchange rates	29 204	14 729	43 933
Changes in consolidation scope		3 663	3 663
Other movements	-397 840	75 089	-322 751
At 30/06/2010	598 558	284 090	882 648

"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), risk-free and have a low level of volatility .

Note 11 EQUITY

Capital

Vallourec's issued capital comprised 58,274,234 ordinary shares with a nominal value of €4 per share fully paid-up as at 30 June 2010.

On 30 June 2010, the option to pay the dividend in shares, which was approved by the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010, resulted in the creation of 993,445 new shares (1.7% of the share capital) issued at the price of €130.85, giving rise to a capital increase of €130 million, including issue premium net of costs.

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 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 equity.

Foreign currency translation reserve

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

	USD	GBP	Brazilian Real	Mexican Peso	Others	Total
At 31/12/2009	-51 922	-13 717	126 791	-12 292	-748	48 112
Movements	151 692	3 667	162 527	8 292	22 002	348 180
At 30/06/2010	99 770	-10 050	289 318	-4 000	21 254	396 292

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

	USD	GBP	Brazilian Real	Mexican Peso
2009				
Average rate	1,39	0,89	2,77	18,78
Closing rate	1,44	0,89	2,51	18,92
1st half 2010				
Average rate	1,33	0,87	2,39	16,83
Closing rate	1,23	0,82	2,21	15,74

Note 12 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit 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 profit 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	2009	1st half 2010
Net profit attributable to the ordinary shareholders for basic earnings per share	517 707	186 730
Weighted average number of ordinary shares for basic earnings per share	55 368 979	57 373 796
Weighted average number of own shares for basic earnings per share	-344 168	-252 458
Weighted average number of shares for basic earnings per share	55 024 811	57 121 338
Earnings per share	9,4	3,3
Earnings per share comparable to 2010	9,4	
Dilution effect - share purchase and share subscription options and free shares	18 273	176 680
Adjusted weighted average number of ordinary shares for diluted earnings per share	55 043 084	57 298 018
Diluted earnings per share	9,4	3,3
Earnings per share comparable to 2010	9,4	
Dividends paid during the period:		
In respect of the previous period	6,0	3,5
Interim dividend in respect of the current period	-	-

Note 13 NON-CONTROLLING INTERESTS

	Reserves	Translation difference	Net profit	Total
At 31/12/2009	245 472	-22 766	18 771	241 477
At 30/06/2010	250 880	18 322	16 238	285 440

Note 14 BANK LOANS AND OTHER BORROWINGS

Liquidity risks

In March 2005, a seven-year, €460 million credit facility, partly in euros and partly in US dollars, 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 equity at less than or equal to 75% calculated at 31 December each year. 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 2010, a tranche of €260 million (included in non-current liabilities) had been drawn down.

In addition, the capital expenditure of V & M do Brasil, V & M Florestal and V & M Mineração has required this subsidiary to put in place several medium-term financing lines since 2006, denominated in Brazilian reals. The total amount of these lines (220 million reals or €100 million) was spread among several banks (mainly BNDES, BDMG and BNB).

In December 2009, Vallourec & Sumitomo Tubos do Brasil (VSB), a 56%-owned subsidiary of the Group, took out a 448.8 million real loan from BNDES (Banco Nacional de Desenvolvimento Econômico e Social). This loan is at the fixed rate of 4.5%, is denominated in Brazilian reals and has a term of eight years. It is repayable as from 15 February 2012. None of the loan was drawn down at 30 June 2010.

Early in 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. All of these lines mature in 2013 with the exception of one which has been renewed until 2014.

During April 2008, Vallourec took out a five-year USD 300 million loan and a €350 million renewable credit line, also available for five years, with a syndicate of seven banks. This credit agreement contains commitments of the same type as those entered into under the terms of the €460 million facility described above.

At 30 June 2010, Vallourec was using the USD 300 million (€244.5 million) term loan, which was included in non-current liabilities.

Finally, Vallourec took out a six-year, €100 million loan in November 2008 with the Crédit Agricole Group (maturity end October 2015 - term extended by one year in October 2009). This loan was drawn down at the end of January 2009. The loan documentation contains commitments of the same type as those entered into under the terms of the €460 million facility described above.

The Group's American companies (V & M Star LP, VAM Drilling USA Inc., Valtimet Inc., VAM USA LLC, V & M Tube-Alloy LLC, V & M USA Corporation and V & M Holdings Inc.) benefit from a number of bilateral bank lines totalling USD 170 million (Bank of America and CIBC). The amount used at 30 June 2010 totalled USD 81 million. These programmes, which mature within one year, contain gearing clauses and a change of control clause.

Vallourec used hedging instruments (swaps) to fix the rate of several of its borrowings: see Note 8 - Interest rate risk.

The carrying amount of these borrowings is a good approximation of their market value since most of them were variable rate borrowings when they were taken out.

Financial liabilities - Non-current liabilities

	Bank borrowings	Other bank and similar borrowings	Total
At 31/12/2009	623 739	11 191	634 930
New borrowings taken out	15 950		15 950
Repayments	-69 586	-6	-69 592
Reclassifications	-8 679	-707	-9 386
Impact of changes in exchange rates	27 502	1 696	29 198
Changes in consolidation scope	64 947		64 947
Other movements			
At 30/06/2010	653 873	12 174	666 047

Financial liabilities - current liabilities

	Bank overdrafts	Accrued interest on bank overdrafts	Bank borrowings (one year or less)	Accrued interest on bank borrowings	Other bank and similar borrowings (one year or less)	Total
At 31/12/2009	11 038	4	70 346	3 780	31 063	116 231
New borrowings taken out	32 641	3	24 024	3 843	42 986	103 497
Repayments			-32 957	-3 408	-48	-36 413
Reclassifications			8 679		707	9 386
Impact of changes in exchange rates	1 064	5	11 502	92	18 028	30 691
Changes in consolidation scope	1 075	29		58	6 556	7 718
Other movements						
At 30/06/2010	45 818	41	81 594	4 365	99 292	231 110

Indebtedness by currency

	USD	EUR	REAL	Others	Total
At 31/12/2009 - currency thousand	361 542	372 753	234 362	n/a	n/a
At 31/12/2009 - € thousand	250 966	372 753	93 323	34 119	751 161
At 30/06/2010 - currency thousand	397 659	394 944	302 808	n/a	n/a
At 30/06/2010 - € thousand	324 064	394 944	137 129	41 020	897 157

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

	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
At 30/06/2010	286 117	253 844	5 324	4 688	116 074	666 047

Breakdown by maturity of current bank loans and other borrowings

	< 3 months	> 3 months and < 1 year	Total
Bank borrowings	24 902	45 444	70 346
Other borrowings		31 063	31 063
Accrued interest on borrowings	3 784		3 784
Bank overdrafts (negative cash and cash equivalents)	11 038		11 038
At 31/12/2009	39 724	76 507	116 231
Bank borrowings	29 902	51 691	81 593
Other borrowings	11	99 281	99 292
Accrued interest on borrowings	4 407		4 407
Bank overdrafts (negative cash and cash equivalents)	45 818		45 818
At 30/06/2010	80 138	150 972	231 110

Indebtedness by interest rate

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

	Rate < 3%	Rate 3% to 6%	Rate 6% to 10%	Rate >10%	Total
At 31/12/2009	Rate < 3%	Rate 3 to 6%	Rate 6 to 10%	Rate >10%	Total
Fixed rate on date granted	4 879	121 504	33 468		159 851
Variable rate on date granted swapped to a fixed rate		468 775			468 775
Fixed rates	4 879	590 279	33 468		628 626
Variable rates	57 563	22 508	40 925	1 539	122 535
Total	62 442	612 787	74 393	1 539	751 161
At 30/06/2010	Rate < 3%	Rate 3 to 6%	Rate 6 to 10%	Rate >10%	Total
Fixed rate on date granted	1 398	112 361	40 608		154 367
Variable rate on date granted swapped to a fixed rate		505 611			505 611
Fixed rates	1 398	617 972	40 608		659 978
Variable rates	160 842	22 374	51 718	2 245	237 179
Total	162 240	640 346	92 326	2 245	897 157

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

Note 15 PROVISIONS FOR LIABILITIES AND CHARGES

Non-current liabilities	Provisions for environmental risks
At 31/12/2009	5 602
Allocations for the year	160
Provisions used	
Impact of changes in exchange rates	723
Other	
At 30/06/2010	6 485

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
At 31/12/2009	46 006	4 210	2 410	37 897	49 951	140 474
Allocations for the period	7 626	6 017		878	4 678	19 199
Provisions used	-8 090	-1 270	-670	-2 389	-3 489	-15 908
Other reversals	-3 832				-728	-4 560
Impact of changes in exchange rates	2 606	103	52	5 064	1 943	9 768
Other (reclassifications)					1 374	1 374
At 30/06/2010	44 316	9 060	1 792	41 450	53 729	150 347

As regards the tax risks, the Brazilian tax authorities have challenged a judgment which resulted in the Group obtaining, in 2006, the reimbursement of 137 million reais of IPI taxes. This judgment was the final judgment of the Court of Appeal. A revision was initiated and the hearing is due to take place during the second semester. Since the Group believed that a favourable outcome of this case was more probable than improbable, no provision was booked in respect of it.

Note 16 EMPLOYEE BENEFITS

	Germany	France	United Kingdom	Other	Total
At 30/06/2010					
Discounted value of the commitment	185 972	35 552	93 739	57 731	372 994
Retirement	160 149	30 526	93 739	33 931	318 345
Early retirement commitments	13 083			42	13 125
Long-service awards and medical benefits	12 740	3 834		23 758	40 332
Fair value of the plan assets	-95 904	-4 507	-77 715	-10 796	-188 922
Past service costs not recognized	-114	-1 564			-1 678
Actuarial gains and losses	-15 545	-1 356	-19 600	-6 642	-43 143
Changes in consolidation scope and other		1 192			1 192
Provision	74 409	28 125	-3 576	40 293	139 251

The charges recognized during the half year comprise additional rights acquired in respect of the service for the additional half year, 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
At 30/06/2010					
Cost of services rendered	4 006	1 082	1 132	1 362	7 582
Interest charges on the commitment	4 478	869	2 407	1 525	9 279
Expected return on plan assets	-2 054	-82	-2 247	-410	-4 793
Net actuarial gains/losses recognized during the period	45	67	281	-164	229
Past service costs	44	785			829
Impact of any reduction or liquidation					
Net charge recognized	6 519	2 721	1 573	2 313	13 126

The amounts recognized at 30 June 2010 result from a forecast prepared on the basis of the measurement of the retirement commitments as at 31 December 2009 using the same assumptions.

At 31 December 2009, a sensitivity test was carried out on the retirement gratuities and long-service awards:

- in France, a 1% change in the discount rate would result in a change of about €1.6 million in these commitments;
- in Germany, a 1% change in the discount rate would result in a change of about €16.3 million in these commitments;
- in the United Kingdom, a 1% change in the discount rate would result in a change of about €14.5 million in these commitments.

Other employee benefits (options and performance shares)

Share subscription and share purchase option plans

Characteristics of the plans

Please refer to the Group's consolidated financial statements for the year ended 31 December 2009 as regards the characteristics of the plans set up prior to 31 December 2009.

Change in number of unexpired options

The following table shows the change in the number of unexpired options for all these plans:

(in number of options)	30/06/2010
Total at start of period	517 144
Options distributed	-
Options exercised	(9 534)
Options not exercised at expiry date	(7 610)
Options cancelled (*)	-
Total at end of period	500 000
<i>Of which options remaining to be exercised</i>	-
<i>(*) Beneficiaries who have left the Group.</i>	-

The following table provides a breakdown by plan of the number of unexpired options:

	30/06/2010
2003 plan	-
2007 plan	138 800
2008 plan	71 800
2009 plan	289 400

Performance share allocation plans

Characteristics of the new plan set up during the half year:

Please refer to the Group's consolidated financial statements for the year ended 31 December 2009 as regards the characteristics of the plans set up prior to 31 December 2009. The characteristics of the plans set up since 1 January 2010 are as follows:

	2010 plan
Grant date	15/03/2010
Acquisition period	2 years (French residents) or 4 years (non-residents)
Holding period	2 years (French residents) or none (non-residents)
Number of beneficiaries at outset	848
Theoretical number of shares allocated	95 970

Change in number of shares

The following table shows the change in the number of shares for all these plans:

	Total
Initial theoretical number of shares allocated	499 651
Number of shares cancelled	(12 821)
Theoretical number of shares acquired or being acquired	486 830
Number of shares delivered	253 643

Note 17 OTHER CURRENT LIABILITIES

	Social security liabilities	Tax liabilities	Payables relating to the acquisition of non-current assets	Deferred income	Other current liabilities	Total
At 31/12/2009	181 316	41 586	65 775	8 566	35 161	332 404
Impact of changes in exchange rates	9 106	2 122	6 055	310	3 603	21 196
Changes in consolidation scope	12 070	487			15 653	28 210
Other movements	5 412	-2 734	-18 464	4 484	-9 083	-20 385
At 30/06/2010	207 904	41 461	53 366	13 360	45 334	361 425

Note 18 INFORMATION ON RELATED PARTIES

The main transactions carried out with equity affiliates during the first half of 2010 concerned the purchase of steel rounds from HKM totalling €181.7 million. As regards Vallourec & Sumitomo Tubos do Brasil, which is proportionately consolidated, it has total assets of €931.8 million. During the first half of 2010, the Group invested capital totalling €219.5 million in the company but did not carry out any commercial transactions with it.

The main exchange rates used for income statement items are set out in Note 11. Income statement items are translated at the average rate for the period.

Note 19 SALES

	1st half 2009	1st half 2010
France	117 910	94 310
Germany	468 175	328 931
Other EU Member States	231 169	165 454
North America (NAFTA)	649 243	470 741
South America	391 731	483 684
Asia	378 378	298 713
Rest of the world	158 421	157 373
Total	2 395 027	1 999 206

Sales in the first half of 2010, which totalled €1,999.2 million, were 16.5% lower than in the first half of 2009. On a comparable basis, after restating first half 2009 sales on the same basis as those for the first half of 2010, sales fell by 19.6%.

Note 20 COST OF SALES

	1st half 2009	1st half 2010
Direct cost of sales	-131 737	-117 587
Cost of raw materials consumed	-696 602	-574 966
Labour costs	-301 241	-317 715
Other manufacturing costs	-392 280	-385 036
Change in non-raw material inventories	-45 051	61 385
Total	-1 566 911	-1 333 919
Depreciation and amortization	-71 260	-83 943
Total (including depreciation and amortization)	-1 638 171	-1 417 862

Note 21 SELLING, GENERAL AND ADMINISTRATIVE COSTS

	1st half 2009	1st half 2010
Research and development costs	-32 828	-30 956
Selling and marketing costs	-43 802	-45 300
General and administrative costs	-158 272	-159 194
Total	-234 902	-235 450
Depreciation and amortization	-19 015	-18 976
Total (including depreciation and amortization)	-253 917	-254 426

The Group has not identified in respect of its main research and development projects any costs that meet the criteria for capitalization laid down by IAS 38. Consequently, all research and development costs are written off as expenses of the period in which they are incurred.

PAYROLL COSTS ANALYZED BY NATURE AND AVERAGE NUMBER OF EMPLOYEES IN CONSOLIDATED COMPANIES

	1st half 2009	1st half 2010
Payroll costs		
Wages and salaries	-282 841	-309 126
Employee profit sharing	-23 950	-18 089
Charge in respect of share subscription and share purchase option plans and performance shares	-3 126	-2 858
3 May 2007 performance share allocation plan	-660	2 282
1 September 2008 performance share allocation plan	-268	-22
31 July 2009 performance share allocation plan	-	-169
123 performance share allocation plan dated 17 December 2009	-	-826
3 September 2007 share subscription option plan	-1 000	-793
1 September 2008 share subscription option plan	-846	-397
1 September 2009 share subscription option plan	-	-685
16 December 2008 "Value 08" employee share ownership plan including "Value 08" share allocation plan.	-352	-815
17 November 2009 "Value 09" employee share ownership plan including 17 November 2009 share allocation plan	-	-346
15 March 2010 performance share allocation plan	-	-1 087
Social security contributions	-106 553	-124 182
Total	-416 470	-454 255

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.

Details of the charges associated with the share purchase option and free share allocation plans and retirement benefits are provided in Note 16.

	1st half 2009	1st half 2010
Average number of employees in consolidated companies *		
Executives	1 432	2 281
Supervisory, clerical and technical staff	4 215	3 515
Production staff	12 434	12 678
Total	18 081	18 474

(*) The workforces of proportionately consolidated companies are included on the basis of the percentage interest held by the Group.

The Group's workforce totalled 19,763 at 30 June 2010 compared with 18,381 at 31 December 2009 and 17,836 at 30 June 2009.

Note 22 OTHER

	1st half 2009	1st half 2010
Employee profit sharing	-23 950	-18 089
Fees for concessions and patents	11 844	6 924
Other income and expenses	-3 266	-5 927
Total	-15 372	-17 092

Note 23 DEPRECIATION AND AMORTIZATION

The following table provides a breakdown of the depreciation and amortization charges:

	1st half 2009	1st half 2010
By function		
Industrial depreciation and amortization	-71 260	-83 943
Depreciation and amortization of assets allocated to research and development	-758	-1 067
Depreciation and amortization - sales and marketing departments	-14 055	-13 907
Depreciation and amortization - general and administrative costs	-4 202	-4 002
Total	-90 275	-102 919
By nature		
Charges to amortization of intangible assets (see Note 1)	-19 578	-20 656
Charges to depreciation of property, plant and equipment (see Note 2)	-70 822	-82 263
Reversals of depreciation and provisions on property, plant and equipment	125	
Total	-90 275	-102 919

Note 24 ASSET DISPOSALS AND RESTRUCTURING COSTS

	1st half 2009	1st half 2010
Reorganization measures (net of expenses and provisions)	-6 021	-189
Gains and losses on disposals of non-current assets	-2 899	-1 060
Total	-8 920	-1 249
Impairment of assets and goodwill		
Impairment of assets and goodwill	-1 548	-1 515
Impairment of inventories specific to discontinued operations	-4 000	0
Total	-5 548	-1 515

Note 25 FINANCIAL INCOME (LOSS)

	1st half 2009	1st half 2010
Financial income		
Income from marketable securities	7 756	7 370
Income from disposals of marketable securities	2 193	1 652
Total	9 949	9 022
Interest costs		
	-26 691	-19 928
Other financial income and charges		
Income from securities	2 114	674
Income from loans and receivables	2 472	276
Exchange losses (-) and gains (+) and changes in premiums/discounts	23 109	5 138
Charges to provisions, net of reversals	108	-109
Other financial income and charges	2 540	-313
Total	30 343	5 666
Other discounting costs		
Financial charges: discounting of retirement commitments	-8 469	-9 444
Financial income: discounting of certain assets and liabilities	10	51
Financial income from retirement plan assets	2 216	5 184
Total	-6 243	-4 209
FINANCIAL INCOME (LOSS)	7 358	-9 449

Note 26 RECONCILIATION OF THEORETICAL AND ACTUAL TAX CHARGE

	1st half 2009	1st half 2010
Breakdown of the tax charge		
Current tax charge	-168 490	-87 921
Deferred taxes	13 494	-12 804
Net charge	-154 996	-100 725
Net profit (loss) of consolidated companies	325 461	196 888
Tax charge	-154 996	-100 725
Net profit (loss) of consolidated companies, before tax	480 457	297 613
Statutory tax rate of consolidating company (see Note 5)	34,43%	34,43%
Theoretical tax charge	-165 437	-102 478
Impact of main losses carried forward	-1 359	-1 195
Impact of long-term capital gains and losses	1 020	1 510
Impact of permanent differences	5 190	1 148
Impact of differences in tax rates	6 826	1 003
Other effects	-1 236	-713
ACTUAL TAX RATE	32,26%	33,84%

The permanent differences consist mainly of the net profit attributable to non-controlling interests, withholding taxes and the change in 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 profit 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 country (France 34.43%, Germany 31.60%, United States 36.5%, Brazil 34%, Mexico 30%, UK 28%, China 25% and the free-trade areas 0%).

Note 27 SEGMENT INFORMATION

Operating segments

The following tables provide, for each operating 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 2009 and 2010.

The "Holding companies and other" segment includes Vallourec, V & M Tubes and the marketing subsidiaries Vallourec Tubes Canada and Vallourec inc. The segment information for the first half of 2009 has been restated to be comparable.

Information about profit or loss, assets and liabilities by operating segment

1st half 2010	Seamless tubes	Speciality products	Holding companies & other (*)	Inter-segment transactions	Total
Income statement					
Sales to external customers	1 880 121	111 218	7 867		1 999 206
EBITDA	421 091	3 523	-11 384	-485	412 745
Depreciation and amortization	-96 984	-5 754	-398	217	-102 919
Impairment of assets and goodwill	-1 515				-1 515
Asset disposals and restructuring costs	-127	-33	9 397	-10 486	-1 249
Operating profit	322 465	-2 264	-2 385	-10 754	307 062
Unallocated income					14 688
Unallocated charges					-24 137
Profit before tax					297 613
Income tax					-100 725
Net profit of equity affiliates					6 080
Consolidated net profit					202 968
Balance sheet					
Non-current assets	3 626 037	141 126	2 603 712	-2 365 607	4 005 268
Current assets	1 978 170	155 012	383 480	-375 276	2 141 386
Cash and cash equivalents	696 182	44 888	759 543	-617 965	882 648
Total assets	6 300 389	341 026	3 746 735	-3 358 848	7 029 302
Equity	3 444 241	150 945	2 769 156	-2 092 398	4 271 944
Non-controlling interests	274 926	10 520		-6	285 440
Non-current liabilities	595 487	12 470	618 553	-267 554	958 956
Current liabilities	1 986 371	167 551	359 026	-999 986	1 512 962
Total equity and liabilities	6 301 025	341 486	3 746 735	-3 359 944	7 029 302
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	273 100	27 701	91	-12 739	288 153
Other information					
Average number of employees	16 762	1 542	170		18 474
Payroll costs	-404 360	-31 624	-19 214	943	-454 255

(*) Vallourec, V & M Tubes and the marketing subsidiary Vallourec Tubes Canada.

1st half 2009	Seamless tubes	Speciality products	Holding companies & other (*)	Inter-segment transactions	Total
Income statement					
Sales to external customers	2 225 701	141 232	28 094		2 395 027
EBITDA	572 711	14 646	-11 089	1 574	577 842
Depreciation and amortization	-84 253	-5 274	-973	225	-90 275
Impairment of assets and goodwill	-4 000	-950	-598		-5 548
Asset disposals and restructuring costs	-7 424	-1 290		-206	-8 920
Operating profit	477 034	7 132	-12 660	1 593	473 099
Unallocated income					40 292
Unallocated charges					-32 934
Profit before tax					480 457
Income tax					-154 996
Net profit of equity affiliates					4 349
Consolidated net profit					329 810
Balance sheet					
Non-current assets	2 473 511	90 864	1 656 255	-1 603 515	2 617 115
Current assets	2 171 563	173 890	381 576	-253 540	2 473 489
Cash and cash equivalents	584 524	15 836	1 193 315	-750 357	1 043 318
Total assets	5 229 598	280 590	3 231 146	-2 607 412	6 133 922
Equity	2 448 116	121 581	1 998 934	-1 290 836	3 277 795
Non-controlling interests	211 666	10 330	0	-29	221 967
Non-current liabilities	607 399	21 655	643 404	-303 808	968 650
Current liabilities	1 962 417	127 024	588 808	-1 012 739	1 665 510
Total equity and liabilities	5 229 598	280 590	3 231 146	-2 607 412	6 133 922
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	214 692	8 927	24 807		248 426
Other information					
Average number of employees	16 502	1 411	168		18 081
Payroll costs	369 906	27 566	19 050	-52	416 470

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

Geographical information

The following tables provide information on sales (by geographical location of the Group's customers), capital expenditure and certain information on assets (by location in which the companies have a presence).

1st half 2010	Europe	North America and Mexico	South America	Asia	Rest of the world	TOTAL
Sales						
Sales to external customers	588 695	470 741	483 684	298 713	157 373	1 999 206
Balance sheet						
Property, plant and equipment and intangible assets (net)	969 531	636 437	1 386 648	145 192	6 561	3 144 369
Cash flows						
Capital expenditure: property, plant and equipment and intangible assets (*)	64 048	28 524	190 833	4 265	483	288 153
Other information						
Average number of employees	9 062	2 127	6 048	1 218	19	18 474
Payroll costs	-276 530	-74 965	-95 985	-6 613	-162	-454 255

1st half 2009	Europe	North America and Mexico	South America	Asia	Rest of the world	TOTAL
Sales						
Sales to external customers	817 254	649 243	391 731	378 378	158 421	2 395 027
Balance sheet						
Property, plant and equipment and intangible assets (net)	817 907	566 531	695 852	57 187	4 358	2 141 835
Cash flows						
Capital expenditure: property, plant and equipment and intangible assets (*)	77 850	19 015	145 621	2 903	3 063	248 452
Other information						
Average number of employees	9 515	2 332	5 680	538	16	18 081
Payroll costs	272 834	73 797	67 178	2 546	115	416 470

Note 28 EVENTS AFTER THE REPORTING PERIOD

In order to cope with its current and future challenges and guarantee its long-term expansion, the Group must be able to offer its markets competitive solutions. As a result, and given their respective situations in terms of market environment, competition and outlook, on 7 July V & M Deutschland (VMD) and Valti GmbH announced the implementation of reorganization measures.

- VMD will strive to improve the competitiveness of its Müllheim plant by 2012 by adopting a number of measures: the closure of the boiler-making line, personnel and cost adaptation and significant capital expenditure (up to €30 million). The investment plan will enable the plant to optimize its production flows and specialize in certain diameters and applications, to meet its customers' changing requirements.

- Valti GmbH at Krefeld plans to cease its operations by the end of the year. This decision is linked to the spectacular fall in sales and demand on the part of the company's main customer, the development of alternative technologies, increased competition and severe pressure on prices and margins. The economic crisis aggravated the situation.

On 9 July 2010, Vallourec announced that it had decided in principle to introduce a new ("Value 10") share subscription offer reserved for the Group's employees, together with a free performance share allocation plan.

Finally, with the aim of making it easier to acquire Vallourec's shares and increasing the number of individual shareholders, the General Shareholders' Meeting approved the two for one stock split which took effect on 9 July 2010. On that date, each shareholder was granted two new Vallourec shares for each old share with a nominal value divided by two.

Statutory auditors' review report on the first half-year financial information for 2010

For the period January 1st to June 30, 2010

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

To the Shareholders,

In accordance with our appointment as statutory auditors by your Annual General Meeting and pursuant to Article L.451-1-2 III of French Monetary and Financial Code (*Code Monétaire et Financier*), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of Vallourec, for the period January 1st to June 30, 2010 ;
- the verification of the information contained in the half-year management report.

These condensed half-year consolidated financial statements are the responsibility of the Management Board. They have been prepared in the current context of economic and financial crisis as described in Note B – *Accounting Principles* to the condensed half-year consolidated financial statements, a situation which already prevailed at year-end as of the December 31, 2009. Our role is to express a conclusion of these financial statements based on our review.

I - CONCLUSION ON THE FINANCIAL STATEMENTS

We conducted our review in accordance with professional practice standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical procedures. A review is substantially less in scope than an audit conducted in accordance with professional practice standards applicable in France. Consequently, the level of assurance we obtained about whether the condensed half-year consolidated financial statements taken as a whole are free of material misstatements is moderate, and lower than that obtained in an audit.

Based on our review, no material misstatement has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared in accordance with IAS 34 of the IFRSs, as adopted by the European Union with respect to interim financial reporting.

Without qualifying our opinion, we draw your attention to the matter set out in Note B - *Accounting Principles* to the condensed half-year consolidated financial statements regarding the change in the presentation of the consolidated income statement.

II - SPECIFIC VERIFICATION

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

Paris La Défense and Neuilly-sur-Seine, July 28, 2010

The Statutory Auditors

Deloitte & Associés

KPMG Audit

Jean-Paul Picard

Jean-Marc Lumet

A department of KPMG SA

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