



vallourec

Interim Financial Report

Half year ended 30 June 2009

This document is a translation of the interim financial report of Vallourec for the first half-year ended 30 June 2009.

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

Contents

Attestation by the person assuming responsibility for the interim financial report	1
Half-year activity report	2
Market environment of vallourec	2
Activity	3
Results	4
Capital expenditure and financial investments	4
Highlights	4
Transactions with related parties	5
Main risks and uncertainties for the second half of 2009	5
2009 Outlook	5
Consolidated half-year financial statements	6
Statement of financial position	6
Income statement	8
Statement of comprehensive income	9
Statement of changes in equity	10
Statement of changes in minority interests	11
Consolidated statement of cash flows	12
Condensed notes to the consolidated financial statements for the first-half of 2009	14
Notes to the financial statements	17
Statutory Auditors' review report on the half-year financial information for 2009	43

Attestation by the person assuming responsibility for the interim financial report

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

Boulogne-Billancourt, France, on 29 July 2009



Philippe Crouzet
Chairman of the Management Board

Half-year activity report

Vallourec's consolidated sales for the first half of 2009 amounted to €2,395.0 million, down 20.3% compared with sales of €3,003.3 million in the first half of 2008.

EBITDA decreased by 25.2% to €577.8 million compared with €772.3 million in the first half of 2008, giving an EBITDA/sales ratio of 24.1%.

Net income, Group share, amounted to €311.1 million in the first half of 2009, down 30.6% compared with the first six months of the previous year (€448.4 million).

MARKET ENVIRONMENT OF VALLOUREC

OIL & GAS

The sharp drop in oil prices during the second half of 2008 (Brent prices fell from \$145/bbl in July to \$35/bbl at the end of December 2008), significantly impacted the oil and gas markets. In a context of reduced demand for oil related products, tightening credit conditions and lower revenue expectations, most oil and gas companies were obliged to reduce their investments, announcing anticipated reduction of 15% on average in E&P expenditure compared to 2008. This has resulted in numerous project delays and efforts to reduce costs and optimise inventories, (including tubular stocks of OCTG).

The rebound in the oil price of close to 100% during the first half of 2009, has not at this stage, altered this situation. National oil companies in the Middle East have again delayed the launch or conclusion of tender offers initially scheduled for the second quarter. As a result of these conditions, the decline in drilling activity seen towards the end of 2008, accelerated during the first half of 2009. At the end of June, the international rig count (excluding North America) had declined by 12% compared to June 2008.

In the US, the increased production of gas resulting from record drilling activity combined with increased drilling productivity in 2008, particularly in the non-conventional shale gas, coincided with a fall in demand caused by the economic recession. This imbalance in the natural gas market resulted in a sharp drop in gas prices, falling from \$13/Mmbtu in July 2008 to less than \$4/Mmbtu on average during the second quarter of 2009. At such prices, drilling activity is uneconomic for the majority of US producers, notably small independent companies, (56% of gas produced in the US is produced by companies with fewer than 50 employees), who dramatically reduced their activity. At the end of June 2009, the US rig count totalled 917 rigs in activity compared to a peak of 2,031 rigs at the beginning of September 2008, a drop of 55%. Over the same period, the level of inventory held by US distributors was inflated by a high level of Chinese commodity imports. Relative to a reduced level of

consumption, these inventories rose to close to 15 months of supply, well above the average working level held by distributors of around 6 months.

Chinese imports started to decline during the second quarter of 2009, due to both lower demand and the threat of anti-dumping actions. This reduction, combined with the sharp drop in domestic production has helped to reduce inventory levels (in absolute terms). Industry observers anticipate a recovery in investments in the market will take place as a result of lower gas production caused by lower drilling activity. However it is not possible to anticipate exactly when this will occur. Nor is it possible to evaluate the impact that the planned development of LNG (liquefied natural gas) imports to the US will have. In any event, it appears unlikely that demand for OCTG in the US will pick up before 2010.

POWER GENERATION

Despite strong, long-term demand fundamentals, linked to the need to replace obsolete power plants in OECD countries combined with growing energy needs in emerging markets (notably China and India) the power generation market is on hold. It has become a more difficult and lengthier process for energy companies to launch their capital intensive projects in view of the financial crisis, weakened cash flows arising from high raw material costs in 2008, and the anticipated 3.5% contraction of worldwide energy consumption in 2009 (the first annual contraction since the Second World War).

In China, local electricity producers have confirmed the slow down of the market following the significant efforts that were made to catch up for the Olympic games in Beijing, while priority for the governments' economic stimulus is the development of the energy distribution grid. Furthermore, Chinese boiler manufacturers hold significant inventories of tubes built up during 2008. In the US, demand has equally slowed down ahead of policy decisions by the Obama administration

regarding environmental regulations. As a result, the first half of 2009 was impacted by a notable worldwide decline in demand for tubes for power plants.

The market for nuclear power, however, appears to have completely avoided the crisis. The efforts to reduce CO₂ emissions are encouraging several countries to select this option for the production of electricity. The nuclear renaissance is reflected in an increased number of nuclear power plant construction projects worldwide, notably in China, where authorities have revised their nuclear programme upwards over recent months. The US also plans to re-launch its nuclear power programme. France is expected to revamp its installed capacity of nuclear power plants (by 2025, 24 of the existing reactors will have been in operation for over 40 years) and to install one EPR (European Pressurised Reactor) per year between 2020 and 2025. The worldwide installed nuclear capacity should thereby increase by more than 300 GW between 2006 and 2030 (according to AREVA). These new capacities will generate an increased demand for special tubes over and above today's supply capacity.

OTHER APPLICATIONS

The economic crisis was accompanied by a contraction in worldwide industrial activity of 0.2% in 2008 and by an estimated contraction of 10.4% in 2009. This has induced a reduction in demand for tubes for industrial applications which has been accentuated by a destocking phenomenon both at distributors and by end users in different markets.

The fall in oil prices and financing problems have contributed to the difficulties in the **Petrochemicals** market. Several end users have postponed investment decisions and re-evaluated their budgets, speculating on price reductions. Only the Middle East has seen any major projects during the first half of 2009.

In the **Mechanicals** segment, the fall in industrial investments has impacted European equipment sales, notably in Germany and in Italy, which were hit hard during the first half of 2009.

Automotive and **Other activities** (construction in particular) were also impacted by the crisis to a large extent, as demonstrated by the industrial statistics of the first half 2009.

ACTIVITY

As a result of weaker demand, sales volume of rolled tubes in H1 2009 totalled 858.8 thousand tonnes, compared to 1,398.5 thousand tonnes in H1 2008, down 38.7%.

Consolidated sales for the first half totalled €2,395.0 million, down 20.3% compared to H2 2008 (€3,003.3 million), which compares favourably to the volume decline as the combined price and mix effect remained positive. The decrease in sales consisted of a negative volume effect (-38.7%), partly offset by positive effects from scope (+1.9%), currency (+1.2%) and combined price and mix effect (+26.2%). In H1 2009, Energy (Oil & Gas and Power generation) represented 75% of total sales, versus 65% of total sales in H1 2008.

In **Oil & Gas**, H1 2009 sales totalled €1,213 million compared to €1,349 million in H1 2008, a 10% decrease year on year. In the United States, demand contracted during first half as a result of the sharp drop in the active rig count and of the destocking undertaken by distributors. Nevertheless, sales benefited from higher average selling prices than in H1 2008, from the integration of the companies acquired in May 2008, and from the good resilience of Premium threading activity.

In the rest of the world, activity during H1 2009 remained good thanks to the backlog, but sales were impacted negatively by the defavourable €/ \$ hedging rate contracted in 2008. Sales were strong in Brazil, thanks to investments made by the national oil company Petrobras and its partners.

In **Power generation**, H1 2009 sales were €582 million compared to €599 million in H1 2009. They were relatively stable (-2.8%) thanks to orders booked in 2008 and delivered at higher prices than in H1 2008. Strong sales in Europe and South Africa partly offset the decline in sales to China.

The share of sales to the nuclear industry remained stable, as the sizeable projects booked in 2008 will be delivered in H2 2009 and in 2010.

Sales to the non energy segments (**Petrochemicals**, **Mechanical engineering**, **Automotive**, and **"Other"**) amounted to €599 million, down 43.3% compared to prior year (€1,056 million in H1 2008). Sales continued to be impacted by the sharp slowdown in industrial activity initiated at the end of 2008, combined with measures by both end users and distributors, to reduce inventories.

Sales to the Automotive (-56.8% at €82 million) and to Other (-52.7% at €87 million) were the most affected in view of their early entry into the crisis and the magnitude of the recession which has hit these sectors of the economy.

Mechanical engineering sales decreased by 46.8% to €202 million, whilst a lag effect has delayed the impact of the crisis in the Petrochemicals market. Sales to this sector declined by 24.5% at €228 million during H1 2009.

RESULTS

EBITDA for H1 2009 amounted to €577.8 million, down 25.2% compared to prior year (€772.3 million in H1 2008). Relative to sales, the EBITDA margin reached 24.1%, versus 25.7% in H1 2008. A favourable price/mix effect and the rapid cost adaptation compensated to some extent the decline in volume.

Total operating costs decreased by €493 million year on year (-21.6%) in line with lower sales (-20.3%). Purchases consumed decreased by €418.8 million (-36.0%) as a result of both lower volumes and lower prices of raw materials. All other costs, including personnel costs, decreased by €125.1 million (-11.1%), reflecting the flexibility of the Group's cost structure.

Total net income in H1 2009 reached €329.8 million, down from the same period last year (€462.6 million). Net income, Group share amounted to €311.1 million, down 30.6% versus H1 2008 (€448.4 million).

During the first six months, the Group generated a strong level of operating cash flow of €733.4 million. Working capital requirements were reduced by €261.1 million for the year to date.

Capital expenditure amounted to €256.5 million during the first half. Cash outflows in H1 2009 were significantly lower than those of H1 2008 (which included the acquisition of three American companies from Grant Prideco for €520 million in May 2008, and payment of the dividend which, this year, was made at the beginning of the second half).

As a result of the cash flow generated by the Group, net debt decreased by €445.3 million since the beginning of the year, resulting in a positive cash balance of €98.8 million at the end of June (net debt was €346.5 million at 31 December 2008). The gearing ratio was -2.8% at 30 June 2009 (10.7% on 31 December 2008).

At the end of June, the Group's cash exceeded its overdrafts and short-term bank borrowings by €820.9 million. More than 95% of the €722.1 million bank loans and other borrowings have a maturity in excess of two years. Vallourec maintains its undrawn confirmed credit lines of around €1 billion with maturities in 2012 and 2013.

CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS

During the first half, capital expenditure totalled €256.5 million, up 24.3% compared with the first six months of 2008 (€206.4 million). This amount includes expenses related to the construction of the new

integrated site of Vallourec & Sumitomo Tubos do Brasil, as well as other strategic investments.

HIGHLIGHTS

On 18 February, Vallourec and Tubacex signed a long term cooperation agreement to reinforce their offer of seamless stainless steel tubes for the Oil & Gas and Power generation markets. R&D and sales teams of the two companies have started to work jointly for the success of this new partnership which has been very welcome by customers.

During the first half, VAM USA and V & M Atlas Bradford (which was acquired in May 2008) were merged to form VAM USA LLC, and on July 1st, V & M Star absorbed V & M TCA (also acquired in May 2008), in order to generate the synergies anticipated at the time of the acquisition.

In parallel, Sumitomo Metal Industries and Sumitomo Corporation acquired shares in the capital of V & M Atlas Bradford and V & M TCA, in order to maintain the same level of shareholding as their

respective prior interests in VAM USA and in V & M Star. As a further gesture of cooperation, Vallourec and Sumitomo Metal Industries agreed to purchase each other's common shares, for an amount of approximately USD 120 million, over a period up to 31 December 2009. This cross shareholding reflects the numerous ties which exist today between the two groups. At 30 June 2009, Vallourec had yet to acquire shares in Sumitomo.

On 16 March 2009, the Group announced its decision to invest €80 million in new production capacities to meet the growing needs of the nuclear power industry. Valinox Nucléaire, will increase the annual production capacity of its Montbard plant (Côte-d'Or, France) to 4,500 km of tubes in 2011. In addition, Valtimet will double its production capacity for condenser tubes at its plants in Venarey-les-Laumes (Côte-d'Or, France) and Brunswick (Georgia, United-States).

This investment decision was subsequently comforted by the signature of two long term agreements (LTA) by Valinox Nucléaire. Under the first LTA signed in May with Shanghai Electric Nuclear Power Equipement Corp. (SENPEC), Valinox Nucléaire commits to delivering steam generator tubes for several nuclear power plants per year over the period 2012-2015, thus guaranteeing the supply of these critical components to the Chinese programme. The second LTA finalized in July, aims at supplying Areva's projects in France and overseas with deliveries starting in 2012.

On 2 July 2009, Vallourec increased its strategic shareholding in P.T. Citra Tubindo (PTCT) to 78.2% of the capital. The company has manufacturing facilities located in Batam, Indonesia, providing heat

treatment and threading of oil country tubular goods (OCTG) together with oil-field accessories, serving the Oil & Gas industry throughout the Asia-Pacific region. Leader in the Indonesian market, PTCT has been a VAM® licensee since 1985. This strategic investment allows Vallourec to strengthen its presence in Indonesia and the Asia-Pacific region, where oil and gas exploration and production are expanding, under technical conditions requiring increasingly Premium products and solutions.

Payment of the 2008 dividend was made on 7 July 2009, through the delivery of 2,783,484 new shares (5.2% of the capital) and a cash amount of €111.5 million.

TRANSACTIONS WITH RELATED PARTIES

The main transaction with related parties in the first half of 2009 concerned purchases of steel billets from HKM totalling €133.3 million.

During the first half, a capital increase of €128 million (Group's share) was subscribed in favour of Vallourec & Sumitomo Tubos do Brasil.

Transactions were entered into with Rothschild & Cie under the consultancy agreement to assist the Management Board. In the first half of 2009, this expenditure totalled €0.3 million.

MAIN RISKS AND UNCERTAINTIES FOR THE SECOND HALF OF 2009

Besides the risks pertaining to the rise in raw material prices and movements in the euro/dollar exchange rate, Vallourec does not anticipate any changes in other risks as described out in chapter 4, section 4.1 – "Main Risks" in the 2008 Reference Document filed with the French securities regulator (Autorité des Marchés Financiers – AMF) on 30 April 2008 under reference no. D.09-0364, that are likely to impact the second half of 2009. Nor has Vallourec identified any

new risks not already mentioned in this same Section.

A description of pending market and liquidity risks is provided in the notes 8 and 14 to the condensed consolidated financial statements, respectively in pages 23 to 25 and 27 to 28 of the present interim financial report.

2009 OUTLOOK

In view of the seasonality combined with the current economic environment, Vallourec anticipates a low point in activity in the third quarter 2009.

The Group is reinforcing the cost reduction measures taken during the first half of the year and will further reduce working hours with prolonged summer plant closures and the extension of short-time

working in Europe. Despite the effect of cost reductions, continuing low volumes and pricing pressure will result in lower sales and EBITDA during the second half.

Vallourec is further reducing its working capital requirements which, coming from a strong balance sheet position, will enable it to finance its strategic capex programme and to prepare for demand recovery.

Consolidated half-year financial statements

STATEMENT OF FINANCIAL POSITION

Assets in € thousand	Notes	31/12/2008	30/06/2008	30/06/2009
NON-CURRENT ASSETS				
Intangible assets, net	1	260,876	254,983	240,534
Goodwill	1	308,289	274,179	303,827
Gross property, plant and equipment	2	2,469,278	2,252,900	2,799,038
less: accumulated depreciation	2	-828,289	-791,616	-897,737
Property, plant and equipment, net	2	1,640,989	1,461,284	1,901,301
Investments in equity affiliates	3	76,885	58,826	89,202
Other non-current assets	4	38,639	45,283	44,730
Deferred tax assets	5	36,951	16,998	37,521
Total		2,362,629	2,111,553	2,617,115
CURRENT ASSETS				
Inventories and work-in-progress	6	1,443,661	1,332,373	1,287,132
Trade and other receivables	7	1,203,572	1,136,638	873,289
Derivatives – assets	8	26,280	150,247	35,894
Other current assets	9	200,548	202,311	277,174
Cash and cash equivalents	10	528,146	509,889	1,043,318
Total		3,402,207	3,331,458	3,516,807
TOTAL ASSETS		5,764,836	5,443,011	6,133,922

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Statement of financial position

Equity and liabilities <i>in € thousand</i>	Notes	31/12/2008	30/06/2008	30/06/2009
EQUITY				
Share capital	11	215,155	212,155	215,155
Additional paid-in capital		105,438	60,655	105,438
Consolidated reserves		2,048,204	2,040,049	2,707,393
Reserves, financial instruments		-54,359	62,410	-15,072
Reserve from translation of foreign operations		-131,081	-42,095	-29,317
Profit or loss for the period		967,191	448,447	311,105
Own shares		-17,789	-3,632	-16,907
Equity attributable to owners of the parent		3,132,759	2,777,989	3,277,795
Minority interests	13	99,171	80,601	221,967
Total equity		3,231,930	2,858,590	3,499,762
NON-CURRENT LIABILITIES				
Bank loans and other borrowings	14	650,226	530,734	722,136
Employee benefits	16	146,567	168,176	149,823
Other provisions	15	6,937	5,203	6,924
Deferred tax liabilities	5	84,007	110,622	89,396
Other long-term liabilities		767	1	371
Total		888,504	814,736	968,650
CURRENT LIABILITIES				
Provisions for liabilities and charges	15	93,193	82,244	128,895
Overdrafts and other short-term bank borrowings	14	224,432	511,301	222,346
Trade payables		721,807	721,032	472,378
Derivatives – liabilities	8	113,337	22,656	43,011
Tax liabilities		102,005	62,039	106,101
Other current liabilities	17	389,628	370,413	692,779
Total		1,644,402	1,769,685	1,665,510
TOTAL EQUITY AND LIABILITIES		5,764,836	5,443,011	6,133,922

INCOME STATEMENT

<i>In € thousand</i>	Notes	2008	1st half 2008	1st half 2009
Sales	19	6,437,014	3,003,320	2,395,027
Production taken into inventory		107,064	39,924	-42,329
Other operating revenues	20	39,125	13,846	16,946
Purchases consumed		-2,525,572	-1,163,778	-745,027
Taxes and duties	21	-51,603	-28,113	-25,377
Payroll costs	22	-856,612	-414,248	-416,470
Other operating costs	23	-1,442,490	-683,575	-558,931
Net provisions	24	-13,073	4,913	-45,997
EBITDA		1,693,853	772,289	577,842
Depreciation and amortization	25	-165,585	-71,033	-90,275
Impairment of assets and goodwill	26	-1,386	-	-5,548
Asset disposals and restructuring costs	26	-5,077	368	-8,920
OPERATING PROFIT		1,521,805	701,624	473,099
Financial income		34,956	16,898	9,949
Interest costs		-51,463	-20,947	-26,691
Net financial costs		-16,507	-4,049	-16,742
Other financial income and charges		6,692	-7,697	30,343
Other discounting costs		-9,039	-4,790	-6,243
FINANCIAL INCOME (LOSS)	27	-18,854	-16,536	7,358
PROFIT BEFORE TAX		1,502,951	685,088	480,457
Income tax	28	-480,691	-228,723	-154,996
Net profit of equity affiliates	3	2,431	6,209	4,349
NET PROFIT FROM CONTINUING OPERATIONS		1,024,691	462,574	329,810
CONSOLIDATED NET PROFIT		1,024,691	462,574	329,810
Minority interests		57,500	14,127	18,705
Owners of the parent		967,191	448,447	311,105
Profit attributable to owners of the parent:				
Earnings per share	12	18.3	8.5	5.8
Diluted earnings per share	12	18.2	8.5	5.8

STATEMENT OF COMPREHENSIVE INCOME

<i>In € thousand</i>	2008	1st half 2008	1st half 2009
CONSOLIDATED NET PROFIT	1,024,691	462,574	329,810
Other comprehensive income			
Exchange differences on translating foreign operations	-101,962	-22,385	91,663
Effective portion of the change in fair value of cash flow hedging instruments	-187,295	-11,951	58,535
Tax relating to the effective portion of the change in fair value of cash flow hedging instruments	62,922	4,335	-19,298
Other comprehensive income (net of tax)	-226,335	-30,001	130,900
TOTAL COMPREHENSIVE INCOME	798,356	432,573	460,710
Profit attributable to minority interests	62,593	9,799	8,554
Profit attributable to owners of the parent	735,763	422,774	452,156

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Statement of changes in equity

STATEMENT OF CHANGES IN EQUITY

<i>In € thousand</i>	Share capital	Additional paid-in capital	Consolidated reserves	Re-serve from translation of foreign operations	Reserves – changes in fair value of hedging instruments -net of tax	Own shares	Profit or loss for the period	Total equity – owners of the parent	Total minority interests	Total equity
As at 31 December 2007	212,155	60,655	1,418,786	-24,038	70,026	-16,020	986,205	2,707,769	81,892	2,789,661
<i>Other items recognized directly in equity</i>	-	-	-	-18,057	-7,616	-	-	-25,673	-4,328	-30,001
Consolidated net profit for the half year ended 30 June 2008	-	-	-	-	-	-	448,447	448,447	14,127	462,574
<i>Total comprehensive income</i>	-	-	-	-18,057	-7,616	-	448,447	422,774	9,799	432,573
Appropriation of 2007 net profit	-	-	986,205	-	-	-	-986,205	-	-	-
Capital increase and additional paid-in capital	-	-	-	-	-	-	-	-	-	-
Change in own shares	-	-	650	-	-	12,388	-	13,038	-	13,038
Dividends paid	-	-	-370,335	-	-	-	-	-370,335	-11,130	-381,465
Interim dividend paid by Vallourec	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	4,743	-	-	-	-	4,743	-	4,743
Changes in consolidation scope and other	-	-	-	-	-	-	-	-	40	40
As at 30 June 2008	212,155	60,655	2,040,049	-42,095	62,410	-3,632	448,447	2,777,989	80,601	2,858,590
As at 31 December 2008	215,155	105,438	2,048,204	-131,081	-54,359	-17,789	967,191	3,132,759	99,171	3,231,930
<i>Other items recognized directly in equity</i>	-	-	-	101,764	39,287	-	-	141,051	-10,151	130,900
Consolidated net profit for the half year ended 30 June 2009	-	-	-	-	-	-	311,105	311,105	18,705	329,810
<i>Total comprehensive income</i>	-	-	-	101,764	39,287	-	311,105	452,156	8,554	460,710
Appropriation of 2008 net profit	-	-	967,191	-	-	-	-967,191	-	-	-
Capital increase and additional paid-in capital	-	-	-	-	-	-	-	-	-	-
Change in own shares	-	-	903	-	-	882	-	1,785	-	1,785
Dividends paid	-	-	-320,822	-	-	-	-	-320,822	-20,063	-340,885
Interim dividend paid by Vallourec	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	2,984	-	-	-	-	2,984	-	2,984
Transactions with minority interests and other	-	-	8,933	-	-	-	-	8,933	134,305	143,238
As at 30 June 2009	215,155	105,438	2,707,393	-29,317	-15,072	-16,907	311,105	3,277,795	221,967	3,499,762

STATEMENT OF CHANGES IN MINORITY INTERESTS

<i>In € thousand</i>	Consolidated reserves	Reserve from translation of foreign operations	Reserves – changes in fair value of hedging instruments -net of tax	Profit or loss for the period	Minority interests
As at 31 December 2007	54,439	-10,876	71	38,258	81,892
<i>Other items recognized directly in equity</i>	-	-4,328	-	-	-4,328
Net profit for the half year ended 30 June 2008	-	-	-	14,127	14,127
<i>Total comprehensive income</i>	-	-4,328	-	14,127	9,799
Appropriation of 2007 net profit	38,258	-	-	-38,258	-
Dividends paid	-11,130	-	-	-	-11,130
Changes in consolidation scope and other	40	-	-	-	40
As at 30 June 2008	81,607	-15,204	71	14,127	80,601
As at 31 December 2008	47,383	-5,795	83	57,500	99,171
<i>Other items recognized directly in equity</i>	-	-10,101	-50	-	-10,151
Net profit for the half year ended 30 June 2009	-	-	-	18,705	18,705
<i>Total comprehensive income</i>	-	-10,101	-50	18,705	8,554
Appropriation of 2008 net profit	57,500	-	-	-57,500	-
Dividends paid	-20,063	-	-	-	-20,063
Transactions with minority interests and others	134,305	-	-	-	134,305
As at 30 June 2009	219,125	-15,896	33	18,705	221,967

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of cash flows

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In € thousand</i>	2008	1 st half 2008	1 st half 2009
Consolidated net profit (including minority interests)	1,024,691	462,574	329,810
Net charges to amortization, depreciation and provisions	186,778	69,592	147,966
Unrealized gains and losses linked to changes in fair value	-3,391	2,217	-603
Income and charges linked to share options and equivalent	17,819	4,743	2,984
Capital gains and losses on disposals	4,865	-416	-642
Share of profit (loss) of equity affiliates	-2,431	-6,209	-4,349
Dividends (unconsolidated companies)	-2,728	-2,228	-2,114
Cash flow from operating activities after cost of net debt and tax	1,225,603	530,273	473,052
Cost of net debt	16,507	4,049	16,742
Tax charge (including deferred taxes)	480,691	228,723	154,997
Cash flow from operating activities before cost of net debt and tax	1,722,801	763,045	644,791
Interest paid	-49,207	-19,734	-26,174
Tax paid	-474,007	-273,695	-155,707
Interest received	34,956	16,898	9,949
Cash flow from operating activities	1,234,543	486,514	472,859
Change in operating working capital requirement	-351,191	-171,425	261,114
NET CASH FLOW FROM OPERATING ACTIVITIES (1)	883,352	315,089	733,973
Cash outflows for acquisitions of property, plant and equipment and intangible assets	-528,486	-206,439	-256,484
Cash inflows from disposals of property, plant and equipment and intangible assets	2,284	1,249	1,456
Impact of acquisitions (changes in consolidation scope)	-541,399	-519,837	-
Cash of subsidiaries acquired (changes in consolidation scope)	-	-	-
Impact of disposals (changes in consolidation scope)	-	-	146,319
Cash of subsidiaries sold (changes in consolidation scope)	-	-	-
Other cash flows from investing activities	5,557	3,013	-6,271
NET CASH FLOW FROM INVESTING ACTIVITIES (2)	-1,062,044	-722,014	-114,980
Increase and decrease in equity	47,783	-	-
Dividends paid during the period	-	-	-
Dividends paid to shareholders in the parent company	-370,335	-370,335	-
Dividends paid to minority shareholders in consolidated companies	-34,961	-8,873	-29,123
Movements in own shares	-6,300	13,038	1,785
Cash drawn down re new loans	355,106	335,928	121,610
Repayments of borrowings	-196,953	-54,643	-74,177
Change in loans, guarantees and advances granted	-22,841	918	-122,252
CASH FLOW FROM FINANCING ACTIVITIES (3)	-228,501	-83,967	-102,157
Impact of changes in exchange rates (4)	-6,744	-14,196	-4,896
CHANGE IN CASH (1 + 2 + 3 + 4)	-413,937	-505,088	511,940
Opening net cash	797,450	797,450	383,513
Closing net cash	383,513	292,362	895,453
Change	-413,937	-505,088	511,940

STATEMENT OF CHANGES IN NET DEBT

First half of 2009 in € thousand	Notes	31/12/2008	Change	30/06/2009
Gross cash (1)	10	528,146	515,172	1,043,318
Bank current accounts in debit and overdrafts (2)	15	144,633	3,232	147,865
Cash (3) = (1) - (2)		383,513	511,940	895,453
Gross debt (4)	15	730,025	66,592	796,617
Net debt = (4) - (3)		346,512	-445,348	-98,836

STATEMENT OF CHANGES IN NET DEBT

First half of 2008 in € thousand	Notes	31/12/2007	Change	30/06/2008
Gross cash (1)	10	912,478	-402,589	509,889
Bank current accounts in debit and overdrafts (2)	15	115,028	102,499	217,527
Cash (3) = (1) - (2)		797,450	-505,088	292,362
Gross debt (4)	15	555,060	269,448	824,508
Net debt = (4) - (3)		-242,390	774,536	532,146

STATEMENT OF CHANGES IN NET

Full year 2008 in € thousand	Notes	31/12/2007	Change	31/12/2008
Gross cash (1)	10	912,478	-384,332	528,146
Bank current accounts in debit and overdrafts (2)	15	115,028	29,605	144,633
Cash (3) = (1) - (2)		797,450	-413,937	383,513
Gross debt (4)	15	555,060	174,965	730,025
Net debt = (4) - (3)		-242,390	588,902	346,512

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST-HALF OF 2009

(In thousands of euros unless stated otherwise.)

A – General information on Vallourec

1 COMPANY NAME AND REGISTERED OFFICE

Vallourec
27, avenue du Général Leclerc
92100 Boulogne Billancourt, France

2 LEGAL STATUS

A French Limited Liability Company (*société anonyme*) with a Management Board and a Supervisory Board.

3 CORPORATE PURPOSE (ARTICLE 3 OF THE MEMORANDUM AND ARTICLES OF ASSOCIATION)

The Company's object, in any country either for its own account or for a third party or directly or indirectly in partnership with third parties, is to carry out all industrial and commercial transactions relating to any methods for the preparation and manufacture, by any processes that are known or that could be discovered subsequently, of metals and any materials that may replace them in all their applications, and, in general, all commercial, industrial and financial transactions, and transactions in movable and fixed property, directly or indirectly associated with the above object.

4 TRADE AND COMPANIES REGISTRY

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

5 FINANCIAL YEAR

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

6 CONSULTATION OF THE ANNUAL FINANCIAL REPORTS (COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS)

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

7 LISTING OF THE COMPANY'S SHARES

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

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

B – Accounting principles

FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF THE INTERIM FINANCIAL STATEMENTS

The interim consolidated financial statements for the six months ended 30 June 2009 were approved by the Vallourec Management Board on 29 July 2009.

Pursuant to European Commission regulation no. 1606/2002 adopted on 19 July 2002 for all listed companies in the European Union, Vallourec prepared its consolidated financial statements for the year ended 31 December 2008 in accordance with International Financial Reporting Standards (IFRS). The versions of the standards and interpretations used were those applicable as at that date.

The interim consolidated financial statements for the six months ended 30 June 2009 have also been prepared in accordance with

IFRS adopted by the European Union and the specific provisions of IAS 34 "Interim Financial Reporting".

The aim of the interim financial statements is to provide shareholders and investors with relevant information about significant events and transactions during the period. Such information is given mainly by means of a selection of notes to the financial statements, the purpose of which is to explain significant changes in the balance sheet between 31 December 2008 and 30 June 2009 and the main transactions that have contributed to the Group's results for the first half of 2009. The interim financial statements do not comprise all the information required in the case of full annual financial statements and must be read in conjunction with the Group's financial statements for the year ended 31 December 2008 filed with the AMF under D.09-0364 on 30 April 2009 (available on the Company's website: www.vallourec.com).

The consolidated financial statements for the half year ended 30 June 2009 have been prepared on the basis of the IFRS standards and interpretations in force that will be applicable to the consolidated financial statements for the year ended 31 December 2009 and the specific provisions of IAS 34.

With regard to new standards that are applicable as from 1 January 2009:

- ▶ IFRS 8 "Operating Segments": the segments presented previously pursuant to IAS 14 comply with the definition of operating segments identified and grouped together in accordance with paragraphs 5 to 12 of IFRS 8. The Group presents its segment information on the basis of the following business lines: Seamless tubes and Specialty Products, as used in its internal reporting, and provides a reconciliation with the summary reports. The Group also considers its relevant to provide a geographic split;
- ▶ amendments to IAS 23 "Borrowing Costs": borrowing costs must be incorporated into the cost of qualifying assets (those that take a substantial period of time to manufacture or get ready for their intended use). The Group decided to apply this standard with effect from 1 January 2009 and had not, as at 30 June 2009, identified any borrowing costs specific to the acquisition of non-current assets;
- ▶ IAS 1 revised "Presentation of Financial Statements": the Group elected to present its performance in two statements: an income statement and a statement of comprehensive income. The amount of the tax relating to income and expenses recognised directly in equity is analysed by type in the statement of comprehensive income. The balance sheet becomes a statement of the financial position and the statement of changes in shareholders' equity combines transactions with Vallourec's shareholders with those with its subsidiaries' minority interests;
- ▶ IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

Application of these new standards did not have a material impact on the financial statements for the six months ended 30 June 2009.

The Group is not impacted by the other regulations adopted by the European Union and has not applied early any standards or interpretations whose application will become mandatory only for financial years commencing on or after 1 January 2010.

The Vallourec Group nevertheless reserves the right, when the 2009 annual consolidated financial statements are published, to amend the accounting options and methods used in the preparation of the 2009

half-year financial statements in accordance with any changes in the IFRS framework that may be adopted by the European Commission between now and 31 December 2009. The Group does not currently anticipate that the current or future exposure drafts will cause any significant changes that will affect the 2009 year-end financial statements.

With the exception of the application of standards that came into force during the period, the accounting principles and measurement methods have been applied in a consistent manner to the periods presented. The interim financial statements have been prepared in accordance with the same rules and methods as those used for the preparation of the annual financial statements. However, in the case of the interim financial statements, and in accordance with IAS 34, unless indicated otherwise, certain measurements may be based more on estimates than is the case in the annual financial statements.

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

Preparation of the consolidated financial statements in accordance with the IFRS requires management to use assumptions and estimates that affect the amounts of the assets and liabilities reported on the balance sheet, the contingent assets and liabilities disclosed in the notes, and the expenses and income shown in the income statement. The final amounts may differ from the amounts based on these assumptions and estimates. The main estimates and assumptions used are identical to those described in the notes to the consolidated financial statements for the year ended 31 December 2008. The Group has essentially reviewed the following estimates when preparing the interim financial statements: provisions for disputes, provisions for pension obligations, asset impairment tests, deferred tax and the measurement of financial instruments. Where applicable, tests have been performed in order to measure the sensitivity of these estimates. Given the current economic and financial crisis, the uncertain nature of specific estimates may be compounded and, in particular, may make it more difficult to get an understanding of the Group's economic prospects so as to conduct asset impairment tests. Nevertheless, no new indicators of loss of value were identified by the Group at 30 June 2009. The following events would constitute such indicators of loss of value: the Group's share value being less than its consolidated net asset value over a given business cycle or negative prospects due to the economic, legal or technological environment or to the business segment in which the Group operates.

C – Consolidation scope

The main changes in the consolidation scope since the first half of 2008 are shown in the table below:

	% interest 30/06/2008	% interest 31/12/2008	% interest 30/06/2009	% control 30/06/2009
Fully-consolidated companies				
V & M Atlas Bradford, LP (US) (merged with VAM USA on 27 February 2009)	100.0	100.0	51.0	100.0
V & M TCA, LP (US)	100.0	100.0	80.5	100.0
V & M Tube-Alloy, LP (US)	100.0	100.0	100.0	100.0
Vallourec Composants Automobiles Hautmont	100.0	100.0	-	-
Equity affiliates				
Kestrel Wave Investment Ltd (Hong Kong)	-	-	40.0	40.0
P.T. Citra Tubindo (Indonesia)	25.0	36.3	36.3	36.3

Vallourec, Sumitomo Metal Industries and Sumitomo Corporation announced on 26 February 2009 their intention to strengthen their historic collaboration in Premium connections for oil and gas applications by merging the American companies VAM USA (jointly owned by Vallourec with 51%, Sumitomo Metal Industries with 34% and Sumitomo Corporation with 15%) and V & M Atlas Bradford (in which Vallourec acquired 100% of the share capital in May 2008) to form VAM USA LLC. So as to preserve the respective shareholdings that existed in VAM USA, Sumitomo Metal Industries and Sumitomo Corporation acquired 34% and 15% respectively of V & M Atlas Bradford on 27 February 2009, being the merger date.

This merger will speed up the integration of the Premium connections business of Atlas Bradford® and VAM®, while at the same time

combining the R&D capacity of the two entities and generating industrial and commercial synergies. The new entity employs a staff of 500 in Houston, Texas.

In a separate move, Sumitomo Corporation, which already owned 19.5% of the share capital of V & M STAR, an American company 80.5%-owned by Vallourec, acquired 19.5% of V & M TCA on 27 February 2009. This company, specialised in heat treatment and based in Muskogee, Oklahoma, had been acquired by Vallourec in May 2008.

The Group does not control any special purpose entities.

NOTES TO THE FINANCIAL STATEMENTS

in € thousand

SUMMARY

Note 1	Intangible assets and goodwill	17	Note 17	Other current liabilities	34
Note 2	Property, plant and equipment	18	Note 18	Information on related parties	34
Note 3	Investments in equity affiliates	19	Note 19	Sales	34
Note 4	Other non-current assets	19	Note 20	Other operating revenues	35
Note 5	Deferred taxation	19	Note 21	Taxes and duties	35
Note 6	Inventories and work-in-progress	20	Note 22	Payroll costs and average number of employees in consolidated companies	35
Note 7	Trade and other receivables	20	Note 23	Other operating costs	36
Note 8	Financial instruments	21	Note 24	Charges to provisions net of reversals	36
Note 9	Other current assets	25	Note 25	Depreciation and amortization	36
Note 10	Cash and cash equivalents	26	Note 26	Asset disposals and restructuring costs	37
Note 11	Equity	26	Note 27	Financial income (loss)	37
Note 12	Earnings per share	27	Note 28	Reconciliation of theoretical and actual tax charge	38
Note 13	Minority interests	27	Note 29	Segment information	39
Note 14	Bank loans and other borrowings	27	Note 30	Events after the reporting period	42
Note 15	Provisions for liabilities and charges	30			
Note 16	Employee benefits	30			

Note 1 Intangible assets and goodwill

	Concessions, patents, licences and other rights	Other intangible assets	Total intangible assets	Goodwill
GROSS VALUES				
At 31/12/2008	45,370	306,624	351,994	308,308
Acquisitions	322	1,340	1,662	-
Disposals	-6	-	-6	-
Impact of changes in exchange rates	1,241	-4,440	-3,199	-4,462
Other movements	270	-	270	-
At 30/06/2009	47,197	303,524	350,721	303,846
AMORTIZATION AND IMPAIRMENT				
At 31/12/2008	-32,782	-58,336	-91,118	-19
Net amortization charges for the period	-1,782	-17,797	-19,579	-
Impact of changes in exchange rates	-1,127	1,637	510	-
At 30/06/2009	-35,691	-74,496	-110,187	-19
NET VALUES				
At 31/12/2008	12,588	248,288	260,876	308,289
At 30/06/2009	11,506	229,028	240,534	303,827

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the financial statements

Intangible assets

The principal changes that occurred during the first half of 2009 represent the amortization charges of the period.

Goodwill

In the context of the current economic and financial crisis, the uncertain nature of certain estimates may be increased and make it more difficult to assess the Group's economic outlook for the purposes of asset impairment testing.

A stock market value of the Group below its consolidated net assets during a business cycle, or negative prospects associated with the economic, legislative or technological environment or a business sector would constitute evidence of impairment.

No indications of diminution in value, which would have required the CGUs to be tested for impairment, were identified by the Group as at 30 June 2009.

Note 2 Property, plant and equipment

	Land	Buildings	Technical installations, equipment and industrial tools	Property, plant and equipment in progress	Other property, plant and equipment	Total
GROSS VALUES						
At 31/12/2008	94,005	299,379	1,618,557	218,115	239,221	2,469,277
Acquisitions	-	2,886	34,568	77,084	132,252	246,790
Disposals	-1,123	-8	-5,266	-	-124	-6,521
Impact of changes in exchange rates	10,321	7,653	50,310	13,504	29,759	111,547
Changes in consolidation scope	-	-	-61	-	-	-61
Reclassifications and other movements	849	1,732	89,061	-99,760	-13,876	-21,994
At 30/06/2009	104,052	311,642	1,787,169	208,943	387,232	2,799,038
DEPRECIATION AND IMPAIRMENT						
At 31/12/2008	-16,452	-99,178	-655,798	-57	-56,804	-828,289
Net depreciation charge for the period	-1,115	-7,507	-58,758	-40	-4,826	-72,246
Disposals	-	5	3,521	-	113	3,639
Impact of changes in exchange rates	-2,234	-1,890	-15,797	-	-2,692	-22,613
Changes in consolidation scope	-	-	61	-	-	61
Reclassifications and other movements	-	999	20,709	-	3	21,711
At 30/06/2009	-19,801	-107,571	-706,062	-97	-64,206	-897,737
NET VALUES						
At 31/12/2008	77,553	200,201	962,759	218,058	182,417	1,640,988
At 30/06/2009	84,251	204,071	1,081,107	208,846	323,026	1,901,301

Capital expenditure

Industrial investments (property, plant and equipment and intangible assets)	1 st half 2009
Europe	77,850
North America and Mexico	19,015
South America	145,621
Asia	2,903
Other	3,063
TOTAL	248,452

Note 3 Investments in equity affiliates

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

	HKM Germany	P.T. Citra Tubindo Indonesia	Other	Total
At 31/12/2008	24,930	39,858	12,097	76,885
Changes in consolidation scope	-	387	-	387
Capital increase	8,500	-	-	8,500
Impact of changes in exchange rates	-	-664	223	-441
Dividends paid	-	-	-507	-507
Contribution to net profit of the period	3,040	514	795	4,349
Other movements	-	-	29	29
At 30/06/2009	36,470	40,095	12,637	89,202

Note 4 Other non-current assets

	Other investments in equity instruments	Loans	Other financial investments	Total
At 31/12/2008	3,610	5,258	29,771	38,639
Gross value	5,940	5,331	35,466	46,737
Provisions	-1,529	-	-478	-2,007
At 30/06/2009	4,411	5,331	34,988	44,730

Maturities of other non-current assets

Gross values at 30/06/2009	Between 1 and 5 years	Over 5 years	Total
Loans	2,252	3,079	5,331
Other investments in equity instruments	-	5,940	5,940
Other financial investments	31,943	3,523	35,466
TOTAL	34,195	12,542	46,737

Note 5 Deferred taxation

Tax assets and liabilities relating to the same tax entity (e.g. a tax consolidation group) are offset in the balance sheet.

At 30 June 2009, unrecognized deferred tax assets totalled €1.4 million and related to tax losses in respect of which no deferred tax assets have been recognized.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the financial statements

Note 6 Inventories and work-in-progress

	Raw materials, supplies and goods for resale	Work-in-progress	Finished and semi-finished products	Total
GROSS VALUES				
At 31/12/2008	661,724	422,174	425,475	1,509,373
Changes in inventories recognized in the income statement	-122,143	-38,510	-3,819	-164,472
Impact of changes in exchange rates	14,750	4,668	18,194	37,612
Other movements	-37,181	17,461	-19	-19,739
At 30/06/2009	517,150	405,793	439,831	1,362,774
PROVISIONS				
At 31/12/2008	-43,865	-7,064	-14,783	-65,712
Impact of changes in exchange rates	-1,277	-163	-1,818	-3,258
Charges to provisions	-17,736	-7,921	-10,233	-35,890
Reversals of provisions	5,489	1,319	2,673	9,481
Other movements	19,737	-	-	19,737
At 30/06/2009	-37,652	-13,829	-24,161	-75,642
NET VALUES				
At 31/12/2008	617,859	415,110	410,692	1,443,661
At 30/06/2009	479,498	391,964	415,670	1,287,132

Note 7 Trade and other receivables

	Advances and deposits paid on orders	Accounts receivable (gross)	Provisions	Total
At 31/12/2008	37,765	1,178,381	-12,574	1,203,572
Impact of changes in exchange rates	1,730	32,601	-307	34,024
Charges to provisions	-	-	-5,431	-5,431
Reversals of provisions	-	-	7,200	7,200
Other movements	8,377	-371,407	-3,046	-366,076
At 30/06/2009	47,872	839,575	-14,158	873,289

Maturity analysis of trade and other receivables, net of provisions – Due and not yet due

	Total	Due within 30 days	Due in 30 to 60 days	Due in 60 to 90 days	Due in 90 to 180 days	Due in over 180 days
Net receivables not yet due (according to number of days to maturity)	610,770	479,362	103,242	11,865	12,423	3,878
Net receivables due (according to number of days past due)	214,647	94,529	41,353	26,717	27,349	24,699
TOTAL	825,417	-	-	-	-	-

Note 8 Financial instruments

Financial assets and liabilities

Financial assets and liabilities are measured and presented in the balance sheet in accordance with the various categories specified by IAS 39.

Impact of IAS 32 and IAS 39 on equity and profit or loss

The position regarding hedging instruments changed from net liabilities of €87 million at 31 December 2008 to net liabilities of €7 million at 30 June 2009.

This change is due mainly to the hedging of commercial transactions entered into by the European subsidiaries in US dollars. The fluctuations of the euro against the US dollar during the first half of 2009 mainly

explain the €58 million change in the intrinsic value of hedges in respect of currency purchase and sale forecasts and the €26 million change in the intrinsic value of hedges backed by receivables and payables.

In view of the effectiveness of the hedges in accordance with the criteria of IAS 39, the impact to be recognized in the income statement concerns mainly the premium/discount, changes in the value of which at the end of the reporting period gave rise to a loss of €5.9 million in respect of the first half of 2009.

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.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the financial statements

Balance sheet items concerned	Movements in first half 2009				
	At 31/12/2008	At 30/06/2009	Total	o/w reserves	o/w profit or loss
1- Derivatives recognized in the balance sheet, see Note 9(*)	-	-	-	-	-
Changes in the intrinsic value of forward sales of currencies and forward purchases(**) linked to order books and commercial tenders	-55,332	2,730	58,062	57,665	397
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with accounts receivable (and accounts payable(**))	-22,008	3,858	25,866		25,866
Changes in the intrinsic value of hedges of raw material and energy purchases linked to order books and commercial tenders	-	-	-	-	-
Changes in the intrinsic value of hedges of raw material and energy purchases linked to accounts payable	-79	-	79	-	79
Recognition of premium/discount	14,842	8,906	-5,936	-	-5,936
Recognition of changes in fair value of interest rate swaps	-26,664	-25,664	1,000	1,000	-
Changes in values linked to hedging instruments implemented under the terms of the employee share ownership plans	2,839	3,756	917	-	917
Changes in value due to derivatives not classified as such	-655	-703	-48	-	-48
Other	-	-	-	-	-
Sub-total: Derivatives	-87,057	-7,117	79,940	58,665	21,275
<i>Of which: derivatives – assets</i>	<i>26,280</i>	<i>35,894</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Of which: derivatives – liabilities</i>	<i>113,337</i>	<i>43,011</i>	<i>-</i>	<i>-</i>	<i>-</i>
2 - Accounts receivable (accounts payable(**)) hedged in currencies – translation gain/loss	-	-	-	-	-
Measurement at period-end exchange rate	17,351	-10,452	-27,803	-	-27,803
Impact of hedging operations	-69,706	-17,569	52,137	58,665	-6,528
3 - Measurement of receivables (payables(2)) not hedged in currencies – translation gain/loss(***)	9,232	-934	-10,166	-	-10,166
4 - Measurement of construction loans at the effective interest rate	-1,773	-1,673	100	-	100
5 - Measurement of marketable securities at fair value	63	32	-31	-	-31
6 - Deferred taxes (on interest rate and exchange rate hedges)	25,245	8,580	-16,665	-19,295	2,630
TOTAL	-36,939	-11,564	25,375	39,370	-13,995
Impact – see statement of changes in shareholders' equity					
Revaluation reserves – financial instruments	-54,276	-15,065	-	39,211	-
of which: attributable to owners of the parent	-54,359	-15,072	-	39,287	-
of which: minority interests	83	7	-	-76	-
Other consolidation reserves	-20,735	17,496	-	38,231	-
Profit (loss)	38,072	-13,995	-	-38,072	-13,995
TOTAL	-36,939	-11,564	-	39,370	-13,995

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

(**) Amounts not material.

(***) The €10.2 million reduction in the revaluation difference is related to an exchange gain of around €11 million realized during the first half of 2009.

The change in the fair value of financial instruments hedging the exchange rate risk which affected equity as at 31 December 2008 was a negative figure of €55,332 thousand. During the first half of 2009, around 70% of the negative change in fair value allocated to the order book at the end of 2008 was transferred from equity to the income statement, within the Group's foreign exchange gain or loss. This amount represents the impact of the changes in value of the

exchange rate hedges in respect of the order book and commercial tenders at 31 December 2008, which have been fully or partially unwound or converted into receivables during the first half of 2009.

This impact corresponds to the hedges of receivables in US dollars, which represent most (nearly 90%) of the changes in fair value of the hedges affecting equity as at 31 December 2008.

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

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

Interest rate risks

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

Total debt:

31/12/2008 In € million	Bond loan	Other loans	Cash and cash equivalents
Fixed rate	-	566.1	-
Variable rate	-	308.6	528.1
TOTAL	-	874.7	528.1

30/06/2009 In € million	Bond loan	Other loans	Cash and cash equivalents
Fixed rate	-	654.5	-
Variable rate	-	290.0	1,043.3
TOTAL	-	944.5	1,043.3

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

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

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

Its bank debt exposed to changes in variable interest rates amounted to about €290 million (about 30.7% of total gross debt) at 30 June 2009.

None of the Group's fixed rate finance reaches contractual maturity during the 12 months following the 30 June 2009 closing except in the case of V & M do Brasil (€27 million).

After taking into account the Group's interest rate risk hedging policy, the impact of a one-percentage-point rise in interest rates applied to short-term rates of the eurozone, to Brazilian and Chinese rates and to UK and US money market rates would result in a €2.9 million increase in the Group's annual financial costs, based on the assumption that the level of debt and exchange rates remained completely stable and after taking into account the effects of any hedging instruments. This impact has not taken into account the interest rate risk on cash and cash equivalents, since they have been invested for the short term.

In addition, according to our simulations, the impact of a half-percentage-point rise or fall in interest rates applied to all yield curves would result in an increase of €7 million or a reduction of €7.1 million in the measurement of the swaps in place at 30 June 2009 (at Vallourec SA level).

Exchange rate risk

Translation risks

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

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

In 2008, about 45.8% of the net profit attributable to owners of the parent was generated by subsidiaries that prepare their financial statements in foreign currencies (mainly in US dollars and Brazilian reals). A 10% change in exchange rates would have an impact on net profit attributable to owners of the parent of around €44 million.

In addition, the Group's sensitivity to long-term exchange rate risk is reflected in the changes that have occurred in recent years

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the financial statements

in the translation reserves booked to equity (€ -131.1 million as at 31 December 2008) which, over the last few years, have been linked mainly to movements in the US dollar and Brazilian real (Note 11).

Transaction risk

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

The main foreign currency used is the US dollar: a significant proportion of Vallourec's transactions is invoiced by the Group's European companies in this currency (22% of sales in the half year ended 30 June 2009).

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

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

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

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

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

We estimate that a 10% rise or fall in the currencies used in all hedges implemented by the Group would result in an €81 million decrease or increase in the intrinsic value recognized in consolidated equity as at 30 June 2009. Most of these amounts would be due to changes in the US dollar against the euro.

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

The industrial companies manage their foreign exchange positions in respect of foreign currency transactions with the aim of hedging against exchange rate fluctuations.

The strategy generally adopted is that as soon as an order in a foreign currency is received, forward contracts are entered into.

Receivables, payables and operating cash flows are thus hedged with financial instruments – mainly forward purchases and sales.

To be eligible for hedge accounting as defined in accordance with IAS 39, the Vallourec Group has developed its cash management and invoicing systems to facilitate the traceability of hedged transactions throughout the duration of the hedging instruments.

At 30 June 2008, the following amounts were outstanding under forward foreign exchange contracts to hedge foreign-currency denominated purchases and sales:

Hedging contracts in respect of commercial transactions – Exchange rate risk	2008	1 st half 2009
Forward exchange contracts: forward sales	1,584,281	1,253,189
Forward exchange contracts: forward purchases	79,977	53,696
Currency options: sales	17,281	-
Currency options: purchases	-	-
Commodities and energy: call options	188	-
TOTAL	1,681,727	1,306,885

Contract maturities at 30 June 2009

Contracts in respect of commercial transactions	Total	One year or less	One to five years	Over five years
Foreign exchange contracts: forward sales	1,253,189	1,177,655	75,534	-
Foreign exchange contracts: forward purchases	53,696	53,696	-	-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Commodities and energy: call options	-	-	-	-
TOTAL	1,306,885	1,231,351	75,534	-

Forward sales correspond mainly to sales of US dollars (€1,103 million of the €1,253 million total). These contracts were transacted at an average forward EUR/USD rate of 1.39.

In 2008 and 2009, hedges usually covered an average period of 12 months and mainly hedged highly probable future transactions and foreign currency receivables.

Credit risks

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

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

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

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

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

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

3. Trade receivables:

It should be noted that the Group's policy as regards providing against trade receivables is to recognize a provision as soon as any indications of impairment are identified. The amount of the provision is the difference between the carrying amount of the asset and the present value of the expected future cash flows, taking into account the position of the counterparty, determined using the original effective interest rate of the financial instrument.

The Group does not consider it appropriate to assume that it is subject to any risk in respect of its receivables against which no provision has been made that are less than 90 days overdue.

The total amount of trade receivables that were more than 90 days overdue and against which no provision had been made was €52 million at 30 June 2009 and represented around 6.3% 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.

Note 9 Other current assets

	Amounts due from staff and social security bodies	Receivables re taxes excluding income tax	Pre-payments	Receivables re income tax	Other receivables	Total
At 31/12/2008	9,878	71,512	11,677	36,620	70,861	200,548
Impact of changes in exchange rates	122	914	-35	646	1,915	3,562
Other movements	2,457	-40,895	2,366	-13,188	122,324	73,064
At 30/06/2009	12,457	31,531	14,008	24,078	195,100	277,174

The movement in "Other receivables" comprises an interest-bearing loan granted to Kestrel Wave Investment Ltd, an equity affiliate.

Note 10 Cash and cash equivalents

	Marketable securities (gross)	Cash	Total
At 31/12/2008	283,370	244,776	528,146
Impact of changes in exchange rates	23,605	-8,829	14,776
Other movements	512,961	-12,565	500,396
At 30/06/2009	819,936	223,382	1,043,318

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

Note 11 Equity

Share capital

Vallourec's share capital comprised 53,788,716 ordinary shares with a nominal value of €4 per share fully paid-up as at 30 June 2009 and has remained unchanged since 31 December 2008.

- variable-rate borrowings in respect of which interest rate swaps (to a fixed rate) have been entered into. They are accounted for in accordance with the cash flow hedge method. Changes in the fair value of the swap contracts, linked to interest rate movements, are recognized in equity.

Reserves, financial instruments

In accordance with IAS 39 on financial instruments, postings to this reserve account are made in respect of two types of transactions:

- effective currency hedges in respect of the order book and commercial tenders. Changes in the intrinsic values at the period end are recognized in equity;

Reserve from translation of foreign operations

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

	USD	GBP	Brazilian real	Mexican peso	Others	Total
At 31/12/2008	-27,685	-16,480	-74,375	-13,246	705	-131,081
Movements	-14,281	4,384	111,032	1,486	-857	101,764
At 30/06/2009	-41,966	-12,096	36,657	-11,760	-152	-29,317

Main exchange rates used (euro/currency):

Translation of balance sheet items (closing rate) and income statement items (average rate).

	USD	GBP	Brazilian real	Mexican peso
2008				
Average rate	1.47	0.80	2.67	16.29
Closing rate	1.39	0.95	3.24	19.23
1st half 2009				
Average rate	1.33	0.89	2.92	18.43
Closing rate	1.41	0.85	2.75	18.55

Note 12 Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to the ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share are calculated by dividing the net profit for the period attributable to the ordinary shareholders by the weighted

average number of ordinary shares in issue during the period (adjusted for the effects of dilutive options).

Details of the earnings and numbers of shares used to calculate basic and diluted earnings per share are given in the following table:

Earnings per share	2008	1 st half 2009
Net profit attributable to the ordinary shareholders for basic earnings per share	967,191	311,105
Weighted average number of ordinary shares for basic earnings per share	53,069,970	53,788,716
Weighted average number of own shares for basic earnings per share	-143,317	-28,490
Weighted average number of shares for basic earnings per share	52,926,653	53,760,226
Earnings per share	18.3	5.8
Dilution effect – share purchase and share subscription options and performance shares	159,497	-127,560
Adjusted weighted average number of ordinary shares for diluted earnings per share	53,086,150	53,632,666
Diluted earnings per share	18.2	5.8
Dividends paid during the period:	-	-
in respect of the previous period	7.0	-
interim dividend in respect of the current period	-	-

Note 13 Minority interests

	Reserves	Translation difference	Net income	Total
At 31/12/2008	47,466	-5,795	57,500	99,171
At 30/06/2009	219,158	-15,896	18,705	221,967

The statement of changes in equity includes an analysis of minority interests. Movements in minority interests during the first half of 2009 are related to the acquisition by the Sumitomo Group of a 19.5% stake in V & M TCA and a 49% stake in V & M Atlas Bradford.

Note 14 Bank loans and other borrowings

Liquidity risks

In March 2005, a seven-year, €460 million credit facility, partly in euros and partly in US dollars, was made available to Vallourec by a syndicate of banks to finance the acquisition of the 45% stake in V & M Tubes.

This €460 million facility requires Vallourec to maintain its ratio of consolidated net debt to consolidated equity at less than or equal to 75% calculated at 31 December each year. A change of control of Vallourec could result in the repayment of the loan if so decided by a two-thirds majority of the participating banks. It is also provided that the loan would become immediately repayable if the Group

failed to make a repayment in respect of one of its other borrowings ("cross default"), or if a significant event occurred affecting the Group's business or financial situation and ability to repay its borrowings.

The Group complied with its covenants as at 31 December 2008.

As at 30 June 2008, a tranche of €260 million (included in non-current liabilities) and a tranche of USD 113 million had been drawn down.

In addition, the capital expenditure of V & M do Brasil required this subsidiary to put in place several medium-term financing lines in 2006, 2007 and 2008, denominated in Brazilian reals. The total amount of these lines (317 million reals or €115 million) was spread among several banks (mainly BNDES and BDMG).

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the financial statements

During the first few months of 2007, the Group (V & M Tubes) negotiated five €100 million medium-term (five-year) bilateral lines with the banks with which it has the most dealings. Each of these lines is subject to commitments of a similar type to those applicable to the €460 million facility described above. The maturity of these lines is 2013 with the exception of one which has been renewed until 2014.

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

At 30 June 2008, Vallourec was using the USD 300 million (€212.3 million) term loan, which was included in non-current liabilities.

Finally, Vallourec took out a six-year, €100 million loan in November 2008 with the Crédit Agricole Group (maturity end October 2014).

This loan was drawn down at the end of January 2009. The loan documentation contains commitments of the same type as those entered into under the terms of the €460 million facility described above.

The Group's American companies (V&M Star/V&M TCA, VAM Drilling USA, Valtimet Inc., VAM USA and V&M Tube-Alloy) benefit from a number of bilateral bank lines totalling USD 100 million. The amount used at 30 June 2009 totalled USD 53 million. These programmes, which mature within one year, contain gearing and change of control clauses.

Vallourec used hedging instruments (swaps) to fix the rate of several of its borrowings: see Note 8.2 – Interest rate risk.

The fair value of the Group's borrowings is the same as their carrying amount.

Financial liabilities – Non-current liabilities

	Bank loans	Other bank and similar borrowings	Total
At 31/12/2008	648,738	1,488	650,226
New borrowings taken out	100,437	104	100,541
Repayments	-32,695	-31	-32,726
Reclassifications	-5,980	-	-5,980
Impact of changes in exchange rates	10,120	-	10,120
Other movements	-	-45	-45
At 30/06/2009	720,620	1,516	722,136

Financial liabilities – current liabilities

	Bank overdrafts	Accrued interest on bank overdrafts	Bank loans (one year or less)	Accrued interest on bank loans	Other bank and similar borrowings (one year or less)	Total
At 31/12/2008	144,574	59	67,791	2,959	9,049	224,432
Reclassifications	-	-	5,980	-	-	5,980
Impact of changes in exchange rates	16,443	-	5,455	-1	-264	21,633
Other movements	-13,191	-21	-19,168	513	2,168	-29,699
At 30/06/2009	147,826	38	60,058	3,471	10,953	222,346

Indebtedness by currency

	USD	EUR	Brazilian real	Others	Total
<i>At 30/06/2009 – currency thousand</i>	609,160	380,155	244,570	n/a	n/a
<i>At 30/06/2009 – € thousand</i>	430,989	380,155	89,035	44,303	944,482

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

	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
<i>At 30/06/2009</i>	25,312	277,311	218,387	188,408	12,718	722,136

Breakdown by maturity of current bank loans and other borrowings

	< 3 months	> 3 months and < 1 year	Total
Bank loans	15,189	52,601	67,791
Other borrowings	12	9,038	9,050
Accrued interest on borrowings	2,913	45	2,958
Bank overdrafts (negative cash and cash equivalents)	4,170	19,831	24,001
Bank overdrafts (other financial liabilities)	403	120,229	120,632
At 31/12/2008	22,687	201,744	224,432
Bank loans	18,319	41,738	60,057
Other borrowings	4,143	6,811	10,954
Accrued interest on borrowings	3,425	45	3,470
Bank overdrafts (negative cash and cash equivalents)	21,241	49,040	70,281
Bank overdrafts (other financial liabilities)	-	77,584	77,584
At 30/06/2009	47,128	175,218	222,346

Of the €77.6 million bank overdrafts (other financial liabilities), €67.0 million corresponds to current financing of V & M do Brasil's exports compared to €120.2 million at 31 December 2008.

Indebtedness over one year at the outset, by interest rate

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

	Rate < 3%	Rate 3% to 6%	Rate 6% to 10%	Rate > 10%	Total
At 31/12/2008	Rate < 3%	Rate 3% to 6%	Rate 6% to 10%	Rate > 10%	Total
Fixed rates	10,362	509,327	45,629	783	566,101
Variable rates	117,121	78,891	81,891	30,653	308,556
TOTAL	127,483	588,218	127,520	31,436	874,658
At 30/06/2009	Rate < 3%	Rate 3% to 6%	Rate 6% to 10%	Rate > 10%	Total
Fixed rates	9,422	613,802	30,962	326	654,512
Variable rates	121,730	70,873	74,054	23,313	289,970
TOTAL	131,152	684,675	105,016	23,639	944,482

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the financial statements

Note 15 Provisions for liabilities and charges

Non-current liabilities	Provisions for environmental risks
At 31/12/2008	6,937
Allocations for the period	142
Provisions used	-1,228
Impact of changes in exchange rates	1073
Other	-
At 30/06/2009	6,924

This provision covers, in particular, the costs of soil treatment at industrial sites: the full amount of the likely costs has been provisioned.

The provision also covers the clean-up costs in respect of the mine in Brazil: amounts are provided as and when minerals are extracted, based on the volumes extracted.

Current liabilities	Commercial disputes	Orders outstanding – losses on completion	Reorganization measures	Tax risks (duties, taxes, tax audits, etc.)	Other	Total
At 31/12/2008	39,700	6,685	285	28,630	17,893	93,193
Allocations for the period	28,158	7,701	-	2,127	9,343	47,329
Provisions used	-5,986	-3,967	-8	-155	-5,439	-15,555
Other reversals	-1,213	-	-	-	-351	-1,564
Impact of changes in exchange rates	1,028	438	-	5,145	1,447	8,058
Other (reclassifications)	-1,824	-	-11	-	-731	-2,566
At 30/06/2009	59,863	10,857	266	35,747	22,162	128,895

As regards the tax risks, the Brazilian tax authorities have challenged a judgment which resulted in the Group obtaining, in 2006, the reimbursement of 137 million reals of IPI taxes. This judgment was the

final judgment of the Court of Appeal. Since the Group believed that a favourable outcome of this case was more probable than improbable, no provision was booked in respect of it.

Note 16 Employee benefits

	Germany	France	United Kingdom	Other	Total
At 30/06/2009					
Discounted value of the commitment	164,131	32,378	71,194	29,265	296,968
Retirement	142,531	28,858	71,194	24,596	267,179
Early retirement commitments	8,791	-	-	-	8,791
Long-service awards and medical benefits	12,809	3,520	-	4,669	20,998
Fair value of the plan assets	-50,860	-2,580	-62,581	-6,530	-122,551
Past service costs not recognized	-56	-	-	-	-56
Actuarial gains and losses	-22	-4,167	-12,462	-7,929	-24,580
Changes in consolidation scope and other	-	-	-	42	42
Provision	113,193	25,631	-3,849	14,848	149,823

The charges recognized during the half year comprise additional rights acquired in respect of the service for the additional half year, the change in rights existing at the beginning of the period due to discounting, the past service cost recognized during the period, the expected return

on plan assets, the impact of reductions in or liquidations of plans and the amortization of actuarial gains and losses. The portion relating to the discounting of rights is recognized within financial income or loss and the return on plan assets is recognized within financial income.

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

Charge for the half year:	Germany	France	United Kingdom	Other	Total
At 30/06/2009					
Cost of services rendered	2,548	623	878	890	4,939
Interest charges on the commitment	4,680	915	2,021	687	8,303
Expected return on plan assets	-70	-53	-1,877	-215	-2,215
Net actuarial gains/losses recognized during the period	-	-8	147	413	552
Past service costs	44	203	-	-	247
Net charge recognized	7,202	1,680	1,169	1,775	11,826

The amounts recognised at 30 June 2009 result from a forecast prepared on the basis of the measurement of the retirement commitments as at 31 December 2008 using the same assumptions.

At 30 June 2009, a sensitivity test was carried out on the retirement gratuities and long-service awards:

- in France, a 0.5% decrease in the discount rate would result in a change of about €1.1 million in these commitments;
- in Germany, a 0.5% decrease in the discount rate would result in a change of about €11 million in these commitments;
- in the United Kingdom, a 0.5% decrease in the discount rate would result in a change of about €6.3 million in these commitments.

The characteristics of these plans are as follows (the figures for the 2003 plan have been recalculated to take into account the division by five of the nominal value of Vallourec's shares on 18 July 2006 and the resulting multiplication by five of the number of shares):

	2003 plan	2007 plan	2008 plan
Date of Management Board decision	15/06/2003	03/09/2007	01/09/2008
Maturity date	11/06/2007	03/09/2011	01/09/2012
Expiry date	10/06/2010	03/09/2014	01/09/2015
Number of beneficiaries at outset	148	65	9
Exercise price in euros	10.73	190.60	183.54
Exercise price in euros adjusted following rights offering on 13 July 2005	10.57	n/a	n/a
Number of options granted	965,000	147,300	71,800
Adjustment to the number of options following rights offering on 13 July 2005	14,480	n/a	n/a

Other employee benefits (options and performance shares)

Share option plans

Characteristics of the plans

Vallourec's Management Board authorized the setting up of a share purchase option plan in 2003 and share subscription plans in 2007 and 2008 for the benefit of certain managers and corporate officers of the Vallourec Group.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the financial statements

Change in number of unexpired options

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

In number of options	2008	30/06/2009
Total at start of period	184,414	236,517
Options distributed	71,800	-
Options exercised	(12,697)	(1,240)
Options not exercised at expiry date	-	-
Options cancelled ^(*)	(7,000)	-
TOTAL AT END OF PERIOD	236,517	235,277
<i>Of which options remaining to be exercised</i>	<i>24,417</i>	<i>23,177</i>

(*) Beneficiaries who have left the Group.

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

	2008	30/06/2009
2003 plan	24,417	23,177
2007 plan	140,300	140,300
2008 plan	71,800	71,800

Measurement of plans^(*)

<i>In € thousand</i>	2003 plan	2007 plan	2008 plan
Accumulated charge as at 31 December 2008	1,318	3,617	711
Charge for 1 st half of 2009	-	1,000	846
Accumulated charge as at 30 June 2009	1,318	4,617	1,557

Assumptions

Share price on grant date ^(**)	€11.75	€198.00	€190.84
Volatility	41.75%	35.00%	35.00%
Risk-free rate	3.00%	4.20%	4.40%
Exercise price	€10.73	€190.60	€183.54
Dividend rate	2.72%	3.75%	3.50%
Fair value of the option	€3.74	€58.20	€63.57

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

(**) The share price on the 2003 plan grant date has been recalculated to take into account the division by five of the nominal value of Vallourec's shares on 18 July 2006 and the resulting multiplication by five of the number of its shares.

Performance share allocation plans

Characteristics of the plans

Vallourec's Management Board authorized the setting up of performance share allocation plans for the benefit of certain employees and corporate officers of the Vallourec Group in 2007 and 2008.

The characteristics of these plans are as follows:

	2007 plan ^(*)	2008 plan ^(**)	Value 08 plan
Date of Management Board decision	03/05/2007	01/09/2008	16/12/2008
Acquisition period	2, 3 and 4 years	2 and 3 years	4.5 years
Holding period	2 years	2 years	-
Number of beneficiaries at outset	280	41	8,697
Theoretical number of shares allocated	111,000	11,590	33,856

^(*) The definitive allocation, in terms of numbers of shares, will be allocated in thirds in 2009, 2010 and 2011 and each third will be based on the Vallourec Group's performance in terms of consolidated EBITDA in 2008, 2009 and 2010. It will be calculated by applying a performance factor, calculated for each of the years concerned, to the theoretical number of shares allocated. The factor can range from 0 to 1.33. The first tranche has been allocated as from 3 May 2009.

^(**) The definitive allocation, in terms of numbers of shares, will be allocated in halves in 2010 and 2011 and each half will be based on the Vallourec Group's performance in terms of consolidated EBITDA in 2009 and 2010. It will be calculated by applying a performance factor, calculated for each of the years concerned, to the theoretical number of shares allocated. The factor can vary from 0 to 1.33.

Change in number of shares

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

	2007 plan	2008 plan	Value 08 plan
Initial theoretical number of shares allocated	111,000	11,590	33,856
Number of shares cancelled	(7,931)	-	-
Theoretical number of shares acquired or being acquired	103,069	11,590	33,856
Number of shares delivered	39,092	-	-

Measurement of plans^(*)

In € thousand	2007 plan	2008 plan	Value 08 plan
Accumulated charge as at 31 December 2008	12,528	264	17
Charge for the first half of 2009	660	268	210
Accumulated charge as at 30 June 2009	13,188	532	227

Assumptions

Share price on allocation date	€198.50	€190.84	€82.15
Volatility	40%	35%	40%
Risk-free rate	4.40%	4.20%	3.03%
Dividend rate	3%	3.5%	7.30%
Fair value of the share: tranche 1	€180.77	€171.22	€56.23
Fair value of the share: tranche 2	€175.17	€165.00	-
Fair value of the share: tranche 3	€169.77	-	-

^(*) The binomial model of projecting share prices has been used to measure the fair value of the shares allocated. Each employee's benefit corresponds to the fair value of the shares allocated, taking into account the fact that no dividends will be received during the acquisition period and the cost to the employee of the fact that the shares may not be transferred during the holding period.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the financial statements

Note 17 Other current liabilities

	Social security liabilities	Tax liabilities	Payables relating to the acquisition of non-current assets	Deferred income	Other current liabilities	Total
At 31/12/2008	203,537	56,484	50,482	7,014	72,111	389,628
Impact of changes in exchange rates	5,102	1,630	2,622	-32	1,025	10,347
Other movements	-17,769	-23,157	-7,681	-112	341,523	292,804
At 30/06/2009	190,870	34,957	45,423	6,870	414,659	692,779

The movements in "Other current liabilities" relate mainly to the dividend payable to Vallourec shareholders, totalling €320.8 million.

Note 18 Information on related parties

The main transactions carried out with equity affiliates during the first half of 2009 concerned the purchase of steel rounds from HKM totalling €133.3 million.

During the first half year, the Group subscribed to Vallourec & Sumitomo Tubos do Brasil's capital increase in the amount of €128 million (the Group's share).

The transactions carried out with Rothschild & Cie relate to the consultancy agreement to assist the Management Board. The expense recognized during the first half of 2009 totalled € 0.3 million.

Note 19 Sales

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

	2008	1 st half 2008	1 st half 2009
France	361,003	192,109	117,910
Germany	1,143,218	520,683	468,175
Other EU Member States	700,029	361,973	231,169
North America (NAFTA)	1,525,869	542,917	649,243
South America	935,910	456,478	391,731
Asia	1,318,921	692,094	378,378
Rest of the world	452,064	237,066	158,421
TOTAL	6,437,014	3,003,320	2,395,027

Sales in the first half of 2009, which totalled €2,395 million, were 20.3% lower than in the first half of 2008. On a comparable basis, after restating first half 2008 sales on the same basis as those for the first half of 2009, sales fell by 21.7%.

Note 20 Other operating revenues

	2008	1 st half 2008	1 st half 2009
Fees for concessions and patents	19,661	10,643	11,844
Operating subsidies and other revenues	19,464	3,203	5,102
TOTAL	39,125	13,846	16,946

“Operating subsidies and other revenues” represent mainly subsidies and reimbursements received from third parties.

Note 21 Taxes and duties

	2008	1 st half 2008	1 st half 2009
Taxes on remuneration	-10,014	-4,792	-5,261
Business use tax	-18,943	-12,162	-8,802
Property tax	-7,817	-3,538	-3,864
Other taxes and duties	-14,829	-7,621	-7,450
TOTAL	-51,603	-28,113	-25,377

Note 22 Payroll costs and average number of employees in consolidated companies

	2008	1 st half 2008	1 st half 2009
PAYROLL COSTS			
Wages and salaries	-568,715	-278,754	-282,841
Employee profit sharing	-58,885	-27,441	-23,950
Charge in respect of share options and performance shares	-17,027	-4,942	-3,126
<i>16 January 2006 performance share allocation plan</i>	-380	-346	-
<i>3 May 2007 performance share allocation plan</i>	-7,099	-3,524	-660
<i>1 September 2008 performance share allocation plan</i>	-264	0	-268
<i>3 September 2007 share subscription option plan</i>	-2,912	-1,072	-1,000
<i>1 September 2008 share subscription option plan</i>	-711	0	-846
<i>“Value 08” employee share ownership plan including “Value 08” share allocation plan</i>	-5,661	0	-352
Social security contributions	-211,985	-103,111	-106,553
TOTAL	-856,612	-414,248	-416,470

The Group has estimated, and taken into account, the costs that could be incurred in connection with the Individual Training Entitlement (*Droit Individuel à la Formation – DIF*). The DIF affects all the French companies.

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the financial statements

	2008	1 st half 2008	1 st half 2009
AVERAGE NUMBER OF EMPLOYEES IN CONSOLIDATED COMPANIES			
Executives	1,342	1,297	1,432
Supervisory, clerical and technical staff	3,872	3,732	4,215
Production staff	12,496	12,182	12,434
TOTAL	17,710	17,211	18,081
Employees at end of period	18,344	17,936	17,836

Note 23 Other operating costs

	2008	1 st half 2008	1 st half 2009
Purchases of materials and supplies not for stock, sub-contracting	-359,120	-170,167	-133,003
Energy	-246,088	-115,705	-89,459
Maintenance	-191,754	-79,915	-68,264
Agents' commission, transportation costs	-323,836	-160,893	-122,209
Services, professional fees and other	-321,692	-156,893	-145,996
TOTAL	-1,442,490	-683,573	-558,931

Note 24 Charges to provisions net of reversals

	2008	1 st half 2008	1 st half 2009
Provisions for operating liabilities and charges	-72,117	-19,909	-51,124
Provisions against current assets	-29,960	-23,630	-37,321
Reversals of provisions for operating liabilities and charges	56,803	24,991	25,766
Reversals of provisions against current assets	32,201	23,461	16,682
TOTAL	-13,073	4,913	-45,997

The corresponding credit in respect of the provision reversals in the first half of 2009 was to operating costs. The provision reversals correspond mainly to provisions that have been used.

Note 25 Depreciation and amortization

	2008	1 st half 2008	1 st half 2009
Charges to amortization of intangible assets (see Note 1)	-39,955	-9,295	-19,578
Charges to depreciation of property, plant and equipment (see Note 2)	-125,977	-61,738	-70,822
Reversals of depreciation and provisions on property, plant and equipment	347	0	125
	-165,585	-71,033	-90,275

The impact of the acquisition of V & M Atlas Bradford, V & M Tube Alloy and V & M TCA on the amortization charge in respect of intangible assets for the first half of 2009 totalled €15.8 million compared with

€6.1 million for the first half of 2008 (in respect of a period of one and a half months).

Note 26 Asset disposals and restructuring costs

	2008	1 st half 2008	1 st half 2009
Reorganization measures (net of expenses and provisions)	-93	7	-6,021
Gains and losses on disposals of non-current assets	-4,984	361	-2,899
	-5,077	368	-8,920

	2008	1 st half 2008	1 st half 2009
Impairment of assets and goodwill	-1,386	0	-1,548
Impairment of inventories specific to discontinued operations	0	0	-4,000
	-1,386	0	-5,548

Note 27 Financial income (loss)

	2008	1 st half 2008	1 st half 2009
Financial income			
Income from marketable securities	25,470	8,665	7,756
Income from disposals of marketable securities	9,486	8,233	2,193
Total	34,956	16,898	9,949
Interest costs	-51,463	-20,947	-26,691
Other financial income and charges			
Income from securities	2,728	2,228	2,114
Income from loans and receivables	5,612	412	2,472
Exchange losses (-) and gains (+) and changes in premiums/discounts	-7,894	-14,040	23,109
Charges to provisions, net of reversals	2,120	818	108
Other financial income and charges	4,127	2,885	2,540
Total	6,693	-7,697	30,343
Other discounting costs			
Financial charges: discounting of retirement commitments	-16,392	-7,985	-8,469
Financial income: discounting of certain assets and liabilities	-170	-494	10
Financial income from retirement plan assets	7,522	3,689	2,216
Total	-9,040	-4,790	-6,243
FINANCIAL INCOME (LOSS)	-18,854	-16,536	7,358

Note 28 Reconciliation of theoretical and actual tax charge

Breakdown of the tax charge	2008	1 st half 2008	1 st half 2009
Current tax charge	-450,558	-203,611	-168,490
Deferred taxes	-30,133	-25,112	13,494
Net charge	-480,691	-228,723	-154,996
Net profit (loss) of consolidated companies	1,022,258	456,365	325,460
Tax charge	-480,691	-228,723	-154,996
Net profit (loss) of consolidated companies, before tax	1,502,949	685,088	480,456
Statutory tax rate of consolidating company (see Note 5)	34.43%	34.43%	34.43%
Theoretical tax charge	-517,465	-235,876	-165,437
Impact of main losses carried forward	-1,939	0	-1,359
Impact of long-term capital gains and losses	0	1,325	1,020
Impact of permanent differences	19,184	-925	5,190
Impact of differences in tax rates	19,530	7,292	6,826
Other effects	0	-539	-1,236
	-480,690	-228,723	-154,996
ACTUAL TAX RATE	31.98%	33.39%	32.26%

The permanent differences consist mainly of the net profit of the minority interests, withholding taxes and the change in the share of the costs and charges in respect of the dividend distributions.

At interim balance sheet dates, the tax charge is calculated for each of the Group's tax entities by applying to the pre-tax profit for the interim period the effective tax rate determined for the current year.

The differences in tax rates mainly reflect the diversity of tax rates applied in each country (France 34.43%, Germany 31.60%, United States 36.5%, Brazil 34%, Mexico 28%, UK 28% and China 25%).

Note 29 Segment information

The following tables provide, for each business segment, information on the revenues and results as well as certain information on the

assets, liabilities and capital expenditure for the half years ended 30 June 2008 and 2009 and the financial year 2008.

1 st half 2009	Seamless tubes	Speciality products	Reconciling items		Total
			Holding companies ^(*)	Inter-segment transactions	
INCOME STATEMENT					
Sales					
Sales to external customers	2,252,138	142,700	189	-	2,395,027
Inter-segment sales	15,520	774	16,020	-32,314	0
TOTAL	2,267,658	143,474	16,209	-32,314	2,395,027
Charges to amortization and depreciation	-84,260	-5,274	-966	225	-90,275
Operating profit (loss)	479,356	7,106	-13,721	359	473,100
BALANCE SHEET					
Non-current assets	2,473,696	90,864	1,656,513	-1,603,958	2,617,115
Current assets	2,171,462	173,757	372,823	-244,553	2,473,489
Cash and cash equivalents	587,248	16,360	1,190,067	-750,357	1,043,318
TOTAL ASSETS	5,232,406	280,981	3,219,403	-2,598,868	6,133,922
Equity	2,450,073	121,993	1,996,824	-1,291,095	3,277,795
Minority interests	211,658	10,330	-	-21	221,967
Non-current liabilities	607,399	21,655	643,404	-303,808	968,650
Current liabilities	1,963,276	127,003	579,175	-1,003,944	1,665,510
TOTAL LIABILITIES AND EQUITY	5,232,406	280,981	3,219,403	-2,598,868	6,133,922
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	214,692	8,927	24,807	-	248,426
Other information					
Average number of employees	16,508	1,411	162	-	18,081
Payroll costs	370,259	27,566	18,697	-52	416,470

(*) Vallourec and V & M Tubes.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the financial statements

2008	Seamless tubes	Speciality products	Reconciling items		Total
			Holding companies ^(*)	Inter-segment transactions	
INCOME STATEMENT					
Sales					
Sales to external customers	5,950,211	485,963	840	-	6,437,014
Inter-segment sales	101,652	4,361	31,869	-137,882	0
TOTAL	6,051,863	490,324	32,709	-137,882	6,437,014
Charges to amortization and depreciation	-155,010	-9,046	-2,008	479	-165,585
Operating profit (loss)	1,505,423	54,570	-38,673	485	1,521,805
BALANCE SHEET					
Non-current assets	2,239,235	90,269	1,636,482	-1,603,357	2,362,629
Current assets	2,699,834	198,794	248,403	-272,970	2,874,061
Cash and cash equivalents	549,022	36,349	751,760	-808,985	528,146
TOTAL ASSETS	5,488,091	325,412	2,636,645	-2,685,312	5,764,836
Equity	2,419,826	142,584	1,727,696	-1,157,346	3,132,760
Minority interests	88,596	10,596	-	-21	99,171
Non-current liabilities	734,532	16,163	578,404	-440,595	888,504
Current liabilities	2,245,137	156,069	330,545	-1,087,350	1,644,401
TOTAL LIABILITIES AND EQUITY	5,488,091	325,412	2,636,645	-2,685,312	5,764,836
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	538,322	20,441	5,824	-	564,587
Other information					
Average number of employees	16,160	1,392	158	-	17,710
Payroll costs	756,310	54,527	46,364	-589	856,612

(*)Vallourec and V & M Tubes.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the financial statements

1 st half 2008	Seamless tubes	Speciality products	Reconciling items		Total
			Holding companies ^(*)	Inter-segment transactions	
INCOME STATEMENT					
Sales					
Sales to external customers	2,768,908	234,058	354	-	3,003,320
Inter-segment sales	55,710	2,609	14,602	-72,921	0
TOTAL	2,824,618	236,667	14,956	-72,921	3,003,320
Charges to amortization and depreciation	-66,026	-4,229	-1,022	244	-71,033
Operating profit (loss)	685,822	30,605	-16,477	1,674	701,624
BALANCE SHEET					
Non-current assets	2,018,586	82,199	1,498,889	-1,488,121	2,111,553
Current assets	2,613,968	222,728	240,685	-255,812	2,821,569
Cash and cash equivalents	377,417	14,909	716,592	-599,029	509,889
TOTAL ASSETS	5,009,971	319,836	2,456,166	-2,342,962	5,443,011
Equity	1,970,533	127,604	1,637,988	-958,136	2,777,989
Minority interests	71,592	9,030	-	-21	80,601
Non-current liabilities	872,408	15,509	454,254	-527,435	814,736
Current liabilities	2,095,438	167,693	363,924	-857,370	1,769,685
TOTAL LIABILITIES AND EQUITY	5,009,971	319,836	2,456,166	-2,342,962	5,443,011
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	211,898	12,591	87	-	224,576
Other information					
Average number of employees	15,667	1,386	158	-	17,211
Payroll costs	365,820	28,509	19,919	-	414,248

(*) Vallourec and V & M Tubes.

Geographical information

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

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the financial statements

2008	Europe	North America and Mexico	South America	Asia	Rest of the world	Total
Sales						
Sales to external customers	2,204,250	1,525,869	935,910	1,318,921	452,064	6,437,014
Balance sheet						
Property, plant and equipment and intangible assets (net)	783,142	586,820	472,283	58,114	1,506	1,901,865
Cash flows						
Capital expenditure: property, plant and equipment and intangible assets	234,682	62,747	259,687	9,910	1,390	568,416
Other information						
Average number of employees	9,360	2,227	5,576	537	10	17,710
Payroll costs	580,571	131,285	140,384	4,242	130	856,612

1 st half 2008	Europe	North America and Mexico	South America	Asia	Rest of the world	Total
Sales						
Sales to external customers	1,074,765	542,917	456,478	692,094	237,066	3,003,320
Balance sheet						
Property, plant and equipment and intangible assets (net)	691,839	538,693	438,600	46,527	608	1,716,267
Cash flows						
Capital expenditure: property, plant and equipment and intangible assets	101,779	36,892	83,202	2,126	579	224,578
Other information						
Average number of employees	9,265	1,955	5,444	538	9	17,211
Payroll costs	297,240	49,928	64,998	2,045	37	414,248

Note 30 Post balance sheet events

Vallourec and Sumitomo Metal Industries have agreed to purchase each other's shares, for an amount of approximately USD 120 million, over a period up to 31 December 2009. As at the end of June, Vallourec had not acquired any Sumitomo Metal Industries shares.

On 2 July 2009, the Vallourec Group increased its strategic investment, and acquired a controlling interest (78.2%) in P.T. Citra Tubindo Tbk (PTCT), a company listed in Jakarta, by means of the acquisition of a 60% interest in Kestrel Wave Investment Ltd. The company will be fully

consolidated in the second half year and is not expected to materially affect the comparability of the financial statements.

In accordance with the resolution approved by the Ordinary and Extraordinary Shareholders' Meeting on 4 June 2009, shareholders were invited to choose to receive the dividend of €6 per share either in cash or in new shares issued at the price of €74.28. This operation resulted in the creation of 2,783,484 new shares (i.e. 5.2% of the capital) and the payment of €111.5 million in cash.

Statutory Auditors' review report on the half-year financial information for 2009

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

For the period January 1, 2009 to June 30, 2009

To the Shareholders,

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

- the review of the accompanying condensed half-year consolidated financial statements of Vallourec, for the period January 1, 2009 to June 30, 2009;
- the verification of the information contained in the half-year management report.

These condensed half-year consolidated financial statements are the responsibility of the Management Board. They have been prepared in a context characterized by heavy market volatility and an uncertain outlook regarding the future, as described in Note B – Accounting Principles to the condensed half-year consolidated financial statements, a situation which already prevailed at the December 31, 2008 year-end. Our role is to express a conclusion of these financial statements based on our review.

1 CONCLUSION ON THE FINANCIAL STATEMENTS

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

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

2 SPECIFIC VERIFICATION

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

The Statutory Auditors

Paris-La Défense and Neuilly-sur-Seine, July 29, 2009

KPMG Audit

Deloitte & Associés

A department of KPMG SA

Jean-Paul Vellutini

Philippe Grandclerc

Jean-Paul Picard

Jean-Marc Lumet



French limited liability company
(*société anonyme*) with Management
and Supervisory Boards
and issued capital of €226,288,800

Registered office:

27, avenue du Général Leclerc
92100 Boulogne-Billancourt (France)
552 142 200 RCS Nanterre
Tel.: +33 (0)1 49 09 39 76
Fax: +33 (0)1 49 09 36 94
Internet: www.vallourec.com