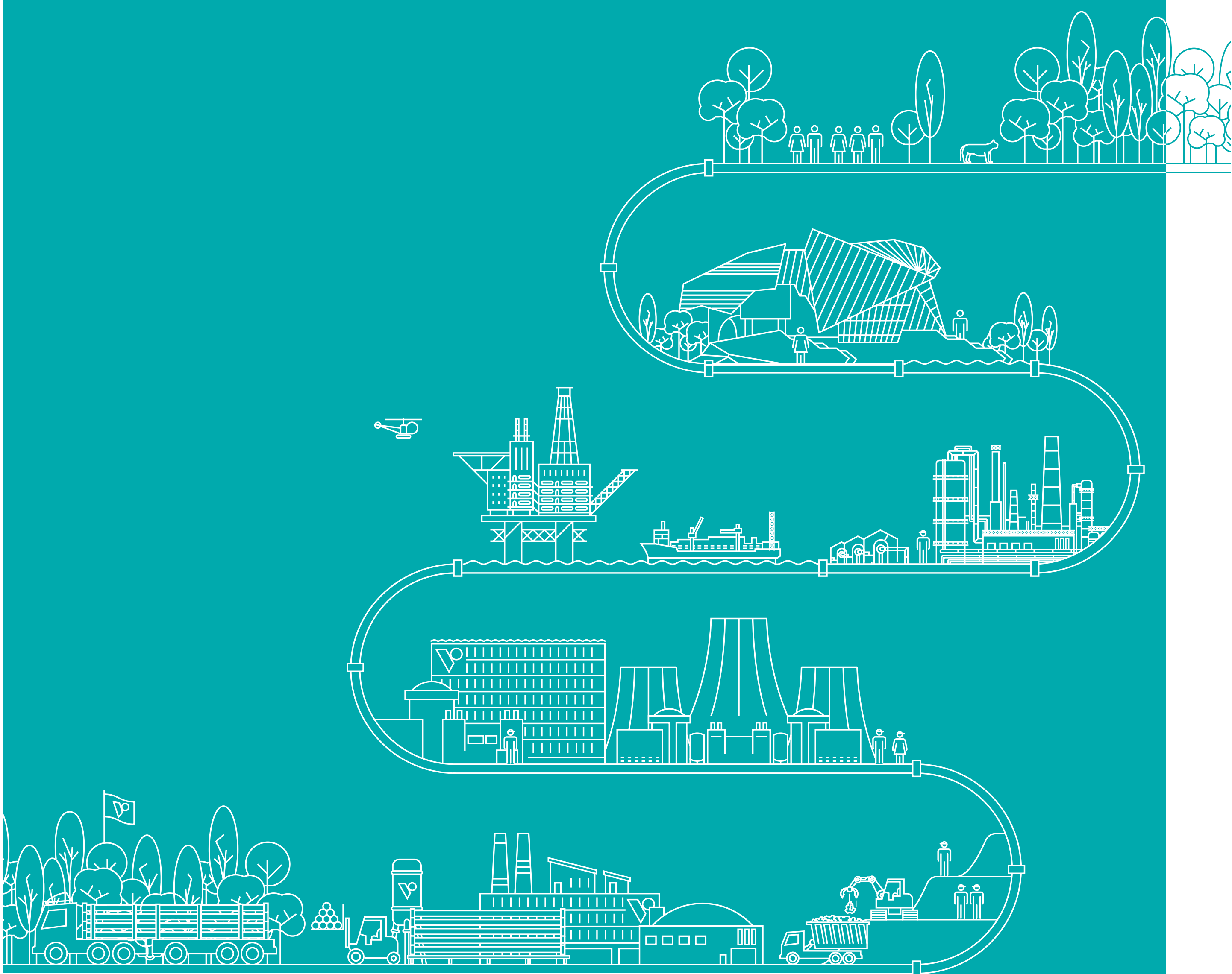
2016 interim financial report

HALF YEAR ENDED 30 JUNE 2016



vallourec

Contents

This document is a free translation of the interim financial report of Vallourec for the first half-year ended 30 June 2016. 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 precedence.

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, 29 July 2016

Philippe Crouzet

Chairman of the Management Board

Half-year activity report

In the first half of 2016, the Group recorded consolidated revenues of €1,434 million, down -30.7% (down -27.3% at constant exchange rates) compared with consolidated revenues of €2,070 million in the first half of 2015. EBITDA totaled -€104 million, compared with €66 million in the first half of 2015. EBITDA margin rate decreased compared with the first half of the previous year, at -7.3% of consolidated revenues. Net result, Group share was a loss of €415 million in the first half of 2016, compared with a loss of €275 million in the first half of 2015.

Vallourec market environment

1. Oil & Gas

Oil & Gas prices declined significantly in 2015, leading oil and gas operators to massively postpone Exploration and Production capital expenditures. At the end of the first quarter of 2016, Brent, WTI and gas prices started rising[(1)]. This trend was confirmed during the second quarter of 2016. On 30 June 2016, WTI reached 48.33$ compared with 37.04$ on 31 December 2015, or a 30% increase, Brent stood at 48.04$ compared with 36.6$ on 31 December 2015, a 31% increase, and gas prices (Henry Hub) stood at 2.92$ on 30 June 2016 vs. 2.36$ on 31 December 2015, or a 23% increase.

In the United States, the number of active rigs continued to decrease in the first quarter of 2016, before stabilizing at the end of May 2016 and starting to increase slightly at the end of the second quarter 2016. The average number of active rigs[(2)] totaled 483 units in the first half of 2016, a 58.1% decrease compared with 1,155 units in the first half of 2015. The active rig count totaled 421 units at the end of June 2016 (compared with 859 units at the end of June 2015, or a 50.9% decline), or a 39.7% decline compared with the end of December 2015.

The number of active rigs for oil drilling decreased significantly in the first half of 2016 (-57.0% compared with the first half of 2015), with an average of 385 active rigs compared with an average of 896 active rigs in the first half of 2015. At the end of June 2016, 78.4% of active rigs were for oil drilling compared with 73% the previous year. Gas drilling units fell 61.8%, reaching an average of 98 active drilling units in the first half of 2016, compared with 257 in the first half of 2015. Gas prices (Henry Hub) which averaged 2.7 $/Mbtu (US dollar per million British thermal units) in 2015 decreased to an average of 2.2 $/Mbtu[(3)] in the first half of 2016, a 18.5% decline compared with the first half of 2015.

In the Gulf of Mexico, the number of drilling platforms stood at 20 units at the end of June 2016[(4)], compared with 25 units at the end of December 2015 and 28 units at the end of June 2015.

In the rest of the world, the international active rig count[(5)] stood at 927 units at the end of June 2016, a 19.1% decline compared with the end of June 2015 (1,146 units). The average international active rig count in the first half of 2016 (979 units) declined 19.4% compared with the first half of 2015.

In Brazil, operations are driven by Petrobras' five-year, 2015-2019 Business and Management Plan. On 12 January 2016 Petrobras published new adjustments to its plan. The adjusted plan comprises investments amounting to USD 98.4 billion, including USD 80 billion for exploration and production between 2015 and 2019.

This adjustment represents a reduction of USD 32 billion compared with the initial Business and Management Plan presented in June 2015 and is a result of portfolio optimization (-USD 21.2 billion) and exchange rate effect (-USD 10.7 billion). In 2015, Petrobras' investments amounted to USD 23 billion. The most recent projections for 2016 amount to USD 20 billion, based on an oil price of USD 45 per barrel and an exchange rate of 4.06 R$/USD.

Petrobras' plan continues to prioritize oil exploration and production (E&P) projects, focusing in particular on the pre-salt fields, drilling in very deep waters (over 2,000 meters), far offshore and in highly corrosive environments, but at the expense of onshore and offshore shallow waters.

As Brazil is shaken by a vast corruption scandal, Pedro Parente was appointed CEO of Petrobras in May 2016. He is expected to accelerate Petrobras' non-core asset disposal program. He supports the bill that would open up pre-salt oil fields to foreign companies without Petrobras' participation (current law requires Petrobras to be the lead operator and hold at least a 30% stake in any projects in its pre-salt oil fields)[(6)].

In the EAMEA region[(7)], IOCs continue to reduce their Capex and to be very selective in sanctioning projects, while NOCs are launching significant tenders at very disputed prices.

In the Middle East, the active rig count stood at 389 at the end of June 2016, compared to 397 at the end of March 2016 and 401 at the end of June 2015. The average active rig count in 2015 was 406.

(1) Thomson Reuters – data collected in July 2016.

(2) Baker Hughes (number of active rigs in the US) – June 2016.

(3) Price of gas (Henry Hub). Thomson Reuters –2016 half-year average, data collected in July 2016.

(4) Baker Hughes – June 2016.

(5) Baker Hughes (number of active international rigs = excluding North America) – April 2016.

(6) The Wall Street Journal, 19 June 2016.

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

2. Power Generation

Conventional energy

The global power generation mix is diversifying and coal's share is expected to decrease to 23% in 2040 of the total installed electrical capacity mix from 31% in 2013[(1)].

EU is on the track to decarbonise its energy mix including electricity sources and targets cleaner energy sources. Currently there are very 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 has been strengthened by 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, benefiting from an abundant offer of thermal coal. These projects are nevertheless taking place in a very competitive environment. Chinese energy consumption growth stabilized in 2014, for the first time in 17 years[(2)], and Chinese electricity consumption growth is also slowing down compared to the robust growth in the last decade. China will continue to install new coal-fired power plant capacity, but at a slower pace than observed in the last decade. Design will switch to bigger and more efficient plants (supercritical). China wants to diversify its energy mix, which is very dependent on coal, and reduce its share to 60% of the energy mix in 2020, compared with approximately 67% in 2014[(3)].

India, with the highest energy consumption growth of the G20 (6.5% in 2014), 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 1,140 GW (gigawatts) between 2015 and 2040. China and India should alone represent about 60% of this new capacity addition[(4)].

Nuclear energy

The need for numerous countries to reduce their CO_2 emissions has for several years benefited the recovery of the nuclear energy market. However, the difficulties of funding and 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 recent Brexit referendum should not impact ongoing EDF negotiations on the Hinkley Point C project[(5)] and the first new-generation nuclear power plant planned is currently expected to be in operation by 2023[(6)].

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, then up to 150 GW by 2030, compared with 30 GW in 2016[(7)].

Lastly, new nuclear power plant projects are under construction or planned in Asia (India, South Korea, Southeast Asia) and the Middle East (Turkey, Saudi Arabia, United Arab Emirates). According to a report that was published in 2014 by the IEA[(8)], approximately forty countries worldwide could envision nuclear energy programs.

In addition to the new build business, Vallourec is also targeting tubular needs related to the program to extend the life time of existing reactors (France, Canada, South Korea).

3. Other applications

In the Petrochemicals market, the activity level over the first half of 2016 remained low in the US and in Europe and slowed down in Asia and in the Middle East.

In Europe, non-energy markets (Mechanical engineering, Automotive, Construction & Other) have been affected by the still very competitive environment and continuing pressure on prices. However, bookings were slightly up in Europe during the first half of 2016 compared to the first half of 2015.

In Brazil, non-energy markets have also been affected by the contracted market environment characterized by volume and price decline.

4. Raw materials

In Brazil, Vallourec operates its own iron ore mine. The iron ore production then serves to power the Group's blast furnaces in Belo Horizonte and Jeceaba. The unused surplus of iron ore is sold locally.

In 2015, iron ore spot prices deteriorated sharply compared with 2014. In the first half of 2016, average iron ore prices[(9)] stood at 52USD/ton compared with 60USD/ton in the first half of 2015, or a 13.3% decline. Sequentially, an improvement was recorded in Q2 2016 compared with Q1 2016 (average price of 56USD/ton in Q2 2016 compared with an average price of 48USD/ton in Q1 2016, or a 16.6% increase).

(1) IEA World Energy Outlook 2015 NPS scenario.

(2) Enerdata Global Energy Trends 2014.

(3) IEA World Energy Outlook 2015 NPS scenario.

(4) IEA World Energy Outlook 2015 NPS scenario.

(5) http://www.lemonde.fr/entreprises/article/2016/07/04/le-brexit-ne-modifie-pas-les-elements-fondamentaux-de-hinkley-point-selon-edf_4963333_1656994.html

(6) Nuclear Power in the United Kingdom, World Nuclear Association.

(7) http://www.world-nuclear.org/information-library/facts-and-figures/world-nuclear-power-reactors-and-uranium-requireme.aspx, Action Plan for Energy Development (2014-2020) – People's Republic of China (State Council).

(8) IEA – World Energy Outlook 2014 – "Potential Newcomers" – published in November 2014.

(9) Platts – IODEX Iron ore fines 62% CFR North China.

The French and American plants within the Group are equipped with electric furnaces using scrap metal. In 2015, scrap metal prices in France and the US decreased significantly compared with 2014. In the first half of 2016, scrap prices were down 24.4% in France[1], and down 17.4% in the US[2] compared with the first half of 2015. Sequentially, scrap prices increased in Q2 2016 compared with Q1 2016 in France and the US (+34.8% in France and +35.2% in the US).

5. Currencies

The Group's results of operations and financial condition are sensitive to volatility in foreign currencies (primarily the Brazilian real and the US dollar) against the euro. The impact is produced in two ways, through the "translation effect" and the "transaction effect."

The translation effect is defined as the impact of the changing value of the financial statements of subsidiaries whose functional currency is not the euro on the Group's consolidated financial statements. The effect is positive when the currency rises against the euro and negative when it falls against the euro. Assets and liabilities of foreign subsidiaries, including goodwill, are translated at the official exchange rates on the reporting date. The income statements of foreign subsidiaries are translated at the average exchange rate for the period. The Group presents its revenues at "constant exchange rates" by neutralizing the impact of the translation effect on revenues, applying the prior year's average exchange rates to the current year's revenues. The translation effect can also impact shareholders' equity directly, due to the effect of changes in foreign currency exchange rates on the euro-equivalent values of balance sheet items of consolidated subsidiaries whose functional currency is not the euro.

In the first half of 2016, the depreciation of the Brazilian real against the euro had a slightly negative translation effect while the stability of the US dollar against the euro had no translation effect on the Group's results.

The transaction effect is defined as the impact of exchange rates on transactions effected by a Group company in a currency other than its functional currency (for example, where a European or Brazilian company in the Group sells goods or services in US dollars). It is positive when the functional currency declines and negative when it rises, with a delay resulting from hedges in place. Revenues presented at constant exchange rates are not adjusted for the transaction effect.

In the first half of 2016, compared with the first half of 2015, the Group recorded a positive transaction effect benefiting from the depreciation of the Brazilian real and the euro against the US dollar.

Significant Events in the First Half of 2016

On 11 January 2016, Vallourec signed an agreement to create a strategic partnership between its subsidiary Serimax and Technip relating to the welding of subsea line pipes. In connection with that agreement, Technip will acquire a minority stake in Serimax, of which it has long been a customer. Technip and Serimax will combine their expertise and deploy Serimax's welding technology at Technip's spoolbases and S-lay vessels. The strategic partnership will include exclusive arrangements with respect to offshore pipeline welding and with respect to related R&D-related programs. Serimax will remain an independent supplier of services and technologies and will continue to provide solutions to all of its customers in the offshore and onshore line pipe markets, and in the tubular sub-assembly and assembly markets.

On 1 February 2016, Vallourec announced the strategic initiatives described below under "Strategic Initiatives".

On 30 March 2016, Vallourec signed a contract with Abu Dhabi National Oil Company ("ADNOC") to supply OCTG products and services, during the period from 2016 to 2018, to ADNOC's three operating companies (Abu Dhabi Marine Operating Company, Abu Dhabi Company for Onshore Oil Operations, and Zakum Development Company). It is the first time that a tender has been organized to supply all three operating companies, and the contract represents the largest single OCTG contract (for nearly 100,000 tons of OCTG products) that Vallourec has entered into to supply the Emirate of Abu Dhabi. Vallourec will supply a full range of standard API and premium OCTG products for both onshore and offshore oil fields, for applications ranging from conventional to complex wells. The contract also provides for Vallourec's supply of high torque VAM® connections for extended reach drilling and corrosion-resistant alloy steels for sour service. Field supervision and inspection will be provided by Vallourec experts. The OCTG products will be supplied from Vallourec's mills in France, Germany, Brazil and China.

On 3 May 2016, the Group completed a €959 million capital increase as part of the strategic initiatives described below under "Strategic Initiatives".

On 27 May 2016, Vallourec Tube-Alloy, a wholly-owned Vallourec subsidiary specialized in the production and repair of accessories for oil and gas wells, announced the opening of its new plant in Singapore, to be known as Vallourec Tube-Alloy Asia-Pacific. This new site will support the Group's OCTG activities by expanding the geographic footprint of Vallourec Tube-Alloy, which previously was mainly centered on four production facilities in the United States.

(1) CRU Shredded France.

(2) CRU Shredded Pittsburgh – USA.

Short-term adaptation and Valens plan

The Group is adapting to the low load of its mills. Global staff reduction was -1,800 permanent jobs over the first half of 2016 (-8% of total headcount), including 700 staff of Vallourec Heat Exchanger Tubes which was sold and subsequently deconsolidated on 1 May 2016.

The Valens plan is well on track with approximately 80% of the plan's C. 700 initiatives already started, in particular 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 2016.

Strategic initiatives

On 1 February 2016, Vallourec announced major strategic initiatives to transform its operational set-up, improve its competitiveness and reinforce its financial strength to secure long-term profitable growth and sustained shareholder value creation.

This section describes the Transformation plan and its implementation status.

A global industrial reorganization plan

Europe

Severely affected by overcapacity and competition from low-cost operators worldwide, Vallourec's European activities will be rationalized by concentrating rolling activities in Germany and finishing activities in France. This adjusted industrial footprint will be fully operational by the end of 2017.

Following the completion of consultations held with the relevant workers council, rationalization of the industrial footprint will lead, as announced on 1 February 2016, to the closure of a rolling mill in Saint-Saulve (France) in Q1 2017, as well as a rolling mill in Déville-Lès-Rouen (France) in H2 2016. A threading line in Mülheim, Germany and a heat treatment line in Bellshill, Scotland will also be closed. These closures will result in a 50% cut in tube production capacity by 2017 as compared with 2014 levels, and an additional reduction in headcount of approximately 1,000 full-time equivalents in addition to reductions as a result of the implementation of the Valens plan.

In line with its premium positioning, Vallourec will concentrate its European activities on the design and production of high added-value products and solutions, and will continue to focus on its Research and Development activities in France and Germany.

The planned sale of a majority stake in the steel mill at Saint-Saulve will enable Vallourec to address its steel production overcapacity. On 21 July 2016, Vallourec announced it had entered into exclusive negotiations with Ascometal in view of creating a joint venture (60% Ascometal and 40% Vallourec) to operate this steel mill.

In addition, Vallourec finalized the sale of Vallourec Heat Exchanger Tubes, its subsidiary specialized in welded stainless steel and titanium tubes with assets in France, India, the United States, China and Korea, in the second quarter of 2016.

Brazil

Vallourec is rationalizing its Brazilian activities through the merger of Vallourec & Sumitomo Tubos do Brasil (VSB, the Jeceaba site operated by a joint venture of which Vallourec owns 56%, Nippon Steel & Sumitomo Metal Corporation ("NSSMC") owns 40.4%, and Sumitomo Corp. owned 3.6%) and Vallourec Tubos do Brasil (VBR, which is wholly owned by Vallourec) into a new, single entity called Vallourec Soluções Tubulares do Brasil. The merger of Vallourec Tubos do Brasil and Vallourec Sumitomo Tubos do Brasil should be completed before the end of 2016. Vallourec will hold a majority stake of 84.6% in this company, NSSMC will hold 15% and Sumitomo Corp. will hold the remaining 0.4%. NSSMC will maintain its supply agreement for 300,000 metric tons manufactured at the Jeceaba site.

The rationalization of Brazilian activities will lead to the closure of two blast furnaces and one steel mill in Belo Horizonte between 2016 and 2018. Steel production will be concentrated at the state-of-the-art steel mill in Jeceaba. The creation of this single entity will enable Vallourec to generate significant industrial synergies, to optimize future investments, and to realize administrative and tax synergies.

The new entity, which includes neither the mine nor the eucalyptus forest, will benefit fully from the optimal operational performance of VSB's state-of-the-art PQF® rolling mill and premium finishing facilities, as well as from the BRL/USD exchange rate, to make it a highly competitive export base.

China

Since 2011, Vallourec has held a 19.46% stake in Tianda Oil Pipe (TOP), a Chinese manufacturer of seamless tubes listed on the Hong Kong Stock Exchange. On 29 January 2016, Vallourec and TOP signed an agreement pursuant to which Vallourec would acquire an additional 50.61% of this company. In June 2016, Vallourec obtained clearance from the Chinese Competition Authority, a major step towards the intended acquisition of a majority interest in TOP.

Vallourec would thereafter launch a tender offer to acquire the rest of the minority interests, in accordance with the Hong Kong Code on Takeovers and Mergers. The maximum amount of the transaction would be USD 175 million.

TOP's industrial assets include a state-of-the-art PQF®-type rolling mill with a 500,000 metric ton capacity, qualified by leading oil and gas customers. Arising out of a successful five-year partnership with TOP, this acquisition will enable Vallourec to develop an expanded offering of highly competitive solutions combining VAM® connections with Tianda's highly competitive tubes, to maintain market share for the VAM® connection.

Reinforcement of the partnership between Vallourec and NSSMC

Since 1985, the development of the VAM® connections has been a joint activity of Vallourec and NSSMC. This cooperation has helped make the VAM® brand a global standard on the OCTG market.

This industrial partnership will be enhanced with a plan to capitalize on each group's strengths to ensure the competitiveness of the VAM® connection and ensure long-term technological leadership. It focuses on three areas:

- improving Research and Development efficiency in order to accelerate the development and marketing of new VAM® connections, thereby reinforcing VAM®'s premium positioning worldwide;
- rationalizing Brazilian operations through the merger of two local companies; and
- NSSMC acting as a strategic investor in the Group, having subscribed in Vallourec's successful capital raise, as described below.

Reinforcement of Vallourec's balance sheet

On 3 May 2016, Vallourec completed the issuance of 217,101,488 ordinary shares through an offering by way of transferable preferential subscription rights issued to its existing shareholders (the "Rights Issue") for gross proceeds of €480 million, and the issuance of mandatory convertible bonds (the "Bonds") to two of its strategic shareholders, Bpifrance Participations and NSSMC, for gross proceeds of €514 million. Together, the issuances allowed Vallourec to raise net proceeds of €959 million in order to strengthen its balance sheet and to finance its transformation to ensure its growth in the long term.

The Bonds held by Bpifrance Participations were converted into 30,282,564 new ordinary shares in May 2016 and the Bonds held by NSSMC were converted into 61,565,565 new ordinary shares in June 2016. Following this conversion, Vallourec's share capital stood at €889,276,098, divided into 444,638,049 ordinary shares. Following the completion of the Rights Issue and the conversion of the Bonds, Bpifrance Participations and NSSMC each held 15% of Vallourec's share capital.

Transactions with related parties

Transactions carried out with equity affiliates during the first half of 2016 relate mainly to purchases of steel rods from HKM amounting to €120 million.

Main risks and uncertainties for the second half of 2016

Vallourec does not expect any change to its risks, as set out in Chapter 5, Section 5.1 "Risk factors" of the 2015 Registration Document *(Document de référence)* filed with the *Autorité des Marchés Financiers* (the French securities regulator), on 16 March 2016 under number D. 16-0141, which would be likely to have an impact on the rest of the 2016 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 16 of the notes to the consolidated financial statements and in Notes 8 and 16 of the half-year financial statements.

Consolidated Group results

Income statement

In € million except percentages and sales volume amounts	H1 2015	H1 2016	Change H1/H2 2016
Sales volume (in thousands of metric tons)	**774**	**572**	**-26.1%**
Revenue	**2,070**	**1,434**	**-30.7%**
Cost of sales[(a)]	(1,734)	(1,312)	-24.3%
Industrial margin	**336**	**122**	**-63.7%**
(as a % of revenue)	*16.2%*	*8.5%*	*-7.7pts*
Selling, general and administrative costs[(a)]	**(264)**	**(225)**	**-14.8%**
(as a % of revenue)	*-12.8%*	*-15.7%*	*-2.9pts*
Other	(6)	(1)	N/A
EBITDA	**66**	**(104)**	**N/A**
(as a % of revenue)	*3.2%*	*-7.3%*	*-10.5pts*
Depreciation of industrial assets	(149)	(141)	-5.4%
Amortization, restructuring and other	(129)	(105)	N/A
Impairment	(16)	(68)	N/A
Operating profit/(loss)	**(228)**	**(418)**	**83.3%**
NET INCOME/(LOSS), GROUP SHARE	**(275)**	**(415)**	**50.9%**

(a) Before depreciation and amortization.

Sales Volume

The diversity of the Group's products and the absence of appropriate units of measurement, other than financial units, prevent the provision of meaningful information on sales volume. However, the following table provides a summary of quarterly output, which corresponds to the volumes produced and shipped from Vallourec rolling mills, expressed in metric tons of hot-rolled seamless tubes:

In thousands of metric tons	2015	2016	Change 2015/2016
Q1	412	251	-39.1%
Q2	362	321	-11.3%

In the first half of 2016, volumes decreased 26.1% compared with the first half of 2015 mainly as a result of the sharp decrease in Oil & Gas volumes in the United States and Brazil.

Revenue

Consolidated Revenue

For the second quarter of 2016, Vallourec recorded revenues of €763 million, down -25.0% compared with the second quarter of 2015 (down -21.4% at constant exchange rates) but up +13.7% sequentially, benefiting from higher volumes and a better mix compared with the first quarter of 2016.

For the first half of 2016, Vallourec recorded revenues of €1,434 million, down -30.7% compared with the first half of 2015 (down -27.3% at constant exchange rates) mainly resulting from the volume decrease (-26.1%) and a slightly negative price/mix (-1.2%, including a positive transaction currency effect) and a negative translation currency effect (-3.4%).

Revenue by Geographical market

In € million	H1 2015	% of revenue	H1 2016	% of revenue	Change H1 2015/2016 at current exchange rates	Change H1 2015/2016 at constant exchange rates
France	68	3.3%	47	3.3%	- 30.7%	- 30.7%
Germany	162	7.8%	137	9.5%	- 16.0%	- 16.0%
Other EU Countries[(a)]	231	11.2%	123	8.6%	- 46.6%	- 45.4%
Total Europe	**461**	**22.3%**	**307**	**21.4%**	**- 33.5%**	**- 32.9%**
North America	**656**	**31.7%**	**238**	**16.6%**	**- 63.7%**	**- 63.1%**
Brazil	361	17.5%	210	14.6%	- 41.9%	- 27.5%
Other Central & South America	22	1.0%	7	0.5%	- 69.2%	- 67.2%
Total South America	**383**	**18.5%**	**217**	**15.1%**	**- 43.4%**	**- 29.7%**
China	114	5.5%	108	7.6%	- 4.3%	- 3.6%
Other Asia and Middle East	290	14.0%	295	20.6%	+ 1.9%	+ 4.8%
Total Asia and Middle East	**404**	**19.5%**	**404**	**28.2%**	**0.0%**	**+ 2.5%**
CIS	15	0.7%	17	1.2%	+ 15.2%	+ 16.7%
Rest of the world	151	7.3%	251	17.5%	+ 65.9%	+ 67.1%
Total Rest of the world	**166**	**8.0%**	**268**	**18.7%**	**+ 61.5%**	**+ 62.7%**
TOTAL REVENUE	**2,070**	**100.0%**	**1,434**	**100.0%**	**- 30.8%**	**- 27.3%**

(a) *Other European Union countries, excluding Germany and France.*

Revenue by activity

In € million	H1 2015	H1 2016	% change at current exchange rates	% change at constant exchange rates[(a)]
Oil & Gas	1,331	863	- 35.2%	- 32.1%
Petrochemicals	108	68	- 37.2%	- 34.2%
Oil & Gas, Petrochemicals	**1,439**	**931**	**- 35.3%**	**- 32.3%**
Power Generation	**253**	**227**	**- 10.4%**	**- 8.6%**
Mechanicals	204	133	- 34.6%	- 32.5%
Automotive	65	49	- 25.3%	- 15.7%
Construction & Other	109	94	- 13.5%	- 2.5%
Industry & Other[(b)]	**378**	**276**	**- 26.9%**	**- 21.0%**
TOTAL	**2,070**	**1,434**	**- 30.7%**	**- 27.3%**

(a) *The change at constant exchange rates is defined as the change in revenue between two periods obtained by translating the revenues of consolidated subsidiaries whose functional currency is not the euro into euros at the average cumulative rate of the prior fiscal year. It does not include foreign currency impacts on sales entered into by certain subsidiaries in currencies other than their functional currency. Rather, that impact is built into price/mix effects.*

(b) *Including sales of iron ore.*

OIL & GAS, PETROCHEMICALS (64.9% OF REVENUES)

Oil & Gas revenues reached €863 million in H1 2016, down -35.2% year-on-year (down -32.1% at constant exchange rates).

- **In the USA,** revenues were sharply down as a result of the decrease in volumes and prices compared with H1 2015. The active rig count which had been decreasing since the end of 2014 stabilized at the end of May 2016 and started rising slightly at the end of Q2 2016. Destocking at distributors persisted over H1 2016.
- **In the EAMEA** region, revenues increased compared with the first half of 2015, mainly thanks to deliveries with a favorable customer mix. However, acute pressure on prices persisted as a result of intense competition.
- **In Brazil,** revenues were sharply down compared with the first half of 2015 as a result of a strong volume decrease delivered to Petrobras, partly offset by a better product mix thanks to the development of pre-salt fields, but at the expense of drilling activity onshore and in offshore shallow waters.

Petrochemicals revenues were €68 million in H1 2016, down -37.0% year-on-year (-34.3% at constant exchange rates).

POWER GENERATION (15.8% OF REVENUES)

Power Generation revenues reached €227 million in H1 2016, a 10.3% decrease year-on-year (-8.7% at constant exchange rates).

- **Conventional power generation** revenues were stable and booking activity in H1 2016 was sustained.
- In **nuclear,** revenues were down over the first half of 2016, as a result of very low deliveries recorded in Q1 2016.

INDUSTRY & OTHER (19.3% OF REVENUES)

Industry & Other revenues amounted to €276 million in H1 2016, down -27.0% year-on-year (-21.2% at constant exchange rates).

- **In Europe,** revenues were significantly down as a result of lower volumes and prices. Booking activity showed some improvement in H1 2016 but in a context of disputed prices.
- **In Brazil,** revenues were significantly down compared with the first half of 2015 as a result of a market contraction with lower volumes and prices. Bookings in the first half of 2016 were down compared with the first half of 2015. Despite a slight improvement in Q2 2016, average iron ore prices in the first half of 2016 were lower than in the first half of 2015 (-13.3%).

Revenue by quarter

In € million	1st quarter	2nd quarter
2015	1,052	1,018
2016	671	763
% change compared with the previous year	- 36.2%	- 25.0%
Volume effect	*- 39.1%*	*- 11.3%*
Translation effect	*- 3.1%*	*-3.6%*
Other effects (price, mix, etc.)	*+ 6.0%*	*-10.1%*

Second quarter 2016 revenues were slightly up compared to first quarter 2016 revenues thanks to a more favorable mix.

EBITDA

In Q2 2016, EBITDA stood at -€32 million, improving by €40 million compared with -€72 million in Q1 2016 as a result of a concentration of deliveries with a more favorable customer/product mix.

EBITDA stood at -€104 million in H1 2016, down €170 million compared to H1 2015. This is due to:

- consolidated revenues down -30.7% compared to H1 2015 (-27.3% at constant exchange rates) to €1,434 million;
- lower industrial margin at €122 million, down €214 million mainly affected by: (i) the drop in activity and, to a lesser extent, (ii) inefficiencies of low load in the mills, despite high adaptation of costs;
- lower selling, general and administrative costs (SG&A) at €225 million, down 14.8% compared to H1 2015.

The following table shows the changes in the principal components of EBITDA in H1 2015 and H1 2016.

In € million	H1 2015	H1 2016	Change H1 2015/2016
Revenue	**2,070**	**1,434**	**- 30.7%**
Cost of sales	(1,734)	(1,312)	- 24.3%
Industrial margin	**336**	**122**	**- 63.7%**
% of revenue	16.2%	8.5%	- 7.7 pts
Selling, general and administrative costs	(264)	(225)	- 14.8%
Other expenses	(6)	(1)	N/A
EBITDA	**66**	**(104)**	**N/A**
% of revenue	*3.2%*	*- 7.3%*	*-10.5 pts*

Industrial margin

Industrial margin is defined as the difference between revenue and cost of sales (excluding depreciation and amortization).

Industrial margin for H1 2016 stood at €122 million, down €214 million from H1 2015 mainly affected by: (i) the drop in activity and, to a lesser extent, (ii) inefficiencies of low load in the mills, despite high adaptation of costs.

The following table shows the breakdown of cost of sales (excluding depreciation and amortization) in H1 2015 and H1 2016.

In € million	H1 2015	H1 2016	Change H1 2015/2016
Direct cost of sales	109	76	- 30.3%
Cost of raw materials consumed	604	472	- 22.0%
Labor costs	456	382	- 16.2%
Other manufacturing costs [a]	518	408	- 21.1%
Change in non-raw material inventories	47	(26)	- 155.3%
TOTAL	**1,734**	**1,312**	**- 24.3%**

(a) "Other manufacturing costs" consist mainly of energy and consumable materials costs, subcontracting and maintenance costs and provisions.

Selling, general and administrative costs

Selling, general and administrative (SG&A) costs were down by -14.8% to €225 million in H1 2016 compared with H1 2015.

This improvement resulted mostly from on-going cost deployment of the Valens plan; and, to a lesser extent, to favorable exchange rates despite inflation. Moreover, R&D costs decreased by -€13 million.

The following table shows the breakdown of SG&A expenses (excluding depreciation and amortization) in H1 2015 and H1 2016.

In € million	H1 2015	H1 2016	Change H1 2015/2016
Research and Development costs	42	29	- 31.0%
Sales and marketing expenses	50	44	- 12.0%
General and administrative expenses	172	152	- 11.6%
TOTAL	**264**	**225**	**- 14.8%**

Labor costs

Labor costs declined by -15.9%, from €602 million in H1 2015 to €506 million in H1 2016. This decrease resulted primarily from the headcount reduction due to the Group's adaptation measures and the implementation of Valens plans.

The following table shows the breakdown of personnel costs.

In € million	H1 2015	H1 2016	Change H1 2015/2016
Wages and salaries	424	381	- 10.1%
Employee profit sharing	21	9	- 57.1%
Expenses related to share subscription and share purchase options, and performance shares	3	1	- 66.7%
Social security costs	154	115	- 25.3%
TOTAL	**602**	**506**	**- 15.9%**

Headcount changed as follows.

Closing headcount of consolidated companies[a]	As at 30 June 2015	As at 30 June 2016	Change
Managers	3,433	3,192	-7.0%
Technical and supervisory staff	3,898	3,099	-20.5%
Production staff	14,688	11,395	-22.4%
TOTAL	**22,019**	**17,686**	**-19.7%**

(a) The headcount of companies recorded as joint ventures are included up to the percentage interest held.

Operating profit/(loss)

Operating result was a loss of -€418 million in H1 2016, compared to a loss of -€228 million in H1 2015, resulting primarily from (i) lower EBITDA and from (ii) restructuring charges of -€83 million and impairment charges of -€68 million mainly related to the strategic initiatives announced on 1 February 2016.

Depreciation of industrial assets

Depreciation of industrial assets was -€141 million in H1 2016, compared with -€149 million in H1 2015. This decrease was principally due to foreign exchange impacts.

Amortization, restructuring and other

Depreciation of non-industrial assets was -€22 million in H1 2016, compared with -€23 million in H1 2015.

Adaptation measures (net of expenses and provisions) totaled -€87 million, essentially relating to the labor costs resulting from measures to rationalize the European and Brazilian tube production units announced in February 2016.

Results of divestiture and scrapping of property, plant and equipment totaled a profit of €4 million in H1 2016, as compared with a loss of €2 million in H1 2015.

Impairment

Impairment charges were booked for a total amount of -€68 million in H1 2016 mainly resulting from the major strategic initiatives announced on 1 February 2016 including in particular -€46 million relating to European tube production units and -€18 million relating to Brazilian and North American mills.

The following table shows the breakdown of asset impairment.

In € million	H1 2015	H1 2016
Impairment of intangible assets	-	-
Impairment of property, plant and equipment	(9)	(54)
Impairment of biological assets	(8)	(4)
Impairment of goodwill		
Other impairment of assets	1	(10)
TOTAL	**(16)**	**(68)**

Financial income/(loss)

For the first half of 2016, financial result was a net charge of at -€68 million versus -€37 million in H1 2015, resulting mostly from the evolution of the forex result, impacted by the value of hedging instruments at the reporting date and the ineffective portion of hedges.

The following table shows the breakdown of financial income/(loss).

In € million	H1 2015	H1 2016	Change H1 2015/2016
Financial income	22	12	- 45.5%
Interest expense	(60)	(50)	- 16.7%
Net financial cost	**(38)**	**(38)**	**0%**
Other financial income and expense	**4**	**(25)**	**- 725.0%**
Other discounting expenses	**(3)**	**(5)**	**66.7%**
TOTAL	**(37)**	**(68)**	**83.8%**

Income tax expense

Income tax was a benefit of €46 million in H1 2016 as compared with a charge of -€15 million in H1 2015.

The actual tax rate was +10%, as compared with -6% in H1 2015 primarily due to the following:

- 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, the UK and for VSB.
- Permanent differences are explained mainly by the net income attributable to non-controlling interests, by the impact of capital increase costs, by 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.

Net income/(loss)

The share attributable to non-controlling interests amounted to -€27 million in H1 2016, compared to -€5 million in H1 2015.

Net result, Group share was a loss of €415 million in H1 2016, compared to a loss of €275 million in H1 2015.

The Group's net result, Group share on a per-share basis was a loss of €2.4 in H1 2016, as compared with a loss of €2.1 in H1 2015.

Liquidity and capital resources

Overview

Vallourec generated negative free cash flow of -€317 million in H1 2016, compared with a positive free cash flow of €3 million in H1 2015, principally due to:

- negative cash flow from operating activities of -€203 million, resulting from the drop in EBITDA;
- a seasonal increase in the operating working capital requirement of €41 million in H1 2016;
- capital expenditure of -€73 million, compared to -€89 million in H1 2015.

Net debt decreased from €1,519 million as at 31 December 2015 to €944 million as at 30 June 2016.

As at 30 June 2016, gross financial debt totaled €2.371 billion, including €1.122 billion in medium- and long-term financial debt and €1.249 billion in current financial debt. As at the same date, the Group had €1.427 billion in cash and cash equivalents. It also had undrawn credit lines for €2.3 billion as at 30 June 2016.

The Group's equity increased from €3,038 million as at 31 December 2015 to €3,710 million as at 30 June 2016, principally due to the €959 million capital increase that the Group completed in the second quarter of 2016 as part of the strategic initiatives announced on 1 February 2016, partially offset by the net loss incurred in the first half of 2016.

Cash Flow

Simplified Statement of Cash Flows

In € million	H1 2015	H1 2016
Cash flow from operating activities	(19)	(203)
Change in operating working capital requirement	111	(41)
Net cash flow from operating activities (1)	**92**	**(244)**
Net cash flow from investment activities (2)	**(97)**	**(67)**
Net cash flow from financing activities (3)	**(165)**	**1,062**
Impact of changes in exchange rates (4)	15	40
CHANGE IN CASH (1 + 2 + 3 + 4)	**(155)**	**791**

Net cash flow from operating activities

Net cash flow from operating activities was -€244 million for the six months ended 30 June 2016, as compared with €92 million for the six months ended 30 June 2015, mainly resulting from the drop in EBITDA.

The change in working capital requirement is broken as follows:

Gross amounts, in € million	31/12/2015	Impact of changes in exchange rates	Change	Reclassification and other	30/06/2016
Inventory	1,235	26	(68)	(4)	1,189
Customers	600	19	18	1	637
Trade payables	(523)	-	49	(8)	(482)
Other receivables and payables	7	15	8	3	34
Gross Working Capital Requirement (1)	**1,318**	**60**	**7**	**(7)**	**1,378**
Impact of hedging instruments (2)			**34**		
TOTAL (1) + (2)			**41**		
Change in Working Capital Requirement from Statement of Cash Flows			**(41)**		

Net cash flow from investment activities

Net cash flow used in investment activities was -€67 million for H1 2016, as compared with -€97 million for H1 2015. The decreased amount is due principally to the reduction of Capital Expenditures.

See "Capital Expenditures" below for a description of the main investments during H1 2016.

Net cash flow from financing activities

Net cash flow from financing activities was €1,062 million for H1 2016, as compared with -€165 million in H1 2015.

Net cash outflows in H1 2016 consisted primarily of the deposit in an escrow account in Q1 2016 of -€57 million in relation to the on-going acquisition of Tianda Oil Pipe.

In H1 2016, the Group had a cash outflow of -€651 million in loan repayments and a cash inflow of €813 million relating to new loans. On 3 May 2016, Vallourec successfully completed its €959 million capital increase, as discussed above.

Capital Expenditures

Principal investments during the period from 1 January 2016 to 30 June 2016

In recent years, industrial capital expenditure programs have been directed mainly toward streamlining production facilities, improving quality and process control, adapting product lines to reflect customers' changing requirements, expanding premium product finishing capacity and reducing production costs.

The following table shows the investments made during the six months ended 30 June 2015 and 30 June 2016, respectively.

Industrial capital expenditure excluding changes in scope (property, plant and equipment, intangible and biological assets)

In € million	Six months ended 30/06/2015	Six months ended 30/06/2016
Europe	32	28
North America	18	7
Central & South America	19	16
Asia	3	4
Other	0	0
TOTAL INDUSTRIAL CAPITAL EXPENDITURE[(c)]	**73**[(a)]	**55**[(b)]
Capital expenditure payments during the year[(c)]	**89**	**73**
ACQUISITIONS AND FINANCIAL INVESTMENTS		

(a) Including €8 million for biological assets.

(b) Including €4 million for biological assets.

(c) The difference between capital expenditure payments and the total of industrial capital expenditure corresponds to the variation of amounts payable on fixed assets.

The most significant investment programs implemented during the first half of 2016 are outlined below:

- the implementation of the new Cleanwell process in Europe for OCTG products;
- supporting the Valens plan cost reduction program; and
- improving the safety of people and facilities.

Free cash flow

For H1 2016, free cash flow was negative at -€317 million, as compared with positive free cash flow of €3 million in H1 2015. Free cash flow is defined as net cash flow from operating activities minus gross capital expenditures. The following table shows the calculation of free cash flow in H1 2015 and H1 2016.

In € million	H1 2015	H1 2016
Cash flow from operating activities	(19)	(203)
Change in operating working capital requirement + decrease, (increase)	+ 111	(41)
Net cash flow from operating activities	**+ 92**	**(244)**
Gross capital expenditures	(89)	(73)
FREE CASH FLOW	**3**	**(317)**

Liquidity and Indebtedness

As at 30 June 2016, consolidated gross financial debt totaled €2.4 billion, including €1.1 billion in medium- and long-term financial debt and €1.3 billion in current financial debt. As at the same date, the Group had €1.4 billion in cash and cash equivalents. Net debt thus totaled €944 million as at 30 June 2016, a decrease of €575 million from €1,519 million as at 31 December 2015.

As at 30 June 2016, Vallourec had undrawn confirmed credit lines in the amount of €2.3 billion, without any significant maturity dates before 2017.

On 4 July 2016, Vallourec successfully extended the maturity of C. €1.5 billion of its medium and long-term credit lines as follows:

- €90 million revolving bilateral credit line maturing in February 2019 extended to February 2021;
- €400 million revolving credit facility maturing in July 2019 extended to July 2020; and
- €1.1 billion revolving credit facility maturing in February 2020, extended to February 2021 for €989 million.

The amount available under these credit lines will be €2.3 billion at the end of 2016, €2.1 billion at the end of 2017 and 2018, and €2.0 billion at the end of 2019.

The Group's net debt to equity ratio was 25.4% as at 30 June 2016, compared to a ratio of 50.0% as at 31 December 2015.

The Group's financial resources include bank financing and market financing.

Most of the Group's long-term and medium-term bank financing was set up in Europe at the level of Vallourec and its sub-holding company Vallourec Tubes and, to a lesser extent, at the level of its subsidiaries in Brazil and the United States. The market financing is exclusively entered into by Vallourec.

The following table shows the Group's principal financial indebtedness as at 30 June 2016.

In € million	As at 30 June 2016
Bond issue maturing in February 2017	649
Private placement – maturing in August 2019	398
Private placement – maturing in August 2027	54
Bond issue maturing in September 2024	498
Commercial paper	231
VSB BNDES loan	13
VSB Finance Lease – Brazil	53
Bilateral credit lines – U.S.	72
Vallourec Star finance lease	36
Other	367
TOTAL GROSS FINANCIAL INDEBTEDNESS	**2,371**

The Group's principal bank arrangements (including its €1.1 billion revolving credit line maturing in February 2021, its €400 million revolving credit line maturing in July 2020, its €450 million revolving credit line maturing in February 2020 and its €90 million bilateral credit line maturing in February 2021) provide that Vallourec must maintain a ratio of consolidated net financial debt to consolidated equity that is less than or equal to 75%, calculated on December 31 of each year. The Group's consolidated debt to equity ratio was 43.0% as of 31 December 2015, as calculated under the Group's bank loan covenants. As defined in the bank loan agreements, the "banking covenant" ratio is the ratio of the Group's consolidated net debt to the Group's equity, restated for gains and losses on derivatives and for remeasurements (foreign currency gains and losses of consolidated subsidiaries).

A change in control of Vallourec could trigger acceleration of all or some of the credit lines, as decided by each participating bank. It is also provided that the credit lines will become immediately due and payable if the Group defaults on the one of its financial debts ("cross default"), or if a significant event occurs that will have an impact on the Group's activity or financial condition and its ability to repay its debt.

Equity

The Group's equity, Group share, totaled €3,360 million as at 30 June 2016, an increase of €714 million compared with €2,646 million as at 31 December 2015. This increase is essentially explained by:

- the €959 million capital increase that the Group completed in the second quarter of 2016 as part of the strategic initiatives announced on 1 February 2016;
- partially offset by the net loss incurred in the first half of 2016.

Outlook

The Group confirms that the second half of 2016 will continue to be impacted by the cyclical downturn in the Oil & Gas market:

- **in the USA,** operators continue to focus on enhancing efficiencies and improving cash-flows. Vallourec is well positioned to capitalize on the first signs of a market improvement in the US. Thanks to a unique combination of local manufacturing, regional R&D capabilities, technical support through VAM® Field Service and a very efficient distributor network, Vallourec provides the best solutions to meet customer expectations. In H2 2016, ongoing inventory reduction at distributors is expected to dissipate and prices should start increasing moderately, helping to offset the scrap price evolution;
- **in the EAMEA region,** deliveries in H2 2016 will be severely impacted by the low order intake in 2015 and since the beginning of 2016, and the steep decline in prices. In the current environment, IOCs continue to reduce their CAPEX and to be very selective in sanctioning projects. NOCs are launching significant tenders at very disputed prices;
- **in Brazil,** no major changes in market trends are expected in H2 2016. Petrobras maintains its focus on development of pre-salt basins at the expense of all other fields, which will result in a decline of OCTG tube deliveries in 2016 compared to 2015.

Power Generation revenues are expected to be broadly stable in 2016 compared to 2015, with the nuclear power generation activity experiencing a slowdown in 2016.

Industry & Other operations in Europe should continue to be affected by the weakness of global investments and pricing pressure. In Brazil, business will continue to suffer from the depressed local environment and from iron ore prices that are expected to be slightly lower than in 2015.

In this context, the Group confirms its targets for 2016 as published in its Full Year 2015 financial results, namely:

- EBITDA lower than in 2015;
- Negative free cash flow of approximately -€600 million (assuming same working capital level as end of 2015 and end of 2015 exchange rates).
- Net debt not exceeding €1.5 billion at the end of the year, after the acquisition of Tianda and full consolidation of VSB.

Consolidated interim financial statements

CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS OF THE VALLOUREC GROUP AT 30 JUNE 2016

Vallourec group's statement of financial position

Asset

In € thousand	Notes	31/12/2015	30/06/2016
NON-CURRENT ASSETS			
Net intangible assets	1	148,821	137,718
Goodwill	1	329,569	323,279
Gross property, plant and equipment	2.1	6,205,411	6,486,787
Less: accumulated amortization, depreciation and provisions	2.1	(3,044,350)	(3,362,741)
Net property, plant and equipment	2.1	3,161,061	3,124,046
Biological assets	2.2	154,694	181,287
Associates	3	176,835	171,321
Other non-current assets	4	233,133	268,853
Deferred tax assets	5	148,783	186,090
TOTAL		**4,352,896**	**4,392,594**
CURRENT ASSETS			
Inventories and work in progress	6	1,066,165	1,007,557
Trade and other receivables	7	544,904	588,220
Derivatives – assets	8	20,341	78,112
Other current assets	9	307,474	383,266
Cash and cash equivalents	10	630,540	1,427,099
TOTAL		**2,569,424**	**3,484,254**
Total assets held for sale	11	68,964	-
TOTAL ASSETS		**6,991,284**	**7,876,848**

Liabilities

In € thousand	Notes	31/12/2015	30/06/2016
EQUITY	13		
Capital		271,377	889,276
Additional paid-in capital		1,058,872	1,399,534
Consolidated reserves		2,794,668	1,870,796
Reserves, financial instruments		(54,279)	(22,528)
Foreign currency translation reserve		(500,575)	(315,492)
Net income for the period		(864,753)	(415,338)
Treasury shares		(59,642)	(46,503)
Equity, Group share		**2,645,668**	**3,359,745**
Non-controlling interests	**15**	**391,941**	**350,265**
TOTAL EQUITY		**3,037,609**	**3,710,010**
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	16	1,762,955	1,121,965
Employee benefits	19	224,477	280,817
Provisions	17	10,515	67,387
Deferred tax liabilities	5	216,172	188,256
Other long-term liabilities	18	31,731	50,129
TOTAL		**2,245,850**	**1,708,554**
CURRENT LIABILITIES			
Provisions	17	238,107	286,298
Overdrafts and other short-term borrowings	16	386,842	1,248,845
Trade payables		523,476	481,870
Derivatives – liabilities	8	152,430	130,871
Tax liabilities		13,981	9,841
Other current liabilities	20	332,854	300,559
TOTAL		**1,647,690**	**2,458,284**
Total Liabilities held for sale	11	60,135	-
TOTAL EQUITY AND LIABILITIES		**6,991,284**	**7,876,848**

PRESENTATION OF PERFORMANCE

Consolidated income statement

In € thousand	Notes	H1 2015	H1 2016
Revenue	**23**	**2,070,636**	**1,433,723**
Cost of sales[(a)]	24	(1,734,418)	(1,312,181)
Sales, general and administrative costs[(a)]	25	(264,073)	(224,756)
Other	26	(6,524)	(1,243)
EBITDA		**65,621**	**(104,457)**
Depreciation of industrial assets	27	(149,346)	(140,104)
Other depreciation and amortization	27	(22,577)	(21,594)
Impairment of assets and goodwill	28	(16,521)	(68,248)
Asset disposals, restructuring costs and non-recurring items	28	(105,490)	(83,162)
OPERATING INCOME/(LOSS)		**(228,313)**	**(417,565)**
Financial income		21,635	12,477
Interest expenses		(59,502)	(50,459)
Net interest expense		(37,867)	(37,982)
Other financial income and expenses		3,914	(25,483)
Other discounting expenses		(3,398)	(4,933)
NET FINANCIAL INCOME/(LOSS)	**29**	**(37,351)**	**(68,398)**
PRE-TAX INCOME/(LOSS)		**(265,664)**	**(485,963)**
Income tax	30	(14,745)	46,389
Share in net income/(loss) of associates	3	(264)	(2,440)
NET INCOME/(LOSS) FROM CONTINUING OPERATIONS		**(280,673)**	**(442,014)**
CONSOLIDATED NET INCOME/(LOSS)		**(280,673)**	**(442,014)**
Attributable to non-controlling interests		(5,576)	(26,676)
Group share		**(275,097)**	**(415,338)**
Group share:			
Earnings per share	14	(2.1)	(2.4)
Diluted earnings per share	14	(2.1)	(2.4)

(a) Before amortization and depreciation.

Statement of comprehensive income

In € thousand	Notes	H1 2015	H1 2016
CONSOLIDATED NET INCOME/(LOSS)		**(280,673)**	**(442,014)**
Other comprehensive income:			
Actuarial gains and losses on post-employment benefits		35,360	(57,178)
Tax attributable to actuarial gains and losses on post-employment benefits		(8,847)	6,693
Items that will not be reclassified to profit or loss		**26,513**	**(50,485)**
Exchange differences on translating net assets of foreign entities	13 and 15	66,733	179,102
Change in fair value of hedging financial instruments		17,056	42,114
Change in fair value of available-for-sale securities		8,368	(4,387)
Tax relating to the change in fair value of hedging financial instruments		(5,291)	(6,634)
Tax attributable to the change in fair value of available-for-sale securities		-	-
Items that may be reclassified subsequently to profit or loss		**86,866**	**210,195**
OTHER COMPREHENSIVE INCOME/(LOSS) (NET OF TAX)		**113,379**	**159,710**
TOTAL COMPREHENSIVE INCOME/(LOSS)		**(167,294)**	**(282,304)**
Attributable to non-controlling interests		25,117	(33,942)
Group share		**(192,411)**	**(248,362)**

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 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	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**
POSITION AS AT 31 DECEMBER 2015	**271,377**	**1,058,872**	**2,794,668**	**(500,575)**	**(54,279)**	**(59,642)**	**(864,753)**	**2,645,668**	**391,941**	**3,037,609**
Change in foreign currency translation reserve	-	-	-	185,083	-	-	-	185,083	(5,981)	179,102
Actuarial gains and losses on retirement commitments	-	-	(49,195)	-	-	-	-	(49,195)	(1,290)	(50,485)
Financial instruments	-	-	-	-	31,088	-	-	31,088	5	31,093
Other comprehensive income/(loss)	-	-	(49,195)	185,083	31,088	-	-	166,976	(7,266)	159,710
HY 2016 net income/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**(415,338)**	**(415,338)**	**(26,676)**	**(442,014)**
Comprehensive Income/(loss)	-	-	*(49,195)*	*185,083*	*31,088*		*(415,338)*	*(248,362)*	*(33,942)*	*(282,304)*
Appropriation of 2015 net income/(loss)	-	-	(864,753)	-	-		864,753	-	-	-
Change in share capital and additional paid-in capital	617,899	340,662	-	-	-		-	958,561	-	958,561
Change in treasury shares	-	-	(9,770)	-	-	13,139	-	3,369		3,369
Dividends paid	-	-	-	-	-		-	-	(1,008)	(1,008)
Share-based payments	-	-	-	-	-		-	-	-	-
Changes in consolidation scope and other	-	-	(154)		663			509	(6,726)	(6,217)
POSITION AS AT 30 JUNE 2016	**889,276**	**1,399,534**	**1,870,796**	**(315,492)**	**(22,528)**	**(46,503)**	**(415,338)**	**3,359,745**	**350,265**	**3,710,010**

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 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[a]	(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**
POSITION AS AT 31 DECEMBER 2015	**349,565**	**74,749**	**828**	**(33,201)**	**391,941**
Change in foreign currency translation reserve	-	(5,981)	-	-	(5,981)
Actuarial gains and losses on retirement commitments	(1,290)	-	-	-	(1,290)
Financial instruments		-	5	-	5
Other comprehensive income/(loss)	*(1,290)*	*(5,981)*	*5*	*-*	*(7,266)*
HY 2016 net income/(loss)				**(26,676)**	**(26,676)**
Comprehensive Income/(loss)	*(1,290)*	*(5,981)*	*5*	*(26,676)*	*(33,942)*
Appropriation of 2015 net income/(loss)	(33,201)	-	-	33,201	-
Dividends paid[a]	(1,008)	-	-	-	(1,008)
Changes in consolidation scope and other	(6,726)	-	-	-	(6,726)
POSITION AS AT 30 JUNE 2016	**307,340**	**68,768**	**833**	**(26,676)**	**350,265**

Statement of cash flows

In € thousand	Notes	H1 2015	H1 2016
Consolidated net income (including non-controlling interests)		**(280,673)**	**(442,014)**
Net amortization, depreciation and provisions		298,114	259,097
Unrealized gains and losses linked to changes in fair value		(1,475)	8,015
Income and expenses linked to share options and equivalent		2,845	652
Capital gains and losses on disposals		1,483	38,770
Share of net income in associates	3	264	2,440
Dividends reclassified as cash flows from investing activities		(869)	(397)
Cash flow from operating activities after net financial cost and taxes		**19,689**	**(133,437)**
Net financial cost	29	37,867	37,982
Tax expense (including deferred taxes)	30	14,744	(46,389)
Cash flow from operating activities before net financial cost and taxes		**72,300**	**(141,844)**
Interest paid		(59,502)	(50,460)
Tax paid		(53,929)	(23,102)
Interest received		21,635	12,481
Cash flow from operating activities		**(19,496)**	**(202,925)**
Change in operating working capital requirements	12	110,890	(41,373)
NET CASH FLOW FROM OPERATING ACTIVITIES (1)		**91,394**	**(244,298)**
Cash outflows for acquisitions of property, plant and equipment and intangible assets	2.1	(81,193)	(69,041)
Cash outflows for acquisitions of biological assets	2.1	(8,286)	(3,933)
Cash inflows from disposals of property, plant and equipment and intangible assets		-	518
Impact of acquisitions (changes in consolidation scope)		66	-
Cash of subsidiaries acquired (changes in consolidation scope)		-	-
Impact of disposals (changes in consolidation scope)		-	1,000
Cash of subsidiaries sold (changes in consolidation scope)		-	780
Other cash flows from investing activities		(7,546)	3,500
NET CASH FLOW FROM (USED IN) INVESTING ACTIVITIES (2)		**(96,959)**	**(67,176)**
Increase and decrease in equity		-	958,560
Dividends paid during the year			
› Dividends paid in cash to shareholders in the parent company		(44,165)	-
› Dividends paid to non-controlling interests		(21,395)	(1,078)
Movements in treasury shares		(7,132)	3,369
Proceeds drawn from new borrowings		477,076	812,904
Repayments of borrowings		(522,965)	(651,472)
Change in percentage interest in controlled companies		-	-
Other cash flows from financing activities		(46,384)	(60,092)
CASH FLOW FROM FINANCING ACTIVITIES (3)		**(164,965)**	**1,062,191**
Impact of changes in exchange rates (4)		15,704	40,324
CHANGE IN CASH (1 + 2 + 3 + 4)		**(154,826)**	**791,041**
Opening net cash		**1,108,708**	**624,559**
Closing net cash		**953,882**	**1,415,600**
Change		(154,826)	791,041

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 2016

In € thousand	Notes	31/12/2015	Change	30/06/2016
Gross cash (1)	10	630,540	796,559	1,427,099
Bank current accounts in debit and overdrafts (2)	16	5,981	5,518	11,499
CASH (3) = (1) - (2)		**624,559**	**791,041**	**1,415,600**
Gross financial debt (4)	16	2,143,816	215,495	2,359,311
NET FINANCIAL COST = (4) - (3)		**1,519,257**	**(575,546)**	**943,711**

Statement of changes in net debt in HY 2015

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

Summary notes to the consolidated financial statements for H1 2016

(In € thousand unless stated otherwise)

A – Consolidation principles

1. Framework for the preparation and presentation of the financial statements

The interim consolidated financial statements as at 30 June 2016, as well as the notes relating thereto were approved by the Vallourec Management Board on 26 July 2016.

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 2015, 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 2016 were prepared based on the standards and interpretation of the current IFRS[1] which were adopted by the European Union, which shall apply to the consolidated annual financial statements as at 31 December 2016, 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 a selection of attached notes which are intended to explain significant changes in the balance sheet between 31 December 2015 and 30 June 2016, as well as the primary operations which contributed to the net profit for H1 2016. The interim financial statements do not comprise all of the information that is required for complete annual financial statements, and must be read in conjunction with the Group's financial statements for the fiscal year ended 31 December 2015, registered with the AMF, on 16 March 2016 (available on the Company website at www.vallourec.com).

New mandatory standards

The Group's consolidated financial statements as at 30 June 2016 are not impacted by the mandatory standards as of 1 January 2016.

New standards not applied early

The IASB issued IFRS 15 – Revenue from Contracts with Customers, which introduced a new model of accounting for these revenues for contracts with customers and will replace IAS 11, IAS 18 and the IFRIC and SIC interpretations related to revenue recognition.

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

The IASB finalized its replacement plan for IAS 39 on financial instruments, publishing the full version of IFRS 9. This introduced changes especially relating to the classification of financial assets, the impairment model, and risk hedging.

The IASB published IFRS 16 Leases, which introduced a new accounting model for leases and will replace IAS 17 and related interpretations.

The Group is currently assessing the potential impact of first-time adoption of these texts which could become mandatory on 1 January 2018, and does not plan to opt for early application.

The Group has not opted for early application of any standards or interpretations that will be mandatory for fiscal years beginning on or after 1 January 2017.

The accounting methods and options used in approving the 2016 half-year financial statements could be modified according to changes in IFRS that are adopted by the European Commission between now and 31 December 2016.

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 measurements, unless otherwise indicated, may rely more on estimates than on annual financial data.

2. Accounting principles and methods

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 2015.

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 climate (uncertainty over economic development, a highly competitive international environment, and volatility of the costs of commodities and energy), the random nature of some estimates may be exaggerated, and may notably make it more difficult to determine the Group's economic outlook in order to conduct asset depreciation tests. A Group stock market value that is less than its consolidated net assets during a business cycle, a negative outlook associated with the economic, legislative or technological environment or a business sector would constitute an indication of impairment. As at 30 June 2016, the Group had analyzed the position of the various CGUs, and concluded on the basis of an update of the sensitivity analyses that there was no sign of an impairment loss as at 30 June 2016.

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

B – Consolidation Scope

Vallourec completed the disposal of its subsidiary Vallourec Heat Exchanger Tubes, recorded in available-for-sale assets at the end of 2015, to the company American Industrial Acquisition Corporation (AIAC) on 29 April 2016.

C – Major Events

On 3 May 2016, Vallourec carried out a capital increase with retention of shareholders' preferential rights for a gross amount of €480 million which resulted in the creation of 217,101,488 new shares. This capital increase, combined with the reserved issue of convertible bonds for an approximate amount of €514 million subscribed by Bpifrance Participations SA and Nippon Steel & Sumitomo Metal Corporation has allowed Vallourec to complete its announced global capital increase by a net amount of €959 million.

Following this capital increase with retention of shareholders' preferential rights and bond redemption on 3 May 2016 for BPI and 20 June 2016 for NSSMC, the capital was 444,638,049 shares with a nominal value of €2 each.

On 1 February 2016, the Group announced a reorganization plan that will primarily lead to the closure of two rolling mills (Saint-Saulve and Deville in France), a threading line (Mülheim in Germany), a heat treatment line (Bellshill in Scotland), and a blast furnace in Brazil.

All the structural measures and the disposal of Vallourec Heat Exchanger Tubes have generated a loss of €151 million in the H1 financial statements.

In May 2016, Vallourec took out a revolving credit line for €450 million maturing in February 2020. At 30 June 2016, this line had not been drawn.

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

NOTE 1 Intangible assets and goodwill

	Concessions, patents, licenses and other rights	Other intangible assets	Total intangible assets	Goodwill
GROSS VALUES				
As at 31/12/2015	**99,529**	**522,270**	**621,799**	**597,703**
Acquisitions	19	285	304	-
Disposals		(488)	(488)	-
Impact of changes in exchange rates	2,371	(4,908)	(2,537)	(9,771)
Other changes	2,273	1,824	4,097	(3,640)
AS AT 30/06/2016	**104,192**	**518,983**	**623,175**	**584,292**
AMORTIZATION AND IMPAIRMENT				
As at 31/12/2015	**(70,691)**	**(402,287)**	**(472,978)**	**(268,134)**
Net amortization expenses for the fiscal year	(3,518)	(12,777)	(16,295)	-
Impairment (see Note 2.3)	-	-	-	-
Disposals	-	482	482	-
Impact of changes in exchange rates	(2,265)	5,115	2,850	3,481
Other changes	20	464	484	3,640
AS AT 30/06/2016	**(76,454)**	**(409,003)**	**(485,457)**	**(261,013)**
NET VALUES				
As at 31/12/2015	**28,838**	**119,983**	**148,821**	**329,569**
AS AT 30/06/2016	**27,738**	**109,980**	**137,718**	**323,279**

NOTE 2.1 Property, plant and equipment

	Land	Buildings	Technical installations, industrial equipment and tools	Assets under construction	Other tangible assets	Total
GROSS VALUES						
As at 31/12/2015	**104,450**	**958,604**	**4,631,086**	**241,036**	**270,235**	**6,205,411**
Acquisitions	-	235	4,664	39,966	5,824	50,689
Disposals	(3,481)	(501)	(5,365)	(408)	(1,232)	(10,987)
Impact of changes in exchange rates	10,525	37,701	168,925	7,444	15,630	240,225
Other changes	1,566	11,807	106,637	(128,178)	9,617	1,449
AS AT 30/06/2016	**113,060**	**1,007,846**	**4,905,947**	**159,860**	**300,074**	**6,486,787**
DEPRECIATION AND IMPAIRMENT						
As at 31/12/2015	**(24,325)**	**(430,467)**	**(2,429,115)**	**(4,825)**	**(155,618)**	**(3,044,350)**
Net depreciation expenses for the fiscal year	(494)	(16,261)	(106,101)	-	(18,931)	(141,787)
Impairment losses (see Note 2.3)	(3,654)	(2,852)	(46,925)	(437)	(441)	(54,309)
Disposals	3,481	380	4,846	437	825	9,969
Impact of changes in exchange rates	(2,995)	(19,370)	(97,209)	142	(8,979)	(128,411)
Other changes	(326)	(270)	4,859	3	(8,119)	(3,853)
AS AT 30/06/2016	**(28,313)**	**(468,840)**	**(2,669,645)**	**(4,680)**	**(191,263)**	**(3,362,741)**
NET VALUES						
As at 31/12/2015	**80,125**	**528,137**	**2,201,971**	**236,211**	**114,617**	**3,161,061**
AS AT 30/06/2016	**84,747**	**539,006**	**2,236,302**	**155,180**	**108,811**	**3,124,046**

Impairment expensed as at 30 June 2016 was mainly linked to the strategic initiatives announced on 1 February 2016 that will primarily lead to the closure of two rolling mills (Saint-Saulve and Deville in France), a threading line (Mülheim in Germany), a heat treatment line (Bellshill in Scotland), and a blast furnace in Brazil.

Capital expenditure excluding changes in scope

	31/12/2015		30/06/2016	
	Intangible assets and property, plant and equipment	Biological	Intangible assets and property, plant and equipment	Biological (see Note 2.2)
Europe	108,711	-	27,850	-
North America	66,370	-	6,429	-
South America	46,396	13,193	12,548	3,933
Asia	15,501	-	4,146	-
Other	637	-	20	-
TOTAL	**237,615**	**13,193**	**50,993**	**3,933**
	250,808		54,926	-
Note 1: acquisition of intangible assets	2,607		304	-
Note 2.1: acquisition of property, plant and equipment	235,008		50,689	-
Total industrial capital expenditure	**237,615**	**13,193**	**50,993**	**3,933**
Changes in fixed asset liabilities and partner contributions	17,295	-	18,048	-
TOTAL	**254,910**	**13,193**	**69,041**	**3,933**
Statement of cash flows: capital expenditure paid out during the year:	268,103		72,974	

NOTE 2.2 Biological assets

Change in biological assets	Total
As at 31/12/2015	**154,694**
Investments	3,933
Valuation at fair value	2,845
Net depreciation expenses for the period	(3,616)
Impairment losses	(3,672)
Reclassification to inventory	(3,392)
Foreign exchange differences	30,495
AS AT 30/06/2016	**181,287**

NOTE 2.3 Impairment

In addition to the systematic annual tests on the CGU including goodwill, tests conducted at the end of each year based on the strategic plan, at each reporting date the Group performs one-off tests in case of indications of impairment on a CGU or an isolated asset.

At 30 June 2016, the strategic initiatives announced on 1 February 2016 that are aimed at responding to the overcapacity problems in the seamless tube production units and at refocusing on high value added activities led to impairment of specific assets to the value of €68 million, including €46 million on the Vallourec Europe CGU and €18 million on the Vallourec do Brasil and Vallourec North America CGUs.

NOTE 3 Associates

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

	HKM Allemagne	Tianda Oil Pipe	Others	Total
Activity	Steel mill	Tube manufacturing		
Business location	Germany	China		
As at 31/12/2015	**80,682**	**53,108**	**43,045**	**176,835**
Impact of changes in exchange rates	-	(2,249)	(1,138)	(3,387)
Dividends paid	(1)	(63)	-	(64)
Other	-	-	377	377
Contribution to net income of the period	-	(1,229)	(1,211)	(2,440)
AS AT 30/06/2016	**80,681**	**49,567**	**41,073**	**171,321**

NOTE 4 Other non-current assets

	Other investments in equity instruments	Loans	Other financial assets	Other	Total
As at 31/12/2015	**66,114**	**4,659**	**36,435**	**125,925**	**233,133**
Gross value	62,956	4,256	39,519	169,165	275,896
Provisions	(1,242)	(511)	(274)	(5,016)	(7,043)
AS AT 30/06/2016	**61,714**	**3,745**	**39,245**	**164,149**	**268,853**

As at 30 June 2016, available-for-sale equity securities related almost exclusively to Nippon Steel & Sumitomo Metal Corp, listed on the Tokyo Stock Exchange.

As at 30 June 2016, the fair value variation of these shares, based on their NAV of €59.6 million showed a loss of €4.4 million recognized in equity. Note that the NAV of the shares as at 31 December 2015 was €63.9 million. The €22.4 million loss at the end of June 2016 was 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 2016; see also Note 17).

Other non-current assets consist mainly of €158 million in deferred tax receivables in Brazil and the United States.

Variation compared to 31 December 2015 is explained by a forex effect.

MATURITIES OF OTHER NON-CURRENT ASSETS

30/06/2016	1 to 5 years	5 years or more	Total
Loans	2,077	2,179	4,256
Other investments in equity instruments		62,956	62,956
Other financial assets	205,670	3,014	208,684
TOTAL	**207,747**	**68,149**	**275,896**

NOTE 5 Deferred taxes

	31/12/2015	30/06/2016
Deferred tax assets	148,783	186,090
Deferred tax liabilities	216,172	188,256
NET DEFERRED TAX ASSETS/(DEFERRED TAX LIABILITIES)	**(67,389)**	**(2,166)**

Changes in deferred taxes are broken down as follows:

Net deferred tax assets/(liabilities)	H1 2016
AS AT 1 JANUARY 2016	**(67,389)**
Impact of changes in exchange rates	15,525
Recognized in net income	49,646
Recognized in reserves	112
Other	(60)
AS AT 30 JUNE 2016	**(2,166)**

The amount of deferred taxes relating to unrecognized tax loss carryforwards was €427 million at the end of June 2016. This was primarily broken down into deferred taxes that were unrecognized at the end of 2015 (€335 million on previous tax losses) and added to by the non-recognition of deferred taxes relating to tax loss carryforwards of €92 million for the half-year.

NOTE 6 Inventories and work in progress

	Raw materials and merchandise	Goods in production	Intermediate and finished goods	Total
GROSS VALUES				
As at 31/12/2015	**468,571**	**357,999**	**407,477**	**1,234,047**
Changes in inventories recognized in the income statement	(24,373)	(12,955)	(30,543)	(67,871)
Impact of changes in exchange rates	12,501	(5,972)	19,524	26,053
Other changes	895		(4,434)	(3,539)
AS AT 30/06/2016	**457,594**	**339,072**	**392,024**	**1,188,690**
IMPAIRMENT				
As at 31/12/2015	**(92,393)**	**(20,330)**	**(55,159)**	**(167,882)**
Impact of changes in exchange rates	(1,184)	628	(3,254)	(3,810)
Allowances[a]	(31,325)	(15,842)	(11,771)	(58,938)
Reversals of provisions	30,029	5,435	14,243	49,707
Other changes	(134)		(76)	(210)
AS AT 30/06/2016	**(95,007)**	**(30,109)**	**(56,017)**	**(181,133)**
NET VALUES				
As at 31/12/2015	**376,178**	**337,669**	**352,318**	**1,066,165**
AS AT 30/06/2016	**362,587**	**308,963**	**336,007**	**1,007,557**

(a) Expenses to provisions for inventories comprised the impairments, linked to industrial assets that were subject to impairment, in the amount of €10 million during H1 2016.

NOTE 7 Trade and other receivables

	Advances and partial payments on orders	Trade and other receivables (gross)	Provisions for impairment	Total
As at 31/12/2016	**12,637**	**587,082**	**(54,815)**	**544,904**
Impact of changes in exchange rates	1,216	17,392	(3,897)	14,711
Changes in gross values	(855)	26,684	-	25,829
Increase in provisions	-	-	(4,596)	(4,596)
Reversals of provisions	-	-	9,557	9,557
Reclassification to non-current	(382)	(6,696)	6,038	(1,040)
Other changes	(183)	20	(982)	(1,145)
AS AT 30/06/2016	**12,433**	**624,482**	**(48,695)**	**588,220**

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 €131.5 million as at 31 December 2015, hedging assets moved to a net liability position of €52.8 million as at 30 June 2016.

Fluctuations in the euro against the US dollar in H1 2016 accounted for most of the €41 million change in the intrinsic value of hedges of forecast sales and purchases in foreign currencies and the €33.9 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	As at 31/12/2015	As at 30/06/2016	Changes in H1 2016 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	(40,727)	234	40,961	44,149	(3,188)
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with trade receivables (and accounts payable[b])	(41,788)	(7,915)	33,873	(10)	33,883
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with financial receivables (and financial payables)	(54,701)	(48,597)	6,104	120	5,984
Recognition of premium/discount	4,062	975	(3,087)	1,311	(4,398)
Recognition of changes in fair value of interest rate swaps	-	-	-	-	-
Changes in values linked to hedging instruments set up under employee share ownership schemes	1,625	2,543	918	4	914
SUBTOTAL: DERIVATIVES	**(131,529)**	**(52,759)**	**78,770**	**45,574**	**33,196**
› Of which derivatives – assets	20,341	78,112			
› Of which derivatives – liabilities	152,430	130,871			
› Of which reclassification to assets held for sale	(559)	-			
2 - Receivables (payables) hedged in currencies – translation gain/loss					
Measurement as at the reporting date exchange rate (trade payables and accounts receivable[b])	36,877	7,478	(29,399)	-	(29,399)
Measurement as at the reporting date exchange rate (financial liabilities and accounts receivable[b])	55,299	49,034	(6,265)	-	(6,265)
Impact of hedging Transactions	**(39,353)**	**3,753**	**43,106**	**45,574**	**(2,468)**
3 - Measurement of other investments in equity instruments at fair value	**(13,951)**	**(18,417)**	**(4,466)**	**(4,466)**	
TOTAL	**(53,304)**	**(14,664)**	**38,640**	**41,108**	**(2,468)**

(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 2015, was €40.7 million. During H1 2016, around 76% of the positive change in fair value attached to the order book and commercial tenders at the end of 2015 was transferred from equity to the statement of comprehensive income, under Group "translation gain/loss". This amount represents the impact of the changes in value of foreign exchange hedges for the order book and commercial tenders as at 31 December 2015, which were fully or partially unwound or converted into receivables during H1 2016.

This corresponds mainly to the hedges of receivables in US dollars, which represent over 85% of the hedges with an impact on equity as at 31 December 2015.

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 (conversion and transactions), credit and equity risk. Liquidity risk is addressed in Note 16.

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

31/12/2015	Other borrowings	Cash
Fixed rate on date granted	1,990,269	-
Variable rate on date granted swapped to fixed rate	-	-
Fixed rate	**1,990,269**	-
Variable rate	**159,528**	**630,540**
TOTAL	**2,149,797**	**630,540**

30/06/2016	Other borrowings	Cash
Fixed rate on date granted	2,216,463	-
Variable rate on date granted swapped to fixed rate	-	-
Fixed rate	**2,216,463**	-
Variable rate	**154,347**	**1,427,099**
TOTAL	**2,370,810**	**1,427,099**

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 €231 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 2016, BRL 83 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 2016, financial debt exposed to changes in variable interest rates was €154 million (about 7% of total debt).

No significant line of fixed rate financing will reach contractual maturity during the 12 months after 30 June 2016, except for:

- the €650 million bond issue in February 2017;
- €231 million in outstanding commercial paper maturing in more than one year;
- €76 million for various lines of financing in the Group's 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 applied to the Brazilian and Chinese rates and to the UK and US money market rates would result in a €1.6 million increase in the Group's annual financial expenses, based on an assumption of complete stability of the financial debt 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 2016, 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 not have had an upward or downward impact on net income, Group share.

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 (-€315.5 million as at 30 June 2016) which, in recent years, have been linked mainly to movements in the US dollar and Brazilian real.

Foreign currency translation reserve – Group share	31/12/2015	30/06/2016
USD	320,968	285,616
GBP	(5,789)	(8,840)
BRL	(863,699)	(625,717)
CNY	58,473	44,746
Other	(10,528)	(11,297)
TOTAL	**(500,575)**	**(315,492)**

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 45% of Group revenue in 30 June 2016) 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 €59 million decrease or increase in the intrinsic value recognized in consolidated equity as at 30 June 2016. 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 2016, 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	As at 31/12/2015	As at 30/06/2016
Forward exchange contract: forward sales	1,065,094	1,021,124
Forward exchange contract: forward purchases	55,879	51,312
Currency options: sales	-	-
Currency options: purchases	-	-
Raw materials and energy: call options	-	-
TOTAL	**1,120,973**	**1,072,436**

Contract maturities as at 30 June 2016

Contracts on commercial transactions	Total	< 1 year	1 to 5 years	> 5 years
Forward exchange contract: forward sales	1,021,124	956,030	65,094	-
Forward exchange contract: forward purchases	51,312	44,122	7,190	-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Raw materials and energy: call options	-	-	-	-
TOTAL	**1,072,436**	**1,000,152**	**72,284**	**-**

Forward sales correspond mainly to sales of US dollars (€1,021 million of the €1,072 million total). These contracts were transacted at an average forward EUR/USD rate of 1.17 and an average forward USD/BRL rate of 3.89.

In 2016, as in 2015, the hedges entered into generally covered an average period of about 10 months and mainly hedged highly probable future transactions and foreign currency receivables.

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

- forward sales for USD 364.7 million (€275 million);
- forward sales in USD and GBP to hedge the positions linked to the centralization of the cash in currencies at Vallourec Tubes to the value of €198 million.

These instruments are aimed at hedging either the debt in USD or the loans in foreign currencies put in place by the financial holding Vallourec Tubes in the currency of the subsidiaries that benefit. The maturity of purchases and forward sales are staggered between 2016 and 2017 according to the maturity of the loans and payables hedged.

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 2016 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 €70.1 million as at 30 June 2016, or 11.9% 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 2016, trade receivables not yet due amounted to €431.6 million, or 73.2% of total net trade receivables.

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

As at 30/06/2016	0 to 30 days	30 to 60 days	60 to 90 days	90 to 180 days	> 180 days	Total
Trade receivables outstanding	269,091	112,024	30,049	15,538	4,914	431,616

4. Concerning the derivatives that have a positive value, the Group only deals with the top-tier counterparties. The credit risk is not considered significant.

Equity risk

Treasury shares held by Vallourec as at 30 June 2016 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:

- 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;
- 66,536 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, 108,600 shares in 2015 and 19,024 shares in 2016, under the various performance share plans;
- 79,716 treasury shares acquired in 2012 under the share buyback plan of 31 May 2012, upon the definitive allocation of 94,600 shares in 2014 and 225,684 shares in 2016, 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 6 April 2016 (seventeenth resolution).

As at 30 June 2016, the liquidity account at Rothschild & Cie Banque comprised the following:

- 1,650,000 shares with a value of €5 million;
- €8,709,195.

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.

30/06/2016	Notes	Category [a]	Gross value At 30/06/2016	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed equity interests		AFS	59,551	-	59,551	-
Other equity interests		AFS	3,405	-	3,405	-
Loans		L&R	4,256	4,256	-	-
Other financial assets		L&R/AHM [b]	39,519	39,519	-	-
Trade and other receivables	**7**	**L&R**	**624,482**	**624,482**	**-**	**-**
Derivatives – assets	**8**					
Hedging financial instruments		CFH	9,955	-	9,955	-
Hedging financial instruments [f]		A-FVTPL	68,157	-	-	68,157
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	**9**	**L&R**	**383,266**	**383,266**	**-**	**-**
Cash and cash equivalents	**10**	**A-FVTPL**	**1,427,099**	**-**	**-**	**1,427,099**
LIABILITIES						
Bank loans and other borrowings [c] [e]	**16**	**AC-EIR**	**248,248**	**248,248**	**-**	-
Other	**16**	**AC-EIR**	**432,625**	**432,625**	**-**	-
Finance leases	**16**	**AC-EIR**	**79,352**	**79,352**	**-**	**-**
Bond issues	**16**	**AC-EIR**	**949,929**	**949,929**	**-**	**-**
Overdrafts and other short-term borrowings [d] [e]	**16**	**AC-EIR**	**660,656**	**660,656**	**-**	-
Trade and other payables		**AC**	**481,870**	**481,870**	**-**	-
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	6,183	-	6,183	-
Hedging financial instruments		L-FVTPL	124,688	-	-	124,688
Speculative financial instruments		L-FVTPL	-	-	-	
Other current liabilities	**20**	**AC**	**300,559**	**300,559**	**-**	**-**

(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 11, Value 12, Value 13, Value 14 and Value 15 warrants, whose fair value as at 30 June 2016 was €2.5 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) valued on the basis of observable methods and data and with reference to the financial markets (yield curve, forward prices, etc.).

30/06/2016 Statement of financial position headings and classes of instruments	Category	Total fair value on statement of financial position	Fair value Listed prices (A)	Internal model with observable inputs (B)	Internal model with unobservable inputs
ASSETS					
Listed equity interests	AFS	59,551	59,551	-	-
Other equity interests	AFS	3,405	-	3,405	-
Derivatives – assets					
Hedging financial instruments	CFH	9,955	-	9,955	-
Speculative financial instruments	L-FVTPL	-	-	-	-
Cash and cash equivalents	**A-FVTPL**	**1,427,099**	**1,427,099**	**-**	**-**
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	6,183	-	6,183	-
Speculative financial instruments	L-FVTPL	-	-	-	-

31/12/2015	Notes	Category[a]	Gross value at 31/12/2015	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed equity interests		AFS	63,939	-	63,939	-
Other equity interests		AFS	3,227	-	3,227	-
Loans		L&R	4,659	4,659	-	-
Other financial assets		L&R/AHM[b]	36,662	36,662	-	-
Trade and other receivables	**7**	**L&R**	**587,082**	**587,082**	**-**	**-**
Derivatives – assets	**8**					
Hedging financial instruments		CFH	5,126	-	5,126	
Hedging financial instruments[f]		A-FVTPL	15,215	-	-	15,215
Speculative financial instruments		A-FVTPL		-	-	-
Other current assets	**9**	**L&R**	**307,474**	**307,474**	**-**	**-**
Cash and cash equivalents	**10**	**A-FVTPL**	**630,540**	**-**	**-**	**630,540**
LIABILITIES						
Bank loans and other borrowings[c][e]	**16**	**AC-EIR**	**238,010**	**238,010**	**-**	**-**
Other	**16**	**AC-EIR**	**229,873**	**229,873**	**-**	**-**
Finance leases	**16**	**AC-EIR**	**78,017**	**78,017**	-	-
Bond issues	**16**	**AC-EIR**	**1,597,916**	**1,597,916**	-	-
Overdrafts and other short-term borrowings[d][e]	**16**	**AC-EIR**	**5,981**	**5,981**	**-**	**-**
Trade and other payables		**AC**	**523,476**	**523,476**	**-**	**-**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	45,833	-	45,833	
Hedging financial instruments		L-FVTPL	106,596	-	-	106,596
Speculative financial instruments		L-FVTPL	-	-	-	-
Other current liabilities	**20**	**AC**	**332,854**	**332,854**	**-**	**-**

(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, Value 14 and Value 15 warrants, whose fair value as at 31 December 2015 was €1.6 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) valued on the basis of observable methods and data and with reference to the financial markets (yield curve, forward prices, etc.).

31/12/2015 Statement of financial position headings and classes of instruments	Category	Total fair value on statement of financial position	Fair value Listed prices (A)	Internal model with observable inputs (B)	Internal model with unobservable inputs
ASSETS					
Listed equity interests	AFS	63,939	63,939	-	-
Other equity interests	AFS	3,227	-	3,227	-
Derivatives – assets					
Hedging financial instruments	CFH	5,126	-	5,126	-
Speculative financial instruments	L-FVTPL		-	-	-
Cash and cash equivalents	**A-FVTPL**	**630,540**	**630,540**	**-**	**-**
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	152,429	-	152,429	-
Speculative financial instruments	L-FVTPL		-		-

NOTE 9 Other current assets

	Employee-related receivables and recoverable payroll taxes	Tax receivables excluding income tax	Prepaid expenses	Government, income tax	Other receivables	Total
As at 31/12/2015	**3,929**	**77,853**	**49,723**	**53,103**	**122,866**	**307,474**
Impact of changes in exchange rates	297	7,556	1,217	6,602	10,630	26,302
Provision allowances or reversals	-	-	-	-	1,389	1,389
Reclassification in current/non-current	-	(497)	-	(1,543)	-	(2,040)
Other changes	5,951	8,163	(6,783)	16,124	26,686	50,141
AS AT 30/06/2016	**10,177**	**93,075**	**44,157**	**74,286**	**161,571**	**383,266**

The “other receivables” amount includes the €57 million escrow account as guarantee for the planned acquisition of Tianda Oil Pipe securities, listed in Hong Kong.

NOTE 10 Cash and cash equivalents

	Investment securities (gross)	Cash and cash equivalents	Total
Au 31/12/2015	**460,526**	**170,014**	**630,540**
Impact of changes in exchange rates	36,627	(743)	35,884
Other changes	751,171	9,504	760,675
AU 30/06/2016	**1,248,324**	**178,775**	**1,427,099**

"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 Assets held for sale and discontinued operations

Net values

	31/12/2015	30/06/2016
Assets held for sale and discontinued operations	68,964	-
Liabilities held for sale and discontinued operations	(60,135)	-
TOTAL	**8,829**	**-**

These assets and liabilities are as follows:

	31/12/2015	30/06/2016
Non-current assets	40,360	-
Current assets	80,608	-
Non-current liabilities	(2,107)	-
Current liabilities	(58,028)	-
Asset impairment	(52,004)	-
NET CARRYING AMOUNT OF ASSETS/LIABILITIES HELD FOR SALE	**8,829**	**-**

Vallourec completed the disposal of its subsidiary Vallourec Heat Exchanger Tubes (VHET), recorded in available-for-sale assets at the end of 2015, to the company American Industrial Acquisition Corporation (AIAC) on 29 April 2016.

NOTE 12 Change in operating working capital requirements

Gross values	31/12/2015	Translation difference	Change	Reclassification and other	30/06/2016
Inventories	1,234,047	26,047	(67,871)	(3,533)	1,188,690
Trade receivables	599,719	18,608	17,784	804	636,915
Trade payables	(523,476)	106	48,939	(7,439)	(481,870)
Other receivables and payables	7,306	15,036	8,224	3,367	33,933
Gross working capital (1)	**1,317,596**	**59,797**	**7,076**	**(6,801)**	**1,377,668**
Impact of hedging instruments (2)			**34,297**		
TOTAL (1) + (2)			**41,373**		
Change in working capital in the statement of cash flows			(41,373)		

NOTE 13 Equity

CAPITAL

On 3 May 2016, Vallourec carried out a capital increase with retention of shareholders' preferential rights for a gross amount of €480 million which resulted in the creation of 217,101,488 new shares. This capital increase, combined with the reserved issue of convertible bonds for a gross amount of €514 million subscribed by Bpifrance Participations SA and Nippon Steel & Sumitomo Metal Corporation has allowed Vallourec to complete its announced global capital increase by a net amount of €959 million.

Following this capital increase with retention of shareholders' preferential rights and bond redemption on 3 May 2016 for BPI and 20 June 2016 for NSSMC, the capital was 444,638,049 ordinary shares with a nominal value of €2 each (compared with 135,688,432 as at 31 December 2015).

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.

	USD	GBP	BRL	CNY	Other	Total
As at 31/12/2015	**320,968**	**(5,789)**	**(863,699)**	**58,473**	**(10,528)**	**(500,575)**
Change	(35,352)	(3,051)	237,982	(13,727)	(769)	185,083
AS AT 30/06/2016	**285,616**	**(8,840)**	**(625,717)**	**44,746**	**(11,297)**	**(315,492)**

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
31/12/2015				
Average rate	1.11	0.73	3.70	6.97
Reporting date rate	1.09	0.73	4.31	7.06
H1 2016				
Average rate	1.12	0.78	4.13	7.30
Reporting date rate	1.11	0.83	3.59	7.38

NOTE 14 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	2015	H1 2016
Net income (loss) attributable to ordinary shareholders for basic earnings per share	**(864,753)**	**(415,338)**
Weighted average number of ordinary shares for basic earnings per share	130,613,382	171,872,013
Weighted average number of treasury shares for basic earnings per share	(486,826)	(2,029,673)
Weighted average number of shares for earnings per share	130,126,556	169,842,340
EARNINGS PER SHARE *(IN €)*	**(6.6)**	**(2.4)**
Dilution effect – share purchase and subscription options and performance shares		
Weighted average number of ordinary shares for diluted earnings per share	130,126,556	169,842,340
DILUTED EARNINGS PER SHARE *(IN €)*	**(6.6)**	**(2.4)**

Dividends paid during the year	2015	H1 2016
› for the previous fiscal year *(in €)*	0.81	-

NOTE 15 Non-controlling interests

	Reserves	Translation difference	Net income	Total
As at 31/12/2015	350,393	74,749	(33,201)	391,941
AS AT 30/06/2016	**308,173**	**68,768**	**(26,676)**	**350,265**

NOTE 16 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.

In Europe

In February 2014, Vallourec took out a revolving credit facility for an amount of €1.1 billion, maturing in February 2019, plus two one-year extension options. In addition to the first one-year extension obtained in the amount of €1.078 billion, the second extension was agreed in July 2016 for €989 million with a new maturity date of 2021. This credit line is available for the Group's general financing needs. As at 30 June 2016 this line had not been drawn.

In June 2015, Vallourec agreed a bilateral line of €90 million until February 2019 with two one-year extension options which were granted in July 2016. As at 30 June 2016 this line had not been drawn.

In September 2015, Vallourec took out a €400 million revolving credit line maturing in July 2019 with a one-year extension option that was agreed in July 2016 for the full amount, with a new maturity date of 2020. This credit line replaces four medium-term bilateral lines of €100 million each granted to Vallourec Tubes and maturing in July 2017. As at 30 June 2016, this line has not been drawn.

In May 2016, Vallourec took out a revolving credit line for €450 million maturing in February 2020. At 30 June 2016 this line had not been drawn.

In addition to the financing put in place by Vallourec, Vallourec Tubes has two medium-term bilateral lines of €100 million each, maturing in July 2017. As at 30 June 2016, neither of these two 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 Vallourec 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.

As at 30 June 2016, Vallourec had an outstanding debt of €231 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 a €500 million bond, maturing in September 2024, with a fixed annual coupon of 2.25%.

The market values of these fixed-rate bonds are €658.8 million, €420.3 million, €65.0 million and €540.9 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 2016, the Group complied with its covenants and the terms and conditions for obtaining and maintaining all of the above facilities. Together, the above resources as at 30 June 2016 were sufficient to cover the Group's cash requirements.

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. Amortization began on 15 February 2012. BRL 83.2 million of this loan had been used as at 30 June 2016.

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 2016, the residual amount outstanding on this finance lease was BRL 341.5 million.

In the United States

The Group's US companies have a set of bilateral bank lines for a total of USD 170 million, including USD 80 million maturing in 2019. The amount drawn as at 30 June 2016 was USD 80 million. These facilities include clauses relating to the debt of each of the companies involved and a change-of-control clause.

In 2013, Vallourec Star set up a finance lease with a nominal value of USD 64.3 million and a final maturity of five years. As at 30 June 2016, the residual amount outstanding on this finance lease was USD 39.8 million.

FINANCIAL LIABILITIES – NON-CURRENT LIABILITIES

	Bank borrowings	Finance leases	Bond issue	Other financial liabilities	Total
As at 31/12/2015	**78,704**	**78,017**	**1,597,916**	**8,318**	**1,762,955**
New debt	1		498	301	800
Repayments	(8,943)	(6,092)			(15,035)
Impact of changes in exchange rates	14,483	7,427		(350)	21,560
Reclassification in current/non-current			(648,485)		(648,485)
Other changes				170	170
AS AT 30/06/2016	**84,245**	**79,352**	**949,929**	**8,439**	**1,121,965**

FINANCIAL LIABILITIES – CURRENT LIABILITIES

	Bank overdrafts	Accrued interest on bank overdrafts	Bank borrowings (< 1 year)	Accrued interest on bank borrowings	Other financial liabilities (< 1 year)	Total
As at 31/12/2015	**5,981**	-	**159,306**	**33,372**	**188,183**	**386,842**
Reclassification in current/non-current		648,485				648,485
Impact of changes in exchange rates	(35)	-	10,568	(4)	19,441	29,970
Other changes	5,553	672	(5,871)	(490)	183,684	183,548
AS AT 30/06/2016	**11,499**	**649,157**	**164,003**	**32,878**	**391,308**	**1,248,845**

DEBT BY CURRENCY

	USD	EUR	BRL	Other	Total
As at 31/12/2015 *(in thousands of currency unit)*	261,770	1,715,789	739,043	n/a	n/a
As at 31/12/2015 *(in € thousand)*	240,443	1,715,789	171,404	22,161	2,149,797
As at 30/06/2016 *(in thousand of currency unit)*	**314,996**	**1,873,349**	**695,682**	**n/a**	**n/a**
AS AT 30/06/2016 *(IN € THOUSAND)*	**283,729**	**1,873,349**	**193,794**	**19,938**	**2,370,810**

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

	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
As at 31/12/2015	**702,822**	**42,682**	**412,558**	**14,078**	**590,815**	**1,762,955**
Finance leases	34,484	5,774	5,804	5,834	27,458	79,354
Other non-current financial liabilities	33,736	15,177	409,522	9,795	574,381	1,042,611
AS AT 30/06/2016	**68,220**	**20,951**	**415,326**	**15,629**	**601,839**	**1,121,965**

BREAKDOWN BY MATURITY OF CURRENT LOANS AND OTHER FINANCIAL LIABILITIES

	< 3 months	> 3 months and < 1 year	Total
Bank borrowings	21,013	138,294	159,307
Other borrowings	71,833	104,374	176,207
Finance lease liabilities	1,748	10,228	11,976
Accrued interest on borrowings	24,312	9,060	33,372
Bank overdrafts (negative cash and cash equivalents)	5,741	239	5,980
As at 31/12/2015	**124,647**	**262,195**	**386,842**
Non convertible bond issue	-	649,157	649,157
Bank borrowings	14,323	149,681	164,004
Other borrowings	254,354	124,058	378,412
Finance lease liabilities	1,794	11,101	12,895
Accrued interest on borrowings	22,508	10,370	32,878
Bank overdrafts (negative cash and cash equivalents)	11,052	447	11,499
AS AT 30/06/2016	**304,031**	**944,814**	**1,248,845**

DEBT BY INTEREST RATE

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

	Rate < 3%	Rate 3 to 6%	Rate 6 to 10%	Rate < 10%	Total
Fixed rate on date granted	673,482	1,240,592	76,195	-	1,990,269
Variable rate on date granted swapped to fixed rate	-	-	-	-	-
Fixed rate	673,482	1,240,592	76,195	-	1,990,269
Variable rate	129,978	2,232	22,001	5,317	159,528
As at 31/12/2015	**803,460**	**1,242,824**	**98,196**	**5,317**	**2,149,797**
Fixed rate on date granted	879,755	1,249,802	86,906	-	2,216,463
Variable rate on date granted swapped to fixed rate	-	-	-	-	-
Fixed rate	879,755	1,249,802	86,906	-	2,216,463
Variable rate	122,063	2,714	27,426	2,144	154,347
AS AT 30/06/2016	**1,001,818**	**1,252,516**	**114,332**	**2,144**	**2,370,810**

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

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 17 Provisions

Non-current liabilities	Provisions for environmental risks	Reorganization measures	Tax risks (income and other taxes, inspections, etc.)	Other	Total
As at 31/12/2015	**10,515**	**-**	**-**	**-**	**10,515**
Provisions for the period	292	490	6,487	298	7,567
Provisions used	-	-	(1,873)	(1,936)	(3,809)
Impact of changes in exchange rates	2,141	3	5,810	47	8,001
Reclassification in current/non-current	-	11,000	25,512	9,173	45,685
Other	-	-	190	(762)	(572)
AS AT 30/06/2016	**12,948**	**11,493**	**36,126**	**6,820**	**67,387**

Provisions for which the outcome is expected in more than one year (for example: provisions for tax disputes in Brazil, etc.) were reclassified in non-current.

PROVISIONS FOR ENVIRONMENTAL RISKS

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.

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).

Current liabilities	Disputes and commercial commitments	Unfilled orders – losses on completion	Reorganization measures	Tax risks (income and other taxes, inspections, etc,)	Other	Total
As at 31/12/2015	**37,421**	**60,860**	**81,120**	**25,743**	**32,963**	**238,107**
Provisions for the period	11,529	34,480	74,468		10,178	130,655
Provisions used	(10,927)	(18,107)	(9,840)		(2,836)	(41,710)
Other reversals	(2,012)	(2,433)				(4,445)
Impact of changes in exchange rates	3,138	2	(583)	(1)	5,683	8,239
Reclassification in current/ non-current	(3,676)	(32)	(11,000)	(25,512)	(5,465)	(45,685)
Changes in consolidation scope and other	112	66	3,977	-	(3,018)	1,137
AS AT 30/06/2016	**35,585**	**74,836**	**138,142**	**230**	**37,505**	**286,298**

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 REORGANIZATION AND RESTRUCTURING MEASURES

The provisions for reorganization and restructuring measures cover the estimated costs of the plan announced in 2015 and 2016 that primarily concern Europe. They include the following costs:

- termination and end of employment contract payments paid to staff for which the Company expects no more in counterparty;
- maintenance costs for staff after stoppage of the activity and until closure of the site (advanced notice payment is not made, for example);
- payment for break in contract paid to suppliers;
- rents still to run after stoppage of the activity until expiry of the rental contract, etc.

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.

CONTINGENT LIABILITY

In connection with investigations by Brazilian authorities relating to procedures involving Petrobras and targeting its tube suppliers, V&M do Brasil S.A. was cited in the decision of a federal judge dated 19 May 2016. This decision provided for authorities to visit the facilities of certain tube suppliers for purposes of collecting evidence. V&M do Brasil S.A. was not one of the suppliers that was visited. The company is offering its cooperation with judicial authorities in connection with the pursuit of these investigations. No provision has been constituted in relation to this matter.

NOTE 18 Other long-term liabilities

As at 31/12/2015	**31,731**
Impact of changes in exchange rates	5,795
Other changes	12,603
AS AT 30/06/2016	**50,129**

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

NOTE 19 Employee benefits

	Germany	France	United Kingdom	Other	Total
As at 30/06/2016					
Present value of the obligation	**316,160**	**54,430**	**147,585**	**101,374**	**619,549**
Retirement benefits	273,915	51,922	147,585	76,509	549,931
Early retirement commitments	25,320	-	-	-	25,320
Long-service awards and medical benefits	16,925	2,508	-	24,865	44,298
Fair value of plan assets	(156,273)	(7,958)	(145,002)	(29,500)	(338,733)
NET LIABILITY/(ASSET)	**159,887**	**46,472**	**2,583**	**71,874**	**280,817**

CHANGE IN NET LIABILITY

	Germany	France	United Kingdom	Other	Total
Net Liability/(Asset) at 31/12/2015	**138,194**	**46,371**	**(16,045)**	**55,957**	**224,477**
Expense for the period	10,078	(2,855)	1,108	5,267	13,598
Amount recognized in Other comprehensive income – remeasurement	24,226	4,248	20,263	8,441	57,178
Benefits or contributions to funds	(12,611)	(1,290)	(3,508)	(2,149)	(19,558)
Impact of changes in exchange rates	-	(2)	765	4,358	5,121
Changes in scope and other	-	-	-	-	-
NET LIABILITY/(ASSET) AT 30/06/2016	**159,887**	**46,472**	**2,583**	**71,874**	**280,817**

As at 30 June 2016, the main commitments were reviewed to take account of the changes in the discount rate on the basis of the sensitivity analyses carried out as at 31 December 2015.

The significant hedge funds were valued at their fair value as at 30 June 2016.

Main actuarial assumptions	Germany	France	United Kingdom	Other
31/12/2015				
Discount rate	2.10%	2.10%	3.80%	from 4.35% to 17.95%
Actual return on plan assets	2.10%	2.10%	3.80%	from 4.35% to 17.95%
30/06/2016				
Discount rate	1.30%	1.30%	2.80%	from 3.75% to 16.83%
Actual return on plan assets	1.30%	1.30%	2.80%	from 3.75% to 16.83%

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:	Germany	France	United Kingdom	Other	Total
As at 30/06/2016					
Current service cost	4,380	1,432	1,430	1,835	9,077
Interest expense	2,940	504	2,464	3,670	9,578
Actual return on plan assets	(1,590)	(40)	(2,786)	(677)	(5,093)
Actuarial losses/(gains) generated during the year	1,702	170	-	440	2,312
Impact of any reduction or liquidation	2,646	(4,921)	-	-	(2,275)
NET CARRYING AMOUNT	**10,078**	**(2,855)**	**1,108**	**5,267**	**13,598**

In France, the supplementary retirement plan was negotiated over the half year and led to a profit of €5 million.

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 2015, reference is made to the Group's consolidated financial statements for the year ended 31 December 2015.

Number of unexpired options

(In number of options)	
Number of unexpired options at 30/06/2016	**4,708,657**
of which, outstanding options for pre-2016 plans	1,711,898
of which, exercisable options for pre-2016 plans	791,128
of which, impact of capital increase[a] on pre-2016 plans	1,667,736
of which, options distributed in H1 2016 as part of the 2016 plan	537,895
Options exercised during H1 2016	-

(a) After application of the adjustment conditions provided for in articles L.228-99 and R.228-91 of the French Commercial Code and in accordance with the regulations of the performance share and share subscription option plans. The Vallourec Supervisory Board, during its meeting of 2 May 2016, decided to preserve the rights of holders of performance shares and share subscription options by ensuring for them the neutrality of the capital increase decided on 7 April 2016.

At 30 June 2016, the reported figures corresponds to the available numbers of shares allocated with a performance factor of 1 for plans that were vesting, and to the actual number of shares allocated for plans that had matured.

Value of the new plan introduced during the half-year[a]

	2016 Plan
Assumptions	
Share price at allocation date	€3.36
Volatility[b]	31.00%
Risk-free rate[c]	0.35%
Exercise price	€3.90
Dividend rate[d]	3.00%
Fair value of the option[e]	€0.53

(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 €0.53 for the 2016 plan.

PERFORMANCE SHARE PLANS

Characteristics of the new plan introduced during the half-year:

With regard to the characteristics of the plans agreed before 31 December 2015, reference is made to the Group's consolidated financial statements for the year ended 31 December 2015.

The characteristics of the plan introduced since 1 January 2016 are the following:

	2016 Plan
Allocation date	18/05/2016
Share price at allocation date	€3.36
Risk-free rate[a]	-0.10% (France), -0.22% (international)
Dividend rate[b]	3,00%
Fair value of the option	€2.74 (French residents) or €2.97 (non-French residents)
Number of beneficiaries at outset	533
Theoretical number of shares allocated	610,001

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

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

Number of outstanding shares

(In number of shares)	
Number of outstanding shares at 30/06/2016	2,279,106
of which, outstanding shares for pre-2016 plans	1,032,396
of which, impact of capital increase[a] on pre-2016 plans	636,709
of which, shares distributed in H1 2016 as part of the 2016 plan	610,001
Shares granted during H1 2016	244,552

(a) After application of the adjustment conditions provided for in articles L.228-99 and R.228-91 of the French Commercial Code and in accordance with the regulations of the performance share and share subscription option plans. The Vallourec Supervisory Board, during its meeting of 2 May 2016, decided to preserve the rights of holders of performance shares and share subscription options by ensuring for them the neutrality of the capital increase decided on 7 April 2016.

At 30 June 2016, the reported figures corresponded to the available numbers of shares distributed with a performance factor of 1 for plans that were vesting, and to the actual number of shares allocated for plans that had matured.

NOTE 20 Other current liabilities

	Social security liabilities	Tax liabilities	Liabilities associated with the acquisition of assets	Deffered income	Other current liabilities	Total
As at 31/12/2015	**219,841**	**32,020**	**24,848**	**5,463**	**50,682**	**332,854**
Impact of changes in exchange rates	5,268	661	498	-	2,368	8,795
Other changes	(19,609)	3,980	(18,703)	(4,503)	(2,255)	(41,090)
AS AT 30/06/2016	**205,500**	**36,661**	**6,643**	**960**	**50,795**	**300,559**

NOTE 21 Information on related parties

	Sales to related parties	Purchases from related parties	Related party receivables	Related party payables
As at 30/06/2016				
HKM	77	119,768	163	59,561
Joint Operations	20,537	48,803	75,995	58,096

NOTE 22 Contingent liabilities and commitments

Off-statement of financial position commitments received (excluding financial instruments)	31/12/2015	30/06/2016
Firm non-current assets orders	8,556	15,687
Guarantees and commitments received	119,735	138,610
Other commitments received	17,619	14,684
TOTAL	**145,910**	**168,981**
Off-statement of financial position commitments given (excluding financial instruments)	**466,157**	**577,692**

COMMITMENTS GIVEN BY MATURITY

	30/06/2016	< 1 year	> 1 year	> 5 years
Statement of financial position				
Long-term financial liabilities	2,370,810	1,248,845	520,126	601,839
Off-statement of financial position				
Market guarantees and letters of credit given	147,852	86,924	58,448	2,480
Other securities, mortgages and pledges given	74,802	-	2,225	72,577
Long-term lease	66,979	12,394	24,501	30,084
Firm asset orders given	15,687	15,687	-	-
Other obligations	272,372	196,627	75,745	-
TOTAL	**577,692**	**311,632**	**160,919**	**105,141**

	31/12/2015	< 1 year	> 1 year	> 5 years
Statement of financial position				
Long-term financial liabilities	2,149,797	386,842	1,172,140	590,815
Off-statement of financial position				
Market guarantees and letters of credit given	139,385	110,325	29,060	-
Other securities, mortgages and pledges given	62,000	97	1,794	60,109
Long-term lease	70,793	10,461	28,519	31,813
Firm asset orders given	6,758	2,145	4,613	
Other obligations	187,221	151,661	26,962	8,598
TOTAL	**466,157**	**274,689**	**90,948**	**100,520**

The joint venture agreement signed by the two shareholders, Vallourec and Nippon Steel and Sumitomo Metal Corp, 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 13.

Income statement items are translated at the average rate.

NOTE 23 Revenue

	H1 2015	H1 2016
Europe	462,077	307,312
North America (NAFTA)	655,844	237,943
South America	382,782	216,604
Asia	404,015	403,672
Rest of the world	165,918	268,192
TOTAL	**2,070,636**	**1,433,723**

NOTE 24 Cost of sales

	H1 2015	H1 2016
Direct cost of sales	(109,005)	(75,643)
Cost of raw materials consumed	(604,272)	(472,451)
Labor costs	(455,743)	(381,625)
Other manufacturing costs	(518,012)	(408,479)
Change in non-raw material inventories	(47,386)	26,017
TOTAL	**(1,734,418)**	**(1,312,181)**
Depreciation and amortization	(149,346)	(140,104)
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**(1,883,764)**	**(1,452,285)**

NOTE 25 Sales, general and administrative costs

	H1 2015	H1 2016
Research and Development costs	(42,546)	(29,187)
Sales and marketing costs	(49,804)	(44,036)
General and administrative costs	(171,723)	(151,533)
TOTAL	**(264,073)**	**(224,756)**
Depreciation and amortization	(22,577)	(21,594)
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**(286,650)**	**(246,350)**

PERSONNEL EXPENSES AND AVERAGE HEADCOUNT OF CONSOLIDATED COMPANIES

Personnel expenses	H1 2015	H1 2016
Wages and salaries	(424,525)	(380,986)
Employee profit-sharing	(21,101)	(9,207)
Expenses related to share subscription and share purchase options and performance shares[a]	(2,845)	(652)
Share subscription option plan of 1 September 2011	*(626)*	-
Share subscription option plan of 30 August 2012	*265*	*(43)*
Share subscription option plan of 2 September 2013	*(21)*	*831*
Share subscription option plan of 15 April 2014	*(127)*	*335*
Share subscription option plan of 15 April 2015	*(89)*	*(151)*
Share subscription option plan of 18 May 2016	-	*(6)*
Value 10 employee share ownership plan of 17 November 2010 including the bonus share allocation plan	*(544)*	-
Performance share allocation plan of 30 March 2011	*172*	-
Value 11 employee share ownership plan of 18 November 2011 including the bonus share allocation plan	*(22)*	*(20)*
2-4-6 performance share allocation plan of 18 November 2011	*(211)*	-
Performance share allocation plan of 30 March 2012	*(425)*	*567*
2-4-6 performance share allocation plan of 30 March 2012	*(481)*	*(187)*
Value 12 employee share ownership plan of 12 November 2012 including the bonus share allocation plan	*(13)*	*(11)*
Performance share allocation plan of 29 March 2013	*465*	*(1,399)*
2-4-6 performance share allocation plan of 29 March 2013	*(369)*	*(274)*
Value 13 employee share ownership plan of 14 November 2013 including the bonus share allocation plan	*(16)*	*(14)*
Performance share allocation plan of 15 April 2014	*(176)*	*17*
2-4-6 performance share allocation plan of 15 April 2014	*(386)*	*(12)*
Value 14 employee share ownership plan of 14 November 2014 including the bonus share allocation plan	*(11)*	*(10)*
Performance share allocation plan of 15 April 2015	*(230)*	*(213)*
Value 15 employee share ownership plan of 16 November 2015 including the bonus share allocation plan	-	*(37)*
Performance share allocation plan of 18 May 2016	-	*(25)*
Social security costs	*(153,945)*	*(115,623)*
TOTAL	**(602,416)**	**(506,468)**

(a) The decision of the Vallourec Supervisory Board of 2 May 2016 to preserve the rights of holders of performance shares and share subscription options by ensuring for them the neutrality of the capital increase decided on 7 April 2016 generates an additional expense of €(164) thousand for H1 2016.

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 19.

Closing headcount of consolidated companies[a]	31/12/2015	H1 2015	H1 2016
Managers	3,358	3,433	3,192
Technical and supervisory staff	3,334	3,898	3,099
Production staff	12,615	14,688	11,395
TOTAL	**19,307**	**22,019**	**17,686**

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

NOTE 26 Other

	H1 2015	H1 2016
Employee profit-sharing, bonuses and others	(21,101)	(9,716)
Fees for concessions and patents	16,923	10,902
Other income and expenses	(2,346)	(2,429)
TOTAL	**(6,524)**	**(1,243)**

Provision allowances, net of reversals	H1 2015	H1 2016
Provision allowances net of reversals included in EBITDA amounted to	(11,324)	(1,902)

NOTE 27 Accumulated depreciation and amortization

	H1 2015	H1 2016
By function		
Depreciation of industrial assets	(149,346)	(140,104)
Depreciation and amortization – Research and Development	(4,192)	(5,100)
Depreciation and amortization – Sales and Marketing Department contracts	(6,146)	(5,542)
Depreciation and amortization – General and administrative expenses	(12,239)	(10,952)
TOTAL	**(171,923)**	**(161,698)**
By type		
Net amortization of intangible assets (see Note 1)	(17,398)	(16,295)
Net depreciation of property, plant and equipment (see Note 2.1)	(148,006)	(141,787)
Net depreciation and amortization of biological assets	(6,519)	(3,616)
TOTAL	**(171,923)**	**(161,698)**

NOTE 28 Impairment of assets and goodwill, asset disposals, restructuring costs and non-recurring items

	H1 2015	H1 2016
Reorganization measures (net of expenses and provisions described in Note 17)	(103,334)	(87,153)
Gains and losses on disposals of non-current assets and other	(2,156)	3,991
Assets disposals, restructuring and non-recurring items	**(105,490)**	**(83,162)**

	H1 2015	H1 2016
Impairment of intangible assets (see Note 1)	0	0
Impairment of property, plant and equipment (see Note 2.1)	(9,377)	(54,309)
Impairment of biological assets (see Note 2.2)	(8,107)	(3,672)
Impairment of goodwill (see Note 1)	0	0
Other impairment of assets (see Note 6)	963	(10,267)
Impairment of assets and goodwill	**(16,521)**	**(68,248)**
TOTAL	**(122,011)**	**(151,410)**

NOTE 29 Financial income (loss)

	H1 2015	H1 2016
Financial income		
Income from investment securities	20,991	10,913
Income from disposals of investment securities	644	1,564
TOTAL	**21,635**	**12,477**
Interest expenses	**(59,502)**	**(50,459)**
Other financial income and expenses		
Income from securities	871	397
Income from loans and receivables	958	1,928
Exchange (losses) and gains and changes in premiums/discounts	1,801	(20,608)
Provision allowances, net of reversals	(1,644)	(2,171)
Other financial income and expenses	1,928	(5,029)
TOTAL	**3,914**	**(25,483)**
Other discounting expenses		
Interest expense pension obligations	(4,114)	(5,001)
Financial income from discounted assets and liabilities	716	68
TOTAL	**(3,398)**	**(4,933)**
FINANCIAL INCOME (LOSS)	**(37,351)**	**(68,398)**

The foreign exchange gain or loss is affected by the value of the hedging instruments at the reporting date, and by ineffective part of hedging instruments.

NOTE 30 Reconciliation of theoretical and actual tax expense

Breakdown of the tax expense	H1 2015	H1 2016
Current tax expense	(32,532)	(3,259)
Deferred taxes	17,787	49,648
NET EXPENSE (-), NET PRODUCT (+)	**(14,745)**	**46,389**
Consolidated net income (loss)	(280,409)	(439,574)
Tax expense	(14,745)	46,389
CONSOLIDATED NET INCOME (LOSS) BEFORE TAX	**(265,664)**	**(485,963)**
Statutory tax rate of consolidating company (see Note 5)	34.43%	34.43%
Theoretical tax	91,468	167,317
Impact of main tax loss carryforwards	(98,279)	(91,858)
Long term impact of capital gains or losses	1,496	1,496
Impact of permanent differences	(6,166)	(17,190)
Impact of differences in tax rates	68	(14,038)
Other impacts	(3,332)	662
NET EXPENSE (-), NET PRODUCT (+)	**(14,745)**	**46,389**
ACTUAL TAX RATE	**6%**	**10%**

The rate of 10% primarily reflects 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, the UK, 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 31 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 2016 and 2016.

INFORMATION ON RESULTS, ASSETS AND LIABILITIES BY OPERATING SEGMENT

H1 2016	Seamless tubes	Specialty Products	Holdings & miscellaneous [(a)]	Inter-segment transactions	Total
Income statement					
Sales to external customers	1,374,666	58,835	222	-	1,433,723
EBITDA	(88,135)	(6,427)	(9,360)	(535)	(104,457)
Depreciation and amortization	(151,377)	(9,750)	(769)	198	(161,698)
Impairment of assets and goodwill	(68,248)	-	-	-	(68,248)
Asset disposals and restructuring costs	(86,782)	6,623	13,997	(17,000)	(83,162)
OPERATING INCOME (LOSS)	**(394,542)**	**(9,554)**	**3,868**	**(17,337)**	**(417,565)**
Unallocated income/expenses					(68,398)
Pre-tax income					(485,963)
Income tax					46,389
Net income of associates					(2,440)
Consolidated net income					(442,014)
Statement of financial position					
Non-current assets	4,600,896	139,564	4,050,652	(4,398,518)	4,392,594
Current assets	1,920,667	57,194	196,910	(117,616)	2,057,155
Cash	395,705	536	1,532,061	(501,203)	1,427,099
TOTAL ASSETS	**6,917,268**	**197,294**	**5,779,623**	**(5,017,337)**	**7,876,848**
Equity	3,022,015	109,098	3,616,182	(3,387,550)	3,359,745
Non-controlling interests	354,345	(2)		(4,078)	350,265
Non-current liabilities	1,678,688	3,985	1,035,384	(1,009,503)	1,708,554
Current liabilities	1,862,220	84,213	1,128,057	(616,206)	2,458,284
TOTAL LIABILITIES	**6,917,268**	**197,294**	**5,779,623**	**(5,017,337)**	**7,876,848**
Cash flows investments					
Property, plant and equipment, intangible assets and biological assets (excluding cash out flows)	52,936	1,947	43	-	54,926
Other information					
Closing headcount	17,006	486	194	-	17,686
Personnel expenses	(467,287)	(18,999)	(20,182)	-	(506,468)

(a) Vallourec and Vallourec Tubes.

H1 2015	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/expenses					(37,351)
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)	4,881,956
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)**	**8,546,135**
Equity	3,497,921	154,108	3,235,073	(3,368,081)	3,519,020
Non-controlling interests	399,591	6,189	0	67	405,847
Non-current 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 out flows)	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.*

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 2016	Europe	North America	South America	Asia	Rest of the world	Total
Revenue						
Sales to external customers	307,312	237,943	216,604	403,672	268,192	1,433,723
Statement of financial position						
Property, plant and equipment, intangible assets and biological assets (net)	638,296	1,714,179	1,091,789	320,684	1,382	3,766,330
Cash flows						
Property, plant and equipment, intangible assets and biological assets	27,850	6,429	16,481	4,146	20	54,926
Other information						
Closing headcount	8,294	1,994	5,928	1,399	71	17,686
Personnel expenses	(285,076)	(99,737)	(94,972)	(25,538)	(1,145)	(506,468)

H1 2015	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 & 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)

NOTE 32 Subsequent events

On 4 July 2016, Vallourec successfully extended the maturity of approximately 1.5 billion of its medium-term and long-term credit lines, including the €1.1 billion syndicated credit line.

On 21 July 2016, Vallourec announced that it had started exclusive negotiations with the Ascometal Group with a view to selling it a majority interest in the Saint-Saulve steel mill.

Statutory Auditors' review report on the 2016 half-year financial information

For the period from January 1st to June 30, 2016

This is a free translation into English of the Statutory Auditors' review report on the half-yearly financial information 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 January 1st to June 30, 2016;
- 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 and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – 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 presented 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 29, 2016

The Statutory Auditors

Deloitte & Associés	KPMG Audit
Christophe Patrier	Department of KPMG SA
	Catherine Porta

REGISTERED OFFICE
27, avenue du Général Leclerc
92100 Boulogne-Billancourt (FRANCE)
552 142 200 RCS Nanterre

Tel : +33 (0)1 49 09 35 00
Fax : +33 (0)1 49 09 36 94

WWW.VALLOUREC.COM

A French limited liability company (Société anonyme) with Management and Supervisory Boards and issued capital of €889,276,098