vallourec

INTERIM FINANCIAL REPORT

HALF YEAR
ENDED 30 JUNE

2012

Content

This document is a free translation of the interim financial report of Vallourec for the first half-year ended 30 June 2012. This translation has been prepared solely for the information and convenience of English speaking users. In the event of any ambiguity or discrepancy between this translation and the original document, the French version shall take predecence.

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 profits 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, 27 July 2012

Philippe Crouzet

Chairman of the Management Board

HALF-YEAR ACTIVITY REPORT

In the first half of 2012, the Group recorded consolidated sales of €2,527 million, up 4% compared with sales of €2,438 million in the first half of 2011. The EBITDA amounted to €343 million, 13.6% of sales, down 25% compared with €458 million in the first half of 2011. Net income, Group share totalled €85 million in the first half of 2012, compared with €194 million in the first half of 2011.

MARKET ENVIRONMENT OF VALLOUREC

1 Oil & Gas

Oil prices declined by 19% during Q2, having progressed by 14% during Q1 2012 within a context of strong political tension in the Middle East. They averaged $112/bbl for H1 2012, 3% below H1 2011[1], but remain at a high level. As a consequence, global exploration and production expenditures are forecast to rise above $600 billion [2] in 2012, up 10% versus 2011.

In the USA, the number of active rigs[2] remained at a high level and averaged 1,980 during H1 2012. Despite a modest decline since the start of the year (-2%), at 30 June 2012 they were up 4% versus prior year. Oil drilling, notably in shale plays, increased by 19% in H1 2012, to reach 73% of rigs compared to 52% a year earlier. OCTG consumption was broadly stable during the first half of the year.

In the rest of the world, the rig count [3] increased by 9% during the first half of the year, to reach 1,285 active rigs, with high levels of activity in most regions and strong growth in the Middle East, Africa, and the North Sea.

2 Power Generation

Pipe demand for the conventional power generation market remained subdued during H1 2012 due to low investments and delays of certain projects. Most new-build activity is concentrated in Asia, where local competition is intense. In OECD countries, maintenance of existing power plants represents a growing share of the market and new projects are rare.

The Chinese State Council recently approved the nuclear safety plan, an important step in the approval process for new nuclear plants to restart. In addition to retrofitting projects to extend the lifetime of existing plants, new nuclear power plants are also planned in the UK, Eastern Europe and the Middle East.

3 Petrochemicals

The pipe market for process and petrochemical projects benefits from a large number of projects under construction in the Middle East, South-East Asia, and North America, nevertheless, the market is very competitive.

4 Non-Energy markets

In Europe, the non-energy markets were directly affected by reduced investments and lower industrial production. End-user demand for pipe for machine building, construction and automotive remained subdued and distributors of industrial products maintained inventories at low levels. Market expectations were revised downwards in June, and business confidence has dropped as the hoped for signs of recovery failed to materialise. The German VMDA [4] announced that plant and machinery orders were down 11% in April and 6% in May compared to the same prior year period.

In Brazil, the business outlook [5] has also deteriorated. The forecast for IP growth fell from 3.4% in December to just below zero in July. This concerns virtually all industries, especially automotive, with the notable exception of Oil & Gas related markets.

5 Raw materials

Scrap prices were broadly stable during the first half of the year; however they fell by 5-10% in June and July on reduced demand. Spot prices for iron ore weakened slightly at the end of Q2.

(1) Brent oil prices
(2) Barclays : Global E&P Capital Spending Update – 18 May 2012
(3) Baker Hughes (International rig count = outside North America)
(4) VMDA : Verband Deutscher Mashchinen und Anlagenbau – 3 July 2012
(5) Source : Banco Central do Brasil : Focus Report

6 Currency

The European debt crisis contributed to a weakening of the euro versus the US dollar which, as a result of the Group's hedging policy, should have a favourable impact in the second half of the year. In Brazil, the monetary easing measures taken by the Central Bank to reduce the overvaluation of the real have resulted in a 15% weakening versus the US dollar since the start of the year.

ACTIVITY

1 Sales by market

In € million	**H1 2012**	**H1 2011**	**Change**
Oil & Gas	1,516	1,280	+18%
Power Generation	278	315	-12%
Petrochemicals	175	180	-3%
Total Energy	**1,969**	**1,775**	**+11%**
% of total sales	*78%*	*73%*	
Mechanical	253	311	-19%
Automotive	125	180	-31%
Construction & Other	180	172	+5%
Total non-Energy	**558**	**663**	**-16%**
% of total sales	*22%*	*27%*	
TOTAL	**2,527**	**2,438**	**+4%**

Energy

Oil & Gas sales in H1 2012 amounted to €1,516 million, up 18% year on year, representing 60% of total sales compared to 53% in H1 2011.

The USA continued to see an improved product mix with higher sales of premium OCTG to serve the complex shale plays rich in liquid hydrocarbons, together with strong demand for VAM® connections and large diameter premium pipes for the Gulf of Mexico.

The rest of the world saw strong sales growth during H1 2012 notably in the Middle East, West Africa and Brazil. The backlog at the end of June was around six months of production. Bookings for offshore line pipes improved during the second quarter and the outlook for Oil & Gas is well oriented for the rest of the year.

Power Generation sales amounted to €278 million in H1 2012, down 12% year on year, representing 11% of total sales.

Sales for conventional power plants declined sequentially and compared to prior year due to lower volumes and a less favourable product mix. A number of deliveries have been postponed as the construction of some new power plants in Asia are facing delays. The effect of these delays will impact power generation sales in 2012, which are now expected to be below 2011.

Sales for nuclear power plants were broadly stable year on year. During the second quarter, Valinox Nucléaire was awarded its second contract to manufacture tubes steam generators of 1300MW for EDF to be delivered in 2014.

Petrochemicals sales totalled €175 million in H1 2012, slightly below prior year, and stable at 7% of total sales. Sales for a number of projects in the Middle East, Asia and the USA, offset weaker demand in Europe.

Non-Energy

Non-Energy sales (Mechanical, Automotive, Construction & other) were impacted by the economic slowdown, particularly in Europe, which has resulted in lower bookings and sales since the second half of 2011. In H1 2012, non-Energy sales totalled €558 million (22% of total sales), down 16% compared to H1 2011.

Mechanical sales amounted to €253 million in H1 2012, down 19% versus H1 2011. Distributors have maintained their stocks at low levels. Lower raw material prices, lower activity in Europe and low visibility for end-user demand has put pressure on pricing.

Automotive sales were €125 million in H1 2012, down 31% year on year. With automotive sales concentrated in Europe and Brazil, they were directly impacted by the economic slowdown. In Brazil, the decline was mainly due to a high level of inventory of heavy vehicles following the introduction of the new safety and environmental standards.

Construction and other sales were €180 million in H1 2012, up 5% versus prior year. This was mainly due to the consolidation of TSA since 1 January 2012. This segment includes sales of iron ore in Brazil, which saw a 15% decrease in contract prices in Q1, followed by a further 10% decrease in Q2.

RESULTS

1 Income statement

During H1 2012 sales volume amounted to 1,032 thousand tonnes, down 3% compared to prior year primarily due to lower volumes in Europe.

Consolidated sales in H1 2012, sales were up by 4% year on year to €2,527 million, driven by strong sales in Oil & Gas, offset by significantly lower sales in other activities (Power generation, Mechanical and Automotive). Overall the decline in sales volume (-3%) was offset by a positive price and mix effect (+5%) and scope effect (+1%). As a result of the hedging policy the currency effect was negligible.

EBITDA in H1 2012 amounted to €343 million at 13.6% of sales versus €458 million in H1 2011 (18.8% of sales). The cost of sales represented 74.5% versus 68.8% of sales in H1 2011; the increase mainly reflecting the ramp up costs at VSB and lower volumes in Europe where mills are currently operating at around 80% of capacity. Sales, general and administrative costs (SG&A) amounted to 11.7% of sales, in line with prior year (11.8% of sales).

Depreciation of industrial assets totalled €110 million, up 9% year on year reflecting the progressive ramp up of new capacities; amortisation and other depreciation amounted to €33 million versus €25 million in H1 2011.

Financial charges in H1 2012 amounted to €48 million, versus €24 million in H1 2011, in line with the evolution of net debt.

The effective tax rate was 30% in H1 2012 compared to 29% in H1 2011.

Net income, Group share totalled €85 million, down 56% versus prior year.

2 Cash flow

Operations generated gross cash flow of €204 million in H1 2012, compared to €266 million in H1 2011. Operating cash flow was positive at €46 million, reflecting the increase in working capital requirement primarily during the first quarter.

Dividends paid by the Group amounted to €175 million, of which €150 million related to the dividend in respect of 2011 results.

Total cash outflow in H1 2012 amounted to €473 million, increasing the net debt to €1,667 million at 30 June 2012, representing 32.7% of equity.

At 30 June 2012, the Group's overdrafts and short term borrowings exceeded cash and cash equivalents by €721 million. Of the €2,246 million of bank loans and other borrowings, 41% has a maturity in excess of two years. The Group also maintains its undrawn confirmed credit lines of around €1.5 billion which include a revolving credit facility of €1 billion due to mature in February 2016.

The dividend in respect of 2011 of €1.30 per share was paid on 27 June 2012 with the creation of 192,112 new shares issued at a price of €31.10 per share and by a cash payment of €150.3 million. Following this operation, the share capital of the Company is comprised of 121,626,521 shares.

CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS

Capital expenditure amounted to €341 million during H1 2012, of which €252 million related to strategic projects, essentially the new pipe mill in the USA and VSB in Brazil. Expected capex for the full year 2012 remains unchanged at around €820 million.

There were no financial investments during H1 2012.

STRATEGIC PROJECTS

VSB in Brazil

The production and sales of standard products have now started. The qualification process is progressing, but will take longer than anticipated at the start of the year, given the length and complexity of the production chain, from steel making to the complete finishing phases of the process. The focus for this year will be the integration of the various steps of the production chain, allowing the next phase of customer qualification for premium products to start in H2 of 2012. With a product mix progressively integrating more premium products, VSB should reach breakeven in the second half of 2013.

New mill in the USA

The finalisation of the design of the new mill highlighted the fact that the initial budget had been significantly underestimated, resulting in the total capex for the rolling mill and the finishing lines increasing to $1,050 million. Due to the magnitude of the shale revolution, the market outlook for small diameter tubes in North America has improved since the project was started, confirming its strong profitability prospects.

The construction of the rolling mill is nearing completion. The first billet was pierced on 29 June; the first rolling operations are scheduled for this autumn. Heat treatment lines are scheduled to come on line in the second quarter of 2013. As a result the Group expects the contribution to sales to be minimal in 2012. It is nevertheless confident on a rapid technical and commercial ramp up of the plant in 2013 which should generate a significant positive EBITDA during the year. The operating environment in the USA remains positive. In the run-up to the full operation of the new mill, demand for small diameter pipes will continue to be met through imports from the Group's European mills.

Contribution to EBITDA

The overall negative contribution of the Brazilian and US projects to group EBITDA in 2012 is estimated to be around €120 million.

To date, the ramp-up of the new capacities in Brazil and the United States is continuing according to the new schedule.

TRANSACTIONS WITH RELATED PARTIES

The main transaction with related parties in the first half of 2012 concerned purchases of steel billets from HKM for a total amount of €258.1 million.

MAIN RISKS AND UNCERTAINTIES FOR THE SECOND HALF OF 2012

Vallourec does not anticipate any changes in its risks, as described in chapter 4, section 4.1 – "Main Risks" in the 2011 Registration Document filed with the French securities regulator (*Autorité des Marchés Financiers* – AMF) on 13 April 2012 under reference no. **D.12-0343**, that is likely to impact the second half of 2012. Nor has Vallourec identified any new risks not already mentioned in this same paragraph. A description of market and liquidity risks is provided in the Notes 8 and 14 to the consolidated half-year financial statements.

OUTLOOK

In the second half of the year, Group sales should continue to benefit from the sustained demand in the Oil & Gas market. However, for other markets the outlook is unfavorable, notably in Europe and Brazil where most economic indicators have recently been revised downwards, pointing to a lack of the expected recovery. In this weak environment, the Group continues to adapt its production capacities in Europe and accelerate its cost savings program.

Thanks to these adaptation measures, together with a better mix driven by the Oil & Gas activity and the favorable impact of US dollar strengthening, Vallourec maintains its objective of a progressive margin increase to reach an EBITDA margin close to 15% for the full year 2012.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE VALLOUREC GROUP FOR THE HALF YEAR ENDED 30 JUNE 2012

STATEMENT OF FINANCIAL POSITION

Assets

In € thousand	Notes	31/12/2011	30/06/2012
NON-CURRENT ASSETS			
Intangible assets, net	1	276,950	258,694
Goodwill	1	519,803	531,682
Gross property, plant and equipment	2.1	5,394,514	5,587,253
less: accumulated depreciation	2.1	-1,328,239	-1,428,566
Property, plant and equipment, net	2.1	4,066,275	4,158,687
Biological assets	2.2	184,299	193,844
Investments in equity affiliates	3	146,713	151,843
Other non-current assets	4	289,014	361,150
Deferred tax assets	5	140,806	184,056
TOTAL		**5,623,860**	**5,839,956**
CURRENT ASSETS			
Inventories and work-in-progress	6	1,388,977	1,547,095
Trade and other receivables	7	1,057,871	970,631
Derivatives assets	8	39,705	44,184
Other current assets	9	182,510	223,548
Cash and cash equivalents	10	901,886	579,407
TOTAL		**3,570,949**	**3,364,865**
TOTAL ASSETS		**9,194,809**	**9,204,821**

Equity and Liabilities

In € thousand	Notes	31/12/2011	30/06/2012
EQUITY	11		
Issued capital		242,869	243,253
Additional paid-in capital		732,568	738,158
Consolidated reserves		3,349,473	3,597,916
Reserves, financial instruments		-55,773	-50,827
Foreign currency translation reserves		205,932	120,404
Profit or loss for the period		401,547	85,219
Own shares		-46,330	-45,970
Equity attributable to owners of the Company		**4,830,286**	**4,688,153**
Non-controlling interests	13	**380,022**	**409,805**
TOTAL EQUITY		**5,210,308**	**5,097,958**
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	14	1,189,221	945,459
Employee benefits	17	116,705	113,181
Provisions	15	9,929	9,574
Deferred tax liabilities	5	198,817	224,206
Other long-term liabilities	16	92,113	155,056
TOTAL		**1,606,785**	**1,447,476**
CURRENT LIABILITIES			
Provisions	15	120,297	140,462
Overdrafts and other short-term bank borrowings	14	906,172	1,300,744
Trade payables		668,680	629,610
Derivatives – liabilities	8	115,697	108,473
Tax liabilities		62,485	58,350
Other current liabilities	18	504,385	421,748
TOTAL		**2,377,716**	**2,659,387**
TOTAL EQUITY AND LIABILITIES		**9,194,809**	**9,204,821**

FINANCIAL PERFORMANCE REPORTING

INCOME STATEMENT

In € thousand	Notes	Six months ended June 30 2011	Six months ended June 30 2012
Sales	21	2,437,919	2,527,308
Cost of sales [(a)]	22	-1,676,786	-1,883,483
Selling, general and administrative costs [(a)]	23	-288,546	-295,457
Other	24	-14,845	-5,378
EBITDA		**457,742**	**342,990**
Depreciation of industrial assets	25	-100,920	-109,765
Other depreciation and amortization	25	-24,983	-33,016
Impairment of assets and goodwill	26	431	-74
Asset disposals and restructuring costs	26	-848	-1,082
OPERATING INCOME		**331,422**	**199,053**
Financial income		9,005	10,094
Interest costs		-35,239	-56,125
Net financial costs		*-26,234*	*-46,031*
Other financial income and charges		6,532	2,698
Other discounting costs		-4,654	-4,228
FINANCIAL INCOME/LOSS	**27**	**-24,356**	**-47,561**
PROFIT BEFORE TAX		**307,066**	**151,492**
Income tax	28	-89,425	-45,548
Net profit of equity affiliates	3	1,363	5,633
NET PROFIT FROM CONTINUING OPERATIONS		**219,004**	**111,577**
CONSOLIDATED NET PROFIT		**219,004**	**111,577**
Profit attributable to non-controlling interests		24,995	26,358
Profit attributable to owners of the Company		**194,009**	**85,219**
Profit attributable to owners of the Company:			
Earnings per share	12	1,7	0,7
Diluted earnings per share	12	1,6	0,7

(a) Before depreciation and amortization.

OTHER COMPREHENSIVE INCOME

In € thousand	Six months ended June 30 2011	Six months ended June 30 2012
CONSOLIDATED NET PROFIT	**219,004**	**111,577**
Other comprehensive income:		
Foreign currency translation adjustments	-154,507	-76,103
Change in fair value of hedging financial instruments	37,931	14,609
Change in fair value of available-for-sale securities	-13,798	-4,579
Tax relating to the change in fair value of hedging financial instruments	-12,699	-5,035
Tax relating to the change in fair value of available-for-sale securities	4,751	
TOTAL OTHER COMPREHENSIVE INCOME (NET OF TAX)	**-138,322**	**-71,108**
TOTAL COMPREHENSIVE INCOME	**80,682**	**40,469**
Profit attributable to non-controlling interests	5,598	35,832
Profit attributable to owners of the Company	**75,084**	**4,637**

STATEMENT OF CHANGES IN EQUITY, GROUP SHARE

In € thousand	Issued capital	Additional paid-in capital	Consolidated reserves	Foreign currency translation reserve	Reserves – changes in fair value of hedging financial instruments – net of tax	Own shares	Profit or loss for the period	Total equity – Group share	Total non-controlling interests	Total equity
BALANCE AT 31 DECEMBER 2010	**235,888**	**569,491**	**3,063,829**	**308,450**	**-9,502**	**-21,343**	**409,600**	**4,556,413**	**267,159**	**4,823,572**
Other comprehensive income				*-135,127*	*16,202*			*-118,925*	*-19,397*	*-138,322*
Consolidated net profit on 30 June 2011							*194,009*	*194,009*	*24,995*	*219,004*
Total comprehensive income				-135,127	16,202		194,009	75,084	5,598	80,682
Allocation of net profit for 2010			409,600				-409,600			
Change in share capital and additional paid-in capital										
Change in own shares			494			5,419		5,913		5,913
Dividends attributable to owners of the Company			-153,327					-153,327	-20,656	-173,983
Interim dividend paid by Vallourec										
Share-based payments			8,638					8,638		8,638
Changes in consolidation scope and other			-125					-125	-148	-273
BALANCE AS AT 30 JUNE 2011	**235,888**	**569,491**	**3,329,109**	**173,323**	**6,700**	**-15,924**	**194,009**	**4,492,596**	**251,953**	**4,744,549**
BALANCE AT 31 DECEMBER 2011	**242,869**	**732,568**	**3,349,473**	**205,932**	**-55,773**	**-46,330**	**401,547**	**4,830,286**	**380,022**	**5,210,308**
Other comprehensive income				*-85,528*	*4,946*			*-80,582*	*9,474*	*-71,108*
Consolidated net profit on 30 June 2012							*85,219*	*85,219*	*26,358*	*111,577*
Total comprehensive income				-85,528	4,946		85,219	4,637	35,832	40,469
Allocation of net profit for 2011			401,547				-401,547			
Change in share capital and additional paid-in capital										
Change in own shares			-4,226			360		-3,866		-3,866
Dividends attributable to owners of the Company (a)	384	5,590	-156,420					-150,446	-23,421	-173,867
Interim dividend paid by Vallourec										
Share-based payments			8,059					8,059		8,059
Changes in consolidation scope and other			-517					-517	17,372	16,855
BALANCE AS AT 30 JUNE 2012	**243,253**	**738,158**	**3,597,916**	**120,404**	**-50,827**	**-45,970**	**85,219**	**4,688,153**	**409,805**	**5,097,958**

(a) Amounts net of €0.2 million equalization payment.

STATEMENT OF CHANGES IN NON-CONTROLLING INTERESTS

In € thousands	Consolidated reserves	Foreign currency translation reserve	Reserves – changes in fair value of hedging financial instruments – net of tax	Profit or loss for the period	Non-controlling interests
BALANCE AT 31 DECEMBER 2010	**228,478**	**-5,003**	**449**	**43,235**	**267,159**
Other comprehensive income		*-19,380*	*-17*		*-19,397*
Net profit at 30 June 2011				*24,995*	*24,995*
Total comprehensive income		-19,380	-17	24,995	5,598
Allocation of net profit for 2010	43,235			-43,235	
Dividends to non controlling interests	-20,656				-20,656
Other	-148				-148
BALANCE AS AT 30 JUNE 2011	**250,909**	**-24,383**	**432**	**24,995**	**251,953**
BALANCE AT 31 DECEMBER 2011	**311,757**	**12,419**	**570**	**55,276**	**380,022**
Other comprehensive income		*9,425*	*49*		*9,474*
Net profit at 30 June 2012				*26,358*	*26,358*
Total comprehensive income		9,425	49	26,358	35,832
Allocation of net profit for 2011	55,276			-55,276	
Dividends to non controlling interests	-23,421				-23,421
Other	17,372				17,372
BALANCE AT 30 JUNE 2012	**360,984**	**21,844**	**619**	**26,358**	**409,805**

STATEMENT OF CASH FLOWS

In € thousands	Six months ended June 30 2011	2012
Consolidated net profit (including non-controlling interests)	**219,004**	**111,577**
– Net charges to amortization, depreciation and provisions	114,433	180,338
– Unrealized gains and losses arising from changes in fair value	-21,722	-6,335
– Non cash share based and assimilated payments	8,638	8,059
– Gains and losses on disposals of PPE and other	-441	1,161
– Share of profit (loss) of equity affiliates	-1,363	-5,631
– Dividends reclassified as other flows linked to investing activities	-678	-1,237
Cash flows after cost of net financial debt and taxes	**317,871**	**287,932**
– Cost of net financial debt	26,234	46,031
– Tax expense (including deferred tax)	89,425	45,548
Cash flows before cost of net financial debt and taxes	**433,530**	**379,511**
– Interest paid	-35,248	-56,125
– Tax paid	-140,887	-129,622
– Interest received	9,005	10,094
Cash flow	**266,400**	**203,858**
– Change in operating working capital requirement	-299,350	-158,337
NET CASH FROM OPERATING ACTIVITIES (1)	**-32,950**	**45,521**
– Cash outflows for acquisitions of tangible and intangible assets	-366,057	-322,049
– Cash outflows for acquisitions of biological assets	-22,584	-18,810
– Cash inflows from disposals of tangible and intangible assets	2,160	301
– Impact of acquisitions (changes in consolidation scope)	-75,311	
– Cash of subsidiaries acquired (changes in consolidation scope)		
– Impact of disposals (changes in consolidation scope)		
– Cash of subsidiaries (changes in consolidation scope)		-1,630
– Other cash flows from investing activities	9,691	-151
NET CASH FROM INVESTING ACTIVITIES (2)	**-452,101**	**-342,339**
– Increase and decrease in equity		
– Dividends paid during the period		
Dividends paid to shareholders of the parent company		-150,446
Dividends paid to non-controlling shareholders in consolidated subsidiaries	-17,753	-24,291
– Movements in own shares	5,913	-3,866
– Cash received for new loans	450,252	568,276
– Repayments of borrowings	-111,309	-380,702
– Change in percentage of interest in controlled companies		
– Other cash flows from financing activities	-5,788	-14,179
CASH FROM FINANCING ACTIVITIES (3)	**321,315**	**-5,208**
Impact of changes in exchange rates (4)	-29,018	83
CHANGE IN CASH (1 + 2 + 3 + 4)	**-192,754**	**-301,943**
Opening net cash	**611,484**	**845,416**
Closing net cash	**418,730**	**543,473**
Change	-192,754	-301,943

Net cash represents cash and cash equivalents less bank overdrafts with an initial maturity of less than three months.

STATEMENT OF CHANGES IN NET DEBT IN THE FIRST HALF OF 2012

	Note	31/12/2011	Change	30/06/2012
Gross cash (1)	10	901,886	-322,479	579,407
Bank current accounts in debit and overdrafts (2)	14	56,470	-20,536	35,934
CASH (3) = (1) - (2)		**845,416**	**-301,943**	**543,473**
Gross debt (4)	14	2,038,923	171,346	2,210,269
NET DEBT = (4) - (3)		**1,193,507**	**473,289**	**1,666,796**

STATEMENT OF CHANGES IN NET DEBT IN THE FIRST HALF OF 2011

	31/12/2010	Change	30/06/2011
Gross cash (1)	653,762	-87,587	566,175
Bank current accounts in debit and overdrafts (2)	42,278	105,167	147,445
CASH (3) = (1) - (2)	**611,484**	**-192,754**	**418,730**
Gross debt (4)	992,117	305,962	1,298,079
NET DEBT = (4) - (3)	**380,633**	**498,716**	**879,349**

GENERAL INFORMATION AND ACCOUNTING PRINCIPLES FOR PREPARATION OF THE INTERIM FINANCIAL STATEMENT

(In € thousands unless stated otherwise)

A – General information on Vallourec

1. Company name and registered office

Vallourec

27, avenue du Général Leclerc

92100 Boulogne-Billancourt, France

Tel.: 00 33 (1) 49 09 35 00

2. Legal status

A French limited liability company (société anonyme) which opted on 14 June 1994 for a management structure comprising a Management Board and a Supervisory Board.

3. Company object (Article 3 of the Memorandum and Articles of Association)

The Company has the following object in all countries, either on its own behalf or on behalf of third parties, or in direct or indirect joint ventures with third parties: all industrial and commercial operations relating to all methods of preparing and manufacturing metals and all materials that may replace them in all their uses, by all known processes and any that may subsequently be discovered. And, generally, all commercial, industrial and financial transactions, in real or personal property, directly or indirectly related to the above-mentioned company object.

4. Trade and Companies Register

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

5. Financial year

The Company's financial year runs for twelve (12) months, beginning on 1 January and ending on 31 December.

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

The financial documents (annual reports and registration 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 NYSE Euronext Paris regulated market (Section A: ISIN code: FR0000120354-VK). They are part of the deferred settlement section and are a qualifying investment under the French equity savings plan (Plan d'Épargne en Actions – PEA) legislation.

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

B – Accounting principles

FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF THE INTERIM FINANCIAL STATEMENTS

The interim consolidated financial statements and related notes for the six months ended 30 June 2012 were approved by the Vallourec Management Board on 24 July 2012.

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 2011 in accordance with International Financial Reporting Standards (IFRS). The versions of the standards and interpretations used were those applicable on that date.

The interim consolidated financial statements for the six months ended 30 June 2012 have been prepared on the basis of the standards [(1)] and interpretations of the IFRS framework in force and adopted for use by the European Union that will be applicable to the consolidated annual financial statements as at 31 December 2012 and the specific requirements 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. This information is supplied mainly through notes to the financial statements that are intended to explain significant changes in the balance sheet between 31 December 2011 and 30 June 2012 and describe the main operations that have contributed to the formation of the net profit for the first half of 2012. The interim financial statements do not contain all the information required for full annual financial statements and must be read in conjunction with the Group's financial statements for the year ended 31 December 2011 filed with the AMF under reference D.12-0343 on 13 April 2012 (available on the Company's website: www.vallourec.com).

New standards with mandatory application

There are no new standards with mandatory application during the first half of 2012 that have a material impact on the Group's consolidated financial statements for the six months ended 30 June 2012.

New standards not applied early

The Group does not apply early any of the standards or interpretations that will only be mandatory for annual periods commencing after 1 January 2013. The main effect expected from the application of amended IAS 19, mandatory from 1 January 2013, concerns recognising in "Other comprehensive income" the actuarial gains and losses and unrecognized past service costs. These amounts are shown in Note 17.

The accounting options and methods used in preparing the interim financial statements 2012 may be modified according to any changes in the IFRS adopted by the European Commission between now and 31 December 2012. At present, however, the Group does not anticipate any material changes likely to affect the 31 December 2012 closing as a result of current or future exposure drafts.

The accounting principles and measurement methods have been applied in a consistent manner to the periods under review. 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.

Seasonality in the Group's activity

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

General measurement principles

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 assumptions and estimates are identical to those described in the notes to the consolidated financial statements for the year ended 31 December 2011. The Group has principally reviewed the following estimates when preparing the interim financial statements: the measurement of property, plant and equipment, intangible assets, goodwill, financial assets, derivative financial instruments, inventories and work-in-progress, provisions for liabilities and charges, biological assets and deferred tax. Where applicable, tests have been performed in order to measure the sensitivity of these estimates. Given the current economic situation, 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. A market value of the Group below its consolidated net assets during a business cycle, negative prospects associated with the economic, legislative or technological environment or a business sector would constitute evidence of impairment. At 30 June 2012, the Group analysed the situation of the various CGUs and concluded on the basis of sensitivity analyses conducted in 2011 that there was no indication of impairment at 30 June 2012.

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

C – Consolidation scope

The main changes in the consolidation scope since the first half of 2011 are shown in the table below:

	% interest 30/06/2011	% interest 31/12/2011	% interest 30/06/2012	% control 30/06/2012
Fully consolidated companies				
Saudi Seamless Pipes Factory Company Ltd — Saudi Arabia	-	100.0	100.0	100.0
Tubos Soldados Atlântico — Brazil	-	95.8	95.8	95.9
V & M Two [(a)] — United States	100.0	100.0	0.0	0.0
V & M Uruguay — Uruguay	-	100.0	100.0	100.0
Equity affiliates				
Tubos Soldados Atlântico — Brazil	24.6	-	-	-

(a) Merged with V & M Star — United States

The Group does not control any special purpose entity (SPE).

D – NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (IN € THOUSAND)

Summary

Note 1 Intangible assets and goodwill

	Concessions, patents, licences and other rights	Other intangible assets	Total intangible assets	Goodwill
GROSS VALUES				
AT 31/12/2011	**83,711**	**428,925**	**512,636**	**519,826**
Acquisitions	290	3,277	3,567	
Disposals	-12,396	-4,732	-17,128	
Impact of changes in exchange rates	-581	10,351	9,770	11,879
Other changes	250	504	754	
AT 30/06/2012	**71,274**	**438,325**	**509,599**	**531,705**
DEPRECIATION AND IMPAIRMENT				
AT 31/12/2011	**-48,078**	**-187,608**	**-235,686**	**-23**
Net depreciation charge for the period	-3,093	-24,922	-28,015	
Disposals	12,381	4,732	17,113	
Impact of changes in exchange rates	663	-4,980	-4,317	
AT 30/06/2012	**-38,127**	**-212,778**	**-250,905**	**-23**
NET VALUES				
AT 31/12/2011	**35,633**	**241,317**	**276,950**	**519,803**
AT 30/06/2012	**33,147**	**225,547**	**258,694**	**531,682**

GOODWILL

Impairment testing

A market value of the Group below its consolidated net assets during a business cycle, negative prospects associated with the economic, legislative or technological environment or a business sector would constitute evidence of impairment. At 30 June 2012, the Group analysed the situation of the various CGUs and concluded on the basis of sensitivity analyses conducted in 2011 that there was no indication of impairment at 30 June 2012.

Note 2 Tangible assets

NOTE 2.1

	Land	Buildings	Technical installations, equipment and industrial tools	Property, plant and equipment in progress	Other property, plant and equipment	Total
GROSS VALUES						
AT 31/12/2011	**123,945**	**602,101**	**3,095,266**	**1,278,403**	**294,798**	**5,394,514**
Acquisitions		873	37,058	243,149	11,546	292,626
Disposals		-125	-5,184	-2	-661	-5,972
Impact of changes in exchange rates	-5,064	-14,106	-64,066	-5,635	-5,535	-94,406
Reclassifications and other changes		61,107	113,722	-160,751	-13,587	491
AT 30/06/2012	**118,881**	**649,850**	**3,176,796**	**1,355,164**	**286,561**	**5,587,253**
DEPRECIATION AND IMPAIRMENT						
AT 31/12/2011	**-28,114**	**-154,665**	**-1,043,799**	**-820**	**-100,841**	**-1,328,239**
Net depreciation charge for the period	-1,040	-13,711	-91,968		-8,047	-114,766
Impairment losses				-107		-107
Disposals		123	3,773		79	3,975
Impact of changes in exchange rates	1,381	625	7,788		1,768	11,562
Reclassifications and other changes		-1,224	53		180	-991
AT 30/06/2012	**-27,773**	**-168,852**	**-1,124,153**	**-927**	**-106,861**	**-1,428,566**
NET VALUES						
AT 31/12/2011	**95,831**	**447,436**	**2,051,467**	**1,277,583**	**193,957**	**4,066,275**
AT 30/06/2012	**91,108**	**480,998**	**2,052,643**	**1,354,237**	**179,700**	**4,158,687**

Investments

Intangible industrial investments and property, plant and equipment	First half 2012
Europe	31,042
North America and Mexico	169,696
South America	54,469
Asia	40,099
Other	337
TOTAL	**295,643**

Investment expenditure in the first half amounted to €322.0 million.

NOTE 2.2

Biological assets	Fair value
Net value at 31 December 2011	184,299
NET VALUE AT 30 JUNE 2012	**193,844**

The Group owns biological assets in Brazil, which mainly consist of eucalyptus plantations cultivated for the Group's coke requirements. They are measured in accordance with the principles laid down in IAS 41 "Agriculture". Due to the existence of an active market in Brazil, the Group is required to measure these assets at their fair value on initial recognition as well as at each financial closing. The change in fair value (€8.5 million in the 1st half of 2012) is included in the income for the period in which it is generated. At 30 June 2012, the net value of these assets was €193.8 million.

Principal lease contracts

At Vallourec & Sumitomo Tubos do Brasil, the finance lease for the construction of a water treatment facility had a net carrying amount of €242.6 million at 30 June 2012. An amortization amount of €19.5 million was recognized in the first half of 2012.

In the consolidated financial statements, the finance lease is included in assets for a net book value of €135.9 million.

Note 3 Investments in equity affiliates

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

	HKM Germany	PTCT subsidiaries	Tianda Oil Pipe	Other	Total
AT 31/12/2011	**46,088**	**32,685**	**55,297**	**12,643**	**146,713**
Impact of changes in exchange rates		-94	1,022	341	1,269
Dividends paid	-7		-691	-1,074	-1,772
Contribution to net profit of the period	4,460	689	127	357	5,633
AT 30/06/2012	**50,541**	**33,280**	**55,755**	**12,267**	**151,843**

Note 4 Other non-current assets

	Investments in equity instruments	Loans	Other financial assets	Other	Total
AT 31/12/2011	**67,626**	**4,441**	**41,572**	**175,375**	**289,014**
Gross value	66,600	4,353	49,845	242,014	362,812
Provisions	-724		-938		-1,662
AT 30/06/2012	**65,876**	**4,353**	**48,907**	**242,014**	**361,150**

MATURITIES OF OTHER NON-CURRENT ASSETS

AT 30/06/2012	Between 1 and 5 years	5 years or more	Total
Loans	2,104	2,250	4,354
Other investments in equity instruments		66,600	66,600
Other financial assets	275,840	16,018	291,858
TOTAL	**277,944**	**84,868**	**362,812**

At 30 June 2012, other investments in equity instruments mainly consisted of Sumitomo Metal Industries equity securities listed on the Tokyo stock exchange, acquired in 2009 at an average price per share of JPY 230.8 (for a total of €81.9 million), with a fair value at 30 June 2012 of €61.3 million (€65.9 million at 31 December 2011) and classified as "securities available for sale". The change in fair value is considered not significant and not permanent, given the long-term partnerships with Sumitomo. Consequently, the related loss has been booked to equity at 30 June in the amount of €20.7 million (€4.6 million being recognized in the first half of 2012).

Other non-current assets are mainly comprised of deposits of more than one year with the tax authorities in Brazil (€89.1 million) and the portion of the loan from V&M Do Brasil to VSB not eliminated by proportional consolidation in the amount of €120.1 million.

Note 5 Deferred tax liabilities

At 30 June 2012, unrecognized deferred tax assets amounted to €24 million and concerned tax losses for which no deferred tax assets have been recognized.

Note 6 Inventories and work-in-progress

	Raw materials, supplies and goods	Work-in-progress	Finished and semi-finished products	Total
GROSS VALUES				
AT 31/12/2011	**603,170**	**461,786**	**420,133**	**1,485,089**
Changes in inventories recognized in the income statement	-20,989	63,177	120,717	162,905
Impact of changes in exchange rates	-1,765	7,925	-8,578	-2,418
Other changes	5	3	4,672	4,680
AT 30/06/2012	**580,421**	**532,891**	**536,944**	**1,650,256**
IMPAIRMENT				
AT 31/12/2011	**-52,360**	**-13,096**	**-30,656**	**-96,112**
Impact of changes in exchange rates	409	-211	763	961
Charges	-11,834	-9,523	-8,773	-30,130
Reversals of provisions	9,663	5,245	7,214	22,122
Other changes	3,022	791	-3,815	-2
AT 30/06/2012	**-51,100**	**-16,794**	**-35,267**	**-103,161**
NET VALUES				
AT 31/12/2011	**550,810**	**448,690**	**389,477**	**1,388,977**
AT 30/06/2012	**529,321**	**516,097**	**501,677**	**1,547,095**

Note 7 Trade and other receivables

	Advances and deposits paid on orders	Accounts receivable (gross)	Provisions for depreciation	Total
AT 31/12/2011	**25,673**	**1,043,492**	**-11,294**	**1,057,871**
Impact of changes in exchange rates	-917	-6,257	114	-7,060
Charges to provisions			-2,546	-2,546
Reversals of provisions			2,666	2,666
Other changes	-1,898	-79,765	1,363	-80,300
AT 30/06/2012	**22,858**	**957,470**	**-9,697**	**970,631**

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

Hedging instruments went from a net liability of €76 million at 31 December 2011 to a net liability of €64.3 million at 30 June 2012.

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 in the first half of 2012 mainly explains the €9.7 million increase in the intrinsic value of hedges in respect of currency purchase and sale forecasts and the €5.2 million increase in the intrinsic value of hedges backed by receivables and payables.

In view of the effectiveness of the hedges in accordance with IAS 39 criteria, the impact recognized in the income statement mainly concerns a change in premium/discount measurements at the balance sheet date giving rise to a charge of €6.2 million for the first half of 2012.

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.

			Changes in the first half of 2012		
Balance sheet items concerned	**At 31/12/2011**	**At 30/06/2012**	**Total**	**o/w reserves**	**o/w profit or loss**
1 – Derivatives recognized in the balance sheet [(a)]					
Changes in the intrinsic value of forward sales of currencies and forward purchases [(b)] linked to order books and commercial tenders	-51,558	-41,895	9,663	10,056	-393
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with accounts receivable (and accounts payable [(b)])	-39,765	-36,380	3,385		3,385
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with finance receivables (and finance payables)	10,508	12,339	1,831		1,831
Changes in the intrinsic value of hedges of raw material and energy purchases associated with order books and commercial tenders					
Changes in the intrinsic value of hedges of raw material and energy purchases associated with accounts payable					
Recognition of premium/discount	9,884	3,482	-6,402	-201	-6,201
Recognition of changes in fair value of interest rate swaps	-12,442	-7,402	5,040	5,040	
Changes in values associated with hedging instruments implemented under the terms of the employee share ownership schemes	7,380	5,566	-1,814		-1,814
Changes in value due to derivatives not qualifying for hedging	1		-1		-1
Sub-total: Derivatives	**-75,992**	**-64,290**	**11,702**	**14,895**	**-3,193**
• Of which: derivatives – assets	39,705	44,184			
• Of which: derivatives – liabilities	115,697	108,473			
2 – Receivables (payables [(b)]) hedged in currencies – translation gain/loss					
Valuation at the closing date exchange rate (accounts payable [(b)] and receivable)	37,194	34,616	-2,578		-2,578
Valuation at the closing date exchange rate (financial payables [(b)] and receivables)	-17,904	-18,536	-632		-632
Impact of hedging operations	**-56,702**	**-48,210**	**8,492**	**14,895**	**-6,403**
3 – Measurement of receivables (payables) not hedged in currencies – translation gain/loss	**26**	**-1,113**	**-1,139**		**-1,139**
4 – Measurement of construction loans at the effective interest rate	**-889**	**-865**	**24**		**24**
5 – Measurement of securities at fair value	**5**		**-5**		**-5**
6 – Measurement of other investments in equity instruments at fair value	**-12,681**	**-17,260**	**-4,579**	**-4,579**	
7 – Deferred tax	**24,701**	**20,432**	**-4,269**	**-5,035**	**766**
TOTAL	**-45,540**	**-47,016**	**-1,476**	**5,281**	**-6,757**
Impact – see statement of changes in equity					
Revaluation reserves – financial instruments	-55,203	-50,208	4,995	4,995	
• *Of which: Group share*	*-55,773*	*-50,827*	*4,946*	*4,946*	
• *Of which: attributable to non-controlling interests*	*570*	*619*	*49*	*49*	
Other consolidation reserves	5,511	9,946	4,435	4,435	
Net profit	4,152	-6,754	-10,906	-4,149	-6,754
TOTAL	**-45,540**	**-47,016**	**-1,476**	**5,281**	**-6,757**

(a) Assets and liabilities offset in this table to give net position: + = net assets, – = net liabilities.
(b) Amounts not material.

The change in the fair value of financial instruments hedging exchange rate risk impacted equity at 31 December 2011 for a negative amount of €45.5 million. During the first half of 2012, around 75% of the negative change in fair value assigned to the order book and commercial tenders at the end of 2011 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 the value of exchange rate hedges in respect of the order book and commercial tenders at 31 December 2011, which were fully or partially unwound or converted into receivables during the first half of 2012.

This impact corresponds mainly to the hedges of receivables in US dollars, which represented more than 92% of the changes in fair value of the hedges impacting equity at 31 December 2011.

INFORMATION ON THE NATURE AND EXTENT OF 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 at Vallourec and the sub-holding company V & M Tubes.

TOTAL DEBT

AT 31/12/2011 *In € thousands*	**Other loans**	**Cash and cash equivalents**
Fixed rate on date granted	1,400,257	
Variable rate on date granted swapped to fixed rate	494,302	
Fixed rate	**1,894,559**	
Variable rate	**200,834**	**901,886**
TOTAL	**2,095,393**	**901,886**

AT 30/06/2012 *In € thousands*	**Other loans**	**Cash and cash equivalents**
Fixed rate on date granted	1,812,005	
Variable rate on date granted swapped to fixed rate	240,358	
Fixed rate	**2,052,363**	
Variable rate	**193,840**	**579,407**
TOTAL	**2,246,203**	**579,407**

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

The amount of debt at a fixed rate on the date granted includes €643.8 million of bonds adjusted for finance costs estimated using the amortized cost of capital method and €750 million of outstanding commercial paper.

The bank debt exposed to changes in interest rates amounted to €193.8 million (about 8.6% of total gross debt) at 30 June 2012.

US $300 million of the debt at a variable rate on the date granted has been swapped to fixed rate (maturity: April 2013).

No significant fixed-rate financing line will reach contractual maturity during the 12 months following the closing on 30 June 2012, apart from:

- the US $300 million variable-rate loan swapped to a fixed rate taken out by Vallourec in 2008 which will be repaid at maturity on 17 April 2013;
- the outstanding €750 million of commercial paper with maturity of no more than six months;
- various lines of financing at the Brazilian subsidiaries (totalling €38 million).

Considering the Group's interest rate risk hedging policy, the impact of a 1 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 €1.9 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 does not take into account the interest rate risk on commercial paper with maturity of no more than six months and on cash in short-term investments (of no more than three months).

The Group's simulations also show that a 0.5 percentage point rise or fall in interest rates applied to all interest rate yield curves would result in an increase, or a decrease, of approximately €0.9 million in the value of the swaps at 30 June 2012 (at the level of Vallourec).

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.

In the first half of 2012, the net income, Group share, was generated to a significant extent by subsidiaries that prepare their financial statements in currencies other than the euro (mainly in the US dollar and Brazilian real). A 10% change in exchange rates would have a positive or negative impact on net profit attributable to owners of the Company of around €13.9 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 reserves for translation of foreign operations booked to equity (€120.4 million at 30 June 2012) which, in recent years, have been linked mainly to movements in the US dollar and Brazilian real (Note 11).

Foreign currency translation reserve – Group share	31/12/2011	30/06/2012
USD	74,997	117,428
GBP	-11,096	-9,427
CNY	35,225	40,425
BRL	111,834	-27,472
Other	-5,028	-550
	205,932	**120,404**

TRANSACTION RISK

The Group is subject to exchange rate risks due to its business exposure linked to sales transactions entered into by some of its subsidiaries in currencies other than that of the country in which they are incorporated.

The main foreign currency used is the US dollar: a significant proportion of Vallourec's transactions (around 37% of the Group's sales at 30 June 2012) 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. some sales, even if denominated in the subsidiary's functional currency, are influenced by the level of the US dollar and will therefore be indirectly impacted sooner or later by the level of the US dollar.

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 an order is placed and sometimes as soon as a tender offer 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 €94.8 million decrease or increase in the intrinsic value recognized in consolidated equity at 30 June 2012. The bulk of these amounts would be due to US dollar/euro exchange rate changes.

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 2012, the outstanding forward foreign exchange contracts on purchases and sales denominated in foreign currencies were:

Hedging contracts in respect of commercial transactions – Exchange rate risk	31/12/2011	30/06/2012
Foreign exchange contracts: forward sales	1,240,377	1,365,542
Foreign exchange contracts: forward purchases	52,130	98,641
Currency options: sales	-	-
Currency options: purchases	-	-
Commodities: call options	-	-
TOTAL	**1,292,507**	**1,464,183**

CONTRACT MATURITIES AT 30 JUNE 2012

Contracts in respect of commercial transactions	Total	< 1 year	One to five years	> 5 years
Foreign exchange contracts: forward sales	1,365,542	1,361,758	3,784	-
Foreign exchange contracts: forward purchases	98,641	98,641		-
Currency options: sales	-	-		-
Currency options: purchases	-	-		-
Commodities: call options	-	-	-	-
TOTAL	**1,464,183**	**1,460,399**	**3,784**	**-**

Forward sales (€1,366 million out of €1,464 million) correspond mainly to the sale of US dollars made at an average EUR/USD rate of 1.34.

In 2011 and 2012, hedges usually covered an average period of 10 months (excluding Valinox Nucléaire due to the specific nature of its business) and mainly hedged highly probable future transactions and foreign currency receivables.

In addition to hedges on commercial transactions, Vallourec has implemented hedging contracts for financial loans and receivables denominated in foreign currencies:

- in 2009, a US $205 million (€162.8 million) currency swap supplemented in 2011 by US $95 million (€75.5 million). The currency swap matures in April 2013, when the hedged debt matures;
- since 2010, forward sales of US $280.1 million (€222.5 million) and forward purchases for US $5 million (€4 million).

These instruments are intended to hedge either the debt denominated in US dollars, or loans in foreign currencies granted by the financial holding company V & M Tubes in the currency of the subsidiaries that benefit from them, as well as dividends due in foreign currencies. The forward sales mature at various times between 2012 and 2015, as and when the hedged loans and debts mature.

Except its foreign-currency-denominated borrowings, Vallourec does not hedge any of the other foreign currency assets and liabilities in its consolidated balance sheet (translation risks).

Credit risks

Vallourec is subject to credit risk in respect of its financial assets against which no impairment provision has been made, non-recovery of which 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 the 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 these loans (the contract interest rates may be lower).

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

3. Trade receivables:

   - the Group's policy with regard to the amount of the provision for 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 discounted 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 has been made totalled €35.9 million at 30 June 2012, i.e. 3.8% of the Group's total net trade receivables.

   Vallourec considers that the risk is limited given its existing customer risk management procedures, which include:

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

Trade receivables are due as follows:

AT 30/06/2012 *In € millions*	**0 to 30 days**	**30 to 60 days**	**60 to 90 days**	**90 to 180 days**	**> 180 days**	**Total**
Trade receivables not yet due	598.9	130.1	46.2	13.9	0.8	789.9

Share price risks

Vallourec's own shares held by it at 30 June 2012 comprised:

On the one hand, shares assigned to cover the allocation of shares to certain Group employees, executives and corporate officers.

Within this framework, Vallourec holds:

- 182,661 own shares acquired on 5 July 2001 after, specifically, the definitive award in 2011 of 44,074 shares under the terms of the performance share plan of 3 May 2007; 6,631 shares under the terms of the performance share plan of 1 September 2008; and 23,274 shares under the terms of the performance share plan of 31 July 2009;
- 73,156 own shares acquired in 2008 under the terms of the share buyback programme of 4 June 2008 after the final allocation in 2011 of 26,844 shares under the terms of the performance share plan of 17 December 2009;
- 18,064 own shares acquired in 2010 under the terms of the share buyback programme of 31 May 2010 after the final allocation of 81,936 shares under the terms of the performance share plan of 15 March 2010;
- 400,000 own shares acquired in 2011 under the terms of the 7 June 2011 share buyback plan.

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

- to cover free shares allocated on 16 December 2008, the final quantity of which will not be known until 2013.
- to cover performance shares allocated on 31 July 2009, the final quantity of which will not be known until 2013;
- to cover free shares allocated on 17 December 2009, the final quantity of which will not be known until 2014.
- to cover performance shares allocated on 17 December 2009, the final quantity of which will not be known until 2013;
- to cover performance shares allocated on 15/03/2010, the final quantity of which will not be known until 2014;
- to cover performance shares allocated on 31 July 2010, the final quantity of which will not be known until 2014;
- to cover free shares allocated on 03 December 2010, the final quantity of which will not be known until 2015.
- to cover performance shares allocated on 03 December 2010, the final quantity of which will not be known until 2014;
- to cover performance shares allocated on 30 March 2011, the final quantity of which will not be known until 2015;
- to cover performance shares allocated on 18 November 2011, the final quantity of which will not be known until 2015;
- to cover free shares allocated on 15 December 2011, the final quantity of which will not be known until 2016.
- to cover performance shares allocated on 30 March 2012, the final quantity of which will not be known until 2016;

On the other hand, 490,500 shares held under the terms of the liquidity contract with Crédit Agricole Cheuvreux, the value of which was €15.8 million.

In 2007, Vallourec signed a liquidity contract with Crédit Agricole Cheuvreux. It is implemented under the annual general authorization for the share buyback programme approved by the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 (11th resolution) and by the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 (13th resolution). . To implement this contract, €20 million were allocated to the liquidity account.

Vallourec and Crédit Agricole Cheuvreux terminated this contract with effect from 29 June 2012 (Note 30).

At 30 June 2012, the balance of the liquidity account comprised:

- 490,500 shares;
- €2,157,358

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.

30/06/2012	Notes	Category (1)	Gross value at 30/06/2012	Amortized cost	At fair value through equity	At fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed participating interests		AVS	61,273	-	61,273	-
Other investments in equity instruments		AVS	5,327	-	5,327	-
Loans		L&R	4,353	4,353	-	-
Other financial assets		L&R /AHM (b)	49,845	49,845	-	-
Trade receivables	7	L&R	957,470	957,470	-	-
Derivatives — assets	**8**					
Hedging financial instruments (6)		CFH	44,184	-	3,040	41,144
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	9	L&R	223,548	223,548	-	-
Cash and cash equivalents	10	A-FVTPL	579,407	-	-	579,407
LIABILITIES						
Bank loans and other borrowings (3) (5)	14	AC-EIR	547,127	547,127	-	-
Other		AC-EIR	918,857	918,857	-	-
Overdrafts and other short-term bank borrowings (4) (5)	14	AC-EIR	35,933	35,933	-	-
Trade payables		AC	629,610	629,610	-	-
Derivatives — liabilities	**8**					
Hedging financial instruments		CFH	108,471	-	52,311	56,160
Speculative financial instruments		L-FVTPL	2	-	-	2
Other current liabilities	18	AC	421,748	421,748	-	-

(1) A – FVTPL Financial assets measured at fair value through profit or loss
AHM Assets held to maturity
L&R Loans and receivables
AVS Available-for-sale financial assets
CFH Cash flow hedging
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
(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 swap contracts, linked to interest rate movements, are recognized in equity to the extent of their effectiveness. Otherwise, they are recognized under financial income.
(6) Including the "Value 08", "Value 09", "Value 10" and "Value 11" warrants, the fair value of which was €5.6 million at 30 June 2012.

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.).

30/06/2012 Balance sheet headings and classes of instruments	Category (1)	Total fair value in balance sheet	Fair value Listed prices (a)	Fair value Internal model with observable parameters (b)	Fair value Internal model with non-observable parameters
ASSETS					
Listed participating interests	AVS	61,723	61,723	-	-
Other investments in equity instruments	AVS	5,327	-	5,327	-
Derivatives — assets					
Hedging financial instruments	CFH	44,184	-	44,184	-
Speculative financial instruments	L-FVTPL	-	-	-	-
Cash and cash equivalents	**A-FVTPL**	**579,407**	**579,407**	**-**	**-**
LIABILITIES					
Derivatives — liabilities					
Hedging financial instruments	CFH	108,471	-	108,471	-
Speculative financial instruments	L-FVTPL	2	-	2	-

(1) A-FVTPL Financial assets measured at fair value through profit or loss
AHM Assets held to maturity
L&R Loans and receivables
AVS Available-for-sale financial assets
CFH Cash flow hedging
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

2011	Notes	Category (1)	Gross value at 31/12/2011	Amortized cost	At fair value through equity	At fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed participating interests		AVS	65,940	-	65,940	-
Other investments in equity instruments		AVS	2,586	-	2,586	-
Loans		L&R	4,441	4,441	-	-
Other financial assets		L&R /AHM (b)	42,605	42,605	-	-
Trade receivables	**7**	**L&R**	**1,043,492**	**1,043,492**	**-**	**-**
Derivatives — assets	**8**					
Hedging financial instruments (6)		CFH	39,705		797	38,908
Speculative financial instruments		A – FVTPL	-	-	-	-
Other current assets	**9**	**L&R**	**182,510**	**182,510**	**-**	**-**
Cash and cash equivalents	**10**	**A – FVTPL**	**901,886**	**-**	**-**	**901,886**
LIABILITIES						
Bank loans and other borrowings (3) (5)	**14**	**AC – EIR**	**808,640**	**808,640**	**-**	**-**
Finance lease borrowings		**AC – EIR**			**-**	**-**
Other		**AC – EIR**	**476,044**	**476,044**	**-**	**-**
Overdrafts and other short-term bank borrowings (4) (5)	**14**	**AC – EIR**	**56,470**	**56,470**	**-**	**-**
Trade payables		**AC**	**668,680**	**668,680**	**-**	**-**
Derivatives — liabilities	**8**					
Hedging financial instruments		CFH	115,695	-	65,163	50,532
Speculative financial instruments		L – FVTPL	2	-	-	2
Other current liabilities	**18**	**AC**	**504,385**	**504,385**	**-**	**-**

(1) A – FVTPL Financial assets measured at fair value through profit or loss
AHM Assets held to maturity
L&R Loans and receivables
AVS Available-for-sale financial assets
CFH Cash flow hedging
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
(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 swap contracts, linked to interest rate movements, are recognized in equity to the extent of their effectiveness. Otherwise, they are recognized under financial income.
(6) Including the “Value 08”, “Value 09”, “Value 10” and “Value 11” warrants, the fair value of which was €7.6 million at 31 December 2011.

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.).

2011 Balance sheet headings and classes of instruments	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	65,940	65,940	-	-
Other investments in equity instruments	AVS	2,586	-	2,586	-
Derivatives — assets					
Hedging financial instruments	CFH	39,705	-	39,705	-
Speculative financial instruments	L-FVTPL	-	-	-	-
Cash and cash equivalents	**A-FVTPL**	**901,886**	**901,886**	**-**	**-**
LIABILITIES					
Derivatives — liabilities					
Hedging financial instruments	CFH	115,695	-	115,695	-
Speculative financial instruments	L-FVTPL	2	-	2	-

(1) A-FVTPL Financial assets measured at fair value through profit or loss
AHM Assets held to maturity
L&R Loans and receivables
AVS Available-for-sale financial assets
CFH Cash flow hedging
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	Prepayments	Receivables re income tax	Other receivables	Total
AT 31/12/2011	**5,417**	**67,201**	**27,384**	**26,175**	**56,333**	**182,510**
Impact of changes in exchange rates	-77	-1,235	-548	-1,599	-381	-3,840
Other changes	3,350	-7,689	7,455	36,906	4,856	44,878
AT 30/06/2012	**8,690**	**58,277**	**34,291**	**61,482**	**60,808**	**223,548**

Note 10 Cash and cash equivalents

	Securities (gross)	Cash and cash equivalents	Total
AT 31/12/2011	**638,153**	**263,733**	**901,886**
Impact of changes in exchange rates	-5,591	6,144	553
Other changes	-374,354	51,322	-323,032
AT 30/06/2012	**258,208**	**321,199**	**579,407**

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

Note 11 Equity

ISSUED CAPITAL

Vallourec's share capital comprised 121,626,521 ordinary shares with a nominal value of €2 per share fully paid-up as at 30 June 2012.

In compliance with the resolution approved by the Vallourec Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, shareholders were invited to opt for payment of the dividend in cash or in shares. The dividend in respect of the 2011 profit was set at €1.30 per share.

This transaction resulted in the creation of 192,112 new shares at a price of €31.10 per share, delivered and listed on NYSE Euronext Paris on 27 June 2012. Payment of the dividend in cash, for a total of €150.5 million (including an €0.2 million equalization payment) also took place on this date.

RESERVES, FINANCIAL INSTRUMENTS

In accordance with IAS 39 Financial Instruments, this reserve account mainly includes 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 (at 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 swap contracts, linked to interest rate movements, are recognized in equity;

FOREIGN CURRENCY TRANSLATION RESERVE

This reserve is the result of the translation of the equity of subsidiaries outside the eurozone. The variation in the reserve corresponds to changes in exchange rates used to translate the equity and profit or loss for these subsidiaries. Components of the reserve may be written off to the income statement only in the event of partial or total disposal and loss of control of the foreign subsidiary concerned.

	USD	GBP	BRL	CNY	Other	Total
AT 31/12/2011	**74,997**	**-11,096**	**111,834**	**35,225**	**-5,028**	**205,932**
Changes	42,431	1,669	-139,306	5,200	4,478	-85,528
AT 30/06/2012	**117,428**	**-9,427**	**-27,472**	**40,425**	**-550**	**120,404**

MAIN EXCHANGE RATES USED (EURO/CURRENCY): TRANSLATION OF BALANCE SHEET ITEMS (CLOSING RATE) AND INCOME STATEMENT ITEMS (AVERAGE RATE).

	USD	GBP	BRL	CNY
2011				
Average rate	1.39	0.87	2.33	8.99
Closing rate	1.29	0.84	2.42	8.15
1st half 2012				
Average rate	**1.30**	**0.82**	**2.41**	**8.19**
Closing rate	**1.26**	**0.81**	**2.58**	**8.00**

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	2011	First half 2012
Net profit attributable to the ordinary shareholders for basic earnings per share	**401,547**	**85,219**
Weighted average number of ordinary shares for basic earnings per share	118,685,868	121,434,409
Weighted average number of own shares for basic earnings per share	-700,878	-981,734
Weighted average number of shares for basic earnings per share	117,984,990	120,452,675
Earnings per share (in €)	*3.4*	*0.7*
Dilution effect – share purchase and share subscription options and performance shares	405,929	126,726
Adjusted weighted average number of ordinary shares for diluted earnings per share	118,390,919	120,579,401
Diluted earnings per share (in €)	*3.4*	*0.7*
Dividends paid during the period:		
• In respect of the previous period	1.30	1.30
• Interim dividend in respect of the current period	-	-

Note 13 Non-controlling interests

	Reserves	Translation difference	Net profit	Total
At 31/12/2011	312,327	12,419	55,276	380,022
AT 30/06/2012	**361,603**	**21,844**	**26,358**	**409,805**

Note 14 Bank loans and other borrowings

LIQUIDITY RISKS

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

The majority of long-term and medium-term bank financings has been put in place in Europe through Vallourec and its sub-holding company V & M Tubes, and to a lesser extent via the subsidiaries in Brazil and the United States.

In Europe

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 for a seven-year period to finance the acquisition of a 45% stake in V & M Tubes. This facility was reduced to €260 million in February 2011.

This tranche was repaid on 23 March 2012.

In April 2008, Vallourec contracted a loan of US $300 million over five years with a syndicate of seven banks. This loan agreement also provided for a €350 million revolving line of credit, which the Group closed in February 2011. At 30 June 2012, Vallourec used the US $300 million loan (€238.8 million), which is recorded under non-current liabilities. This loan must be repaid on 17 April 2013.

In November 2008, Vallourec contracted a fixed rate credit line of €100 million from the Crédit Agricole Group for a six-year period (maturing at the end of October 2015). This loan was drawn down at the end of January 2009.

In February 2011, Vallourec contracted a multi-currency revolving credit line in the amount of €1 billion maturing in 2016. This line, which has already enabled it to close two revolving credit lines put in place in 2005 and 2008, will also be used to refinance existing credit lines reaching maturity in March 2012 and April 2013. At 30 June 2012, it had not been drawn down.

All these bank facilities require 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 in control of Vallourec could require the redemption of some or all of the credit, to be decided by 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.

In addition to this bank financing, the Vallourec Group aims to diversify its source of financing by resorting to market finance. For example, Vallourec issued a commercial paper programme on 12 October 2011 to meet its short-term needs. The programme is capped at €1 billion.

At 30 June 2012, Vallourec had €750 million outstanding with a maturity of one to six months. This commercial paper programme is rated A-2 by Standard & Poor's.

On 7 December 2011, Vallourec also successfully carried out a bond issue for €650 million maturing in February 2017, with a fixed annual coupon of 4.25%.

This bond issue, with an initial maturity of 5 years and 2 months, is intended to diversify, increase the amount and extend the maturity of the financial resources available to, and used by, the Group.

The market value of the fixed-rate bond issue was measured at €671.9 million at 30 June 2012, taking account of the interest rate swap curve.

This bond issue specifically includes a change of control clause that would trigger the mandatory early redemption of the bonds at the request of each bondholder in the event of a change of control of the Company (in favour of a person or a group of people acting in concert) entailing a downgrade in the Company's financial rating.

In addition, these bonds may be subject to early repayment in the event of certain cases of default, as it is usual for this type of transaction, as well as demands for early repayment at the behest of the Company or the holder, in certain cases, particularly a change in the Company's position or fiscal situation.

In addition to these financings put in place by Vallourec, at the beginning of 2007 the Group negotiated for V & M Tubes five medium-term (five years) bilateral lines with its closest banks. Apart from one line which has been rolled over to 2014, these lines will mature in 2013. Each of these lines is for €100 million and includes the same undertakings as those for the facilities put in place by Vallourec. At 30 June 2012, none of these lines had been drawn down.

At 30 June 2012, the Group respected its commitments and conditions concerning obtaining and maintaining all the above financial resources and, at 30 June 2012, all the above-mentioned provisions were sufficient for the Group's liquidity requirements.

In Brazil

In December 2009, Vallourec & Sumitomo Tubos do Brazil, which is 56% owned by the Group, contracted a loan of 448.8 million Brazilian reals from BNDES (Banco National de Desenvolvimento Economico e Social). This fixed-rate loan at 4.5% is denominated in Brazilian real and has a term of eight years. It was amortisable from 15 February 2012. At 30 June 2012, this loan was used for a total of 293.4 million Brazilian reals.

During the course of the financial year 2010, this same company in Brazil concluded a finance lease agreement with a nominal value of 570 million Brazilian reals relating to equipment required in the operation of the plant at the Jeceaba site.

In the United States

The Group's US companies benefit from a series of bilateral bank lines, which were renewed in 2011 and in the first half 2012, totalling US $308 million. The amount used at 30 June 2012 stood at US $65 million. The terms of these lines with maturities of less than one year contain clauses relating to the indebtedness of each of the companies involved and a change of control clause.

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	Finance leases	Bond issue	Other bank and similar borrowings	Total
At 31/12/2011	**433,215**	**111,124**	**643,115**	**1,767**	**1,189,221**
New borrowings taken out	13,888		667	4,805	19,360
Repayments	-8,148	-4,028		-5,925	-18,101
Reclassifications	-231,857				-231,857
Impact of changes in exchange rates	-6,215	-6,527		-371	-13,113
Other changes		-65		14	-51
AT 30/06/2012	**200,883**	**100,504**	**643,782**	**290**	**945,459**

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 31/12/2011	**56,425**	**45**	**375,425**	**4,067**	**470,210**	**906,172**
New borrowings taken out			78,666	18,578	460,751	557,995
Repayments	-21,017	-30	-339,698	-4,151	-23,199	-388,095
Reclassifications			231,857		65	231,922
Impact of changes in exchange rates	510		-6	3	-7,757	-7,250
AT 30/06/2012	**35,918**	**15**	**346,244**	**18,497**	**900,070**	**1,300,744**

INDEBTEDNESS BY CURRENCY

	USD	EUR	REAL	Other	Total
At 31/12/2011 – *thousands of currency*	514,640	1,375,243	712,618	n/a	n/a
At 31/12/2011 – *thousands of euros*	397,743	1,375,243	294,970	27,437	2,095,393
At 30/06/2012 – *thousands of currency*	**572,207**	**1,529,198**	**585,517**	**n/a**	**n/a**
AT 30/06/2012 – thousands of euros	**454,493**	**1,529,198**	**227,050**	**35,462**	**2,246,203**

BREAKDOWN BY MATURITY OF NON-CURRENT BANK LOANS AND OTHER BORROWINGS (DUE IN OVER ONE YEAR)

	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
At 31/12/2011	**256,879**	**29,872**	**124,370**	**24,050**	**754,050**	**1,189,221**
Finance leases	7,846	7,864	7,883	7,904	69,005	100,502
Other non-current financial liabilities	24,530	18,004	113,987	658,117	30,319	844,957
AT 30/06/2012	**32,376**	**25,868**	**121,870**	**666,021**	**99,324**	**945,459**

BREAKDOWN BY MATURITY OF CURRENT BANK LOANS AND OTHER BORROWINGS

	< 3 months	> 3 months and < 1 year	Total
Bank borrowings	291,799	83,625	375,424
Other borrowings	344,435	117,431	461,866
Finance lease borrowings	8,214	131	8,345
Accrued interest on borrowings	4,067		4,067
Bank overdrafts (negative cash and cash equivalents)	56,470		56,470
At 31/12/2011	**704,985**	**201,187**	**906,172**
Bank borrowings	45,971	300,272	346,243
Other borrowings	779,575	112,667	892,242
Finance lease borrowings		7,829	7,829
Accrued interest on borrowings	3,499	14,997	18,496
Bank overdrafts (negative cash and cash equivalents)	35,934		35,934
AT 30/06/2012	**864,979**	**435,765**	**1,300,744**

INDEBTEDNESS BY INTEREST RATE

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

	Rate < 3%	Rate 3 to 6%	Rate 6 to 10%	Rate > 10%	Total
At 31/12/2011					
Fixed rate on date granted	505,084	826,216	68,957		1,400,257
Variable rate on date granted swapped to fixed rate		494,302			494,302
Fixed rate	505,084	1,320,518	68,957		1,894,559
Variable rate	164,649	8,918	18,868	8,399	200,834
TOTAL	**669,733**	**1,329,436**	**87,825**	**8,399**	**2,095,393**
At 30/06/2012					
Fixed rate on date granted	927,918	830,482	53,606		1,812,006
Variable rate on date granted swapped to fixed rate		240,358			240,358
Fixed rate	927,918	1,070,840	53,606		2,052,364
Variable rate	150,937	23,520	14,962	4,420	193,839
TOTAL	**1,078,855**	**1,094,360**	**68,568**	**4,420**	**2,246,203**

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

Note 15 Provisions for liabilities and charges

Non-current liabilities	Provisions for environmental risks
At 31/12/2011	**9,929**
Charges for the period	276
Impact of changes in exchange rates	-631
AT 30/06/2012	**9,574**

This provision covers, in particular, the costs of soil treatment at industrial sites: a provision has been made for the full amount of the likely costs. The provision also covers the clean-up costs in respect of the mine in Brazil: charges are made as and when minerals are extracted, based on the volumes extracted.

Current liabilities	Commercial disputes	Orders outstanding – loss on completion	Reorganization measures	Tax risks (duties, taxes, tax audits, etc.)	Other	Total
At 31/12/2011	**43,497**	**9,531**	**2,936**	**41,580**	**22,753**	**120,297**
Charges for the period	20,707	12,738		1,429	2,917	37,791
Provisions used	-3,056	-2,306	-236	-1,033	-2,320	-8,951
Other reversals	-4,069		-4		-715	-4,788
Impact of changes in exchange rates	-1,273	129		-2,342	-979	-4,465
Other (reclassifications)		1,335	-250	-474	-33	578
AT 30/06/2012	**55,806**	**21,427**	**2,446**	**39,160**	**21,623**	**140,462**

PROVISION FOR TAX RISKS

This provision mainly relates to risks in connection with tax disputes in Brazil, which have given rise to the payment of security deposits.

The Brazilian tax authorities have challenged a judgment, which resulted in the Group obtaining, in 2006, the reimbursement of 137 million reals of IPI taxes (200 million reals of interest included at 30 June 2012). This judgment was the final judgment of the Court of Appeal. Since the Group believed that a favourable outcome of this case was more probable than improbable, no provision was booked in respect of it.

OTHER CURRENT PROVISIONS

This heading comprises various provisions in respect of customer discounts, penalties for delays and other risks identified at the balance sheet date. At 30 June 2011, actual greenhouse gas emissions were lower than the quotas granted by the state and therefore no provision has been recognised in respect of them.

Note 16 Other long-term liabilities

At 31/12/2011	**92,113**
Impact of changes in exchange rates	-10,437
Other changes	73,380
AT 30/06/2012	**155,056**

Other long-term liabilities mainly comprise a non-operating debt for longer than one year and V & M do Brasil's share of the VSB debt regarding Sumitomo.

Note 17 Employee benefits

	Germany	France	United Kingdom	Other	Total
At 30/06/2012					
Present value of the commitment	**207,061**	**45,118**	**108,109**	**65,453**	**425,741**
Retirement	181,459	41,386	108,109	59,531	390,485
Pre-pension commitments	11,869				11,869
Long-service awards and medical benefits	13,733	3,732		5,922	23,387
Fair value of the plan assets	-125,269	-3,569	-99,348	-17,920	-246,106
Past service costs not recognized		-6,204		-21	-6,225
Actuarial gains and losses	-30,015	-1,367	-18,686	-10,161	-60,229
Changes in scope and other					
PROVISION	**51,777**	**33,978**	**-9,925**	**37,351**	**113,181**

The amounts recorded at 30 June 2012 are the result of a projection prepared based on the measurement of pension commitments at 31 December 2011 using identical assumptions.

A sensitivity test was carried out at 31 December 2011 on retirement gratuities as well as on long-service awards:

- in France, a 1% change in the discount rate would result in a change of about €3.8 million in these commitments;
- in Germany, a 1% change in the discount rate would result in a change of about €18.9 million in these commitments;
- in the United Kingdom, a 1% change in the discount rate would result in a change of about €20.4 million in these commitments;

At 30 June 2012, the Iboxx rate, bonds from AA rated companies stood at 3.38% in France and Germany, i.e. a 1.3 point difference from the 4.70% rate used at the end of 2011. With Vallourec applying the corridor method, this change could increase the total commitment (off-balance sheet) in France and Germany by around €30 million.

The charges recognized during the six-month period include additional rights acquired in respect of an additional six months of service, the change in rights existing at the beginning of the year due to discounting, the past service costs 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 recognised within financial income.

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

Half-yearly costs	Germany	France	United Kingdom	Other	Total
At 30/06/2012					
Cost of services rendered	2,860	1,319	1,059	1,421	6,659
Interest charges on the commitment	4,524	1,022	2,483	1,780	9,809
Expected return on plan assets	-2,348	-62	-2,772	-709	-5,891
Net actuarial gains/losses recorded during the six months	469	93	257	316	1,135
Past service costs		241		2	243
NET CHARGES RECORDED	**5,505**	**2,613**	**1,027**	**2,810**	**11,955**

The amounts recorded at 30 June 2012 are the result of a projection prepared based on the measurement of pension commitments at 31 December 2011 using identical assumptions.

OTHER EMPLOYEE BENEFITS (OPTIONS AND PERFORMANCE SHARES)

Share purchase option or share subscription plans

CHARACTERISTICS OF THE PLANS

With relation to the characteristics of the plans concluded before 31 December 2011, refer to the Group's consolidated financial statements for the year ending 31 December 2011.

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)	30/06/2012
Total at start of year	2,151,887
Options distributed	-
Options exercised	-
Options not exercised at expiry date	-
Options cancelled [(a)]	-
Total at end of year	2,151,887
Of which options remaining to be exercised	-

(a) Beneficiaries who have left the Group.

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

	30/06/2012
2007 Plan	277,600
2008 Plan	143 600
2009 Plan	547,600
2010 Plan	499,200
2011 Plan	683,887

Performance share allocation plans

CHARACTERISTICS OF THE NEW PLAN IMPLEMENTED DURING THE SIX MONTHS:

With relation to the characteristics of the plans concluded before 31 December 2011, refer to the Group's consolidated financial statements for the year ending 31 December 2011.

The characteristics of the plans arising since 1 January 2012 are as follows:

	2012 Plan	2012 Plan 2-4-6
Date allocated	30/03/2012	30/03/2012
Vesting period	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or 4 years (non-French residents)
Holding period	2 years (French residents) or none (non-French residents)	2 years (French residents) or none (non-French residents)
Number of beneficiaries at outset	1,591	21,686
Theoretical number of shares allocated	292,350	130,116

CHANGE IN NUMBER OF SHARES

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

	Total
Initial theoretical number of shares allocated	1,363,771
Number of shares cancelled	(22,087)
Theoretical number of shares vested or being vested	1,341,684
Number of shares delivered during the 1st half 2012	81,936

Note 18 Other current liabilities

	Social security liabilities	Tax liabilities	Payables relating to the acquisition of assets	Accrued income	Other current liabilities	Total
At 31/12/2011	**232,716**	**57,503**	**131,471**	**11,817**	**70,878**	**504,385**
Impact of changes in exchange rates	-2,795	-337	-1,302	33	1,937	-2,464
Other changes	-6,756	-317	-44,379	-2 285	-26,436	-80,173
AT 30/06/2012	**223,165**	**56,849**	**85,790**	**9,565**	**46,379**	**421,748**

Note 19 Information on related parties

	Sales to related parties	Purchases from related parties	Receivables due from related parties	Payables due to related parties
At 30/06/2012				
HKM	1,883	258,089	76	32,587
Proportionately consolidated companies	7,919	19,767	2,423	8,349

Note 20 Off-balance-sheet commitments

OFF-BALANCE-SHEET COMMITMENTS RECEIVED (EXCLUDING FINANCIAL INSTRUMENTS)

	31/12/2011	30/06/2012
Firm non-current asset orders	146,808	103,318
Guarantees and commitments received	150,030	125,501
Other commitments received	63,754	64,480
TOTAL	**360,592**	**293,299**
OFF-BALANCE SHEET COMMITMENTS GIVEN (EXCLUDING FINANCIAL INSTRUMENTS)	750,459	693,727

COMMITMENTS GIVEN BY MATURITY

	30/06/2012	< 1 year	> 1 year	> 5 years
Balance sheet				
Long-term borrowings	2,246,203	1,300,744	846,135	99,324
Off-balance sheet				
Market guarantees and letters of credit given	175,925	107,826	68,062	37
Other security, mortgages and pledges given	122,743	9,330	7,477	105,936
Long-term leasing contract	78,610	9,031	26,583	42,996
Pensions and retirement gratuities (actuarial gains and losses)	66,452		55,727	10,725
Firm non-current asset orders given	103,318	55,788	3,303	44,227
Other commitments	146,679	81,309	9,031	56,339
TOTAL	**693,727**	**263,284**	**170,183**	**260,260**

	31/12/2011	< 1 year	> 1 year	> 5 years
Balance sheet				
Long-term borrowings	2,095,393	906,172	435,171	754,050
Off-balance sheet				
Market guarantees and letters of credit given	195,322	122,626	72,659	37
Other security, mortgages and pledges given	130,595	9,692	14,286	106,617
Long-term leasing contract	78,502	7,626	27,158	43,718
Pensions and retirement gratuities (actuarial gains and losses)	67,364	-	55,630	11,734
Firm non-current asset orders given	146,808	34,505	52,557	59,746
Other commitments	131,868	82,660	1,430	47,778
TOTAL	**750,459**	**257,109**	**223,720**	**269,630**

The joint venture agreement signed by the two shareholders, Vallourec and Sumitomo, provides that each will benefit from an option to purchase the interest of the other shareholder in the event of a change of control of said other shareholder.

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 21 Sales

	1st half 2011	1st half 2012
France	110,920	85,629
Germany	323,339	271,621
Other EU Member States	230,585	237,215
North America (NAFTA)	622,932	703,628
South America	540,648	625,756
Asia	461,952	400,061
Rest of the world	147,543	203,398
TOTAL	**2,437,919**	**2,527,308**

Sales for 1st half 2012 stood at €2,527.3 million, an increase of 3.7% compared to 1st half 2011. On a comparable basis, after adjusting sales for 1st half 2011 recalculated within the scope of 1st half 2012, the increase is 3%.

Note 22 Cost of sales

	1st half 2011	1st half 2012
Direct cost of sales	-173,550	-184,072
Cost of raw materials consumed	-688,301	-749,042
Labour costs	-389,170	-435,140
Other manufacturing costs	-493,300	-515,228
Change in non-raw material inventories	67,534	40,605
TOTAL	**-1,676,787**	**-1,883,483**
Depreciation and amortization	-100,920	-109,765
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**-1,777,707**	**-1,952,642**

Note 23 Selling, general and administrative costs

	1st half 2011	1st half 2012
Research and development costs	-39,002	-51,135
Selling and marketing costs	-47,814	-56,536
General and administrative costs	-201,730	-187,786
TOTAL	**-288,546**	**-295,457**
Depreciation and amortization	-24,983	-33,016
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**-313,529**	**-328,473**

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

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

	1st half 2011	1st half 2012
Payroll costs		
Wages and salaries	-366,341	-392,760
Employee profit sharing	-21,835	-24,409
Charge in respect of share subscription and share purchase option and performance share plans	-8,639	-8,059
3 May 2007 performance share allocation plan	*881*	
1 September 2008 performance share allocation plan	*-99*	
31 July 2009 performance share allocation plan	*-281*	*10*
17 December 2009 "123" performance share allocation plan	*-822*	*-411*
3 September 2007 share subscription option plan	*-542*	
1 September 2008 share subscription option plan	*-448*	*-572*
1 September 2009 share subscription option plan	*-735*	*-723*
1 September 2010 share subscription option plan	*-979*	*91*
1 September 2011 share subscription option plan	*0*	*-439*
16 December 2008 "Value 08" employee share ownership plan including "Value 08" share allocation plan	*-206*	*-166*
17 November 2009 "Value 09" employee share ownership plan including 17 November 2009 share allocation plan	*-346*	*-341*
15 March 2010 performance share allocation plan	*-1,875*	*-1,089*
31 July 2010 performance share allocation plan	*-64*	*-36*
3 December 2010 Value 10 employee share ownership scheme including 3 December 2010 share allocation plan	*-1,132*	*-566*
3 December 2010 "246" performance share allocation plan	*-798*	*-786*
30 March 2011 performance share allocation plan	*-1,193*	*-1,007*
30 March 2012 performance share allocation plan	*0*	*-1,030*
15 December 2011 Value 11 employee share ownership plan	*0*	*-25*
18 November 2011 "246" performance share allocation plan		*-547*
30 March 2012 "246" performance share allocation plan		*-422*
Social charges	-139,253	-147,112
TOTAL	**-536,068**	**-572,340**

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 performance share allocation plans and retirement benefits are provided in Note 17.

Average number of employees in consolidated companies (a)	1st half 2011	1st half 2012
Executives	2,857	3,050
Supervisory, clerical and technical staff	3,765	4,113
Production staff	13,808	14,888
TOTAL	**20,430**	**22,051**

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

The Group's workforce totalled 22,006 people at 30 June 2012 compared with 21,822 at 31 December 2011 and 20,845 at 30 June 2011.

Note 24 Other

	1st half 2011	1st half 2012
Employee profit sharing	-21,835	-24,409
Fees for concessions and patents	13,919	15,048
Other income and expenses	-6,929	3,983
TOTAL	**-14,845**	**-5,378**

Charges to provisions, net of reversals	1st half 2011	1st half 2012
The amount of charges to provisions net of reversals included within gross operating profit totalled:	15,372	-33,633

Note 25 Depreciation and amortization

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

	1st half 2011	1st half 2012
By function		
Depreciation of industrial assets	-100,920	-109,765
Depreciation and amortization of assets allocated to research and development	-1,783	-2,858
Depreciation and amortization — sales and marketing departments	-13,750	-18,329
Depreciation and amortization — general and administrative costs	-9,450	-11,829
TOTAL	**-125,903**	**-142,781**
By nature		
Charges to amortization of intangible assets (see Note 1)	-22,084	-28,015
Charges to depreciation of property, plant and equipment (see Note 2)	-103,936	-114,805
Reversals of depreciation and provisions on property, plant and equipment	117	39
TOTAL	**-125,903**	**-142,781**

Note 26 Asset disposals and restructuring costs

	1st half 2011	1st half 2012
Impairment of assets and goodwill	431	-74
Impairment of inventories specific to discontinued operations	0	0
TOTAL IMPAIRMENT OF ASSETS AND GOODWILL	**431**	**-74**

	1st half 2011	1st half 2012
Reorganization measures (net of expenses and provisions)	-1,289	-95
Gains and losses on disposals of non-current assets	441	-987
TOTAL ASSET DISPOSALS AND RESTRUCTURING COSTS	**-848**	**-1 082**

Note 27 Net financial income

	1st half 2011	1st half 2012
Financial income		
Income from securities	8,367	8,881
Income from disposals of securities	638	1,213
TOTAL	**9,005**	**10,094**
Interest costs	**-35,239**	**-56,125**
Other financial income and charges		
Income from securities	678	1,237
Income from loans and receivables	3,000	1,200
Exchange losses (-) and gains (+) and changes in premiums/discounts	8,090	2,498
Charges to provisions, net of reversals	-161	131
Other financial income and charges	-5,075	-2,368
TOTAL	**6,532**	**2,698**
Other discounting costs		
Financial charges on discounting of retirement commitments	-4,650	-4,205
Financial income on discounting of certain assets and liabilities	-4	-23
TOTAL	**-4,654**	**-4,228**
FINANCIAL INCOME/LOSS	**-24,356**	**-47,561**

Note 28 Reconciliation of theoretical and actual tax charge

Breakdown of the tax charge	1st half 2011	1st half 2012
Current tax charge	-61,224	-72,861
Deferred tax liabilities	-28,201	27,313
NET CHARGE	**-89,425**	**-45,548**
Net profit or loss of consolidated companies	217,641	105,944
Tax charge	-89,425	-45,548
NET PROFIT (LOSS) OF CONSOLIDATED COMPANIES, BEFORE TAX	**307,066**	**151,492**
Statutory tax rate of consolidating company	34.43%	34.43%
Theoretical tax charge	-105,733	-52,164
Impact of main losses carried forward	-3,119	-3,907
Impact of long-term capital gains and losses	1,069	593
Impact of permanent differences	16,409	21,661
Impact of differences in tax rates	1,585	-2,134
Other effects	364	-9,597
NET CHARGE	**-89,425**	**-45,548**
ACTUAL TAX RATE	**29.12%**	**30.07%**

The permanent differences consist mainly of the net profit attributable to non-controlling interests, withholding taxes and the change in the share of costs and charges in respect of 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% and China 25%).

Note 29 Segment reporting

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 2011 and 2012.

The "Holding companies and other" segment includes the companies Vallourec and V & M Tubes.

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

1st half 2012	Seamless tubes	Speciality Products	Holding companies & other (a)	Inter-segment transactions	Total
Income statement					
Sales to external customers	2,400,606	126,494	208		2,527,308
EBITDA	355,815	2,354	-14,273	-906	342,990
Depreciation and amortization	-133,356	-9,204	-418	197	-142,781
Impairment of assets and goodwill	-74				-74
Asset disposals and restructuring costs	-1,093	80	-69		-1,082
OPERATING PROFIT OR LOSS	**221,292**	**-6,770**	**-14,760**	**-709**	**199,053**
Unallocated income					12,792
Unallocated charges					-60,353
Profit before tax					151,492
Income tax					-45,548
Net profit of equity affiliates					5,633
Net profit from all consolidated entities					111,577
Balance sheet					
Non-current assets	5,431,624	219,455	4,149,510	-3,960,626	5,839,963
Current assets	2,571,144	175,464	275,073	-236,230	2,785,451
Cash and cash equivalents	405,042	39,895	963,898	-829,428	579,407
TOTAL ASSETS	**8,407,810**	**434,814**	**5,388,481**	**-5,026,284**	**9,204,821**
Equity	4,397,235	167,658	3,427,485	-3,304,226	4,688,152
Non-controlling interests	401,628	8,200		-24	409,804
Non-current liabilities	1,300,156	9,412	790,031	-652,124	1,447,475
Current liabilities	2,308,791	249,544	1,170,965	-1,069,910	2,659,390
TOTAL LIABILITIES	**8,407,810**	**434,814**	**5,388,481**	**-5,026,284**	**9,204,821**
Cash flows					
Property, plant & equipment, intangible and biological assets	300,808	13,569	77		314,454
Other disclosures					
Average number of employees	20,273	1,585	193		22,051
Payroll costs	-511,120	-34,672	-26,551	3	-572,340

(a) Vallourec and V & M Tubes.

1st half 2011	Seamless tubes	Speciality Products	Holding companies & other (a)	Inter-segment transactions	Total
Income statement					
Sales to external customers	2,257,328	143,873	36,718		2,437,919
EBITDA	464,080	10,617	-15,005	-1,950	457,742
Depreciation and amortization	-118,951	-6,659	-491	198	-125,903
Impairment of assets and goodwill	431				431
Asset disposals and restructuring costs	-940	116	-46	22	-848
OPERATING PROFIT OR LOSS	**344,620**	**4,074**	**-15,542**	**-1,730**	**331,422**
Unallocated income					15,537
Unallocated charges					-39,893
Profit before tax					307,066
Income tax					-89,425
Net profit of equity affiliates					1,363
Net profit from all consolidated entities					219,004
Balance sheet					
Non-current assets	4,386,760	190,086	3,494,492	-3,289,329	4,782,009
Current assets	2,364,270	177,987	260,983	-233,759	2,569,481
Cash and cash equivalents	525,355	26,503	692,334	-678,018	566,174
TOTAL ASSETS	**7,276,385**	**394,576**	**4,447,809**	**-4,201,107**	**7,917,663**
Equity	3,960,626	159,486	3,121,611	-2,749,127	4,492,596
Non-controlling interests	243,612	8,365		-24	251,953
Non-current liabilities	1,080,034	12,127	328,050	-537,492	882,719
Current liabilities	1,992,113	214,598	998,148	-914,464	2,290,395
TOTAL LIABILITIES	**7,276,385**	**394,576**	**4,447,809**	**-4,201,107**	**7,917,663**
Cash flows					
Property, plant & equipment, intangible and biological assets	327,406	24,050	99	-1	351,554
Other disclosures					
Average number of employees	18,686	1,558	186		20,430
Payroll costs	-477,646	-34,868	-26,807	3,253	-536,068

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

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 the companies' locations).

1st half 2012	Europe	North America	South America	Asia	Rest of the world	TOTAL
Sales						
Sales to external customers	594,465	703,628	625,756	400,061	203,398	2,527,308
Balance sheet						
Property, plant & equipment, intangible assets, biological assets and goodwill (net)	1,027,875	1,508,295	1,993,075	611,557	2,105	5,142,907
Cash flows						
Property, plant & equipment, intangible and biological assets	31,040	169,696	73,279	40,100	338	314,453
Other disclosures						
Average number of employees	9,848	2,620	7,591	1,931	61	22,051
Payroll costs	-325,233	-96,483	-133,637	-16,337	-650	-572,340

1st half 2011	Europe	North America	South America	Asia	Rest of the world	TOTAL
Sales						
Sales to external customers	664,844	622,932	540,648	461,952	147,543	2,437,919
Balance sheet						
Property, plant & equipment, intangible assets, biological assets and goodwill (net)	1,027,053	1,042,737	1,971,513	317,127	3,263	4,361,693
Cash flows						
Capital expenditure: property, plant and equipment and intangible assets	41,307	142,622	147,867	19,570	188	351,554
Other disclosures						
Average number of employees	9,583	2,391	6,989	1,449	18	20,430
Payroll costs	-318,900	-85,959	-120,048	-10 850	-311	-536,068

Note 30 Events subsequent to the close

Vallourec and Crédit Agricole Cheuvreux terminated the liquidity contract concluded on 15 January 2007, with effect from 29 June 2012 (Note 8).

With effect from 2 July 2012, and for a 12-month period automatically renewable for further 12-month periods, Vallourec has authorized Rothschild & Cie Banque to implement a liquidity contract according to the Code of Conduct (Charte de déontologie) established by AMAFI and approved by decision of the French securities market regulator (Autorité des Marchés Financiers – AMF) on 21 March 2011.

To implement this liquidity contract, the following means have been allocated to the liquidity account:

- 490,500 shares;
- €9,000,000.

STATUTORY AUDITORS' REVIEW REPORT ON THE FIRST HALF-YEAR FINANCIAL INFORMATION

For the period January 1 to June 30, 2012

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 with, and is 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 the French Monetary and Financial Code (*Code Monétaire et Financier*), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of Vallourec, for the period January 1 to June 30, 2012;
- 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 economic context described in Note B-Accounting Principles to the condensed half-year consolidated financial statements. 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 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 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 – the standard of the IFRSs, as adopted by the European Union with respect to interim financial reporting.

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.

Neuilly-sur-Seine and Paris La Défense, July 26, 2012

The Statutory Auditors

Deloitte & Associés

Jean-Marc Lumet

KPMG Audit
Département de KPMG S.A.
Catherine Porta

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A French limited liability company (société anonyme) with Management and Supervisory Boards and issued capital of €242,253,042