2014 INTERIM FINANCIAL REPORT

Half year ended 30 June 2014

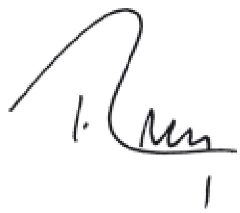
Contents

This document is a free translation of the interim financial report of Vallourec for the first half-year ended 30 June 2014. 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.

Statement by the person responsible for the interim financial report

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

Boulogne-Billancourt, 1 August 2014



Philippe Crouzet

Chairman of the Management Board

Half-year activity report

In the first half of 2014, the Group recorded consolidated sales of €2,693 million, up 4.0% (up 10.1% at constant exchange rates) compared with consolidated sales of €2,590 million in the first half of 2013. EBITDA totaled €444 million, up 5.5% on H1 2013 EBITDA figures (€421 million). The EBITDA margin rate increased by 20 basis points compared with the first half of the previous year, reaching 16.5% of consolidated sales. Net income, Group share, totaled €144 million in the first half of 2014, up 48.5%, compared with €97 million in the first half of 2013.

Vallourec market environment

1. Oil & Gas

In the first half of 2014, Brent oil price remained at high levels above $100 per barrel averaging approximately $109/bbl [(1)] (U.S. dollar per barrel), stable compared to the first half of 2013 ($108/bbl [(1)]). Global E&P [(2)] spending is estimated at $712 billion [(3)] in 2014, up 6% against 2013.

In the USA, the number of active rigs [(4)] reached 1,873 at the end of June 2014, versus 1,748 rigs at the end of June 2013. The average rig count for the first half of 2014 amounted to 1,816 rigs, representing an increase of 3.2% compared with 1,760 rigs for the same period in 2013. The oil rig count increased steadily (up 8.5% compared with H1 2013) with on average 1,479 active rigs during the first half of 2014 compared with 1,363 during the first half of 2013. At the end of June 2014, more than 83% of drilling rigs were concentrated on oil drilling compared to 80% a year ago. Meanwhile, gas drilling decreased by 15.0%, with an average of 333 active rigs during the first half of 2014. Following a harsh winter in the USA, gas demand spiked during the first quarter 2014, resulting in a strong increase of gas prices (Henry Hub). The prices then remained relatively high, above the $4 per MMBtu ($ per million British thermal unit), while the inventory level was low. The gas prices reached an average of $4.6 per MMBtu [(1)] during the first half of 2014, a 20.7% increase compared with the first half of 2013. Nonetheless, the price level remains still too low and too seasonal to spur a recovery of the gas drilling.

In the rest of the world, the international rig count reached 1,344 active rigs [(5)] at the end of June 2014, up 0.8% compared with the end of June 2013 (up 0.7% compared with the end of December 2013). The international average rig count in the first half of 2014 was up 4.1% compared to the same period of the previous year.

In Brazil, in June 2014, the Group's main Brazilian customer, Petrobras, informed Vallourec of its decision to eliminate most of its tube inventories by the year-end. This one-time adjustment does not change the positive long term outlook, Brazil being a major growth area for deep offshore. Operations in Brazil continue to be driven by Petrobras' five-year investment plan (representing a $221 billion investment, of which $154 billion has been earmarked for E&P between 2014 and 2018 [(6)]).

In EAMEA [(7)], the level of orders has reduced during the second quarter of 2014 resulting from E&P operators adjusting their inventories and delaying some tenders for premium products. However, this does not change the positive structural trends relying on major E&P capex programs in the region, required to offset depletion and to support growing domestic oil and gas demand.

2. Petrochemicals

Despite a growing number of projects in the USA, the Middle East and Asia, the market remained highly competitive. In Europe, the markets for this type of applications were sluggish.

3. Power Generation

In Asia, where most new-built activity for conventional power plants is concentrated, local competition continued to be intense while in the OECD countries, power plant maintenance represents the key share of a fiercely competitive market. In the second half of 2012, China's State Council approved the nuclear safety plan, thus boosting construction of new power plants. The capacity of the Chinese nuclear power plants is expected to go from 15 GW (gigawatt) in 2013 to 58 GW in 2020. This growth should comprise an additional 13 GW of capacity for the 2013-2015 period, then 30 GW for 2016-2020. In France, Vallourec is participating in the program to replace the steam generators at EDF's plants to extend the life of its 1,300 MW (megawatt) reactors. In addition to retrofitting projects to extend the lifespan of existing plants, such as in France, new nuclear plants are planned in Asia (India, China, Vietnam), the Middle East (Turkey) and Europe (England).

(1) Thomson Reuters – first half of 2014 average, data gathered July 2014.

(2) E&P: Exploration and Production.

(3) Barclays Capital – Global 2014 E&P Spending Outlook, update June 2014.

(4) Baker Hughes (USA active rig count) – end of June 2014.

(5) Baker Hughes (international active rig count = outside North America) at the end of June 2014.

(6) Petrobras: Business and Management Plan 2014-2018 – February 26, 2014.

(7) EAMEA: Europe, Asia, Middle East, Africa.

4. Industry & Other

In Europe, the Industry & Other markets remained affected by a highly competitive market and further pressure on prices. The European economic recovery is gaining momentum but some countries are lagging behind, including France. Germany is leading the growth while the UK economy continues to expand.

In Brazil, the macroeconomic environment has deteriorated since the beginning of the year, impacting the Brazilian non Oil & Gas activities. GDP (gross domestic product) growth for 2014 forecast in June was 1.5% [(1)] (GDP growth for 2014 forecast in January was 3.0%) and Industrial production growth for 2014 forecast in June was -1.0% [(1)] (Industrial production growth for 2014 forecast in January was 2.4%).

5. Raw Materials

During the first half of 2014, iron ore spot prices strongly decreased. Over the full year 2014, iron ore prices are expected to be lower than in 2013.

In the first half of 2014, scrap metal prices were down in Europe [(2)] and up in the USA [(3)] compared to the same period of the previous year.

6. Currencies

The Group remains sensitive to volatility in foreign currencies (Brazilian real, U.S. dollar) against the euro. In 2014, stabilization of the Brazilian real at current levels [(4)] should have a positive impact on the competitiveness of the Group's Brazilian entities, but a negative translation effect on the Group's results. The strength of the euro against the U.S. dollar will have negative translation and transaction effects on the Group's results. In the first half of 2014, the Group's sales were affected by a negative currency translation effect (-6.1%) due to the persisting weakness of the Brazilian real and the U.S. dollar against the euro.

Activity

Sales by market

Oil & Gas, Petrochemicals

For the first half of 2014, **Oil & Gas** sales were up 5.9% year-on-year (up 12.4% at constant exchange rates) to €1,778 million.

- During the first half of 2014, the demand in the USA was supported by a 3.2% year-on-year increase in the average active rig count and gains in drilling efficiency. Higher volumes sold reflected this increased demand, and the commercial success of Vallourec's enlarged offer with existing and new customers, served by the successful ramp-up of the new rolling mill. The proportion of API and semi-premium products in Vallourec's portfolio in H1 2014 was more important than in H1 2013. Selling prices of OCTG [(5)] sold by Vallourec will increase in the second half of 2014, offsetting the increase in scrap costs experienced at the beginning of the year.
- Sales increased in the EAMEA [(6)] region in the first half of 2014 compared to the first half of 2013, resulting from an exceptionally strong backlog generated in 2013, especially in the Middle East, with high advanced premium products. As announced in early June, the level of orders recorded by Vallourec has reduced in the region in Q2 2014. This will impact the Group's deliveries until mid-2015. This resulted from E&P [(7)] operators adjusting their inventories and delaying some tenders for premium products, in an environment where IOCs [(8)] are constantly looking at optimizing their E&P spending. This does not however change the positive structural trends relying on major E&P capex programs in the region, required to offset depletion and to support growing domestic oil and gas demand for instance in Saudi Arabia and Abu Dhabi.
- Sales decreased in Brazil in the first half of 2014 due to the temporary decline in tonnages of OCTG casing tubes for offshore delivered during the first quarter of 2014, despite the restart of deliveries to Petrobras in Q2 2014, and to the negative effect of the translation of the Brazilian real. Vallourec sales were also impacted in H1 2014 by the low level of IOCs' activities in Brazil due partly to disappointing exploration results.
  As announced by the Group in early June, Petrobras' decision to eliminate most of its tube inventories by the end of the year will heavily weigh on Vallourec's sales in the second half of 2014, with an estimated net EBITDA impact of circa €60 million. Nonetheless, Petrobras did confirm its drilling schedule.

For the first half of 2014, **Petrochemicals** sales reached €127 million, down 16.4% year-on-year (down 11.8% at constant exchange rates).

Power Generation

For the first half of 2014, **Power Generation** sales stood at €278 million, up 8.2% year-on-year (up 9.3% at constant exchange rates).

(1) IHS Global Insight – June 2014.
(2) Scrap E40 – France – CRU.
(3) Shredded Scrap – USA – CRU.
(4) Exchange rate observed at the end of June 2014.
(5) OCTG : Oil Country Tubular Goods.
(6) EAMEA: Europe, Africa, Middle East, Asia.
(7) E&P: Exploration and Production.
(8) IOC: International Oil Company.

Vallourec continues to successfully serve the conventional power generation market, especially in Asia and in the Middle East. In the nuclear activity, sales were up year-on-year benefiting from a favourable comparison base. As a reminder, H1 2013 sales were affected by a low Q2 2013 due to the rescheduling of some projects from 2013 to 2014.

Industry & Other

For the first half of 2014, Industry & Other sales stood at €510 million, up 1.6% year-on-year (up 9.6% at constant exchange rates).

- **In Europe**, sales benefited from higher volumes mainly driven by positive trends in agricultural goods partly offset by lower prices and product mix. The market environment remains highly competitive despite slightly better macroeconomic indicators.
- **In Brazil**, sales were slightly down year-on-year notably due to the decrease of heavy vehicles sales (domestic and export). Moreover, the deterioration of macroeconomic environment is affecting Vallourec's sales to distributors and to EPC [1] companies. Iron ore sales were slightly up in euros in H1 2014.

Financial results

Consolidated income statement

For the first half of 2014, Vallourec recorded sales of €2,693 million, up 4.0% compared with the first half of 2013 (up 10.1% at constant exchange rates). While prices and the product mix were stable, higher volumes (+10.1%) were partly offset by a negative currency translation effect (-6.1%) due to the persisting weakness of the Brazilian real and the U.S. dollar against the euro.

For the first half of 2014, EBITDA stood at €444 million, up 5.5% year-on-year. EBITDA margin reached 16.5% of sales in H1 2014 and was broadly stable compared with the first half of 2013. This resulted from:

- An improved industrial margin in value at €733 million, mainly thanks to the robust performance of Oil & Gas operations in EAMEA, but slightly down as a percentage of sales at 27.2% primarily explained by the lower contribution from Brazil and by the negative impact of the stronger euro against the U.S. dollar.
- Stable Sales, general and administrative costs (SG&A) of €273 million, benefiting from the effects of cost reduction measures and from a favorable currency effect. SG&A decreased from 10.5% of sales in H1 2013 to 10.1%.

Operating profit increased by 15.7% year-on-year to reach €265 million through improved EBITDA, despite higher depreciation of industrial assets, in line with the major investments of the last years. During the second quarter of 2014, the Group accrued a €11.6 million provision for restructuring plans in France, partly offset by one-off items for €10.8 million. As a reminder, the first half of 2013 included an exceptional provision of €20.6 million before tax.

For the first half of 2014, financial result was negative at -€31 million versus -€50 million in H1 2013. This improvement mainly resulted from a positive foreign exchange result in H1 2014 while slightly negative in H1 2013.

The **effective tax rate** was 31.6% in the first half of 2014, compared to 35.7% in the first half of 2013.

Net income, Group share stood at €144 million, up 48.5% versus last year.

Cash-flow

For the first half of 2014, Vallourec generated a positive free cash flow [2] of €37 million compared with -€100 million in the first half of 2013. This performance resulted from the following items:

- **Cash flow from operating activities** was up €60 million in the first half of 2014 at €360 million, largely due to EBITDA improvement, and to the decrease in income taxes paid.
- **Operating working capital requirement** increased by €185 million in the first half of 2014. As a reminder, the working capital at the end of December 2013 benefited from positive non-recurring items.
- **Gross capital expenditures** stood at €138 million in the first half of 2014, down 30.3% year-on-year, reflecting the strict and efficient control of capital expenditures. Vallourec formerly announced its decision to reduce its capital expenditures by €100 million (down from an initial target of €500 million to €400 million for 2014). The Group continues to target capital expenditures to €450 million on average from 2015 onwards.

In June 2014, the Holding company paid €84.7 million dividend to its shareholders in cash. The payment of the dividend in shares resulted in the creation of 518,416 new shares (i.e. 0.4 % of the share capital).

As of 30 June 2014, net debt was €1,739 million, an increase of €108 million compared to the end of 2013. The gearing ratio was 33.5%.

As of 30 June 2014, Vallourec had approximately €3 billion of committed financings, which included undrawn confirmed credit lines of €1.7 billion.

(1) EPC : Engineering, Procurement and Construction.

(2) Free Cash Flow is a non-GAAP measure and is defined as cash flow from operating activities minus capital expenditures and plus/minus change in operating working capital requirement.

Transactions with related parties

Transactions carried out with equity affiliates during the first half of 2014 relate mainly to purchases of steel rods from HKM amounting to €244 million.

Main risks and uncertainties for the second half of 2014

Vallourec does not expect any change to its risks, as set out in Chapter 5, Section 5.1 “Key Risks” of the 2013 Registration Document *(Document de référence)* filed with the *Autorité des Marchés Financiers* (the French securities regulator), on 14 April 2014 under number D.14-0358, which would be likely to have an impact on the rest of the 2014 fiscal year. Furthermore, Vallourec has not identified any new risks that would not be already mentioned in this section. A description of market and liquidity risks is provided in Notes 8 and 15 of the notes to the consolidated financial statements and in Notes 8 and 14 of the half-year financial statements.

Market trends & outlook 2014

In Oil & Gas, lower bookings recorded in EAMEA during the second quarter due to inventory adjustments by E&P operators and postponed tenders will impact deliveries until mid-2015. In spite of this temporary impact, the EAMEA region remains a dynamic area and continues to support the long term growth expectations.

In the USA, the Group continues to experience a good level of OCTG sales supported by higher drilling activity and improving prices, despite a less favorable mix.

In Brazil, the contribution of Oil & Gas operations in 2014 will be lower than in 2013 as a result of Petrobras’ decision to eliminate most of its tube inventories by year-end, while maintaining its drilling plans unchanged. However, this one-time impact on Vallourec’s sales in H2 2014 and especially in the fourth quarter, does not change the long term potential for deep offshore pre-salt in Brazil.

The Brazilian non-Oil & Gas operations will continue to be impacted by the deterioration in the local macroeconomic environment, and declining iron ore prices.

The Group does not foresee any change in trends in the Power Generation and Industry & Other European operations.

The strength of the euro will continue to impact negatively the profitability of the deliveries from Europe.

Assuming no significant changes in markets and currencies, Vallourec confirms its target of 2014 EBITDA down by approximately 10% compared to 2013. The Group remains focused on generating positive Free Cash Flow for 2014.

Consolidated interim financial statements

CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS OF THE VALLOUREC GROUP AT 30 JUNE 2014

Statement of financial position

ASSETS

In € thousand	Notes	31/12/2013	30/06/2014
NON-CURRENT ASSETS			
Net intangible assets	1	206,153	189,560
Goodwill	1	494,923	498,936
Gross property, plant and equipment	2.1	5,837,658	6,087,332
less: accumulated depreciation and amortization	2.1	-1,686,945	-1,853,353
Net property, plant and equipment	2.1	4,150,713	4,233,979
Biological assets	2.2	178,005	203,622
Investments in equity affiliates	3	172,712	167,288
Other non-current assets	4	436,962	454,105
Deferred tax – assets	5	187,301	211,872
TOTAL		**5,826,769**	**5,959,362**
CURRENT ASSETS			
Inventories and work-in-progress	6	1,423,439	1,611,789
Trade and other receivables	7	1,098,773	1,080,333
Derivatives – assets	8	91,788	52,394
Other current assets	9	296,105	358,502
Cash and cash equivalents	10	563,313	882,068
TOTAL		**3,473,418**	**3,985,086**
TOTAL ASSETS		**9,300,187**	**9,944,448**

LIABILITIES

In € thousand	Notes	31/12/2013	30/06/2014
EQUITY	11		
Capital		256,319	257,356
Additional paid-in capital		929,055	946,520
Consolidated reserves		3,706,223	3,839,326
Reserves, financial instruments		27,584	12,357
Foreign currency translation reserve		-525,400	-350,921
Profit for the period		261,860	144,273
Treasury shares		-55,129	-35,037
Equity, Group share		**4,600,512**	**4,813,874**
Non-controlling interests	**13**	**385,431**	**372,726**
TOTAL EQUITY		**4,985,943**	**5,186,600**
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	14	1,379,091	1,399,282
Employee benefits	17	182,118	215,704
Provisions	15	12,475	13,917
Deferred tax – liabilities	5	209,418	223,555
Other long-term liabilities	16	212,992	223,801
TOTAL		**1,996,094**	**2,076,259**
CURRENT LIABILITIES			
Provisions	15	137,615	162,501
Overdrafts and other short-term borrowings	14	814,881	1,221,645
Trade payables		832,899	786,031
Derivatives – liabilities	8	24,066	7,392
Tax liabilities		38,889	58,892
Other current liabilities	18	469,800	445,128
TOTAL		**2,318,150**	**2,681,589**
TOTAL EQUITY AND LIABILITIES		**9,300,187**	**9,944,448**

PRESENTATION OF PERFORMANCE

Income statement

In € thousand	Notes	H1 2013	H1 2014
Sales	**21**	**2,589,506**	**2,693,709**
Cost of sales [(a)]	22	-1,876,805	-1,960,419
Administrative, selling and research costs [(a)]	23	-272,023	-273,965
Other	24	-19,710	-15,697
EBITDA		**420,968**	**443,628**
Depreciation of industrial assets	25	-135,378	-147,232
Other depreciation and amortization	25	-32,052	-27,825
Depreciation, asset disposals and other non-recurring items	26	-24,062	-4,052
OPERATING INCOME		**229,476**	**264,519**
Financial income		10,412	21,721
Interest expenses		-53,420	-63,070
Net financial costs		-43,008	-41,349
Other financial income and expenses		-3,795	14,595
Other discounting expenses		-3,614	-3,875
FINANCIAL INCOME (LOSS)	**27**	**-50,417**	**-30,629**
PROFIT BEFORE TAX		**179,059**	**233,890**
Income tax expense	28	-63,973	-73,878
Net profit of equity affiliates	3	1,172	599
NET INCOME FROM CONTINUING OPERATIONS		**116,258**	**160,611**
NET INCOME FOR THE CONSOLIDATED ENTITY		**116,258**	**160,611**
Profit attributable to non-controlling interests		19,416	16,338
Group share		**96,842**	**144,273**
Group share:			
Earnings per share	12	0.8	1.1
Diluted earnings per share	12	0.8	1.1

(a) Before depreciation and amortization.

Statement of comprehensive income

In € thousand	H1 2013	H1 2014
NET INCOME FOR THE CONSOLIDATED ENTITY	**116,258**	**160,611**
Other comprehensive income:		
Actuarial gains and losses on post-employment benefits	-	-30,707
Tax attributable to actuarial gains and losses on post-employment benefits	-	9,420
Items that will not be reclassified to profit or loss	-	**-21,287**
Exchange differences on translating net assets of foreign entities	-124,875	179,122
Change in fair value of hedging financial instruments	-24,129	-19,143
Change in fair value of available-for-sale securities	7,758	-3,188
Tax relating to the change in fair value of hedging financial instruments	7,000	6,296
Tax attributable to the change in fair value of available-for-sale securities	-	100
Items that may be reclassified subsequently to profit or loss	**-134,246**	**163,187**
TOTAL OF OTHER COMPREHENSIVE INCOME (NET OF TAX)	**-134,246**	**141,900**
TOTAL COMPREHENSIVE INCOME	**-17,988**	**302,511**
Profit attributable to non-controlling interests	23,333	20,167
Group share:	**-41,321**	**282,344**

Statement of changes in equity, Group share

In € thousand	Capital	Additional paid-in capital	Conso-lidated reserves	Foreign currency translation reserve	Reserves – changes in fair value of hedging instruments – net of tax	Treasury shares	Profit or loss for the period	Total equity, Group share	Total non-controlling interests	Total equity
POSITION AS AT 31/12/2012	**249,893**	**817,137**	**3,549,026**	**-65,023**	**-249**	**-43,426**	**221,152**	**4,728,510**	**415,387**	**5,143,897**
Other comprehensive income	-	-	-	*-128,773*	*-9,390*	-	-	*-138,163*	*3,917*	*-134,246*
Net income for the consolidated entity at 30/06/2013	-	-	-	-	-	-	96,842	96,842	19,416	116,258
Total comprehensive income	-	-	-	*-128,773*	*-9,390*	-	*96,842*	*-41,321*	*23,333*	*-17,988*
Appropriation of 2012 net profit	-	-	221,152	-	-	-	-221,152	-	-	-
Change in treasury shares	-	-	-2,397	-	-	3,843	-	1,446	-	1,446
Dividends paid [(a)]	2,677	46,443	-85,502	-	-	-	-	-36,382	-22,788	-59,170
Share-based payments	-	-	8,108	-	-	-	-	8,108	-	8,108
Changes in consolidation scope and other	-	-	-602	-	-	-	-	-602	-796	-1,398
POSITION AS AT 30/06/2013	**252,570**	**863,580**	**3,689,785**	**-193,796**	**-9,639**	**-39,583**	**96,842**	**4,659,759**	**415,136**	**5,074,895**
POSITION AS AT 31/12/2013	**256,319**	**929,055**	**3,706,223**	**-525,400**	**27,584**	**-55,129**	**261,860**	**4,600,512**	**385,431**	**4,985,943**
Other comprehensive income	-	-	*-20,632*	*174,479*	*-15,776*	-	-	*138,071*	*3,829*	*141,900*
Net income for the consolidated entity as at 30/06/2014	-	-	-	-	-	-	144,273	144,273	16,338	160,611
Total comprehensive income	-	-	*-20,632*	*174,479*	*-15,776*	-	*144,273*	*282,344*	*20,167*	*302,511*
Appropriation of 2013 net profit	-	-	261,860	-	-	-	-261,860	-	-	-
Change in share capital and additional paid-in capital	1,037	17,465	-18,502	-	-	-	-	-	-	-
Change in treasury shares	-	-	-7,625	-	-	20,092	-	12,467	-	12,467
Dividends paid	-	-	-84,774	-	-	-	-	-84,774	-33,134	-117,908
Share-based payments	-	-	7,278	-	-	-	-	7,278	-	7,278
Changes in consolidation scope and other	-	-	-4,502	-	549	-	-	-3,953	262	-3,691
POSITION AS AT 30/06/2014	**257,356**	**946,520**	**3,839,326**	**-350,921**	**12,357**	**-35,037**	**144,273**	**4,813,874**	**372,726**	**5,186,600**

(a) Amounts net of €0.07 million cash payment.

Statement of changes in non-controlling interests

In € thousand	Consolidated reserves	Foreign currency translation reserve	Reserves – changes in fair value of hedging instruments – net of tax	Profit or loss for the period	Non-controlling interests
POSITION AS AT 31/12/2012	**359,446**	**1,517**	**663**	**53,761**	**415,387**
Other comprehensive income	*-*	*3,898*	*19*	*-*	*3,917*
Net income as at 30/06/2013	-	-	-	19,416	19,416
Total comprehensive income	*-*	*3,898*	*19*	*19,416*	*23,333*
Appropriation of 2012 net profit	53,761	-	-	-53,761	-
Dividends paid	-22,788	-	-	-	-22,788
Other	-796	-	-	-	-796
POSITION AS AT 30/06/2013	**389,623**	**5,415**	**682**	**19,416**	**415,136**
POSITION AS AT 31/12/2013	**361,407**	**-13,855**	**889**	**36,990**	**385,431**
Other comprehensive income	*-655*	*4,643*	*-159*	*-*	*3,829*
Net income as at 30/06/2014	-	-	-	16,338	16,338
Total comprehensive income	*-655*	*4,643*	*-159*	*16,338*	*20,167*
Appropriation of 2013 net profit	36,990	-	-	-36,990	-
Dividends paid	-33,134	-	-	-	-33,134
Other	262	-	-	-	262
POSITION AS AT 30/06/2014	**364,870**	**-9,212**	**730**	**16,338**	**372,726**

Statement of cash flows

In € thousand	H1 2013	H1 2014
Consolidated net profit (including non-controlling interests)	**116,258**	**160,611**
› Net charges to amortization, depreciation and provisions	231,326	220,634
› Unrealized gains and losses linked to changes in fair value	5,048	-19,031
› Income and expenses linked to share options and equivalent	8,109	7,278
› Capital gains and losses on disposals	-1,279	494
› Share of profit (loss) of equity affiliates	-1,172	-599
› Dividends reclassified as other flows linked to investing activities	-413	-
Cash flow from operating activities after cost of net financial debt and taxes	**357,877**	**369,387**
› Cost of net financial debt	43,008	41,349
› Tax charge (including deferred taxes)	63,973	73,878
Cash flow from operating activities before cost of net debt and tax	**464,858**	**484,614**
› Interest paid	-53,420	-63,069
› Tax paid	-122,033	-82,695
› Interest received	10,412	21,721
Cash flow from operating activities	**299,817**	**360,571**
› Change in operating working capital requirements	-202,122	-185,276
NET CASH FLOW FROM OPERATING ACTIVITIES (1)	**97,695**	**175,295**
› Cash outflows for acquisitions of property, plant and equipment and intangible assets	-186,578	-125,972
› Cash outflows for acquisitions of biological assets	-11,501	-12,224
› Cash inflows from disposals of property, plant and equipment and intangible assets	48,597	2,059
› Impact of acquisitions (changes in consolidation scope)	-	-
› Cash of subsidiaries acquired (changes in consolidation scope)	-	-
› Impact of disposals (changes in consolidation scope)	-	-
› Cash of subsidiaries sold (changes in consolidation scope)	-	-
› Other cash flows from investing activities	1,264	2,457
NET CASH FLOWS FROM INVESTING ACTIVITIES (2)	**-148,218**	**-133,680**
› Increase and decrease in equity	-	-
› Dividends paid during the period	-	-
▪ Dividends paid to shareholders in the parent company	-36,383	-84,778
▪ Dividends paid to non-controlling shareholders in consolidated companies	-15,941	-50,982
› Movements in treasury shares	1,445	13,504
› Cash drawn from new loans	896,193	540,920
› Repayments of borrowings	-534,726	-215,619
› Change in percentage of interest in controlled companies	-	-
› Other cash flows from financing activities	-2,983	-3,039
CASH FLOW FROM FINANCING ACTIVITIES (3)	**307,605**	**200,006**
Impact of changes in exchange rates (4)	-11,091	29,022
CHANGE IN CASH (1) + (2) + (3) + (4)	**245,991**	**270,643**
Opening net cash	**527,677**	**544,347**
Closing net cash	**773,668**	**814,990**
Change	245,991	270,643

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, H1 2014

	Notes	31/12/2013	Change	30/06/2014
Gross cash (1)	10	563,313	318,755	882,068
Bank current accounts in debit and overdrafts (2)	14	18,966	48,112	67,078
CASH (3) = (1) - (2)		**544,347**	**270,643**	**814,990**
Gross financial debt (4)	14	2,175,005	378,844	2,553,849
NET FINANCIAL DEBT = (4) - (3)		**1,630,658**	**108,201**	**1,738,859**

STATEMENT OF CHANGES IN NET DEBT, H1 2013

	31/12/2012	Change	30/06/2013
Gross cash (1)	546,160	297,619	843,779
Bank current accounts in debit and overdrafts (2)	18,483	51,628	70,111
CASH (3) = (1) - (2)	**527,677**	**245,991**	**773,668**
Gross financial debt (4)	2,141,544	386,415	2,527,959
NET FINANCIAL DEBT = (4) - (3)	**1,613,867**	**140,424**	**1,754,291**

Summary notes to the consolidated financial statements for H1 2014

(In € thousand 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 form

Vallourec is a French limited-liability company *(société anonyme)* that opted on 14 June 1994 for a governance structure comprising a Management Board and a Supervisory Board.

3. Corporate purpose (Article 3 of the bylaws)

The Company's purpose, in all countries, whether acting on its own behalf or for third parties, or directly or indirectly with or through third parties, is: all industrial and commercial transactions relating to all means for the preparation and manufacture, by all processes known or that might be subsequently discovered, of metals and any materials that may replace them in all their applications, and generally all commercial, industrial, financial, movable or real property transactions which directly or indirectly relate to the above purpose.

4. Trade and Companies Register

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

5. Fiscal year

The Company's fiscal year has a term of 12 months. It begins 1 January and ends 31 December.

6. Consultation of annual financial documents (parent company and consolidated financial statements)

Financial documents (annual reports, Registration Documents registered with the French securities regulator *(AMF – Autorité des Marchés Financiers)* are available on the Company's website at www.vallourec.com.

7. Listing of Vallourec's shares

The Company's shares are listed in sub fund A of the Euronext Paris regulated market (ISIN code: FR0000120354-VK). They are eligible for deferred settlement and are a qualifying investment under French laws on equity savings plans (*plan d'épargne en actions* – PEA).

The Vallourec share is listed with the shares of the following indexes: Euronext 100, SBF120 and MSCI World Index. FTSE classification: engineering and industrial capital goods.

B – Accounting principles and methods of the Group

The interim consolidated financial statements as at 30 June 2014, as well as the notes relating thereto were approved by the Vallourec Management Board on 30 July 2014.

1. Declaration of compliance and comprehensive basis of accounting of the Group

In application of Regulation No. 1606/2002 of the European Commission, which was adopted on 19 July 2002 for all listed companies of the European Union, the consolidated financial statements of Vallourec have been prepared for the fiscal year ended 31 December 2013, in conformity with the IFRS (International Financial Reporting Standards) framework, based on the applicable rules and interpretations at this date.

The half-year consolidated financial statements as at 30 June 2014 are prepared based on the rules [(1)] and interpretations of the IFRS framework in effect which were approved by the European Union and which shall apply to the annual consolidated financial statements as at 31 December 2014, in accordance with the specific provisions of IAS 34, "Interim financial information."

The purpose of the interim financial statements is to provide shareholders and investors with pertinent information about significant events and transactions from the period. This information is notably provided through a selection of attached notes which are intended to explain significant changes in the balance sheet between 31 December 2013 and 30 June 2014, as well as the primary operations which contributed to the net profit for H1 2014. The interim financial statements do not comprise all of the information that is required for complete annual financial statements, and must be read in conjunction with the Group's financial statements for the fiscal year ended 31 December 2013, registered with the AMF, under the reference D.14-0358 on 14 April 2014 (available on the Company website at www.vallourec.com).

2. Accounting principles for H1 2014

New mandatory standards

IFRS 10, 11 and 12 must be applied as of 1 January 2014.

A) IFRS 10, CONSOLIDATED FINANCIAL STATEMENTS

Replacing IAS 27, "Individual and consolidated financial statements" as well as SIC 12 interpretation, "Consolidation – special purpose entities," IFRS 10 redefines control, in accordance with three criteria: "an investor controls an entity when it is exposed to, or has rights over, variable returns due to its links to the entity and when it has the capacity to exercise its power to influence its returns." The analysis performed by the Group led to the conclusion that the application of IFRS 10 has no effect on the consolidation scope of the Group's entities.

B) IFRS 11, JOINT ARRANGEMENTS

Replacing IAS 31, "Equity interests in joint ventures" and SIC 13 interpretation, "Jointly controlled entities – Non-monetary contributions by venturers," IFRS 11 redefines the treatment to be applied to the partnerships.

IFRS 11 eliminates the proportional consolidation method and now distinguishes between two types of partnerships:

- partnerships qualified as joint activities in which the parties have direct rights over the assets, and obligations in the entity's liabilities. They are recorded as the share of assets, liabilities, revenues and expenses controlled by the Group. A joint activity may be performed through a distinct entity, or not;
- partnerships which are qualified as a joint venture, in which the parties exercising joint control over the entity have rights to said entity's net assets. They are consolidated according to the equity method by the Group.

Application of IFRS 11 did not have any effect on the scope of consolidation of the Group's entities, which are currently consolidated using the equity method. Incidentally, the analysis conducted by the Group led to qualifying as joint activities the partnerships entered into through the Vallourec & Sumitomo Tubos do Brasil, VAM Changzhou Oil & Gas Premium Equipments and VAM Holding Hong Kong entities.

C) IFRS 12, DISCLOSURE OF INTERESTS IN OTHER ENTITIES

This new standard specifies the information to be provided in the notes for partnerships and equity affiliates.

The Group's consolidated financial statements as at 30 June 2014 are not impacted by the other new standards with mandatory application as of 1 January 2014.

New standards not applied early

The Group has not opted for early application of any other standards or interpretations that will be mandatory for fiscal years beginning on or after 1 January 2015.

The accounting options and methods used for approving the 2014 half-year financial statements could be modified according to changes in the IFRS framework, which would be adopted by the European Commission between now and 31 December 2014. To date, the Group nevertheless does not anticipate a potential significant change for the 2014 balance sheet due to pending or future presentations of sampling.

The accounting principles and valuation methods have been applied consistently to the periods presented. The interim financial statements have been prepared according to the same rules and methods that were used to prepare the annual financial statements. However, for the interim financial statements, and in conformity with IAS 34, certain valuations, unless otherwise indicated, may rely to a larger extent more on estimates than on the annual financial data.

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

3. General measurement principles

The preparation of the consolidated financial statements in conformity with IFRS requires Management to consider the assumptions and estimates that affect the amounts of assets and liabilities appearing in the balance sheet, the assets and contingent liabilities that are mentioned in the notes, and the income and expenses of the income statement. It is possible that the final amounts will be different than the estimates and assumptions used. The primary estimates and assumptions are identical to those described in the notes to the consolidated financial statements for the fiscal year ended 31 December 2013.

The Group has primarily reviewed the following estimates for the half-year end: valuation of property, plant and equipment, intangible assets, goodwill, financial assets, derivative financial instruments, inventories and work-in-progress, provisions for risks, liabilities and expenses, biological assets and deferred taxes. If necessary, tests are performed to measure the sensitivity of these estimates. In the current economic climate, the random nature of some estimates may be exaggerated, and may notably make it more difficult to determine the Group's economic outlook in order to conduct asset depreciation tests. A Group stock market value that is less than its consolidated net assets during a business cycle, a negative outlook associated with the economic, legislative or technological environment or a business sector would constitute an indication of impairment. As at 30 June 2014, the Group analyzed the position of the various CGUs, and concluded – based on an update of the sensitivity analyses completed in 2013 – that there was no indication of impairment as at 30 June 2014.

The Group's activity is not significantly affected by seasonality.

C – Scope of consolidation

The main change in scope which has occurred since the H1 2013 concerns Vallourec Transportes e Serviços do Brasil Ltda, which is 100% controlled.

D – Notes to the financial statements (in € thousand)

NOTE 1 Intangible assets and goodwill

	Concessions, patents, licenses and other rights	Other intangible assets	Total intangible assets	Goodwill
GROSS VALUES				
As at 31/12/2013	**92,171**	**442,991**	**535,162**	**494,943**
Acquisitions	51	928	979	-
Disposals	-	-	-	-
Impact of changes in exchange rates	1,227	5,262	6,489	4,013
Other changes	2,235	817	3,052	
AS AT 30/06/2014	**95,684**	**449,998**	**545,682**	**498,956**
DEPRECIATION AND IMPAIRMENT				
As at 31/12/2013	**-57,381**	**-271,628**	**-329,009**	**-20**
Net amortization charges for the period	-3,819	-19,982	-23,801	-
Disposals	-	-	-	-
Impact of changes in exchange rates	-1,000	-2,312	-3,312	-
Other changes	-	-	-	-
AS AT 30/06/2014	**-62,200**	**-293,922**	**-356,122**	**-20**
NET VALUES				
As at 31/12/2013	**34,790**	**171,363**	**206,153**	**494,923**
AS AT 30/06/2014	**33,484**	**156,076**	**189,560**	**498,936**

GOODWILL

Impairment testing

A Group stock market value that is less than its consolidated net assets during a business cycle; a negative outlook associated with the economic, legislative or technological environment or a business sector would constitute an indication of impairment. As at 30 June 2014, the Group analyzed the position of the various CGUs, and concluded based on an update of the sensitivity analyses completed in 2013 that there was no indication of impairment as at 30 June 2014.

NOTE 2.1 Property, plant and equipment

	Land	Buildings	Technical installations, industrial equipment and tools	Current property, plant and equipment	Other property, plant and equipment	Total
GROSS VALUES						
As at 31/12/2013	**108,992**	**865,717**	**4,147,396**	**424,936**	**290,617**	**5,837,658**
Acquisitions	-	2,978	12,105	77,985	182	93,250
Disposals	-	-17	-15,730	-2,121	-1,025	-18,893
Impact of changes in exchange rates	6,412	27,498	115,652	17,847	9,408	176,817
Reclassifications and other changes	2,572	40,199	159,132	-180,180	-23,223	-1,500
AS AT 30/06/2014	**117,976**	**936,375**	**4,418,555**	**338,467**	**275,959**	**6,087,332**
DEPRECIATION AND IMPAIRMENT						
As at 31/12/2013	**-24,296**	**-204,598**	**-1,327,810**	**-1,227**	**-129,014**	**-1,686,945**
Net amortization charges for the period	-603	-18,521	-113,539	-	-13,672	-146,335
Disposals	-	11	14,034	-	1,018	15,063
Impact of changes in exchange rates	-1,563	-3,815	-25,210	-	-4,182	-34,770
Reclassifications and other changes	-	-149	-	-	-217	-366
AS AT 30/06/2014	**-26,462**	**-227,072**	**-1,452,525**	**-1,227**	**-146,067**	**-1,853,353**
NET VALUES						
As at 31/12/2013	**84,696**	**661,119**	**2,819,586**	**423,709**	**161,603**	**4,150,713**
AS AT 30/06/2014	**91,514**	**709,303**	**2,966,030**	**337,240**	**129,892**	**4,233,979**

Investments

	31/12/2013		30/06/2014	
	Intangible and property, plant and equipment	Biological	Intangible and property, plant and equipment	Biological (see Note 2.2.)
Europe	182,490	-	31,685	-
North America	191,743	-	27,138	-
South America	182,480	22,988	24,993	10,177
Asia	42,847	-	9,641	-
Other	739	-	772	-
TOTAL	**600,299**	**22,988**	**94,229**	**10,177**
	623,287		**104,406**	
Note 1: acquisition of intangible assets	45,914	-	979	-
Note 2.1: acquisition of property, plant and equipment	554,385	-	93,250	-
Total industrial capital expenditure	**600,299**	**22,988**	**94,229**	**10,177**
Changes in fixed asset liabilities and partner contributions	-56,552	260	31,743	2,047
TOTAL	**543,747**	**23,248**	**125,972**	**12,224**
Statement of cash flows: capital expenditure paid out during the year	566,995		138,196	

NOTE 2.2 Biological assets

Changes in biological assets	Total
As at 31/12/2013	**178,005**
Investments	10,177
Movements: revaluation	8,908
Net amortization charges for the period	-4,433
Reclassification to inventories	-4,799
Foreign exchange differences	15,764
AS AT 30/06/2014	**203,622**

NOTE 3 Investments in equity affiliates

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

	HKM Germany	PTCT Subsidiaries	Tianda Oil Pipe	Other	Total
As at 31/12/2013	**72,688**	**34,175**	**54,334**	**11,515**	**172,712**
Capital increase	-	1,176	-	-	1,176
Impact of changes in exchange rates	-	417	-1,111	215	-479
Dividends paid	-6	-3,094	-3,391	-229	-6,720
Contribution to net profit of the period	-	263	553	-217	599
AS AT 30/06/2014	**72,682**	**32,937**	**50,385**	**11,284**	**167,288**

NOTE 4 Other non-current assets

	Investments in equity instruments	Loans	Other financial assets	Other trade receivables	Total
As at 31/12/2013	**85,513**	**6,184**	**40,836**	**304,429**	**436,962**
Gross value	83,588	5,968	44,118	322,416	456,090
Provisions	-1,263	-	-722	-	-1,985
AS AT 30/06/2014	**82,325**	**5,968**	**43,396**	**322,416**	**454,105**

MATURITIES OF OTHER NON-CURRENT ASSETS

As at 30/06/2014	1 to 5 years	5 years or more	Total
Loans	2,952	3,016	5,968
Other investments in equity instruments	-	83,588	83,588
Other financial assets	75,122	291,412	366,534
TOTAL	**78,074**	**378,016**	**456,090**

As at 30 June 2014, the securities classified as available-for-sale financial assets almost exclusively concern Nippon Steel & Sumitomo Metal Corp. securities.

The fair value of these securities as at 30 June 2014, based on their net asset value is €81.2 million. As there was no significant or prolonged loss, the impairment was recorded in equity. The change in impairment which was recorded in equity for the Nippon Steel & Sumitomo Metal Corp. securities totaled -€3.2 million in H1 2014.

Other non-operating receivables consist mainly of tax receivables of more than one year in Brazil and the United States, and a shareholders loan granted to Vallourec & Sumitomo Tubos do Brasil, a partner identified as a joint activity, for an amount of €180.9 million. The change during the period is explained by currency changes.

NOTE 5 Deferred taxes

	31/12/2013	30/06/2014
Deferred tax assets	187,301	211,872
Deferred tax liabilities	209,418	223,555
NET DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES	**-22,117**	**-11,683**

Changes in deferred taxes are broken down as follows:

Assets/Liabilities net of tax	2014
BALANCE AT 01/01	**-22,117**
Impact of changes in exchange rates	3,939
Recognized in profit or loss	-5,596
Recognized in reserves	15,816
Changes in scope and other	-3,725
POSITION AS AT 30/06/2014	**-11,683**

As at 30 June 2014, the amount of unrecognized deferred tax assets is €53 million.

NOTE 6 Inventories and work-in-progress

	Raw materials and goods for resale	Goods in production	Intermediate and finished goods	Total
GROSS VALUES				
As at 31/12/2013	**555,431**	**510,681**	**472,523**	**1,538,635**
Changes in inventories recognized in the income statement	40,835	86,534	59,809	187,178
Impact of changes in exchange rates	10,484	4,533	16,003	31,020
Other changes	-8,977	7,263	4,799	3,085
AS AT 30/06/2014	**597,773**	**609,011**	**553,134**	**1,759,918**
IMPAIRMENT				
As at 31/12/2013	**-46,106**	**-20,688**	**-48,402**	**-115,196**
Impact of changes in exchange rates	-943	-185	-1,003	-2,131
Allowances	-27,649	-11,756	-16,037	-55,442
Reversals of provisions	8,227	6,569	9,656	24,452
Other changes	35	-	153	188
AS AT 30/06/2014	**-66,436**	**-26,060**	**-55,633**	**-148,129**
NET VALUES				
As at 31/12/2013	**509,325**	**489,993**	**424,121**	**1,423,439**
AS AT 30/06/2014	**531,337**	**582,951**	**497,501**	**1,611,789**

NOTE 7 Trade and other receivables

	Advances and partial payments on orders	Trade and other receivables (gross)	Provisions for depreciation	Total
As at 31/12/2013	**10,835**	**1,101,860**	**-13,922**	**1,098,773**
Impact of changes in exchange rates	488	23,847	-254	24,081
Charges to provisions	-	-	-1,741	-1,741
Reversals of provisions	-	-	1,994	1,994
Other changes	3,673	-43,847	-2,600	-42,774
AS AT 30/06/2014	**14,996**	**1,081,860**	**-16,523**	**1,080,333**

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 39 ON EQUITY AND NET PROFIT

From a net asset position of €67.7 million as at 31 December 2013, hedging instruments rose to a net asset position of €45 million as at 30 June 2014.

This change is primarily due to the hedging of commercial transactions entered into in US dollars by European subsidiaries.

Fluctuations in the euro against the U.S. dollar during H1 2014 explains the bulk of the -€20.6 million change in the intrinsic value of hedges of forecast sales and purchases in foreign currencies and the -€5.4 million change in the intrinsic value of hedges of foreign currency receivables and payables.

Given the criterion of hedge effectiveness defined by IAS 39, the impact recorded in the income statement primarily concerns the premium/discount, for which the change in valuations at the balance sheet date translates to a profit of €6 million for H1 2014.

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

Balance sheet items concerned	As at 31/12/2013	As at 30/06/2014	Changes in H1 2014 Total	Of which reserves	Of which profit or loss
1 – Derivatives recognized on the balance sheet [(a)]					
Changes in the intrinsic value of forward sales of currencies and forward purchases [(b)] associated with order books and commercial tenders	34,917	14,284	-20,633	-18,644	-1,989
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with trade receivables (and accounts payable [(b)])	20,117	14,755	-5,362	-	-5,362
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with finance receivables (and financial debts)	10,270	8,121	-2,149	-	-2,149
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	-1,023	5,582	6,605	577	6,028
Recognition of changes in fair value of interest rate swaps	-	-	-	-	-
Changes in values linked to hedging instruments set up under the terms of the employee share ownership schemes	3,441	2,260	-1,181	-	-1,181
Changes in value associated with derivatives not classified as such	-	-	-	-	-
SUBTOTAL: DERIVATIVES	**67,722**	**45,002**	**-22,720**	**-18,067**	**-4,653**
› Of which derivatives – assets	91,788	52,394	-	-	-
› Of which derivatives – liabilities	24,066	7,392	-	-	-
2 – Receivables (liabilities [(b)]) hedged in currencies – translation gain/loss					
Valuation at the closing date exchange rate (liabilities [(b)] and accounts receivable)	-32,030	-14,964	17,066	-	17,066
Valuation at the closing date exchange rate (liabilities [(b)] and financial receivables)	2,546	-7,171	-9,717	-	-9,717
Impact of hedging transactions	**38,238**	**22,867**	**-15,371**	**-18,067**	**2,696**
3 – Valuation of receivables (payables [(b)]) not hedged in currencies – translation gain/loss [(c)]	**-627**	**-388**	**239**	-	**239**
4 – Valuation of construction loans at the effective interest rate	**-642**	**-789**	**-147**	-	**-147**
5 – Valuation of securities at fair value	**13**	**17**	**4**	-	**4**
6 – Valuation of other investments in equity instruments at fair value	**5,626**	**2,469**	**-3,157**	**-3,157**	-
7 – Deferred taxes	**-8,968**	**-6,536**	**2,432**	**6,853**	**-4,421**
TOTAL	**33,640**	**17,640**	**-16,000**	**-14,371**	**-1,629**
Counterparty – see Statement of changes in equity					
Revaluation differentials – financial instruments	28,473	13,087	-15,386	-15,386	-
› Of which: Group share	27,584	12,357	-15,227	-15,227	-
› Of which: attributable to non-controlling interests	889	730	-159	-159	-
Other consolidation reserves	2,229	6,182	3,953	3,953	-
Net profit	2,938	-1,629	-4,567	-2,938	-1,629
TOTAL	**33,640**	**17,640**	**-16,000**	**-14,371**	**-1,629**

(a) Assets and liabilities offset in this table: + = net assets, - = net liabilities.

(b) Non-significant amounts.

(c) The +€0.2 million change is related to the foreign exchange impact during H1 2014.

The change in the fair value of financial instruments hedging foreign exchange risk, which affected equity at 31 December 2013, was €34.9 million. During H1 2014, around 64% of the negative change in fair value attached to the order book and commercial tenders at the end of 2013 was transferred from equity to income, under Group "translation gain/loss". This amount represents the impact of the changes in value of foreign exchange hedges for the order book and commercial tenders at 31 December 2013, which were either converted into receivables, fully or partially unwound, or converted into receivables during the first half of 2014.

This corresponds mainly to the hedges of receivables in US dollars, which represent over 90% of the hedges with an impact on equity at 31 December 2013.

INFORMATION ON THE NATURE AND EXTENT OF MARKET RISK AND HOW IT IS MANAGED BY THE GROUP

Market risk is comprised of interest rate, foreign exchange, credit and equity risks. Liquidity risk is addressed 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 Vallourec Tubes.

TOTAL LIABILITIES

31/12/2013 *In € thousand*	**Other borrowings**	**Cash and cash equivalents**
Fixed rate on date granted	1,893,032	-
Variable rate on date granted swapped to fixed rate	-	-
Fixed rate	**1,893,032**	-
Variable rate	**300,940**	**563,313**
TOTAL	**2,193,972**	**563,313**

30/06/2014 *In € thousand*	**Other borrowings**	**Cash and cash equivalents**
Fixed rate on date granted	2,193,506	-
Variable rate on date granted swapped to fixed rate	-	-
Fixed rate	**2,193,506**	-
Variable rate	**427,421**	**882,068**
TOTAL	**2,620,927**	**882,068**

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

The amount of borrowings at a fixed rate on the date granted includes €1,097.2 million in bonds issued on 7 December 2011 for a nominal amount of €650 million and two private bond issues in August 2012 for a total of €455 million, adjusted for estimated financial costs using the amortized cost of capital method, and for €450.0 million in outstanding commercial paper issued at a fixed rate and with a maturity of over one year.

As at 30 June 2014, financial debt exposed to changes in interest rates was €427.4 million (about 16.3% of total debt).

No significant line of fixed rate financing will reach contractual maturity during the 12 months after 30 June 2014, except for:

- €450 million in outstanding commercial paper maturing in more than one year;
- €185.8 million for various lines of financing in Brazilian subsidiaries.

Given the Group's interest rate risk hedging policy, the impact of a 1% rise in interest rates applied to short-term rates in the eurozone, Brazilian and Chinese rates and British and American money market rates, would result in a €4.3 million increase in the Group's annual financial expenses, based on an assumption of complete stability of the financial debt and constant foreign exchange rates, and after taking into account the effects of any hedging instruments (no hedging instrument as at 30 June 2014). This impact does not take into account the interest rate risk on commercial paper with a more than one year maturity or on short-term cash investments (of no more than three months).

Foreign exchange risk

FOREIGN CURRENCY TRANSLATION RISK

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

During the half-year, 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 US dollars and the Brazilian real). A 10% change in exchange rates would have had an upward or downward impact on net income, Group share, of around €14.4 million.

In addition, the Group's sensitivity to long-term foreign rate risk is reflected in the changes that have historically occurred in the foreign currency translation reserves booked to equity (a loss of €350.9 million at 30 June 2014) which, in recent years, have been linked mainly to fluctuations in the US dollar and Brazilian real (Note 11).

Foreign currency translation reserve – Group share	31/12/2013	30/06/2014
USD	-18,363	-4,779
GBP	-12,407	-10,140
BRL	-513,799	-351,159
CNY	29,153	23,418
Other	-9,984	-8,261
TOTAL	**-525,400**	**-350,921**

TRANSACTION RISK

The Group is subject to exchange rate risk due to its business exposure linked to sales and purchase transactions entered into by some of its subsidiaries in currencies other than those of the country where they operate.

The main foreign currency involved is the US dollar (USD): a significant portion of Vallourec's transactions (approximately 38% of Group sales as at 30 June 2014) is invoiced by companies whose functional currency is not the US dollar.

Exchange rate fluctuations between the euro, the Brazilian real and the US dollar may therefore affect the Group's 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 business segments in which Vallourec operates;
2. certain sales and purchases, even though they are denominated in Brazilian reals, are influenced by or indexed based on the level of the US dollar. They are therefore indirectly and at some time in the future affected by movements in the US currency.

The Group actively manages its exposure to foreign exchange risk to reduce the sensitivity of its net profits to currency fluctuations by setting up hedges once the order is placed and sometimes once a quotation is given.

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

Order cancellations could therefore result in the cancellation of hedges in place, leading to the recognition in the consolidated income statement of gains or losses with regard to these canceled hedges.

We estimate that a 10% rise or fall in the currencies used in all hedges implemented by the Group would result in a €126.5 million decrease or increase in the intrinsic value recognized in consolidated equity at 30 June 2014. Most of these amounts would be due to changes in the US dollar against the euro, and to a lesser extent, the Brazilian real against the euro.

To be eligible for hedge accounting as defined under IAS 39, the 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 2014, the following amounts were outstanding under forward foreign exchange contracts to hedge purchases and sales in foreign currencies:

Hedging contracts with regard to commercial transactions – Exchange rate risk	31/12/2013	30/06/2014
Forward exchange contract: forward sales	2,015,532	1,731,563
Forward exchange contract: forward purchases	124,312	97,949
Currency options: sales	-	-
Currency options: purchases	-	-
Commodities and energy – purchases, options	-	-
TOTAL	**2,139,844**	**1,829,512**

CONTRACT MATURITIES AS AT 30 JUNE 2014

Contracts on commercial transactions *In € thousand*	**Total**	**< 1 year**	**1 to 5 years**	**> 5 years**
Exchange contracts: Forward sales	1,731,563	1,683,126	48,437	-
Exchange contracts: Forward purchases	97,949	91,572	6,377	-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Commodities and energy - purchases, options	-	-	-	-
TOTAL	**1,829,512**	**1,774,698**	**54,814**	**-**

Forward sales correspond mainly to sales of US dollars (€1,732 million of the €1,830 million total). These contracts were transacted at an average forward EUR/USD rate of 1.35 and an average forward BRL/USD rate of 2.46.

In 2013 and 2014, the hedges entered into generally covered an average period of about 10 months 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:

- forward sales for USD 382.3 million (€279.9 million) and for CNY 162.9 million (€19.2 million) and forward purchase contracts for USD 20.0 million (€14.6 million).

These instruments are intended to hedge either the debt denominated in USD, or the foreign currency loans established by the financial holding company Vallourec Tubes in the currency of the subsidiaries receiving them. The forward purchases and sales mature at various times between 2014 and 2016, as and when the hedged loans and borrowings mature.

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

Credit risks

Vallourec is subject to credit risk in respect of its non-impaired financial assets. Failure to recover these assets could affect the Company's results and financial position.

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

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

1 Trade and other receivables: the Group's policy on the impairment of trade and other receivables is to recognize a provision when indications of impairment are identified. The impairment is equal to the difference between the carrying amount of the asset and the present value of expected future cash flows, taking into account the position of the counterparty.

The Group considers that there is no presumption of risk on non-impaired receivables less than 90 days past due. Trade receivables more than 90 days past due and not impaired amounted to €93.5 million at 30 June 2014, or 8.8% 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.

The maturities of trade receivables not yet due are as follows:

As at 30/06/2014 *In € million*	**0 to 30 days**	**30 to 60 days**	**60 to 90 days**	**90 to 180 days**	**> 180 days**	**Total**
Trade receivables not yet due	573.3	141.2	65.5	74.6	6.1	860.7

2. 1% building loans: these loans do not expose the Group to credit risk, since the full amount of the loan is impaired once delay is noted in the collection of the amounts due.

   It should be noted that these loans are valued using the effective interest rate method applied to the estimated cash flows until the maturity date of these loans (contractual interest rates may be lower).

3. Security deposits and tax receivables due to the Group in Brazil: There is no specific risk with regard to these receivables, even if the outcome of the disputes is unfavorable, since the risk has already been assessed and a provision booked for them, and the funds already paid in whole or in part.

Equity risk

Treasury shares held by Vallourec as at 30 June 2014 include shares allocated to various share ownership plans for some of the Group's employees, managers and corporate officers.

In this context, Vallourec holds:

- 112,044 treasury shares acquired on 5 July 2001, mainly after the definitive award in 2011 of 44,074 shares under the performance share plan of 3 May 2007, of 6,631 shares under the performance share plan of 1 September 2008, and of 23,280 shares under the performance share plan of 31 July 2009; the award in 2012 of 3,680 shares under the performance share plan of 31 July 2010; the award in 2013 of 5,113 shares under the performance share plan of 31 July 2009, of 59,964 shares under the Value 08 plan, and after the early allocation of 2,534 shares;
- 3,094 treasury shares acquired in 2008 as part of the share buyback plan of 4 June 2008, after the definitive award in 2011 of 26,844 shares and the definitive award in 2013 of 70,050 shares, and of 12 shares in 2014 under the performance share plan of 17 December 2009;
- the treasury shares acquired in 2010 as part of the share buyback plan of 31 May 2010 were all distributed after the definitive award in 2012 of 81,936 shares and 18,064 shares in 2014, under the performance share plan of 15 March 2010;
- 232,446 treasury shares acquired in 2011 as part of the share buyback plan of 7 June 2011, after the definitive award in 2012 of 27,534 shares under the performance share plan of 30 November 2010, the award of 58,069 shares in 2013 under the performance share plan of 30 March 2011, of 28,308 shares under the performance share plan of 18 November 2011, and of 53,643 shares in 2014, under the performance share plan of 15 March 2010;
- 305,382 treasury shares acquired in 2012 as part of the share buyback plan of 31 May 2012, after the definitive award in 2014 of 64,972 shares under the performance share plan of 15 March 2012, and of 29,646 shares under the performance share plan of 30 March 2012.

These figures take into account the 2:1 stock split on 9 July 2010.

The Management Board, in consultation with the Supervisory Board, decided to allocate these treasury shares to cover the Group's performance share and employee share ownership plans.

Vallourec has a liquidity contract with Rothschild & Cie. that has been in effect since 2 July 2012. It was implemented under the annual general authorization for the share buyback program approved by the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013 (sixth resolution). To implement this contract, €9 million and 490,500 shares were allocated to the liquidity account.

Classification and valuation of financial assets and liabilities

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

30/06/2014 *In € thousand*	**Notes**	**Category [a]**	**Gross value at 30/06/2014**	**Amortized cost**	**Fair value through equity**	**Fair value through profit or loss**
ASSETS						
Other non-current assets	**4**					
Listed participating interests		AFS	81,182	-	81,182	-
Other investments in equity instruments		AFS	2,406	-	2,406	-
Loans		L&R	5,968	5,968	-	-
Other financial assets		L&R/AHM [b]	44,118	44,118	-	-
Trade and other receivables	**7**	**L&R**	**1,081,860**	**1,081,860**	**-**	**-**
Derivatives – assets	**8**					
Hedging financial instruments [f]		CFH	52,394	-	16,801	35,593
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	**9**	**L&R**	**358,502**	**358,502**	**-**	**-**
Cash and cash equivalents	**10**	**A-FVTPL**	**882,068**	**-**	**-**	**882,068**
LIABILITIES						
Bank loans and other borrowings [c] [e]	**14**	**AC – EIR**	**420,531**	**420,531**	**-**	**-**
Other		AC – EIR	927,992	927,992	-	-
Overdrafts and other short-term borrowings [d] [e]	**14**	**AC – EIR**	**67,076**	**67,076**	**-**	**-**
Trade payables		**AC**	**786,031**	**786,031**	**-**	**-**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	7,392	-	1,447	5,945
Speculative financial instruments		L-FVTPL	-	-	-	-
Other current liabilities	**18**	**AC**	**445,128**	**445,128**	**-**	**-**

(a) A-FVTPL Financial assets measured at fair value through profit or loss.
AHM Held-to-maturity investments.
L&R Loans and receivables.
AFS Available-for-sale financial assets.
CFH Cash flow hedges.
L-FVTPL Financial assets measured at fair value through profit or loss.
AC Amortized cost.
AC – EIR Amortized cost according to the effective interest rate method.

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

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

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

(e) Variable rate borrowings for which interest rate swaps have been entered into are accounted for using the cash flow hedge method. Changes in the fair value of the swap contracts, linked to interest rate movements, are recognized in equity to the extent of their effectiveness. Otherwise, they are recognized under financial income.

(f) Including the Value 09, Value 10, Value 11, Value 12 and Value 13 warrants, whose fair value was €2.3 million at 30 June 2014.

Financial instruments measured at fair value are classified by category on the basis of their valuation method. Fair value is measured:

(A) mainly based on quoted prices on an active market; equity securities are valued this way.

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

			Fair value		
30/06/2014 Balance sheet headings and classes of instruments	**Category**	**Total fair value on balance sheet**	**Listed prices (A)**	**Internal model with observable parameters (B)**	**Internal model with non-observable parameters**
ASSETS					
Listed participating interests	AFS	81,182	81,182	-	-
Other investments in equity instruments	AFS	2,406	-	2,406	-
Derivatives – assets					
Hedging financial instruments	CFH	52,394	-	52,394	-
Speculative financial instruments	L-FVTPL	-	-	-	-
Cash and cash equivalents	**A-FVTPL**	**882,068**	**882,068**	**-**	**-**
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	7,392	-	7,392	-
Speculative financial instruments	L-FVTPL	-	-	-	-

2013	Notes	Category (a)	Gross value at 31/12/2013	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed participating interests		AFS	84,370	-	84,370	-
Other investments in equity instruments		AFS	2,305	-	2,305	-
Loans		L&R	6,184	6,184	-	-
Other financial assets		L&R/AHM (b)	41,194	41,194	-	-
Trade and other receivables	**7**	**L&R**	**1,101,860**	**1,101,860**	**-**	**-**
Derivatives – assets	**8**					
Hedging financial instruments (f)		CFH	91,788		40,057	51,371
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	**9**	**L&R**	**296,105**	**296,105**	**-**	**-**
Cash and cash equivalents	**10**	**A-FVTPL**	**563,312**	**-**	**-**	**563,312**
LIABILITIES						
Bank loans and other borrowings (c) (e)	**14**	**AC – EIR**	**364,301**	**364,301**	**-**	**-**
Other		AC – EIR	606,129	606,129	-	-
Overdrafts and other short-term borrowings (d) (e)	**14**	**AC – EIR**	**18,967**	**18,967**	**-**	**-**
Trade payables		**AC**	**832,899**	**832,899**	**-**	**-**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	24,066	-	6,059	18,007
Speculative financial instruments		L-FVTPL	-	-	-	-
Other current liabilities	**18**	**AC**	**469,800**	**469,800**	**-**	**-**

(a) A-FVTPL Financial assets measured at fair value through profit or loss.
AHM Held-to-maturity investments.
L&R Loans and receivables.
AFS Available-for-sale financial assets.
CFH Cash flow hedges.
L-FVTPL Financial assets measured at fair value through profit or loss.
AC Amortized cost.
AC – EIR Amortized cost according to the effective interest rate method.

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

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

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

(e) Variable rate borrowings for which interest rate swaps have been entered into are accounted for using the cash flow hedge method. Changes in the fair value of the swap contracts, linked to interest rate movements, are recognized in equity to the extent of their effectiveness. Otherwise, they are recognized under financial income.

(f) Including the Value 09, Value 10, Value 11, Value 12 and Value 13 warrants, whose fair value at 31 December 2013 was €3.5 million.

Financial instruments measured at fair value are classified by category on the basis of their valuation method. Fair value is measured:

(A) mainly based on quoted prices on an active market; equity securities are valued this way.

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

			Fair value		
2013 Balance sheet headings and classes of instruments	Category	Total fair value on balance sheet	Listed prices (A)	Internal model with observable parameters (B)	Internal model with non-observable parameters
ASSETS					
Listed participating interests	AFS	84,370	84,370	-	-
Other investments in equity instruments	AFS	2,305	-	2,305	-
Derivatives – assets					
Hedging financial instruments	CFH	91,788	-	91,788	-
Speculative financial instruments	L-FVTPL	-	-	-	-
Cash and cash equivalents	**A-FVTPL**	**563,312**	**563,312**	**-**	**-**
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	24,066	-	24,066	-
Speculative financial instruments	L-FVTPL	-	-	-	-

NOTE 9 Other current assets

	Employee-related receivables and recoverable payroll taxes	Tax receivables excluding income tax	Prepaid expenses	Statement, income tax	Other receivables	Total
As at 31/12/2013	**4,117**	**97,689**	**39,496**	**32,271**	**122,532**	**296,105**
Impact of changes in exchange rates	78	3,918	1,405	1,977	1,724	9,102
Other changes	6,053	-4,203	4,901	30,202	16,342	53,295
AS AT 30/06/2014	**10,248**	**97,404**	**45,802**	**64,450**	**140,598**	**358,502**

NOTE 10 Cash and cash equivalents

	Investment securities (gross)	Cash and cash equivalents	Total
As at 31/12/2013	**383,824**	**179,489**	**563,313**
Impact of changes in exchange rates	26,349	3,368	29,717
Other changes	88,342	200,696	289,038
AS AT 30/06/2014	**498,515**	**383,553**	**882,068**

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

NOTE 11 Equity

CAPITAL

Vallourec's capital is comprised of 128,678,016 ordinary shares with a nominal value of €2 per share fully paid-up at 30 June 2014.

In conformity with the resolution approved by the Ordinary and Extraordinary Shareholders' Meeting of Vallourec on 28 May 2014, the shareholders were asked to opt for a dividend payment in either cash or shares. The dividend under the 2013 result was set at €0.81 per share.

This operation translates to the creation of 518,416 new shares at a price of €35.69 per share, which were delivered and admitted for trading on the Euronext in Paris on 25 June 2014. Payment of the cash dividend, for an amount of €84.8 million likewise occurred on this date.

RESERVES, FINANCIAL INSTRUMENTS

Under IAS 39, Financial Instruments, postings to this reserve account are primarily made for two types of transactions:

- effective currency hedges assigned to the order book and commercial tenders. Changes in the intrinsic values at year-end are recognized in equity;
- variable rate borrowings for which interest rate swaps (fixed rate) have been contracted. These are accounted for in accordance with the cash flow hedge method. Changes in the fair value of the swap contracts, linked to interest rate movements, are recognized in equity.

FOREIGN CURRENCY TRANSLATION RESERVE

Foreign currency translation reserves arise as a result of the translation of the equity of subsidiaries outside the eurozone. The change in the reserve corresponds to fluctuations in exchange rates used to translate the equity and net profit of these subsidiaries. Components of the reserve are reversed to income only in the case of a partial or total disposal and loss of control of the foreign entity.

	USD	GBP	BRL	CNY	Other	Total
As at 31/12/2013	**-18,363**	**-12,407**	**-513,799**	**29,153**	**-9,984**	**-525,400**
Changes	13,584	2,267	162,640	-5,735	1,723	174,479
AS AT 30/06/2014	**-4,779**	**-10,140**	**-351,159**	**23,418**	**-8,261**	**-350,921**

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

	USD	GBP	BRL	CNY
2013				
Average rate	1.33	0.85	2.87	8.16
Closing rate	1.38	0.83	3.26	8.35
H1 2014				
Average rate	1.37	0.82	3.15	8.45
Closing rate	1.37	0.80	3.00	8.47

NOTE 12 Earnings per share

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

Diluted earnings per share are calculated by dividing the net income for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding in the same period, adjusted for the dilution effect of options.

Details of the earnings and numbers of shares used to calculate basic and diluted earnings per share are presented below:

Earnings per share	2013	H1 2014
Net income attributable to ordinary shareholders for basic earnings per share	**261,860**	**144,273**
Weighted average number of ordinary shares for basic earnings per share	125,632,911	128,400,999
Weighted average number of treasury shares for basic earnings per share	-1,101,787	-1,144,844
Weighted average number of shares for basic earnings per share	124,531,124	127,256,155
EARNINGS PER SHARE *(IN EUROS)*	**2.1**	**1.1**
Dilution effect – stock purchase and subscription options and performance shares	1,155,374	243,258
Weighted average number of ordinary shares for diluted earnings per share	125,686,498	127,499,413
DILUTED EARNINGS PER SHARE *(IN EUROS)*	**2.1**	**1.1**
Dividends paid during the period:		
› with regard to the previous fiscal year	0.69	0.81
› interim dividend for the current fiscal year	-	-

NOTE 13 Minority interests

	Reserves	Translation difference	Profit	Total
As at 31/12/2013	362,296	-13,855	36,990	385,431
AS AT 30/06/2014	**365,600**	**-9,212**	**16,338**	**372,726**

NOTE 14 Loans and financial debt

LIQUIDITY RISK

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

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

Market financing is arranged exclusively by Vallourec.

In Europe

In November 2008, Vallourec took out a fixed-rate €100 million loan from Crédit Agricole Group, for an initial term of six years (maturing in late October 2015). This loan was drawn down in late January 2009.

In February 2014, Vallourec subscribed to a multi-currency revolving credit facility for an amount of €1.1 billion, maturing in February 2019, plus two one-year extension options. This credit line is available for the Group's general funding purposes. It replaces the €1 billion line of credit maturing in February 2016. At 30 June 2014 this line had not been drawn.

In addition to the financing put in place by Vallourec, Vallourec Tubes has six bilateral medium-term lines of €100 million each, one of which will mature in July 2015, and five of which will mature in July 2017. At 30 June 2014, none of these six lines had been drawn.

Each of these bank facilities requires Vallourec to maintain its consolidated net debt-to-equity ratio at no more than 75%, calculated at 31 December each year. A change in control of Vallourec could require the repayment of some or all of the debt, which would be decided separately by each bank. It is also stipulated that the entire debt will be immediately due and payable if the Group defaults on one of its debt obligations (cross default), or in case of a major event with consequences for the Group's business or financial position and its ability to repay its debt.

In addition to this bank financing, the Vallourec Group aims to diversify its sources of financing on the markets. For example, Vallourec launched a commercial paper program on 12 October 2011 to meet its short-term needs. The program has a €1 billion ceiling. This commercial paper program is rated A-2 by Standard & Poor's.

As at 30 June 2014, Vallourec had outstandings of €450 million for maturities of up to one year.

On 7 December 2011, Vallourec issued a €650 million bond maturing in February 2017, with a fixed annual coupon of 4.25%.

In August 2012, Vallourec also issued two long-term private placements totaling €455 million. The amounts and terms of these two private placements are €400 million for seven years with an annual coupon of 3.25%, and €55 million for 15 years with an annual coupon of 4.125%.

As at 30 June 2014, the market value of these fixed-rate bonds was €677.7 million, €415.2 million and €57.3 million, respectively.

These bond issues were intended to diversify and increase the amount and extend the maturity of the financial resources available to the Group.

These bond issues specifically include a change-of-control clause that would trigger the mandatory advance payment of the bonds at the request of each bondholder in the event of a change of control of the Company (in favor of a person or a group of people acting in concert) leading to a downgrade of Vallourec's financial rating.

In addition, these bonds may be subject to a request for prepayment should any of the common default scenarios for this type of transaction arise. Early redemption may also be requested in some cases by either the Company or the bondholder, particularly in respect of a change in Vallourec's position or tax status.

As at 30 June 2014, the Group complied with its covenants and the terms and conditions for obtaining and maintaining all of the above facilities, and together the above resources were sufficient as at 30 June 2014 to cover the Group's cash requirements.

In Brazil

In December 2009, Vallourec & Sumitomo Tubos do Brasil, which is 56% owned by the Group, took out a loan of BRL 448.8 million from BNDES (Banco Nacional de Desenvolvimento Econômico e Social). This fixed-rate loan at 4.5% was established for a term of eight years. It is amortizable from 15 February 2012. As at 30 June 2014, the residual amount outstanding for this loan was BRL 188.3 million.

In 2010, this same company in Brazil concluded a finance lease with a nominal value of BRL 570 million maturing in January 2026, relating to equipment needed to operate the plant at Jeceaba. As at 30 June 2014, the residual amount of this finance lease is BRL 410.5 million.

In the United States

The Group's US companies have a set of confirmed bilateral bank lines that were renewed in 2013 and in H1 2014 for a total of USD 300 million. The amount used as at 30 June 2014 totaled USD 145 million. These credit lines of less than one year include clauses relating to the debt of each of the companies involved and a change of control clause.

In 2013, Vallourec Star concluded a finance lease agreement with a nominal value of USD 64.3 million, maturing in five years. As at 30 June 2014, the residual amount of this finance lease is USD 54.7 million.

The carrying amount of these variable-rate financial debts is a good approximation of their market value.

FINANCIAL LIABILITIES – NON-CURRENT LIABILITIES

	Bank borrowings	Finance lease debt	Bond issues	Other borrowings	Total
As at 31/12/2013	**173,588**	**108,352**	**1,096,223**	**928**	**1,379,091**
New loan issues	18,187	-	983	5,792	24,962
Repayments	-5,234	-6,149	-	-7,976	-19,359
Reclassifications	-	-87	-	-21	-108
Impact of changes in exchange rates	6,777	6,006	-	1,913	14,696
AS AT 30/06/2014	**193,318**	**108,122**	**1,097,206**	**636**	**1,399,282**

FINANCIAL LIABILITIES – CURRENT LIABILITIES

	Bank overdrafts	Accrued interest not yet due on bank overdrafts	Bank borrowings (< 1 year)	Accrued interest not yet due on bank borrowings	Other borrowings (< 1 year)	Total
As at 31/12/2013	18,923	44	190,713	31,433	573,768	814,881
New loan issues	47,459	-	226,489	25,193	309,813	608,954
Repayments	-	-36	-203,695	-31,430	-6,323	-241,484
Reclassifications	-	-	-	-	108	108
Impact of changes in exchange rates	686	-	13,706	-3	24,797	39,186
AS AT 30/06/2014	67,068	8	227,213	25,193	902,163	1,221,645

DEBT BY CURRENCY

	USD	EUR	BRL	Other	Total
At 31/12/2013 *(in thousands of currency unit)*	422,034	1,563,883	950,884	n/a	n/a
At 31/12/2013 *(in € thousand)*	306,021	1,563,883	291,897	32,171	2,193,972
At 30/06/2014 *(in thousands of currency unit)*	**702,379**	**1,698,592**	**1,052,791**	**n/a**	**n/a**
AT 30/06/2014 *(IN € THOUSAND)*	514,262	1,698,592	350,907	57,166	2,620,927

BREAKDOWN BY MATURITY OF NON-CURRENT BANK LOANS AND OTHER BORROWINGS (>1 YEAR)

	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
As at 31/12/2013	127,921	25,494	669,997	37,092	518,587	1,379,091
Finance leases	11,990	12,552	30,685	6,868	46,026	108,121
Other non-current financial debts	121,855	665,741	12,883	12,583	478,099	1,291,161
AS AT 30/06/2014	133,845	678,293	43,568	19,451	524,125	1,399,282

BREAKDOWN BY MATURITY OF CURRENT BANK LOANS AND OTHER BORROWINGS

	< 3 months	> 3 months and < 1 year	Total
Bank borrowings	54,282	136,431	190,713
Other borrowings	103,844	457,840	561,684
Finance lease borrowings	1,441	10,643	12,084
Accrued interest on borrowings	25,157	6,276	31,433
Bank overdrafts (negative cash and cash equivalents)	18,967	-	18,967
As at 31/12/2013	203,691	611,190	814,881
Bank borrowings	160,571	66,642	227,213
Other borrowings	455,112	434,252	889,364
Finance lease borrowings	1,486	11,313	12,799
Accrued interest on borrowings	14,927	10,266	25,193
Bank overdrafts (negative cash and cash equivalents)	67,076	-	67,076
AS AT 30/06/2014	699,172	522,473	1,221,645

DEBT BY INTEREST RATE

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

	< 3% rate	3 to 6% rate	6 to 10% rate	> 10% rate	Total
Fixed rate on date granted	328,315	1,530,320	30,812	3,585	1,893,032
Variable rate on date granted swapped to fixed rate	-	-	-	-	-
Fixed rate	328,315	1,530,320	30,812	3,585	1,893,032
Variable rate	271,397	13,131	13,406	3,006	300,940
As at 31/12/2013	**599,712**	**1,543,451**	**44,218**	**6,591**	**2,193,972**
Fixed rate on date granted	614,444	1,530,317	45,237	3,508	2,193,506
Variable rate on date granted swapped to fixed rate	-	-	-	-	-
Fixed rate	614,444	1,530,317	45,237	3,508	2,193,506
Variable rate	368,065	25,017	28,728	5,611	427,421
AS AT 30/06/2014	**982,509**	**1,555,334**	**73,965**	**9,119**	**2,620,927**

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

Debt at a fixed rate of less than 3% on the date granted relates mainly to commercial paper.

NOTE 15 Provisions for risks, liabilities and expenses

Non-current liabilities	Provisions for environmental risks
As at 31/12/2013	**12,475**
Provisions for the period	364
Provisions used	-
Impact of changes in exchange rates	1,078
Other	-
AS AT 30/06/2014	**13,917**

This provision relates to the cost of treating industrial land; all likely costs have been provisioned. The provision also covers clean-up costs for the mine in Brazil; amounts are provided as and when minerals are extracted, based on the volumes extracted.

Current liabilities	Disputes and commercial commitments	Unfilled orders – losses on completion	Reorganization measures	Tax risks (income and other taxes, inspections, etc.)	Other	Total
As at 31/12/2013	**35,746**	**43,493**	**558**	**25,713**	**32,105**	**137,615**
Provisions for the period	14,262	14,823	11,571	9,573	5,851	56,080
Provisions used	-7,674	-17,896	-178	-3,083	-4,529	-33,360
Other reversals	-1,151	-	-	-	-191	-1,342
Impact of changes in exchange rates	1,336	350	-	2,383	2,240	6,309
Other (reclassifications)	-2,676	-	-	-	-125	-2,801
AS AT 30/06/2014	**39,843**	**40,770**	**11,951**	**34,586**	**35,351**	**162,501**

PROVISION FOR TAX RISKS

This provision mainly covers risks following tax disputes in Brazil, some which are covered by security deposits.

The Brazilian tax authorities have challenged a judgment, which in 2006 resulted in the Group obtaining repayment of BRL 137 million worth of IPI taxes (BRL 211 million, interest included, as at 30 June 2014). This judgment was the final judgment of the Court of Appeal. Since the Group believed that a favorable outcome of this case was more probable than improbable, no provision was booked in respect of it.

OTHER CURRENT PROVISIONS

These consist of other provisions for customer discounts, late penalties, and other risks identified at year-end. As at 30 June 2014, actual greenhouse gas emissions were lower than the quotas allotted by the government, and consequently no provision was recorded for this purpose.

NOTE 16 Other long-term liabilities

As at 31/12/2013	**212,992**
Impact of changes in exchange rates	17,822
Other changes	-7,013
AS AT 30/06/2014	**223,801**

The other long-term liabilities are primarily comprised of debts on capital acquisitions, and other debts of more than one year, including a shareholders' loan granted to Vallourec & Sumitomo Tubos do Brasil, a partner identified as a joint venture.

NOTE 17 Employee benefits

RECONCILIATION OF THE PROVISION

	Germany	France	United Kingdom	Other	Total
As at 30/06/2014					
Present value of the obligation	**119,406**	**48,636**	**1,507**	**46,155**	**215,704**
Pension	234,034	50,261	130,735	66,404	481,434
Early retirement commitments	8,004	-	-	-	8,004
Long-service awards and medical benefits	18,010	4,665	-	4,567	27,242
Fair value of plan assets	-140,642	-6,290	-129,228	-24,816	-300,976
Changes in consolidation scope and other	-	-	-	-	-
PROVISION	**119,406**	**48,636**	**1,507**	**46,155**	**215,704**

CHANGE IN THE PROVISION

	Germany	France	United Kingdom	Other	Total
Position at 31/12/2013	**98,008**	**43,144**	**-284**	**41,250**	**182,118**
Cost for the period	7,279	2,743	1,414	2,587	14,023
Amount recognized in Other Comprehensive Income – Revaluation	21,067	4,707	2,751	2,182	30,707
Benefits or contributions to the funds	-6,948	-1,958	-2,405	-2,156	-13,467
Impact of changes in exchange rates	-	-	31	2,292	2,323
Changes in consolidation scope and other	-	-	-	-	-
PROVISION AT 30/06/2014	**119,406**	**48,636**	**1,507**	**46,155**	**215,704**

As at 30 June 2014, the primary commitments were reviewed to take into account changes in the discount rate based on the sensitivity analyses conducted as at 31 December 2013. Germany, the United Kingdom, France, the United States and Brazil are affected.

The commitments of other countries are less significant and the rates are assumed to be constant.

Significant hedging funds are valued at their fair value as at 30 June 2014.

CHARGE FOR THE FISCAL YEAR

Charges incurred during the half-year include additional rights acquired for an additional half-year of service, the change in existing rights at the beginning of the fiscal year due to discounting, the expected return on plan assets, cost of services rendered and the impact of any reduction or liquidation. The portion relating to the acquisition of additional rights is recorded under personnel costs, and the financial cost on net liabilities is recorded under financial income (loss).

These charges are broken down as follows:

Charge for the half year	Germany	France	United Kingdom	Other	Total
As at 30/06/2014					
Cost of services rendered	3,987	1,596	1,482	1,606	8,671
Interest expense on obligations	3,888	874	2,558	1,841	9,161
Expected return on plan assets	-2,340	-109	-2,626	-626	-5,701
Net actuarial losses (+) / gains (-) recognized during the fiscal year	1,744	382	-	-234	1,892
Cost of services rendered	-	-	-	-	-
Impact of any reduction or liquidation	-	-	-	-	-
NET CARRYING AMOUNT	**7,279**	**2,743**	**1,414**	**2,587**	**14,023**

Other employee benefits (options and performance shares)

SHARE PURCHASE AND SUBSCRIPTION OPTION PLANS

Characteristics of the plans

As concerns the characteristics of the plans entered into before 31 December 2013, refer to the Group's consolidated financial statements for the fiscal year ended 31 December 2013.

Change in number of unexpired options

For all of these plans, the change in the number of unexpired options is as follows:

(In number of options)	30/06/2014
Total at beginning of period	3,183,279
Options distributed	373,550
Options exercised	-
Options not exercised at expiry date	-
Options canceled [(a)]	-
Total at end of period	3,556,829
Options available for exercise	944,800

(a) Beneficiaries who have left the Group.

The number of unexpired options breaks down as follows:

	30/06/2014
2007 Plan	277,600
2008 Plan	143,600
2009 Plan	523,600
2010 Plan	481,900
2011 Plan	637,214
2012 Plan	516,900
2013 Plan	602,465
2014 Plan	373,550

Valuation of plans [(a)]

	2014 Plan
Assumptions	
Share price at grant date	€39.69
Volatility [(b)]	30.00%
Risk-free rate [(c)]	1.72%
Exercise price	€38.53
Dividend rate [(d)]	3.00%
Fair value of the option [(e)]	€8.60

(a) The binomial model of projecting share prices has been used to measure the fair value of the options granted.

(b) Volatility corresponds to historical volatility observed over a period corresponding to the duration of the plans.

(c) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries – Institut des Actuaires).

(d) The expected dividend rates have been determined on the basis of analysts' expectations and the Group's dividend policy.

(e) The fair value for the Management Board and Operational Committee is €7.85.

PERFORMANCE SHARE ALLOCATION PLANS

Characteristics of the new plan set up during the half year

As concerns the characteristics of the plans entered into before 31 December 2013, refer to the Group's consolidated financial statements for the fiscal year ended 31 December 2013.

The characteristics of the plans implemented since 1 January 2014 are as follows:

	2014 Plan	2014 Plan 2-4-6
Grant date	15/04/2014	15/04/2014
Vesting period	3 years (French residents) or 4 years (non-French residents)	3 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	1,758	21,677
Theoretical number of shares allocated	413,597	130,062

Change in number of shares

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

	Total
Initial theoretical number of shares allocated	2,113,926
Number of shares canceled	-147,505
Theoretical number of shares acquired or being vested	1,966,421
Number of shares delivered during H1 2014	167,101

NOTE 18 Other current liabilities

	Social security liabilities	Tax liabilities	Liabilities associated with the acquisition of assets	Deferred income	Other current financial liabilities	Total
As at 31/12/2013	**259,755**	**67,079**	**64,298**	**7,143**	**71,525**	**469,800**
Impact of changes in exchange rates	4,553	2,560	2,286	-34	1,613	10,978
Other changes	-9,640	12,817	-23,102	4,508	-20,233	-35,650
AS AT 30/06/2014	**254,668**	**82,456**	**43,482**	**11,617**	**52,905**	**445,128**

The change in other current financial liabilities mainly corresponds to the short-term portion of the shareholders' loan granted to Vallourec & Sumitomo Tubos do Brasil, a partner that has been identified as a joint venture.

NOTE 19 Information on related parties

	Sales to related parties	Purchases from related parties	Related party receivables	Related party payables
As at 30/06/2014				
HKM	2,871	215,857	2,119	62,729
Partner companies that have been identified as joint ventures	72,857	-18,375	88,905	8,249

NOTE 20 Off-balance sheet commitments

Off-balance sheet commitments received (excluding financial instruments)	**31/12/2013**	**30/06/2014**
Firm non-current asset orders	11,272	24,326
Guarantees and commitments received	124,116	109,438
Other commitments received	32,512	24,658
TOTAL	**167,900**	**158,422**
Off-balance sheet commitments given (excluding financial instruments)	**525,696**	**542,246**

COMMITMENTS GIVEN BY MATURITY

	30/06/2014	< 1 year	> 1 year	> 5 years
Balance sheet				
Long-term financial debts	2,621,017	1,115,414	981,486	524,117
Off-balance sheet				
Market guarantees and letters of credit given	160,566	88,790	71,776	-
Other securities, mortgages and pledges given	99,092	-	6,427	92,665
Long-term leasing contract	71,853	10,423	20,720	40,710
Firm non-current asset orders given	15,927	15,927	-	-
Other commitments	194,808	62,846	103,853	28,109
TOTAL	**542,246**	**177,986**	**202,776**	**161,484**

	31/12/2013	< 1 year	> 1 year	> 5 years
Balance sheet				
Long-term financial debts	2,193,972	814,881	860,504	518,587
Off-balance sheet				
Market guarantees and letters of credit given	164,207	74,473	89,734	-
Other securities, mortgages and pledges given	90,729	-	5,919	84,810
Long-term leasing contract	72,613	9,134	21,865	41,614
Firm non-current asset orders given	23,771	11,272	-	12,499
Other commitments	174,376	81,104	69,840	23,432
TOTAL	**525,696**	**175,983**	**187,358**	**162,355**

The joint venture agreement signed by the two shareholders, Vallourec and Nippon Steel & Sumitomo Metal Corp., provides that each will have the option to buy the other shareholder's stake should it undergo a change of control.

The main exchange rates used are set out in Note 11.

Income statement items are translated at the average rate for the period considered.

NOTE 21 Sales

	H1 2013	H1 2014
France	79,937	92,766
Germany	216,548	236,208
Other EU countries	214,084	200,875
North America (NAFTA)	685,606	773,809
South America	608,014	507,223
Asia	627,521	674,639
Rest of the world	157,796	208,189
TOTAL	**2,589,506**	**2,693,709**

Sales for H1 2014 totaled €2,694 million, up 4.0% from H1 2013.

NOTE 22 Cost of sales

	H1 2013	H1 2014
Direct cost of sales	-201,378	-136,094
Cost of raw materials consumed	-637,531	-776,779
Labor costs	-453,465	-475,890
Other manufacturing costs	-598,223	-626,582
Change in non-raw material inventories	13,792	54,926
TOTAL	**-1,876,805**	**-1,960,419**
Amortization	-135,378	-147,232
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**-2,012,183**	**-2,107,651**

NOTE 23 Administrative, selling and research costs

	H1 2013	H1 2014
Research and Development costs	-40,503	-42,695
Selling and marketing costs	-51,571	-52,219
General and administrative costs	-179,949	-179,051
TOTAL	**-272,023**	**-273,965**
Amortization	-32,052	-27,825
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**-304,075**	**-301,790**

The Group has not identified significant costs for its main Research and Development projects which meet the capital asset criteria under IAS 38. Consequently, all Research and Development costs are recorded as costs for the period.

PERSONNEL COSTS BY TYPE AND AVERAGE HEADCOUNT OF CONSOLIDATED COMPANIES

Personnel costs *In € thousand*	**H1 2013**	**H1 2014**
Wages and salaries	-403,569	-428,073
Employee profit-sharing	-27,133	-25,889
Charges related to share subscription and option plans and performance share plans.	-8,109	-7,280
Share subscription option plan of 1 September 2009	*-770*	*-*
Share subscription option plan of 1 September 2010	*-730*	*-706*
Share subscription option plan of 1 September 2011	*-721*	*-396*
Share subscription option plan of 30 August 2012	*-261*	*-204*
Share subscription option plan of 2 September 2013	*-33*	*-588*
Share subscription option plan of 15 April 2014	*-24*	*-129*
Value 08 employee share ownership plan of 16 December 2008 including the share allocation plan of 16 December 2008	*-334*	*0*
Performance share allocation plan of 31 July 2009	*-435*	*0*
Value 09 employee share ownership plan of 17 December 2009 including the share allocation plan of 12 December 2009	*-611*	*-331*
1-2-3 performance share allocation plan of 17 December 2009	*-2*	*0*
Performance share allocation plan of 15 March 2010	*-548*	*329*
Performance share allocation plan of 31 July 2010	*-318*	*-2*
Value 10 employee share ownership plan of 3 December 2010, including the performance share allocation plan of 17 November 2010	*247*	*-551*
2-4-6 performance share allocation plan of 3 December 2010	*-25*	*-316*
Performance share allocation plan of 30 March 2011	*-537*	*-371*
Value 11 employee share ownership plan of 18 November 2011, including the share allocation plan of 18 November 2011	*-1,174*	*-23*
2-4-6 performance share allocation plan of 18 November 2011	*-833*	*-218*
Performance share allocation plan of 30 March 2012	*-14*	*-766*
2-4-6 performance share allocation plan of 30 March 2012	*-699*	*-633*
Value 12 employee share ownership plan of 18 November 2012 including the share allocation plan of 12 November 2012	*-287*	*-13*
Performance share allocation plan of 29 March 2013	*-*	*-818*
2-4-6 performance share allocation plan of 29 March 2013	*-*	*-562*
Value 13 employee share ownership plan of 14 November 2013 including the share allocation plan of 14 November 2013	*-*	*-16*
Performance share allocation plan of 15 April 2014	*-*	*-725*
2-4-6 performance share allocation plan of 15 April 2014	*-*	*-241*
Social security costs	-151,692	-152,571
TOTAL	**-590,503**	**-613,813**

The Group has estimated and taken into account the expenses that could be incurred in connection with the Individual Training Entitlement (*droit individuel à la formation*, or DIF), which concerns all French companies.

The amount of expenses related to share purchase option plans and performance share allocation plans, and the amount relating to retirement expenses is cited in Note 17.

Average headcount of consolidated companies [(a)]	**H1 2013**	**H1 2014**
Managers and executives	3,215	3,457
Technical and supervisory staff	4,029	4,100
Production staff	15,058	15,486
TOTAL	**22,302**	**23,043**

(a) The workforce of companies that have been identified as joint ventures are included based on the percentage interest held by the Group.

The workforce of the Group as at 30 June 2014 totaled 23,022 people, compared to 23,017 people as at 31 December 2013, and 22,450 people as at 30 June 2013.

NOTE 24 Other

	H1 2013	H1 2014
Employee profit-sharing	-27,133	-25,889
Fees for concessions and patents	15,629	17,197
Other income and expenses	-8,206	-7,005
TOTAL	**-19,710**	**-15,697**

Charges to provisions, net of reversals	H1 2013	H1 2014
Charges to provisions net of reversals included in EBITDA	-35,095	-38,524

NOTE 25 Depreciation and amortization

Charges to depreciation and amortization are analyzed as follows:

	H1 2013	H1 2014
By function		
Depreciation of industrial assets	-135,378	-147,232
Depreciation and amortization – Research and Development	-4,029	-4,335
Depreciation and amortization – Sales and Marketing	-17,507	-13,358
Depreciation and amortization – General and administrative expenses	-10,516	-10,132
TOTAL	**-167,430**	**-175,057**
By type		
Charges to amortization of intangible assets (see Note 1)	-31,741	-23,801
Depreciation and amortization of property, plant and equipment (see Note 2.1)	-135,982	-146,823
Net depreciation and amortization of biological assets(see Note 2.2)	-	-4,433
Reversals of depreciation and provisions on property, plant and equipment	293	-
TOTAL	**-167,430**	**-175,057**

NOTE 26 Depreciations, asset disposals and other non-recurring items

	H1 2013	H1 2014
Impairment of assets and goodwill	-2,504	-
Impairment of inventories specific to discontinued operations	-	-
TOTAL IMPAIRMENT OF FIXED ASSETS AND GOODWILL	**-2,504**	**-**

	H1 2013	H1 2014
Reorganization measures and non-recurring items (net of provisions)	-21,914	-1,278
Gains and losses on disposals of non-current assets	356	-2,774
TOTAL ASSET DISPOSALS AND RESTRUCTURING COSTS	**-21,558**	**-4,052**

During H1 2014, the Group recorded a provision of €11.6 million for an adjustment plan in France, partially offset by non-recurring items in the amount of €10.8 million. As a reminder, the financial statements for H1 2013 included an exceptional provision of €20.6 million before taxes.

NOTE 27 Financial income (loss)

	H1 2013	H1 2014
Financial income		
Income from investment securities	9,875	20,604
Income from disposals of investment securities	537	1,117
TOTAL	**10,412**	**21,721**
Interest expenses	**-53,420**	**-63,070**
Other financial income and expenses		
Income from securities	413	-
Income from loans and receivables	929	1,395
Exchange losses (-) and gains (+) and changes in premiums/discounts	-5,076	12,222
Charges to provisions, net of reversals	-1,344	-2,666
Other financial income and expenses	1,283	3,645
TOTAL	**-3,795**	**14,596**
Other discounting expenses		
Financial expenses: discounting of pension obligations	-3,527	-3,716
Financial income from discounted assets and liabilities	-87	-160
TOTAL	**-3,614**	**-3,876**
FINANCIAL INCOME (LOSS)	**-50,417**	**-30,629**

NOTE 28 Reconciliation of theoretical and actual tax expense

Breakdown of the tax charge	H1 2013	H1 2014
Current tax expense	-75,858	-68,278
Deferred taxes	11,885	-5,600
INCOME TAX	**-63,973**	**-73,878**
Net profit or loss of consolidated companies	115,086	160,012
Tax charge	-63,973	-73,874
INCOME FROM CONSOLIDATED COMPANIES BEFORE TAX	**179,059**	**233,886**
Statutory tax rate of consolidating company	34.43%	34.43%
Theoretical tax charge	-61,656	-80,535
Impact of main tax loss carryforwards	-18,449	-9,626
Impact of long-term capital gains and losses	1,166	1,799
Impact of permanent differences	17,594	10,329
Impact of differences in tax rates	2,783	9,178
Other impacts	-5,411	-5,018
INCOME TAX	**-63,973**	**-73,873**
ACTUAL TAX RATE	**35.73%**	**31.59%**

Ongoing differences consist mainly of the net profit attributable to non-controlling interests, withholding taxes and the share of costs and expenses with regard to dividend distributions.

At the interim balance sheet dates, the tax charge is calculated for each tax entity of the Group, applying the effective tax rate that has been determined for the current year to the profit or loss before taxes for the interim period.

Differences in taxation mainly reflect the range 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 information

OPERATING SEGMENTS

The following tables provide information on the revenues and results for each operating segment, as well as certain information on the assets, liabilities and investments for H1 of 2013 and 2014.

The "Holdings and miscellaneous" segment includes Vallourec and Vallourec Tubes.

INFORMATION ON RESULTS, ASSETS AND LIABILITIES BY OPERATING SEGMENT

H1 2014	Seamless tubes	Specialty Products	Holdings & miscellaneous [(a)]	Inter-segment transactions	Total
Income statement					
Sales to external customers	2,625,049	68,466	194	-	2,693,709
EBITDA	455,744	5,348	-17,665	201	443,628
Depreciation and amortization	-167,179	-7,322	-756	200	-175,057
Impairment of assets and goodwill	-	-	-	-	-
Asset disposals, restructuring costs and non-recurring items	-3,035	-257	-604	-156	-4,052
OPERATING PROFIT OR LOSS	**285,530**	**-2,231**	**-19,025**	**245**	**264,519**
Unallocated income					36,316
Unallocated expenses					-66,945
Profit before tax					233,890
Income tax expense					-73,878
Net profit of equity affiliates					599
Net income for the consolidated entity					160,611
Balance sheet					
Non-current assets	5,575,986	205,570	4,660,234	-4,482,427	5,959,362
Current assets	2,913,825	149,711	186,720	-147,238	3,103,018
Cash and cash equivalents	674,428	17,876	980,099	-790,335	882,068
TOTAL ASSETS	**9,164,239**	**373,157**	**5,827,053**	**-5,420,000**	**9,944,448**
Shareholders' equity	4,397,325	129,727	4,017,435	-3,730,612	4,813,874
Non-controlling interests	366,634	6,121	-	-29	372,726
Long-term liabilities	1,689,119	46,424	1,198,632	-751,751	2,182,424
Current liabilities	2,711,161	190,885	610,986	-937,608	2,575,424
TOTAL LIABILITIES	**9,164,239**	**373,157**	**5,827,053**	**-5,420,000**	**9,944,449**
Cash flows					
Property, plant and equipment, intangible and biological assets (excluding cash outflows)	99,666	4,520	220	-	104,406
Other disclosures					
Average headcount	21,686	1,152	205	-	23,043
Personnel costs	-560,410	-24,643	-28,760	-	-613,813

(a) Vallourec and Vallourec Tubes.

H1 2013	Seamless tubes	Specialty Products	Holdings & miscellaneous [a]	Inter-segment transactions	Total
Income statement					
Sales to external customers	2,528,727	60,582	197	-	2,589,506
EBITDA	456,353	-5,751	-24,629	-5,005	420,968
Depreciation and amortization	-159,916	-7,322	-390	198	-167,430
Impairment of assets and goodwill	-61	-2,443	-	-	-2,504
Asset disposals, restructuring costs and non-recurring items	119	-1,497	-20,269	89	-21,558
OPERATING PROFIT OR LOSS	**296,495**	**-17,013**	**-45,288**	**-4,718**	**229,476**
Unallocated income					6,617
Unallocated expenses					-57,034
Profit before tax					179,059
Income tax expense					-63,973
Net profit of equity affiliates					1,172
Net income for the consolidated entity					116,258
Balance sheet					
Non-current assets	5,608,802	197,024	4,637,949	-4,486,381	5,957,394
Current assets	2,797,977	132,154	138,491	-144,629	2,923,993
Cash and cash equivalents	519,582	17,375	1,101,058	-794,236	843,779
TOTAL ASSETS	**8,926,361**	**346,553**	**5,877,498**	**-5,425,246**	**9,725,166**
Shareholders' equity	4,419,507	118,361	3,725,800	-3,603,910	4,659,758
Non-controlling interests	407,990	7,169	-	-23	415,136
Long-term liabilities	1,631,485	34,859	1,193,287	-877,495	1,982,136
Current liabilities	2,467,379	186,164	958,411	-943,818	2,668,136
TOTAL LIABILITIES	**8,926,361**	**346,553**	**5,877,498**	**-5,425,246**	**9,725,166**
Cash flows					
Property, plant and equipment, intangible and biological assets (excluding cash outflows)	204,443	14,185	1,198	-	219,826
Other disclosures					
Average headcount	20,982	1,128	192	-	22,302
Personnel costs	-537,150	-23,128	-30,228	3	-590,503

(a) Vallourec and Vallourec Tubes.

GEOGRAPHICAL INFORMATION

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

H1 2014	Europe	North America	South America	Asia	Rest of the world	Total
Sales						
Sales to external customers	529,849	773,809	507,223	674,639	208,189	2,693,709
Balance sheet						
Property, plant and equipment, intangible and biological assets and goodwill (net)	1,095,456	1,542,232	1,888,866	596,099	3,444	5,126,097
Cash flows						
Property, plant and equipment, intangible and biological assets (excluding cash outflows)	31,685	27,138	35,170	9,641	772	104,406
Other disclosures						
Average headcount	9,928	2,934	7,361	2,745	75	23,043
Personnel costs	-346,484	-114,168	-129,192	-22,764	-1,205	-613,813

H1 2013	Europe	North America	South America	Asia	Rest of the world	TOTAL
Sales						
Sales to external customers	510,569	685,606	608,014	627,521	157,796	2,589,506
Balance sheet						
Property, plant and equipment, intangible and biological assets and goodwill (net)	1,040,321	1,598,463	1,887,235	636,786	2,444	5,165,249
Cash flows						
Property, plant and equipment, intangible and biological assets (excluding cash outflows)	40,003	46,730	88,943	20,072	24,078	219,826
Other disclosures						
Average headcount	9,819	2,928	7,272	2,214	69	22,302
Personnel costs	-329,941	-106,459	-133,996	-19,206	-901	-590,503

NOTE 30 Subsequent events

None.

Statutory Auditors' review report on the 2014 half-year financial information

For the period January 1st to 30 June 2014

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 includes information relating to the specific verification of information presented in the Group's half-year management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

In 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 1st to 30 June 2014;
- 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.3 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 information.

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, 30 July 2014

The Statutory Auditors,

Deloitte & Associés
Jean-Marc Lumet

KPMG Audit
Department of KPMG SA
Catherine Porta

RR DONNELLEY

Photo credits: Thiago Fernandes

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A French limited liability company (société anonyme)
with Management and Supervisory Boards and issued capital of €257,356,032