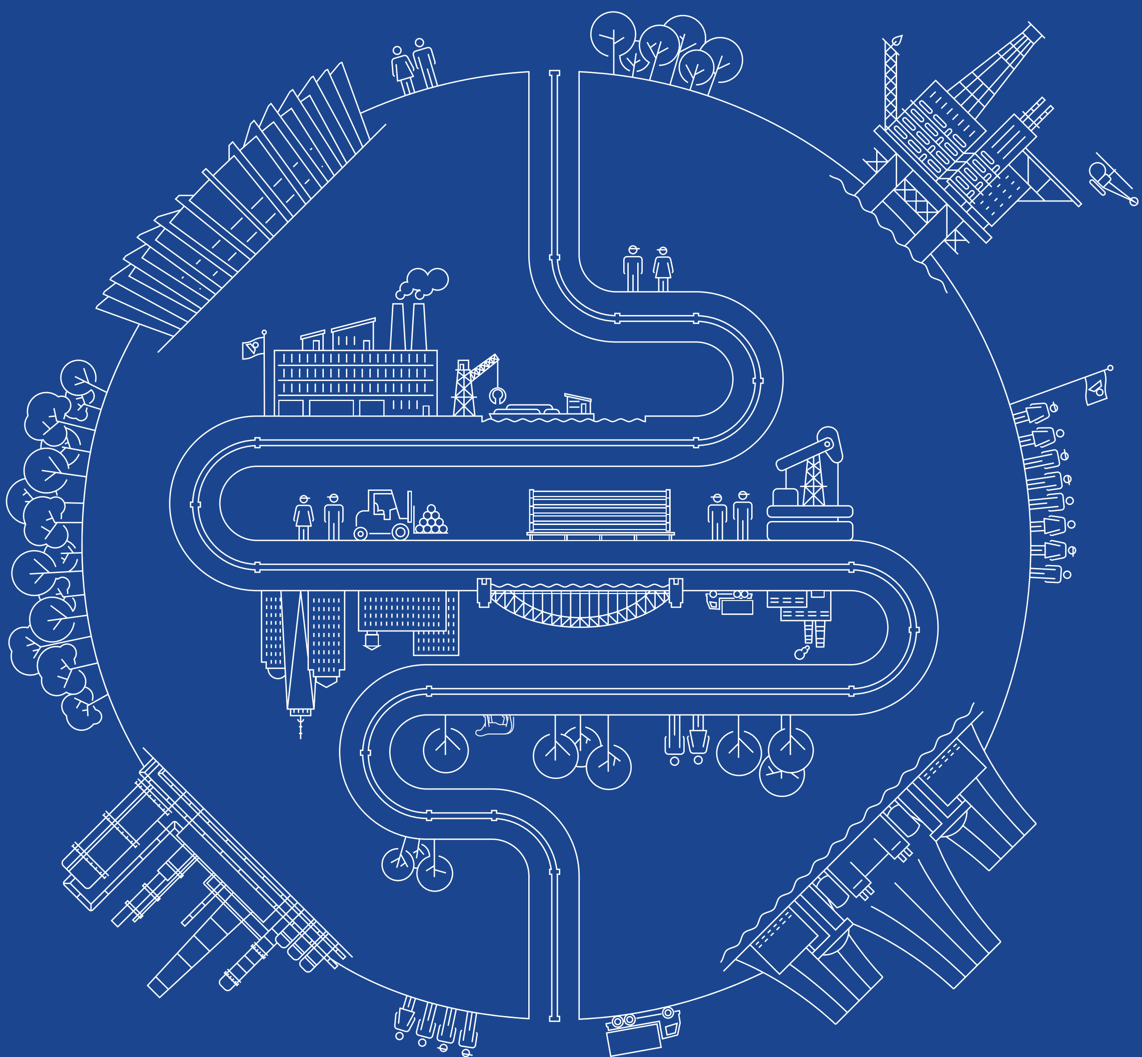
2015 Interim financial report

HALF YEAR ENDED 30 JUNE 2015



vallourec

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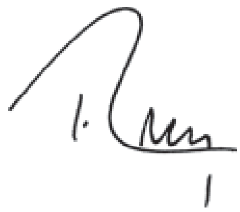
This document is a free translation of the interim financial report of Vallourec for the first half-year ended 30 June 2015. This translation has been prepared solely for the information and convenience of English speaking users. In the event of any ambiguity or discrepancy between this translation and 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 financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, financial position and profits or loss of Vallourec and all consolidated companies, and that the half-year activity report attached presents a true and fair view of the significant events that occurred during the first six months of the financial year and of their impact on the half-year financial statements, of the main transactions between related parties and a description of the main risks and uncertainties for the remaining six months of the financial year.

Boulogne-Billancourt, 31 July 2015



Philippe Crouzet

Chairman of the Management Board

Half-year activity report

In the first half of 2015, the Group recorded consolidated revenues of €2,070 million, down 23.1% (down 28.7% at constant exchange rates) compared with consolidated sales of €2,693 million in the first half of 2014. EBITDA totaled €66 million, down 85.1% compared with H1 2014 EBITDA figures (€444 million). The EBITDA margin rate decreased significantly compared with the first half of the previous year, at 3.2% of consolidated revenues. Net result, Group share was a loss of €275 million in the first half of 2015, compared with a profit of €144 million in the first half of 2014.

Vallourec market environment

1. Oil & Gas

The price of Brent dropped very sharply at 2014 year-end, dipping below USD 50/b (US dollars per barrel) in early 2015. This evolution led oil operators to reconsider their budgets and investment priorities. The price of Brent during the first half of 2015 averaged approximately USD 60/b [(1)] and operators are continuing to cut their exploration and production expenses.

In the United States, the significant fall in the price of WTI resulted at the end of 2014 in the decline of the number of active rigs, which then continued in the first half of 2015. The average number of rigs [(2)] for the first half of 2015 amounted to 1,155 units, representing a 36.4% decrease compared with the 1,816 rigs for the same period in 2014. The number of active rigs stood at 859 units at the end of June 2015 (compared with 1,873 units at the end of June 2014, a decrease of 54.1%), representing a 53.3% fall compared with December 2014. In addition, the distributors reduced their tubes inventories to adapt to the OCTG consumption decline.

The number of oil rigs strongly decreased in the first half of 2015 (down 39.5% compared year-on-year) with an average of 896 active rigs, compared with 1,479 units in the first half of 2014. At the end of June 2015, nearly 73% of the rigs were for oil drilling, compared with 83% the previous year. Gas drilling dropped by 22.8%, reaching an average of 257 active rigs in the first half of 2015. The gas price (Henry Hub) average was above USD 4/Mbtu (US dollars per million British thermal units) in 2014 and decreased to stand at an average of USD 2.8/Mbtu [(3)] in the first half of 2015, a 39.0% decrease compared with the first half of 2014.

In the Gulf of Mexico, the number of drilling platforms stood at 28 units at the end of June 2015 [(4)], compared with 56 units at the end of December 2014 and 54 units at the end of June 2014.

In the rest of the world, the international active rig count [(5)] was 1,146 units at the end of June 2015, down 14.7% compared with the end of June 2014. The average international active rig count in the first half of 2015 was down 9.5% compared with the same period of 2014.

In Brazil, operations are driven by Petrobras' five-year, 2015-2019, investment plan (USD 130 billion, including USD 109 billion or 83% for exploration and production between 2015 and 2019, a 41% fall compared with the previous, 2014-2018, investment plan [(6)]). This plan prioritizes oil production projects, focusing notably on the exploration of pre-salt fields, with drilling operations in very deep waters (over 2,000 meters), far offshore and in highly corrosive environments.

In a longer term perspective, according to Petrobras' investment plan, oil and NGL production in Brazil should thus go from 2.0 mb/day in 2014 to 2.8 mb/day in 2020. Brazil, by contributing more than 50% of world oil production in deep waters by 2040, is set to become the leading world oil producer in deep water.

In the EAMEA region [(7)]**,** the tube consumption is down globally, due to the suspension, the postponement or cancellation of some projects by international oil operators, and also the ongoing destocking in Saudi Arabia. In late 2014-early 2015, the drop in oil prices prompted international oil operators to be increasingly selective in choosing projects to be developed and to reduce their costs. In addition, new competitors emerged in the less differentiated products market. All of this is resulting in an increasingly competitive market, leading to pressure on prices.
Nevertheless, in the medium term, major investment programs are necessary to offset depletion, and meet the growing demand for oil and gas.

2. Power Generation

Conventional energy

In Europe, uncertainties about the prevailing environmental policies are intensifying. There are only few new projects of coal-fired power plants.

In the United States, in an environment marked by stringent environmental regulations designed to limit carbon emissions, the use of gas-fired power plants continues to be favored. This trend was strengthened by the low gas prices.

In Asia, energy needs continue to boost the demand for new, high-performance thermal power plants. Numerous coal or gas-fired plants are planned, for example in the Philippines, Vietnam, Indonesia as well as in Malaysia. These projects are nevertheless taking place in a very competitive environment.

In order to meet growing demand for electricity, China will continue to install new coal-fired power plant capacity, at a rate that has

(1) Price of Brent. Thomson Reuters – first half of 2015 average, data collected in July 2015.

(2) Baker Hughes (number of active rigs in the United States) – June 2015.

(3) Price of gas (Henry Hub). Thomson Reuters – first half 2015 average, data collected in July 2015.

(4) Baker Hughes (number of active rigs in the United States) – June 2015.

(5) Baker Hughes (number of active international rigs = excluding North America) – June 2015.

(6) Petrobras: Business and Management Plan 2015-2019 – 29 June 2015.

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

nevertheless slowed down compared with the last decade. China wants to diversify its energy mix, which is very dependent on coal, and reduce its share to 62% of the energy mix by 2020, compared with approximately 67% in 2014 [(1)]. India is currently positioned as a major player in the development of new coal-fired power plant capacity. In its baseline scenario, the IEA forecasts additional coal-fired power plant installed capacity worldwide of approximately 1,400 GW (gigawatts) between 2014 and 2040. China and India should alone represent more than 60% of new capacity [(2)].

Nevertheless, the Conference Of Parties (COP 21), to be held in Paris in December 2015, which aims to define the new CO_2 emission reduction targets, could influence the future energy mix targets.

Nuclear energy

The need for numerous countries to reduce their CO_2 emissions has for several years benefited to the recovery of the nuclear energy market. However, the difficulties of funding, the issues related to increasing safety of facilities, as well as the political reluctance of some States postpone the further expansion of nuclear power.

In Europe, the United Kingdom has launched a nuclear program targeting an additional capacity of the nuclear fleet in operation of 16 GW by 2030. The first new-generation nuclear power plant planned should be in operation by 2023 [(3)]. In France, Vallourec is benefiting from the program to replace the steam generators at EDF's plants to extend the life of its 1,300 MW (megawatts) reactors.

In line with the commitments made in September 2014 in terms of CO_2 emissions reduction, China has confirmed its target to reach an installed nuclear capacity of 58 GW in 2020, compared with 15 GW in 2013 [(4)].

Lastly, new nuclear power plant projects are planned in Asia (India, South Korea, Southeast Asia) and the Middle East (Turkey, Saudi Arabia, United Arab Emirates). According to a report that was recently published by the IEA [(5)], approximately forty countries worldwide could envision nuclear energy programs.

3. Other applications

The environment for Petrochemicals remained very competitive in the United States, the Middle East and Asia. In Europe, the level activity in this market was fairly low in the first half of 2015.

Despite a better macroeconomic momentum in Europe, Industry & Other activities (Mechanical engineering, Automotive, Construction & Other) have been affected by the still very competitive environment and continuing pressure on prices.

In Brazil, the macroeconomic environment continued to deteriorate in the first half of 2015, resulting in a drop in sales for non-Oil & Gas activities, notably in Automotive.

4. Raw materials

In Brazil, Vallourec operates its own iron ore. The iron ore production then serves to power the Group's blast furnaces in Belo Horizonte and Jeceaba. The unused surplus is sold locally. Iron ore spot prices continued to deteriorate in the first half of 2015 compared to those recorded in late 2014. In 2015, they will be significantly lower than in 2014.

The French and American plants within the Group are equipped with electric furnaces. These are powered with scrap metal. Scrap metal prices slightly decreased in Europe [(6)] in the first half of 2015 compared with the levels observed at 2014 year-end. In the United States [(7)] scrap metal prices considerably dropped in the first half of 2014 compared with the end of December 2014.

5. Foreign currency

The Group remains sensitive to volatility in foreign currencies (Brazilian real, US dollar) against the euro. In the first half of 2015, compared with 2014, the Group recorded a positive transaction effect benefiting from the depreciation of the Brazilian real and the euro against the US dollar.

In the first half of 2015, the depreciation of the Brazilian real against the euro had a slightly negative translation effect while the appreciation of the US dollar against the euro had a positive translation effect on the Group's results.

Activity

Revenues by market

Oil & Gas, Petrochemicals (69.5% of revenues)

Oil & Gas revenues reached €1,331 million in H1 2015, down 25.1% year-on-year (down 32.1% at constant exchange rates):

- In the **USA**, volumes sold were down, reflecting the fall in active rig count by 53% over the first semester along with destocking from distributors. Moreover, prices decreased in Q2.
- In the **EAMEA** [(8)] region, in a context of postponement of projects by IOCs and of ongoing destocking in Saudi Arabia, volumes and mix were significantly down in H1 2015 compared with a strong H1 2014.
- In **Brazil**, revenues were slightly down year-on-year in H1 2015 due to lower drilling activity.

Petrochemicals revenues were €108 million in H1 2015, down 15.0% year-on-year (down 21.3% at constant exchange rates) due to lower demand in a highly competitive environment.

(1) Action Plan for Energy Development (2014-2020) – People's Republic of China (State Council).
(2) IEA – World Energy Outlook 2014 – New Policies Scenario – published in November 2014.
(3) Nuclear Power in the United Kingdom, World Nuclear Association.
(4) Action Plan for Energy Development (2014-2020) – People's Republic of China (State Council).
(5) IEA – World Energy Outlook 2014 – "Potential Newcomers" – published in November 2014.
(6) Scrap E40 – France – CRU.
(7) Shredded Scrap – USA – CRU.
(8) EAMEA: Europe, Africa, Middle East, Asia.

Power Generation (12.2% of revenues)

Power Generation revenues amounted to €253 million in H1 2015, down 9.0% year-on-year (down 12.6% at constant exchange rates):

- **Conventional power generation** revenues were impacted by lower volumes along with pricing pressure.
- In **nuclear**, revenues were slightly up year-on-year, explained by a favourable comparable in 2014.

Industry & Other (18.3% of revenues)

Industry & Other revenues amounted to €378 million in H1 2015, down 25.9% year-on-year (down 26.7% at constant exchange rates):

- In **Europe**, revenues were down year-on-year in a very competitive environment.
- In **Brazil**, revenues were down year-on-year, strongly impacted by the continued deterioration of the macroeconomic environment in the region, notably by the severe downturn in the automotive industry. Indeed, according to ANFIR, the Brazilian Road Implements Association, sales for the domestic heavy vehicles market decreased by approximately 50% in H1 2015 compared with previous year.

  H1 2015 iron ore revenues were significantly down year-on-year, due to the 46% drop in iron ore spot prices compared with H1 2014.

Financial results

Consolidated income statement

EBITDA stood at €66 million in H1 2015, down 85.1% year-on-year. EBITDA margin was 3.2% of revenues in H1 2015 compared with 16.5% in H1 2014. This was due to:

- lower consolidated revenues at €2,070 million, down 23.1% (down 28.7% at constant exchange rates), mainly resulting from a negative volume effect (-31.7%), notably for Oil & Gas in EAMEA and in the USA, and despite positive translation (+5.6%) and price/mix (+3.0%) effects;
- lower industrial margin at €336 million, down 54.2%. Despite a significant reduction in variable costs, and lower industrial fixed costs, industrial margin was impacted by the fall in sales, and by inefficiencies associated with mills load well below production capacity;
- sales, general and administrative costs (SG&A) declined by 3.3% to €264 million, with an 11.2% year-on-year decrease in Q2 2015. This improvement results from an overall focus on cost reduction, first results of Valens G&A actions, and was achieved despite unfavourable exchange rates and inflation. R&D efforts were kept stable.

Operating loss was €228 million in H1 2015, compared with a profit of €265 million in H1 2014. This deterioration results from lower EBITDA, and from €145 million of other charges, including €111 million of restructuring charges and impairment related to the implementation of Valens. The depreciation of industrial assets remained broadly stable at €149 million.

For the first half of 2015, financial result was negative at -€37 million versus -€31 million in H1 2014.

The **income tax charge** amounted to €15 million in H1 2015 compared with €74 million in H1 2014.

Non-controlling interests were a charge of -€5 million in H1 2015, compared with a product of €16 million in H1 2014, explained by the decline in US operations results.

Net loss, Group share was €275 million in H1 2015, compared with a profit of €144 million in H1 2014.

Cash flow and financial position

Vallourec generated a slightly better than anticipated free cash flow at €3 million in H1 2015, compared with a positive free cash flow of €37 million in H1 2014. This was primarily explained by:

- negative **cash flow from operating activities** resulting from the drop in EBITDA;
- lower **capital expenditure** at €89 million, representing a decrease of 35.5% compared with H1 2014;
- a reduction in **operating working capital requirement** (+€111 million), compared with an increase of €185 million in H1 2014, notably due to inventories.

In June 2015, the Holding company paid €41.9 million in dividend to its shareholders in cash. The payment of the dividend in shares resulted in the creation of 3,090,460 new shares (i.e. 2.37% of the share capital).

As at 30 June 2015, Group net debt increased by €123 million to €1,670 million compared with the end of 2014. The gearing ratio was 42.5% compared with 37.1% at the end of 2014.

Vallourec's liquidity position is strong. The Group increased its committed financings to approximately €3.6 billion, including €1.8 billion undrawn confirmed credit lines, and no significant repayment until 2017. In June 2015, the Group signed an additional multi-currency revolving credit facility for €90 million, maturing in February 2019, plus two one-year extension options.

Short-term adaptation and Valens plan

The Group is adapting to the low load of the mills. Global staff reduction was 1,600 over the first half of 2015 (close to 7% of total headcount), including close to 1,000 permanent jobs.

Action plans have been implemented to adapt the mills to the reduced activity, and allowed to remove approximately 80% of the variable costs (excluding raw materials) associated with the lost volume.

The Valens plan is well on track with approximately 2/3rd of the 450+ initiatives already started notably on manufacturing costs and SG&A.

These initiatives, along with an overall focus on cost reduction, contributed to the reduction of industrial fixed costs and to the improvement of SG&A in H1 2015. The targeted savings of 10% of added costs, with a full year effect in 2017, is confirmed.

The process to structurally reduce our European steel and tube capacity, and our worldwide overhead costs is being deployed according to plan.

Transactions with related parties

Transactions carried out with equity affiliates during the first half of 2015 relate mainly to purchases of steel rods from HKM amounting to €127 million.

Main risks and uncertainties for the second half of 2015

Vallourec does not expect any change to its risks, as set out in Chapter 5, Section 5.1 “Risk factors” of the 2014 Registration Document *(Document de référence)* filed with the Autorité des Marchés Financiers (the French securities regulator), on 10 April 2015 under number D.15-0315, which would be likely to have an impact on the rest of the 2015 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 and outlook

Vallourec expects its Oil & Gas deliveries and results to be further impacted in H2 2015 by the challenging market trends:

- In the **EAMEA** region, the order inflow is staying at a very low level and destocking in Saudi Arabia is continuing. Therefore, low deliveries and unfavourable mix, associated with price pressure, will continue to significantly weigh on H2 2015 performance, which is expected to decline compared to H1, despite the favourable effect of a stronger US dollar.
- In the **USA**, the results in each of the two coming quarters are expected to be significantly below Q2 2015. After the Q2 2015 sequential drop in volumes sold, the likely stabilization of the active rig count at a very low level, and the continuation of the destocking from distributors throughout the year, should not allow any volume recovery in H2 2015, while price pressure that started in H1 intensifies.
- In **Brazil**, due to the current cash constraints of Petrobras, Vallourec expects its Oil & Gas H2 2015 revenues to be down compared with H1 2015. On 29 June 2015, Petrobras released its E&P 2015-2019 capex plan which was revised downwards compared to the 2014-2018 plan. Thanks to a focus maintained on development in pre-salt basins, Vallourec expects an increase in deliveries, starting in 2017.

Industry & Other operations in Brazil will continue to suffer in H2 2015 from the deteriorating local macroeconomic environment, while persisting oversupply in the iron ore market will result in significantly lower prices than in 2014.
In Europe, the environment for Power Generation and Industry & Other operations remains very competitive.

Overall, despite the ongoing cost reduction measures, this very challenging environment, notably in the Oil & Gas markets, is expected to lead to Q3 and Q4 2015 deliveries and margins being significantly below the level achieved in Q2, which will likely result in a negative EBITDA for the full year.

The Group maintains a strong focus on cash: the operating working capital requirement will continue to be strongly reduced in H2 2015, and the capital expenditure revised down to around €300 million from €350 million initially planned.

Based on current market conditions and currency trends, Vallourec continues to target a positive free cash flow generation in 2015.

Consolidated interim financial statements

CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS OF THE VALLOUREC GROUP AT 30 JUNE 2015

Vallourec Group's statement of financial position

Assets

In € thousand	Notes	31/12/2014	30/06/2015
NON-CURRENT ASSETS			
Net intangible assets	1	165,910	164,855
Goodwill	1	332,218	357,112
Gross property, plant and equipment	2.1	6,406,246	6,469,948
Less: accumulated amortization, depreciation and provisions	2.1	(2,882,997)	(2,983,622)
Net property, plant and equipment	2.1	3,523,249	3,486,326
Biological assets	2.2	213,923	190,428
Associates	3	184,125	194,433
Other non-current assets	4	435,064	282,006
Deferred tax assets	5	223,102	206,797
TOTAL		**5,077,591**	**4,881,957**
CURRENT ASSETS			
Inventories and work in progress	6	1,490,031	1,442,803
Trade and other receivables	7	1,145,654	894,841
Derivatives – assets	8	28,211	26,354
Other current assets	9	343,155	325,145
Cash and cash equivalents	10	1,146,913	975,036
TOTAL		**4,153,964**	**3,664,179**
Total assets of continuing operations		9,231,555	8,546,136
Total assets held for sale		-	-
TOTAL ASSETS		**9,231,555**	**8,546,136**

Liabilities

In € thousand	Notes	31/12/2014	30/06/2015
EQUITY	11		
Capital		261,196	267,377
Additional paid-in capital		991,846	1,045,620
Consolidated reserves		3,823,895	2,838,374
Reserves, financial instruments		(64,507)	(43,445)
Foreign currency translation reserve		(287,704)	(251,151)
Net income for the period		(923,594)	(275,097)
Treasury shares		(57,773)	(62,657)
Equity, Group share		**3,743,359**	**3,519,021**
Non-controlling interests	**13**	**426,253**	**405,847**
TOTAL EQUITY		**4,169,612**	**3,924,868**
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	14	1,781,873	1,777,995
Employee benefits	17	244,282	205,240
Provisions	15	13,437	12,881
Deferred tax liabilities	5	256,246	254,255
Other long-term liabilities	16	215,426	46,477
TOTAL		**2,511,264**	**2,296,848**
CURRENT LIABILITIES			
Provisions	15	162,996	264,864
Overdrafts and other short-term borrowings	14	911,644	867,053
Trade payables		806,856	555,205
Derivatives – liabilities	8	173,300	206,142
Tax liabilities		57,626	26,969
Other current liabilities	18	438,257	404,187
TOTAL		**2,550,679**	**2,324,420**
TOTAL EQUITY AND LIABILITIES		**9,231,555**	**8,546,136**

PRESENTATION OF PERFORMANCE

Consolidated income statement

In € thousand	Notes	H1 2014	H1 2015
Revenue	**21**	**2,693,709**	**2,070,636**
Cost of sales [(a)]	22	(1,960,419)	(1,734,418)
Sales, general and administrative costs [(a)]	23	(273,965)	(264,073)
Others [(a)]	24	(15,697)	(6,524)
EBITDA		**443,628**	**65,621**
Depreciation of industrial assets	25	(147,232)	(149,346)
Other depreciation and amortization	25	(27,825)	(22,577)
Impairment of assets and goodwill			
Asset disposals, restructuring costs and non-recurring items	26	(4,052)	(122,011)
OPERATING INCOME/(LOSS)		**264,519**	**(228,313)**
Financial income		21,721	21,635
Interest expenses		(63,070)	(59,502)
Net interest expenses		(41,349)	(37,867)
Other financial income and expenses		14,595	3,914
Other discounting expenses		(3,875)	(3,398)
NET FINANCIAL INCOME/(LOSS)	**27**	**(30,629)**	**(37,351)**
PRE-TAX INCOME/(LOSS)		**233,890**	**(265,664)**
Income tax	28	(73,878)	(14,745)
Share in net income/(loss) of associates	3	599	(264)
NET INCOME/(LOSS) FROM CONTINUING OPERATIONS		**160,611**	**(280,673)**
CONSOLIDATED NET INCOME/(LOSS)		**160,611**	**(280,673)**
Attributable to non-controlling interests		16,338	(5,576)
Group share		**144,273**	**(275,097)**
Group share:			
Earnings per share	12	1.1	(2.1)
Diluted earnings per share	12	1.1	(2.1)

(a) Before amortization and depreciation.

Statement of comprehensive income

In € thousand	Notes	H1 2014	H1 2015
CONSOLIDATED NET INCOME/(LOSS)		**160,611**	**(280,673)**
Other comprehensive income:			
Actuarial gains and losses on post-employment benefits	17	(30,707)	35,360
Tax attributable to actuarial gains and losses on post-employment benefits		9,420	(8,847)
Items that will not be reclassified to profit or loss		**(21,287)**	**26,513**
Exchange differences on translating net assets of foreign entities	12 and 14	179,122	66,733
Change in fair value of hedging financial instruments		(19,143)	17,056
Change in fair value of available-for-sale securities		(3,188)	8,368
Tax relating to the change in fair value of hedging financial instruments		6,296	(5,291)
Tax attributable to the change in fair value of available-for-sale securities		100	-
Items that may be reclassified subsequently to profit or loss		**163,187**	**86,866**
OTHER COMPREHENSIVE INCOME/(LOSS) (NET OF TAX)		**141,900**	**113,379**
TOTAL COMPREHENSIVE INCOME/(LOSS)		**302,511**	**(167,294)**
Attributable to non-controlling interests		20,167	25,117
Group share		**282,344**	**(192,411)**

Statement of changes in equity, Group share

In € thousand	Capital	Additional paid-in capital	Consolidated reserves	Foreign currency translation reserve	Reserves – changes in fair value of financial instruments – net of tax	Treasury shares	Net income or loss for the period	Total equity, Group share	Non-controlling interests	Total equity
POSITION AS AT 31 DECEMBER 2013	**256,319**	**929,055**	**3,706,223**	**(525,400)**	**27,584**	**(55,129)**	**261,860**	**4,600,512**	**385,431**	**4,985,943**
Change in foreign currency translation reserve	-	-	-	174,479	-	-	-	174,479	-	174,479
Actuarial gains and losses on retirement commitments	-	-	(20,632)	-	-	-	-	(20,632)	(655)	(21,287)
Financial instruments					(15,776)			(15,776)	(159)	(15,935)
Other comprehensive income/(loss)	-	-	*(20,632)*	*174,479*	*(15,776)*	-	-	*138,071*	*3,829*	*141,900*
HY 2014 net income/(loss)							**144,273**	**144,273**	**16,338**	**160,611**
Comprehensive Income/(loss)	-	-	*(20,632)*	*174,479*	*(15,776)*	-	*144,273*	*282,344*	*20,167*	*302,511*
Appropriation of 2013 net income/(loss)	-	-	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 JUNE 2014	**257,356**	**946,520**	**3,839,326**	**(350,921)**	**12,357**	**(35,037)**	**144,273**	**4,813,874**	**372,726**	**5,186,600**
POSITION AS AT 31 DECEMBER 2014	**261,196**	**991,846**	**3,823,895**	**(287,704)**	**(64,507)**	**(57,773)**	**(923,594)**	**3,743,359**	**426,253**	**4,169,612**
Change in foreign currency translation reserve	-	-	-	36,553	-	-	-	36,553	30,180	66,733
Actuarial gains and losses on retirement commitments	-	-	25,951	-	-	-	-	25,951	562	26,513
Financial instruments	-	-	-	-	20,182	-	-	20,182	(49)	20,133
Other comprehensive income/(loss)	-	-	*25,951*	*36,553*	*20,182*	-	-	*82,686*	*30,693*	*113,379*
HY 2015 net income/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**(275,097)**	**(275,097)**	**(5,576)**	**(280,673)**
Comprehensive Income/(loss)	-	-	*25,951*	*36,553*	*20,182*	-	*(275,097)*	*(192,411)*	*25,117*	*(167,294)*
Appropriation of 2014 net income/(loss)	-	-	(923,594)	-	-	-	923,594	-	-	-
Change in share capital and additional paid-in capital	-	-	-	-	-	-	-	-	-	-
Change in treasury shares	-	-	(2,248)	-	-	(4,884)	-	(7,132)	-	(7,132)
Dividends paid [(a)]	6,181	53,774	(104,124)	-	-	-	-	(44,169)	(25,080)	(69,249)
Share-based payments	-	-	2,845	-	-	-	-	2,845	-	2,845
Changes in consolidation scope and other	-	-	15,649	-	880	-	-	16,529	(20,443)	(3,914)
POSITION AS AT 30 JUNE 2015	**267,377**	**1,045,620**	**2,838,374**	**(251,151)**	**(43,445)**	**(62,657)**	**(275,097)**	**3,519,021**	**405,847**	**3,924,868**

(a) Amounts net of €2.3 million cash payment.

Statement of changes in non-controlling interests

In € thousand	Consolidated reserves	Foreign currency translation reserve	Reserves – changes in fair value of financial instruments – net of tax	Net income or loss for the period	Non-controlling interests
POSITION AS AT 31 DECEMBER 2013	**361,407**	**(13,855)**	**889**	**36,990**	**385,431**
Change in foreign currency translation reserve	-	4,643	-	-	4,643
Actuarial gains and losses on retirement commitments	(655)	-	-	-	(655)
Financial instruments	-	-	(159)	-	(159)
Other comprehensive income/(loss)	*(655)*	*4,643*	*(159)*	-	*3,829*
HY 2014 net income/(loss)	**-**	**-**	**-**	**16,338**	**16,338**
Comprehensive Income/(loss)	*(655)*	*4,643*	*(159)*	*16,338*	*20,167*
Appropriation of 2013 net income/(loss)	36,990	-	-	(36,990)	-
Dividends paid	(33,134)	-	-	-	(33,134)
Changes in consolidation scope and other	262	-	-	-	262
POSITION AS AT 30 JUNE 2014	**364,870**	**(9,212)**	**730**	**16,338**	**372,726**
POSITION AS AT 31 DECEMBER 2014	**342,219**	**37,548**	**839**	**45,647**	**426,253**
Change in foreign currency translation reserve	-	30,180	-	-	30,180
Actuarial gains and losses on retirement commitments	562	-	-	-	562
Financial instruments	-	-	(49)	-	(49)
Other comprehensive income/(loss)	*562*	*30,180*	*(49)*	-	*30,693*
HY 2015 net income/(loss)	**-**	**-**	**-**	**(5,576)**	**(5,576)**
Comprehensive Income/(loss)	*562*	*30,180*	*(49)*	*(5,576)*	*25,117*
Appropriation of 2014 net income/(loss)	45,647	-	-	(45,647)	-
Dividends paid	(25,080)	-	-	-	(25,080)
Changes in consolidation scope and other	(18,917)	(1,526)	-	-	(20,443)
POSITION AS AT 30 JUNE 2015	**344,431**	**66,202**	**790**	**(5,576)**	**405,847**

Statement of cash flows

In € thousand	H1 2014	H1 2015
Consolidated net income (including non-controlling interests)	**160,611**	**(280,673)**
› Net amortization, depreciation and provisions	220,634	298,114
› Unrealized gains and losses linked to changes in fair value	(19,031)	(1,475)
› Income and expenses linked to share options and equivalent	7,278	2,845
› Capital gains and losses on disposals	494	1,483
› Share of net income in associates	(599)	264
› Dividends reclassified as cash flows from investing activities	-	(869)
Cash flow from operating activities after net financial cost and taxes	**369,387**	**19,689**
› Net financial cost	41,349	37,867
› Tax expense (including deferred taxes)	73,878	14,744
Cash flow from operating activities before net financial cost and taxes	**484,614**	**72,300**
› Interest paid	(63,069)	(59,502)
› Tax paid	(82,695)	(53,929)
› Interest received	21,721	21,635
Cash flow from operating activities	**360,571**	**(19,496)**
› Change in operating working capital requirements	(185,276)	110,890
NET CASH FLOW FROM OPERATING ACTIVITIES (1)	**175,295**	**91,394**
› Cash outflows for acquisitions of property, plant and equipment and intangible assets	(125,972)	(81,193)
› Cash outflows for acquisitions of biological assets	(12,224)	(8,286)
› Cash inflows from disposals of property, plant and equipment and intangible assets	2,059	-
› Impact of acquisitions (changes in consolidation scope)	-	66
› 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	2,457	(7,546)
NET CASH FLOW FROM (USED IN) INVESTING ACTIVITIES (2)	**(133,680)**	**(96,959)**
› Increase and decrease in equity	-	-
› Dividends paid during the period	-	-
▪ Dividends paid in cash to shareholders in the parent company	(84,778)	(44,165)
▪ Dividends paid to non-controlling interests	(50,982)	(21,395)
› Movements in treasury shares	13,504	(7,132)
› Proceeds drawn from new borrowings	540,920	477,076
› Repayments of borrowings	(215,619)	(522,965)
› Change in percentage interest in controlled companies	-	-
› Other cash flows from financing activities	(3,039)	(46,384)
CASH FLOW FROM FINANCING ACTIVITIES (3)	**200,006**	**(164,965)**
Impact of changes in exchange rates (4)	29,022	15,704
CHANGE IN CASH (1 + 2 + 3 + 4)	**270,643**	**(154,826)**
Opening net cash	**544,347**	**1,108,708**
Closing net cash	**814,990**	**953,882**
Change	270,643	(154,826)

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

Statement of changes in net debt in HY 2015

In € thousand	Notes	31/12/2014	Change	30/06/2015
Gross cash (1)	10	1,146,913	(171,877)	975,036
Bank current accounts in debit and overdrafts (2)	14	38,205	(17,051)	21,154
CASH (3) = (1) - (2)		**1,108,708**	**(154,826)**	**953,882**
Gross financial debt (4)	14	2,655,312	(31,418)	2,623,894
NET FINANCIAL COST = (4) - (3)		**1,546,604**	**123,408**	**1,670,012**

Statement of changes in net debt in HY 2014

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

Abbreviated notes to the consolidated financial statements for the first half of 2015

(In € thousand unless stated otherwise)

A – Consolidation principles

1. Basis of the preparation and presentation of the financial statements

The interim consolidated financial statements as at 30 June 2015, as well as the notes relating thereto were approved by the Vallourec Management Board on 29 July 2015.

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, Vallourec's consolidated financial statements were prepared for the year ended 31 December 2014, in compliance with the International Financial Reporting Standards (IFRS), based on the standards and interpretations applicable at that date.

The interim consolidated financial statements as at 30 June 2015 were prepared based on the current IFRS [1] which were adopted by the European Union, which shall apply to the consolidated annual financial statements as at 31 December 2015, in accordance with the specific provisions of IAS 34 – Interim Financial Reporting.

The purpose of the interim financial statements is to provide shareholders and investors with pertinent information about major events and transactions for the period. This information is notably provided through select notes which aim to explain material changes in the statement of financial position between 31 December 2014 and 30 June 2015, as well as the main operations that contributed to the income (loss) in the first half of 2015. The interim financial statements do not contain 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 2014, which were filed with the *Autorité des Marchés Financiers* (AMF) on 10 April 2015 (they may be consulted on the Company's website at www.vallourec.com).

New mandatory standards

IFRIC 21 – Levies relating to the recording of a liability for fees or taxes due, which was published in May 2013, clarifies a taxable event, recognizing a liability relating to a tax other than income tax when the obligation to pay occurs on a specific date or when a certain business threshold is reached. The recording of these taxes is no longer staggered, but completed as soon as the taxable event occurs. Application of IFRIC 21 had no material impact on the interim consolidated financial statements as at 30 June 2015.

On 24 March 2015, the IFRIC provided an interpretation of IFRS 11 – Joint Arrangements, clarifying the recording of the Group's operations within the framework of joint operations. The application of this interpretation as at 30 June 2015 primarily translates to a €60 million drop in revenue in consideration for purchases, a €165 million drop in non-current assets, in consideration for other provisions and long-term liabilities, and a drop in trade receivables of €33 million, in consideration for trade payables.

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

New standards not applied early

The Group has not opted for early application of any standards or interpretations that will be mandatory for fiscal years beginning on or after 1st January 2016.

The accounting methods and options used in approving the 2015 half-year financial statements could be modified according to changes in IFRS that are adopted by the European Commission between now and 31 December 2015. To date, the Group is still not anticipating, for the close of 2015, any significant change that is likely to be induced by the exposure drafts that are pending or upcoming.

The accounting principles and measurement 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 interim financial statements, and in compliance with IAS 34, certain evaluations, unless otherwise indicated, may rely more on estimates than on annual financial data.

2. General measurement principles

The preparation of the consolidated financial statements in compliance with IFRS requires that Management record assumptions and estimates which affect the amounts of assets and liabilities that appear in the statement of financial position, any assets and liabilities mentioned in the notes, as well as the revenue and expenses in the income statement. The final amounts may differ from the estimates and assumptions used. The main estimates and assumptions are identical to those described in the notes to the consolidated financial statements for the year ended 31 December 2014.

The Group primarily reviewed the following estimates for the end of the first half: the evaluation of property, plant and equipment, intangible assets, goodwill, financial assets, derivative financial instruments, inventories and work in progress, provisions for contingencies and liabilities, biological assets and deferred taxes. Where necessary, tests are performed to measure the sensitivity of these estimates. In the current economic environment, the random nature of certain estimates could become accentuated and make it considerably more difficult to comprehend the Group's economic outlook in order to conduct asset impairment 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 2015, the Group had analyzed the position of the various CGUs, and concluded on the basis of an update of the sensitivity analyses that were conducted in 2014 that there was no sign of an impairment loss as at 30 June 2015.

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

B – Consolidation Scope

The Group has not had any major changes in scope since 31 December 2014.

C – Major Events

During the first half of the year, Vallourec announced the launch of a process targeting:

- the streamlining of its European tube and steel production units. The capacity of the European tube mills would thus be reduced by one third, with the measures planned for this purpose supplementing those that were already announced in 2014;
- the search for a majority partner for the French Saint-Saulve steel mill, in an effort to remedy Vallourec's overcapacity in steel production in Europe;
- reducing its fixed costs Group-wide.

The consequences of the adaptation measures are addressed in Notes 2.3, 15 and 26.

D – Notes to the consolidated financial statements (In € thousand)

NOTE 1 Intangible assets and goodwill

In € thousand	Concessions, patents, licenses and other rights	Other intangible assets	Total intangible assets	Goodwill
GROSS VALUES				
As at 31/12/2014	**99,805**	**494,489**	**594,294**	**550,994**
Acquisitions	109	445	554	-
Disposals	(18)	(601)	(619)	-
Impact of changes in exchange rates	84	32,704	32,788	39,368
Other changes	3,361	5,095	8,456	-
AS AT 30/06/2015	**103,341**	**532,132**	**635,473**	**590,362**
AMORTIZATION AND IMPAIRMENT				
As at 31/12/2014	**(71,420)**	**(356,964)**	**(428,384)**	**(218,776)**
Net amortization expenses for the period	(4,751)	(12,647)	(17,398)	-
Impairment losses (Note 2.3)	-	-	-	-
Disposals	18	601	619	-
Impact of changes in exchange rates	337	(25,655)	(25,318)	(14,474)
Other changes	-	(137)	(137)	-
AS AT 30/06/2015	**(75,816)**	**(394,802)**	**(470,618)**	**(233,250)**
NET VALUES				
As at 31/12/2014	**28,385**	**137,525**	**165,910**	**332,218**
AS AT 30/06/2015	**27,525**	**137,330**	**164,855**	**357,112**

NOTE 2.1 Property, plant and equipment

In € thousand	Land	Buildings	Technical installations, industrial equipment and tools	Assets under construction	Other tangible assets	Total
GROSS VALUES						
As at 31/12/2014	**118,326**	**972,721**	**4,694,984**	**328,406**	**291,808**	**6,406,246**
Acquisitions	-	111	20,393	59,843	(16,014)	64,333
Disposals	(369)	(2,088)	(35,786)	(13)	(3,966)	(42,222)
Impact of changes in exchange rates	(3,257)	12,749	51,511	3,056	(705)	63,354
Other changes	2,404	5,063	76,903	(120,243)	14,110	(21,763)
AS AT 30/06/2015	**117,104**	**988,556**	**4,808,005**	**271,049**	**285,233**	**6,469,948**
DEPRECIATION AND IMPAIRMENT						
As at 31/12/2014	**(27,610)**	**(408,164)**	**(2,298,490)**	**(4,685)**	**(144,048)**	**(2,882,997)**
Net depreciation expenses for period	(662)	(17,713)	(119,023)	(62)	(10,546)	(148,006)
Impairment losses (Note 2.3)	-	-	(9,377)	-	-	(9,377)
Disposals	-	2,025	34,804	-	3,850	40,679
Impact of changes in exchange rates	1,099	527	1,801	(269)	485	3,643
Other changes	-	(2,146)	(5,726)	695	19,613	12,436
AS AT 30/06/2015	**(27,173)**	**(425,471)**	**(2,396,011)**	**(4,321)**	**(130,646)**	**(2,983,622)**
NET VALUES						
As at 31/12/2014	**90,716**	**564,557**	**2,396,494**	**323,721**	**147,760**	**3,523,249**
AS AT 30/06/2015	**89,931**	**563,085**	**2,411,994**	**266,728**	**154,587**	**3,486,326**

On 24 February 2015 Vallourec announced it was seeking a majority partner for the French steel mill in Saint-Saulve (see. § C – Significant events). The steel mill's industrial assets have a net carrying amount of €91 million.

As at 30 June 2015, the discussions with several partners currently focus, in the main, on the assessment of the industrial interest, the operational feasibility, and the economic interest of the activity that will be maintained on the site.

The progress of the discussions does not allow us to estimate a sale value or to confirm at the closure date that the sale of the steel mill is highly probable.

Capital expenditure excluding changes in scope

	31/12/2014		30/06/2015	
In € thousand	Intangible assets and property, plant and equipment	Biological	Intangible assets and property, plant and equipment	Biological (see Note 2.2)
Europe	143,511	-	32,288	-
North America	95,347	-	18,212	-
South America	87,272	19,852	10,639	8,286
Asia	21,503	-	3,314	-
Other	2,352	-	434	-
TOTAL	**349,985**	**19,852**	**64,887**	**8,286**
	369,837		**73,173**	
Note 1: acquisition of intangible assets	4,858	-	554	-
Note 2.1: acquisition of property, plant and equipment	345,127	-	64,333	-
Total industrial capital expenditure	**349,985**	**19,852**	**64,887**	**8,286**
Changes in fixed asset liabilities and partner contributions	18,343	-	16,306	-
TOTAL	**368,328**	**19,852**	**81,193**	**8,286**
Statement of cash flows: capital expenditure paid out during the period:	388,180		89,479	

NOTE 2.2 Biological assets

Change in biological assets *In € thousand*	Total
As at 31/12/2014	**213,923**
Investments	8,286
Changes due to remeasurement	2,891
Net depreciation expenses for the period	(6,520)
Impairment losses (Note 2.3)	(8 107)
Reclassification to inventory	(5,074)
Foreign exchange differences	(14,971)
AS AT 30/06/2015	**190,428**

NOTE 2.3 Impairment testing

In addition to the systematic annual tests on the CGU including goodwill, at each reporting date the Group performs one-off tests in case of indications of impairment on a CGU or an isolated asset. As at 30 June 2015, the impairment indications were identified on isolated property, plant and equipment mainly in certain European steel tube production units and led to impairment of €7.4 million. With regard to the Vallourec Europe and VSB CGUs that recorded significant impairment in 2014 and after examining all the information at its disposal, including the change since 31 December 2014 in the price of Brent crude, the discount rates, and the EUR/USD exchange rate, the Group concluded that the CGU carrying amounts were not greater than their recoverable amount.

An impairment of €8 million was also recognized on the isolated biological assets.

NOTE 3 Associates

The Group's main associates (individual carrying amount greater than €50 million) are listed below.

In € thousand	HKM	Tianda Oil Pipe	Others	Total
Activity	Steel mill	Tube manufacturing		
Business location	Germany	China		
As at 31/12/2014	**76,688**	**57,446**	**49,991**	**184,125**
Capital increase	-	-	3,641	3,641
Impact of changes in exchange rates	-	4,963	3,765	8,728
Dividends paid	(6)	-	(1,791)	(1,797)
Other	-	-	-	-
Contribution to net income of the period	-	395	(659)	(264)
AS AT 30/06/2015	**76,682**	**62,804**	**54,947**	**194,433**

NOTE 4 Other non-current assets

In € thousand	Other investments in equity instruments	Loans	Other financial assets	Other	Total
As at 31/12/2014	**72,709**	**6,713**	**41,267**	**314,375**	**435,064**
Gross value	83,798	6,740	42,396	150,445	283,379
Provisions	(1,091)	-	(282)	-	(1,373)
AS AT 30/06/2015	**82,707**	**6,740**	**42,114**	**150,445**	**282,006**

As at 30 June 2015, available-for-sale equity securities related almost exclusively to Nippon Steel & Sumitomo Metal Corp., listed on the Tokyo Stock Exchange.

As at 30 June 2015, the fair value of these shares, based on their NAV of €80.4 million, showed a loss of €1.5 million recognized in equity. For the record, the NAV of these shares as at 31 December 2014 was €71.9 million and generated a loss of €10 million recognized in equity.

Other financial investments consist mainly of interest-bearing security deposits, particularly paid in connection with tax disputes in Brazil (€26 million as at 30 June 2015; see also Note 15).

Other non-current assets consist mainly of €149 million in deferred tax receivables in Brazil and the United States.

The impact of the application of the Amendment to IFRS 11 translates to a €165 million drop in non-current assets, in consideration for other provisions and long-term liabilities.

MATURITIES OF OTHER NON-CURRENT ASSETS

As at 30/06/2015 *In € thousand*	1 to 5 years	5 years or more	Total
Loans	4,673	2,067	6,740
Other investments in equity instruments	-	83,798	83,798
Other financial assets	141,061	51,780	192,841
TOTAL	**145,734**	**137,645**	**283,379**

NOTE 5 Deferred taxes

In € thousand	31/12/2014	30/06/2015
Deferred tax assets	223,102	206,797
Deferred tax liabilities	256,246	254,255
NET DEFERRED TAX ASSETS/(DEFERRED TAX LIABILITIES)	**(33,144)**	**(47,458)**

Changes in deferred taxes are broken down as follows:

Net deferred tax assets/(liabilities) *In € thousand*	H1 2015
AS AT 1 JANUARY 2015	**(33,144)**
Impact of changes in exchange rates	(17,558)
Recognized in net income	17,788
Recognized in reserves	(14,138)
Changes in scope and other	(406)
AS AT 30 JUNE 2015	**(47,458)**

The amount of the deferred tax relating to tax loss carryforwards that was not recognized was €274 million at 30 June 2015. It mainly concerns the unrecognized deferred tax at 31 December 2014 (€176 million), supplemented by the non-recognition of deferred tax assets relating to the tax loss carryforwards of €98 million for the half year.

These analyses are based on the forecasts used in the impairment testing.

NOTE 6 Inventories and work in progress

In € thousand	Raw materials and merchandise	Goods in production	Intermediate and finished goods	Total
GROSS VALUES				
As at 31/12/2014	**555,308**	**612,725**	**495,428**	**1,663,461**
Changes in inventories recognized in the income statement	(29,147)	(48,301)	(9,186)	(86,634)
Impact of changes in exchange rates	5,369	34,803	(5,029)	35,143
Other changes	5,597	(1)	(520)	5,076
AS AT 30/06/2015	**537,127**	**599,226**	**480,693**	**1,617,046**
IMPAIRMENT				
As at 31/12/2014	**(89,206)**	**(25,799)**	**(58,425)**	**(173,430)**
Impact of changes in exchange rates	(562)	(1,262)	259	(1,565)
Allowances	(5,903)	(9,519)	(27,074)	(42,496)
Reversals of provisions	12,962	11,148	19,138	43,248
Other changes	141	-	(141)	-
AS AT 30/06/2015	**(82,568)**	**(25,432)**	**(66,243)**	**(174,243)**
NET VALUES				
As at 31/12/2014	**466,102**	**586,926**	**437,003**	**1,490,031**
AS AT 30/06/2015	**454,559**	**573,794**	**414,450**	**1,442,803**

NOTE 7 Trade and other receivables

In € thousand	Advances and partial payments on orders	Trade and other receivables (gross)	Provisions for impairment	Total
As at 31/12/2014	**35,471**	**1,128,838**	**(18,655)**	**1,145,654**
Impact of changes in exchange rates	(1,384)	28,896	(216)	27,296
Changes in gross values	(9,451)	(233,963)	-	(243,414)
Increase in provisions	-	-	(9,385)	(9,385)
Reversals of provisions	-	-	7,781	7,781
Other changes	-	(33,091)	-	(33,091)
AS AT 30/06/2015	**24,636**	**890,680**	**(20,475)**	**894,841**

The impact of the application of the IFRS11 Amendment led to a €33 million drop in trade receivables in consideration for trade payables.

NOTE 8 Financial instruments

FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are measured and presented in the statement of financial position in accordance with the various categories specified by IAS 39.

IMPACT OF IAS 32 AND IAS 39 ON EQUITY AND NET INCOME

From a net liability position of -€145.1 million as at 31 December 2014, hedging assets moved to a net liability position of -€179.8 million as at 30 June 2015.

Fluctuations in the euro against the US dollar in H1 2015 accounted for most of the €16.5 million change in the intrinsic value of hedges of forecast sales and purchases in foreign currencies and the -€15.4 million change in the intrinsic value of hedges of foreign currency receivables and payables.

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.

Statement of financial position items *In € thousand*	As at 31/12/2014	As at 30/06/2015	Changes in H1 2015		
			Total	Reserves	Net Income
1 - Derivatives [(a)]					
Changes in the intrinsic value of forward sales of currencies and forward purchases [(b)] associated with order books and commercial tenders	(71,636)	(55,117)	16,519	18,027	(1,508)
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with trade receivables (and accounts payable [(b)])	(55,329)	(70,718)	(15,389)	-	(15,389)
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with financial receivables (and financial payables)	(29,459)	(59,253)	(29,794)	-	(29,794)
Recognition of premium/discount	9,077	3,325	(5,752)	(727)	(5,025)
Recognition of changes in fair value of interest rate swaps	-	-	-	-	-
Changes in values linked to hedging instruments set up under employee share ownership schemes	2,259	1,975	(284)	16	(300)
SUBTOTAL: DERIVATIVES	**(145,088)**	**(179,788)**	**(34,700)**	**17,316**	**(52,016)**
› of which derivatives – assets	28,211	26,354	-	-	-
› of which derivatives – liabilities	173,300	206,142	-	-	-
2 - Receivables (payables) hedged in currencies – translation gain/loss					
Measurement as at the reporting date exchange rate (trade payables and accounts receivable [(b)])	52,584	57,021	4,437	-	4,437
Measurement as at the reporting date exchange rate (financial liabilities and accounts receivable [(b)])	30,529	68,399	37,870	-	37,870
Impact of hedging Transactions	**(61,975)**	**(54,368)**	**7,607**	**17,316**	**(9,709)**
3 - Measurement of other investments in equity instruments at fair value	**(6,321)**	**2,357**	**8,678**	**8,678**	-
TOTAL	**(68,296)**	**(52,011)**	**16,285**	**25,994**	**(9,709)**

(a) Assets and liabilities offset in this table: + = asset, ( ) = liability.

(b) Non-significant amounts.

The change in the fair value of financial instruments hedging foreign exchange risk, which affected equity as at 31 December 2014, was -€71.6 million. In the first half of 2015, around 64% of the positive change in fair value attached to the order book and commercial tenders at the end of 2014 was transferred from equity to the statement of comprehensive income, under “translation gain/loss”. This amount represents the impact of the changes in value of foreign exchange hedges for the order book and commercial tenders as at 31 December 2014, which were fully or partially unwound or converted into receivables during the first half of 2015.

This corresponds mainly to the hedges of receivables in US dollars, which represent over 65% of the hedges with an impact on equity as at 31 December 2014.

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 risk

Management of medium- and long-term financing within the euro zone is centralized at Vallourec and the sub-holding company Vallourec Tubes.

Total liabilities

31/12/2014 *In € thousand*	Other borrowings	Cash
Fixed rate on date granted	2,186,145	-
Variable rate on date granted swapped to fixed rate	-	-
Fixed rate	**2,186,145**	**-**
Variable rate	**507,372**	**1,146,913**
TOTAL	**2,693,517**	**1,146,913**

30/06/2015 *In € thousand*	Other borrowings	Cash
Fixed rate on date granted	2,256,478	-
Variable rate on date granted swapped to fixed rate	-	-
Fixed rate	**2,256,478**	-
Variable rate	**388,570**	**975,036**
TOTAL	**2,645,048**	**975,036**

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

The amount of loans with fixed rates on the dates granted primarily consists of bonds and commercial paper issued by Vallourec:

- on 7 December 2011, a €650 million bond issue, maturing in February 2017, with a fixed annual coupon of 4.25%;
- in August 2012, two long-term private bond issues for a total of €455 million. The amounts and terms of these two private bond issues are €400 million for seven years with an annual coupon of 3.25% for one, and €55 million for 15 years with an annual coupon of 4.125%;
- on 30 September 2014, a €500 million bond issue, maturing in September 2024, with a fixed annual coupon of 2.25%;
- outstanding commercial paper in the amount of €161 million.

Furthermore, in December 2009, Vallourec & Sumitomo Tubos do Brasil, which is 56% owned by the Group, took out a loan with BNDES *(Banco National de Desenvolvimento Econômico e Social)*. As at 30 June 2015, BRL 136 million of this loan, at a fixed rate of 4.5%, had been drawn. Vallourec & Sumitomo Tubos do Brasil also concluded a fixed-rate finance lease in 2010.

As at 30 June 2015, financial debt exposed to changes in variable interest rates was €389 million (about 15% of total debt).

No significant line of fixed rate financing will reach contractual maturity during the 12 months after 30 June 2015, except for:

- €161 million in outstanding commercial paper maturing in more than one year;
- €283 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 short-term rates in the euro zone, on Brazilian and Chinese rates and UK and US money market rates would result in a €5.4 million increase in the Group's annual financial expenses, based on an assumption of complete stability of the financial liabilities and constant exchange rates, and after taking into account the effects of any hedging instruments. This impact does not take into account the interest rate risk on commercial paper with a more than one year maturity or on short-term cash investments (of no more than three months).

Foreign currency translation risk

The assets, liabilities, revenues and expenses of the Group's subsidiaries are expressed in various currencies. The Group's financial statements are presented in euros. The assets, liabilities, revenues and expenses 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 the value of the euro may have an impact on the value in euros of the assets, liabilities, revenues and costs not denominated in euros, even if the value of these items in their original currency has not changed.

As at 30 June 2015, 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 €2 million.

In addition, the Group's sensitivity to long-term foreign rate risk is reflected in the changes that have occurred in recent years in the foreign currency translation reserves booked to equity (-€251.2 million as at 30 June 2015) which, in recent years, have been linked mainly to movements in the US dollar and Brazilian real.

Foreign currency translation reserve – Group share *In € thousand*	**31/12/2014**	**30/06/2015**
USD	158,184	290,711
GBP	(8,728)	(4,001)
Brazilian real (BRL)	(479,818)	(587,327)
Chinese yuan (CNY)	50,497	65,861
Other	(7,839)	(16,395)
TOTAL	**(287,704)**	**(251,151)**

Transaction risk

The Group is subject to exchange rate risks due to its business exposure linked to sales and purchase transactions entered into by some of its subsidiaries in currencies other than their functional currency.

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 2015) are invoiced in US dollars by companies whose functional currency is not the US dollar.

Exchange rate fluctuations between the euro, the Brazilian real (BRL) 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 sales prices denominated in US dollars, which is related to market conditions in the various sectors of activity in which Vallourec operates;
2. certain sales and purchases, even though they are denominated in euros or Brazilian reals, are influenced by the level of the US dollar. They are therefore indirectly and at some time in the future affected by movements in the US currency.

The Group actively manages its exposure to 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 and 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 €93 million decrease or increase in the intrinsic value recognized in consolidated equity at 30 June 2015. 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 Vallourec Group has developed its cash management and invoicing systems to facilitate the traceability of hedged transactions throughout the duration of the hedging instruments.

As at 30 June 2015, the following amounts were outstanding under forward foreign exchange contracts to hedge purchases and sales denominated in foreign currencies:

Hedging contracts with regard to commercial transactions – Exchange rate risk *In € thousand*	**As at 31/12/2014**	**As at 30/06/2015**
Forward exchange contract: forward sales	1,622,654	1,354,441
Forward exchange contract: forward purchases	143,360	94,465
Currency options: sales	-	-
Currency options: purchases	-	-
Raw materials and energy: call options	-	-
TOTAL	**1,766,014**	**1,448,906**

Contract maturities as at 30 June 2015

Contracts on commercial transactions *In € thousand*	**Total**	**< 1 year**	**1 to 5 years**	**> 5 years**
Forward exchange contracts: forward sales	1,354,441	1,275,592	78,849	-
Forward exchange contracts: forward purchases	94,465	91,409	3,056	-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Raw materials and energy: call options	-	-	-	-
TOTAL	**1,448,906**	**1,367,001**	**81,905**	**-**

Forward sales correspond mainly to sales of US dollars (€1,354 million of the €1,449 million total). These contracts were transacted at an average forward EUR/USD rate of 1.23 and an average forward USD/BRL rate of 2.75.

In 2015, as in 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:

- since 2011, forward sales for USD 372.2 million (€274.2 million) and for CNY 162.8 million (€19.2 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 2015 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 statement of financial position (foreign currency translation risks).

Credit risks

Vallourec is subject to credit risk on financial assets for which no impairment provision has been made and for which non-recovery could affect the Company's results and financial position.

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

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

1. 1% building loans granted to the Group's employees: these loans do not expose the Group to any credit risk since the full amount of the loan is written off as soon as there is any delay in the collection of the amounts due. It should be noted that these loans are determined according to the effective interest rate method applied to the expected cash flows until the maturity dates of these loans (the contract interest rates may be lower).
2. Security deposits and tax receivables due to the Group in Brazil: there is no specific risk with respect to these receivables, even if the outcome of the disputes is unfavorable, since the risk has already been assessed and a provision recognized for these receivables, and the funds have already been paid in full or in part.
3. The Group's policy on the impairment of trade 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 as at 30 June 2015 there is no reason to assume that there is any risk in respect of receivables for which no provision has been made and which are less than 90 days overdue. Trade receivables more than 90 days past due and not impaired amounted to €86.5 million at 30 June 2015, i.e. 9.9% 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.

Vallourec remains subject to country risk which could impact the payment of some of its receivables.

In addition, as at 30 June 2015, trade receivables not yet due amounted to €617.4 million, i.e. 70.9% of total net trade receivables.

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

As at 30/06/2015 *In € million*	**0 to 30 days**	**30 to 60 days**	**60 to 90 days**	**90 to 180 days**	**> 180 days**	**Total**
Trade receivables outstanding	404.0	146.4	38.1	18.1	10.8	617.4

4. As concerns the derivatives that have a positive fair value, the Group only deals with first-rate counterparties. The credit risk is considered to be insignificant.

Equity risk

Treasury shares held by Vallourec as at 30 June 2015 include:

Shares allocated to various share ownership plans for some of the Group's employees, executive management and corporate officers.

In this context, Vallourec holds:

- 45,346 treasury shares acquired 5 July 2001, after the definitive allocation of 73,985 shares in 2011, 3,680 shares in 2012, 67,172 shares in 2013 and 66,727 shares in 2014 and 409 shares in 2015 under the various performance share plans;
- 3,094 treasury shares acquired in 2008 after the definitive allocation of 26,844 shares in 2011, 70,050 shares in 2013 and 12 shares in 2014, under the various performance share plans;
- 159,816 treasury shares acquired in 2011 under the share buyback plan of 7 July 2011, upon the definitive allocation of 27,534 shares in 2012, 86,377 shares in 2013, 91,929 shares in 2014, and 34,344 shares in 2015 under the various performance share plans;
- 305,400 treasury shares acquired in 2012 under the share buyback plan of 31 May 2012, upon the definitive allocation of 94,600 shares in 2014, under the various performance share plans;
- 300,000 treasury shares acquired in 2014.

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

Additionally, Vallourec signed a liquidity contract with Rothschild & Cie Banque in 2012. It was implemented under the annual general authorization for the share buyback program approved by the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014 (fourteenth resolution).

On 8 April 2014, Vallourec committed to a supplementary contribution of €12.5 million, €5 million of which were paid at the end of 2014 in order to allow Rothschild & Cie Banque to ensure its continued participation under the contract.

As at 30 June 2015, the liquidity account at Rothschild & Cie Banque comprised the following:

- 1,260,000 shares with a value of €23 million;
- €2,768,050.

Classification and measurement of financial assets and liabilities

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

30/06/2015 *In € thousand*	Notes	Category [(a)]	Gross value at 30/06/2015	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed equity interests		AFS	80,358	-	80,358	-
Other equity interests		AFS	3,440	-	3,440	-
Loans		L&R	6,740	6,740	-	-
Other financial assets		L&R/AHM [(b)]	42,396	42,396	-	-
Trade and other receivables	**7**	**L&R**	**890,680**	**890,680**	**-**	**-**
Derivatives – assets	**8**					
Hedging financial instruments		CFH	8,825	-	8,825	-
Hedging financial instruments [(f)]		A-FVTPL	17,529	-	-	17,529
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	**9**	**L&R**	**325,145**	**325,145**	**-**	**-**
Cash and cash equivalents	**10**	**A-FVTPL**	**975,036**	**-**	**-**	**975,036**
LIABILITIES						
Bank loans and other borrowings [(c) (e)]	**14**	**AC-EIR**	**556,122**	**556,122**	**-**	**-**
Other	**14**	**AC-EIR**	**377,155**	**377,155**	**-**	**-**
Finance leases	**14**	**AC-EIR**	**93,827**	**93,827**	**-**	**-**
Bond issues	**14**	**AC-EIR**	**1,596,790**	**1,596,790**	**-**	**-**
Overdrafts and other short-term borrowings [(d) (e)]	**14**	**AC-EIR**	**21,154**	**21,154**	**-**	**-**
Trade and other payables		**AC**	**555,205**	**555,205**	**-**	**-**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	61,386	-	61,386	-
Hedging financial instruments		L-FVTPL	144,755	-	-	144,755
Speculative financial instruments		L-FVTPL	-	-	-	-
Other current liabilities	**18**	**AC**	**404,187**	**404,187**	**-**	**-**

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

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

(c) Borrowings classified within non-current liabilities maturing 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 10, Value 11, Value 12, Value 13 and Value 14 warrants, whose fair value as at 30 June 2015 was €2.0 million.

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

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

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

			Fair value		
30/06/2015 Statement of financial position headings and classes of instruments *In € thousand*	**Category**	**Total fair value on statement of financial position**	**Listed prices (A)**	**Internal model with observable inputs (B)**	**Internal model with unobservable inputs**
ASSETS					
Listed equity interests	AFS	80,358	80,358	-	-
Other equity interests	AFS	3,440	-	3,440	-
Derivatives – assets					
Hedging financial instruments	CFH	8,825	-	8,825	-
Speculative financial instruments	L-FVTPL	-	-	-	-
Cash and cash equivalents	**A-FVTPL**	**975,036**	**975,036**	**-**	**-**
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	61,386	-	61,386	-
Speculative financial instruments	L-FVTPL		-		-

31/12/2014 *In € thousand*	Notes	Category [a]	Gross value at 31/12/2014	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed equity interests		AFS	71,869	-	71,869	-
Other equity interests		AFS	2,016	-	2,016	-
Loans		L&R	6,713	6,713	-	-
Other financial assets		L&R/AHM [b]	41,571	41,571	-	-
Trade and other receivables	**7**	**L&R**	**1,128,838**	**1,128,838**	**-**	**-**
Derivatives – assets	**8**					
Hedging financial instruments		CFH	8,060	-	8,060	-
Hedging financial instruments [f]		A-FVTPL	20,151	-	-	20,151
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	**9**	**L&R**	**343,155**	**343,155**	**-**	**-**
Cash and cash equivalents	**10**	**A-FVTPL**	**1,146,913**	**-**	**-**	**1,146,913**
LIABILITIES						
Bank loans and other borrowings [c] [e]	**14**	**AC-EIR**	**318,784**	**318,784**	**-**	**-**
Other	**14**	**AC-EIR**	**639,291**	**639,291**	**-**	**-**
Finance leases	**14**	**AC-EIR**	**101,575**	**101,575**	**-**	**-**
Bond issues	**14**	**AC-EIR**	**1,595,662**	**1,595,662**	**-**	**-**
Overdrafts and other short-term borrowings [d] [e]	**14**	**AC-EIR**	**38,205**	**38,205**	**-**	**-**
Trade and other payables		**AC**	**806,856**	**806,856**	**-**	**-**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	78,648	-	78,648	-
Hedging financial instruments		L-FVTPL	94,652	-	-	94,652
Speculative financial instruments		L-FVTPL	-	-	-	-
Other current liabilities	**18**	**AC**	**438,257**	**438,257**	**-**	**-**

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

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

(c) Borrowings classified within non-current liabilities maturing 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 10, Value 11, Value 12, Value 13 and Value 14 warrants, whose fair value as at 31 December 2014 was €2.1 million.

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

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

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

			Fair value		
31/12/2014 Statement of financial position headings and classes of instruments *In € thousand*	**Category**	**Total fair value on statement of financial position**	**Listed prices (A)**	**Internal model with observable inputs (B)**	**Internal model with unobservable inputs**
ASSETS					
Listed equity interests	AFS	71,869	71,869	-	-
Other equity interests	AFS	2,016	-	2,016	-
Derivatives – assets					
Hedging financial instruments	CFH	8,060	-	8,060	-
Speculative financial instruments	L-FVTPL	-	-	-	-
Cash and cash equivalents	**A-FVTPL**	**1,146,913**	**1,146,913**	**-**	**-**
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	173,300	-	173,300	-
Speculative financial instruments	L-FVTPL	-	-	-	-

NOTE 9 Other current assets

In € thousand	Employee-related receivables and recoverable payroll taxes	Tax receivables excluding income tax	Prepaid expenses	Government, income tax	Other receivables	Total
As at 31/12/2014	**5,951**	**105,667**	**50,609**	**44,458**	**136,470**	**343,155**
Impact of changes in exchange rates	(129)	(3,143)	560	(1,648)	(2,112)	(6,472)
Provision allowances or reversals	-	-	-	-	(1,568)	(1,568)
Other changes	4,947	(13,166)	14	(7,397)	5,632	(9,970)
AS AT 30/06/2015	**10,769**	**89,358**	**51,183**	**35,413**	**138,422**	**325,145**

NOTE 10 Cash and cash equivalents

In € thousand	Investment securities (gross)	Cash and cash equivalents	Total
As at 31/12/2014	**806,485**	**340,428**	**1,146,913**
Impact of changes in exchange rates	(22,638)	10,285	(12,353)
Other changes	(63,659)	(95,865)	(159,524)
AS AT 30/06/2015	**720,188**	**254,848**	**975,036**

"Cash and cash equivalents" comprises cash in bank current 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 issued capital is comprised of 133,688,435 ordinary shares with a nominal value of €2 per share, fully paid-up, compared with 130,597,975 as at 31 December 2014.

In accordance with the resolution approved by the General Meeting of Shareholders of Vallourec of 28 May 2015, shareholders were invited to opt for a dividend payment in cash or in shares. The dividend for 2014 was set at €0.81 per share.

This operation resulted in the creation of 3,090,460 newly issued shares at the price of €19.40 per share, for which delivery and listing on Euronext Paris occurred on 25 June 2015. The cash dividend payment of €41.9 million also took place on this date.

RESERVES, FINANCIAL INSTRUMENTS

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

- effective currency hedges assigned to the order book and commercial tenders. Changes in the intrinsic values at the 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

This reserve arises as a result of the translation of the equity of subsidiaries outside the euro zone. 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.

In € thousand	USD	GBP	BRL	CNY	Other	Total
As at 31/12/2014	**158,184**	**(8,728)**	**(479,818)**	**50,497**	**(7,839)**	**(287,704)**
Change	132,527	4,727	(107,509)	15,364	(8,556)	36,553
AS AT 30/06/2015	**290,711**	**(4,001)**	**(587,327)**	**65,861**	**(16,395)**	**(251,151)**

Main exchange rates used (euro/currency): translation of statement of financial position items (reporting date rate) and income statement items (average rate)

	USD	GBP	BRL	CNY
31/12/2014				
Average rate	1.33	0.81	3.12	8.19
Reporting date rate	1.21	0.78	3.22	7.54
H1 2015				
Average rate	1.12	0.73	3.31	6.94
Reporting date rate	1.12	0.71	3.47	6.94

NOTE 12 Earnings per share

Basic earnings per share are calculated by dividing the net income for the year 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 year 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	2014	H1 2015
Net income (loss) attributable to ordinary shareholders for basic earnings per share	**(923,594)**	**(275,097)**
Weighted average number of ordinary shares for basic earnings per share	128,141,863	130,613,382
Weighted average number of treasury shares for basic earnings per share	(821,193)	(410,456)
Weighted average number of shares for earnings per share	127,320,670	130,202,926
EARNINGS PER SHARE *(IN €)*	**(7.3)**	**(2.1)**
Dilution effect – share purchase and subscription options and performance shares		
Weighted average number of ordinary shares for diluted earnings per share	127,320,670	130,202,926
DILUTED EARNINGS PER SHARE *(IN €)*	**(7.3)**	**(2.1)**

Dividends paid during the year	2014	H1 2015
› for the previous fiscal year (in €)	0.81	0.81

NOTE 13 Non-controlling interests

In € thousand	Reserves	Translation difference	Net income	Total
As at 31/12/2014	343,058	37,548	45,647	426,253
AS AT 30/06/2015	**345,221**	**66,202**	**(5,576)**	**405,847**

NOTE 14 Bank loans and other borrowings

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 (see below).

Market financing is arranged exclusively by Vallourec SA.

In Europe

In February 2014, Vallourec took out 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. The first one year extension was granted for a total of €1,078 billion, the new maturity date is 2020. It replaced the €1 billion credit facility due to expire in February 2016. In addition, Vallourec agreed a bilateral line of €90 million until February 2019 with two one-year extension options. As at 30 June 2015, these facilities are not drawn.

In addition to the financing put in place by Vallourec SA, Vallourec Tubes has six medium-term bilateral lines of €100 million each, maturing in July 2017. As at 30 June 2015, none of these six lines were drawn down.

Each of these bank facilities requires Vallourec to maintain its consolidated net debt-to-equity ratio at no more than 75%, calculated as 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 bank financing, the Group has sought to diversify its funding sources by using market financing. 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.

At 30 June 2015, Vallourec had an outstanding of €161 million for maturities of up to one year. This commercial paper program is rated B by Standard & Poor's.

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 bonds totaling €455 million. The amounts and terms of these two private bond issues 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%.

On 30 September 2014, Vallourec issued an initial €500 million bond, maturing in September 2024, with a fixed annual coupon of 2.25%.

The market values of these fixed-rate bond issues are €669.9 million, €417.3 million, €59.8 million and €504.4 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 prepayment 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 2015, the Group complied with its covenants and the terms and conditions for obtaining and maintaining all of the above facilities. Together, the above resources were sufficient to cover the Group's cash requirements as at 30 June 2015.

In Brazil

In December 2009, Vallourec & Sumitomo Tubos do Brasil, which is 56% owned by the Group, contracted a loan of BRL 448.8 million from BNDES (Banco Nacional de Desenvolvimento Econômico e Social). This fixed-rate loan at 4.5% is denominated in Brazilian reals and has a term of eight years. It is amortizable from 15 February 2012. BRL 135.8 million of this loan has been used as at 30 June 2015.

In 2010, this same company in Brazil concluded a finance lease with a nominal value of BRL 570 million relating to equipment needed to operate the plant at Jeceaba. As at 30 June 2015, the residual amount outstanding on this finance lease was BRL 375.1 million.

In the United States

The Group's US companies have a set of bilateral bank lines that were renewed in 2014 for a total of USD 340 million. As at 30 June 2015, USD 145.5 million had been used. These one-year facilities 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 2015, the residual amount outstanding on this finance lease was USD 47.3 million.

FINANCIAL LIABILITIES – NON-CURRENT LIABILITIES

In € thousand	Bank borrowings	Finance leases	Bond issues	Other financial liabilities	Total
As at 31/12/2014	**84,303**	**101,575**	**1,595,662**	**333**	**1,781,873**
New debt	13,098	-	1,128	224	14,450
Repayments	(5,281)	(6,273)	-	(3)	(11,557)
Impact of changes in exchange rates	(5,780)	(1,288)	-	-	(7,068)
Other changes	-	(187)	-	484	297
AS AT 30/06/2015	**86,340**	**93,827**	**1,596,790**	**1,038**	**1,777,995**

FINANCIAL LIABILITIES – CURRENT LIABILITIES

In € thousand	Bank overdrafts	Accrued interest on bank overdrafts	Bank borrowings (< 1 year)	Accrued interest on bank borrowings	Other financial liabilities (< 1 year)	Total
As at 31/12/2014	**38,195**	**10**	**234,481**	**33,656**	**605,302**	**911,644**
Reclassifications	-	-	-	-	4,000	4,000
Impact of changes in exchange rates	2,258	-	(2,661)	24	(15,672)	(16,051)
Other changes	(19,299)	(10)	237,962	(747)	(250,446)	(32,540)
AS AT 30/06/2015	**21,154**	**-**	**469,782**	**32,933**	**343,184**	**867,053**

DEBT BY CURRENCY

	USD	EUR	BRL	Other	Total
As at 31/12/2014 *(in thousands of currency unit)*	556,832	1,950,411	725,308	n/a	n/a
As at 31/12/2014 *(in € thousand)*	458,638	1,950,411	225,202	59,266	2,693,517
As at 30/06/2015 *(in thousands of currency unit)*	**411,387**	**1,805,896**	**1,481,783**	**n/a**	**n/a**
AS AT 30/06/2015 *(IN € THOUSAND)*	**367,671**	**1,805,896**	**427,039**	**44,442**	**2,645,048**

BREAKDOWN BY MATURITY OF NON-CURRENT LOANS AND OTHER FINANCIAL LIABILITIES (> 1 YEAR)

In € thousand	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
As at 31/12/2014	**35,732**	**676,982**	**42,579**	**413,453**	**613,127**	**1,781,873**
Finance leases	12,938	34,517	5,994	5,995	34,383	93,827
Other non-current financial liabilities	671,111	12,973	14,204	408,290	577,590	1,684,168
AS AT 30/06/2015	**684,049**	**47,490**	**20,198**	**414,285**	**611,973**	**1,777,995**

BREAKDOWN BY MATURITY OF CURRENT LOANS AND OTHER FINANCIAL LIABILITIES

In € thousand	< 3 months	> 3 months and < 1 year	Total
Bank borrowings	24,283	210,199	234,482
Other borrowings	105,388	486,735	592,123
Finance lease liabilities	1,165	12,013	13,178
Accrued interest on borrowings	24,437	9,219	33,656
Bank overdrafts (negative cash and cash equivalents)	38,205	-	38,205
As at 31/12/2014	**193,478**	**718,166**	**911,644**
Bank borrowings	309,871	159,911	469,782
Other borrowings	214,814	115,426	330,240
Finance lease liabilities	1,749	11,195	12,944
Accrued interest on borrowings	14,226	18,707	32,933
Bank overdrafts (negative cash and cash equivalents)	20,225	929	21,154
AS AT 30/06/2015	**560,885**	**306,168**	**867,053**

DEBT BY INTEREST RATE

The following table groups the current and non-current portions of bank and other financial liabilities.

In € thousand	Rate < 3%	Rate 3 to 6%	Rate 6 to 10%	Rate < 10%	Total
As at 31/12/2014					
Fixed rate on date granted	829,822	1,320,029	36,294	-	2,186,145
Variable rate on date granted swapped to fixed rate	-	-	-	-	-
Fixed rate	829,822	1,320,029	36,294	-	2,186,145
Variable rate	471,264	1,799	26,642	7,667	507,372
TOTAL	**1,301,086**	**1,321,828**	**62,936**	**7,667**	**2,693,517**
As at 30/06/2015					
Fixed rate on date granted	697,325	1,523,696	35,457	-	2,256,478
Variable rate on date granted swapped to fixed rate	-	-	-	-	-
Fixed rate	697,325	1,523,696	35,457	-	2,256,478
Variable rate	350,128	6,176	29,667	2,599	388,570
TOTAL	**1,047,453**	**1,529,872**	**65,124**	**2,599**	**2,645,048**

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

Debt at a fixed rate of less than 3% on the date granted relates mainly to commercial paper and to the €500 million bond issue.

NOTE 15 Provisions

Non-current liabilities *In € thousand*	Provisions for environmental risks
As at 31/12/2014	**13,437**
Provisions for the period	421
Provisions used	-
Impact of changes in exchange rates	(977)
Other	-
AS AT 30/06/2015	**12,881**

The provision covers the cost of treating industrial land, as well as the clean-up costs for the mine in Brazil: amounts are provided as and when minerals are extracted, based on the volumes extracted.

Current liabilities *In € thousand*	Disputes and commercial commitments	Unfilled orders – losses on completion	Reorganization measures	Tax risks (income and other taxes, inspections, etc.)	Other	Total
As at 31/12/2014	**41,602**	**27,559**	**22,265**	**34,481**	**37,089**	**162,996**
Provisions for the period	14,516	45,887	94,085	7,305	7,692	169,485
Provisions used	(13,799)	(44,106)	(2,129)	(470)	(4,359)	(64,863)
Other reversals	-	-	-	-	-	-
Impact of changes in exchange rates	(1,371)	598	2	(2,767)	(1,914)	(5,452)
Changes in consolidation scope and other	-	1	2,193	43	461	2,698
AS AT 30/06/2015	**40,948**	**29,939**	**116,416**	**38,592**	**38,969**	**264,864**

PROVISIONS FOR DISPUTES, COMMERCIAL COMMITMENTS AND LOSSES ON UNFILLED ORDERS

Provisions are booked with regard to disputes if the Group has an obligation to a third party at the reporting date. They are determined based on the best estimate of the expense likely to be required to settle the obligation.

PROVISIONS FOR ADAPTATION AND RESTRUCTURING MEASURES

As part of the streamlining of its European steel tube production units and support functions, the employee representatives were informed on 28 April at the European Works Council (EWC). On 23 June 2015, Vallourec met the Central Works Council (CWC) to pursue upstream agreement on the legal information process in France.

An estimate of the business costs from the measures announced and the start of implementation were accounted for at the end of June for a total of €94 million.

PROVISION FOR TAX RISKS

This provision mainly relates to risks in connection with tax disputes in Brazil, some of which are covered by security deposits (see Note 4).

The Brazilian tax authorities have challenged a judgment, which in 2006 resulted in the Group obtaining reimbursement of BRL 137 million worth of IPI taxes (BRL 241 million, interest included, at 31 December 2014). On 22 April 2015, the Brazilian supreme court decided in favor of the company Vallourec Tubos do Brasil, without right of appeal.

OTHER CURRENT PROVISIONS

This item comprises various provisions with regard to customer discounts, late-payment penalties and other risks identified at the reporting date, with none being individually material.

For 2015 and 2014, actual annual greenhouse gas emissions were lower than the allowance granted by the French government, so no provisions were booked in this regard.

NOTE 16 Other long-term liabilities

In € thousand	
As at 31/12/2014	**215,426**
Impact of changes in exchange rates	(3,511)
Other changes	(165,438)
AS AT 30/06/2015	**46,477**

Other long-term liabilities are primarily composed of other non-operating liabilities of more than one year.

The impact of the application of the Amendment to IFRS 11 translates to a €165 million drop in long-term liabilities, in consideration for non-current assets.

NOTE 17 Employee benefits

In € thousand	Germany	France	United Kingdom	Other	Total
As at 30/06/2015					
Present value of the obligation	**350,902**	**33,742**	**144,675**	**82,233**	**611,552**
Retirement benefits	243,183	50,678	154,939	67,681	516,481
Early retirement commitments	8,260	-	-	-	8,260
Long-service awards and medical benefits	15,299	2,480	-	17,449	35,228
Fair value of plan assets	(151,984)	(7,772)	(165,204)	(29,769)	(354,729)
NET LIABILITY/(ASSET)	**114,758**	**45,386**	**(10,265)**	**55,361**	**205,240**

CHANGE IN NET LIABILITY

In € thousand	Germany	France	United Kingdom	Other	Total
Net Liability/(Asset) at 31/12/2014	**135,064**	**49,569**	**3,384**	**56,265**	**244,282**
Expense for the period	3,789	34	1,920	4,262	10,005
Amount recognized in Other Comprehensive Income – remeasurement	(16,331)	(2,507)	(12,799)	(3,723)	(35,360)
Benefits or contributions to funds	(7,870)	(1,710)	(2,692)	(1,429)	(13,701)
Impact of changes in exchange rates	-	-	(78)	320	242
Changes in scope and other	106	-	-	(334)	(228)
NET LIABILIT/(ASSET) AT 30/06/2015	**114,758**	**45,386**	**(10,265)**	**55,361**	**205,240**

At 30 June 2015, the main commitments were reviewed to take into account the changes in the discount rate based on sensitivity analyses performed at 31 December 2014. This involved Germany, the United Kingdom, France, the United States, and Brazil.

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

The significant hedge funds were valued at their fair value as at 30 June 2015.

EXPENSES FOR THE HALF YEAR

Expenses incurred during the year include the additional rights acquired for an additional year of service, the change in existing rights at the beginning of the year due to discounting, past service costs recorded in the period, the actual return on plan assets, the effects of plan reductions or liquidations and the amortization of actuarial gains and losses for liabilities other than pensions. The portion relating to the discounting of rights is recognized in financial income (loss) and the return on plan assets is recorded in investment income. These expenses are broken down as follows:

Expenses for the half year: *In € thousand*	Germany	France	United Kingdom	Other	Total
As at 30/06/2015					
Current service cost	4,047	1,901	1,915	2,145	10,008
Interest expense	2,331	485	2,732	3,004	8,553
Actual return on plan assets	(1,251)	(66)	(2,727)	(646)	(4,690)
Actuarial losses/(gains) generated during the period	(1,338)	(70)	-	(242)	(1,650)
Impact of any reduction or liquidation	-	(2,216)	-	-	(2,216)
NET CARRYING AMOUNT	**3,789**	**34**	**1,920**	**4,262**	**10,005**

Other employee benefits (options and performance shares)

SHARE SUBSCRIPTION PLANS

Characteristics of the plans

With regard to the characteristics of the plans agreed before 31 December 2014, reference is made to the Group's consolidated financial statements for the year ended 31 December 2014.

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	30/06/2015
Total at beginning of period	3,190,049
Options distributed	410,350
Options exercised	-
Options not exercised at expiration date	-
Options canceled [(a)]	-
Total at end of Period	**3,600,399**
Options available for exercise	1,104,600

(a) Beneficiaries who have left the Group.

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

	30/06/2015
2008 Plan	143,600
2009 Plan	523,600
2010 Plan	437,400
2011 Plan	621,302
2012 Plan	500,504
2013 Plan	593,343
2014 Plan	370,300
2015 Plan	410,350

Measurement of the new plan introduced during H1 2015 [a]

	2015 Plan
Assumptions	
Share price at allocation date	€26.03
Volatility [b]	29.00%
Risk-free rate [c]	0.21%
Exercise price	€22.60
Dividend rate [d]	3.00%
Fair value of the option [e]	€5.40

(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 the Group Management Committee is €5.40 for the 2015 plan.

PERFORMANCE SHARE ALLOCATION PLANS

Characteristics of the new plan introduced during H1 2015

With regard to the characteristics of the plans agreed before 31 December 2014, reference is made to the Group's consolidated financial statements for the year ended 31 December 2014.

The characteristics of the plan introduced since 1 January 2015 are the following:

	2015 Plan
Allocation date	15 April 2015
Vesting period	3 years (French residents) or 4 years (non-French residents)
Holding period	2 years (French residents) or none (non-French residents)
Number of beneficiaries at outset	497
Theoretical number of shares allocated	242,826

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	2,096,492
Number of shares canceled	(74,196)
Theoretical number of shares acquired or being vested	2,022,296
Number of shares delivered during H1 2015	34,256

NOTE 18 Other current liabilities

In € thousand	Social security liabilities	Tax liabilities	Liabilities associated with the acquisition of assets	Deffered income	Other current liabilities	Total
As at 31/12/2014	**279,324**	**51,764**	**46,923**	**8,540**	**51,706**	**438,257**
Impact of changes in exchange rates	890	(430)	(940)	219	4,700	4,439
Other changes	(34,181)	(5,644)	(16,879)	(1,244)	19,439	(38,509)
AS AT 30/06/2015	**246,033**	**45,690**	**29,104**	**7,515**	**75,845**	**404,187**

NOTE 19 Information on related parties

In € thousand	Sales to related parties	Purchases from related parties	Related party receivables	Related party payables
As at 30/06/2015				
HKM	1,134	127,420	11	44,853
Joint Operations	22,043	77,014	86,390	83,037

NOTE 20 Contingent liabilities and commitments

Off-statement of financial position commitments received (excluding financial instruments) *In € thousand*	31/12/2014	30/06/2015
Firm non-current asset orders	7,373	15,984
Guarantees and commitments received	98,575	102,727
Other commitments received	14,691	22,595
TOTAL	**120,639**	**141,306**
Off-statement of financial position commitments given (excluding financial instruments)	**480,581**	**677,122**

COMMITMENTS GIVEN BY MATURITY

In € thousand	30/06/2015	< 1 year	> 1 year	> 5 years
Statement of financial position				
Long-term financial liabilities	2,645,048	867,053	1,166,022	611,973
Off-statement of financial position				
Market guarantees and letters of credit given	105,232	68,079	37,153	-
Other securities, mortgages and pledges given	82,161	5,449	849	75,863
Long-term lease	71,909	9,451	24,988	37,470
Firm asset orders given	13,303	11,421	1,882	-
Other obligations	404,517	344,254	44,844	15,419
TOTAL	**677,122**	**438,654**	**109,716**	**128,752**

In € thousand	31/12/2014	< 1 year	> 1 year	> 5 years
Statement of financial position				
Long-term financial liabilities	2,693,517	911,644	1,168,746	613,127
Off-statement of financial position				
Market guarantees and letters of credit given	157,904	129,925	27,979	-
Other securities, mortgages and pledges given	87,533	5,880	506	81,147
Long-term lease	76,164	11,980	25,078	39,106
Firm asset orders given	4,905	2,901	-	2,004
Other obligations	154,075	63,099	73,852	17,124
TOTAL	**480,581**	**213,785**	**127,415**	**139,381**

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

The main exchange rates used for income statement items are set out in Note 11.

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

NOTE 21 Revenue

In € thousand	H1 2014	H1 2015
Sales in France	92,766	68,420
Sales in Germany	236,208	162,487
Other EU countries	200,875	231,170
North America (NAFTA)	773,809	655,844
South America	507,223	382,782
Asia	656,438	404,015
Rest of the world	226,390	165,918
TOTAL	**2,693,709**	**2,070,636**

NOTE 22 Cost of sales

In € thousand	H1 2014	H1 2015
Direct cost of sales	(136,094)	(109,005)
Cost of raw materials consumed	(776,779)	(604,272)
Labor costs	(475,890)	(455,743)
Other manufacturing costs	(626,582)	(518,012)
Change in non-raw material inventories	54,926	(47,386)
TOTAL	**(1,960,419)**	**(1,734,418)**
Depreciation and amortization	(147,232)	(149,346)
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**(2,107,651)**	**(1,883,764)**

NOTE 23 Sales, general and administrative costs

In € thousand	H1 2014	H1 2015
Research and Development costs	(42,695)	(42,546)
Sales and marketing costs	(52,219)	(49,804)
General and administrative costs	(179,051)	(171,723)
TOTAL	**(273,965)**	**(264,073)**
Depreciation and amortization	(27,825)	(22,577)
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**(301,790)**	**(286,650)**

PERSONNEL EXPENSES AND CLOSING HEADCOUNT OF CONSOLIDATED COMPANIES

Personnel expenses *In € thousand*	**H1 2014**	**H1 2015**
Wages and salaries	(428,073)	(424,525)
Employee profit-sharing	(25,889)	(21,101)
Expenses related to share subscription and share purchase options and performance shares	(7,280)	(2,845)
Share subscription option plan of 1 September 2010	*(706)*	*-*
Share subscription option plan of 1 September 2011	*(396)*	*(626)*
Share subscription option plan of 30 August 2012	*(204)*	*265*
Share subscription option plan of 2 September 2013	*(588)*	*(21)*
Share subscription option plan of 15 April 2014	*(129)*	*(127)*
Share subscription option plan of 15 April 2015	*-*	*(89)*
Value 09 employee share ownership plan of 12 December 2009 including the bonus share allocation plan of 12 December 2009	*(331)*	*-*
Performance share allocation plan of 15 March 2010	*329*	*-*
Performance share allocation plan of 31 July 2010	*(2)*	*-*
Value 10 employee share ownership plan of 17 November 2010 including the bonus share allocation plan of 17 November 2010	*(551)*	*(544)*
2-4-6 performance share allocation plan of 3 December 2010	*(316)*	*-*
Performance share allocation plan of 30 March 2011	*(371)*	*172*
Value 11 employee share ownership plan of 18 November 2011 including the bonus share allocation plan of 18 November 2011	*(23)*	*(22)*
2-4-6 performance share allocation plan of 18 November 2011	*(218)*	*(211)*
Performance share allocation plan of 30 March 2012	*(766)*	*(425)*
2-4-6 performance share allocation plan of 30 March 2012	*(633)*	*(481)*
Value 12 employee share ownership plan of 12 November 2012 including the bonus share allocation plan of 12 November 2012	*(13)*	*(13)*
Performance share allocation plan of 29 March 2013	*(818)*	*465*
2-4-6 performance share allocation plan of 29 March 2013	*(562)*	*(369)*
Value 13 employee share ownership plan of 14 November 2013 including the bonus share allocation plan of 14 November 2013	*(16)*	*(16)*
Performance share allocation plan of 15 April 2014	*(725)*	*(176)*
2-4-6 performance share allocation plan of 15 April 2014	*(241)*	*(386)*
Value 14 employee share ownership plan of 14 November 2014 including the bonus share allocation plan of 14 November 2014	*-*	*(11)*
Performance share allocation plan of 15 April 2015	*-*	*(230)*
Social security costs	(152,571)	(153,945)
TOTAL	**(613,813)**	**(602,416)**

The amount of expenses linked to share purchase option plans and performance share allocation plans and that relating to retirement expenses is given in Note 17.

Closing headcount of consolidated companies [(a)]	**31/12/2014**	**H1 2014**	**H1 2015**
Managers	3,476	3,462	3,433
Technical and supervisory staff	4,094	4,136	3,898
Production staff	15,587	15,424	14,688
TOTAL	**23,157**	**23,022**	**22,019**

(a) The headcount of companies recognized as joint operations is included based on the percentage interest held by the Group.

NOTE 24 Other

In € thousand	H1 2014	H1 2015
Employee profit-sharing and bonuses	(25,889)	(21,101)
Fees for concessions and patents	17,197	16,923
Other income and expenses	(7,005)	(2,346)
TOTAL	**(15,697)**	**(6,524)**

Provision allowances, net of reversals	H1 2014	H1 2015
Provision allowances net of reversals included in EBITDA amounted to	(38,524)	(11,324)

NOTE 25 Accumulated depreciation and amortization

In € thousand	H1 2014	H1 2015
By function		
Depreciation of industrial assets	(147,232)	(149,346)
Depreciation and amortization – Research and Development	(4,335)	(4,192)
Depreciation and amortization – Sales and Marketing Department contracts	(13,358)	(6,146)
Depreciation and amortization – General and administrative expenses	(10,132)	(12,239)
TOTAL	**(175,057)**	**(171,923)**
By type		
Net amortization of intangible assets (see Note 1)	(23,801)	(17,398)
Net depreciation of property, plant and equipment (see Note 2.1)	(146,823)	(148,006)
Net depreciation and amortization of biological assets	(4,433)	(6,519)
TOTAL	**(175,057)**	**(171,923)**

Depreciation of new industrial sites in the development stage is calculated according to the production-units method for assets used directly in the production process and the straight-line depreciation method for other assets.

NOTE 26 Impairment of assets and goodwill, asset disposals, restructuring costs and non-recurring items

In € thousand	H1 2014	H1 2015
Reorganization measures (net of expenses and provisions)	(1,278)	(103,334)
Gains and losses on disposals of non-current assets and other	(2,774)	(2,156)
TOTAL	**(4,052)**	**(105,490)**

In € thousand	H1 2014	H1 2015
Impairment of intangible assets (see Note 1)	-	-
Impairment of property, plant and equipment (see Note 2.1)	-	(9,377)
Impairment of biological assets (see Note 2.2)	-	(8,107)
Impairment of goodwill (see Note 1)	-	-
Other impairments of assets	-	963
TOTAL	**-**	**(16,521)**
Asset disposals, restructuring costs and non-recurring items	(4,052)	(122,011)

During the first half of 2015, the Group booked a provision for €94 million for an adaptation plan (see Note 15) and the costs committed during the first half of 2015.

NOTE 27 Financial income (loss)

In € thousand	H1 2014	H1 2015
Financial income		
Income from investment securities	20,604	20,991
Income from disposals of investment securities	1,117	644
TOTAL	**21,721**	**21,635**
Interest expenses	**(63,070)**	**(59,502)**
Other financial income and expenses		
Income from securities	-	871
Income from loans and receivables	1,395	958
Exchange (losses) and gains and changes in premiums/discounts	12,222	1,801
Provision allowances, net of reversals	(2,666)	(1,644)
Other financial income and expenses	3,645	1,928
TOTAL	**14,596**	**3,914**
Other discounting expenses		
Interest expense pension obligations	(3,716)	(4,114)
Financial income from discounted assets and liabilities	(160)	716
TOTAL	**(3,876)**	**(3,398)**
FINANCIAL INCOME (LOSS)	**(30,629)**	**(37,351)**

NOTE 28 Reconciliation of theoretical and actual tax expense

Breakdown of the tax expense *In € thousand*	**H1 2014**	**H1 2015**
Current tax expense	(68,278)	(32,532)
Deferred taxes	(5,600)	17,787
NET EXPENSE	**(73,878)**	**(14,745)**
Consolidated net income (loss)	160,012	(280,409)
Tax expense	(73,874)	(14,745)
CONSOLIDATED NET INCOME (LOSS) BEFORE TAX	**233,886**	**(265,664)**
Statutory tax rate of consolidating company	34.43%	34.43%
Theoretical tax	(80,535)	91,468
Impact of main tax loss carryforwards	(9,626)	(98,279)
Long term impact of capital gains or losses	1,799	1,496
Impact of permanent differences	10,329	(6,166)
Impact of differences in tax rates	9,178	68
Other impacts	(5,018)	(3,332)
NET EXPENSE	**(73,873)**	**(14,745)**
ACTUAL TAX RATE	**32%**	**-6%**

The rate of -6% primarily reflects non-recurring items which led to the non-recognition of deferred tax assets, as detailed below.

The impact of tax loss carryforwards mainly concerns the non-recognition of deferred tax assets (DTAs) for the period, along with those previously recorded in the tax losses of the French tax group, in Germany, China, and for VSB.

Permanent differences consist mainly of the net income attributable to non-controlling interests, withholding taxes and the amount and the share of costs and expenses with regard to dividend distributions, along with the impact of free share allocations and the reintegration of financial expenses.

At interim reporting dates, the tax expense is calculated for each fiscal entity of the Group by applying the effective tax rate determined for the current year to the pre-tax income 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 income and results for each operating segment, as well as certain information on the assets, liabilities and investments for half year 2014 and 2015.

Information on results, assets and liabilities by operating segment

H1 2015 *In € thousand*	**Seamless tubes**	**Specialty Products**	**Holdings & miscellaneous** [(a)]	**Inter-segment transactions**	**Total**
Income statement					
Sales to external customers	2,050,036	80,191	504	(60,095)	2,070,636
EBITDA	90,055	5,769	(27,860)	(2,343)	65,621
Depreciation and amortization	(160,617)	(10,742)	(772)	208	(171,923)
Impairment of assets and goodwill	(16,522)	-	-	-	(16,522)
Asset disposals and restructuring costs	(102,511)	(17)	(2,961)	-	(105,489)
OPERATING INCOME (LOSS)	**(189,595)**	**(4,990)**	**(31,593)**	**(2,135)**	**(228,313)**
Unallocated income					25,549
Unallocated expenses					(62,900)
Pre-tax income					(265,664)
Income tax					(14,745)
Net income of associates					(264)
Consolidated net income					(280,673)
Statement of financial position					
Non-current assets	4,848,379	199,027	4,185,914	(4,351,363)	4,881,957
Current assets	2,622,205	134,409	302,260	(369,731)	2,689,143
Cash	761,654	24,836	942,069	(753,523)	975,036
TOTAL ASSETS	**8,232,238**	**358,272**	**5,430,243**	**(5,474,617)**	**8,546,136**
Equity	3,497,921	154,108	3,235,073	(3,368,081)	3,519,021
Non-controlling interests	399,591	6,189	-	67	405,847
Long-term liabilities	1,577,856	32,093	1,662,730	(975,831)	2,296,848
Current liabilities	2,756,870	165,882	532,440	(1,130,772)	2,324,420
TOTAL LIABILITIES	**8,232,238**	**358,272**	**5,430,243**	**(5,474,617)**	**8,546,136**
Cash flows investments					
Property, plant and equipment, intangible assets and biological assets (excluding cash outflows)	71,420	1,535	218	-	73,173
Other information					
Closing headcount	20,692	1,121	206	-	22,019
Personnel expenses	(551,967)	(25,289)	(25,160)	-	(602,416)

(a) Vallourec and Vallourec Tubes.

H1 2014 *In € thousand*	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 and restructuring costs	(3,035)	(257)	(604)	(156)	(4,052)
OPERATING INCOME (LOSS)	**285,530**	**(2,231)**	**(19,025)**	**245**	**264,519**
Unallocated income					36,316
Unallocated expenses					(66,945)
Pre-tax income					233,890
Income tax					(73,878)
Net income of associates					599
Consolidated net income					160,611
Statement of financial position					
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	674,428	17,876	980,099	(790,335)	882,068
TOTAL ASSETS	**9,164,239**	**373,157**	**5,827,053**	**(5,420,000)**	**9,944,449**
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 investments					
Property, plant and equipment, intangible assets and biological assets (excluding cash outflows)	99,666	4,520	220	-	104,406
Other information					
Closing headcount	21,662	1,151	209	-	23,022
Personnel expenses	(560,410)	(24,643)	(28,760)	-	(613,813)

(a) Vallourec and Vallourec Tubes.

GEOGRAPHICAL REGIONS

The following tables provide information by geographical region 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 2015 *In € thousand*	Europe	North America	South America	Asia	Rest of the world	Total
Revenue						
Sales to external customers	462,077	655,844	382,782	404,015	165,918	2,070,636
Statement of financial position						
Property, plant and equipment, intangible assets and biological assets (net)	873,120	1,799,785	1,165,767	356,007	4,042	4,198,721
Cash flows						
Property, plant and equipment, intangible assets and biological assets	32,288	18,212	18,925	3,314	434	73,173
Other information						
Closing headcount	9,682	2,779	7,093	2,392	73	22,019
Personnel expenses	(338,109)	(117,704)	(118,328)	(27,076)	(1,199)	(602,416)

H1 2014 *In € thousand*	Europe	North America	South America	Asia	Rest of the world	Total
Revenue						
Sales to external customers	529,849	773,809	507,223	656,438	226,390	2,693,709
Statement of financial position						
Property, plant and equipment, intangible assets and biological assets (net)	1,095,456	1,542,232	1,888,866	596,099	3,444	5,126,097
Cash flows						
Property, plant and equipment, intangible assets and biological assets	31,685	27,138	35,170	9,641	772	104,406
Other information						
Closing headcount	9,964	2,970	7,317	2,697	74	23,022
Personnel expenses	(346,484)	(114,168)	(129,192)	(22,764)	(1,205)	(613,813)

NOTE 30 Subsequent events

None.

Statutory Auditors' review report on the 2015 half-year financial information

For the period 1 January to 30 June 2015

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 activity 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 1 January to 30 June 2015;
- the verification of the information contained in the half-year activity 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 A.2 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 activity report commenting the condensed half-year consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Neuilly-sur-Seine and Paris La Défense, July 30, 2015

The Statutory Auditors

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A French limited liability company (société anonyme)
with Management and Supervisory Boards and issued capital of €267,376,870