vallourec

Reference Document
Year ended 31 December 2008

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

The original version of this Reference Document (*document de référence*) in French was filed with the French securities regulator (*Autorité des Marchés Financiers – AMF*) on 30 April 2009 in accordance with Article 212-13 of its general regulations. It may be used in connection with a financial transaction if completed by an Information Notice authorized by the AMF.

Vallourec Group

This document is a translation of the Reference Document of the Vallourec Group for the year ended 31 December 2008.

Its purpose is to assist English speaking readers. The greatest attention has been paid to its preparation. However, the only official document is the 2008 Reference Document in French, filed with the French securities regulator (*Autorité des Marchés Financiers – AMF*) on 30 April 2009.

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1.1 PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT

Mr Philippe Crouzet [1],

Chairman of the Management Board of Vallourec (hereinafter referred to as "Vallourec" or the "Company").

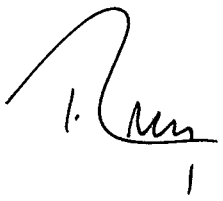
1.2 ATTESTATION BY THE PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT

I attest, having taken all reasonable steps to ensure that such is the case, that the information given in this Reference Document is, to the best of my knowledge, correct and that there are no omissions likely to change its import.

I attest that, to the best of my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the consolidated financial position, assets and liabilities and net income of the Company and of the Group and that the management report included in Section 8 (pages 168 to 201) of this Reference Document gives an accurate overview of the business, consolidated results and financial position of the Company and of the Group as well as a description of the main risks and uncertainties they face.

I have obtained from our Statutory Auditors an assignment completion letter in which they indicate that they have verified the information relating to the Group's financial situation and the financial statements included in this Reference Document and read the Reference Document in its entirety.

Boulogne-Billancourt, 30 April 2009



The Chairman of the Management Board

Philippe Crouzet

(1) At its meeting on 25 February 2009, the Supervisory Board appointed Mr Philippe Crouzet to replace Mr Pierre Verluca as Chairman of the Management Board as from 1 April 2009.

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1.3 PERSONS RESPONSIBLE FOR THE AUDIT

1.3.1 STATUTORY AUDITORS

KPMG SA

Represented by:
- Mr Jean-Paul Vellutini and
- Mr Philippe Grandclerc

1, cours Valmy
92923 Paris La Défense Cedex

Date on which first appointment commenced: 1 June 2006

KPMG SA was appointed by the Shareholders' Meeting of 1 June 2006 to replace Barbier Frinault & Autres (Ernst & Young network), whose appointment had expired, for a term of six (6) years expiring at the close of the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011.

Deloitte & Associés

Represented by:
- Mr Bertrand de Florival and
- Mr Jean-Paul Picard

185, avenue Charles de Gaulle
92524 Neuilly-sur-Seine Cedex

Date on which first appointment commenced: 1 June 2006

Deloitte & Associés was appointed by the Shareholders' Meeting of 1 June 2006 to replace Cabinet Calan Ramolino & Associés (Deloitte network), whose appointment had expired, for a term of six (6) years expiring at the close of the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011.

1.3.2 ALTERNATIVE AUDITORS

SCP Jean-Claude André & Autres

Alternative Auditor for KPMG SA

Les Hauts de Villiers
2bis, rue de Villiers
92300 Levallois-Perret

Date on which first appointment commenced: 1 June 2006

SCP Jean-Claude André & Autres was appointed by the Shareholders' Meeting of 1 June 2006 to replace Mr Jean-Marc Besnier, whose appointment had expired, for a term of six (6) years expiring at the close of the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011.

BEAS

Alternative Auditor for Deloitte & Associés

7/9, villa Houssaye
92524 Neuilly-sur-Seine Cedex

Date on which first appointment commenced: 11 June 2002

The appointment of Société BEAS, previously Alternative Auditor for Cabinet Calan Ramolino & Associés, was renewed by the Shareholders' Meeting of 1 June 2006 for a term of six (6) years expiring at the close of the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011.

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1.4 SHAREHOLDER COMMUNICATION POLICY

Vallourec's institutional and financial communication team aims to facilitate shareholder access to information about the Group's earnings and outlook, in a transparent and fair manner. The Group strives to go beyond compliance with its legal obligations and anticipate its investors' growing requirements.

Its efforts to communicate effectively are reflected in the large number of communication media that it produces which are accessible to all and the communication initiatives that specifically target institutional investors and individual shareholders.

1.4.1 COMMUNICATION MEDIA MADE AVAILABLE TO SHAREHOLDERS

Several communication media are available to all shareholders on the Group's website (www.vallourec.com). They include:

- the Reference Document and the half-year report, filed with the French securities regulator *(Autorité des Marchés Financiers - AMF);*
- the annual report and the safety and environment report;
- all the information disclosed to the financial markets (quarterly results, press releases, financial and strategic presentations and audio and video transmissions);
- all the information concerning Shareholders' Meeting (notices of meetings, draft resolutions, voting form and letter to shareholders).

The Reference Document, annual report, safety and environment report, notice of meeting and letter to shareholders are published in paper form and are available upon request from the Investor Relations department.

1.4.2 RELATIONS WITH INSTITUTIONAL INVESTORS AND FINANCIAL ANALYSTS

The Investor Relations department regularly organizes, in conjunction with the various members of the Group's senior management, meetings with institutional investors and financial analysts, in France and abroad. These meetings include:

- a quarterly telephone conference in English organized after the release of the financial results. Members of the Management Board present the results and answer questions from analysts and investors;
- a half-yearly conference organized in Paris, in French with a simultaneous translation into English, at which the half-year and full-year results are presented. The conference is audiocasteed and can be consulted as it takes place or subsequently on the Groupwebsite.
- regular meetings between the members of the Management Board and the Investor Relations department and investment managers and financial analysts in Europe and North America;
- conferences for investors specializing in the oil services sector attended by Vallourec's senior management;
- each year, an information day, the Investor Day, is held. A presentation is made to institutional investors and analysts, on the Group's strategy and activities. A video of the conference and the presentations made at the conference are available on the Group's website.

In accordance with current practice amongst most companies belonging to the CLIFF (the French Association for Investor Relations professionals - *Association Française des* Investor Relations), Vallourec treats the three-week period preceding the release of its annual, half-year and quarterly (first and third quarters) results as a "quiet period".

1.4.3 RELATIONS WITH INDIVIDUAL SHAREHOLDERS

The Group has developed specific procedures for meeting the requirements of its individual shareholders:

- the shareholder and investor sections of its website are constantly updated to include the most recent information (press releases, presentations and reports);
- financial notices are published in the national press when the Group's results are released;
- the Investor Relations team is constantly available to answer questions:
  - by telephone: +33 (0)1 49 09 39 76
  - by e-mail: actionnaires@vallourec.fr

In addition, Vallourec offers its shareholders the opportunity to enjoy the benefits afforded by direct registration of their shares, which include:

- free management: direct registered shareholders are totally exempt from custody fees as well as the other fees associated with the management of their shares:
  - conversion to bearer shares, transfer of shares,
  - legal matters: transfers, gifts, inheritance, etc.,
  - securities transactions (capital increases, allocations of shares, etc.),
  - dividend payments;

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- a guarantee of receiving personalized information: direct registered shareholders are guaranteed to receive personalized information:
- notices of General Meetings of shareholders: direct registered shareholders will automatically be sent the invitation to attend, the postal voting form, an admission card request form and statutory information documents;
- telephone information about securities management, the taxation of securities and the organization of General Meetings of shareholders. A team of operators is constantly available from 9 a.m. until 6 p.m. Monday to Friday, on +33 (0)1 57 78 34 44;
- attending General Meetings is easier: all registered shareholders are automatically invited to General Meetings of shareholders and, in order to vote, do not need to go through the prior formality of requesting a certificate of holding. In accordance with the legislation and regulations, shareholders may transfer their shares after voting by post (or requesting an admission card) but before the Meeting, subject to the requirement to notify such transfers to the financial intermediary so that the vote can be cancelled.

Further information about direct registration and the necessary forms may be obtained from **CACEIS Corporate Trust**:

- by telephone on: + 33 (0)1 57 78 34 44; or
- by fax on: + 33 (0)1 49 08 05 80; or
- by mail at the following address:

  CACEIS Corporate Trust

  Investor Relations

  92862 – Issy-Les-Moulineaux Cedex 09

1.4.4 CALENDAR AND CONTACT DETAILS

2009 Calendar:

- 13 May: release of 2009 first quarter results;
- 4 June: General Meeting of shareholders;
- 30 July: release of 2009 second quarter and first half results;
- 24 September: Investor Day;
- 12 November: release of 2009 third quarter results.

For further information, please contact:

Mr Etienne Bertrand

Investor Relations Director

Vallourec

27, avenue du Général Leclerc

92660 Boulogne Billancourt Cedex - France

Tel: +33 (0)1 49 09 35 58

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

E-mail: etienne.bertrand@vallourec.fr

Vallourec website: www.vallourec.com

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2.1 GENERAL INFORMATION ON VALLOUREC

2.1.1 COMPANY NAME AND REGISTERED OFFICE

Vallourec

27, avenue du Général Leclerc, 92100 Boulogne-Billancourt.

2.1.2 LEGAL STATUS

A French limited liability company *(Société Anonyme)* having opted on 14 June 1994 for a management structure comprising a Management Board and a Supervisory Board.

2.1.3 APPLICABLE LAWS

French.

2.1.4 DATE OF FORMATION AND DISSOLUTION

The Company was formed in 1899.

It will be dissolved on 17 June 2067, unless its life is extended or unless it is dissolved early.

2.1.5 OBJECTS (ARTICLE 3 OF THE BY-LAWS)

The Company's object, in any country either on 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 all methods of the preparation and manufacture, by all processes 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.

2.1.6 TRADE AND COMPANIES REGISTRY

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

2.1.7 CONSULTATION OF LEGAL DOCUMENTS

The by-laws, minutes of General Meetings and other Company documents can be consulted at the registered office.

2.1.8 FINANCIAL YEAR

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

2.1.9 MANDATORY ALLOCATION OF NET INCOME (ARTICLE 15 OF THE BY-LAWS)

The distributable net income, as defined by law, is allocated by a General Meeting of shareholders.

Unless there is an exception resulting from legal requirements, it is for the General Meeting to decide how the net income should be allocated.

A General Meeting may also decide to grant to each shareholder the right to choose, for all or part of the dividend to be distributed, between payment of the dividend in cash or in shares [(1)], in accordance with the legal and regulatory requirements at the time.

2.1.10 GENERAL MEETINGS

Shareholders' Meetings are called in accordance with the conditions provided for by law. A General Meeting is open to all shareholders, irrespective of the number of shares held. Each shareholder attending the General Meeting has as many votes as shares owned or represented, unless there are legal requirements to the contrary. However, fully paid-up shares duly registered in the name of the same shareholder for four (4) years have double the voting right conferred on other shares (Article 12 paragraph 4 of the by-laws).

2.1.11 DECLARATIONS OF CROSSING THRESHOLDS

The Extraordinary General Meeting of 1 June 2006 (*Second resolution*) supplemented Article 8 of the by-laws by introducing an additional requirement to provide information when thresholds are crossed other than those already provided for by the prevailing legislation.

(1) It is stipulated that this option was introduced by the General Meeting of 14 June 1994.

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Consequently:

"In addition to the declarations of crossing thresholds expressly provided for by Articles L. 233-7-I and II of the French Code de Commerce, any shareholder (individual or corporate body) that acquires, directly or indirectly by means of companies controlled by the shareholder within the meaning of Article L. 233-3 of the French Code de Commerce, acting singly or jointly, a number of the Company's bearer shares equal to or greater then three (3), four (4), six (6), seven (7), eight (8), nine (9) and twelve and a half (12.5) per cent of the total number of shares making up the share capital must, within five (5) trading days of crossing said threshold, inform the Company, by letter sent by recorded delivery with advice of receipt to the Company's registered office, of the total number of shares that it owns.

The information specified in the preceding clause must also be given within the same timescale and under the same terms when a shareholding falls under the thresholds referred to in said clause."

The Company has the right to request the identification of holders of securities granting an immediate or future right to vote at its General Meetings and evidence of the quantities held, under the provisions of current legislation.

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2.2 GENERAL INFORMATION CONCERNING THE CAPITAL

2.2.1 BY-LAWS CONCERNING CHANGES TO THE CAPITAL AND RIGHTS ATTACHED TO SHARES

An Extraordinary General Meeting may, within the provisions of the law, increase or reduce the share capital or delegate to the Management Board the necessary powers to do so.

However, on the basis of the Company's internal organization (Article 9, Section 3 of the by-laws), the Management Board may not carry out the following transactions without previous authorization from the Supervisory Board:

- any capital increase in cash or by capitalization of reserves authorized by a General Meeting;
- any other issue of securities that could later give access to the capital, authorized by a General Meeting.

The shares are freely tradable and transferable in accordance with legislative and regulatory provisions.

2.2.2 SHARE CAPITAL

On 1 January 2008, the start of the financial year 2008, the fully paid-up share capital amounted to €212,154,880 divided into 53,038,720 shares with a par value of €4 each.

On 16 December 2008, the share capital was increased from €212,154,880 to €215,154,864, divided into 53,788,716 shares with a par value of €4 each, by means of a capital increase with a nominal value of €2,999,984 resulting from the carrying out, under the terms of the "Value 08" employee share ownership plan implemented by the Company, of three capital increases, the nominal amounts of which were €1,076,432, €889,804 and €1,033,748 respectively.

On 31 December 2008, the fully paid-up share capital thus totalled €215,154,864, divided into 53,788,716 shares with a par value of €4 each.

2.2.3 AUTHORIZED CAPITAL NOT YET ISSUED

2.2.3.1 General framework

The Extraordinary General Meeting of 6 June 2007 delegated to the Management Board, subject to the prior approval of the Supervisory Board (see 2.2.1 above), the powers required to, where relevant, decide to:

- increase the share capital by the issue – with retention of preferential subscription rights – of shares and/or marketable securities giving access to the Company's capital and/or to issue marketable securities giving the right to the allocation of debt securities with a nominal value not exceeding €40 million (*First resolution*);
- increase the share capital by the issue – without preferential subscription rights – of shares and/or marketable securities giving access to the Company's capital and/or to issue marketable securities giving the right to the allocation of debt securities with a nominal value not exceeding €10 million (*Second resolution*);
- issue shares or marketable securities giving access to the Company's capital, without preferential subscription rights, as remuneration for contributions in kind relating to the Company's equity or marketable securities giving access to the Company's capital, up to a limit of 10% of the share capital as adjusted for transactions affecting the share capital after the General Meeting (*Third resolution*);

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- increase the share capital by a maximum nominal amount of €20 million by capitalizing additional paid-in capital, reserves, profits or other items (*Fourth resolution*);
- increase the number of shares to be issued in the event of successful issues in accordance with the *first and second resolutions* (over-allocation option) (*Fifth resolution*);
- grant share subscription or share purchase options to the Group's employees and any corporate officers, up to a limit of 2% of the share capital on the date of the Management Board's decision (*Seventh resolution*).

The maximum nominal value of capital increases that may be carried out on the basis of the above delegations is set at €40 million, it being specified that this limit is an overall limit that applies to all the delegations granted for a period of 26 months expiring on 5 August 2009.

It is, however, stipulated that the authorizations granted to the Management Board under the terms of the *first to fifth resolutions and the seventh resolution* would become null and void in the event of the adoption by the Ordinary and Extraordinary General Meeting of 4 June 2009 of a group of resolutions delegating to the Management Board the authority to increase the share capital by a maximum nominal amount of €105 million.

2.2.3.2 Employee share ownership

The Ordinary and Extraordinary General Meeting of 4 June 2008 delegated to the Management Board, subject to the prior approval of the Supervisory Board (see 2.2.1 above), the powers required to, where relevant, decide to:

- increase the share capital by the issue of shares or marketable securities giving access to the Company's capital reserved for members of savings plans, with the cancellation of the preferential subscription rights in their favour, with a nominal amount not exceeding €6.3 million (*Twelfth resolution*);
- implement capital increases reserved for employees of foreign companies of the Vallourec Group (and beneficiaries and similar parties) outside of a company savings plan, with the cancellation in their favour of the shareholders' preferential subscription rights, with a nominal amount not exceeding €6.3 million (*Thirteenth resolution*);
- implement capital increases reserved for credit institutions as part of a transaction reserved for employees, with cancellation of the shareholders' preferential subscription rights, with a nominal amount not exceeding €6.3 million (*Fourteenth resolution*);
- to allocate shares (whether existing shares or shares to be issued) to the Group's employees who are not French residents (and beneficiaries and similar parties), or to certain of them (as well as Corporate officers who are not French residents), as part of the implementation of an offering reserved for employees (and beneficiaries and similar parties), up to a limit of 0.3% of the share capital on the date of the Management Board's decision (*Fifteenth resolution*).

The maximum nominal amount of capital increases that may be carried out immediately or in the future on the basis of the above delegations will be deducted from the above overall limit of €40 million provided for in paragraph 3 of *the first resolution* adopted by the Extraordinary General Meeting of 6 June 2007 or, where relevant, from the overall limit provided for by any resolution of a similar nature that may supersede said resolution during the period of validity of the delegation granted. Moreover, any use of the *twelfth*, *thirteenth* or *fourteenth resolutions* will reduce the aforementioned overall limit by €6.3 million, which applies to these three delegations.

The delegations granted under the terms of the *twelfth* and *fifteenth resolutions* were granted for a period of 26 months expiring on 4 August 2010 whereas those granted under the terms of the *thirteenth* and *fourteenth* resolutions were granted for a period of 18 months expiring on 4 December 2009.

It is, however, stipulated that the authorizations granted to the Management Board under the terms of the *twelfth* to *fifteenth resolutions* would become null and void in the event of the adoption by the Ordinary and Extraordinary General Meeting of 4 June 2009 of a group of resolutions delegating to the Management Board the same authorizations up to a maximum nominal amount of €8.6 million, which amount will be deducted from the aforementioned overall limit of €105 million.

2.2.4 SECURITIES NOT REPRESENTING CAPITAL

At present there are no securities that do not represent capital (such as founder's shares, voting right certificates, etc.).

2.2.5 SECURITIES GIVING ACCESS TO CAPITAL: SHARE SUBSCRIPTION OPTIONS

The seventh resolution of the Extraordinary General Meeting held on 6 June 2007 authorized the Management Board to grant, where relevant, share subscription (and/or share purchase) options to Group employees and, where relevant, Corporate officers, up to a limit of 2% of the Company's share capital (this limit being part of the overall €40 million limit referred to in Section 2.2.3).

Under this authorization, which was granted for a period of 26 months expiring on 5 August 2009, the Management Board, with the approval of the Supervisory Board, implemented:

- on 3 September 2007, a share subscription option plan in respect of a total of 147,300 options, i.e. 0.3% of the share capital on that date; and
- on 1 September 2008, a share subscription option plan in respect of a total of 71,800 options, i.e. 0.13% of the share capital on that date.

Details of the procedures applicable to these plans are provided in Section 6.3.1 of this Reference Document and in the special report of the Management Board on options (Section 8.1.2).

It is stipulated that the authorization granted to the Management Board by this resolution would become null and void in the event of the adoption by the Ordinary and Extraordinary General Meeting of 4 June 2009 of a resolution authorizing the Management Board, during a period of 38 months, to grant share subscription or share purchase options up to a limit of 3% of the share capital for the duration of this authorization (the limit for any 12-month period being 2% of the share capital), this limit being part of the overall limit of €105 million referred to in Section 2.2.3.1.

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2.2.6 ALLOCATION OF PERFORMANCE SHARES

The ninth resolution of the Ordinary and Extraordinary General Meeting of 7 June 2005 authorized the Management Board to grant, where relevant, performance shares to Group employees and Corporate officers, up to a limit of 5% of the Company's share capital.

Under the terms of this authorization, two performance share allocation plans were set up by the Management Board, with the approval of the Supervisory Board, on 16 January 2006 and 3 May 2007 respectively. Details of the procedures applicable to these plans are provided in Section 6.3.2 of this Reference Document and in the special report of the Management Board on performance share allocations (Section 8.1.3).

The Ordinary and Extraordinary General Meeting of 4 June 2008, subject to the prior approval of the Supervisory Board (see 2.2.1 above), delegated to the Management Board the authority to decide, where relevant, to allocate performance shares, whether existing shares or shares to be issued, to the Group's employees and Corporate officers, or certain of them, up to the limit of 1% of the Company's share capital on the date of the Management Board's decision and for a period of 38 months, expiring on 4 August 2011 (*Sixteenth resolution*) [(1)].

The delegation of authority granted to the Management Board by the Ordinary and Extraordinary General Meeting of 4 June 2008 by virtue of the *sixteenth resolution* has a different aim from the delegation of authority that is the subject of the *fifteenth resolution* (see 2.2.3.1 above) submitted to said General Meeting.

Under the terms of this authorization, a performance share allocation plan was set up on 1 September 2008 by the Management Board, with the approval of the Supervisory Board. The procedures applicable to this plan are detailed in Section 6.3.2 of this Reference Document, as well as in the special report of the Management Board on performance share allocations (Section 8.1.3).

2.2.7 CHANGES IN CAPITAL OVER THE LAST FIVE YEARS

In euros

	New shares created by					
Transaction dates	Exercise of subscription options	Subscriptions in cash	Total number of shares	Capital increase	Issue premium	Share capital
31/12/2004	139,730	–	9,869,956	2,794,600	2,515,140	197,399,120
14/06/2005	18,415	–	9,888,371	368,300	331,470	197,767,420
13/07/2005	–	706,312	10,594,683	14,126,240	110,855,668	211,893,660
31/12/2005	5,649	–	10,600,332	112,980	98,462	212,006,640
18/07/2006 (*)	–	–	53,001,660	–	–	212,006,640
31/12/2006	10,210	–	53,011,870	40,840	35,609	212,047,480
31/12/2007	26,850	–	53,038,720	107,400	93,707	212,154,880
16/12/2008	–	749,996	53,788,716	2,999,984	46,492,252	215,154,864

(*) Division (stock split) by 5 of the nominal value of the shares, as a result of which the nominal value was reduced from €20 to €4 and the number of shares was multiplied by 5.

(1) It is stipulated that this authorization rendered null and void as from the Ordinary and Extraordinary General Meeting of 4 June 2008 the previous delegation of authority granted to the Management Board to carry out allocations of performance shares, whether existing shares or shares to be issued, to the Group's employees and Corporate officers, or certain of them, under the terms of the ninth resolution of the Extraordinary General Meeting of 7 June 2005.

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2.3 BREAKDOWN OF CAPITAL AND VOTING RIGHTS

2.3.1 COMPANY'S SHAREHOLDERS

As at 31 December 2008, the breakdown of share capital was as follows:

Shareholders	Number of shares	% of shares	Number of voting rights (gross)	% of voting rights (gross)
Barclays Group Plc	2,956,264	5.50%	2,956,264	5.49%
Bolloré Group	1,558,954	2.90%	1,558,954	2.90%
Free float	48,048,768	89.33%	48,468,000	90.08%
Group employees	824,311	1.53%	824,311	1.53%
Own shares directly held by Vallourec (*)	400,419	0.74%	–	0.00%
TOTAL	**53,788,716**	**100%**	**53,807,529**	**100%**

(*) Own shares held directly by Vallourec include those held under the liquidity contract, which totalled 131,840 shares at 31 December 2008. This contract, by its nature, results in a monthly change which is the subject of "ad hoc" declarations on the Vallourec website (www.vallourec.com) under the heading "Regulated information".

The holdings of Group employees have arisen as a result of two plans implemented in July 2006 and July 2008.

The first plan has a duration of five years. The Vallourec shares, in which the subscription proceeds (€4.4 million) were invested, were acquired on the market.

The second plan, which was named "Value 08", related to 749,996 shares issued and subscribed for at the price of €65.99. It applies to all Group employees in all the countries involved (see 6.3.4 below).

The Company is not aware of any holding that may be held indirectly by employees.

As far as the Company is aware, at 31 December 2008, the number of shares (1) held by each of the members of the Supervisory Board and each of the Censeurs (non-voting Board members) was as follows:

Members of the Supervisory Board		Number of Vallourec shares held at 31/12/2008
Messrs	Jean-Paul Parayre	107,372
	Patrick Boissier	270
	Philippe Crouzet	100
	Michel de Fabiani	250
	Denis Gautier-Sauvagnac	370
	François Henrot	250
	Edward G. Krubasik	380
	Jean-Claude Verdière	500
	Bolloré (*) (represented by Mr Thierry Marraud) (**)	0
Messrs	Arnaud Leenhardt *(Censeur)*	1,525
	Luiz-Olavo Baptista *(Censeur)*	250

(*) By individual declaration relating to the transactions in the Company's shares of persons referred to in Article L. 621-18-2 of the French Code monétaire et financier, Bolloré informed the French securities regulator (Autorité des Marchés Financiers – AMF) of its acquisition of 50 shares on 29 January 2009, thereby complying with its statutory obligation under Article 10.

(**) At 31 December 2008, Mr Thierry Marraud held no Vallourec shares in his personal capacity.

(1) Including the 50 qualifying shares which they are required to own during their term of office in accordance with the provisions of the by-laws (Article 10).

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At 31 December 2008, Mr Pierre Verluca, Chairman of the Management Board, and Messrs Olivier Mallet and Jean-Pierre Michel, who are members of the Management Board, did not hold any Vallourec shares.

At 31 December 2008, no shareholders' pact had been declared to the French securities regulator *(Autorité des Marchés Financiers – AMF)*.

Significant event during first quarter of 2009

In recognition of their strengthened collaboration, on 26 February 2009, Vallourec and Sumitomo Metal Industries announced that they had agreed to purchase each other's shares, for an amount of approximately USD 120 million, over a period up to 31 December 2009 (hereinafter referred to as the "Agreement").

The provisions of the Agreement provide for preferential sale conditions, the main characteristic of which is the existence of a reciprocal pre-emption right in the event that one of the two partners indicates its intention to sell its shareholding to a third party.

The Agreement has been entered into for a period of seven years, which can be automatically renewed for further one-year periods.

Own shares held

At 31 December 2008, Vallourec held directly 400,419 of its own shares, which represented 0.74% of the share capital. 131,840 of these shares were held under the terms of a liquidity contract. The remaining 268,579 shares result from shares acquired in 2001 (1,348,745 shares originally) and then in 2008 by buy-backs and allocated by the Management Board to cover share purchase option and performance share allocation plans set up in 2003, 2006, 2007 and 2008.

Details of the 2008 buy-backs, following the authorization given by the Ordinary and Extraordinary General Meeting of 4 June 2008, are available on the Vallourec website under the heading "Regulated information" – Section 11 (http://www.vallourec.fr/uk/actionnaires/information_reglementee.asp).

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2.3.2 CHANGES IN THE BREAKDOWN OF CAPITAL IN THE LAST THREE YEARS

	31/12/2006				31/12/2007				**31/12/2008**			
Shareholders	Shares	%	Voting rights	%	Shares	%	Voting rights (gross)	%	**Shares**	**%**	**Voting rights (gross)**	**%**
Bolloré Group (*) (***)	3,967,065	7.48	3,967,065	7.68	2,107,449	3.97	3,547,833	6.51	1,558,954	2.90	1,558,954	2.90
Barclays Group (**) (***)	2,907,173	5.49	2,902,806	5.62	4,257,447	8.03	4,257,447	7.81	2,956,264	5.49	2,956,264	5.49
Free float	44,676,254	84.28	44,704,290	86.48	46,104,452	86.93	46,604,934	85.52	48,048,768	89.33	48,468,000	90.08
Group employees	112,633	0.21	112,633	0.22	85,843	0.16	85,843	0.16	824,311	1.53	824,311	1.53
Own shares directly held by Vallourec	1,348,745	2.54	–	–	483,529	0.91	–	–	400,419	0.74	0	0
TOTAL	**53,011,870**	**100**	**51,686,794**	**100**	**53,038,720**	**100**	**54,496,057**	**100**	**53,788,716**	**100**	**53,807,529**	**100**

(*) By means of the declaration of crossing a threshold dated 12 March 2009, the Bolloré Group declared that it had crossed the 5% threshold and that its holding had increased to 5.2% of Vallourec's share capital and voting rights. On 31 March 2009, the Bolloré Group held 5.73% of Vallourec's share capital and voting rights following the declarations made by the corporate officers to the AMF.

(**) By means of the declaration of crossing a threshold dated 20 March 2009, Barclays Global Investors UK Holding Limited declared, on behalf of the management companies in the Barclays Group, that it had crossed the 5% threshold and that its holding had increased to 5.07% of Vallourec's share capital and 5.06% of its voting rights. These aforementioned management companies carry on their management activity on behalf of third parties, in a manner that is totally independent of Barclays Bank Plc and Barclays Plc (AMF press release dated 27 March 2009).

(***) By means of the declaration of crossing a threshold dated 15 April 2009, Barclays Global Investors UK Holding Limited declared, on behalf of the management companies of the Barclays Group, that, on 7 April 2009, it had crossed the 5% share capital and voting right thresholds and that its holdings had fallen to 4.85% of the share capital and 4.84% of the voting rights (AMF press release dated 15 April 2009).

(****) By means of the declaration of crossing a threshold dated 23 April 2009, Compagnie de Cornouaille declared that, on 16 April 2009, it had, on its own, crossed the 5% share capital and voting right thresholds and that the shareholdings that it held, on its own, had increased to 2,990,534 shares representing the same percentage of Vallourec's share capital (5.56%) and voting rights (5.55%). This crossing of a threshold resulted from the acquisition, off-market, by Compagnie de Cornouaille, of all of the Vallourec shares previously owned by Nord-Sumatra Investissements, Financière du Loch and Financière de Sainte-Marine, controlled by Mr Vincent Bolloré, as part of the reclassification of the Bolloré Group's shareholdings in Vallourec. In addition, it is specified that Mr Vincent Bolloré has not crossed any thresholds and held, on 16 April 2009, indirectly via companies he controls, 2,990,584 Vallourec shares representing the same percentage of Vallourec's share capital (5.56%) and voting rights (5.55%) (AMF press release dated 23 April 2009).

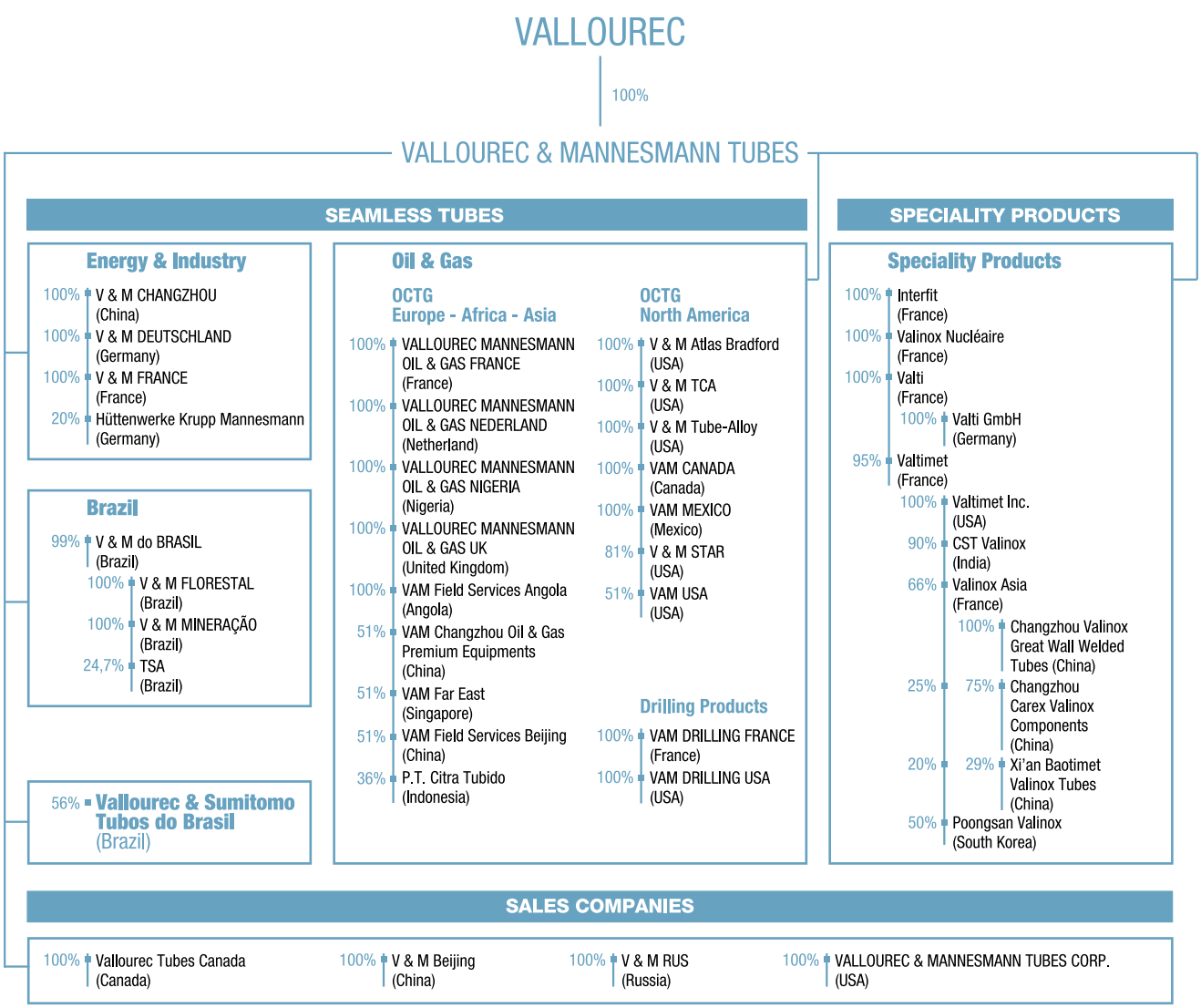
Vallourec was informed of the number of shares shown as held by the Bolloré and Barclays Groups by those groups.

2.3.3 OTHER PERSONS EXERCISING CONTROL OVER VALLOUREC

None.

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2.3.4 DESCRIPTION OF THE VALLOUREC GROUP (ORGANIZATION CHART AS AT 31 DECEMBER 2008)



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2.4 MARKET FOR THE COMPANY SHARES

2.4.1 LISTING MARKET

The Company's shares are listed on the Euronext Paris Eurolist (Section A: ISIN code: FR0000120354-VK). They are part of the deferred settlement Section and are a qualifying investment under the French equity savings plan (*plan d'épargne en actions - PEA*) legislation.

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

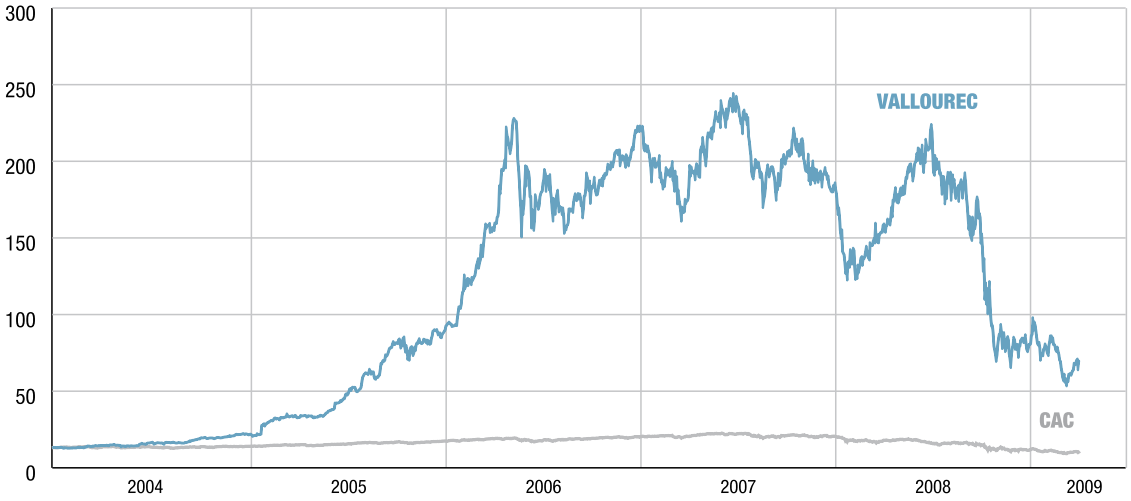
2.4.2 OTHER REGULATED MARKETS

Not applicable.

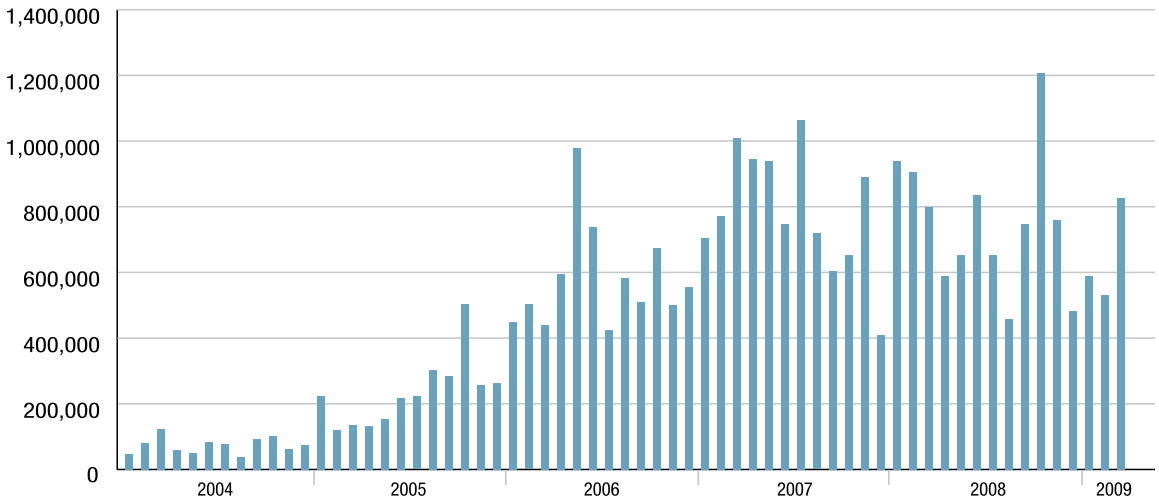
2.4.3 VOLUMES TRADED AND SHARE PRICE PERFORMANCE

Performance of the Vallourec share compared to the CAC 40 index at 31 March 2009.

Vallourec share price performance over five years, compared to the CAC 40 index



Monthly average of volumes traded per day



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In euros	2004	2005	2006 (*)	2007	**2008**
Number of shares (at 31 December)	9,869,956	10,600,332	53,011,870	53,038,720	53,788,716
Highest price (*)	112.10	465.00	232.00	243.25	224.450
Lowest price (*)	63.60	99.01	90.96	161.29	64.185
Average (closing) price for the year	81.96	266.78	172.07	201.69	149.658
Year-end price	110.00	465.00	220.30	185.15	81.000
Market capitalization (at year-end price)	1,085,695,160	4,929,154,380	11,678,514,961	9,820,119,008	4,356,885,996

Source: Euronext.
(*) Division by five of the nominal value of Vallourec's shares on 18 July 2006 and resulting multiplication by five of the number of shares.

Vallourec shares (ISN code: FR0000120354)

	Price (in €)			Volume of transactions			
				Monthly total		Daily average	
	Highest	Lowest	Month end	Number of shares	Capital *In € million*	Number of shares	Capital *In € million*
2007							
October	220.90	194.99	200.06	15,020,471	3.14	653,064	0.14
November	206.35	183.80	193.29	19,608,486	3.79	891,295	0.17
December	196.00	179.50	185.15	7,754,331	1.45	408,123	0.08
2008							
January	185.250	120.020	133.360	20,686,876	3.00	940,313	0.14
February	147.900	123.650	138.270	19,038,384	2.56	906,590	0.12
March	157.900	129.400	153.770	15,198,952	2.24	799,945	0.12
April	182.050	153.590	175.250	12,953,556	2.17	588,798	0.10
May	201.790	165.050	199.140	13,737,876	2.56	654,185	0.12
June	224.450	191.220	222.190	17,575,613	3.62	836,934	0.17
July	222.930	172.200	192.160	15,007,725	2.89	652,510	0.13
August	194.760	176.100	190.840	9,613,597	1.76	457,790	0.08
September	189.730	142.050	151.060	16,458,355	2.67	748,107	0.12
October	154.495	69.000	87.000	27,782,383	2.73	1,207,930	0.12
November	92.420	64.185	83.455	15,177,258	1.21	758,863	0.06
December	87.725	73.560	81.000	10,153,739	0.82	483,511	0.04
2009							
January	98.180	69.245	76.885	12,349,080	1.01	588,051	0.05
February	88.790	59.120	62.480	10,606,823	0.78	530,341	0.04
March	73.250	52.520	69.810	18,207,751	1.14	827,615	0.05

Source: Euronext.

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2.4.4 PLEDGING OF SHARES OF THE ISSUER

None.

2.5 DIVIDEND PAYMENT POLICY

Vallourec's dividend policy, as approved by the Supervisory Board at its meeting on 17 April 2003, is, over the long term, to distribute on average 33% of its consolidated net income, Group share.

At the General Meeting to be held on 4 June 2009 (*Third and fourth resolutions*), shareholders will be asked to approve the payment of a net dividend of €6 per share in respect of the financial year 2008 and to give each of the Company's shareholders the choice between payment of the dividend in cash or in shares in accordance with the prevailing legislation and regulations. The ex-dividend date will be 11 June 2009.

To this effect, each shareholder will be able to opt for payment of the entire net dividend in cash or in shares between 11 June 2009 and 26 June 2009. Once this time limit has expired, the dividend will be paid in cash on 7 July 2009.

This dividend corresponds to a payout ratio of 33.2% in respect of the year ended 31 December 2008 and an average payout ratio of 33.3% in respect of the last five financial years.

Dividends paid in respect of the previous five financial years were:

In €/share	Gross	Tax credit (*)	Net dividend
2003	2.40	0.80	1.60
2004	3.20	None	3.20
2005	11.20	None	11.20
2006	6.00	None	6.00 (**)
2007	11.00	None	11.00 (**)

The following table shows the amounts recalculated to take into account the division by five of the nominal value of Vallourec's shares, effective from 1 July 2006:

In €/share	Gross	Tax credit (*)	Net dividend
2003	0.48	0.16	0.32
2004	0.64	None	0.64
2005	2.24	None	2.24
2006	6.00	None	6.00 (**)
2007	11.00	None	11.00 (***)

(*) For those shareholders not benefiting from the 50% tax credit in accordance with the tax regime in force during the years covered by the above table, the gross dividend was €1.76 with a tax credit (10%) of €0.16.
(**) Including an interim dividend of €2 per share paid on 20 October 2006.
(***) Including an interim dividend of €4 per share paid on 4 July 2007.

3 Information on the activities of the Vallourec Group

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3.1 PRESENTATION OF VALLOUREC – COMPANY AND GROUP

The Vallourec Group is over 100 years old, some of the companies at the origins of the Group having been formed in the last decade of the 19th century. The Group originated in two areas in France, both with long industrial traditions, and in which the Group still has a significant presence – the northern region around Valenciennes and Maubeuge and the Burgundy region around Montbard, in Côte-d'Or. Following the formation of Vallourec & Mannesmann Tubes (V & M Tubes) in 1997 (see 3.1.1. below), and the acquisition of V & M do Brasil in 2000, the Group also has extensive operations in the Düsseldorf area in North Rhineland-Westphalia (Germany) and in the region of Belo Horizonte in the Brazilian State of Minas Gerais. The acquisition at the beginning of July 2002 by V & M Tubes of the seamless steel Tubes business of North Star Steel Company, now named V & M Star, supplemented in 2005 by the acquisition of Omsco (since renamed VAM Drilling USA) and, on 16 May 2008, of Atlas Bradford®, TCA® and Tube-Allloy™, significantly strengthened the Group's presence in the United States.

Although the name Vallourec first appeared in 1930, designating a company operating pipe mills in Valenciennes and Denain, Louvroil and Recquignies, the present Group has other much earlier roots. The Group originated in Société Métallurgique de Montbard formed in 1899 to take over Société Française de Fabrication des Corps Creux, which had been operating a plant in Montbard since 1895. Listed on the Paris Stock Exchange since its formation in 1899, in 1907 it was named Société Métallurgique de Montbard-Aulnoye and in 1937 Louvroil Montbard Aulnoye after the takeover of the company Louvroil et Recquignies, itself a result of the merger between Société Française pour la Fabrication des Tubes de Louvroil, formed in 1890, and Société des Forges de Recquignies, founded in 1907.

In 1947, the name Vallourec was registered as a product name, but it was not until 1957, when the Valenciennes plant was bought from the company Denain Anzin, that Louvroil Montbard Aulnoye adopted the name Vallourec (the company formed under that name in 1930 was renamed Sogestra).

Listed below are some of the major events in the Group's history between 1957 and 1996:

- 1967: Contribution by Usinor of the tubes business of Lorraine-Escaut – a company recently taken over by Usinor;
- 1975: Takeover of Compagnie des Tubes de Normandie;
- 1979: Contribution of the small welded tubes business to the company Tubes de la Providence, which took the name of Valexy (Vallourec 64%, Usinor 36%);
- 1982: Takeover of Entrepose, a 90%-owned subsidiary of Vallourec, by Grands Travaux de Marseille, renamed GTM-Entrepose; Vallourec, with a 41% holding in GTM-Entrepose, became its main shareholder;
- 1985: Contribution to GTS Industries of the large welded tubes business:
  - withdrawal of Vallourec from the small welded tubes business (Valexy) and large welded tubes business (GTS Industries) in favour of Usinor, with Vallourec concentrating on seamless tube production and downstream processing activities,
  - sale of Société Industrielle de Banque (SIB);
- 1986: Vallourec, until then a holding company and an industrial company with many production units, became a pure holding company, covering three business areas:
  - the tubes businesses: Vallourec Industries, renamed Valtubes in 1987,
  - the other metallurgical businesses: Sopretac,
  - the businesses associated with construction and civil engineering, especially the participating interest in GTM-Entrepose: Valinco;
- 1988: Transfer of control of Valinco to the Dumez group, as activities associated with construction and civil engineering were no longer considered to be one of the Group's main development axes;
- 1991: Sale of the residual holding in Valinco to the Dumez group.

3.1.1 CHANGES IN THE GROUP'S STRUCTURE IN RECENT YEARS

One of the major events in recent years was the formation on 1 September 1997 of V & M Tubes, a joint subsidiary of Vallourec (55%) and the German company Mannesmannröhren-Werke (45%). As provided by the initial agreement, this merger was completed in 2000 by V & M Tubes acquiring the Brazilian subsidiary Mannesmann SA, now named V & M do Brasil.

The acquisition by V & M Tubes of the seamless steel tubes business of North Star Steel Company (North Star Tubes) at the beginning of July 2002 increased Vallourec's share in the buoyant market for tubes in the energy sector and significantly strengthened its presence in the United States, the market of reference for tubes for oil & gas well equipment (OCTG/Oil Country Tubular Goods). Now called V & M Star, this company is 80.5%-controlled by V & M Tubes and 19.5%-controlled by Sumitomo Corp.

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On 23 June 2005, Vallourec acquired full control of V & M Tubes as a result of the acquisition, for €545 million, of the 45% stake held by Mannesmannröhren-Werke. This major transaction has given Vallourec:

– full control over the implementation of V & M Tubes' strategy (acquisitions, capital expenditure, etc.);

– a more cohesive and clearer Group structure;

– full access to its subsidiary's results and cash-flow.

In order to control its supplies, V & M Tubes operates three steel mills (in France, Brazil and the United States) and owns a 20% stake in the German steel mill HKM as well as a supply contract entitling it to a portion of the mill's steel production.

With a view to continuing its expansion in the production of tubes for the power generation market, in 2005 V & M Tubes created a subsidiary, V & M Changzhou, located in Changzhou, China, specializing in the cold-finishing of large-diameter seamless alloy steel tubes produced in Germany for power generation plants. This plant was inaugurated at the end of September 2006.

As regards tubes for the oil & gas industry, following the acquisition of North Star in 2002, in 2005 V & M Tubes acquired the assets of the Omsco division of ShawCor (Canada) and created Omsco, a company based in Houston (Texas), USA, which specializes in the manufacture of drill pipes, drill collars and heavy weight drill pipes. This acquisition enabled V & M Tubes to become the number two in the world oil & gas drill pipe market. This position was consolidated early in 2006 by the acquisition in France of SMFI (Société de Matériel de Forage International), which also specializes in drill collars, heavy weight drill pipes and high-tech products for oil & gas drilling, and a forging and machining workshop for these same products previously owned by GIAT and located in Tarbes, in France, which was integrated into Vallourec Mannesmann Oil & Gas France. Omsco and SMFI changed their names early in 2007 to VAM Drilling USA and VAM Drilling France respectively.

In addition, VAM Changzhou Oil & Gas Premium Equipments was formed at the end of September 2006 to operate a plant in Changzhou, in China, for threading tubing to equip oil & gas wells. Production at the plant began in mid-2007. In 2007, Sumitomo Metal Industries and Sumitomo Corp. acquired shareholdings of 34% and 15% respectively in this company via VAM Holding Hong Kong.

In 2007, a major development project was launched: the construction, in the State of Minas Gerais in Brazil, of a new pipe mill integrating a steel mill and a rolling mill. This new rolling mill will be mainly dedicated to the production of high-end seamless OCTG tubes and will integrate heat treatment and threading capacity. Production is planned to start in mid-2010. This investment, which the Group estimates will cost a total of USD 1.6 billion, was made jointly with the Sumitomo Metal Industries Group via the joint-venture company Vallourec & Sumitomo Tubos do Brasil, in which Vallourec owns a 56% stake. At 31 December 2008, €116 million had been spent on the new plant. Construction of the plant is continuing according to schedule and the earthworks are already finished.

The other acquisitions made in recent years have concerned Valtimet, which was created in 1997. At the end of 2006, V & M Tubes purchased the 43.7% holding owned by Timet, its long-standing partner, in Valtimet, and now owns 95% of the share capital, with Sumitomo Metal Industries retaining the remaining 5%.

- In December 2002, Valtimet Inc., a wholly-owned subsidiary of Valtimet, acquired the assets of the US company International Tubular Products (ITP), the main US specialist in stainless steel tubes for condensers.
- In May 2004, Valtimet entered into a joint venture with the South Korean company Poongsan to manufacture, in Bupyung, Incheon, South Korea, welded stainless steel and titanium tubes designed mainly for the power generation and seawater desalination markets.
- In November 2005, Valtimet entered into a joint venture agreement with the Chinese company Baoti to create Xi'an Baotimet Valinox Tubes, in Xi'an, in the Chinese province of Shaan'xi. During 2007, this company began producing welded titanium tubes, mainly for the Chinese energy market.
- In early April 2006, Valtimet acquired 75% of CST. This Indian company, which was renamed CST Valinox, is located in Hyderabad and specializes in the production of tubes for power plant condensers for the Indian market. In 2007, the Group increased its interest in CST Valinox to 90%.
- At the end of 2006, Changzhou Carex Valinox Components was formed, specializing in the manufacture of welded stainless steel tubes for use in the motor industry.

As regards divestments, the main transactions in recent years have been carried out by the two sub-holding companies Valtubes and Sopretac and, as from 2005, by ValTubes, which was created as a result of the merger of these two sub-holding companies, ValTubes having itself been absorbed by V & M Tubes at the end of 2006.

- The Industrial Parts division of Sopretac, made up of the companies Métal Déployé, Krieg and Zivy Industries and their subsidiaries, was sold in 2001 to the managers of this division in association with two investment funds.
- Valtubes' participating interest (1/3) in DMV Stainless was sold in December 2003 for a nominal amount to its majority (2/3) shareholder Mannesmannröhren-Werke, which had already assumed full responsibility for its management.
- The subsidiary Vallourec do Brasil Autopeças, which specializes in the assembly of rear axle units for Renault do Brasil and Peugeot Citroën do Brasil, and the subsidiary Vallourec Argentina, which specializes in the machining of automotive parts and the assembly of rear axle units for Renault Argentina, were sold early in 2005. These assembly activities were not part of Vallourec's core business, had not achieved the necessary critical size and no longer presented any real strategic interest.
- Spécitubes, the only company in the Group operating in the aerospace sector, was sold in 2006 to one of its main customers, the German company Pfalz-Flugzeugwerke GmbH (PFW).
- Cerec, the French leader in the pressing and forming of metal dished ends, was sold at the end of 2006 to Eureka Metal Srl, a subsidiary of the Italian family-owned group Calvi, well known to Vallourec since it has gradually taken control of Cefival since 1999.

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- Vallourec Précision Etirage (VPE), which specializes in the manufacture of cold-drawn precision tubes, was sold to the Salzgitter Group early in July 2007. VPE, which generated sales in 2006 of €220 million, two-thirds of which was dedicated to the automotive industry, owns five production plants in France and employs around 1,200 staff. At the same time, V & M Tubes sold a hot-rolled pipe mill in Zeithain (Saxony), thereby enabling Salzgitter to be largely autonomous regarding its supply of hollows for redrawing.
- In December 2007, Vallourec Précision Soudage (VPS) and Vallourec Composants Automobile Vitry (VCAV) were sold to the ArcelorMittal Group. These companies are suppliers to the automotive industry and generate sales of €100 million and €45 million respectively.

Year ended 31 December 2008

In March 2008, Valtimet Inc. acquired the assets of High Performance Tubes, a company located in Georgia (USA) specializing in the finishing (finning in particular) of stainless steel and titanium tubes, thereby strengthening Valtimet's position in the steam generation market.

On 16 May 2008, having obtained all the necessary authorizations from the competition authorities, the Group acquired Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™ from the Grant Prideco Group. The three companies were renamed V & M Atlas Bradford®, V & M TCA® and V & M Tube-Alloy™ respectively.

- V & M Atlas Bradford® is well-known in North America as a leading supplier of premium OCTG connection technology. V & M Atlas Bradford® will complement Vallourec's VAM® product offering, providing an additional range of integral connections for the industry's most demanding applications.
- V & M TCA® specializes in heat treatment operations and markets high-grade tubular products with a strong focus on short lead time orders. V & M TCA® will provide Vallourec with additional premium capacity, specific expertise in sour service as well as a good geographical fit enabling Vallourec to extend its North American footprint.
- V & M Tube-Alloy™ produces and repairs down-hole tubular accessories for the oil & gas industry, and specializes in complex threading and machining for custom parts.

The integration of these three companies into the Group's industrial and commercial structure has proceeded according to plan and has delivered the expected synergies.

During the second half of 2008, the Group acquired 11.25% of the share capital of P.T. Citra Tubindo (Indonesia), in which it already held a 25% interest via its subsidiaries V & M Tubes and Premium Holding Limited (formed in 2008). This company carries out heat treatment on tubes and threading of API joints in Indonesia and has been producing VAM joints since 1985.

The Group did not make any significant disposals in 2008.

First quarter of 2009

The first quarter of 2009 saw the strengthening of Vallourec's collaboration with Sumitomo Metal Industries in the United States, with the aim of bolstering the Group's leadership position.

- On 26 February 2009, Vallourec, Sumitomo Metal Industries and Sumitomo Corporation announced that they had agreed to strengthen their longstanding collaboration in the field of premium OCTG connections through the merger in the United States of VAM USA, which was jointly owned by Vallourec (51%), Sumitomo Metal Industries (34%) and Sumitomo Corporation (15%), with V & M Atlas Bradford (fully acquired by Vallourec in May 2008) to form VAM USA LLC. To maintain the same level of shareholding in the new company as their prior interest in VAM USA, Sumitomo Metal Industries and Sumitomo Corporation acquired 34% and 15% respectively of V & M Atlas Bradford on 27 February 2009, the date of the merger.

  This merger will accelerate the integration of the Atlas Bradford® and VAM® lines of premium connection products, combining R&D capabilities and generating industrial and commercial synergies. The combined entity will employ 500 people in Houston, Texas.

  In addition to the partnership described above, Sumitomo Corporation, which already owned a 19.5% interest in 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, which was fully acquired by Vallourec in May 2008, specializes in heat treatment operations and is located in Muskogee, Oklahoma.

  As a further gesture of cooperation, Vallourec and Sumitomo Metal Industries have agreed to purchase each other's shares, for an amount of approximately USD 120 million, by 31 December 2009. This cross shareholding reflects the numerous ties which currently exist between the two groups.

Parent company – subsidiary organization

With the aim of simplifying the Group's structure, the sub-holding company ValTubes (generated by the merger-absorption of Valtubes by Sopretac in 2004) and the service company Setval were absorbed in 2006 by V & M Tubes, which is now the Group's only sub-holding company.

- Vallourec is a holding company that:

– manages its participating interests. Its income is mainly financial, such as dividends, interest on long-term loans to subsidiaries and investment income from cash and cash equivalents. It also bears the cost of its debt;

– bears operating and brand protection costs. In accordance with general Group policy, the image of the Group belongs to Vallourec. Vallourec charges royalties in exchange for the use of its brand by its industrial subsidiaries and V & M Tubes;

– does not carry out any industrial activity;

- V & M Tubes is a sub-holding company that manages its participating interests and does not carry out any industrial activity. Until 2005, its income was mainly financial, such as dividends, interest on long-term loans to subsidiaries and investment income from cash and cash equivalents.

  Following the merger by absorption of Setval, which was carried out with retroactive effect from 1 January 2006, V & M Tubes took over part of Setval's service activities including, in particular, the management of the Group and its administrative departments.

  During 2007, the Group centralized the euro and US dollar cash management for its European companies and the currency hedging operations in respect of its US dollar sales within V & M Tubes. At 31 December 2008, the companies that were members of this centralized cash management system were Vallourec, V & M France, Vallourec Mannesmann Oil & Gas France, V & M Deutschland, VAM Drilling France, Valtimet, Valti and Valinox Nucléaire.

  In addition, V & M Tubes bears the operating costs linked to its brand. V & M Tubes charges royalties in exchange for the use of its brand by its industrial subsidiaries.

  At 31 December 2008, V & M Tubes had 158 employees. It invoices the Group's subsidiaries, in France and abroad, for its services.

  Goods and services are provided at arm's length between Group companies and, consequently, are not affected by the provisions of Article L. 225-86 of the French *Code de Commerce*.

3.1.2 DESCRIPTION OF MAIN BUSINESS ACTIVITIES

The subsidiaries of V & M Tubes are organized into four divisions:

- Energy & Industry division;
- Oil & Gas division:
  - OCTG Europe,
  - OCTG North America,
  - Drilling Products;
- Brazil division;
- Speciality Products division;

and sales companies.

3.1.2.1 Energy & Industry division

This division, previously known as the "Hot-rolled tubes division", was renamed the "Energy & Industry division" as from 1 April 2008.

The E&I division produces seamless tubes in Europe and markets them to the energy and industry markets. It also supplies hollows to the downstream OCTG Europe and Speciality Products divisions.

Its structure has evolved over the course of 2008 with the formation of two activities:

- the Energy activity, which covers the Power Generation (tubes for electric boilers), PLP (Project Line Pipes) and Process (tubes for the Petrochemicals and Refining sector) markets;
- the Industry activity, which covers the Mechanical Engineering Tubes, Structural Tubes and Hollows markets.

Each activity has its own Marketing, R&D and Business Development functions to enable it to better address the requirements of its customers and develop improved synergies.

These developments have led the Group to focus on making communications more transparent and improving its ability to meet the needs of its customers and anticipate how those might change in the future. These are key issues for ensuring sustainable growth.

The formation of R&D departments within the activities has enabled them to closely monitor the development strategies of the Group's customers, strengthen technical partnerships and design Group R&D programmes to tackle major technological challenges.

In 2008, the division also upgraded its industrial facilities:

- the Déville-lès-Rouen pipe mill has increased its production capacity by 25% in line with growing demand from the market for its product range (diameters of 7" to 16"). Significant capital expenditure was incurred in 2008 to increase rolling capacity and optimize product finishing processes;
- the Aulnoye Aymeries pipe mill has focussed on the manufacture of high value-added tubes for the high end of the energy (tubes for boilers and OCTG) and mechanical engineering markets. A patented new tube forging technology is currently being developed. This technology will enable the Group to market products with enhanced properties that are more versatile and competitive;
- the Saint-Saulve pipe mill has increased its capacity for finishing boiler tubes for the power generation market, and acquired heat treatment facilities intended mainly for OCTG products. The aim of these two projects was to upgrade the Saint-Saulve pipe mill to enable it to manufacture premium products for the energy market;
- the installation of a new continuous caster at the Saint-Saulve steel mill has increased its annual production capacity to more than 700,000 tonnes. This investment has also enabled the Group to make the site more competitive and increase the production of high-end steel for the energy markets;
- the Mülheim pipe mill has installed a VAM® threading line for OCTG products.

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The Energy & Industry division comprises three subsidiaries:

- **V & M France – France**

  V & M France operates an electric steel mill in Saint-Saulve (Nord) and four pipe mills in Aulnoye-Aymeries (Nord), Déville-lès-Rouen (Seine-Maritime), Montbard (Côte-d'Or) and Saint-Saulve (Nord), covering a wide range of diameters and thicknesses produced on continuous process rolling mills, Transval and Stiefel.

- **V & M Deutschland – Germany**

  This company comprises three pipe mills in Mülheim, Düsseldorf-Rath and Düsseldorf-Reisholz (North Rhineland-Westphalia). The pipe mills are equipped with continuous-process, plug and pilger rolling mills and Erhardt presses, allowing them to manufacture products with the world's widest range of diameters, thicknesses and grades.

  Most of the raw materials for the French and German pipe mills are supplied by the Saint-Saulve steel mill and the German steel mill in Huckingen owned by Hüttenwerke Krupp Mannesmann (HKM), of which V & M Tubes owns 20% of the capital.

- **V & M Changzhou – China**

  V & M Changzhou was created in 2005 in order to increase the Group's machining capacity for large-diameter hot-rolled tubes produced in Europe for the Chinese power generation market. Production at the plant, which is in Changzhou in the province of Jiangsu, started in July 2006.

3.1.2.2 Oil & Gas division

The Oil & Gas division comprises three activities: OCTG Europe, OCTG North America and Drilling Products. The two OCTG activities are large, geographically-defined units that provide a structure containing all of the Group's tubing and casing heat treatment facilities and oil & gas tube threading facilities, which are sited close to customers all over the world. In addition, the OCTG North America activity produces its own steel via V & M Star, which operates facilities including an electric steel mill and a rolling mill using some of the latest technology.

The OCTG Europe and OCTG North America activities carry out all types of API and premium threading, particularly the VAM® product line, which features patented threads developed by Vallourec since 1965 and ideally suited to the difficult conditions associated with operating oil & gas wells.

In order to make VAM® the number one in premium joints, Vallourec has concentrated the coordination of the research and development departments involved with this line of products within Vallourec Mannesmann Oil & Gas France, has set up a worldwide network of licensees and has gradually created, acquired or bought participating interests in many companies throughout the world. The Group has also developed a site services network providing worldwide coverage from locations in France, Scotland, the United States, Singapore and, since 2008, Angola and Dubai.

The Drilling Products activity manufactures and distributes on a worldwide basis a full range of tubular products for the oil and gas drilling market including, in particular, a range of VAM® premium products.

OCTG Europe activity

- **Vallourec Mannesmann Oil & Gas France (VMOGF) – France**

  This company produces standard joints and the full VAM® range of products. In 2007, it contributed its drilling products business to VAM Drilling France.

  It operates a production unit in Aulnoye-Aymeries (Nord).

  VMOGF also coordinates OCTG research and development activities throughout the world, assisted by the Vallourec Research Centre in Aulnoye-Aymeries.

- **Vallourec Mannesmann Oil & Gas UK – United Kingdom**

  Integrated into the Group since the beginning of 1994, this company brings together facilities specializing in heat treatment and threading to meet, in particular, the needs of the North Sea market. The company has been operating under a VAM® licence since 1970.

  It has a production unit in Clydesdale, Bellshill (Scotland).

  Vallourec Mannesmann Oil & Gas UK has also built up a significant services business for exploration platforms, based in Aberdeen (Scotland).

- **Vallourec Mannesmann Oil & Gas Nederland (VMOG Nederland) (formerly SMFI of Holland) – Netherlands**

  This company, which was also acquired in March 2006 as part of the acquisition of SMFI, took over the OCTG activities in the Netherlands from VMOGF. It was directly attached to V & M Tubes early in 2007.

- **VAM (Changzhou) Oil & Gas Premium Equipments – China**

  This company was formed in September 2006 to operate a threading plant for tubes to equip oil and gas wells. Construction of the plant began in October 2006 and production started in October 2007. Sumitomo Metal Industries and Sumitomo Corporation are joint minority shareholders in this subsidiary.

The following companies are also attached to the OCTG Europe activity for operational purposes:

- **VAM Field Services Angola – Angola (100%)**

  Service company formed in 2007. Operational base: Luanda.

- **Vallourec Mannesmann Oil & Gas Nigeria – Nigeria (100%)**

  Service company formed in 2007. Operational base: Lagos.

- **VAM Onne Nigeria – Nigeria (100%)**

This company was formed on 28 February 2008 to operate a tube threading plant. Production is due to start at the end of 2009. Operational base: Onne Freezone (Port Harcourt).

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- **VAM Far East – Singapore (51%)**

  Formed in association with Sumitomo Metal Industries, this company has been developing customer services and exploration/production platform advice in South East Asia and Oceania since 1992.

  Its operational base is in Singapore.

- **VAM Field Services Beijing – China (51%)**

  This company was formed in August 2006 in association with Sumitomo Corporation and Sumitomo Metal Industries to promote premium joints of the VAM® range in China and provide services to drilling platforms.

- **P.T. Citra Tubindo – Indonesia (36%) (see 3.1.1 above)**

  This company carries out heat treatment on tubes and threading of API joints in Indonesia and has been producing VAM® joints since 1985.

  It operates a production unit on the island of Batam.

- **Vietubes – Vietnam (12.25%)**

  This participating interest is held both directly by the Group and indirectly via P.T. Citra Tubindo. Vietubes carries out threading on tubes and sleeves for the Vietnamese market.

  It has a production unit in Vung Tau.

OCTG North America activity

- **V & M Star – United States (80.5%)**

  V & M Star is an integrated manufacturer of seamless tubes for the oil & gas industry. Its facilities include an electric steel mill, a rolling mill using some of the latest technology and a heat treatment and threading unit. The annual production capacity of this business is 500,000 tonnes, of which 80% is OCTG. Sumitomo Corporation is a partner with a 19.5% stake in V & M Star.

  The company has production units in Youngstown (Ohio) and Houston (Texas).

- **V & M TCA – United States (80.5%)**

  V & M TCA was acquired from the Grant Prideco Group in May 2008. The company specializes in heat treatment operations and markets high grade tubular products with a strong focus on short lead time orders. V & M TCA® has provided Vallourec with additional Premium capacity, specific expertise in sour service as well as a good geographical fit enabling Vallourec to extend its North American footprint. Sumitomo Corporation has been a fellow shareholder in V & M TCA since 27 February 2009, when it acquired its 19.5% interest.

  This subsidiary has a production unit in Muskogee (Oklahoma).

- **VAM Mexico (formerly Prinver) (100%)**

  This company specializes in threading high-quality joints and provides the Mexican oil & gas industry with the complete range of VAM® products.

  The Veracruz production unit in Mexico has been producing VAM® joints under licence since 1981.

- **VAM Canada (formerly VAM PC) (100%)**

  This company has been producing and marketing VAM® products in Canada since 1983.

  It took over Atlas Bradford's threading activities in Canada in May 2008 when the Group acquired Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™.

  It operates production units in Nisku, Alberta and in Saint John's, Newfoundland (Canada).

- **VAM USA LLC (51%)**

  As of 27 February 2009, VAM USA LLC is responsible for VAM® threading activities, in partnership with Sumitomo Metal Industries, which has a 34% interest, and Sumitomo Corporation, which has had a 15% interest since 1984; this subsidiary also operates the threading activities of Atlas Bradford®, which was acquired in May 2008 from the Grant Prideco Group.

  VAM USA LLC is well-known in North America as a leading supplier of Premium OCTG connection technology. Atlas Bradford® will complement Vallourec's VAM® product offering, providing an additional range of integral connections for the industry's most demanding applications.

  The company has production units in Houston (Texas).

- **V & M Tube-Alloy – United States (100%)**

  Tube-Alloy™ was acquired from the Grant Prideco Group in May 2008. The company produces and repairs down-hole tubular accessories for the oil & gas industry, and specializes in complex threading and machining for custom parts.

  Its production units are located in Broussard and Houma (Louisiana), Houston (Texas) and Casper (Wyoming).

Drilling Products activity

- **VAM Drilling France (formerly SMFI) (100%)**

  This company, which was acquired in March 2006, manufactures tubular products suited to the requirements of the oil & gas drilling industry. During 2007, VMOGF contributed its drilling products business.

  There are production units in Cosne-sur-Loire (Nièvre), Villechaud (Nièvre), Aulnoye (Nord) and Tarbes (Hautes-Pyrénées).

- **VAM Drilling USA (formerly OMSCO) – United States (100%)**

  Formed in September 2005 following the acquisition of the assets of the Omsco division of ShawCor (Canada), VAM Drilling USA manufactures tubular products suited to the needs of the oil & gas drilling industry. These products comprise mainly drill pipes, drill collars and heavy weight drill pipes.

  It operates a production unit in Houston (Texas).

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3.1.2.3 Brazil division

V & M do Brasil – Brazil (99.4%)

V & M do Brasil is located in Barreiro, Belo Horizonte, in the State of Minas Gerais. It occupies an area of more than 300 hectares and has an annual seamless tube production capacity of around 600,000 tonnes. V & M do Brasil burns charcoal in its furnaces, and is the only plant in the world to use this type of fully-renewable energy in its steel production.

This integrated unit groups together the full spectrum of production facilities, including the steel mill, various hot-rolling mills and a number of tube finishing lines.

V & M do Brasil produces seamless tubes for the Oil & Gas, Automotive, Petrochemical, Power Generation and Mechanical Engineering sectors. It has, for many years, focussed on:

- the Oil & Gas sector, with a longstanding partnership with Petrobras serving the domestic market with products that are having to become increasingly sophisticated to meet the challenges of the recently discovered, extremely deep-lying offshore "pre-salt" fields;
- the industrial sector (Petrochemicals, Power Generation, Mechanical Engineering, etc.), which is a market served mainly by distributors that work closely with V & M do Brasil to guarantee quality and technical support;
- the Automotive sector (light vehicles, lorries and civil engineering and agricultural equipment), with precision parts such as tubes for diesel injectors, bearing rings, as well as forged parts such as transmission shafts and axles.

In addition, V & M do Brasil has the following subsidiaries:

- **V & M Florestal** (100%), which owns around 240,000 hectares of eucalyptus forest, of which 100,000 are in operation, for the production of charcoal used in the blast furnaces of V & M do Brasil. In 2008, V & M Florestal continued to buy, on the market, some of its charcoal from strictly-controlled sources (i.e. cultivated eucalyptus forests). The aim is to achieve self-sufficiency in 2012,
- **V & M Mineração** (100%), which produces nearly 4 million tonnes of iron ore a year in its Pau Branco mine, most of which is for the V & M do Brasil steel mill and other manufacturers operating in Brazil, the largest of which are Vale (formerly CVRD), CSN and Gerdau,
- **Tubos Soldados Atlântico** (TSA) (24.7%), a company formed in 2005 to produce large-diameter welded tubes and apply tube coatings and linings. V & M do Brasil has a 24.7% stake in this company, which is controlled by Europipe.

Vallourec & Sumitomo Tubos do Brasil – Brazil (56%)

This company was incorporated in 2007 in association with Sumitomo Metal Industries (44%) as a vehicle for the investment in a new state-of-the-art pipe mill, integrating a steel mill and rolling mill to be built in Jeceaba (Minas Gerais). Its annual steel production capacity will be one million tonnes produced in the form of billets, 700,000 tonnes of which will be needed to supply the new rolling mill. The remaining 300,000 tonnes will be used by Vallourec to reduce the amount of steel it buys from outside the Group.

The new rolling mill will have an annual seamless tube production capacity of 600,000 tonnes. Production will be shared equally between Vallourec and Sumitomo Metal Industries, each having an annual capacity of 300,000 tonnes.

Work began on the foundations for the new pipe mill on 10 July 2008 and production is scheduled to start in mid-2010.

3.1.2.4 Speciality Products division

This division comprises, within four activities, companies specializing in the manufacture and transformation of welded and seamless tubes in carbon steel, stainless steel or special alloys.

Interfit – France (100%)

This company manufactures and markets fittings (bends and reducers) for assembling tubes intended to carry fluids (superheated water, steam, gas, oil products, etc.).

It has a production unit in Maubeuge (Nord).

Valti – France (100%)

This company produces and markets seamless tubes and rings for bearing manufacturers.

There are production units in Montbard (Côte-d'Or) and La Charité-sur-Loire (Nièvre).

Valti GmbH – Germany (100%)

This wholly-owned Valti subsidiary was formed at the beginning of 2000 to take over WRG (a subsidiary of Mannesmannröhren-Werke), which has similar activities to Valti.

Its production unit is located in Krefeld (North Rhineland-Westphalia).

Taken together, Valti and Valti GmbH are among the leaders in the European market in tubes for bearings.

Valtimet (95%)

Vallourec has a controlling (95%) interest in Valtimet. The remaining 5% interest is owned by Sumitomo Metal Industries.

As the world leader in the production of stainless steel and titanium welded tubes for secondary systems in conventional and nuclear power plants, Valtimet has expertise in manufacturing smooth and finned tubes for feedwater heaters as well as titanium, stainless steel or copper-alloy tubes for condensers. Valtimet is also present in the seawater desalination and chemical markets and provides thin tubing for the automotive industry.

It operates a production unit in Laumes (Côte-d'Or).

United States subsidiary: Valtimet Inc., with plants in Morristown (Tennessee) and Brunswick (Georgia).

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Chinese subsidiaries:

- Changzhou Valinox Great Wall (66%-owned via the sub-holding company Valinox Asia), with a plant in Changzhou (province of Jiangsu),
- Xi'an Baotimet Valinox Tubes (49%-owned via various subsidiaries of Valtimet and Valtimet itself), with a production unit in Xi'an (province of Shaan'xi),
- Changzhou Carex Valinox Components, a company specializing in the production of industrial parts for the automotive industry, with a plant in Changzhou (province of Jiangsu).

Subsidiary in India: CST Valinox (90%), located in Hyderabad (Andhra Pradesh), specializing in tubes for power plant condensers.

Subsidiary in South Korea: Poongsan Valinox (50%), joint-venture with the South Korean company Poongsan.

Production unit in Bupyung, Incheon, near Seoul.

Valinox Nucléaire – France (100%)

This company produces and markets stainless steel, long, bent tubes for use in the manufacture of steam generators in nuclear power stations as well as various types of fittings.

Valinox Nucléaire is among the world leaders in this specialist field.

It operates a production unit in Montbard (Côte-d'Or).

3.1.2.5 Sales companies attached to V & M Tubes

Vallourec & Mannesmann USA Corporation (formerly V & M Tubes Corporation) – United States (100%)

This company markets in the United States all the tubes produced by V & M Tubes' various subsidiaries. It also carries a stock of tubes intended for American distributors in the oil & gas industry, which usually thread the tubes themselves according to the end customer's requirements.

Offices: Houston (Texas) and Pittsburgh (Pennsylvania).

In addition, sales companies associated with V & M Tubes are located in:

- Germany
- Belgium
- Dubai
- USA
- Singapore
- Canada
- China
- United Kingdom
- Italy
- Sweden

3.1.3 PRODUCTION AND PRODUCTION VOLUMES

The diversity of the Group's products and the absence of appropriate units of measurement other than financial prevent the provision of meaningful information on production volumes.

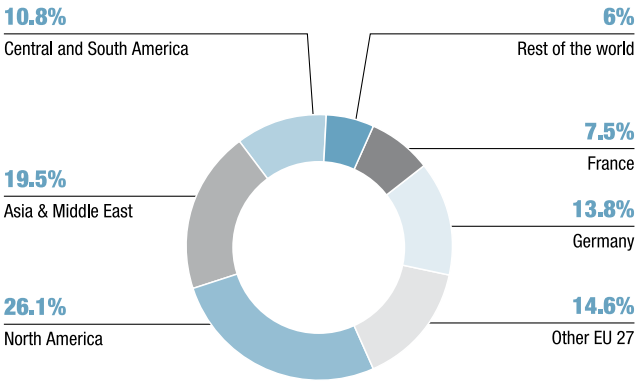
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3.1.4 SALES BY MARKETS AND GEOGRAPHIC SEGMENTS

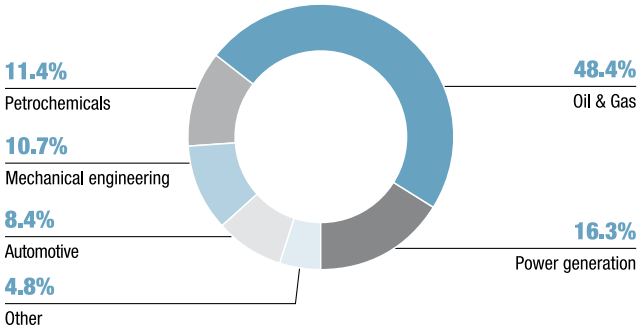
The breakdown of business activity by markets and geographic segments is the only really meaningful indicator, due to the scale of the integrated industrial processes and the development of downstream activities. This breakdown is as follows:

2006

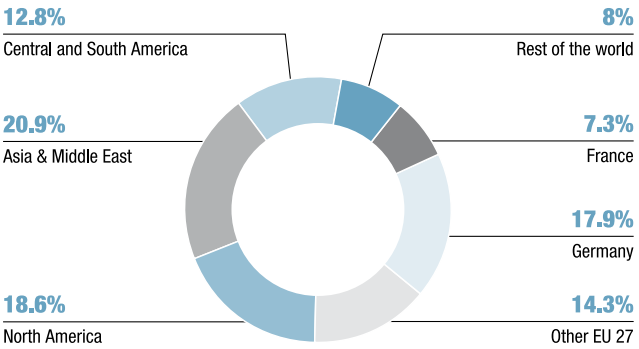
By region

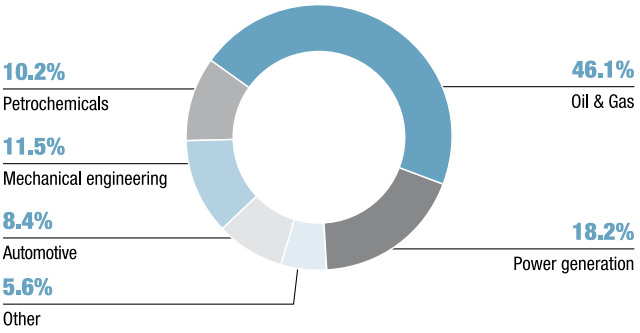


By market

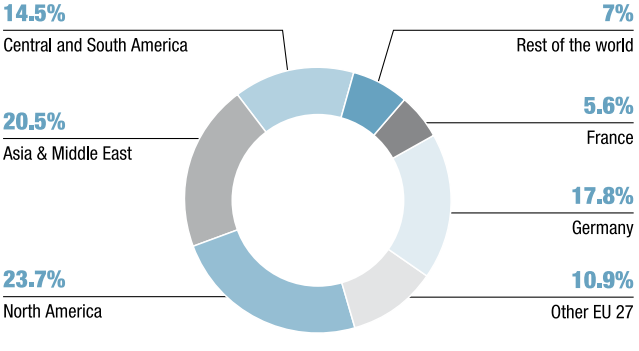


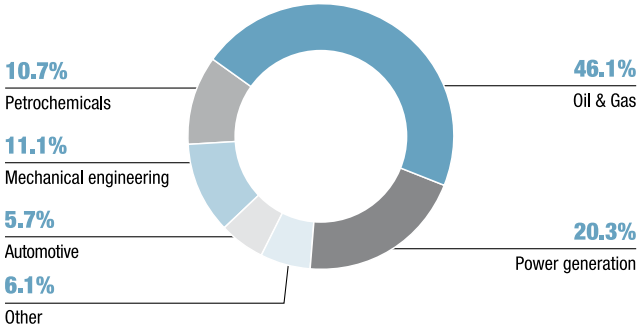
2007





2008





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Consolidated sales totalled:

- €5,542 million in 2006, of which 64.1% outside Europe;
- €6,141 million in 2007, of which 60.5% outside Europe;
- €6,437 million in 2008, of which 65.8% outside Europe.

This represents an increase of 10.8% in 2007 compared with 2006, an increase of 4.8% in 2008 compared with 2007 and an increase of 6.3% on a comparable basis (1).

The main changes in consolidation scope were:

In 2006:

- the acquisition of VAM Drilling France (formerly SMFI) effective as from 31 March;
- the acquisition of CST in India;
- the sale of Spécitubes;
- the sale of Cerec at the end of 2006 did not have a material impact at Group level.

In 2007:

- the sale of the precision tubes businesses (Vallourec Précision Étirage) and the Zeithain (Saxony) plant;
- the sale of Vallourec Précision Soudage (VPS) and Vallourec Composants Automobile Vitry (VCAV) in December 2007 also did not have a significant impact at Group level.

And in 2008:

- the acquisition by Valtimet Inc. of the assets of High Performance Tubes in March 2008;
- the acquisition, on 16 May 2008, of Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™ from the Grant Prideco Group.

3.1.5 LOCATION OF THE MAIN ESTABLISHMENTS

3.1.5.1 Main tangible assets

Group head office is located at 27, avenue du Général Leclerc, 92100 Boulogne-Billancourt, France. The premises are occupied under the terms of a nine-year lease that came into effect on 1 October 2006. The properties occupied by the Company and its subsidiaries are not owned by any members of the Company's Corporate officers.

As of 31 December 2008, the Group operated 55 plants, located mainly in France, Germany, Brazil, China and the United States, reflecting Vallourec's internationalization (see 3.1.1 above). The Group considers these plants to be an essential resource for carrying out its various businesses.

The Group's tangible assets (including assets held under the terms of finance leases) held by consolidated companies had a net book value of €1,640 million at the end of 2008 (compared with €1,266 million at the end of 2007 and €997 million at the end of 2006). These assets mainly consist of property and industrial equipment:

- the Group's main property assets include the buildings at its plants and its administration facilities;
- the industrial equipment consists of steel-making and tube manufacturing facilities.

The following items are described in the notes to the consolidated financial statements in Section 5:

- analysis of tangible assets by type and by flow, in note 2;
- geographical distribution of tangible and intangible assets (net values) and acquisitions made during the year, in note 2;
- Group commitments under the terms of finance leases (organized by main due date) in note 20.

Details of capital investments made in 2008, which extended the Company's tangible asset base, are provided below (see 3.2.2 below).

3.1.5.2 Environmental considerations relating to the Company's property assets

Situation of operational facilities with regard to environmental regulations

- The Group's French facilities are subject to environmental protection regulations under a classified facilities system (ICPE), which imposes certain obligations according to the type of activity conducted at the site and the environmental hazards and nuisances concerned. Vallourec's facilities comply with this regulation:

(1) After restatement of 2007 sales to make them comparable with 2008 sales by taking into account, in particular, the disposal, in 2007, of the precision tubes businesses (VPE and Zeithain plant) to Salzgitter and of VPS and VCAV to ArcelorMittal, as well as the acquisition of Atlas Bradford, TCA and Tube-Alloy, which have been consolidated as from 16 May 2008.

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– two facilities are subject to a declaratory regime, and are therefore run in accordance with standard operating requirements;

– fifteen facilities are subject to authorization, and are therefore run in accordance with specific operating requirements issued via a prefectoral order, following the submission of an operating license application, consultations with various organizations and a public enquiry. Of the above facilities, 13 hold a prefectoral operating licence, and the remaining two sites are currently awaiting the relevant order following the public inquiries (which did not raise any particular concerns).

- Vallourec facilities in other countries are subject to similar local legislation, which provides for specific permits in the various areas relating to the environment, including water, air and waste. All of the Group's international locations hold the required permits.

Environmental situation of disused industrial facilities

Following its closure, the Anzin plant in northern France was sold to Valenciennes district council on 17 November 2004. A file containing soil studies was produced at that time, and decontamination work stipulated by the authorities was carried out; the quality of the underground water at the site continues to be monitored using piezometric sensors.

All the other former sites (i.e. those operated by VPE, VPS, VCAV, CEREC and Spécitubes) underwent comprehensive environmental investigations prior to their disposal. As far as the Company is aware, no specific issues were raised during the disposal negotiations.

Situation of operational sites with regard to soil pollution

French facilities:

In view of the age of the sites, all the soil studies were commissioned at the Group's own initiative without being required by the authorities. The results of these investigations prompted some facilities to introduce piezometric sensor-based monitoring of underground water, after obtaining permission from the relevant authorities. The list of monitored sites is included in an official database named BASOL.

Additional investigations are required at two sites:

1. the Aulnoye-Aymeries plant has already installed a leak-tight pool to replace an existing lagoon, which had dried out; this lagoon is currently being studied with a view to determining the most appropriate treatment and/or monitoring measures from a sustainable development perspective; a provision has been included in the accounts to cover any decontamination costs;
2. at the Cosne-sur-Loire plant acquired by Vallourec in 2006, certain pollution risks were identified at the time of the acquisition. The Group has studied this issue in depth over the last three years and is now working to define suitable treatment. A provision for completing this work remains in the accounts.

Facilities in other countries:

In Germany: After performing the appropriate analyses, underground water monitoring systems have been set up, with permission from the local authorities, at two facilities. As far as the Group is aware, the other plants are pollution-free.

In Brazil: the only potential risks relate to the Barreiro plant, in the areas of the site previously used to store waste. Work was carried out to make a former slag depot and a former sludge depot compliant with current standards, before introducing piezometric sensor-based underground water monitoring. A ten-year programme of compliance work at a former solid industrial waste store (used for wood, plastic, scrap metal, etc.) was launched in 2004.

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3.1.6 MAIN MARKETS

At 31 December 2008, the Group's main markets were as follows:

Market	Sales *(In € million)*	Sales *(In %)*
Oil & Gas	2,969	46.1%
Power generation	1,308	20.3%
Petrochemicals	691	10.7%
Mechanical engineering	713	11.1%
Automotive industry	365	5.7%
Other markets	391	6.1%
TOTAL	**6,437**	**100%**

The table below shows the Group's 2008 sales by geographic region:

Breakdown of Vallourec Group sales in 2008 by geographic segment

	France	Germany	Other EU-27	Russia	North America	China	Other Asia and Middle East	Total Asia & Middle East	Brazil	Other Central and South America	Total South America	Rest of the World	Total
TOTAL 2008 *(In € thousands)*	361,003	1,143,218	700,029	3,271	1,525,869	716,245	602,676	1,318,921	886,738	49,171	935,910	448,794	6,437,014
%	5.61	17.76	10.88	0.05	23.70	11.13	9.36	20.49	13.78	0.76	14.54	6.97	100.00

	France	Germany	Other EU-25	Russia	North America	China	Other Asia & Middle East	Total Asia & Middle East	Brazil	Other Central and South America	Total South America	Rest of the World	Total
Total 2007 *(In € thousands)*	447,776	1,100,140	880,129	8,628	1,144,166	624,177	659,971	1,284,148	735,825	50,209	786,034	489,498	6,140,519
%	7.29	17.92	14.33	0.14	18.63	10.16	10.75	20.89	11.98	0.82	12.80	7.97	100.00

3.1.7 EXCEPTIONAL EVENTS

The severe financial crisis that began in October 2008 led to:

- uncertainty regarding the short-term orientation of the activity of many market participants, with immediate effects including:
  - a "wait-and-see" attitude and destocking by distributors in the mechanical engineering and construction markets,
  - the postponement or cancellation of some projects in the energy sector,
  - efforts to obtain cost reductions from suppliers on major oil, gas and petrochemical/refining projects;
- financing restrictions affecting the projects of certain operators in the energy sector;

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- a fall in demand in the automotive sector;
- in parallel to these sudden adverse effects, and well before the announcement of economic stimulus plans around the world, numerous market participants publicly reiterated their confidence in the long-term growth fundamentals of the energy, mechanical engineering and construction markets.

3.1.8 INFORMATION RELATING TO THE COMPETITIVE STATUS OF THE COMPANY

The information below, which consists of Vallourec internal estimates, is organized by market in which the Group operates.

3.1.8.1 Oil & Gas

Vallourec is active in three markets: Oil Country Tubular Goods (OCTG - threaded seamless tubes for use in oil and gas wells), drill pipes and offshore oil and gas line pipe.

- In the OCTG tubes segment, Vallourec is the global number two in terms of volumes delivered world-wide:
  - competition from Chinese seamless tube manufacturers is intensifying, especially in the markets for standard-quality seamless tubes;
  - in the market for premium connections that satisfy demanding technical performance criteria, the VAM® range (produced in cooperation with Sumitomo Metal Industries) is the world leader.
- In drill pipes, Vallourec is ranked second in the world by volume, after Grant Prideco (United States) and ahead of Texas Steel/Smith (United States). Most of the other, smaller competitors are Chinese companies.
- In the line pipe and Offshore market, Vallourec is the world number two, with a particularly strong position in very deep (>2,000 m) wells requiring high-technology products.

3.1.8.2 Power generation

Vallourec provides solutions for several applications:

- seamless tubes for conventional power plants (boilers and energy recovery boilers) and combined-cycle power plants (header pipes, screen panels, economizers, evaporators, superheaters, reheaters, piping, feedwater heaters and energy recovery boilers). Vallourec is the world leader in this market;
- nickel alloy seamless tubes for steam generators at nuclear power plants: Vallourec is the world leader in this technically very demanding market;
- welded titanium tubes for power plant applications (condensers): operating through its Valtimet subsidiary, Vallourec is the world leader;
- stainless steel tubes for power plant applications (low- and high-pressure feedwater heaters and condensers, driers and steam heating equipment): via its Valtimet subsidiary, Vallourec ranks among the leaders in the world market;
- Vallourec's range of product dimensions and steel grades (including patented grades) is unmatched by any other manufacturer.

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3.1.8.3 Mechanical engineering

In terms of mechanical engineering applications, the main features of the seamless tubes market are:

- an extremely wide range of applications, including tubes for hydraulic cylinders, construction and civil engineering cranes, industrial building frames, public facilities and oil rigs;
- competition between seamless tubes and alternative solutions such as welded tubes, pierced steel bars, cold-drawn tubes and forged or formed tubes.

Vallourec is the leading supplier of seamless tubes for mechanical engineering applications.

In the European market for hollows for ball-bearings, Vallourec, via its Valti subsidiary is the second-largest supplier.

3.1.8.4 Petrochemicals

Vallourec is a supplier for several applications:

- seamless tubes for refineries and petrochemical facilities: Vallourec is a significant market player;
- welded titanium tubes for heat exchangers in desalination and natural gas liquefaction plants: through its Valtimet subsidiary, Vallourec is among the global market leaders.

3.1.9 DEPENDENCY ON THE ECONOMIC, INDUSTRIAL AND FINANCIAL ENVIRONMENT

3.1.9.1 Breakdown of raw materials supplies at 31 December 2008

Purchases consumed during 2008 were as follows:

In € thousand	Amount as at 31/12/2008
• Scrap metal and alloys	484,257
• Round parts	1,264,763 (*)
• Flat parts	153,102
• Tubes	131,926
• Others	491,524
TOTAL	**2,525,572**

(*) Vallourec holds a 20% stake in one of its main suppliers: HKM GmbH (Hüttenwerke Krupp Mannesmann GmbH).

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3.1.9.2 Main customers (sales in excess of €35 million)

In 2008, the following customers accounted for sales greater than €35 million:

Name	Home country	Vallourec markets	Activity
Açotubo	Brazil	Mech.Eng./Petrochem./Other	Distributor
Alstom	France	Power Generation	Power plant construction
Aramco	Saudi Arabia	Oil & Gas	Oil company
Areva	France	Power Generation	Power plant construction
Bharat Heavy Electricals	India	Power Generation	Power plant construction
Buhlmann	Germany	Power Generation/Other	Distributor
Champions Pipe & Supply	United States	Oil & Gas	Distributor
Dongfang	China	Power Generation	Power plant construction
Hitachi Power	Japan	Power Generation	Power plant construction
Minmetals Steel	China	Power Generation	Trading
Petrobras	Brazil	Oil & Gas	Oil company
Pipeco Services	United States	Oil & Gas	Distributor
Premier Pipe	United States	Oil & Gas	Distributor
Pyramid Tubular Products	United States	Oil & Gas	Distributor
Salzgitter	Germany	Automotive/Mech. Eng.	Tube manufacturing
Shell	Netherlands	Oil & Gas	Oil company
Sonatrach	Algeria	Oil & Gas	Oil company
ThyssenKrupp	Germany	Mech.Eng./Other	Distributor
Total	France	Oil & Gas	Oil company
Van Leeuwen	Netherlands	Mech.Eng./Petrochem./Other	Distributor

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3.2 INVESTMENT POLICY

3.2.1 INVESTMENT DECISIONS

Capital expenditure decisions are a central pillar of the Group's strategy, addressing the following requirements:

- developing Vallourec's activity through organic growth and acquisitions;
- improving safety for employees and facilities, optimizing economic performance by production units and enhancing the quality of the Group's products;
- replacing obsolete facilities;
- complying with legal obligations, notably those relating to safety and the environment.

A highly disciplined approach to capital expenditure decisions is essential. A dedicated process has been set up to ensure that the selected projects will support long-term growth and deliver an acceptable return on investment. The minimum profitability stipulated during the investment decision-making process varies according to the nature of the expected contribution and an assessment of the risks involved with a particular project.

3.2.2 MAIN INVESTMENTS

3.2.2.1 Main investments over the period 2006-2008

In recent years, industrial investment programmes, which are mostly self-financed, have been directed mainly towards streamlining production facilities, reorganizing activities by business lines, improving quality and process control, adapting product lines to reflect customers' changing requirements, expanding Premium product finishing capacity and reducing production costs.

Over the last three financial years, investments were made as follows:

INDUSTRIAL INVESTMENTS AT CONSTANT SCOPE (INCLUDING TANGIBLE AND INTANGIBLE ASSETS)

In € million	2006	2007	2008
• Europe	157.0	278.5	234.7
• North America and Mexico	42.7	57.2	62.7
• Central and South America	59.2	93.7	259.7
• Asia	26.3	15.4	9.9
• Other markets	–	–	1.4
TOTAL INDUSTRIAL INVESTMENTS	**285.2**	**444.8**	**568.4**
ACQUISITIONS AND FINANCIAL INVESTMENTS	**110.3 (*)**	**3.6**	**541.4 (**)**

(*) Including the acquisition of SMFI, CST Valinox (75%) and Valtimet (43.7%).
(**) Including the acquisition of a stake in P.T. Citra Tubindo, and the acquisition of Atlas Bradford, TCA and Tube-Alloy from the Grant Prideco Group.

The most significant investment programmes carried out in 2006, 2007 and 2008 are outlined below:

In 2006:

- in France, V & M France undertook a major project in its steel mill with the aim of replacing the existing continuous caster by a more efficient one, thereby increasing capacity without stopping production. At the Aulnoye plant, the Group invested in hot-forged tube manufacturing equipment that began operating at the end of the first quarter of 2009;
- installation of a heat treatment facility in Germany to be used for the oil & gas industry and, in particular, for casing and line pipes;
- significant resources were allocated to the United States, where V & M Star installed heat treatment furnaces and a hydrotester;
- work began on a project to build a plant for threading and finishing tubes for oil & gas drilling in Changzhou, China. Production began in late 2007.

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In 2007:

- V & M France: installation of additional billet preheating capacity, which would increase the hot-rolling production and a new heat treatment line for hardening and tempering. Purchase of a new non-destructive test bench enabling the company to comply with the new standards and improving its quality control;
- first phase of the transfer of the boiler-making line from the Zeithain (Saxony) plant to the Saint-Saulve pipe mill: construction of a new building, increase in furnace capacity and non-destructive testing equipment to handle the change in the product mix. Work was completed by the end of 2008;
- V & M Deutschland: installation of new billet cutting machines and in-line implementation of hardening equipment. Commissioning of a new premium threading line;
- V & M do Brasil: as regards casing and tubing, modification of the hardening and tempering line and the creation of an additional production line resulting in a significant increase in total capacity. Construction and commissioning of a pilot charcoal production plant with a view, on the one hand, to developing more efficient technology and, on the other hand, to complying with the changing environmental regulations;
- VAM USA: construction of a new workshop in Houston for the production of threaded tubes for the oil industry. Work to install the new production line was completed in mid-2008;
- VMOG UK: industrialization of the application of a new form of Clean Well Dry protection on threaded products following qualification of the process and chemicals used;
- drilling activity: further increases in capacity, in particular in heavy weight tubes in Europe and the United States;
- lastly, in Brazil, in Jeceaba in eastern Minas Gerais, the launch of a project to build a new state-of-the-art integrated pipe mill in partnership with Sumitomo Metal Industries. Production is expected to begin in 2010.

In 2008:

In 2008, capital expenditure totalled almost €568.4 million excluding acquisitions (industrial investments), compared with approximately €444.8 million in 2007.

The purpose of Vallourec's capital expenditure projects in 2008 was twofold: firstly, to increase the production capacity of the Group's plants (in particular in terms of rolling, machining, threading and heat treatment capacity), and secondly, to reduce costs by replacing old equipment in order to improve plant performance.

In the Brazilian State of Minas Gerais, Vallourec & Sumitomo Tubos do Brasil (a joint venture with Sumitomo) continued the work begun in 2007 to build an advanced new integrated plant featuring a steel mill, pipe mill and finishing lines.

The largest projects in 2008 concerned:

Equipment to increase tube production capacity for the Chinese and European boiler markets.

New threaded tube production facilities in regions outside Europe - specifically, in Nigeria and the United States.

New processes providing enhanced surface protection for tubes and couplings, such as phosphate coatings and the Clean Well process.

Installing in-line non-destructive testing equipment to facilitate the development of Premium products for the oil & gas markets.

Pursuing a cost-cutting policy and replacing outdated facilities as a means of improving plant performance.

Energy & Industry division

- **V & M France – Montbard:**

  Rolling mill capacity is being increased by using larger-diameter billets.

- **V & M France – Saint-Saulve pipe mill and V & M Deutschland Mülheim**:

  Phase 2 of the transfer of the boiler line from Zeithain to the Saint-Saulve plant.

- **V & M Deutschland Reisholz:**

  Purchase and installation of an additional tube heater for heating hollows with diameters in excess of 800 mm, together with the appropriate handling gear.

- **V & M Deutschland Mülheim:**

  Phase one of a three-year programme for a phosphate coating treatment process for OCTG tubes. The objective is to achieve a high standard of quality and differentiate the Group's products in the Premium market, in particular in the extra-high grade steel segment.

- **V & M do Brasil:**

  Phase 2 of the "plug" rolling project to increase the production capacity of 7- to 14-inch tubes. Installation of new finishing lines.

  Replacement of an obsolete overhead crane at the steel mill, due to the risk of accident or failure leading to a production stoppage.

  Repair and compliance work involving the refractory linings in the Italimpianti furnace.

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- **V & M do Brasil/Mineração:**

  Drainage at the site (legal obligation).

  Purchase of mining land (Lisa project).

- **V & M do Brasil/Florestal:**

  Planting 11,400 hectares of cloned eucalyptus (for felling in 2015).

  Forest purchases: the aim is to continue expanding the cultivated area, to satisfy the company's charcoal requirements over the medium term.

Oil & Gas division

OCTG Europe activity

- **VMOG – France:**

  Following the entry into operation of a new fatigue testing bench in 2006, the Company is investing in more flexible, higher-performance handling equipment, in order to optimize machine duty rates.

- **VAM Nigeria:**

  The new Premium tube threading unit currently under construction at the Port Hartcourt plant will begin operating in 2009. This project will enable Vallourec to provide integrated logistics solutions to customers operating in this area. As well as tube threading, the Group will offer a range of related services including product storage, inspection, preparation and transport to the wells where the products are needed.

OCTG North America activity

- **V & M Star:**

  Compliance work on the billet heating process.

  Purchase and installation of a new dust suction and processing system.

- **VAM USA:**

  New Premium threaded tube production line (at the Sheldon Road plant). Replacement of obsolete threading machines.

Drilling Products activity

- **VAM Drilling France – Villechaud:**

  New Hydroclean unit. Installation of two new lathes.

- **VAM Drilling France – Aulnoye:**

  Acquisition and entry into operation of a non-destructive test bench, in order to comply with PSL1 and PSL2 Quality standards and allow further development of Premium products.

- **VAM Drilling USA:**

  Compliance work on the heavyweight drill pipe upsetting press.

Speciality Products division

- **Interfit – Maubeuge:**

  Enhanced manufacturing performance by the "curved products" activity achieved by streamlining production line flows.

- **Valtimet – Morristown:**

  Acquisition of assets from a US company, High Performance Tubes: buildings, equipment and intangible assets. The purpose of this investment was to obtain processes and technology relating to the manufacture of stainless steel tubes for the heat exchanger market, thereby increasing production capacity.

3.2.2.2 Ongoing capital expenditure

The table below summarizes the main capital expenditure projects underway in 2008:

In € million

Development projects	392
Performance improvements and maintenance	95
Environmental and safety regulations	36
TOTAL PROJECT VALUE IN 2008	**523**

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3.3 RESEARCH AND DEVELOPMENT

Vallourec continually devotes significant efforts to R&D, in particular in fields associated with oil & gas and power generation. These efforts cover three main areas:

– manufacturing processes (charcoal, steel, steel making, steel tube rolling, non-destructive testing, forming, welding and machining);

– new products and product improvements;

– new services (customer support for tube transformation and design matters).

Vallourec's R&D organization is based on teams located in Group companies, close to customers and plants and having responsibility for developing products and processes.

Vallourec Research Centre (CEV) provides a wide range of expertise to the R&D teams: metallurgy, heat transfer technology, non-destructive testing, corrosion, surface treatment, product and process simulations, etc.

Other resources contribute to research as part of a coordinated programme:

- three testing facilities, located in France, the United States and Japan, specializing in full-scale tests on oil premium joints under well conditions; the Group's R&D capabilities have recently been enhanced with the addition of V & M Atlas Bradford® testing resources and personnel;
- a research centre in Germany (Salzgitter Mannesmann Forschung) actively supports V & M Tubes' R&D programmes with research, testing and expertise;
- VAM do Brasil conducts its own investigations, working with teams of experts and a testing and analysis laboratory;
- research programmes are conducted with assistance from external research centres and university laboratories in Europe and elsewhere;

Innovation for customers is a major strategic objective of the Group, supported by:

- customer-supplier technical partnerships;
- a coherent project portfolio, fully integrated into the Group's normal operations;
- communication between production units, to develop and spread "best practices" within the Group;
- advanced working methods developed in collaboration with university laboratories.

This cross-functional interaction, combined with reliable, flexible and cost-effective processes enables the product range to be continuously improved.

The Group is also developing R&D partnerships with companies and institutions having leading positions in their field, in particular:

- Sumitomo Metal Industries: collaboration since 1976 for the development of premium joints for the oil & gas industry (VAM® product range);
- Timet: development of titanium applications since 1997;
- Petrobras: tubular solutions for very deep-water operations involving hard-to-access deposits;
- Weatherford: development and industrialization of a special-purpose premium connection for innovative applications;
- Hitachi Power Europe and Alstom: development of high-performance steels for ultra-supercritical power plants.

A staff of 500 is involved in R&D activities within the Vallourec Group. The R&D budget represents around 1.1% of annual sales and has risen in absolute terms for the past three years.

First quarter of 2009

In the first quarter of 2009, a cooperative agreement aimed at enhancing the stainless steel and nickel alloy seamless tube offering for the oil and gas and power generation markets was signed between Vallourec and Tubacex, the world's largest stainless steel and nickel alloy seamless tube producer. This agreement covers both R&D and commercial aspects.

In research and development, Vallourec and Tubacex intend to set up joint project teams to develop new stainless steel and nickel alloy seamless tube solutions. It is hoped that this arrangement will result in tubes that facilitate oil and gas extraction in highly corrosive environments, and/or tubes that satisfy the increasingly demanding temperature and pressure requirements of future generations of electric power plants.

4 Risk factors

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4.1 MAIN RISKS

The Group operates in a rapidly-changing environment which generates a high degree of risk, some of which is outside its control.

Since 2008, the world economic climate has suffered a sharp decline: the crisis in the sub-prime mortgage market and in the credit markets in general, the deterioration of the banking and financial sector, diminished consumer confidence and reduced capital expenditure on the part of companies have resulted in a significant slowdown in world economic growth.

The Group has described below the major risks to which it expects to be exposed. Any or all of these risks could have a negative impact on its business and/or results. Moreover, other risks, of which it is not currently aware or which it does not currently regard as significant, could also have a negative effect.

4.1.1 MARKET RISKS (INTEREST RATE, EXCHANGE RATE, CREDIT AND SHARE PRICE RISKS)

Market risks are composed of interest rate, exchange rate, credit and share price risks.

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

TOTAL DEBT AT 31 DECEMBER 2008

In € million	Bond loan	Other loans	Cash
Fixed rate	–	566.1	–
Variable rate	–	308.6	528.1
TOTAL	**–**	**874.7**	**528.1**

TOTAL DEBT AT 31 DECEMBER 2007

In € million	Bond loan	Other loans	Cash
Fixed rate	–	481.0	–
Variable rate	–	189.0	912.4
TOTAL	**–**	**670.0**	**912.4**

The cash position changed during the financial year 2008 due to the acquisition of the assets of Grant Prideco and the repayment of a €150 million loan to the Crédit Agricole Group.

Part of the bank loans and other borrowings 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.

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

Its bank debt exposed to changes in variable interest rates amounted to €308.6 million (about 35.3% of total gross debt) at 31 December 2008.

None of the Group's fixed-rate financing reaches contractual maturity during the 12 months following the 31 December 2008 closing except in the case of V & M do Brasil (€7 million).

The impact of a one-percentage-point rise in interest rates applied to eurozone short-term rates, to Brazilian and Chinese rates and UK and US money market rates would result in a €3.1 million increase in the Group's annual financial costs, based on the assumption that the level of debt and exchange rates remained stable. This impact has not taken into account the interest rate risk on cash and cash equivalents since it is invested for the short term.

In addition, according to our simulations, a one-percentage-point rise or fall in interest rates applied to all yield curves would result in an increase of €16.1 million or a reduction of €16.8 million in the measurement of the swaps in place at 31 December 2008 (at Vallourec SA level).

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Exchange rate risks

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 income, Group share, 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 income, Group share, of around €44 million.

In addition, the Group's sensitivity to the long-term exchange rate risk is reflected in the changes that have occurred in recent years in the translation reserves booked to shareholders' equity (a negative amount of €131.1 million as at 31 December 2008) which, over the last two years, have been linked mainly to movements in the US dollar and Brazilian real:

TRANSLATION RESERVE – GROUP SHARE

	31/12/2006	31/12/2007	**31/12/2008**
USD	-26,847	-72,572	-27,685
GBP	897	-4,277	-16,480
MXM(*)	-2,668	-6,006	-13,246
BRL(**)	30,795	61,798	-74,375
Others	-1,543	-2,981	705
	634	**-24,038**	**-131,081**

(*) Mexican peso.

(**) Brazilian real.

Transaction risk

Vallourec 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 (28% of Group sales in 2008).

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

1 there is an adjustment phenomenon on selling prices denominated in US dollars related to market conditions in the various 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 therefore indirectly and at some time in the future affected by movements in the US currency.

The Group actively manages its exposure to exchange rate risks in order to reduce the sensitivity of its income to changes in 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 in the currencies used in all hedges implemented by the Group would result in a €111 million decrease in the intrinsic value recognized in consolidated shareholders' equity and that a 10% fall would result in a €110 million rise as at 31 December 2008. Most of these amounts would be due to movements in the US dollar against the euro.

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

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

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The following table shows the amounts outstanding as at 31 December 2006, 2007 and 2008 under foreign exchange contracts to hedge foreign-currency denominated purchases and sales:

Hedging contracts in respect of commercial transactions – Exchange rate risk	2006	2007	**2008**
Forward exchange contract: forward sales	2,139,929	1,939,536	1,584,281
Forward exchange contract: forward purchases	84,674	152,430	79,977
Currency option: sales	57,778	36,296	17,281
Currency option: purchases	–	249,650	–
Commodities: call options	–	639	188
TOTAL	**2,282,381**	**2,378,551**	**1,681,727**

CONTRACT MATURITIES AT 31 DECEMBER 2008

Contracts in respect of commercial transactions	Total	One year or less	One to five years	Over five years
Forward exchange contract: forward sales	1,584,281	1,556,418	27,863	–
Forward exchange contract: forward purchases	79,977	74,707	5,270	–
Currency option: sales	17,281	17,281	–	–
Currency option: purchases	–	–	–	–
Commodities: call options	188	188	–	–
TOTAL	**1,681,727**	**1,648,594**	**33,133**	**–**

Forward sales correspond mainly to sales of US dollars (€1,584 million of the €1,682 million total). These contracts were transacted at an average forward EUR/USD exchange rate of 1.47.

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

At 31 December 2008, 98% of hedges entered into by the Group had a maturity of less than 12 months. These details are representative of the Group's order book.

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% building loans granted to the Group's employees: these loans do not expose the Group to any credit risk since the full amount of the loan is written off as soon as 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 rate may be lower than the effective interest rate);
- 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;
- 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.

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 represented around 4.1% of total trade receivables at 31 December 2008. 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; and
- the commercial collection policy.

Share price risks

At 31 December 2007, Vallourec held 420,129 own shares acquired on 5 July 2001.

At 31 December 2008, Vallourec held only 218,579 own shares acquired on 5 July 2001 following the exercise of options in respect of 12,697 performance shares under the terms of the 15 June 2003 share purchase plan and the allocation of 188,853 performance shares under the terms of the 16 January 2006 plan.

In 2008, Vallourec acquired 50,000 own shares under the terms of the 4 June 2008 share buy-back plan, with the intention of using such shares in future employee share ownership arrangements. Vallourec also held 131,840 shares acquired under the terms of the liquidity contract with Crédit Agricole Cheuvreux. These shares are deducted from shareholders' equity in the consolidated financial statements.

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

- to cover share purchase options granted under the option plan dated 15 June 2003, i.e. 24,417 options (1 option = 1 share);
- to cover performance shares allocated on 3 May 2007, the definitive quantity of which will not be known until 2011;
- to cover performance shares allocated on 1 September 2008, the definitive quantity of which will not be known until 2012;
- to cover performance shares allocated in accordance with the Company mutual fund (excluding France) and "Share and Stock Appreciation Rights (SAR)" formulas of the Value 08 employee share ownership plan of 16 December 2008, i.e. 33,856 shares;
- the balance to cover future allocations to certain Group employees, managers or corporate officers, in accordance with the procedures to be defined jointly by the Management Board and the Supervisory Board.

In addition, in 2007, Vallourec implemented a liquidity contract with Crédit Agricole Cheuvreux, under the terms of the general annual buy-back authorization granted by the Shareholders' Meeting on 1 June 2006 (*Sixteenth resolution*). To implement this contract, €20 million was transferred to the liquidity account. At 31 December 2008, Vallourec held 131,840 shares with a value of €10.7 million.

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 shareholders' 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.

As at 31 December 2008, the Group complied with these conditions and had not defaulted on any of its borrowings.

As at 31 December 2008, a tranche of €260 million (included in non-current liabilities) and a tranche of USD 150 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 Brazilian reals or €98 million) was spread among several banks (mainly BNDES and BDMG).

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. Each of these lines was renewed for an additional year (new maturity: 2013).

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 31 December 2008, Vallourec was using the USD 300 million (€215.6 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.

Vallourec used hedging instruments (swaps) to fix the rate of several of its borrowings.

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4.1.2 LEGAL RISKS

All of the French plants require an authorization to operate in accordance with the provisions of Law no. 76-663 of 19 July 1976 on facilities subject to restrictions relating to environmental protection and of Decree 77-1133 of 21 September 1977. Updated authorizations are obtained from the local Regional Directorates for Industry, Research and the Environment *(Direction Régionale de l'Industrie, de la Recherche et de l'Environnement – DRIRE)* for major changes at the sites (capital expenditure, expansion, restructuring, etc.).

The Group relies on trade secrets, patents, trademarks and models, the prevailing legal and regulatory provisions as well as, where relevant, contractual terms and conditions to protect its intellectual property rights. If the Group did not protect or was not successful in protecting, retaining and implementing its intellectual property rights, this could result in the loss of exclusive rights to use technologies and processes and have a significant adverse effect on its results. In addition, the laws in certain countries in which the Group operates may not provide such extensive protection for intellectual property rights as other countries such as France or the United States. The Group could take legal action against third parties that it considers breach its rights, which could result in the Group incurring significant expenses and prevent the Group from increasing its sales of the products using the rights concerned.

In the Group's opinion there are currently no financial, commercial or supply contracts that are likely to have a significant influence on its business and/or profitability.

The Group owns all the main assets necessary for its operations. As far as the Group is aware, no significant pledges, mortgages or guarantees have been given in respect of its intangible assets, property, plant and equipment or investments.

As far as the Group is aware, there are currently no disputes likely to materially affect the business, assets, earnings or financial position of the Company or the Vallourec Group.

4.1.3 INDUSTRIAL AND ENVIRONMENTAL RISKS

To the Company's knowledge there are currently no industrial or environmental risks to individuals resulting from production processes or the use or storage of substances needed for such processes that are likely to have a significant impact on the assets, earnings or financial position of the Company or the Group.

However, in the various countries in which the Group operates, particularly in Europe and the United States, its production activities are subject to a large number of regulations concerning environmental matters, which are extensive and are constantly being updated. These regulations concern, in particular, control over major accidents, disposal of wastewater, disposal of special industrial waste, air and water pollution and site protection. In future, the Group's activities could be subject to even more stringent regulations that would result in the Group being required to incur expenditure in order to comply with regulations or to pay taxes.

In addition, the regulatory authorities and courts may require the Group to carry out investigations, clean-up operations, restrict its activities or close its facilities, on a temporary or permanent basis. In the case of several of the Group's sites that are currently being used or are no longer in use and that have for a long time been used for industrial purposes, the soil or ground water may have been contaminated and instances of contamination may be discovered or may occur in the future. In such a case, Vallourec could be required to clean up the sites concerned. As regards its former activities, the Group could be held responsible in the event of damage to persons or property, which could adversely affect Vallourec's results. This could arise in the case of asbestos, which was not directly used in its production processes but was sometimes used for thermal insulation. Legal action has been instituted against Vallourec in a limited number of cases linked to exposure to asbestos.

4.1.4 RISKS LINKED TO LEVEL OF INSURANCE COVER

Vallourec considers that the general and third-party liability insurance that it has taken out adequately covers the risks incurred in connection with its normal activities. However, it could prove to be insufficient in the event of certain losses resulting from exceptional damage, which would have a negative impact on the Group's financial position.

4.1.5 OTHER SPECIFIC RISKS

To the Group's knowledge, there are currently no other specific risks likely to affect the assets, earnings or financial structure of the Company or the Vallourec Group.

However, there are certain risks inherent to the activities of the Group and each of its business sectors, which could materialize and have an adverse effect on the Company:

- Cyclical nature of the tubes market

  The tubes market is traditionally subject to cyclical trends due, in part, to the influence of macroeconomic conditions. These are linked, in particular, to movements in the oil price, which influence demand for certain of its products. In 2008, some of the Group's main business sectors were affected by extremely volatile raw material and energy prices as well as major fluctuations in exchange rates. Other sectors were particularly badly affected by the current environment, including, in particular, the mechanical engineering and automotive sectors.

  A still more significant deterioration in the world economic climate and financial markets could have a significant adverse effect on the Group's sales, earnings, cash flow and outlook.

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- Competition

  The markets in which the Vallourec Group operates are highly competitive. In the energy sector (Oil & Gas and Power generation), differentiation and innovation, as well as the quality of the products and associated services, play a key role. In the case of low value-added products, which account for a small proportion of sales, competition from producers in the emerging countries could affect the Group's markets.

- Industry that consumes raw materials and energy

  Tube production consumes raw materials such as iron ore, coal, coke and scrap metal. The Group has certain of its own sources of supply and uses a variety of external sources of supply wherever possible.

  In addition, raw materials and energy represent a significant item in the Group's financial statements. As a result, the volatility of raw material and energy prices creates some uncertainty as regards earnings.

- Activities in emerging countries

  A significant part of the Group's business takes place in emerging countries. The risks associated with operating in such countries may include political, economic, social or financial instability and increased exchange rate risk. The Group may not be in a position to take out insurance or hedge against such risks and may also encounter problems in the performance of its activities in such countries, which could have an impact on its earnings.

- Maintaining high technology on key products

  The tubes market is subject to technological change. It is not possible at this point in time to predict how such change could affect the Group's activities in the future.

- Call options

  The industrial collaboration agreements linking Vallourec and Sumitomo Metal Industries (SMI) and Sumitomo Corporation contain reciprocal change of control clauses under the terms of which each party has a call option over the other party's interest, or right of cancellation depending on the precise circumstances, in the event of a change of control of said other party.

  SMI and/or SMI Corporation therefore have, in the event of a change of control of V & M Tubes or of Vallourec, the right to acquire the shares held by V & M Tubes in VAM USA LLC (which resulted from the merger in the United States on 27 February 2009 of VAM USA and V & M Atlas Bradford), Vallourec & Sumitomo Tubos do Brasil and VAM Holding Hong Kong. Conversely, Vallourec has the right to acquire the shares held by SMI in these companies in the event of a change of control of SMI or of its direct or indirect controlling shareholders.

  Moreover, SMI has, in the event of a change of control of VMOGF, V & M Tubes or Vallourec SA, the right to cancel the research and development contract entered into by VMOGF and SMI on 1 April 2007, whilst retaining the right to use the research and development results jointly obtained and to enable any licensees to benefit from such results. VMOGF would also benefit from the same rights in the event of a change of control of SMI. If SMI exercises its right of cancellation, it will also be entitled to continue to use its VAM® brands for three years as from the date of such cancellation.

4.2 RISK MANAGEMENT

Since 2006 and in addition to the internal control procedures drawn up by the functional departments, Vallourec relies on the Risk Management department to ensure the consistency and Group-wide implementation of its risk management strategy. The Group Risk Manager helps the divisions to identify and analyze risks, using a systematic method of self-assessment. A mapping of the risks is in place for each of Vallourec's divisions and the Management Board. Each describes the main risks, their scenarios, past occurrences and the controls carried out by other companies. The risks involved may be strategic, operational, financial or regulatory or may affect the Group's image. All Group divisions have been covered by these arrangements since 2007. The Group Risk Manager attends the half-yearly Risk Committee Meetings in the divisions and those held centrally. These Committees validate action plans drawn up in the light of the problems that need to be addressed.

The Group Risk Manager organizes centralized reporting in respect of risk management in conjunction with the local Risk Managers of the main divisions.

A more comprehensive description of the risk management process is included in the report of the Chairman of the Supervisory Board, drawn up in accordance with the provisions of Article L. 225-68 of the French *Code de Commerce*.

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4.3 INSURANCE: GROUP POLICY

The Group's policy in terms of protection against accidental risks focuses on prevention and the purchase of insurance cover. This policy is co-ordinated by the Human Resources department in the case of the safety of individuals and by the Risks and Insurance department for all other aspects.

Industrial risks insured within the Vallourec Group centre around two main types of insurance taken out with first-rate insurers:

- general insurance;
- third-party liability insurance.

General insurance

This insurance covers all direct material damage to the Group's property, subject to specific exclusions, as well as any costs and consequential losses.

The contractual indemnity includes several exclusions and limitations to the cover, particularly regarding supply shortages.

Third-party liability

Third-party liability insurance insures the Group in respect of any liability arising as a result of injury or loss caused to third parties either resulting from the Group's operations or after delivery of goods or services.

The indemnity also comprises a limit of liability.

In respect of both general insurance and third-party liability insurance, contracts consist of a main contract in France and local contracts in other countries. The main contract prevails where terms or limits differ from those of local contracts issued by the leading insurer. Some subsidiaries are not covered by the Group contracts.

Insurance in respect of staff is taken out locally in accordance with applicable legislation.

Third-party liability of Corporate officers

The aim of directors' liability insurance is to cover the senior management against risk resulting from claims made against them that could result in them being held personally, jointly and severally liable for loss suffered by third parties and which could be attributed to a real or alleged professional error committed by them in the course of the performance of their duties.

5 Financial statements

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5.1 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET *(in € thousand)*

	Note	31/12/2006	31/12/2007	**31/12/2008**
NON-CURRENT ASSETS				
Intangible assets, net	1	20,486	21,714	260,876
Goodwill	1	87,312	79,900	308,289
Gross property, plant and equipment	2	1,686,614	2,002,421	2,469,278
less: accumulated depreciation	2	-689,892	-736,458	-828,289
Property, plant and equipment, net	2	996,722	1,265,963	1,640,989
Investments in equity affiliates	3	54,998	55,044	76,885
Other non-current assets	4	39,469	43,006	38,639
Deferred tax assets	5	19,260	26,545	36,951
Total		**1,218,247**	**1,492,172**	**2,362,629**
CURRENT ASSETS				
Inventories and work-in-progress	6	1,039,275	1,168,754	1,443,661
Trade and other receivables	7	1,002,728	1,048,622	1,203,572
Derivatives - assets	8	91,043	158,148	26,280
Other current assets	9	111,928	142,753	200,548
Cash and cash equivalents	10	889,323	912,478	528,146
Total		**3,134,297**	**3,430,755**	**3,402,207**
Assets held for sale	11	175,578	-	-
TOTAL ASSETS		**4,528,122**	**4,922,927**	**5,764,836**

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(in € thousand)	Note	31/12/2006	31/12/2007	**31/12/2008**
SHAREHOLDERS' EQUITY	12			
Capital		212,047	212,155	215,155
Additional paid-in capital		206,568	60,655	105,438
Consolidated reserves		764,937	1,418,786	2,048,204
Reserves, financial instruments		42,725	70,026	-54,359
Translation reserve		634	-24,038	-131,081
Income (loss) for the financial year		917,005	986,205	967,191
Own shares		-13,514	-16,020	-17,789
Shareholders' equity - Group share		**2,130,402**	**2,707,769**	**3,132,759**
Minority interests	14	**92,819**	**81,892**	**99,171**
Total shareholders' equity		**2,223,221**	**2,789,661**	**3,231,930**
NON-CURRENT LIABILITIES				
Bank loans and other borrowings	15	467,428	337,247	650,226
Employee benefits	17	195,241	168,243	146,567
Other provisions	16	3,577	6,882	6,937
Deferred tax liabilities	5	75,057	101,802	84,007
Other long-term liabilities		-	441	767
Total		**741,303**	**614,615**	**888,504**
CURRENT LIABILITIES				
Provisions for liabilities and charges	16	77,520	80,105	93,193
Overdrafts and other short-term bank borrowings	15	380,461	332,841	224,432
Trade payables		602,344	671,900	721,807
Derivatives - liabilities	8	26,147	28,110	113,337
Tax liabilities		135,843	112,933	102,005
Other current liabilities	18	263,401	292,762	389,628
Total		**1,485,716**	**1,518,651**	**1,644,402**
Liabilities held for sale	11	77,882	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**4,528,122**	**4,922,927**	**5,764,836**

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CONSOLIDATED INCOME STATEMENT *(in € thousand)*

	Note	31/12/2006	31/12/2007	31/12/2008
Sales	21	**5,541,801**	**6,140,521**	**6,437,014**
Production taken into inventory		190,499	97,721	107,064
Other operating revenues	22	29,193	35,215	39,125
Purchases consumed		-2,000,945	-2,265,607	-2,525,572
Taxes and duties	23	-58,760	-56,250	-51,603
Payroll costs	24	-812,694	-827,040	-856,612
Other operating costs	25	-1,220,479	-1,339,775	-1,442,490
Net provisions	27	-3,182	-34,003	-13,073
EBITDA		**1,665,433**	**1,750,782**	**1,693,853**
Depreciation and amortization	28	-114,329	-117,973	-165,585
Impairment of assets and goodwill	29	-1,499	-21,169	-1,386
Asset disposals and restructuring costs	29	-4,770	10,933	-5,077
OPERATING INCOME		**1,544,835**	**1,622,573**	**1,521,805**
Financial income		*34,130*	*36,304*	*34,956*
Interest costs		*-36,747*	*-40,619*	*-51,463*
Net financial costs		-2,617	-4,315	-16,507
Other financial income and charges		6,294	-14,936	6,692
Other discounting costs		-10,296	-9,757	-9,039
FINANCIAL INCOME (LOSS)	30	**-6,619**	**-29,008**	**-18,854**
INCOME BEFORE TAX		**1,538,216**	**1,593,565**	**1,502,951**
Income tax	31	-544,789	-575,344	-480,691
Net income of equity affiliates	3	5,868	6,242	2,431
NET INCOME FROM CONTINUING OPERATIONS		**999,295**	**1,024,463**	**1,024,691**
Income (loss) from discontinued operations		-	-	-
CONSOLIDATED NET INCOME		**999,295**	**1,024,463**	**1,024,691**
Minority interests		82,290	38,258	57,500
Group share		**917,005**	**986,205**	**967,191**
Group share:				
Earnings per share	13	17.8	18.9	18.3
Diluted earnings per share	13	17.4	18.8	18.2

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, GROUP SHARE *(in € thousand)*

	Capital	Additional paid-in capital	Consolidated reserves	Translation reserve	Reserves - changes in fair value of hedging instruments - net of tax	Own shares	Income (loss) for the financial year	Total shareholders' equity - Group share
As at 31 December 2005	**212,007**	**206,533**	**492,743**	**63,072**	**-42,883**	**-13,514**	**472,985**	**1,390,943**
Change in translation reserve	-	-	-	-62,438	-	-	-	-62,438
Financial instruments	-	-	-	-	85,672	-	-	85,672
Revenues and costs recognized directly in shareholders' equity	**-**	**-**	**-**	**-62,438**	**85,672**	**-**	**-**	**23,234**
2006 net income	**-**	**-**	**-**	**-**	**-**	**-**	**917,005**	**917,005**
Total revenues and costs recognized for the period	-	-	-	-62,438	85,672	-	917,005	940,239
2005 net income	-	-	472,985	-	-	-	-472,985	-
Capital increase and additional paid-in capital	40	35	-	-	-	-	-	75
Dividends paid	-	-	-74,380	-	-	-	-	-74,380
Interim dividend paid by Vallourec	-	-	-103,318	-	-	-	-	-103,318
Share-based payments	-	-	8,127	-	-	-	-	8,127
Impact of purchase of minority interests (*)	-	-	-31,392	-	-	-	-	-31,392
Changes in consolidation scope and other	-	-	172	-	-64	-	-	108
As at 31 December 2006	**212,047**	**206,568**	**764,937**	**634**	**42,725**	**-13,514**	**917,005**	**2,130,402**
Change in translation reserve	-	-	-	-24,672	-	-	-	-24,672
Financial instruments	-	-	-	-	27,301	-	-	27,301
Revenues and costs recognized directly in shareholders' equity	**-**	**-**	**-**	**-24,672**	**27,301**	**-**	**-**	**2,629**
2007 net income	**-**	**-**	**-**	**-**	**-**	**-**	**986,205**	**986,205**
Total revenues and costs recognized for the period	-	-	-	-24,672	27,301	-	986,205	988,834
2006 net income	-	-	917,005	-	-	-	-917,005	-
Change in share capital and additional paid-in capital	108	94	-	-	-	-	-	202
Change in own shares	-	-	664	-	-	-2,506	-	-1,842
Dividends paid	-	-146,007	-65,973	-	-	-	-	-211,980
Interim dividend paid by Vallourec	-	-	-210,292	-	-	-	-	-210,292
Share-based payments	-	-	12,512	-	-	-	-	12,512
Impact of purchase of minority interests	-	-	-	-	-	-	-	-
Changes in consolidation scope and other	-	-	-67	-	-	-	-	-67
As at 31 December 2007	**212,155**	**60,655**	**1,418,786**	**-24,038**	**70,026**	**-16,020**	**986,205**	**2,707,769**
Change in translation reserve	-	-	-	-107,043	-	-	-	-107,043
Financial instruments	-	-	-	-	-124,385	-	-	-124,385
Revenues and costs recognized directly in shareholders' equity	**-**	**-**	**-**	**-107,043**	**-124,385**	**-**	**-**	**-231,428**
2008 net income	**-**	**-**	**-**	**-**	**-**	**-**	**967,191**	**967,191**
Total revenues and costs recognized for the period	-	-	-	-107,043	-124,385	-	967,191	735,763
2007 net income	-	-	986,205	-	-	-	-986,205	-
Change in share capital and additional paid-in capital	3,000	44,783	-	-	-	-	-	47,783
Change in own shares	-	-	-4,530	-	-	-1,769	-	-6,299
Dividends paid	-	-	-370,335	-	-	-	-	-370,335
Interim dividend paid by Vallourec	-	-	-	-	-	-	-	-
Share-based payments	-	-	17,819	-	-	-	-	17,819
Impact of purchase of minority interests	-	-	-	-	-	-	-	-
Changes in consolidation scope and other	-	-	260	-	-	-	-	260
AS AT 31 DECEMBER 2008	**215,155**	**105,438**	**2,048,205**	**-131,081**	**-54,359**	**-17,789**	**967,191**	**3,132,760**

(*) In 2006, the impact of the purchase of minority interests corresponds to increases in the percentage of control of Valtimet (€ -29,032 thousand) and CST Valinox (€ -2,360 thousand) in accordance with the principles adopted by the Group (see Section 2.9 on accounting principles).

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STATEMENT OF CHANGES IN MINORITY INTERESTS *(in € thousand)*

	Consolidated reserves	Translation reserve	Reserves - changes in fair value of hedging instruments - net of tax	Income (loss) for the financial year	Minority interests
As at 31 December 2005	**-54,203**	**7,092**	**-140**	**159,404**	**112,153**
Change in translation reserve	-	-10,849	-	-	-10,849
Financial instruments	-	-	117	-	117
Revenues and costs recognized directly in shareholders' equity	**-**	**-10,849**	**117**	**-**	**-10,732**
2006 net income	**-**	**-**	**-**	**82,290**	**82,290**
Total revenues and costs recognized for the period	-	-10,849	117	82,290	71,558
2005 net income	159,404	-	-	-159,404	-
Dividends paid	-61,095	-	-	-	-61,095
Changes in consolidation scope and other (*)	-29,797	-	-	-	-29,797
As at 31 December 2006	**14,309**	**-3,757**	**-23**	**82,290**	**92,819**
Change in translation reserve	-	-7,119	-	-	-7,119
Financial instruments	-	-	94	-	94
Revenues and costs recognized directly in shareholders' equity	**-**	**-7,119**	**94**	**-**	**-7,025**
2007 net income	**-**	**-**	**-**	**38,258**	**38,258**
Total revenues and costs recognized for the period	-	-7,119	94	38,258	31,233
2006 net income	82,290	-	-	-82,290	-
Dividends paid	-42,148	-	-	-	-42,148
Changes in consolidation scope and other	-12	-	-	-	-12
As at 31 December 2007	**54,439**	**-10,876**	**71**	**38,258**	**81,892**
Change in translation reserve	-	5,081	-	-	5,081
Financial instruments	-	-	12	-	12
Revenues and costs recognized directly in shareholders' equity	**-**	**5,081**	**12**	**-**	**5,093**
2008 net income	**-**	**-**	**-**	**57,500**	**57,500**
Total revenues and costs recognized for the period	-	5,081	12	57,500	62,593
2007 net income	38,258	-	-	-38,258	-
Dividends paid	-45,412	-	-	-	-45,412
Changes in consolidation scope and other	98	-	-	-	98
AS AT 31 DECEMBER 2008	**47,383**	**-5,795**	**83**	**57,500**	**99,171**

(*) In 2006, the changes in consolidation scope represent mainly the sale to the Vallourec Group of minority interests (43.7%) in Valtimet.

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CONSOLIDATED CASH FLOW STATEMENT *(in € thousand)*

	Note	2006	2007	2008
Consolidated net income (including minority interests)		**999,295**	**1,024,463**	**1,024,691**
Net charges to amortization, depreciation and provisions		138,403	181,409	186,778
Unrealized gains and losses linked to changes in fair value		1,329	5,076	-3,391
Income and charges linked to share options and equivalent		8,127	12,512	17,819
Capital gains and losses on disposals		892	-7,834	4,865
Share of income (loss) of equity affiliates		-5,868	-6,242	-2,431
Dividends reclassified as other flows linked to investing activities		-1,900	-1,825	-2,728
Cash flow from operating activities after cost of net debt and tax		**1,140,278**	**1,207,559**	**1,225,603**
Cost of net debt		2,617	4,315	16,507
Tax charge (including deferred taxes)		544,789	575,344	480,691
Cash flow from operating activities before cost of net debt and tax		**1,687,684**	**1,787,218**	**1,722,801**
Interest paid		-36,799	-41,089	-49,207
Tax paid		-565,926	-586,123	-474,007
Interest received		34,128	36,304	34,956
Cash flow from operating activities		**1,119,087**	**1,196,310**	**1,234,543**
Change in operating working capital requirement		-282,754	-214,367	-351,191
NET CASH FLOW FROM OPERATING ACTIVITIES (1)		**836,333**	**981,943**	**883,352**
Cash outflows for acquisitions of property, plant and equipment and intangible assets		-281,517	-437,713	-528,486
Cash inflows from disposals of property, plant and equipment and intangible assets		8,377	11,757	2,284
Impact of acquisitions (changes in consolidation scope)	1	-110,324	-3,618	-541,399
Cash of subsidiaries acquired (changes in consolidation scope)		16,023	-250	-
Impact of disposals (changes in consolidation scope)		16,508	133,066	-
Cash of subsidiaries sold (changes in consolidation scope)		1,525	8,472	-
Other cash flows from investing activities		4,007	5,944	5,557
NET CASH FLOW FROM INVESTING ACTIVITIES (2)		**-345,401**	**-282,342**	**-1,062,044**
Increase and decrease in shareholders' equity		173	-	47,783
Amounts received on exercise of share options		75	202	-
Dividends paid during the year				
Dividends paid to shareholders in the parent company		*-177,698*	*-422,272*	*-370,335*
Dividends paid to minority shareholders in consolidated companies		*-61,399*	*-42,846*	*-34,961*
Movements in own shares		-	-1,841	-6,300
Cash drawn down re new loans		49,034	92,728	355,106
Repayments of borrowings		-64,161	-41,250	-196,953
Other cash flows from financing activities		669	-23,867	-22,841
CASH FLOW FROM FINANCING ACTIVITIES (3)		**-253,307**	**-439,146**	**-228,501**
Impact of changes in exchange rates (4)		-12,007	-6,591	-6,744
Impact of assets and liabilities classified in the balance sheet as held for sale (5)		12,132	-	-
CHANGE IN CASH (1+2+3+4+5)		**237,750**	**253,864**	**-413,937**
Opening net cash		**305,836**	**543,586**	**797,450**
Closing net cash		**543,586**	**797,450**	**383,513**
Change		237,750	253,864	-413,937

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STATEMENT OF CHANGES IN NET DEBT: FINANCIAL YEAR 2008 *(in € thousand)*

	Note	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

STATEMENT OF CHANGES IN NET DEBT: FINANCIAL YEAR 2007 *(in € thousand)*

	Note	31/12/2006	Change	31/12/2007
Gross cash (1)	10	890,368	22,110	912,478
Bank current accounts in debit and overdrafts (2)	15	358,914	-243,886	115,028
Impact of short-term assets and liabilities classified in the balance sheet as held for sale (3)	10, 11 and 15	12,132	-12,132	-
Cash (4) = (1)-(2)+(3)		**543,586**	**253,864**	**797,450**
Gross debt (5)	15	502,202	52,858	555,060
Impact of medium- and long-term assets and liabilities classified in the balance sheet as held for sale (6)	10, 11 and 15	-49	49	-
Net debt = (5)+(6)-(4)		-41,433	-200,957	-242,390

STATEMENT OF CHANGES IN NET DEBT: FINANCIAL YEAR 2006 *(in € thousand)*

	Note	31/12/2005	Change	31/12/2006
Gross cash (1)	10	541,278	349,090	890,368
Bank current accounts in debit and overdrafts (2)	15	235,442	123,472	358,914
Impact of short-term assets and liabilities classified in the balance sheet as held for sale (3)	10, 11 and 15	-	12,132	12,132
Cash (4) = (1)-(2)+(3)		**305,836**	**237,750**	**543,586**
Gross debt (5)	15	510,521	-8,319	502,202
Impact of medium- and long-term assets and liabilities classified in the balance sheet as held for sale (6)	10, 11 and 15	-	-49	-49
Net debt = (5)+(6)-(4)		204,685	-246,118	-41,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008
In thousands of euros (€ thousand) unless stated otherwise.

A - Consolidation principles

1. FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2008, including the related notes to the consolidated financial statements, were approved by the Vallourec Management Board on 25 February 2009 and will be submitted for approval to the General Meeting of shareholders.

Pursuant to European Commission regulation 1606/2002 adopted on 19 July 2002 for all listed companies in the European Union, the consolidated financial statements of the Vallourec Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The versions of the standards and interpretations used are those applicable as at 31 December 2008. The financial statements are available on the Company's website (www.vallourec.com).

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

The new standards and interpretations whose application was mandatory in 2008 have not resulted in the Group being required to amend its accounting and measurement methods. These new standards relate solely to the type of information to be provided:

- amendments to IAS 39 "Financial Instruments: Recognition and Measurement", and IFRS 7 "Financial Instruments: Disclosures", relating to the reclassification of financial assets.

The Group has not applied early any of the standards or interpretations adopted by the European Union whose application is not mandatory until 2009 or 2010, in particular:

- IFRS 8 "Operating Segments", which is applicable as from 1 January 2009: Vallourec has continued to report as at 31 December 2008 in accordance with IAS 14 "Segment Reporting" as described in Section 3. The segments presented already comply with the requirements of IFRS 8 and the Group would not need to make any material changes to its segment information;
- the amendments to IAS 23 "Borrowing Costs", which require borrowing costs to be capitalized as part of the cost of qualifying assets (i.e. assets which take a substantial period of time to get ready for commissioning or manufacture). This amendment is to be applied prospectively, which will result in an improvement in the Group's financial income and net income in 2009 followed by a deterioration in the Group's income during the years in which this capitalized financial component is amortized. The Group does not expect the impact of this amendment to be material in 2009;
- revised IAS 1 "Presentation of Financial Statements": this standard requires the presentation of a company's comprehensive income either in the form of a single statement or in the form of two separate statements. The Group has opted to retain in 2008 the current headings in its financial statements and to present the statement of comprehensive income in two sections, while retaining its current income statement format;
- IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

The Group does not currently anticipate that the application of these new standards and interpretations will have a material impact on its financial statements.

The other legislation adopted by the European Union [1] does not affect Vallourec.

2. ACCOUNTING PRINCIPLES

2.1 General measurement principles

The Group consolidated financial statements are prepared in accordance with the historical cost principle, with the exception of financial derivatives, which are measured at fair value, and financial assets, which are measured at fair value through profit or loss (see Section 2.18). The carrying amount of assets and liabilities that are hedged is adjusted to take account of changes in fair value on the basis of the closing price.

2.2 Use of estimates

The preparation of financial statements in accordance with IFRS obliges Vallourec's management to use estimates and to make assumptions that affect the carrying amount of certain assets, liabilities, revenues and costs, as well as the information disclosed in certain notes to the financial statements.

Because of their uncertain nature, the outcome of such assumptions may differ from the amounts shown in the financial statements. The Group regularly reviews its estimates and assessments to enable it to take into account past experience and prevailing economic conditions. In the context of the current economic and financial crisis, the uncertain nature of some estimates may be greater and may, in particular, make it more difficult to assess the Group's economic outlook for the purposes of asset impairment testing (see Section 2.11).

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

Accounts and information that may be subject to the use of significant estimates include property, plant and equipment, intangible assets, goodwill, financial assets, financial derivatives, inventories and work-in-progress, provisions for liabilities and charges and deferred taxes.

2.3 Consolidation of subsidiaries controlled by Vallourec

The consolidated financial statements of the Vallourec Group comprise the financial statements of Vallourec and of its subsidiaries covering the period from 1 January 2008 to 31 December 2008.

Subsidiaries controlled by Vallourec are fully consolidated as from the date on which control is acquired. They cease to be consolidated when control is transferred outside the Group. A subsidiary is deemed to be controlled when the Group has the power to control, directly or indirectly, its financial and operational policy in such a way as to derive benefit from its activity.

The consolidated financial statements include 100% of the assets, liabilities, revenues and costs of the subsidiaries concerned. The shareholders' equity and income or loss are split between the portion attributable to the Group and the portion attributable to the minority shareholders.

The results of acquired companies are included in the consolidated income statement as from the effective date of acquisition. The results of companies disposed of are included until the disposal date.

The impact on the balance sheet and income statement of intra-Group commercial and financial transactions is eliminated.

2.4 Consolidation of joint venture companies

The Group's interests in joint ventures are accounted for in accordance with the proportionate consolidation method. An investment in a subsidiary is deemed to be a joint venture when the parties share control over an economic activity by virtue of a contractual agreement between them, and when the strategic, financial and operating decisions require the unanimous consent of all the shareholders.

The consolidated financial statements include, line by line, the representative fraction of the interests of the Company (or shareholder (s)) in each of the assets, liabilities, income and expenses.

2.5 Investments in equity affiliates

The Group's investments in equity affiliates are accounted for in accordance with the equity method. Equity affiliates are companies over whose financial and operational policy the Group exerts significant influence but does not have control.

The value stated in the balance sheet of investments in equity affiliates comprises the acquisition cost of the shares (including goodwill), increased or reduced by changes in the Group's share of the net assets of the equity affiliate as from the date of acquisition. The income statement reflects the Group's share of the results of the equity affiliate.

2.6 Foreign currency translation

2.6.1 Translation of subsidiaries' foreign-currency denominated financial statements

Assets and liabilities, including goodwill, of foreign subsidiaries are translated at the official exchange rates ruling on the balance sheet date. The income statements of foreign subsidiaries are translated at the average exchange rate for the period.

Translation differences arising are booked to shareholders' equity. The Group's share of such differences is included under the heading "Translation reserve".

However, in accordance with the option authorized by IFRS 1 "First-time adoption of IFRS", the Vallourec Group has chosen to reclassify under the heading "Consolidated reserves" the accumulated "Translation reserve" as at 1 January 2004 resulting from the process of translating the financial statements of foreign subsidiaries.

On the disposal of a foreign subsidiary, the translation differences accumulated in the "Translation reserve" account since 1 January 2004 are transferred to the income statement as part of the profit or loss on divestment.

2.6.2 Translation of foreign-currency denominated transactions

Foreign-currency denominated transactions are translated into the Company's functional currency. They are translated at the spot rate applicable on the date the hedging instrument is implemented when the transaction is hedged (see Section 2.18.4) and at the exchange rate applicable on the transaction date when the transaction is not hedged.

Foreign-currency denominated monetary assets and liabilities are translated at the balance sheet date at the exchange rate applicable on that date. Translation differences resulting from the difference between this rate and the rate at which the transactions were initially recorded are included in financial income or loss.

2.7 Property, plant and equipment

2.7.1 Measurement at cost net of depreciation and impairment losses

Other than when they are acquired on the acquisition of a company, property, plant and equipment are recorded at acquisition or production cost. They are not re-valued. At each balance sheet date, the acquisition cost is reduced by accumulated depreciation and any provisions for impairment losses determined in accordance with IAS 36 "Impairment of Assets" (see Section 2.11).

Costs of loans used to finance assets over a long period of commissioning or manufacture are not capitalized as part of the cost of the asset concerned, but are written off in the period in which they are incurred.

2.7.2 Component approach

The main components of an item of property, plant and equipment whose useful life is shorter than that of the main asset (furnaces, heavy industrial equipment, etc.) have been identified by the technical departments so that they may be depreciated over their own specific useful lives.

Subsequent expenditure on the replacement of the component (i.e. the cost of the new component) is capitalized provided that future economic benefits are still expected to be derived from the main asset.

The component approach is also applied to expenditure on major overhauls that are planned and carried out at intervals of more than one year. Such expenditure is identified as a component of the acquisition price of the asset and depreciated over the period between two overhauls.

2.7.3 Maintenance and repair costs

Recurring maintenance and repair costs that do not comply with the criteria for the component approach are written off when incurred.

2.7.4 Depreciation

Depreciation of property, plant and equipment is calculated on a straight-line basis over the useful lives summarized below. Land is not depreciated.

Main categories of property, plant and equipment	Straight-line depreciation Useful life
Buildings	
Administrative and commercial buildings	40
Industrial buildings/Infrastructure	30
Fixtures and fittings	**10**
Technical installations, equipment and tools	
Industrial installations	25
Specific production equipment	20
Standard production equipment	10
Other (automations, etc.)	5
Other	
Motor vehicles	5
Office equipment and furniture	10
Computer equipment	3

2.7.5 Property, plant and equipment acquired as part of a business combination

Property, plant and equipment acquired as part of a business combination are measured at fair value on the acquisition date and depreciated on a straight-line basis over their residual useful life as at the acquisition date.

2.7.6 Impairment

Property, plant and equipment are tested for impairment in accordance with the provisions of IAS 36 "Impairment of Assets" (see Section 2.11).

2.8 Leases

Assets financed by way of finance leases which transfer to the Group substantially all of the risks and rewards of ownership are capitalized as property, plant and equipment at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The corresponding liability is recorded within financial liabilities.

Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets leased under finance leases are depreciated over the shorter of their useful life in accordance with Group rules (see Section 2.7) and the lease term. They are tested for impairment in accordance with IAS 36 "Impairment of Assets" (see Section 2.11).

Leases under which the lessor retains substantially all of the risks and rewards of ownership are operating leases. Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term.

2.9 Goodwill

Goodwill represents the part not allocated to specific balance sheet items, i.e. the difference between the acquisition price of consolidated companies and the Group's share in the assets and liabilities (including contingent liabilities) acquired, measured at their fair value on the acquisition date. In the case of material acquisitions, fair value measurement is carried out by independent experts.

In accordance with IFRS 3 "Business Combinations", goodwill is not amortized. In accordance with IAS 36 "Impairment of Assets", goodwill is tested for impairment at least once a year or more frequently if there is evidence that the goodwill may be impaired. The testing procedures aim to determine whether the recoverable amount of the cash-generating unit to which the goodwill is related or allocated is at least equal to its carrying amount (see Section 2.11: Impairment of property, plant and equipment and intangible assets). If any impairment is noted, an irreversible provision is recognized on a specific line within operating income or loss.

In accordance with the transitional measures authorized by IFRS 1 "First-time adoption of IFRS", acquisitions and business combinations recognized before 1 January 2004 have not been restated and goodwill recognized as at that date has been stated in the opening balance sheet as at 1 January 2004 at its amount net of amortization. This amount has become the new carrying amount under IFRS.

Since IFRS 3 does not contain specific provisions on this matter, the Group has opted to recognize in shareholders' equity the difference between the price paid and the share of the minority shareholders repurchased in companies previously controlled.

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2.10 Intangible assets

2.10.1 Research and Development costs

In accordance with IAS 38 "Intangible Assets", research costs are written off and development costs are capitalized as intangible assets as soon as the entity can demonstrate that:

- it intends and has the financial and technical resources necessary to complete the project;
- it is probable that the future economic benefits attributable to the development expenditure will flow to the enterprise;
- it is able to measure reliably the cost of the asset during its development phase;
- it has the ability to use or sell the intangible asset.

The main research and development projects were reviewed on the basis of the information available from the central departments co-ordinating the work, in order to identify and analyze those projects in progress that had entered their development phase as defined in accordance with IAS 38.

The Group's development efforts, mainly in its activities associated with oil and power generation, the aim of which is to improve product design and develop new or improved manufacturing processes, fulfil the criteria for classification as assets under IAS 38 only at a very late stage. It is very difficult to prove the existence of additional, long-term future economic benefits that can be clearly distinguished from the normal expenditure on maintaining and enhancing production facilities and products with a view to preserving the Group's technological and competitive advantages. As a result, no costs incurred in connection with major projects were identified that met the criteria of the standard during 2008, as was the case in 2007 and 2006.

The Group therefore considered that it would be inappropriate to capitalize any development costs in the financial statements for the year ended 31 December 2008. The same treatment was adopted in the financial statements for the years ended 31 December 2007 and 31 December 2006.

2.10.2 Other intangible assets

Intangible assets acquired separately are recognized at cost. Such assets comprise mainly patents and trademarks, which are amortized on a straight-line basis over their useful lives.

Intangible assets acquired as part of the acquisition of an activity are recorded separately from the goodwill if their fair value may be measured reliably at the time the assets and liabilities are initially recognized. Intangible assets with finite useful lives are amortized over the period during which they will be used by the entity.

2.10.3 Impairment

Intangible assets are tested for impairment in accordance with the provisions of IAS 36 "Impairment of Assets" (see Section 2.11).

2.11 Impairment of property, plant and equipment and intangible assets

Under IAS 36 "Impairment of Assets", the value in use of property, plant and equipment and intangible assets is tested as soon as there is any evidence of impairment, such evidence being reviewed at each balance sheet date.

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

These tests are performed at least once a year in the case of assets with an indefinite useful life, i.e. mainly goodwill in the case of the Group.

To carry out these tests, assets are grouped into cash-generating units (CGUs). These CGUs are uniform groups of assets whose continuing use generates cash inflows that are largely independent of the cash inflows generated by other groups of assets. The value in use of these units is determined on the basis of the present value of the net future cash flows that will be generated by the assets tested. Cash flows are discounted at a rate corresponding to the weighted average cost of the Group's capital, incorporating a market risk premium and a risk premium specific to the sector. This rate is then adjusted, where appropriate, by a risk premium to take into account the geographical region concerned.

Where the recoverable amount (higher of fair value less costs to sell and value in use) is less than the carrying amount of the CGU, an impairment loss is recognized on a specific line within operating income or loss. When a CGU includes goodwill, the impairment loss reduces the goodwill first, i.e. before any write-down is recognized in respect of any other of the CGU's assets.

However, in some cases, the appearance of impairment factors that relate to certain specific assets (linked to internal factors or events or decisions that cast doubt on the continuing operation of a site, for example) may be such that they justify a write-down of these assets.

The main CGUs within the Group's current structure and organization are V & M Europe, V & M do Brasil, VSB, V & M North America and the CGU comprising the Stainless Steel activities. Those entities not part of these CGUs are tested on the basis of their own cash flows.

2.12 Inventories and work-in-progress

Inventories are measured at the lower of cost and net realizable value. Where necessary, provisions for impairment are recognized.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of raw materials, goods for resale and other supplies comprises the purchase price excluding taxes, less discounts, rebates and other payment deductions obtained, plus incidental costs of purchase (transportation, unloading charges, customs duties, buying commission, etc.). These inventories are measured in accordance with the weighted average cost method.

The cost of work-in-progress and intermediate and finished goods consists of the production cost, excluding financial charges. Production cost comprises raw materials, supplies, factory labour and direct and indirect industrial overheads that may be allocated to the transformation and production process, on the basis of normal capacity. Administrative and general expenses are excluded from this measurement.

2.13 Assets held for sale and discontinued operations

A non-current asset or group of related assets and liabilities is considered to be held for sale, in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", when:

- it is available for immediate sale in its present condition;
- its sale is highly probable. This is the case when management is committed to a plan to sell the asset and an active programme to locate a buyer at a reasonable price, and the sale is expected to take place within a period not exceeding one year.

Assets, groups of assets or activities held for sale are measured at the lower of their carrying amount and their fair value (estimated selling price), less costs to sell. They are shown on a separate line within assets and liabilities on the balance sheet.

Only material discontinued lines of business are disclosed separately in the income statement.

2.14 Provisions

A provision is recognized when, at the balance sheet date, the Group has a present obligation (legal or constructive) that arises from past events and it is probable that an outflow of resources embodying future economic benefits will be required to settle the obligation.

Provisions are discounted to present values if the time value of money is material (for example in the event of provisions for environmental risks or for site clean up costs). The increase in the provisions associated with the passage of time is recognized within financial charges.

In the case of a restructuring, a provision may be recognized only if, at the balance sheet date, the Company has announced the restructuring, drawn up a detailed plan or started to implement the plan.

Provisions are booked in respect of disputes (technical, guarantees, tax investigations, etc.) if the Group has an obligation to a third party at the balance sheet date. Provisions are measured on the basis of the best estimate of the expenditure likely to be required to settle the obligation.

2.15 Retirement and similar commitments

The Group participates in the financing of additional retirement schemes or other long-term benefits for its employees, in accordance with custom or legal requirements. The Group offers these benefits by means of either defined benefit schemes or defined contribution schemes.

In the case of defined contribution schemes, the Group's only obligation is the payment of premiums. The contributions paid to the schemes are written off as expenses of the period in which they are incurred. Where relevant, a provision is booked in respect of contributions for the financial year remaining to be paid at the balance sheet date.

Provisions are booked to cover retirement and similar commitments in respect of defined benefit schemes. These provisions are measured on the basis of an actuarial calculation carried out at least once a year by independent actuaries. The projected unit credit method is applied: each period of service gives rise to an additional unit of benefit entitlement, and each of these units is measured separately to build up the Group's commitment towards employees.

The calculations take into account the specific features of the various schemes as well as the assumptions concerning retirement date, career progression, salary increases and the probability of an employee still being employed by the Group at retirement age (staff turnover rates, mortality tables, etc.). The commitment is discounted on the basis of the interest rates applicable to long-term bonds of first-rate issuers.

The commitment is stated in the balance sheet net, where relevant, of plan assets measured at their fair value.

Actuarial gains and losses are generated by changes in assumptions or experience variances (difference between projected and actual) in respect of commitments or plan financial assets. These variances are recognized in the income statement in accordance with the "corridor" method defined in IAS 19 "Employee Benefits". The part exceeding by more than 10% the larger of the following values:

- the discounted value of the commitment at the balance sheet date;
- the fair value of the plan assets at the balance sheet date;

is amortized over the employees' expected remaining period of service.

For the purposes of the preparation of the opening IFRS balance sheet as at 1 January 2004, the Vallourec Group has used the option available under IFRS 1 of booking to shareholders' equity all actuarial gains and losses at that date.

Net charges for retirement and similar commitments are recognized in operating income with the exception of the charge for discounting rights and income associated with the return on plan assets, which are recognized within financial income or loss.

When the benefits of the scheme are improved, the portion of the additional benefits relating to past service rendered by employees is written off as an expense on a straight-line basis over the average period until the corresponding rights are vested to employees. If the accrued benefits are vested, the cost of the benefits is recognized immediately in profit or loss.

Retirement and similar commitments mainly relate to the Group's French subsidiaries and its subsidiaries in Germany, the United Kingdom, the USA and Brazil.

Other employee benefits in respect of which the Group recognizes provisions are:

- in the case of the French and foreign subsidiaries, bonuses in connection with long-service awards;
- in the case of certain subsidiaries located in the USA, employees' medical expenses.

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2.16 Share-based payment

IFRS 2 "Share-based Payment" requires benefits resulting from share option and performance share allocation plans, which are equivalent to remuneration paid to beneficiaries, to be measured and recognized. Such benefits are recognized within payroll costs over the vesting period, the corresponding amount being booked as an increase in shareholders' equity.

Changes in value subsequent to the grant date do not affect the initial measurement of the option. The number of options taken into account in measuring the plan is adjusted at each balance sheet date to take account of the probability that the beneficiaries will still be employed by the Group at the end of the holding period.

- Certain Group officers and employees benefit from share purchase or share subscription options that give them the right to buy an existing share or subscribe for a capital increase at an agreed price.

  Options must be measured on the date they are granted, in accordance with the Black & Scholes model.

  In accordance with the transitional provisions specifically provided for by IFRS 1 and IFRS 2, the Group has chosen to recognize only those plans established after 7 November 2002 the rights of which had not been vested by 1 January 2005. The pre-7 November 2002 plans are not measured or recognized until the options are exercised.

  The Group retrospectively measured, on the grant date, the only share purchase option plan that fell within the scope of IFRS 2 as at 1 January 2005.
- Certain Group officers and employees benefit from performance share allocation plans under which the vesting of rights is linked to the Group's performance (measured by the growth in consolidated EBITDA). These plans are measured using a binomial model to project share price.
- Vallourec offers its employees the opportunity of investing in employee share ownership plans, which are measured using a binomial model to project share price.

2.17 Own shares

Own shares held by the Group are stated at acquisition cost as a deduction from shareholders' equity. Proceeds from the sale of own shares are booked directly as an increase in shareholders' equity so that gains or losses on disposal do not affect consolidated income.

2.18 Financial instruments

Financial instruments comprise financial assets and liabilities and derivatives.

The presentation of financial instruments is defined by IAS 32 and IFRS 7. The measurement and recognition of financial instruments are governed by IAS 39.

Changes in the fair value of derivatives are recognized in the financial statements. Changes in the fair value of hedged instruments are also recognized at each period end (see Section 2.18.4: Derivatives and hedge accounting).

Moreover, in accordance with IAS 32, the sale of a put option to a minority shareholder of a company that is exclusively controlled by the Vallourec Group results in the recognition of a financial liability of an amount equal to the discounted fair value of the estimated repurchase amount. Since there is currently no accounting standard or interpretation dealing with such a transaction, the Group has recognized this financial liability by deduction from the amount at which the minority interests are recorded and as a deduction from shareholders' equity – Group share, in the case of the portion of the liability that exceeded said minority interests. This accounting treatment could be amended in the future to comply with any relevant accounting standard or interpretation.

2.18.1 Financial assets

Financial assets comprise:

- non-current financial assets: other participating interests and associated receivables, construction effort participating loans and guarantees;
- current financial assets, including accounts receivable and other trade receivables, short-term financial derivatives and cash and cash equivalents (marketable securities).

Initial measurement

Non-derivative financial assets are initially recorded at fair value on the transaction date, including transaction costs, except for assets designated as fair value through profit or loss.

In most cases, fair value on the transaction date is the historical cost, i.e. the acquisition cost of the asset.

Classification and measurement on the balance sheet date

Financial assets (excluding hedging derivatives) are classified by IAS 39 into one of the following four categories with a view to their balance sheet measurement:

Category	Measurement	Method of accounting for changes in value
Financial assets measured at fair value through profit or loss	Fair value	Changes in fair value recognized in profit or loss
Held-to-maturity investments	Amortized cost	Not applicable
Loans and receivables	Amortized cost	Not applicable
Available-for-sale financial assets	General principle: fair value but Amortized cost for equity instruments for which the fair value cannot be reliably determined (in particular, shares not listed on an active market)	Changes in fair value recognized in shareholders' equity Not applicable

Financial assets at fair value through profit or loss

This category of assets comprises:

- assets held for trading purposes, i.e. acquired by the enterprise with the aim of realizing a short-term gain;
- derivative instruments that are not expressly designated as hedging instruments.

In the Vallourec Group, the assets concerned are all cash assets (marketable securities, cash and cash equivalents, etc.).

Marketable securities (French SICAV and FCP mutual funds, etc.) are measured at their fair value at the balance sheet date and changes in fair value are recognized in financial income or loss. They are not therefore tested for impairment. Fair values are determined mainly by reference to market quotations.

Held-to-maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity has the intention and ability to hold to maturity, other than loans and receivables and financial assets classified by the entity in the other two categories (measured at fair value through profit or loss and available-for-sale).

In the Vallourec Group, the only assets in this category are guarantee deposits and guarantees.

Loans and receivables

These are mainly non-derivative financial assets with fixed or determinable payments that are not listed on an active market.

In the Vallourec Group, this category includes:

- receivables associated with participating interests, long-term loans and construction effort participating loans;
- accounts receivable and other trade receivables.

The amortized cost of short-term receivables such as accounts receivable is usually similar to their historical cost.

Staff loans are measured in accordance with the effective interest rate method applied to estimated future cash flows until the maturity dates of the loans (the contractual interest rate may be lower).

Available-for-sale financial assets

Available-for-sale financial assets are mainly those that have not been classified in any of the other three categories.

In the Vallourec Group, the main assets in this category are other investments in equity instruments. These are generally unlisted shares the fair value of which cannot be estimated reliably. They are stated at cost and tested for impairment during the preparation of the consolidated financial statements when their depreciation in value is material or permanent.

Impairment testing of financial assets

Financial assets carried at amortized cost and available-for-sale financial assets measured at cost must be tested for impairment at each balance sheet date if there is any evidence of impairment such as:

- significant financial difficulties or a high probability that the counterparty will suffer bankruptcy or restructuring;
- a high risk of non-recovery of receivables;
- the lender, for economic or legal reasons relating to the borrower's financial difficulties, granting to the borrower a concession not initially provided for;
- an effective breach of contract such as the failure to make a payment (of interest, principal or both);
- the disappearance of an active market for the financial asset concerned.

In the case of assets carried at amortized cost, the amount of the impairment is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, taking into account the counterparty's situation and determined on the basis of the financial instrument's original effective interest rate.

The impairment loss thus determined is recognized in financial income or loss of the period.

As regards "Held-to-maturity investments" and "Loans and receivables", if, during subsequent periods, the conditions that led to the impairment cease to exist, the impairment loss must be reversed, although such reversal must not result in a carrying amount that, on the date the impairment is reversed, exceeds what the amortized cost would have been had the impairment not been recognized.

As regards unlisted participating interests classified as "Available-for-sale" whose fair value cannot be determined reliably, no impairment loss previously recognized in the income statement may be reversed in subsequent periods, even in the event of an increase in the value of the securities concerned.

2.18.2 Cash and cash equivalents

This item consists of bank current account balances and marketable securities (units in short-term cash UCITS and mutual and investment funds) that are immediately available (not pledged), risk-free and have a low level of volatility.

The cash flow statement is drawn up on the basis of the above definition of cash, net of overdrafts and other short-term bank borrowings.

The net debt referred to in the cash flow statement corresponds to total bank loans and other borrowings less cash.

2.18.3 Financial liabilities

The Group's financial liabilities comprise interest-bearing bank borrowings and derivative instruments.

Borrowings are broken down into current liabilities, which are those amounts that must be repaid within twelve months after the balance sheet date, and non-current liabilities, which are those amounts that mature more than twelve months after the balance sheet date.

Interest-bearing borrowings are initially recorded at historical cost less associated transaction costs. Such costs (loan-issuance charges and premiums) are taken into account in the calculation of the amortized cost in accordance with the effective interest rate method. They are recognized in financial income or loss on an actuarial basis over the life of the liability.

At each balance sheet date, in addition to the specific procedures associated with hedge accounting (see below), financial liabilities are then measured at amortized cost in accordance with the effective interest rate method.

Variable-rate borrowings for which interest rate swaps have been entered into are accounted for in accordance with the principles applied to cash-flow hedges. Changes in the fair value of swaps, linked to movements in interest rates, are recognized in shareholders' equity to the extent that they relate to the effective portion. Otherwise, they are recognized in financial income or loss.

2.18.4 Derivatives and hedge accounting

Group's exposure to exchange rate risks on commercial transactions

In addition to the hedging of certain financial liabilities (see Section 2.18.3), the Group enters into hedging contracts mainly with a view to controlling its exposure to exchange-rate risks resulting from orders received and sales by certain subsidiaries in currencies other than their functional currency. In particular, significant portions of Vallourec's sales are invoiced by European companies in US dollars. Exchange rate fluctuations between the euro and the dollar may therefore affect the Group's operating margin.

The Group manages its exposure to exchange rate risk by implementing hedges on the basis of regularly updated forecasts of customer orders. Operating receivables and revenues that will be generated by the orders are thus hedged by financial instruments, mainly forward sales of currencies.

The Group also, to a lesser extent, enters into forward purchases of currencies to hedge its foreign currency purchase commitments.

Measurement and presentation of derivatives

Changes in the values of derivatives as compared with the values on the date of implementation are measured at each balance sheet date.

The fair value of forward foreign exchange contracts is calculated on the basis of market conditions and data. Since they hedge commercial transactions, such derivatives are presented in the balance sheet within current assets and current liabilities.

Hedge accounting

Hedging operations in respect of commercial transactions come within the category of cash flow hedges.

The Group applies hedge accounting only in strict compliance with the criteria of IAS 39:

- documentation of the hedging relationship: nature of the underlying hedged item, term of the hedge, hedging instrument used, spot rate of the hedge, forward points, etc.;
- carrying out an effectiveness test on implementation of the derivative and updating the test at least once a quarter, in the case of cash flow hedges.

Hedge accounting within the Group is as follows.

At the balance sheet date, changes in the hedging instrument as compared with its date of implementation are measured at fair value and recognized in the balance sheet in derivative accounts (asset or liability). The following are shown separately:

- the change in the intrinsic value of the hedging instrument (difference between the spot rate on the date of implementation of the hedge and the spot rate on the valuation date, i.e. the balance sheet date).

  If the hedge is effective and as long as the sale (or purchase) hedged is not recognized, changes in the intrinsic value are recognized in shareholders' equity, in accordance with the principles of cash-flow hedge accounting.

  If the hedging instrument is not effective (a rare occurrence given the procedures introduced by the Group), the change in the intrinsic value of the derivative is recognized in financial income or loss;
- the change in the time value (premium/discount). This change is systematically recognized in financial income or loss, since this component is not included in the hedging relationship.

The sale (purchase) corresponding to the sales forecasts (purchase orders) hedged is recognized at the spot rate of the hedging contract (i.e. the spot rate on the date of implementation). The account receivable (account payable) is initially recognized at this same spot rate.

At each balance sheet date, hedged foreign currency accounts receivable and accounts payable are measured and recognized at the exchange rate ruling on the balance sheet date. The difference between that rate and the rate used on initial recognition (spot rate on the date of implementation of the hedge) or the rate ruling on the last balance sheet date constitutes an exchange gain or loss recognized in financial income or loss for the period.

As from the time the hedged item (foreign currency receivable or payable) is recorded in the balance sheet, the change in the intrinsic value of the hedging instrument previously recognized in shareholders' equity is transferred to financial income or loss. Changes in the value of the hedging instrument and the underlying then have a symmetrical impact on the Group's financial income (loss).

2.19 Tax

Income tax comprises current and deferred tax.

In accordance with IAS 12, deferred tax is recognized, using the liability method, in respect of temporary differences existing on the balance sheet date between the tax base of the assets and liabilities and their carrying amount, as well as in respect of tax losses, in accordance with the provisions detailed below.

The main types of deferred tax recognized are:

- long-term deferred tax assets (provisions for retirement commitments – French companies) which are likely to be recovered in the foreseeable future;
- deferred tax assets for short-term recurring items (provision for paid holidays, etc.) or non-recurring items (employee profit sharing, provisions for liabilities and charges that are not deductible for tax purposes, etc.) when they are likely to be recovered in the foreseeable future;
- deferred tax associated with the cancellation of entries made solely for tax purposes in local financial statements (regulated provisions, etc.) and restatements to ensure consistency with the parent company or consolidated financial statements;
- losses carried forward and long-term capital losses are recognized only for companies and tax groups in which recovery in the foreseeable future is probable.

The rates used to calculate deferred tax are the tax rates that are expected to apply during the period in which the asset will be realized or the liability settled, on the basis of the tax regulations that have been adopted or almost adopted at the balance sheet date.

Deferred tax balances are never discounted.

In the balance sheet, tax assets and liabilities relating to the same taxable entity (e.g. tax consolidation group) are offset.

Current and deferred tax charges are recognized as income or expenditure in the income statement unless they relate to a transaction or event that is recognized directly in shareholders' equity (see in particular accounting for hedging instruments, Section 2.18.4).

Deferred tax balances are shown under specific headings in the balance sheet within non-current assets and non-current liabilities.

Net deferred tax assets are recognized only in the case of those companies and tax groups that, on the basis of a review carried out at each balance sheet date, seem likely to be able to recover such assets in the foreseeable future.

2.20 Sales

Revenues from the sale of finished goods are recognized in the income statement when the following conditions are satisfied:

- the main risks and rewards of ownership have been transferred to the buyer;
- the seller retains neither managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- it is probable that the financial benefits associated with the sale will flow to the enterprise;
- the amount of the revenues and costs incurred (or due to be incurred) as a result of the sale can be measured reliably.

Revenues from the provision of services are recognized in the income statement pro rata to the stage of completion at the balance sheet date.

Revenues are not recognized if there are significant uncertainties regarding the collectibility of the consideration due or associated costs, or if it is possible that the goods may be returned (e.g.: buy back or return clause).

In the event of a sale with reservation of title, the sale is recognized on delivery of the goods if the risks and rewards have been transferred to the buyer (the main purpose of the reservation of title clause is to protect the seller against the risks of non-collectibility).

Revenues are measured at the fair value of the consideration received or receivable, as determined by the agreement entered into between the enterprise and the customer, less any trade discounts or volume rebates allowed by the enterprise.

Reference should be made to Sections 2.6.2 and 2.18.4 as regards the procedures for accounting for sales denominated in foreign currencies.

2.21 Determination of operating income (loss)

The income statement format used by the Group employs a classification based on the nature of expenses.

Operating income is calculated as the difference between pre-tax revenues and costs other than those of a financial nature or relating to the income or losses of equity affiliates, and excluding any income or losses from activities that have been or are being discontinued.

EBITDA is an important indicator for the Group, enabling it to measure the Group's recurring performance. It is calculated by taking operating income before amortization and depreciation and removing certain operating revenues and expenses that are unusual in nature or occur rarely, i.e.:

- impairment provisions relating to goodwill, other intangible assets or property, plant and equipment and identified during impairment tests carried out in accordance with IAS 36 (see Section 2.11);

- material restructuring costs or costs associated with staff retraining relating to events or decisions of major importance;
- capital gains or losses on disposals;
- revenues and costs that would result from major litigation or significant roll-out or capital operations (e.g. costs of integrating a new activity).

2.22 Earnings per share

Earnings per share are calculated by dividing Group consolidated net income by the weighted average number of shares in circulation during the financial year.

Diluted earnings per share are calculated taking into account the maximum impact of the conversion of the dilutive instruments (options and performance shares) into ordinary shares and in accordance with the "Treasury stock method" defined in IAS 33 "Earnings per Share".

3. SEGMENT REPORTING

Given the fundamental organizational and management structure of the Vallourec Group, the primary segment reporting format used in accordance with the provisions of IAS 14 "Segment Reporting" is based on the following two sectors of activity:

- the "Seamless tubes" reporting format segment, which covers all the entities with production and marketing facilities dedicated to the Group's main activity, i.e. the production of hot-rolled seamless carbon and alloy steel tubes, both smooth and threaded, for the oil and gas industry. This activity is characterized by a highly-integrated manufacturing process, from the production of the steel and the hot-rolling right through to the final stages, facilitating the manufacture of products that are suitable for a variety of markets (oil & gas, power generation, chemicals and petrochemicals, automotive and mechanical engineering, etc.);
- the "Automotive and Speciality Products" reporting segment. This segment incorporates a number of activities whose characteristics are very different from those described above but which are not presented separately due to their relative immateriality. Such treatment is authorized by IAS 14. It includes the production of stainless steel and titanium tubes as well as specific forming and machining activities.

The secondary segment reporting format is geographical and distinguishes five geographical sectors, determined on the basis of an analysis of the specific risks and rewards they present. The five segments are as follows:

- the European Union;
- North and Central America (USA, Mexico and Canada);
- South America (Brazil);
- Asia;
- the rest of the world (mainly the Middle East).

Business segments

Note 32 shows, for each business segment, information on the revenues and results as well as certain information on the assets, liabilities and capital expenditure for the financial years 2008, 2007 and 2006.

Geographical segments

Note 32 shows, by geographical segment, information on sales (by geographical zone in which customers are located), capital expenditure and certain information on the assets (by zone in which they are located) for the financial years 2008, 2007 and 2006.

B - Consolidation scope

	% interest 31/12/2006	% interest 31/12/2007	**% interest 31/12/2008**	**% control 31/12/2008**
Fully consolidated companies				
Changzhou Valinox Great Wall – China	62.5	62.5	62.5	100.0
CST Valinox – India	71.3	85.6	85.6	90.1
Changzhou Carex Valinox Components – China	70.7	70.7	70.7	100.0
Interfit	100.0	100.0	100.0	100.0
Premium Holding Limited – Hong Kong			100.0	100.0
VAM Drilling USA – United States	100.0	100.0	100.0	100.0
VAM Drilling France	100.0	100.0	100.0	100.0
Valinox Asia	62.5	62.5	62.5	65.8
Valinox Nucléaire	100.0	100.0	100.0	100.0
Vallourec	100.0	100.0	100.0	100.0
Vallourec Composants Automobiles Hautmont	100.0	100.0	100.0	100.0
Vallourec Composants Automobiles Vitry	100.0	-	-	-
Vallourec & Mannesmann Holdings – United States	100.0	100.0	100.0	100.0
Vallourec Inc. – United States	100.0	100.0	100.0	100.0
Vallourec Industries Inc. – United States	100.0	100.0	100.0	100.0
V & M Beijing – China	-	100.0	100.0	100.0
Vallourec & Mannesmann Changzhou – China	100.0	100.0	100.0	100.0
V & M Deutschland GmbH – Germany	100.0	100.0	100.0	100.0
V & M France	100.0	100.0	100.0	100.0
V & M do Brasil SA – Brazil	99.4	99.4	99.4	99.4
V & M Florestal Ltda – Brazil	99.4	99.4	99.4	100.0
V & M Mineração Ltda – Brazil	99.4	99.4	99.4	100.0
V & M One	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Rus. – Russia	-	100.0	100.0	100.0
V & M Services	100.0	100.0	100.0	100.0
V & M Star – United States	80.5	80.5	80.5	80.5
Vallourec & Mannesmann Tubes	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Tubes Corporation – United States	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Oil & Gas France	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Oil & Gas Nederland – Netherlands	-	100.0	100.0	100.0
VMOG Nigeria – Nigeria	-	100.0	100.0	100.0
VAM ONNE Nigeria (formerly VMOG Freezone Nigeria) – Nigeria	-	100.0	100.0	100.0
Vallourec Mannesmann Oil & Gas UK – United Kingdom	100.0	100.0	100.0	100.0
Vallourec Mannesmann Oil & Gas Germany – Germany (Merger on 1 January 2007 with V & M Deutschland GmbH)	100.0	-	-	-

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	% interest 31/12/2006	% interest 31/12/2007	**% interest 31/12/2008**	**% control 31/12/2008**
Vallourec Précision Étirage	100.0	-	-	-
Vallourec Précision Soudage	100.0	-	-	-
Vallourec Tubes Canada – Canada	100.0	100.0	100.0	100.0
Valti	100.0	100.0	100.0	100.0
Valti GmbH – Germany	100.0	100.0	100.0	100.0
Valtimet	95.0	95.0	95.0	95.0
Valtimet Inc. – United States	95.0	95.0	95.0	100.0
VAM Canada – Canada	100.0	100.0	100.0	100.0
VAM Far East – Singapore	51.0	51.0	51.0	51.0
VAM Field Services Angola – Angola	-	100.0	100.0	100.0
VAM Field Services Beijing – China	51.0	51.0	51.0	51.0
VAM Mexico – Mexico	100.0	100.0	100.0	100.0
VAM USA – United States	51.0	51.0	51.0	51.0
V & M Atlas Bradford – United States	-	-	100.0	100.0
V & M TCA – United States	-	-	100.0	100.0
V & M Tube-Alloy – United States	-	-	100.0	100.0
Proportionately consolidated companies				
VAM Changzhou Oil & Gas Premium Equipments – China	100.0	51.0	51.0	50.0
VAM Holding Hong Kong – Hong Kong	100.0	51.0	51.0	50.0
Vallourec & Sumitomo Tubos do Brasil – Brazil	-	56.0	56.0	50.0
Equity affiliates				
HKM – Germany	20.0	20.0	20.0	20.0
Pacific Tubular Limited – Jersey	24.8	24.8	24.8	24.8
Poongsan Valinox – South Korea	47.5	47.5	47.5	50.0
P.T. Citra Tubindo – Indonesia	25.0	25.0	36.3	36.3
Tubos Soldados Atlântico – Brazil	24.6	24.6	24.6	24.7
Xi'an Baotimet Valinox Tubes – China	37.1	37.1	37.1	49.0

The Group does not control any special purpose entities.

2008

- On 16 May 2008, Vallourec acquired, indirectly via its subsidiary V & M Tubes, the three tubular businesses from Grant Prideco:
  - Atlas Bradford®, recognized in North America as a leading supplier of premium OCTG connection technology (renamed V & M Atlas Bradford);
  - TCA®, which specializes in heat treatment operations and markets high grade tubular products with a strong focus on short lead time orders (renamed V & M TCA);
  - Tube-Alloy™, which produces and repairs down-hole tubular accessories for the oil & gas industry, and specializes in complex threading and machining for custom-made orders (renamed V & M Tube-Alloy).

These three companies have been fully consolidated into the Group's financial statements since 16 May 2008.

They had 643 employees at 31 December 2008 and have contributed €147.5 million to the Group's sales since their acquisition. Details of the assets and liabilities acquired are provided in Note 11.

- During the second half of 2008, the Group acquired 11.25% of the share capital of P.T. Citra Tubindo – Indonesia, via its subsidiaries V & M Tubes and Premium Holding Limited (which was incorporated in 2008), in which it had a 25% ownership and controlling interest. This company continued to be consolidated using the equity method as at 31 December 2008. The price of this transaction was €21 million. The company carries out heat treatment on tubes and threading of standard joints in Indonesia and has been producing VAM joints since 1985.

2007

- Salzgitter and Vallourec signed the definitive agreement regarding the sale of Vallourec Précision Étirage (VPE) and the hot-rolling tube mill in Zeithain (Saxony) which had been announced on 13 December 2006. The sale was effective on 2 July 2007. VPE, which specializes in the manufacture of cold drawn precision tubes, achieved sales of €124.2 million in the first six months of 2007. VPE and the Zeithain plant employed 1,561 staff. The assets and liabilities concerned were shown as assets held for sale at the end of 2006 (Note 11).
- On 19 July 2007, Vallourec and Sumitomo Metals signed a joint venture agreement defining the ownership structure of the entity that will build and operate a new, state-of-the-art, integrated pipe mill in Brazil.

  Vallourec has a 56% interest in the joint venture company, Vallourec & Sumitomo Tubos do Brasil, and Sumitomo Metals owns the remaining 44%. The two shareholders have the same number of representatives on the Executive Committee. The total investment is estimated at around USD 1.6 billion, with Vallourec's share totalling USD 890 million.

  Vallourec & Sumitomo Tubos do Brasil is proportionately consolidated into the Group's financial statements.
- On 19 November 2007, Vallourec opened the share capital of its Chinese plant for threading seamless tubing (VAM Changzhou Oil & Gas Premium Equipments) to Sumitomo by selling to it 49% of VAM Holding Hong Kong, the holding company which owns 100% of the Chinese-based company.

  VAM Holding Hong Kong and VAM Changzhou Oil & Gas Premium Equipments are proportionately consolidated into the Group's financial statements.
- On 11 December 2007 Vallourec sold Vallourec Précision Soudage (VPS) and Vallourec Composants Automobiles Vitry (VCAV) to ArcelorMittal.

  VPS employs 320 staff and has annual sales of around €100 million. VCAV employs 230 staff and has annual sales of around €45 million.

These changes in consolidation scope did not have a material impact on the Group's consolidated data.

2006

- The acquisition by V & M Tubes of VAM Drilling France (formerly SMFI), which is located in Cosne-sur-Loire, in France, supplemented the Group's drilling products activity.
- The acquisition by Valtimet of 75% of CST Valinox Ltd (formerly CST Ltd). This Indian company, which is located in Hyderabad, specializes in the production of tubes for power plant condensers for the Indian market.
- The sales of Spécitubes, the European leader in tubes for the aerospace industry, to the German company Pfalz-Flugzeugwerke GmbH, of Escofier Technologie to the company's management and of Cerec, the French leader in the pressing and forming of steel ends, to Eureka Metal Srl, a subsidiary of the Italian family-owned group Calvi Holding Srl.
- The formation of VAM Changzhou Oil & Gas Premium Equipments, a wholly-owned subsidiary of V & M Tubes, which operates a plant for threading seamless steel tubing and casing for oil & gas drilling.
- The acquisition on 28 December 2006 of the 43.7% interest in Valtimet held by Timet (a US group) for USD 75 million. Valtimet is a joint venture formed in 1997 in which Vallourec has a 51.3% controlling interest. Vallourec's stake in Valtimet thus increased to 95%, the remaining 5% being owned by Vallourec's long-standing partners Sumitomo Corp. and Sumitomo Metal Industries. The goodwill generated by the acquisition (€29 million) has been deducted from shareholders' equity (Section 2.9).
- On 31 December 2006 the internal restructuring of the Vallourec Group was completed. The aim of the restructuring was to rationalize the Group's internal organization and structure following the transactions detailed below, which resulted in Vallourec owning 100% of the share capital of V & M Tubes:
  - the transfer by Setval of its activities carried on at the Vallourec Research Centre (*Centre d'Etudes de Vallourec – CEV*), located at Aulnoye-Aymeries (Nord) and at the Vallourec Information Technology Centre (*Centre de Traitement Informatique de Vallourec – CTIV*) located at Saint-Saulve (Nord) to V & M France with retroactive effect to 1 January 2006;
  - the merger of Setval and ValTubes with V & M Tubes with retroactive effect to 1 January 2006.

These changes in consolidation scope did not have a material impact on the Group's consolidated data.

C - Notes to the consolidated financial statements *(in € thousand)*

Note 1 Intangible assets and goodwill

	Concessions, patents, licences and other rights	Other intangible assets	Total intangible assets	Goodwill
GROSS VALUES				
At 31/12/2005	**30,653**	**24,908**	**55,561**	**91,018**
Acquisitions	1,630	1,138	2,768	-
Disposals	-	-18	-18	-
Impact of changes in exchange rates	-579	-1,656	-2,235	-8,306
Changes in consolidation scope	2,788	5,655	8,443	4,967
Other movements	511	-725	-214	-367
At 31/12/2006	**35,003**	**29,302**	**64,305**	**87,312**
Acquisitions	5,232	3,887	9,119	-
Disposals	-833	-1,344	-2,177	-
Impact of changes in exchange rates	230	-1,426	-1,196	-7,412
Changes in consolidation scope	-617	-397	-1,014	-
Other movements	1,996	-30	1,966	-
At 31/12/2007	**41,011**	**29,992**	**71,003**	**79,900**
Acquisition of V & M Atlas Bradford, V & M Tube Alloy and V & M TCA		238,805	238,805	198,429
Other acquisitions	3,754	9,438	13,192	3,830
Disposals	-31	-66	-97	
Impact of changes in exchange rates	-1,078	28,202	27,124	26,149
Changes in consolidation scope	-	-	-	-
Other movements	1,714	253	1,967	-
At 31/12/2008	**45,370**	**306,624**	**351,994**	**308,308**
AMORTIZATION AND IMPAIRMENT				
At 31/12/2005	**-22,043**	**-12,317**	**-34,360**	**-**
Net amortization charges for the year	-3,050	-8,724	-11,774	-
Impairment losses (charges net of reversals)	21	-	21	-
Disposals	-	-	-	-
Impact of changes in exchange rates	355	711	1,066	-
Changes in consolidation scope	103	383	486	-
Other movements	184	558	742	-
At 31/12/2006	**-24,430**	**-19,389**	**-43,819**	**-**
Net amortization charges for the year	-4,123	-3,228	-7,351	-
Impairment losses (charges net of reversals)	-29	-1,162	-1,191	-
Disposals	126	1,363	1,489	-
Impact of changes in exchange rates	-250	821	571	-
Changes in consolidation scope	615	427	1,042	-
Other movements	-30	-	-30	-
At 31/12/2007	**-28,121**	**-21,168**	**-49,289**	**-**
Net amortization charges for the year	-4,311	-35,587	-39,898	-
Impairment losses (charges net of reversals)				-19
Disposals	34	57	91	-
Impact of changes in exchange rates	1,305	-1,638	-333	-
Changes in consolidation scope				-
Other movements	-1,689		-1,689	-
At 31/12/2008	**-32,782**	**-58,336**	**-91,118**	**-19**
NET VALUES				
At 31/12/2006	10,573	9,913	20,486	87,312
At 31/12/2007	12,890	8,824	21,714	79,900
At 31/12/2008	**12,588**	**248,288**	**260,876**	**308,289**

Intangible assets

- In 2006, the €8,443 thousand changes in consolidation scope correspond mainly to the acquisition of the assets of VAM Drilling France.
- In 2007, the impairment loss corresponds to a fall in value of the Omsco brand acquired in 2005 by VAM Drilling USA.
- In 2008, the changes relate mainly to the intangible assets of V & M Atlas Bradford, V & M Tube Alloy and V & M TCA which were identified and measured by an independent expert as at their acquisition date (see Note 11). The intangible assets acquired in 2008 and their amortization periods are as follows:
  - brands and patents: amortized over periods of between 7 and 15 years;
  - order book: amortized over periods of between 5 and 9 months;
  - technology and know-how: amortized over periods of between 5 and 25 years;
  - customer relations: amortized over periods of between 6 and 14 years.

Goodwill

ANALYSIS OF NET VALUES

Cash generating unit (CGU) (see Section 2.11 of Consolidation principles)	V & M do Brasil	V & M North America	Stainless steel	V & M Europe	Total
At 31/12/2006	2,918	70,388	1,666	12,340	87,312
At 31/12/2007	2,918	62,972	1,670	12,340	79,900
Impact of changes in exchange rates	-	26,149	-	-	26,149
Changes in consolidation scope	-	198,429	3,830	-	202,259
At 31/12/2008	**2,918**	**287,550**	**5,500**	**12,340**	**308,308**

Goodwill represents the part not allocated to specific balance sheet items, i.e. the difference between the acquisition price of consolidated companies and the Group's share in the assets and liabilities acquired, including contingent liabilities, measured at their fair value on the acquisition date. This fair value measurement, which was carried out by independent experts, resulted in the recognition in 2008 of goodwill of USD 307.5 million in respect of V & M Atlas Bradford, V & M Tube Alloy and V & M TCA in the V & M North America CGU (see Note 11) and of USD 5.6 million in respect of the acquisition of the assets of H.P.T. by Valtimet Inc. (Stainless Steel CGU).

Goodwill is tested for impairment at each year end. Impairment testing of goodwill is carried out and its value in use determined in accordance with the discounted cash flow method (see Section 2.11 of the accounting principles).

The main components of goodwill relate to the V & M North America CGU. At 31 December 2008, their carrying amount was compared with their value in use, defined as the present value of future cash flows, taken from the latest five-year forecasts. These forecasts have been prepared taking into account cyclical variations that affect selling prices, volumes and raw material costs. The extrapolation of the forecasts for the last year, projected to infinity, was determined by applying a growth rate of 1%, which is the same as that used for the previous year's tests. Cash flows were discounted at a rate corresponding to the weighted average cost of the Group's capital, incorporating a market risk premium and a risk premium specific to the sector. A rate of 9% was used in 2008 (9% in 2007 and 2006).

The comparison of the carrying amounts of the assets with the corresponding discounted cash flows, calculated using these assumptions, did not result in the requirement to make provisions for impairment losses in respect of goodwill as at 31 December 2008.

An analysis of the sensitivity of the calculation of the change in the parameters did not identify circumstances in which it is probable that the recoverable amount of the CGU would become lower than its carrying amount.

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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 31/12/2005	**61,530**	**207,245**	**1,222,723**	**68,739**	**109,633**	**1,669,871**
Acquisitions	2,512	8,512	91,476	140,121	39,779	282,400
Disposals	-220	-193	-18,308	-10	-1,138	-19,869
Impact of changes in exchange rates	-1,638	-5,523	-33,574	-2,800	-3,389	-46,924
Changes in consolidation scope	-107	-4,550	-22,468	483	-1,405	-28,047
Transfer to assets held for sale (Note 11)	-3,987	-23,185	-131,826	-2,599	-8,576	-170,173
Other movements	203	26,862	82,140	-103,090	-6,759	-644
At 31/12/2006	**58,293**	**209,168**	**1,190,163**	**100,844**	**128,145**	**1,686,614**
Acquisitions	3,269	29,312	114,068	245,098	44,008	435,755
Disposals	-12	-1,051	-17,512	-63	-1,786	-20,424
Impact of changes in exchange rates	1,705	-1,920	-10,296	-1,801	1,445	-10,867
Changes in consolidation scope	-816	-11,240	-59,014	-5,855	-6,398	-83,323
Other movements	1,854	16,351	100,178	-128,355	4,638	-5,334
At 31/12/2007	**64,293**	**240,620**	**1,317,587**	**209,868**	**170,052**	**2,002,421**
Acquisition of V & M Atlas Bradford, V & M Tube Alloy and V & M TCA	4,501	9,666	30,417	-	752	45,336
Other acquisitions	37,608	40,607	204,224	152,887	116,070	551,396
Disposals	-143	-3,829	-8,544	-	-3,171	-15,687
Impact of changes in exchange rates	-12,559	-6,518	-53,580	-15,019	-28,951	-116,627
Changes in consolidation scope	-	-	-	-	-	-
Other movements	305	18,833	128,453	-129,621	-15,531	2,439
At 31/12/2008	**94,005**	**299,379**	**1,618,557**	**218,115**	**239,221**	**2,469,278**
DEPRECIATION AND IMPAIRMENT						
At 31/12/2005	**-12,577**	**-96,314**	**-593,761**	**-92**	**-47,209**	**-749,953**
Net depreciation charge for the year	-2,321	-9,188	-82,046	-	-9,000	-102,555
Impairment losses	-	-	-1,529	9	-	-1,520
Reversals of impairment losses	-	-	-	-	-	-
Disposals	-	136	11,094	-	887	12,117
Impact of changes in exchange rates	486	1,402	9,338	2	908	12,136
Changes in consolidation scope	32	4,240	18,217	-	1,337	23,826
Transfer to assets held for sale (Note 11)	193	15,941	93,804	-	6,303	116,241
Other movements	1	-	-164	-	-21	-184
At 31/12/2006	**-14,186**	**-83,783**	**-545,047**	**-81**	**-46,795**	**-689,892**

	Land	Buildings	Technical installations, equipment and industrial tools	Property, plant and equipment in progress	Other property, plant and equipment	Total
At 31/12/2006	**-14,186**	**-83,783**	**-545,047**	**-81**	**-46,795**	**-689,892**
Net depreciation charge for the year	-2,389	-9,701	-89,534	-	-8,998	-110,622
Impairment losses	-	-1,519	-13,559	-4,690	-290	-20,058
Reversals of impairment losses	-	-	11	70	-	81
Disposals	1	671	13,202	-	1,459	15,333
Impact of changes in exchange rates	-687	593	2,840	-4	-2	2,740
Changes in consolidation scope	18	6,037	61,311	4,706	2,658	74,730
Other movements	1	-6	-8,738	-1	-26	-8,770
At 31/12/2007	**-17,242**	**-87,708**	**-579,514**		**-51,994**	**-736,458**
Net depreciation charge for the year	-2,069	-12,401	-100,955	-61	-10,202	-125,688
Impairment losses	-	-1,348	-18	-	-	-1,366
Reversals of impairment losses	-	-	-	-	-	-
Disposals	-	-	7,257	-	2,101	9,358
Impact of changes in exchange rates	2,859	2,235	18,911	4	3,289	27,298
Changes in consolidation scope	-	-	-	-	-	-
Other movements	-	44	-1,479	-	2	-1,433
At 31/12/2008	**-16,452**	**-99,178**	**-655,798**	**-57**	**-56,804**	**-828,289**
NET VALUES						
At 31/12/2006	44,107	125,385	645,116	100,763	81,350	996,722
At 31/12/2007	47,051	152,912	738,073	209,868	118,058	1,265,963
At 31/12/2008	**77,553**	**200,201**	**962,759**	**218,058**	**182,417**	**1,640,989**

Industrial investments excluding changes in consolidation scope (property, plant and equipment and intangible assets)

	2006	2007	**2008**
Europe	156,956	278,536	234,682
North America and Mexico	42,676	57,147	62,747
South America	59,192	93,665	259,687
Asia	26,344	15,398	9,910
Other	-	53	1,392
TOTAL	**285,168**	**444,799**	**568,418**
Capital expenditure payments during the year totalled:	281,517	437,713	528,486

2008

The aim of the capital expenditure in 2008 was to continue to improve the production capacity of the Group's plants, particularly as regards rolling, machining, threading and heat treatment, and to reduce costs by replacing old equipment, thereby improving plant performance.

Vallourec & Sumitomo Tubos do Brasil, a joint venture with Sumitomo, continued the construction, which was begun in 2007, of a new state-of-the-art tube mill integrating a steel mill, a rolling mill and threading lines. It is located in the state of Minas Gerais in Brazil.

Biological assets

The Group's Brazilian subsidiary V & M Florestal cultivates eucalyptus forests in order to produce charcoal used in V & M do Brasil's blast furnaces.

As at 31 December 2008, the company had about 232,340 hectares of eucalyptus forests under cultivation compared with 184,227 hectares as at 31 December 2007 and 177,413 as at 31 December 2006.

The increase in the area being cultivated will enable the Group to better meet the requirements of V & M do Brasil and to supply charcoal to Vallourec & Sumitomo Tubos do Brasil when it starts production.

In the absence of a benchmark market for V & M Florestal, which is fully integrated into the production cycle of V & M do Brasil, its main customer, the measurement at fair value required by IAS 41 "Agriculture" is not appropriate. Instead, in accordance with the exemptions provided by IAS 41, the forest is recognized in the consolidated financial statements at its acquisition cost.

At 31 December 2008, the biological assets are included within "Other property, plant and equipment" in an amount of €30.6 million (€18.2 million at 31 December 2007). V & M Florestal achieved sales of €97.5 million in 2008 compared with €44 million in 2007.

Leases

The amounts capitalized in respect of finance leases were not material to the Group's financial statements in 2006, 2007 and 2008.

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 31/12/2005	**24,992**	**13,324**	**9,875**	**48,191**
Changes in consolidation scope	-	-	4,566	4,566
Capital increase	-	-	-	-
Impact of changes in exchange rates	-	-1,557	-449	-2,006
Dividends paid	-6	-1,104	-511	-1,621
Contribution to net income of the period	-24	4,400	1,492	5,868
At 31/12/2006	**24,962**	**15,063**	**14,973**	**54,998**
Changes in consolidation scope	-	-	-	-
Capital increase	-	-	-	-
Impact of changes in exchange rates	-	-1,693	-456	-2,149
Dividends paid	-5	-2,942	-1,100	-4,047
Contribution to net income of the period	-18	4,783	1,477	6,242
At 31/12/2007	**24,939**	**15,211**	**14,894**	**55,044**
Changes in consolidation scope	-	21,412	-	21,412
Capital increase	-	-	916	916
Impact of changes in exchange rates	-	1,625	-1,142	483
Dividends paid	-9	-2,616	-776	-3,401
Contribution to net income of the period	-	4,226	-1,795	2,431
At 31/12/2008	**24,930**	**39,858**	**12,097**	**76,885**

During the second half of 2008, the Group acquired 11.25% of the share capital of P.T. Citra Tubindo – Indonesia, in which it previously held a 25% stake. At 31 December 2008 Vallourec controlled 36.3% of its share capital.

Key company financial data (in € thousand)		Shareholders' equity	Sales	Net income
	2008	**70,727**	**161,248**	**16,195**
	2007	60,845	165,756	17,095
P.T. Citra Tubindo - Indonesia	**2006**	**60,251**	**178,019**	**16,403**
	2008	**124,590**	**2,603,973**	**38**
	2007	124,693	2,166,920	44
HKM - Germany	**2006**	**124,810**	**1,863,875**	**25**

The contribution to consolidated net income of the equity affiliates is as follows:

	2006	2007	**2008**
P.T. Citra Tubindo	4,400	4,783	4,226
Pacific Tubular Ltd	74	201	48
HKM	-24	-18	-
Poongsan Valinox	2,425	1,547	909
Tubos Soldados Atlanticos	-833	-525	-4,073
Xi'an Baotimet Valinox Tubes	-174	254	1,321
TOTAL	**5,868**	**6,242**	**2,431**

The stock market price of P.T. Citra Tubindo's shares was 3,100 Indonesian rupees at 31 December 2008, giving a valuation of the Group's shareholding of €59 million.

Note 4 Other non-current assets

	Other investments in equity instruments	Loans	Other financial investments	Total
At 31/12/2005	**2,481**	**9,914**	**19,099**	**31,494**
Gross value (*)	5,561	7,985	29,886	43,432
Provisions	-2,909	-1,032	-22	-3,963
At 31/12/2006 (*)	**2,652**	**6,953**	**29,864**	**39,469**
Gross value	5,471	6,701	34,603	46,775
Provisions	-3,135	-602	-32	-3,769
At 31/12/2007	**2,336**	**6,099**	**34,571**	**43,006**
Gross value	5,123	5,258	30,171	40,552
Provisions	-1,513		-400	-1,913
At 31/12/2008	**3,610**	**5,258**	**29,771**	**38,639**
(*) (Note 11) assets held for sale	*-20*	*-992*	*-48*	*-1,060*

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Loans consist mainly of long-term construction effort participating loans. These loans are measured in accordance with the effective interest rate method applied to expected cash flows until the maturity dates of the loans. The rate used at 31 December 2008 was 3.60% (compared with 4.20% at 31 December 2007 and 3.68% at 31 December 2006). The reduction since 2006 was the result of the repayment of loans that had fallen due, as the contribution to the construction effort has since been made in the form of a subsidy.

Other financial investments consist mainly of interest-bearing security deposits paid in connection with tax disputes in Brazil (€17 million at 31 December 2008 and €17 million at 31 December 2007, see also Note 16) and tax receivables due in over one year, also in Brazil (€9 million in 2008 and €14 million in 2007).

MATURITIES OF OTHER NON-CURRENT ASSETS

	Between 1 and 5 years	Over 5 years	Total
Gross values at 31/12/2006			
Loans	3,369	4,616	7,985
Other investments in equity instruments	174	5,387	5,561
Other financial investments	26,081	3,805	29,886
TOTAL	**29,624**	**13,808**	**43,432**
Gross values at 31/12/2007			
Loans	2,456	4,245	6,701
Other investments in equity instruments	428	5,043	5,471
Other financial investments	32,455	2,148	34,603
TOTAL	**35,339**	**11,436**	**46,775**
Gross values at 31/12/2008			
Loans	2,008	3,250	5,258
Other investments in equity instruments	482	4,641	5,123
Other financial investments	27,067	3,104	30,171
TOTAL	**29,557**	**10,995**	**40,552**

Note 5 Deferred taxation

The main bases used in the calculation of deferred taxation are:

- recurring items: provisions for paid holidays, solidarity social security contributions, etc.;
- non-recurring items: cancellation of regulated provisions, employee profit-sharing, non-tax deductible provisions for liabilities and charges and any restatements to ensure the conformity of company or consolidated accounts to Group practices;
- long-term recurring items: non-tax deductible provisions for retirement commitments.

The following items are recognized in accordance with the liability method:

- long-term deferred tax assets (provisions for retirement commitments — French companies), deferred tax assets for recurring items (provisions for paid holidays, etc.) which are likely to be recovered in the foreseeable future;
- deferred tax liabilities;
- deferred tax liabilities resulting from timing differences in the treatment of provisions for impairment of securities between the tax groups and the consolidated financial statements;
- losses carried forward are recognized only for companies and tax groups in which recovery in the foreseeable future is reasonably certain.

The rates used are the recovery rates known at the date the accounts are closed.

Amounts of deferred tax, per tax entity, are shown net in the balance sheet either under assets or under liabilities.

The basic income tax rate applicable to companies in France is 33.33%. The *Code de la sécurité sociale* Act 99-1140 of 28 December 1999 introduced an additional tax charge of 3.3% of the basic tax due, resulting, for French companies, in a 1.1% increase in the statutory tax rate to 34.43%.

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The amended Finance Act 2004-1485 of 30 December 2004 provided for:

- the reduction in the taxation of all long-term capital gains and losses from 19% to 15% as from 2005;
- the progressive withdrawal of the taxation of long-term net capital gains arising on the disposal of participating interests. This taxation was reduced to 8% in 2006 and withdrawn as from 2007.

Accordingly, the deferred tax rates used for the French companies in 2008 are 34.43% for current tax and 0% for long-term capital gains and losses. The same rates were applicable in 2007.

The deferred tax rates used in 2008 are 31.6% for Germany (31.6% in 2007), 34% for Brazil (34% in 2007) and 36.5% for the United States (38% in 2007).

The following table provides an analysis of deferred tax assets and liabilities:

At 31/12/2006	Assets	Liabilities	Net deferred tax liabilities
Non-current assets	-	100,522	
Other assets and liabilities	9,546	-	
Inventories	41,000	-	
Employee benefits	21,986	-	
Derivatives	-	29,371	
Net balance	**72,532**	**129,893**	**57,361**
Recognition of tax losses	1,564	-	-1,564
TOTAL	**74,096**	**129,893**	**55,797**

At 31/12/2007	Assets	Liabilities	Net deferred tax liabilities
Non-current assets	-	105,958	
Other assets and liabilities	29,928	-	
Inventories	33,616	-	
Employee benefits	16,222	-	
Derivatives	-	50,216	
Net balance	**79,766**	**156,174**	**76,408**
Recognition of tax losses	1,152	-	-1,152
TOTAL	**80,918**	**156,174**	**75,256**

At 31/12/2008	Assets	Liabilities	Net deferred tax liabilities
Non-current assets	-	116,419	
Other assets and liabilities	-	3,603	
Inventories	32,179	-	
Employee benefits	12,876	-	
Derivatives	30,292	-	
Distributable and translation reserves	-	3,478	
Net balance	**75,347**	**123,500**	**48,153**
Recognition of tax losses	1,096	-	-1,096
TOTAL	**76,443**	**123,500**	**47,057**

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The following table provides an analysis of the Group's deferred tax balances as at 31 December 2006, 31 December 2007 and 31 December 2008:

At 31/12/2006	Gross values	Corresponding deferred tax	Deferred tax recognized	Deferred tax not recognized
Tax losses carried forward	8,547	1,767	1,564	203
Other tax credits (long-term capital losses)	-	-	-	-
Other tax assets	287,655	102,651	102,651	-
Total tax assets	**296,202**	**104,418**	**104,215**	**203**
Tax liabilities	445,401	-160,012	-160,012	
Total tax liabilities		**-160,012**	**-160,012**	
TOTAL			**-55,797**	**203**

At 31/12/2007	Gross values	Corresponding deferred tax	Deferred tax recognized	Deferred tax not recognized
Tax losses carried forward	6,720	1,761	1,152	609
Other tax credits (long-term capital losses)	-	-	-	-
Other tax assets		105,624	105,624	-
Total tax assets	**6,720**	**107,385**	**106,776**	**609**
Tax liabilities		-182,032	-182,032	
Total tax liabilities		**-182,032**	**-182,032**	
TOTAL			**-75,256**	**609**

At 31/12/2008	Gross values	Corresponding deferred tax	Deferred tax recognized	Deferred tax not recognized
Tax losses carried forward	11,421	2,501	1,096	1,405
Other tax credits (long-term capital losses)				
Other tax assets		132,650	132,635	15
Total tax assets	**11,421**	**135,151**	**133,731**	**1,420**
Tax liabilities		-180,788	-180,788	
Total tax liabilities		**-180,788**	**-180,788**	
TOTAL			**-47,057**	**1,420**

The tax losses carried forward in 2008 relate mainly to the subsidiaries V & M Florestal (Brazil), CST Valinox (India), Changzhou Carex (China) and VAM Changzhou (China).

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The following table provides an analysis of the changes in deferred tax:

Net tax liability	2006	2007	**2008**
As at 1 January	**8,151**	**55,797**	**75,256**
Impact of changes in exchange rates	-2,186	-7,905	4,577
Recognized in income	4,943	18,292	30,133
Recognized in reserves	49,227	11,940	-62,909
Change in consolidation scope and other	1,948	-2,868	-
Transfer to liabilities held for sale (Note 11)	-6,286	-	-
AS AT 31 DECEMBER	**55,797**	**75,256**	**47,057**

The above information can only be reconciled with the net amounts shown in the balance sheet.

The amount of the deferred tax recognized in reserves corresponds mainly to the change in deferred tax calculated on the derivatives.

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 31/12/2005	**395,577**	**263,069**	**261,013**	**919,659**
Changes in inventories recognized in the income statement	68,068	76,469	114,735	259,272
Changes in consolidation scope	1,850	-1,303	4,780	5,327
Impact of changes in exchange rates	-9,190	-6,103	-8,895	-24,188
Transfer to assets held for sale (Note 11)	-29,360	-14,630	-13,321	-57,311
Other movements	9,629	-14,120	3,413	-1,078
At 31/12/2006	**436,574**	**303,382**	**361,725**	**1,101,681**
Changes in inventories recognized in the income statement	87,677	33,476	64,255	185,408
Changes in consolidation scope	-18,809	3,764	-10,174	-25,219
Impact of changes in exchange rates	-3,045	-9,311	-858	-13,214
Other movements	-10,211	8,944	2,063	796
At 31/12/2007	**492,186**	**340,255**	**417,011**	**1,249,452**
Acquisition of V & M Atlas Bradford, V & M Tube Alloy and V & M TCA	12,741	9,306	4,831	26,878
Changes in inventories recognized in the income statement	174,672	80,006	27,058	281,736
Impact of changes in exchange rates	-17,875	-1,698	-23,425	-42,998
Other movements	-	-5,695	-	-5,695
At 31/12/2008	**661,724**	**422,174**	**425,475**	**1,509,373**
PROVISIONS				
At 31/12/2005	**-39,633**	**-8,137**	**-10,718**	**-58,488**
Impact of changes in exchange rates	347	49	181	577
Charges to provisions	-11,180	-983	-10,945	-23,108
Reversals of provisions	7,551	2,190	4,375	14,116
Changes in consolidation scope	314	72	217	603
Transfer to assets held for sale (Note 11)	2,217	738	558	3,513
Other movements	353	321	-293	381
At 31/12/2006	**-40,031**	**-5,750**	**-16,625**	**-62,406**
Impact of changes in exchange rates	-48	354	-107	199
Charges to provisions	-13,185	-4,403	-20,305	-37,893
Reversals of provisions	7,092	1,118	4,918	13,128
Changes in consolidation scope	4,893	-169	1,612	6,336
Other movements	265	-404	77	-62
At 31/12/2007	**-41,014**	**-9,254**	**-30,430**	**-80,698**
Impact of changes in exchange rates	1,576	530	1,765	3,871
Charges to provisions	-12,582	-1,324	-10,042	-23,948
Reversals of provisions	8,167	2,984	18,216	29,367
Other movements	-12	-	5,708	5,696
At 31/12/2008	**-43,865**	**-7,064**	**-14,783**	**-65,712**
NET VALUES				
At 31/12/2006	396,543	297,632	345,100	1,039,275
At 31/12/2007	451,172	331,001	386,581	1,168,754
At 31/12/2008	**617,859**	**415,110**	**410,692**	**1,443,661**

Note 7 Trade and other receivables

	Advances and deposits paid on orders	Accounts receivable (gross) (*)	Provisions	Total
At 31/12/2005	**8,107**	**911,787**	**-13,716**	**906,178**
Changes in consolidation scope	160	-355	280	85
Impact of changes in exchange rates	-227	-22,151	169	-22,209
Changes in gross values	4,090	163,626	2	167,718
Charges to provisions	-	-	-2,457	-2,457
Reversals of provisions	-	-	4,126	4,126
Transfer to assets held for sale (Note 11)	-	-50,925	212	-50,713
At 31/12/2006	**12,130**	**1,001,982**	**-11,384**	**1,002,728**
Changes in consolidation scope	-1,221	-27,874	344	-28,751
Impact of changes in exchange rates	380	-10,238	52	-9,806
Changes in gross values	15,932	68,395	13	84,340
Charges to provisions	-	-	-3,346	-3,346
Reversals of provisions	-	-	3,457	3,457
At 31/12/2007	**27,221**	**1,032,265**	**-10,864**	**1,048,622**
Acquisition of V & M Atlas Bradford, V & M Tube Alloy and V & M TCA		17,422	-31	17,391
Impact of changes in exchange rates	-2,293	-27,482	521	-29,254
Changes in gross values	12,837	156,176	-	169,013
Charges to provisions	-	-	-5,009	-5,009
Reversals of provisions	-	-	2,809	2,809
At 31/12/2008	**37,765**	**1,178,381**	**-12,574**	**1,203,572**

(*) Please refer to Section 2.18.1 of the accounting principles for details of the recognition and measurement methods.

The increase in trade receivables is linked to the increase in sales in the last quarter of 2008. The provision reversals relate mainly to receivables that have become irrecoverable during the year and the remeasurement of provisions.

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.

8.1 Impact of IAS 32 and IAS 39 on shareholders' equity and income or loss

As explained in Section 2.18 of the accounting principles, the main impact of IAS 32 and IAS 39 relates to the accounting treatment of hedging contracts entered into by the Group in respect of its commercial purchase and sale transactions in foreign currencies. The Group has also swapped to a fixed rate part of its variable-rate debt. The other effects of the transition to IAS 32 and IAS 39 have had little impact on the financial statements (measurement of housing loans granted to staff in accordance with the effective interest rate method and measurement at fair value of marketable securities).

As regards exchange rate hedges, the hedging relationship is based on the spot rate for the currency. Premiums and discounts on derivatives are systematically regarded as ineffective and recognized in the income statement (financial income or loss). Currency receivables and payables have been revalued at the spot rate at 31 December.

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The position regarding hedging instruments changed from net assets of €130 million at 31 December 2007 to net liabilities of €87 million at 31 December 2008. This change is due mainly to the hedging of commercial transactions entered into by the European subsidiaries in US dollars. The depreciation of the euro against the US dollar in 2008 mainly explains the €153 million reduction in hedges in respect of currency purchase and sale forecasts and the €68.6 million reduction in 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, which is in fact a gain of €14.8 million in respect of the financial year 2008 (Note 30).

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

Balance sheet items concerned			Movements in 2006		
	At 31/12/2005	At 31/12/2006	Total	o/w reserves	o/w income (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	-66,993	60,407	127,400	125,888	1,512
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with accounts receivable (and accounts payable (**))	-21,721	21,596	43,317	9	43,308
Recognition of premium/discount	-11,145	-23,131	-11,986	-9	-11,977
Recognition of changes in fair value of interest rate swaps	-1,398	7,632	9,030	9,030	
Changes in value due to derivatives not classified as such	802	-580	-1,382	25	-1,407
Sub-total: Derivatives	**-100,455**	**65,924**	**166,379**	**134,943**	**31,436**
Reclassification as assets and liabilities held for sale	**-**	**-1,028**			
Of which: derivatives - assets	*1,846*	*92,367*			
Reclassification as assets held for sale	*-*	*-1,324*			
Of which: derivatives - liabilities	*102,301*	*26,443*			
Reclassification as liabilities held for sale	*-*	*-296*			
2 - Accounts receivable (accounts payable (**)) hedged in currencies - translation gain/loss					
Measurement at period-end exchange rate	20,280	-16,816	-37,096	-	-37,096
Impact of hedging operations	**-80,175**	**49,108**	**129,283**	**134,943**	**-5,660**
3 - Measurement of construction loans at the effective interest rate	**-3,660**	**-3,515**	**145**	**-**	**145**
4 - Measurement of marketable securities at fair value	**34**	**121**	**87**	**-**	**87**
5 - Deferred taxes (on exchange rate and interest rate hedges)	**28,861**	**-22,706**	**-51,567**	**-49,227**	**-2,340**
TOTAL	**-54,940**	**23,008**	**77,948**	**85,716**	**-7,768**
Impact - see statement of changes in shareholders' equity					
Revaluation reserves - financial instruments	-43,023	42,702		85,725	
Of which: Group share	-42,883	42,725		85,608	
Of which: minority interests	-140	-23		117	
Other consolidation reserves	290	-11,926		-12,216	
Income (loss)	-12,207	-7,768		12,207	-7,768
TOTAL	**-54,940**	**23,008**		**85,716**	**-7,768**

(*) Assets and liabilities offset in this table to give net position: + = net assets, - = net liabilities.
(**) Amounts not material in relation to sales.

Balance sheet items concerned			Movements in 2007		
	At 31/12/2006	At 31/12/2007	Total	o/w reserves	o/w income (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	60,407	97,958	37,551	37,896	-345
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with accounts receivable (and accounts payable (**))	21,596	46,598	25,002		25,002
Changes in the intrinsic value of hedges of raw material and energy purchases linked to order books and commercial tenders		-249	-249	-249	
Changes in the intrinsic value of hedges of raw material and energy purchases linked to accounts payable					
Recognition of premium/discount	-23,131	-17,918	5,213		5,213
Options to purchase US dollars linked to the acquisition of the premium OCTG activities of Grant Prideco		408	408		408
Recognition of changes in fair value of interest rate swaps	7,632	9,337	1,705	1,705	
Changes in value due to derivatives not classified as such	-580	-6,097	-5,517		-5,517
Sub-total: Derivatives	**65,924**	**130,037**	**64,113**	**39,352**	**24,761**
Reclassification as assets and liabilities held for sale	**-1,028**				
Of which: derivatives - assets	*92,367*	*158,148*			
Reclassification as assets held for sale	*-1,324*				
Of which: derivatives - liabilities	*26,443*	*28,110*			
Reclassification as liabilities held for sale	*-296*				
2 - Accounts receivable (accounts payable (**)) hedged in currencies - translation gain/loss					
Measurement at period-end exchange rate	-16,816	-45,273	-28,457		-28,457
Impact of hedging operations	**49,108**	**84,764**	**35,656**	**39,352**	**-3,696**
3 - Measurement of construction loans at the effective interest rate	**-3,515**	**-1,671**	**1,844**		**1,844**
4 - Measurement of marketable securities at fair value	**121**	**693**	**572**		**572**
5 - Deferred taxes (on exchange rate and interest rate hedges)	**-22,706**	**-34,170**	**-11,464**	**-11,939**	**475**
TOTAL	**23,008**	**49,616**	**26,608**	**27,413**	**-805**
Impact - see statement of changes in shareholders' equity					
Revaluation reserves - financial instruments	42,702	70,097		27,395	
Of which: Group share	42,725	70,026		27,301	
Of which: minority interests	-23	71		94	
Other consolidation reserves	-11,926	-19,676		-7,750	
Income (loss)	-7,768	-805		7,768	-805
TOTAL	**23,008**	**49,616**		**27,413**	**-805**

(*) Assets and liabilities offset in this table to give net position: + = net assets, - = net liabilities.
(**) Amounts not material in relation to sales.

Balance sheet items concerned			Movements in 2008		
	At 31/12/2007	**At 31/12/2008**	**Total**	**o/w reserves**	**o/w income (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	97,958	-55,332	-153,290	-151,519	-1,771
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with accounts receivable (and accounts payable (**))	46,598	-22,008	-68,606		-68,606
Changes in the intrinsic value of hedges of raw material and energy purchases linked to order books and commercial tenders	-249		249	249	
Changes in the intrinsic value of hedges of raw material and energy purchases linked to accounts payable		-79	-79		-79
Recognition of premium/discount	-17,918	14,842	32,760		32,760
Options to purchase US dollars linked to the acquisition of the premium OCTG activities of Grant Prideco	408		-408		-408
Recognition of changes in fair value of interest rate swaps	9,337	-26,664	-36,001	-36,001	
Changes in values linked to hedging instruments implemented under the terms of the employee share ownership plans		2,839	2,839		2,839
Changes in value due to derivatives not classified as such	-6,097	-655	5,442		5,442
Sub-total: Derivatives	**130,037**	**-87,057**	**-217,094**	**-187,271**	**-29,823**
Reclassification as assets and liabilities held for sale					
Of which: derivatives - assets	*158,148*	*26,280*			
Of which: derivatives - liabilities	*28,110*	*113,337*			
2 - Accounts receivable (accounts payable (**)) hedged in currencies - translation gain/loss					
Measurement at period-end exchange rate	-45,273	26,583	71,856		71,856
Impact of hedging operations	**84,764**	**-60,474**	**-145,238**	**-187,271**	**42,033**
3 - Measurement of construction loans at the effective interest rate	**-1,671**	**-1,773**	**-102**		**-102**
4 - Measurement of marketable securities at fair value	**693**	**63**	**-630**		**-630**
5 - Deferred taxes (on exchange rate and interest rate hedges)	**-34,170**	**25,245**	**59,415**	**62,644**	**-3,229**
TOTAL	**49,616**	**-36,939**	**-86,555**	**-124,627**	**38,072**
Impact - see statement of changes in shareholders' equity					
Revaluation reserves - financial instruments	70,097	-54,276		-124,373	
Of which: Group share	70,026	-54,359		-124,385	
Of which: minority interests	71	83		12	
Other consolidation reserves	-19,676	-20,735		-1,059	
Income (loss)	-805	38,072		805	38,072
TOTAL	**49,616**	**-36,939**		**-124,627**	**38,072**

(*) Assets and liabilities offset in this table to give net position: + = net assets, - = net liabilities.
(**) Amounts not material in relation to sales.

The change in the fair value of financial instruments hedging the exchange rate risk which affected shareholders' equity as at 31 December 2007 was €97,958 thousand.

During 2008, in view of the due dates of the orders recorded in the Group's order book at the end of 2007, around 93% of the positive change in fair value allocated to the order book at the end of 2007 was transferred from shareholders' 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 2007, which have been fully or partially unwound or converted into receivables during the year ended 31 December 2008.

This impact was calculated for the hedges in US dollars, which represent most (93%) of the changes in fair value of the hedges affecting shareholders' equity as at 31 December 2007.

8.2 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 15.

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**

TOTAL DEBT

	31/12/2007		
In € million	Bond loan	Other loans	Cash and cash equivalents
Fixed rate	-	481.0	-
Variable rate	-	189.0	912.4
TOTAL	**-**	**670.0**	**912.4**

The cash position changed during 2008 due to the acquisition of the assets of Grant Prideco and the repayment of the €150 million loan to the Crédit Agricole Group.

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

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 €308.6 million (about 35.3% of total gross debt) at 31 December 2008.

None of the Group's fixed rate finance reaches contractual maturity during the 12 months following the 31 December 2008 closing except in the case of V & M do Brasil (€7 million).

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 €3.1 million increase in the Group's annual financial costs, based on the assumption that the level of debt and exchange rates remained completely stable. 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 one-percentage-point rise or fall in interest rates applied to all yield curves would result in an increase of €16.1 million or a reduction of €16.8 million in the measurement of the swaps in place at 31 December 2008 (at Vallourec S.A. 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 income, Group share, 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 income, Group share, 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 in the translation reserves booked to shareholders' equity (€-131.1 million as at 31 December 2008) which, over the last two years, have been linked mainly to movements in the US dollar and Brazilian real:

Translation reserve - Group share	31/12/2006	31/12/2007	**31/12/2008**
USD	-26,847	-72,572	-27,685
GBP	897	-4,277	-16,480
MXM (Mexican Peso)	-2,668	-6,006	-13,246
BRL (Brazilian Real)	30,795	61,798	-74,375
Others	-1,543	-2,981	705
	634	**-24,038**	**-131,081**

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 (28% of sales in 2008).

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 income 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 in the currencies used in all hedges implemented by the Group would result in a €111 million decrease in the intrinsic value recognized in consolidated shareholders' equity and that a 10% fall would result in a €110 million rise as at 31 December 2008. Most of these amounts would be due to changes in the US dollar against the euro.

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 31 December 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	2006	2007	**2008**
Forward exchange contracts: forward sales	2,139,929	1,939,536	1,584,281
Forward exchange contracts: forward purchases	84,674	152,430	79,977
Currency options: sales	57,778	36,296	17,281
Currency options: purchases	-	249,650	-
Commodities: call options	-	639	188
TOTAL	**2,282,381**	**2,378,551**	**1,681,727**

CONTRACT MATURITIES AT 31 DECEMBER 2008

Contracts in respect of commercial transactions	Total	One year or less	One to five years	Over five years
Foreign exchange contracts: forward sales	1,584,281	1,556,418	27,863	-
Foreign exchange contracts: forward purchases	79,977	74,707	5,270	-
Currency options: sales	17,281	17,281	-	-
Currency options: purchases	-	-	-	-
Commodities: call options	188	188	-	-
TOTAL	**1,681,727**	**1,648,594**	**33,133**	**-**

Forward sales correspond mainly to sales of US dollars (€1,584 million of the €1,682 million total).

These contracts were transacted at an average forward EUR/USD exchange rate of 1.47.

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

At 31 December 2008, 98% of the hedges entered into by the Group had a maturity of less than 12 months. These details are representative of the Group's order book.

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.

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The total amount of trade receivables that were more than 90 days overdue and against which no provision had been made represented around 4.1% of total trade receivables at 31 December 2008. 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.

Share price risks

At 31 December 2007, Vallourec held 420,129 own shares acquired on 5 July 2001.

At 31 December 2008, Vallourec held only 218,579 own shares acquired on 5 July 2001 following the exercise of options in respect of 12,697 shares under the terms of the 15 June 2003 share purchase plan and the allocation of 188,853 performance shares under the terms of the 16 January 2006 plan (Note 17).

In 2008, Vallourec acquired 50,000 own shares under the terms of the 4 June 2008 share buy-back plan, with the intention of using such shares in future employee share ownership arrangements. Vallourec also held 131,840 shares acquired under the terms of the liquidity contract with Crédit Agricole Chevreux.

These shares are deducted from shareholders' equity in the consolidated financial statements.

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

- to cover share purchase options granted under the option plan dated 15 June 2003, i.e. 24,417 options (1 option = 1 share);
- to cover performance shares allocated on 3 May 2007, the definitive quantity of which will not be known until 2011;
- to cover performance shares allocated on 1 September 2008, the definitive quantity of which will not be known until 2012;
- to cover performance shares allocated in accordance with the Company mutual fund (excluding France) and "Share + SAR" formulas of the Value 08 employee share ownership plan of 16 December 2008, i.e. 33,856 shares;
- the balance to cover future allocations to certain Group employees, managers or officers of the Group, in accordance with the procedures to be defined jointly by the Management Board and the Supervisory Board.

In addition, in 2007 Vallourec implemented a liquidity contract with Crédit Agricole Chevreux, under the terms of the annual general share buy-back authorization granted by the Shareholders' Meeting on 1 June 2006 (*Sixteenth resolution*). To implement this contract, €20 million was transferred to the liquidity account. At 31 December 2008, Vallourec held 131,840 shares with a value of €10.7 million.

Classification and measurement of financial assets and liabilities

The amounts stated in the balance sheet are measured in accordance with the measurement procedures used for each financial instrument.

2008	Note	Category (*)	Carrying amount at 31/12/2008	Amortized cost	At fair value through equity	At fair value through profit or loss
ASSETS						
Other non-current assets	4					
Other investments in equity instruments		AVS	5,123	-	5,123	-
Loans		L&R	5,258	5,258	-	-
Other financial investments		L&R/HTM (**)	30,171	30,171	-	-
Trade receivables	7	**L&R**	**1,178,381**	**1,178,381**	**-**	**-**
Derivatives - assets	8					
Hedging financial instruments		CFH	26,280	-	3,512	22,768
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	9	**L&R**	**200,548**	**200,548**	**-**	**-**
Cash and cash equivalents	10	**A-FVTPL**	**528,146**	**-**	**-**	**528,146**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Bank loans and other borrowings (***) (*****)	15	**AC-EIR**	**719,488**	**719,488**	**-**	**-**
Other		AC-EIR	10,537	10,537	-	-
Overdrafts and other short-term bank borrowings (****) (*****)	15	**AC-EIR**	**144,633**	**144,633**	**-**	**-**
Trade payables		**AC**	**721,807**	**721,807**	**-**	**-**
Derivatives - liabilities	8					
Hedging financial instruments		CFH	112,611	-	84,904	28,353
Speculative financial instruments		L-FVTPL	726	-	-	726
Other current liabilities	18	**AC**	**389,628**	**389,628**	**-**	**-**

(*) A - FVTPL Financial assets measured at fair value through profit or loss
HTM Held-to-maturity investments
L & R Loans and receivables
AVS Available-for-sale financial assets
CFH Cash flow hedge
L - FVTPL Financial liabilities measured at fair value through profit or loss
AC Amortized cost
AC - EIR Amortized cost according to the effective interest rate method

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

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

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

(*****) Variable rate borrowings for which interest rate swaps have been entered into are accounted for in accordance with the cash flow hedge method. Changes in the fair value of swaps, linked to movements in interest rates, are recognized in shareholders' equity to the extent that they are effective, with the ineffective portion being recognized in financial income (loss).

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2007	Note	Category (*)	Carrying amount at 31/12/2007	Amortized cost	At fair value through equity	At fair value through profit or loss
ASSETS						
Other non-current assets	4					
Other investments in equity instruments		AVS	5,471	-	5,471	-
Loans		L&R	6,701	6,701	-	-
Other financial investments		L&R/HTM (**)	34,603	34,603	-	-
Trade receivables	7	**L&R**	**1,032,065**	**1,032,265**	**-**	**-**
Derivatives - assets	8					
Hedging financial instruments		CFH	158,227	-	108,048	50,179
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	9	**L&R**	**142,753**	**142,753**	**-**	**-**
Cash and cash equivalents	10	**A-FVTPL**	**912,478**	**-**	**-**	**912,478**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Bank loans and other borrowings (***) (*****)	15	**AC-EIR**	**544,630**	**544,630**	**-**	**-**
Other		AC-EIR	10,430	10,430	-	-
Overdrafts and other short-term bank borrowings (****) (*****)	15	**AC-EIR**	**115,028**	**115,028**	**-**	**-**
Trade payables		**AC**	**671,900**	**671,900**	**-**	**-**
Derivatives - liabilities	8					
Hedging financial instruments		CFH	22,614	-	2,169	20,445
Speculative financial instruments		L-FVTPL	5,497	-	-	5,497
Other current liabilities	18	**AC**	**292,762**	**292,762**	**-**	**-**

(*) A - FVTPL Financial assets measured at fair value through profit or loss
HTM Held-to-maturity investments
L & R Loans and receivables
AVS Available-for-sale financial assets
CFH Cash flow hedge
L - FVTPL Financial liabilities measured at fair value through profit or loss
AC Amortized cost
AC - EIR Amortized cost according to the effective interest rate method

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

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

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

(*****) Variable rate borrowings for which interest rate swaps have been entered into are accounted for in accordance with the cash flow hedge method. Changes in the fair value of swaps, linked to movements in interest rates, are recognized in shareholders' equity to the extent that they are effective, with the ineffective portion being recognized in financial income (loss).

2006	Note	Category (*)	Carrying amount at 31/12/2006	Amortized cost	At fair value through equity	At fair value through profit or loss
ASSETS						
Other non-current assets	4					
Other investments in equity instruments		AVS	5,561	-	5,561	-
Loans		L&R	7,985	7,985	-	-
Other financial investments		L&R/HTM (**)	29,886	29,886	-	-
Trade receivables	7	**L&R**	**1,001,982**	**1,001,982**	**-**	**-**
Derivatives - assets	8					
Hedging financial instruments		CFH	91,043	-	66,255	24,788
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	9	**L&R**	**111,928**	**111,928**	**-**	**-**
Cash and cash equivalents	10	**A-FVTPL**	**889,323**	**-**	**-**	**889,323**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Bank loans and other borrowings (***) (*****)	15	**AC-EIR**	**494,036**	**494,036**	**-**	**-**
Other		AC-EIR	8,117	8,117	-	-
Overdrafts and other short-term bank borrowings (****) (*****)	15	**AC-EIR**	**345,737**	**345,737**	**-**	**-**
Trade payables		**AC**	**602,334**	**602,334**	**-**	**-**
Derivatives - liabilities	8					
Hedging financial instruments		CFH	25,525	-	519	25,006
Speculative financial instruments		L-FVTPL	622	-	-	622
Other current liabilities	18	**AC**	**263,401**	**263,401**	**-**	**-**

(*) A - FVTPL Financial assets measured at fair value through profit or loss
HTM Held-to-maturity investments
L & R Loans and receivables
AVS Available-for-sale financial assets
CFH Cash flow hedge
L - FVTPL Financial liabilities measured at fair value through profit or loss
AC Amortized cost
AC - EIR Amortized cost according to the effective interest rate method

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

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

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

(*****) Variable rate borrowings for which interest rate swaps have been entered into are accounted for in accordance with the cash flow hedge method. Changes in the fair value of swaps, linked to movements in interest rates, are recognized in shareholders' equity to the extent that they are effective, with the ineffective portion being recognized in financial income (loss).

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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 31/12/2005	**6,775**	**75,499**	**5,433**	**3,316**	**25,862**	**116,885**
Impact of changes in exchange rates	-22	-201	-262	-266	-336	-1,087
Transfer to assets held for sale (Note 11)	-33	-1,970		-2,171	-9,231	-13,405
Other movements	1,103	-20,115	1,094	7,538	19,915	9,535
At 31/12/2006	**7,823**	**53,213**	**6,265**	**8,417**	**36,210**	**111,928**
Impact of changes in exchange rates	51	38	-250	248	481	568
Other movements	-600	10,664	4,102	6,900	9,191	30,257
At 31/12/2007	**7,274**	**63,915**	**10,117**	**15,565**	**45,882**	**142,753**
Impact of changes in exchange rates	-236	-835	80	-1,867	-2,353	-5,211
Other movements	2,840	8,432	1,480	22,922	27,332	63,006
At 31/12/2008	**9,878**	**71,512**	**11,677**	**36,620**	**70,861**	**200,548**

In 2006, changes in "Receivables re taxes excluding income taxes" are mainly due to the reclassification of payments on account as a reduction of the corresponding tax liabilities on the liabilities side of the balance sheet (Note 18).

Note 10 Cash and cash equivalents

	Marketable securities (gross)	Cash	Total
At 31/12/2005	**399,972**	**141,306**	**541,278**
Impact of changes in exchange rates	-6,640	-9,328	-15,968
Other movements	238,764	126,294	365,058
Sub-total	**632,096**	**258,272**	**890,368**
Transfer to assets held for sale (Note 11)		-1,045	-1,045
At 31/12/2006	**632,096**	**257,227**	**889,323**
Impact of changes in exchange rates	10,170	-10,362	-192
Other movements	-4 ,352	27,699	23,347
At 31/12/2007	**637,914**	**274,564**	**912,478**
Impact of changes in exchange rates	-30,577	-4,255	-34,832
Other movements	-323,967	-25,533	-349,500
At 31/12/2008	**283,370**	**244,776**	**528,146**

"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), risk-free and have a low level of volatility.

Note 11 Business combinations

2008

The cost of acquisitions by the Vallourec Group during 2008 totalled €541.4 million including €520 million in respect of the acquisition of the tubular businesses of Grant Prideco in the United States.

The intangible assets of V & M Atlas Bradford, V & M Tube Alloy and V & M TCA, which were valued by independent experts on 16 May 2008, are amortized as follows:

- brands and patents: over periods of between 7 and 15 years;
- order book: over periods of between 5 and 9 months;
- technology and know how: over periods of between 5 and 25 years;
- customer relations: over periods of between 6 and 14 years.

Goodwill represents the difference between the acquisition price and the fair value on the acquisition date of the identifiable assets and liabilities. The Group has a period of 12 months to finalize the measurement of said assets and liabilities. They will be tested for impairment at the level of the V & M North America CGU.

The table below shows the impact of this acquisition on the Group's assets and liabilities:

	Note	At 16 May 2008
Intangible assets	1	238,805
Property, plant and equipment	2	45,336
Goodwill	1	198,429
Inventories	6	26,878
Trade receivables	7	17,391
Cash and cash equivalents		8
Other assets		39
TOTAL ASSETS		**526,886**
Trade payables		4,742
Social security liabilities		1,621
Tax liabilities		217
Other operating liabilities		311
TOTAL LIABILITIES		**6,891**
CONSIDERATION PAID IN CASH		**519,995**

Customer relations constitute the main component of intangible assets.

These three companies have been fully consolidated into the Group's financial statements as from 16 May 2008.

They had 643 employees at 31 December 2008 and have, since their acquisition, contributed €147.5 million to the Group's sales and €17.2 million to the Group's pre-tax income.

If these companies had been acquired on 1 January 2008, they would have contributed €206.3 million to the Group's sales.

2007

On 2 July 2007, Salzgitter and Vallourec signed the definitive agreement regarding the sale of Vallourec Précision Étirage (VPE) and the hot-rolling tube mill in Zeithain (Saxony) which had been announced on 13 December 2006. The assets and liabilities concerned were shown as assets held for sale at the end of 2006. At 31 December 2006, these assets were measured at their carrying amount, which was not less than their fair value less costs to sell.

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	Note	At 31 December 2006
Assets held for sale		
Intangible assets		301
Property, plant and equipment	2	53,932
Inventories	6	53,798
Accounts receivable	7	50,713
Cash and cash equivalents		1,045
Other assets	4, 8 & 9	15,789
TOTAL		**175,578**
Liabilities held for sale		
Employee benefits	17	11,622
Deferred taxes	5	6,286
Provisions	16	2,482
Borrowings	15	13,226
Trade payables		25,919
Other liabilities	8 & 18	18,347
TOTAL		**77,882**
NET ASSETS HELD FOR SALE		**97,696**

Note 12 Shareholders' equity

Capital

Vallourec's share capital comprised 53,788,716 ordinary shares with a nominal value of €4 per share fully paid-up as at 31 December 2008 compared with 53,038,720 shares with a nominal value of €4 per share fully-paid up as at 31 December 2007.

On 16 December 2008, under the terms of the Value 08 employee share ownership plan, 749,996 new shares were subscribed at a price of €65.99, giving an increase of €47,783 thousand, including issue premium net of costs.

As regards the management of its capital, the Group's aim is to remain a going concern, in order to earn a return for its shareholders, to generate profits for its other partners and to maintain an optimal capital structure in order to reduce its cost of capital.

The Group's policy is to maintain a sound capital base, in order to retain the confidence of its investors, creditors and the market and to sustain the future development of its business.

The Group uses various indicators, including gearing (net debt/ shareholders' equity), which give investors an understanding of the Group's net debt in relation to its total shareholders' equity. Shareholders' equity for this purpose includes, in particular, the reserve for changes in the value of cash flow hedges and the translation reserve of companies outside the eurozone.

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 shareholders' equity;
- 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 shareholders' equity.

Translation reserve

The translation reserve arises as a result of the translation of the shareholders' equity of subsidiaries outside the euro zone. The movement in the reserve corresponds to changes in exchange rates used to translate the shareholders' equity and income or loss for the year 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 31/12/2006	**-26,847**	**897**	**30,795**	**-2,668**	**-1,543**	**634**
Movements	-45,725	-5,174	31,003	-3,338	-1,438	-24,672
At 31/12/2007	**-72,572**	**-4,277**	**61,798**	**-6,006**	**-2,981**	**-24,038**
Movements	44,887	-12,203	-136,173	-7,240	3,686	-107,043
At 31/12/2008	**-27,685**	**-16,480**	**-74,375**	**-13,246**	**705**	**-131,081**

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
2006				
Average rate	1.26	0.68	2.73	13.69
Closing rate	1.32	0.67	2.81	14.23
2007				
Average rate	1.37	0.68	2.66	14.96
Closing rate	1.47	0.73	2.60	16.07
2008				
Average rate	**1.47**	**0.80**	**2.67**	**16.29**
Closing rate	**1.39**	**0.95**	**3.24**	**19.23**

Note 13 Earnings per share

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

Diluted earnings per share are calculated by dividing the net income for the financial year attributable to the ordinary shareholders by the weighted average number of ordinary shares in issue during the financial year (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	2006	2007	**2008**
Net income attributable to the ordinary shareholders for basic earnings per share	**917,005**	**986,204**	**967,191**
Weighted average number of ordinary shares for basic earnings per share	53,005,890	53,034,478	53,069,970
Weighted average number of own shares for basic earnings per share	-1,348,745	-825,444	-143,317
Weighted average number of shares for basic earnings per share	51,657,145	52,209,034	52,926,653
Earnings per share	**17.8**	**18.9**	**18.3**
Dilution effect - share purchase and share subscription options and performance shares	1,132,572	332,131	159,497
Adjusted weighted average number of ordinary shares for diluted earnings per share	52,789,717	52,541,165	53,086,150
Diluted earnings per share	**17.4**	**18.8**	**18.2**

Dividends paid during the year	2006	2007	**2008**
In respect of the previous period	1.44	4.00	7.00
Interim dividend in respect of the current period	2.00	4.00	-

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Note 14 Minority interests

	Reserves	Translation difference	Net income	Total
At 31/12/2006	14,286	-3,757	82,290	92,819
At 31/12/2007	54,510	-10,876	38,258	81,892
At 31/12/2008	**47,466**	**-5,795**	**57,500**	**99,171**

Since 31 December 2006, following the acquisition from Timet of its 43.7% interest in Valtimet, minority interests have related largely to the Sumitomo group.

Note 15 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 shareholders' 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 31 December 2008, a tranche of €260 million (included in non-current liabilities) and a tranche of USD 150 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 €98 million) was spread among several banks (mainly BNDES and BDMG).

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. Each of these lines was renewed for an additional year (new maturity: 2013).

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 31 December 2008, Vallourec was using the USD 300 million (€215.6 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.

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 31/12/2005	**469,272**	**355**	**469,627**
New borrowings taken out	21,398	193	21,591
Repayments	-22,600	-571	-23,171
Reclassifications	-5,578	1,791	-3,787
Impact of changes in exchange rates	-1,364	-5	-1,369
Changes in consolidation scope	3,484	1,380	4,864
Other movements	-	-300	-300
Sub-total	**464,612**	**2,843**	**467,455**
Transfer to liabilities held for sale (Note 11)	-26		-26
At 31/12/2006	**464,586**	**2,843**	**467,429**
New borrowings taken out	34,591	133	34,724
Repayments	-1,876	-1,039	-2,915
Reclassifications	-166,146	-	-166,146
Impact of changes in exchange rates	4,204	-3	4,201
Changes in consolidation scope	-	-3,713	-3,713
Other movements	-	3,667	3,667
At 31/12/2007	**335,359**	**1,888**	**337,247**
New borrowings taken out	352,997		352,997
Repayments	-675	-478	-1,153
Reclassifications	-25,550		-25,550
Impact of changes in exchange rates	-13,393		-13,393
Other movements		78	78
At 31/12/2008	**648,738**	**1,488**	**650,226**

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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 31/12/2005	**235,401**	**41**	**38,626**	**1,272**	**997**	**276,337**
Reclassifications	-	-	5,578	-	-	5,578
Impact of changes in exchange rates	-4,003	-	-952	-1	-12	-4,968
Changes in consolidation scope	-2,174	-	481	-	-	-1,693
Other movements	129,598	51	-15,512	-19	4,289	118,407
Sub-total	**358,822**	**92**	**28,221**	**1,252**	**5,274**	**393,661**
Transfer to liabilities held for sale (Note 11)	-13,127	-50	-23			-13,200
At 31/12/2006	**345,695**	**42**	**28,198**	**1,252**	**5,274**	**380,461**
Reclassifications	-	-	166,149	-	-	166,149
Impact of changes in exchange rates	6,400	-1	183	-	-251	6,331
Changes in consolidation scope	-17,518	-31	-	-46	-3618	-21,213
Other movements	-219,579	20	14,000	-465	7,137	-198,887
At 31/12/2007	**114,998**	**30**	**208,530**	**741**	**8,542**	**332,841**
Reclassifications		-	25,550	-	-	25,550
Impact of changes in exchange rates	-28,089	-	-5,208	2	995	-32,300
Other movements	57,665	29	-161,081	2,216	-488	-101,659
At 31/12/2008	**144,574**	**59**	**67,791**	**2,959**	**9,049**	**224,432**

Indebtedness by currency

	USD	EUR	REAL	Others	Total
At 31/12/2006 - *currency thousand*	189,346	624,583	191,519	n/a	n/a
At 31/12/2006 - *€ thousand*	143,771	624,583	68,098	11,437	847,889
At 31/12/2007 - *currency thousand*	78,804	428,800	441,057	n/a	n/a
At 31/12/2007 - *€ thousand*	53,532	428,800	169,520	18,236	670,088
At 31/12/2008 - *currency thousand*	**670,195**	**279,269**	**258,194**	**n/a**	**n/a**
At 31/12/2008 - *€ thousand*	**481,566**	**279,269**	**79,601**	**34,222**	**874,658**

Breakdown by maturity of non-current bank loans and other borrowings (due in over one year)

	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
At 31/12/2006	159,433	10,202	9,143	8,576	280,074	467,428
At 31/12/2007	13,770	17,662	14,621	278,001	13,193	337,247
At 31/12/2008	**18,697**	**17,657**	**270,652**	**332,411**	**10,809**	**650,226**

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 (financial liabilities)	4,170	19,831	24,001
Bank overdrafts (other liabilities)	403	120,229	120,632
At 31/12/2008	**22,687**	**201,744**	**224,432**

The amount of €120.2 million corresponds to current financing of V & M do Brasil's exports.

The Group is not able to provide this information in respect of earlier years.

Indebtedness 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 31/12/2006	**Rate < 3%**	**Rate 3% to 6%**	**Rate 6% to 10%**	**Rate > 10%**	**Total**
Fixed rates	2,588	411,280	19,779	10,086	443,733
Variable rates	3,618	7,814	32,448	13,287	57,167
TOTAL	**6,206**	**419,094**	**52,227**	**23,373**	**500,900**
At 31/12/2007	**Rate < 3%**	**Rate 3% to 6%**	**Rate 6% to 10%**	**Rate > 10%**	**Total**
Fixed rates	1,845	435,959	42,301	788	480,893
Variable rates		6,727	44,713	21,986	73,426
TOTAL	**1,845**	**442,686**	**87,014**	**22,774**	**554,319**
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**

The information provided in respect of the years ended 31 December 2006 and 31 December 2007 included only the debt due in over one year at the outset.

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

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Note 16 Provisions

Non-current liabilities	Provisions for environmental risks
At 31/12/2005	**4,307**
Allocations for the year	216
Provisions used	-2,056
Impact of changes in exchange rates	-107
Other	1,217
At 31/12/2006	**3,577**
Allocations for the year	3,396
Provisions used	-343
Impact of changes in exchange rates	252
Other	-
At 31/12/2007	**6,882**
Allocations for the year	4,424
Provisions used	-2,900
Impact of changes in exchange rates	-1469
Other	
At 31/12/2008	**6,937**

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 31/12/2005	**18,586**	**3,339**	**2,492**	**29,059**	**13,008**	**66,484**
Allocations for the year	12,858	5,130	2	9,012	17,723	44,725
Provisions used	-10,231	-1,511	-1,361	-310	-5,306	-18,719
Other reversals	-2,424	-	-279	-6,454	-1,859	-11,016
Impact of changes in exchange rates	-288	-1	-	-796	-100	-1,185
Transfer to liabilities held for sale (Note 11)	-566	-1,333	-535	-	-48	-2,482
Other	-189	-199	-	626	-525	-287
At 31/12/2006	**17,746**	**5,425**	**319**	**31,137**	**22,893**	**77,520**
Allocations for the year	20,508	2,266	-	3,840	10,887	37,501
Provisions used	-13,691	-2,854	-18	-4,507	-6,348	-27,418
Other reversals	-1,418	-	-		-22	-1,440
Impact of changes in exchange rates	415	5	-	2,458	214	3,092
Changes in consolidation scope	2,259	55	-		-2,302	12
Other	-394	-40	-	2	-8,730	-9,162
At 31/12/2007	**25,425**	**4,857**	**301**	**32,930**	**16,592**	**80,105**
Allocations for the year	35,691	4,804		6,063	10,944	57,502
Provisions used	-16,935	-4,342	-16	-514	-7,159	-28,966
Other reversals	-2,508			-3,084	-31	-5,623
Impact of changes in exchange rates	-1,171	-61		-6,765	-1,819	-9,816
Other	-802	1,427			-634	-9
At 31/12/2008	**39,700**	**6,685**	**285**	**28,630**	**17,893**	**93,193**

Reorganization measures

In its financial statements for the year ended 31 December 2004, Vallourec Précision Étirage (VPE) booked a provision in respect of its legal and contractual obligations regarding the closure of the Laigneville site. Most of this expenditure was incurred in 2005 and 2006. VPE was sold in 2007.

Provision for tax risks

This provision mainly relates to risks in connection with tax disputes in Brazil and has given rise to the payment of security deposits (see Note 4).

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 then improbable, no provision was booked in respect of it.

Other current provisions

This heading comprises various provisions in respect of risks on disposals, penalties for delays, disputes with employees and other risks identified at the balance sheet date.

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Note 17 Employee benefits

	Germany	France	United Kingdom	Other	Total
At 31/12/2006					
Discounted value of the commitment	**170,156**	**42,305**	**91,900**	**23,108**	**327,469**
Retirement	141,329	36,285	91,900	19,553	289,067
Early retirement commitments	15,375	964	-	-	16,339
Long-service awards and medical benefits	13,452	5,056	-	3,556	22,064
Fair value of the plan assets	-	-1,796	-71,830	-6,956	-80,582
Past service costs not recognized	-	-3,136	-	-	-3,136
Actuarial gains and losses not recognized	-15,110	-2,666	-13,086	-6,027	-36,889
Transfer to liabilities held for sale (Note 11)	-4,964	-6,658	-	-	-11,622
Provision	**150,082**	**28,049**	**6,984**	**10,126**	**195,241**
At 31/12/2007					
Discounted value of the commitment	**165,106**	**31,032**	**85,847**	**24,008**	**305,993**
Retirement	141,735	27,502	85,847	19,996	275,080
Early retirement commitments	11,207	158	-	-	11,365
Long-service awards and medical benefits	12,164	3,372	-	4,012	19,548
Fair value of the plan assets	-30,000	-2,078	-75,660	-7,906	-115,644
Past service costs not recognized	-291	-2,875	-	-	-3,166
Actuarial gains and losses not recognized	-5,787	-948	-7,902	-4,348	-18,985
Changes in consolidation scope and other	-	45	-	-	45
Provision	**129,028**	**25,176**	**2,285**	**11,754**	**168,243**
At 31/12/2008					
Discounted value of the commitment	**162,734**	**30,153**	**61,584**	**25,815**	**280,286**
Retirement	140,721	26,748	61,584	22,299	251,352
Early retirement commitments	9,801	20	-		9,821
Long-service awards and medical benefits	12,212	3,385	-	3,516	19,113
Fair value of the plan assets	-51,314	-2,557	-52,383	-6,320	-112,574
Past service costs not recognized	-202	-2,798			-3,000
Actuarial gains and losses not recognized	-225	520	-11,102	-7,338	-18,145
Provision	**110,993**	**25,318**	**-1,901**	**12,157**	**146,567**

The main actuarial assumptions used to measure the commitments of post-employment benefit schemes, given the duration of the schemes, are as follows:

Main actuarial assumptions	Germany	France	United Kingdom	Other
At 31/12/2006				
Discount rate	4.50%	4.25%	5.25%	between 4.00% and 8.12%
Long-term return on plan assets	n/a	4.50%	6.50%	between 5.00% and 8.12%
Rate of salary increase	2.75%	2.75%	4.25%	between 3.22% and 5.10%
At 31/12/2007				
Discount rate	5.36%	5.15%	5.75%	between 4.00% and 8.12%
Long-term return on plan assets	5.70%	4.90%	6.50%	between 5.00% and 8.12%
Rate of salary increase	2.75%	3.00%	4.50%	between 3.22% and 3.50%
At 31/12/2008				
Discount rate	6.20%	6.20%	6.25%	between 6.21% and 10.24%
Long-term return on plan assets	5.70%	4.00%	6.50%	between 8.50% and 10.24%
Rate of salary increase	2.75%	2.75%	4.25%	between 3.50% and 5.25%

The Vallourec Group participates in the financing of additional retirement schemes or other long-term benefits for its employees, in accordance with custom or legal requirements.

Some of these schemes are defined benefit schemes and the Group has thereby entered into a long-term commitment towards its employees.

In 2003, an exhaustive review was carried out of the defined benefit schemes in respect of all companies within the consolidation scope. No significant amendments have been made to these schemes during subsequent periods.

The commitments not recognized in the balance sheet (mainly actuarial surpluses and deficits) correspond to changes in or the non-crystallization of assumptions, the effect of which is amortized over time using the "corridor" method. However, when preparing the opening IFRS balance sheet as at 1 January 2004, the Vallourec Group decided to recognize all actuarial gains and losses on that date as a reduction in shareholders' equity. Material unrecognized actuarial surpluses and deficits are amortized over the employees' expected remaining period of service in accordance with the corridor method as described in IAS 19 (Germany: 13 years, France: 14 years, United Kingdom: 18 years). The amortization begins in the financial year following the year in which the surpluses and deficits are ascertained.

For 2006, 2007 and 2008:

- the value of payments into the plans was €10,761 thousand in 2006, €40,053 thousand in 2007 and €27,708 thousand in 2008;
- the return on plan investments was €7,190 thousand in 2006, €6,210 thousand in 2007 and € -11,419 thousand in 2008.

The commitments are measured by actuaries independent of the Group. The assumptions used take account of the specific characteristics of the schemes and companies concerned.

The experience variances generated during 2008 for the Group totalled €17.6 million (€3.5 million in 2007 and €10.2 million in 2006).

The Group envisages paying in 2009 an amount of €30.9 million in respect of defined benefit schemes, including €18.9 million in respect of German schemes, €5.2 million in respect of UK schemes and €0.4 million in respect of Brazilian schemes.

Those schemes which are fully or partially outsourced represented a total commitment of €218,884 thousand at 31 December 2008 for assets of €112,574 thousand.

In 2008, a general increase in the discount rates resulted in an overall reduction in commitments generating material actuarial gains. Only the United States used a discount rate lower than that used for 2007 due to very significant downward movements at the end of the year. The plan assets have suffered major losses (around €19 thousand).

France

Commitments in France correspond mainly to retirement gratuities and long-service award schemes.

At 31 December 2008 a sensitivity test was carried out on the retirement gratuities and long-service awards: a 1% change in the discount rate would result in a change of about €2.1 million in these commitments.

On 14 September 2005, an additional retirement scheme with its own plan assets was set up for senior management. At the end of 2006 a contribution of €407 thousand was made to outsource the scheme to an insurance company. Since this is a defined benefit scheme, it is measured on an actuarial basis and recognized in accordance with IAS 19 in the case of active employees. As a result of the amortization of past service costs, this scheme has generated a surplus of around €160 thousand (€406 thousand in 2007), which is recognized in the balance sheet since it represents an actual future saving for the Group. The past service cost not recognized amounted to €2,798 thousand at 31 December 2008, €2,875 thousand at 31 December 2007 and €3,136 thousand at 31 December 2006.

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Germany

The Group's employees in Germany benefit from a variety of schemes (retirement, deferred compensation, long-service awards and early retirement) which constitute long-term commitments for the Group.

A sensitivity test was carried out on the main German pension plans: a 1% change in the discount rate would result in a change of about €14.4 million in these commitments.

In 2007, one of the schemes was amended, which resulted in a €7,866 thousand increase in the Group's commitments. Most of these commitments correspond to vested rights, of which €7,575 thousand was recognized immediately. The balance will be recognized over the rights vesting period.

In 2007, a €30 million exceptional contribution was paid to a financial institution to cover the Group's commitments in Germany. The Group continued the outsourcing process in 2008 with an additional contribution of €20 million paid to a financial institution.

A new scheme was introduced in 2008, which involves a deferred salary with a supplementary contribution by the employer and a guaranteed rate of return. Past service is not relevant in the case of this scheme.

United Kingdom

The Group participates in the financing of a defined benefit pension scheme for Group employees. The commitments are carried off-balance sheet and managed by leading institutions in the financial markets.

Following the payment of a significant capital sum to finance the scheme, the Group recognized an asset in its financial statements (€1.9 thousand) even though the commitment continued to exceed the plan assets. Local actuaries confirmed that the criteria required for an asset to be recognized have been met.

A sensitivity test was carried out on this plan: a 1% change in the discount rate would result in a change of about €13 million in these commitments.

In respect of the financial year 2008, the actuarial loss totalled €15,993 thousand and corresponded to the variance between the expected return (€4,684 thousand) and the actual return (€ -11,309 thousand). The actuarial loss was not recognized in the balance sheet but was included within the actuarial gains and losses being amortized.

Brazil

In Brazil, the employer participates in the financing of retirement gratuities and long-service awards. The retirement gratuities are partially carried off balance sheet in a pension fund with total assets of €501 thousand at 31 December 2006, €802 thousand at 31 December 2007 and €685 thousand at 31 December 2008. The amounts paid into the fund totalled €712 thousand in 2006, €521 thousand in 2007 and €461 thousand in 2008.

No events occurred during 2008 which would have a material impact on the Group's commitments.

Mexico

Mexico was not one of the countries included in the review as at 31 December 2004 since local standards were considered to be similar to IFRS and any restatement deemed not material. In 2005, measurements in accordance with IAS 19 were carried out. The Group's commitments in Mexico, which amounted to €519 thousand in 2008, €513 thousand in 2007 and €483 thousand in 2006, correspond mainly to retirement gratuities, which are partially financed.

No events occurred during 2008 which would have a material impact on the Group's commitments.

United States

There is a retirement scheme under which benefits are not linked to salary.

As regards the assumption concerning the increase in medical benefits, the rate used will reduce successively from 2005 to 2012 and then be fixed beyond 2012, i.e. from 10.4% to 5.9% for active employees and from 12.2% to 6.5% for retired employees.

The charge for retirement commitments was amended, taking into account the assumption concerning medical benefits that the rate used will reduce successively from 2006 to 2013 and then remain stable beyond 2013, i.e. from 9% to 5% for active employees and from 10.5% to 5.5% for retired employees.

The mortality tables were amended at the end of 2006, resulting in an increase in commitments of around €1 million.

No significant events occurred during 2007 or 2008 which would have a material impact on the Group's commitments.

Other countries

Provisions are made in respect of commitments in other countries in accordance with local standards. They are judged to be not material at Group level.

The charges recognized during the year comprise additional rights acquired in respect of an additional year's service, the change in rights existing at the beginning of the year 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 now 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 year:	Germany	France	United Kingdom	Other	Total
At 31/12/2006					
Cost of services rendered	5,158	1,786	2,319	2,088	11,351
Interest charges on the commitment	7,013	1,488	4,040	1,254	13,795
Expected return on plan assets	-	-57	-3,939	-398	-4,394
Net actuarial gains/losses recognized during the period	-523	984	408	615	1,484
Past service costs	-	149	-	2	151
Impact of any reduction or liquidation	-	-	-	-	-
Net charge recognized	**11,648**	**4,350**	**2,828**	**3,561**	**22,387**
Actual return on plan assets	**-**	**108**	**6,533**	**549**	**7,190**
At 31/12/2007					
Cost of services rendered	3,400	1,616	2,664	1,880	9,560
Interest charges on the commitment	7,101	1,583	4,666	1,283	14,633
Expected return on plan assets	-	-77	-4,755	-582	-5,414
Net actuarial gains/losses recognized during the period	960	-2	212	1,118	2,288
Past service costs	7,575	-	-	-	7,575
Impact of any reduction or liquidation	-	-9	-	-	-9
Net charge recognized	**19,036**	**3,111**	**2,787**	**3,699**	**28,633**
Actual return on plan assets	**-**	**81**	**5,646**	**483**	**6,210**
At 31/12/2008					
Cost of services rendered	4,839	1,326	2,003	1,774	9,942
Interest charges on the commitment	8,190	1,590	4,488	1,484	15,752
Expected return on plan assets	-1,710	-102	-4,684	-705	-7,201
Net actuarial gains/losses recognized during the period	858	-235	-	324	947
Past service costs	88	458	-	114	660
Impact of any reduction or liquidation	-	-3	-	-	-3
Net charge recognized	**12,265**	**3,034**	**1,807**	**2,991**	**20,097**
Actual return on plan assets	**1,314**	**19**	**-11,308**	**-1,967**	**-11,942**

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The following table provides a breakdown of commitments not recognized (actuarial gains and losses and past service costs):

	Germany	France	United Kingdom	Other	Total
Commitments not recognized at 31/12/2005 - Losses/(Gains)	20,433	4,324	15,875	5,877	46,509
Commitments not recognized at 31/12/2006 - Losses/(Gains)	15,110	5,802	13,086	6,027	40,025
Change	**-5,323**	**1,478**	**-2,789**	**150**	**-6,484**
Amortization of commitments not recognized during the year (Losses)/Gains	-523	984	408	615	1,484
Commitments not recognized generated during the year - experience adjustments	615	-2,244	-7,461	-1,106	-10,196
Commitments not recognized generated during the year - changes in assumptions	5,233	-122	10,122	-200	15,033
Exchange gains or losses and other	-2	-96	-280	541	163
	5,323	**-1,478**	**2,789**	**-150**	**6,484**

	Germany	France	United Kingdom	Other	Total
Commitments not recognized at 31/12/2006 - Losses/(Gains)	15,110	5,802	13,086	6,027	40,025
Commitments not recognized at 31/12/2007 - Losses/(Gains)	5,496	4,325	7,902	4,931	22,654
Change	**-9,614**	**-1,477**	**-5,184**	**-1,096**	**-17,371**
Amortization of commitments not recognized during the year (Losses)/Gains	960	-2	212	1,118	2,288
Commitments not recognized generated during the year - experience adjustments	-3,435	-661	76	477	-3,543
Commitments not recognized generated during the year - changes in assumptions	11,447	2,124	4,084		17,655
Exchange gains or losses and other	642	16	812	-499	971
	9,614	**1,477**	**5,184**	**1,096**	**17,371**

	Germany	France	United Kingdom	Other	Total
Commitments not recognized at 31/12/2007 - Losses/(Gains)	5,496	4,325	7,902	4,931	22,654
Commitments not recognized at 31/12/2008 - Losses/(Gains)	427	2,278	11,102	7,338	21,145
Change	**-5,069**	**-2,047**	**3,200**	**2,407**	**-1,509**
Amortization of commitments not recognized during the year (Losses)/Gains		-235		324	89
Commitments not recognized generated during the year - experience adjustments	72	-826	-14,767	-2,486	-18,007
Commitments not recognized generated during the year - changes in assumptions	4,634	2,413	8,709	-1,061	14,695
Exchange gains or losses and other	363	695	2,858	816	4,732
	5,069	**2,047**	**-3,200**	**-2,407**	**1,509**

Actuarial losses linked to experience adjustments in the UK result mainly from losses arising on plan assets.

The changes in assets associated with these benefits are as follows:

Changes in associated assets	Germany	France	United Kingdom	Other	Total
Value of the assets	n/a	900	59,969	4,045	64,914
Return on assets	n/a	108	6,533	549	7,190
Additional benefits	n/a	407	6,547	3,807	10,761
Benefits paid	n/a	-88	-2,611	-912	-3,611
Acquisitions, disposals, liquidations	n/a	469	-	-	469
Impact of changes in exchange rates	n/a	-	1,392	-533	859
At 31/12/2006	**n/a**	**1,796**	**71,830**	**6,956**	**80,582**
Value of the assets	-	1,796	71,830	6,956	80,582
Return on assets	-	81	5,646	483	6,210
Additional benefits	30,000	466	7,824	1,763	40,053
Benefits paid	-	-294	-2,874	-243	-3,411
Acquisitions, disposals, liquidations	-	29	-	-	29
Impact of changes in exchange rates	-	-	-6,766	-1,053	-7,819
At 31/12/2007	**30,000**	**2,078**	**75,660**	**7,906**	**115,644**
Value of the assets	30,000	2,078	75,660	7,906	115,644
Return on assets	1,314	19	-11,308	-1,967	-11,942
Additional benefits	20,000	460	7,020	788	28,268
Benefits paid	-	-	-2,731	-532	-3,263
Acquisitions, disposals, liquidations	-	-	-	-	-
Impact of changes in exchange rates	-	-	-16,256	123	-16,133
At 31/12/2008	**51,314**	**2,557**	**52,385**	**6,318**	**112,574**

Changes in the commitment	Germany	France	United Kingdom	Other	Total
At 31/12/2005	**171,728**	**42,665**	**85,834**	**21,173**	**321,400**
Cost of services rendered	5,158	1,786	2,319	2,088	11,351
Interest charges on the commitment	7,013	1,488	4,040	1,254	13,795
Employee contributions	-	-	556	-	556
Actuarial gains and losses generated during the year	-5,847	2,415	-66	1,456	-2,042
Acquisitions/disposals	-	-219	-	-	-219
Payment of benefits	-7,896	-5,065	-2,611	-1,031	-16,603
Exchange rate differences	-	-	1,828	-1,692	136
Other	-	-765	-	-140	-905
At 31/12/2006	**170,156**	**42,305**	**91,900**	**23,108**	**327,469**

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Changes in the commitment	Germany	France	United Kingdom	Other	Total
At 31/12/2006	**170,156**	**42,305**	**91,900**	**23,108**	**327,469**
Cost of services rendered	3,400	1,616	2,664	1,880	9,560
Interest charges on the commitment	7,101	1,583	4,666	1,283	14,633
Employee contributions	-	-	633	-	633
Actuarial gains and losses generated during the year	-8,012	-1,473	-3,269	-895	-13,649
Acquisitions/disposals	-4,784	-9,941	-	-	-14,725
Payment of benefits	-10,060	-2,756	-2,874	-545	-16,235
Scheme amendments	7,866	-4	-	-	7,862
Exchange rate differences	-	-	-7,873	-617	-8,490
Other	-561	-298	-	-206	-1,065
At 31/12/2007	**165,106**	**31,032**	**85,847**	**24,008**	**305,993**

Changes in the commitment	Germany	France	United Kingdom	Other	Total
At 31/12/2007	**165,106**	**31,032**	**85,847**	**24,008**	**305,993**
Cost of services rendered	4,839	1,326	2,003	1,774	9,942
Interest charges on the commitment	8,190	1,590	4,488	1,484	15,752
Employee contributions	-	-	779	-	779
Actuarial gains and losses generated during the year	-5,101	-1,670	-9,934	1,033	-15,672
Acquisitions/disposals	-	-	-	-	
Payment of benefits	-10,300	-2,295	-2,731	-653	-15,979
Scheme amendments	-	216	-	-	216
Exchange rate differences	-	-	-18,868	-1,771	-20,639
Other	-	-		-106	-106
At 31/12/2008	**162,734**	**30,199**	**61,584**	**25,769**	**280,286**

The movements during the year in the net liabilities recognized in the balance sheet were as follows:

Change in the provision:	Germany	France	United Kingdom	Other	Total
Provision at 31/12/2005	**151,295**	**36,702**	**9,990**	**11,763**	**209,750**
Total charge for the period	11,648	4,350	2,828	3,561	22,387
Benefits or contributions to the funds	-7,897	-5,052	-5,991	-3,929	-22,869
Impact of changes in exchange rates	-	-	157	-758	-601
Transfer to liabilities held for sale (Note 11)	-4,964	-6,658	-	-	-11,622
Change in consolidation scope and other	-	-1,293	-	-511	-1,804
Provision at 31/12/2006	**150,082**	**28,049**	**6,984**	**10,126**	**195,241**
Total charge for the period	19,036	3,111	2,787	3,699	28,633
Benefits or contributions to the funds	-40,060	-3,225	-7,191	-2,058	-52,534
Impact of changes in exchange rates	-	-	-295	14	-281
Change in consolidation scope and other	-30	-2,759	-	-27	-2,816
Provision at 31/12/2007	**129,028**	**25,176**	**2,285**	**11,754**	**168,243**
Total charge for the period	12,265	3,034	1,807	2,991	20,097
Benefits or contributions to the funds	-30,300	-2,892	-6,186	-974	-40,352
Impact of changes in exchange rates	-	-	193	-1,614	-1,421
Change in consolidation scope and other	-	-	-	-	-
Provision/(Asset) at 31/12/2008	**110,993**	**25,318**	**-1,901**	**12,157**	**146,567**

The following table provides a breakdown of the plan assets:

United Kingdom	**31/12/2008**		31/12/2007		31/12/2006	
	Proportion	**Rate of return**	Proportion	Rate of return	Proportion	Rate of return
Equities (UK and Overseas)	60%	7.75%	63%	7.75%	63%	7.75%
Bonds	15%	5.30%	12%	4.87%	12%	5.25%
Property	0%	0.00%	0%	0.00%	0%	0.00%
Other (Cash & Index Linked Gilts)	25%	4.20%	25%	4.22%	25%	4.25%

United States	**31/12/2008**		31/12/2007		31/12/2006	
	Proportion	**Rate of return**	Proportion	Rate of return	Proportion	Rate of return
Equities	42%	9.00%	50%	9.00%	55%	10.00%
Bonds	50%	5.00%	40%	5.00%	34%	6.00%
Property	8%	9.00%	10%	9.00%	11%	10.00%
Other	0%	0.00%	0%	0.00%	0%	0.00%

France	31/12/2008		31/12/2007		31/12/2006	
	Proportion	**Rate of return**	Proportion	Rate of return	Proportion	Rate of return
Equities	0%	0.00%	0%	0.00%	0%	0.00%
Bonds	0%	0.00%	0%	0.00%	0%	0.00%
Property	0%	0.00%	0%	0.00%	0%	0.00%
Other	100%	4.00%	100%	4.50%	100%	4.00%

In Germany, the funds are invested in short-term, risk-free interest-bearing deposits.

Amounts written off as expenses in respect of defined contribution plans	Manual workers	Management and supervisory staff	Total
At 31/12/2006			
Employer's share of retirement contributions	7,652	11,077	18,729
Life insurance paid by the employer	928	1,385	2,313
Other retirement contributions	462	4	466
TOTAL	**9,042**	**12,466**	**21,508**
At 31/12/2007			
Employer's share of retirement contributions	6,993	10,202	17,195
Life insurance paid by the employer	802	1,206	2,008
Other retirement contributions	478	745	1,223
TOTAL	**8,273**	**12,153**	**20,426**
At 31/12/2008			
Employer's share of retirement contributions	5,019	10,010	15,029
Life insurance paid by the employer	1,008	1,339	2,347
Other retirement contributions	508	71	579
TOTAL	**6,535**	**11,420**	**17,955**

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 2000, 2007 and 2008 for the benefit of certain managers and corporate officers of the Vallourec Group.

The characteristics of these plans are as follows (the figures for the 2000 and 2003 plans 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):

	2000 Plan	2003 Plan	2007 Plan	**2008 Plan**
Date of Management Board decision	15/06/2000	15/06/2003	03/09/2007	01/09/2008
Maturity date	15/06/2004	11/06/2007	03/09/2011	01/09/2012
Expiry date	14/06/2007	10/06/2010	03/09/2014	01/09/2015
Number of beneficiaries at outset	144	148	65	9
Exercise price in euros	7.60	10.73	190.60	183.54
Exercise price in euros adjusted following rights offering on 13 July 2005	7.49	10.57	N/A	N/A
Number of options granted	892,500	965,000	147,300	71,800
Adjustment to the number of options following rights offering on 13 July 2005	13,392	14,480	N/A	N/A

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	2006	2007	**2008**
Total at start of year	1,006,600	996,390	184,414
Options distributed	-	147,300	71,800
Options exercised	(10,210)	(955,466)	(12,697)
Options not exercised at expiry date	-	(3,810)	-
Options cancelled (*)	-	-	(7,000)
Total at end of year	**996,390**	**184,414**	**236,517**
Of which options remaining to be exercised	30,660	37,114	24,417

(*) Beneficiaries who have left the Group.

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

	2006	2007	**2008**
2000 plan	30,660	-	-
2003 plan	965,730	37,114	24,417
2007 plan	-	147,300	140,300
2008 plan	-	-	71,800

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Measurement of plans (*)

In € thousand	2000 Plan (**)	2003 Plan	2007 Plan	**2008 Plan**
Charge for financial year 2006	-	912	-	-
Charge for financial year 2007	-	406	705	-
Charge for financial year 2008	-	-	2,912	711
Accumulated charge as at 31 December 2008	**-**	**1,318**	**3,617**	**711**
Assumptions				
Share price on grant date	-	€58.75	€198.00	€190.84
Volatility	-	41.75%	35.00%	35.00%
Risk-free rate	-	3.00%	4.20%	4.40%
Exercise price	-	€53.65	€190.60	€183.54
Dividend rate	-	2.72%	3.75%	3.50%
Fair value of the option	-	€18.69	€58.20	€63.57

(*) The binomial model of projecting share prices has been used to measure the fair value of the options granted.
(**) In accordance with the transitional provisions specifically laid down by IFRS 1 and IFRS 2, the Group has opted not to recognize the IFRS 2 charge relating to the 2000 share subscription plan.

Options granted to employees who were members of the Executive Committee as at 31 December

As at 31 December:		2000 Plan	2003 Plan	2007 Plan	**2008 Plan**
	Number of options granted	100,965	195,000	-	-
2006	Adjustment to number of options following rights offering	1,535	2,965	-	-
	Number of senior managers involved	7	7	-	-
	Number of options exercised	102,500	-	-	
	Number of options granted	81,265	175,000	60,000	-
2007	Adjustment to number of options following rights offering	1,235	2,660	-	-
	Number of senior managers involved	6	6	8	-
	Number of options exercised	82,500	177,660	-	-
	Number of options granted	-	118,745	38,000	68,000
2008	Adjustment to number of options following rights offering	-	1,805	-	-
	Number of senior managers involved	-	4	6	8
	Number of options exercised	-	120,550	-	-

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 2006, 2007 and 2008.

The characteristics of these plans are as follows (the figures for the 2006 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):

	2006 Plan (*)	2007 Plan (*)	**2008 Plan (***)**	**"Value 08" Plan**
Date of Management Board decision	16/01/2006	03/05/2007	01/09/2008	16/12/2008
Acquisition period	2 years	2, 3 and 4 years	2 and 3 years	4.5 years
Holding period	2 years	2 years	2 years	-
Number of beneficiaries at outset	199	280	41	8,697
Theoretical number of shares allocated	148,000	111,000	11,590	33,856

(*) The definitive allocation, in terms of numbers of shares, was based on the Vallourec Group's performance in terms of consolidated EBITDA in 2006 and 2007. It was 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 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 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 range 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:

	2006 Plan	2007 Plan	**2008 Plan**	**"Value 08" Plan**
Initial theoretical number of shares allocated	148,000	111,000	11,590	33,856
Number of shares cancelled	(700)	(2,200)	-	-
Number of shares acquired or being acquired if K=1	147,300	108,800	11,590	33,856
Number of shares delivered	188,853	-	-	-

Measurement of plans (*)

In € thousand	2006 Plan	2007 Plan	**2008 Plan**	**"Value 08" Plan**
Charge for financial year 2006	8,251	-	-	-
Charge for financial year 2007	7,202	5,429	-	-
Charge for financial year 2008	380	7,099	264	17
Accumulated charge as at 31 December 2008	**15,833**	**12,528**	**264**	**17**
Assumptions				
Share price on allocation date	€93.30	€198.50	€190.84	€82.15
Volatility	40%	40%	35%	40%
Risk-free rate	5%	4.40%	4.20%	3.03%
Dividend rate	2%	3%	3.5%	7.30%
Fair value of the share: tranche 1	€83.84	€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.

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Shares allocated to employees who were members of the Executive Committee as at 31 December

		2006 Plan	2007 Plan	**2008 Plan**	**"Value 08" Plan**
2006	Theoretical number of shares allocated	32,500	-	-	-
	Number of senior managers involved	7	-	-	-
	Number of shares acquired	-	-	-	-
2007	Theoretical number of shares allocated	30,000	8,400	-	-
	Number of senior managers involved	6	7	-	-
	Number of shares acquired	-	-	-	-
2008	Theoretical number of shares allocated	22,500	6,000	3,200	5
	Number of senior managers involved	5	5	3	1
	Number of shares acquired	28,845	-	-	-

Note 18 Other current liabilities

	Social security liabilities	Tax liabilities	Payables relating to the acquisition of non-current assets	Deferred income	Other current liabilities	Total
At 31/12/2005	**186,053**	**77,021**	**9,881**	**5,558**	**20,744**	**299,257**
Impact of changes in exchange rates	-3,590	-449	-18	-2	-733	-4,792
Transfer to liabilities held for sale (Note 11)	-15,145	-1,050	-1,281	-68	-507	-18,051
Other movements	9,789	-41,274	3,709	8,096	6,667	-13,013
At 31/12/2006	**177,107**	**34,248**	**12,291**	**13,584**	**26,171**	**263,401**
Impact of changes in exchange rates	248	116	-23	-56	-833	-548
Other movements	15,455	5,451	1,795	-5,452	12,660	29,909
At 31/12/2007	**192,810**	**39,815**	**14,063**	**8,076**	**37,998**	**292,762**
Impact of changes in exchange rates	-6,036	-3,134	-2,831	231	228	-11,542
Other movements	16,763	19,803	39,250	-1,293	33,885	108,408
At 31/12/2008	**203,537**	**56,484**	**50,482**	**7,014**	**72,111**	**389,628**

The movements in other current liabilities relate mainly to liabilities in respect of capital expenditure, dividends payable to minority shareholders and the reclassification of provisions as liabilities.

Note 19 Information on related parties

The following transactions were entered into with related parties:

	Sales to related parties	Purchases from related parties	Receivables due from related parties	Payables due to related parties
At 31/12/2006				
HKM	396	413,512	29	44,057
Rothschild & Cie	-	360	-	398
Timet Group	7,333	55,562	856	15,608
At 31/12/2007				
HKM	501	441,190	30	22,897
Rothschild & Cie	-	258	-	-
At 31/12/2008				
HKM	688	596,013	114	44,773
Rothschild & Cie	-	3,891	-	263

Purchases concern mainly the purchase of steel rounds from HKM, which is 30%-owned by the Salzgitter AG Group. These products are used as raw materials in the manufacturing processes of the European rolling mills of V & M Deutschland and V & M France.

The transactions carried out in 2006, 2007 and 2008 with Rothschild & Cie relate to the consultancy agreement to assist the Management Board.

In 2006, the transactions with the Timet Group represented mainly purchases of titanium coils used in the manufacture of welded tubes by Valtimet and its subsidiaries.

As regards Vallourec & Sumitomo Tubos do Brasil, which is proprotionately consolidated, it has total assets of €139.2 million and the Group did not carry out any significant transactions with this company in 2008 other than a capital investment of €120.5 million.

Supervisory Board and Management Board remuneration

The total attendance fees paid to those employees who were members of the Supervisory Board at 31 December of the year concerned were €395 thousand in 2008, €394 thousand in 2007 and €335 thousand in 2006.

The total remuneration paid to the Executive Committee (8 people in 2008, 7 people in 2007 and 9 people in 2006) and the retirement commitments and the year end were as follows:

	2006	2007	**2008**
Remuneration and benefits in kind	3,410	2,647	3,156
Share-based payments (*)			800
Retirement commitments	547	504	738
Supplementary pension commitments	1,806	2,988	4,054

(*) Information provided based on the 2008 performance share allocation, share option and employee share ownership plans.

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Share purchase or share subscription options (Note 17) granted to employees who were members of the Executive Committee as at 31 December of the year concerned

	2006	2007	2008
Subscription options granted on 15 June 2000 and exercisable between 15 June 2004 and 14 June 2007	102,500	82,500	-
Options exercised as at 31 December (1 option = 1 share) by the members of the Executive Committee	102,500	82,500	-
Number of shares subscribed during the year (1 option = 1 share) by the members of the Executive Committee	-	-	-
Number of options that could be exercised at 31 December	-	-	-
Purchase options granted on 15 June 2003 and exercisable between 11 June 2007 and 10 June 2010	197,965	177,660	120,550
Options exercised as at 31 December (1 option = 1 share) by the members of the Executive Committee	-	177,660	120,550
Number of shares subscribed during the year (1 option = 1 share) by the members of the Executive Committee	-	177,660	-
Number of options that could be exercised at 31 December	-	-	-
Subscription options granted on 3 September 2007 and exercisable between 3 September 2011 and 3 September 2014	-	60,000	38,000
Options exercised as at 31 December (1 option = 1 share) by the members of the Executive Committee	-	-	-
Number of shares subscribed during the year (1 option = 1 share) by the members of the Executive Committee	-	-	-
Number of options that could be exercised at 31 December	-	60,000	38,000
Subscription options granted on 1 September 2008 and exercisable between 1 September 2012 and 1 September 2015	-	-	68,000
Options exercised as at 31 December (1 option = 1 share) by the members of the Executive Committee	-	-	-
Number of shares subscribed during the year (1 option = 1 share) by the members of the Executive Committee	-	-	-
Number of options that could be exercised at 31 December	-	-	68,000

Performance shares (Note 17) allocated to employees who were members of the Executive Committee on 31 December of the year concerned

	2006	2007	2008
16 January 2006 Plan			
Theoretical number of shares allocated	32,500	30,000	22,500
Number of shares acquired during the year			28,845
3 May 2007 Plan			
Theoretical number of shares allocated	-	8,400	6,000
1 September 2008 Plan			
Theoretical number of shares allocated	-	-	3,200
16 December 2008 “Value 08” Plan			
Theoretical number of shares allocated	-	-	5

As regards retirement benefits granted to senior management, there is no specific scheme and they benefit from the Vallourec Group’s supplementary pension scheme (Article 39 type) introduced in 2005 (see Note 17).

As at 31 December 2008, no loans or guarantees had been granted to senior management by the parent company Vallourec or its subsidiaries.

Note 20 Off-balance-sheet commitments

Due to the nature of its business, V & M France was granted a greenhouse gas emission allowance for 2008. The allowances due in respect of the four-year period from 2009 to 2012 amount to 106,000 tonnes per year.

Commitments received

	2006	2007	**2008**
Firm non-current asset orders	N/A	N/A	457,846
Guarantees and commitments received	63,352	43,869	125,998
HKM supply contract	47,492	37,775	28,535
Other commitments received	56,474	92,302	70,526
TOTAL	**167,318**	**173,946**	**682,905**
Commitments given (excluding financial instruments)	**398,471**	**410,214**	**858,037**

Commitments given by maturity

	2006	One year or less	Over one year	Over five years
BALANCE SHEET				
Long-term borrowings	500,250	33,473	186,702	280,075
OFF-BALANCE SHEET				
Market guarantees and letters of credit given	99,571	67,333	30,546	1,692
Other security, mortgages and pledges given	136,033	19,956	23,576	92,501
Long-term leasing contract	37,846	6,406	18,704	12,736
HKM supply contract	47,492	17,270	30,222	-
Pensions and retirement gratuities (actuarial gains and losses)	39,697	N/A	N/A	39,697
Other commitments	37,832	33,019	292	4,521
TOTAL	**398,471**	**143,984**	**103,340**	**151,147**

	2007	One year or less	Over one year	Over five years
BALANCE SHEET				
Long-term borrowings	553,666	217,072	323,401	13,193
OFF-BALANCE SHEET				
Market guarantees and letters of credit given	130,383	96,140	34,028	215
Other security, mortgages and pledges given	35,859	4,748	8,493	22,618
Long-term leasing contract	34,322	5,393	20,176	8,753
HKM supply contract	37,775	21,586	16,189	-
Pensions and retirement gratuities (actuarial gains and losses)	23,062	N/A	N/A	23,062
Other commitments	148,813	58,755	899	89,159
TOTAL	**410,214**	**186,622**	**79,785**	**143,807**

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	2008	One year or less	Over one year	Over five years
BALANCE SHEET				
Long-term borrowings	726,415	76,841	639,417	10,157
OFF-BALANCE SHEET				
Market guarantees and letters of credit given	120,609	80,029	40,303	277
Other security, mortgages and pledges given	25,027	3,469	10,526	11,032
Long-term leasing contract	39,095	7,977	25,547	5,571
HKM supply contract	28,535	28,535	-	-
Pensions and retirement gratuities (actuarial gains and losses)	21,197	-	11,233	9,964
Firm non-current asset orders given	457,846	420,901	36,945	
Other commitments	165,728	39,858	73,847	52,023
TOTAL	**858,037**	**580,769**	**198,401**	**78,867**

V & M Tubes and its subsidiaries benefit from a contract to purchase tube rounds from the HKM (affiliated company) steel mill. In this connection, commitments to collect the agreed tonnage throughout the contract period are shown as an off-balance-sheet item. As a counterpart, HKM's commitment to deliver the tube rounds to the V & M Tubes Group is shown under commitments received.

The firm non-current asset orders relate mainly to Vallourec & Sumitomo Tubos do Brasil — the new state-of-the-art integrated pipe mill. The joint venture agreement signed by the two shareholders, Vallourec and Sumitomo, provides that each will benefit from an option to purchase the interest of the other shareholder in the event of a change of control of said other shareholder. The total investment is estimated at around USD 1.6 billion, with Vallourec's 56% interest totalling USD 890 million.

The main exchange rates used for income statement items are set out in Note 12.

(Income statement items are translated at the average rate).

Note 21 Sales

	2006	2007	2008
France	414,049	444,099	361,003
Germany	763,385	1,101,205	1,143,218
Other EU Member States	811,413	882,720	700,029
North America (NAFTA)	1,445,062	1,144,166	1,525,869
South America	598,798	786,034	935,910
Asia	1,174,443	1,284,169	1,318,921
Rest of the world	334,651	498,128	452,064
TOTAL	**5,541,801**	**6,140,521**	**6,437,014**

For the full year 2008, sales increased by 4.8% to €6,437 million (+ 6.3% on a comparable basis after adjusting 2007 sales to make them comparable with 2008 sales, the main adjustment relating to the sale of the precision tubes business to Salzgitter early in July 2007).

The contribution of V & M Atlas Bradford, V & M Tube Alloy and V & M TCA since their acquisition on 16 May 2008 amounted to €147.5 million.

Note 22 Other operating revenues

	2006	2007	**2008**
Fees for concessions and patents	17,069	19,939	19,661
Operating subsidies and other revenues	12,124	15,276	19,464
TOTAL	**29,193**	**35,215**	**39,125**

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

Note 23 Taxes and duties

	2006	2007	**2008**
Taxes on remuneration	-9,495	-9,061	-10,014
Business use tax	-27,470	-26,411	-18,943
Property tax	-5,975	-6,394	-7,817
Other taxes and duties	-15,820	-14,384	-14,829
TOTAL	**-58,760**	**-56,250**	**-51,603**

Note 24 Payroll costs and average number of employees in consolidated companies

	2006	2007	**2008**
PAYROLL COSTS			
Wages and salaries	-539,959	-543,787	-568,715
Employee profit sharing	-57,344	-61,420	-58,885
Charge in respect of share options and performance shares	-9,163	-12,522	-17,027
15 June 2003 share purchase option plan	*-912*	*-406*	*0*
16 January 2006 performance share allocation plan	*-8,251*	*-7,048*	*-380*
3 May 2007 performance share allocation plan	-	*-4,363*	*-7,099*
3 September 2007 share subscription option plan	-	*-705*	*-2,912*
1 September 2008 share subscription option plan	-	-	*-711*
1 September 2008 performance share allocation plan	-	-	*264*
8 December 2008 "Value 08" employee share ownership plan including 16 December 2008 performance share allocation plan	-	-	*-5,661*
Social security contributions	-206,228	-209,311	-211,985
TOTAL	**-812,694**	**-827,040**	**-856,612**

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.

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2008

A leveraged plan was offered to employees. A bank, Calyon in this case, subscribes nine times the employee's amount such that the amount invested in total (employees and the bank) is invested in Vallourec shares issued at a price discounted by 20%. The investment is blocked until 1 July 2013. In order to comply with the legal and tax requirements of each country, different formulas have been proposed:

- Company mutual fund (FCPE - *Fonds commun de placement entreprise)*: employees subscribe, by means of a company mutual fund, for a number of discounted Vallourec shares enabling them to benefit, on expiry of the period during which their holdings are locked up, from a multiple of the performance of the Vallourec shares and protection for their intial investment, excluding foreign exchange rate effects. The multiple of the increase is obtained as a result of the transfer of the discount, dividends and other financial rights linked to the holding of the shares to the bank by means of a swap contract;
- Shares and Stock Appreciation Rights (SAR): employees, by means of the acquisition of a share at a discounted price, benefit from a SAR (protection of their initial investment, excluding foreign exchange rate effects, and multiple of performance of the share) which will be paid by the employer, in cash, on expiry of the lock-up period. The resulting liability (SAR) is covered by warrants provided to the employer by the bank that completed the employee's investment. The issue of the warrants was obtained as consideration for the issue of shares, reserved for the bank, at the discounted price;
- Cash and Stock Appreciation Rights (SAR): employees, by means of an investment in an interest-bearing bank account, benefit from SARs (multiple of performance on this investment) which will be paid to the employee by the employer, in cash, on expiry of the lock-up period. The resulting liability (SAR) is covered by warrants provided to the employer by the bank that completed the employee's investment. The issue of the warrants was obtained as consideration for the issue of shares, reserved for the bank, at the discounted price.

The IFRS 2 charge resulting from the benefit granted to the employee under the terms of the employee share ownership plan is measured on the grant date by reference to the fair value corresponding to the expected present value of the amounts ultimately paid to the employee. For the "Share and SAR" formula, the discount on the share held by the employee and the value of the option protecting his initial investment are added.

Characteristics of the "Value 08" plan	2008
Grant date	16 December 2008
Maturity date of plans	1 July 2013
Reference price	€82.48
Subscription price	€65.99
Discount	20%
Total amount subscribed	49,492
Total number of shares subscribed	749,996
Total discount	12,372
Multiple per share	
Company mutual fund formula	7.3
Share + SAR formula	5.1
Cash + SAR formula	6.1
Measurement assumptions	
Volatility (*)	40%
Risk-free rate (**)	3.03%
Annual dividend rate (***)	7.30%
Total IFRS 2 charge (****)	**6,435**

(*) Historical volatility.
(**) Risk-free interest rate over term of plan.
(***) Based on Group's dividend policy.
(****) Calculated using the binomial model to project share price.

This benefit resulted in the recognition of payroll costs of €6.4 million in 2008.

The IFRS 2 charge resulting from the Stock Appreciation Rights (SAR) is remeasured at each quarter end by reference to the fair value corresponding to the expected present value of the amounts ultimately paid to the employee.

Parameters for measuring fair value of SARs	2008
Measurement date	31 December 2008
Maturity date	1 July 2013
Share price on measurement date	€81.00
Multiple per share	
Share and SAR formula	5.1
Cash and SAR formula	6.1
Measurement assumptions	
Volatility (*)	40%
Risk-free rate (**)	3.03%
Annual dividend rate (***)	7.30%
IFRS 2 charge (****)	**2,047**

(*) Historical volatility.
(**) Risk-free interest rate over term of plan.
(***) Based on Group's dividend policy.
(****) Calculated using the binomial model to project share price.

The liability to employees resulting from the SARs resulted in payroll costs of €2 million in 2008.

The income resulting from the warrants is remeasured at each quarter end by reference to the fair value of the derivative determined in accordance with IAS 39.

Parameters for measuring fair value of warrants	2008
Measurement date	31 December 2008
Maturity date	1 July 2013
Share price on measurement date	€81.00
Multiple per share	
Share and SAR formula	5.1
Cash and SAR formula	6.1
Measurement assumptions (*)	
Implied volatility	56%
Interest rate	
2009	2.62%
2010	2.68%
2011	2.96%
2012	3.12%
2013	3.24%
Annual dividend *(in euros)*	7.00
IAS 39 income (in € thousand)	**2,839**

(*) Calyon assumptions for measuring warrants.

The income corresponding to the warrants paid to the employer by the bank that completed the employees' investment was recognized in payroll costs in an amount of €2.8 million since it is intended to cover the charge associated with the SARs (see above).

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Average number of employees in consolidated companies (*)	2006	2007	**2008**
Executives	1,273	1,310	1,342
Supervisory, clerical and technical staff	3,652	3,710	3,872
Production staff	13,081	12,751	12,496
TOTAL	**18,006**	**17,771**	**17,710**

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

The Group's workforce totalled 18,344 at 31 December 2008 compared with 16,835 at 31 December 2007.

Note 25 Other operating costs

	2006	2007	**2008**
Purchases of materials and supplies not for stock, sub-contracting	-330,178	-426,985	-359,120
Energy	-205,161	-211,930	-246,088
Maintenance	-174,098	-184,716	-191,754
Agents' commission, transportation costs	-307,909	-329,941	-323,836
Services, professional fees and other	-203,133	-186,203	-321,692
TOTAL	**-1,220,479**	**-1,339,775**	**-1,442,490**

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Note 26 Statutory Auditors' fees

	KPMG		Deloitte		Others	
	Amount (excl. tax)					
	2008	2007	**2008**	2007	**2008**	2007
AUDIT						
Statutory Audit, certification, examination of company and consolidated financial statements						
Issuer	215	171	215	171	-	-
%	26%	17%	14%	13%	0%	0%
Fully consolidated companies	579	540	1,271	1,033	70	73
%	69%	53%	85%	77%	76%	59%
Other services directly associated with the statutory audit						
Issuer	48	59	17	38	-	-
%	6%	6%	1%	3%	0%	0%
Fully consolidated companies	-	244	-	99	-	-
%	0%	24%	0%	7%	0%	0%
Sub-total	**842**	**1,014**	**1,503**	**1,341**	**70**	**73**
%	100%	100%	100%	100%	76%	59%
OTHER SERVICES PROVIDED BY AUDIT NETWORK TO FULLY CONSOLIDATED COMPANIES						
Legal, tax, employment	-	-	-	-	22	50
%	0%	0%	0%	0%	24%	41%
Other (details to be provided if > 10% of audit fees)	-	-	-	-	-	-
%	0%	0%	0%	0%	0%	0%
Sub-total	**-**	**-**	**-**	**-**	**22**	**50**
%	0%	0%	0%	0%	24%	41%
TOTAL	**842**	**1,014**	**1,503**	**1,341**	**92**	**123**

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Note 27 Charges to provisions net of reversals

	2006	2007	2008
Provisions for operating liabilities and charges	-45,646	-57,925	-72,117
Provisions against current assets	-25,568	-41,313	-29,960
Reversals of provisions for operating liabilities and charges	49,552	48,650	56,803
Reversals of provisions against current assets	18,480	16,585	32,201
TOTAL	**-3,182**	**-34,003**	**-13,073**

Note 28 Charges to depreciation and amortization

	2006	2007	2008
Charges to amortization of intangible assets (see Note 1)	-11,774	-7,351	-39,955
Charges to depreciation of property, plant and equipment (see Note 2)	-102,555	-110,622	-125,977
Reversals of depreciation and provisions on property, plant and equipment	-	-	347
TOTAL	**-114,329**	**-117,973**	**-165,585**

Note 29 Asset disposals and restructuring costs

	2006	2007	2008
Reorganization measures (net of expenses and provisions)	-632	-133	-93
Gains and losses on disposals of non-current assets	-4,138	11,066	-4,984
TOTAL	**-4,770**	**10,933**	**-5,077**

In 2007, the gains and losses on disposals of non-current assets corresponded mainly to the disposal of consolidated participating interests (VPE) and the receipt of additional insurance compensation as a result of losses suffered at VPE in 2006. The disposals of VPS and VCAV generated neither a profit nor a loss since an impairment loss was recognized in respect of the assets of the two companies as at 30 June 2007.

In 2008, the €5 million loss corresponded mainly to the disposal and scrapping of property, plant and equipment.

Impairment of assets and goodwill

	2006	2007	**2008**
Impairment of assets and goodwill	-1,499	-21,169	-1,386

On 30 June 2007, an additional impairment loss of €20,058 thousand was recognized in respect of the assets held for sale of VPS and VCAV.

Note 30 Financial income (loss)

	2006	2007	**2008**
FINANCIAL INCOME			
Income from marketable securities	21,972	17,348	25,470
Income from disposals of marketable securities	12,158	18,956	9,486
TOTAL	**34,130**	**36,304**	**34,956**
INTEREST COSTS	**-36,747**	**-40,619**	**-51,463**
OTHER FINANCIAL INCOME AND CHARGES			
Income from securities	1,900	1,825	2,728
Income from loans and receivables	2,236	1,082	5,612
Exchange losses (-) and gains (+) and changes in premiums/discounts	-27,819	-18,138	-7,894
Charges to provisions, net of reversals	-1,981	2,189	2,120
Interest received in respect of the tax dispute in Brazil (*)	39,584	-	-
Financial subsidy granted to HKM	-7,000	-	-
Other financial income and charges	-626	-1,894	4,127
TOTAL	**6,294**	**-14,936**	**6,693**
OTHER DISCOUNTING COSTS			
Financial charges: discounting of retirement commitments (see Note 17)	-15,245	-16,144	-16,392
Financial income: discounting of certain assets and liabilities	74	769	-170
Financial income from retirement plan assets (see Note 17)	4,875	5,618	7,522
TOTAL	**-10,296**	**-9,757**	**-9,040**
FINANCIAL INCOME (LOSS)	**-6,619**	**-29,008**	**-18,854**

(*) In 2006, following the favourable resolution of the dispute with the Brazilian tax authorities, V & M do Brasil recognized, in financial income (loss), interest received on amounts paid from 1991 to 2001.

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Note 31 Reconciliation of theoretical and actual tax charge

Breakdown of the tax charge	2006	2007	2008
Current tax charge	-539,846	-557,052	-450,558
Deferred taxes (see Note 5)	-4,943	-18,292	-30,133
Net charge	**-544,789**	**-575,344**	**-480,691**
Net income (loss) of consolidated companies	993,428	1,018,222	1,022,258
Tax charge	-544,789	-575,344	-480,691
Net income (loss) of consolidated companies, before tax	**1,538,217**	**1,593,566**	**1,502,949**
Statutory tax rate of consolidating company (see Note 5)	34.43%	34.43%	34.43%
Theoretical tax charge	-529,608	-548,665	-517,465
Impact of main losses carried forward	1,000	116	-1,939
Impact of long-term capital gains and losses	-344	-	-
Impact of permanent differences	17,127	-2,703	19,184
Other effects	-22	-121	-
Impact of differences in tax rates	-32,942	-23,971	19,530
	-544,789	-575,344	-480,690
ACTUAL TAX RATE	**35.42%**	**36.10%**	**31.98%**

The permanent differences consist mainly of the net income of the minority interests, withholding taxes and the share of the costs and charges in respect of the dividend distributions, including those in respect of future dividends.

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

The 2008 actual tax rate was 31.98%. The 2007 actual tax rate adjusted for non-recurring items was 35.5%.

Note 32 Segment information

Business segments

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 financial years 2006, 2007 and 2008.

Primary segment reporting format: by business segment

2008	Seamless tubes	Automotive & Speciality products	Holding companies & other (*)	Inter-segment transactions	Total
INCOME STATEMENT					
Sales					
Sales to external customers	5,908,517	479,765	48,732	-	6,437,014
Inter-segment sales	143,219	10,207	31,878	-185,304	-
TOTAL	**6,051,736**	**489,972**	**80,610**	**-185,304**	**6,437,014**
Charges to amortization and depreciation	-154,894	-9,046	-2,125	480	-165,585
Operating income (loss)	1,505,047	54,446	-37,256	-434	1,521,803
BALANCE SHEET					
Non-current assets	2,238,690	90,269	1,636,157	-1,602,487	2,362,629
Current assets	2,698,257	198,774	267,428	-290,398	2,874,061
Cash and cash equivalents	548,731	35,934	752,467	-808,986	528,146
TOTAL ASSETS	**5,485,678**	**324,977**	**2,656,052**	**-2,701,871**	**5,764,836**
Shareholders' equity	2,419,021	142,141	1,729,496	-1,157,899	3,132,759
Minority interests	88,608	10,596	-	-33	99,171
Non-current liabilities	734,477	16,163	578,459	-440,595	888,504
Current liabilities	2,243,572	156,077	348,097	-1,103,344	1,644,402
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**5,485,678**	**324,977**	**2,656,052**	**-2,701,871**	**5,764,836**
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	538,318	24,271	5,827	-	568,416
Other information					
Average number of employees	16,152	1,392	166	-	17,710
Payroll costs	755,661	54,527	47,014	-590	856,612

(*) Vallourec, V & M Tubes and the marketing subsidiaries Vallourec Tubes Canada and Vallourec Inc.

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2007	Seamless tubes	Automotive & Speciality products	Holding companies & other (*)	Inter-segment transactions	Total
INCOME STATEMENT					
Sales					
Sales to external customers	5,405,111	659,934	75,476	-	6,140,521
Inter-segment sales	171,146	27,692	31,907	-230,745	-
TOTAL	**5,576,257**	**687,626**	**107,383**	**-230,745**	**6,140,521**
Charges to amortization and depreciation	-106,737	-9,234	-2,194	192	-117,973
Operating income (loss)	1,588,060	45,865	2,883	-14,235	1,622,573
BALANCE SHEET					
Non-current assets	1,402,591	72,581	908,060	-891,060	1,492,172
Current assets	2,296,558	222,717	291,978	-292,976	2,518,277
Cash and cash equivalents	626,312	32,952	821,632	-568,418	912,478
TOTAL ASSETS	**4,325,461**	**328,250**	**2,021,670**	**-1,752,454**	**4,922,927**
Shareholders' equity	2,091,390	140,019	1,356,647	-880,287	2,707,769
Minority interests	70,732	11,187	-	-27	81,892
Non-current liabilities	342,839	11,860	264,320	-4,404	614,615
Current liabilities	1,820,500	165,184	400,703	-867,736	1,518,651
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**4,325,461**	**328,250**	**2,021,670**	**-1,752,454**	**4,922,927**
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	410,370	26,091	8,338	-	444,799
Other information					
Average number of employees	15,206	2,426	139	-	17,771
Payroll costs	692,930	98,767	35,343	-	827,040

(*) Vallourec, V & M Tubes and the marketing subsidiaries Vallourec Tubes Canada and Vallourec Inc.

2006	Seamless tubes	Automotive & Speciality products	Holding companies & other (*)	Inter-segment transactions	Total
INCOME STATEMENT					
Sales					
Sales to external customers	4,770,765	675,630	95,406	-	5,541,801
Inter-segment sales	217,461	36,105	28,009	-281,575	-
TOTAL	**4,988,226**	**711,735**	**123,415**	**-281,575**	**5,541,801**
Charges to amortization and depreciation	-96,293	-17,267	-1,241	472	-114,329
Operating income (loss)	1,499,449	69,364	-17,360	-6,618	1,544,835
BALANCE SHEET					
Non-current assets	1,106,439	98,893	946,074	-933,159	1,218,247
Current assets	2,030,914	204,872	277,453	-268,265	2,244,974
Cash and cash equivalents	691,802	43,973	153,548	-	889,323
Assets held for sale	34,672	140,906	-	-	175,578
TOTAL ASSETS	**3,863,827**	**488,644**	**1,377,075**	**-1,201,424**	**4,528,122**
Shareholders' equity	1,934,685	221,056	846,010	-871,349	2,130,402
Minority interests	81,319	11,549		-49	92,819
Non-current liabilities	350,551	26,342	413,772	-49,362	741,303
Current liabilities	1,490,552	158,535	117,293	-280,664	1,485,716
Liabilities held for sale	6,720	71,162	-	-	77,882
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3,863,827**	**488,644**	**1,377,075**	**-1,201,424**	**4,528,122**
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	263,400	21,357	411	-	285,168
Other information					
Average number of employees	14,651	3,227	128	-	18,006
Payroll costs	651,479	129,072	32,143	-	812,694

(*) Vallourec, V & M Tubes and the marketing subsidiaries Vallourec Tubes Canada and Vallourec Inc.

Geographical segments

The following tables provide, by geographical segment, 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).

Secondary segment reporting format: by geographical area

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

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2007	Europe	North America and Mexico	South America	Asia	Rest of the world	Total
Sales						
Sales to external customers	2,428,024	1,144,166	786,034	1,284,169	498,128	6,140,521
Balance sheet						
Property, plant and equipment and intangible assets (net)	628,243	258,103	354,003	47,275	53	1,287,677
Cash flows						
Capital expenditure: property, plant and equipment and intangible assets	278,536	57,147	93,665	15,398	53	444,799
Other information						
Average number of employees	10,314	1,675	5,304	478	-	17,771
Payroll costs	596,012	102,588	125,230	3,201	9	827,040

2006	Europe	North America and Mexico	South America	Asia	Rest of the world	Total
Sales						
Sales to external customers	1,988,847	1,445,062	598,798	1,174,443	334,651	5,541,801
Balance sheet						
Property, plant and equipment and intangible assets (net)	468,080	250,697	262,346	36,085	-	1,017,208
Cash flows						
Capital expenditure: property, plant and equipment and intangible assets (*)	156,956	42,676	59,192	26,344	-	285,168
Other information						
Average number of employees	10,846	1,561	5,268	331	-	18,006
Payroll costs	589,398	109,117	112,258	1,921	-	812,694

(*) Cash flows in respect of the "North America and Mexico" segment comprise the acquisition of the assets of VAM Drilling USA which, in the cash flow statement, are shown as a change in consolidation scope.

Note 33 Post-balance-sheet events

No events have occurred between 31 December 2008 and 24 February 2009, the date on which the financial statements were approved by the Management Board, that are likely to have a material impact on the economic decisions taken on the basis of these financial statements.

5.2 COMPANY FINANCIAL STATEMENTS OF VALLOUREC SA

BALANCE SHEET *(in € thousand)*

ASSETS

	31/12/2006	31/12/2007	**31/12/2008**
NON-CURRENT ASSETS			
Intangible assets	79	79	79
Property, plant and equipment	131	131	131
Participating interests	1,057,383	1,057,383	1,057,496
Own shares	14,194	16,700	12,502
Receivables, loans and other investments	-	1	327,212
Total I	**1,071,787**	**1,074,294**	**1,397,420**
CURRENT ASSETS			
Trade receivables	1,346	616	855
Other receivables	44,729	117,821	406,679
Marketable securities	8,061	9,110	8,922
Cash and cash equivalents	79	40	295
Prepayments	-	-	45
Translation differences	-	-	31,876
Total II	**54,215**	**127,587**	**448,672**
TOTAL ASSETS (I+II)	**1,126,002**	**1,201,881**	**1,846,092**

LIABILITIES AND SHAREHOLDERS' EQUITY

	31/12/2006	31/12/2007	**31/12/2008**
SHAREHOLDERS' EQUITY			
Capital	212,047	212,155	215,155
Additional paid-in capital	210,258	64,345	109,128
Revaluation reserve	634	634	634
Reserves	79,950	79,954	79,964
Retained earnings	44,344	47,116	20,372
Interim dividend	-103,319	-210,292	-
Net income for the financial year	172,068	553,894	730,836
Total I	**615,982**	**747,806**	**1,156,089**
Provisions for liabilities and charges	1,067	2,314	817
Bank loans and other borrowings	470,718	410,762	587,019
Trade payables	4,180	4,112	5,312
Other payables	34,055	36,887	64,979
Translation differences	-	-	31,876
Total II	**510,020**	**454,075**	**690,003**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (I+II)	**1,126,002**	**1,201,881**	**1,846,092**

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INCOME STATEMENT *(in € thousand)*

	2006	2007	2008
Sales			**4,094**
Provision reversals and charges transferred	1,097	9	4,214
Other revenues	2,015	1,434	1,427
External services	-7,998	-10,068	-18,134
Taxes, duties and similar payments	-103	-70	-351
Payroll costs	-991	-419	-2,537
Other operating costs	-585	-643	-645
Amortization, depreciation and provisions	-1,066	-1,257	-767
Operating income (loss)	**-7,631**	**-11,014**	**-12,699**
Financial income	**184,138**	**559,825**	**760,652**
Participating interests	181,490	554,407	748,771
Other long-term securities and receivables	13		17
Other interest and similar income	850	1,841	11,176
Provision reversals and financial charges transferred			119
Exchange gains	890		91
Net income on disposal of marketable securities	895	3,577	478
Financial charges	**-18,094**	**-17,929**	**-24,155**
Financial depreciation and provisions			-1,944
Interest and similar charges	-16,618	-17,924	-22,039
Exchange losses	-1,476	-5	-172
Net charges on disposal of marketable securities			
Net financial income	**166,044**	**541,896**	**736,497**
Operating income (loss) before tax	**158,413**	**530,882**	**723,798**
Exceptional income	423	2,443	4,816
Exceptional charges	-2	-1,429	-13,671
Net exceptional income (charges)	**421**	**1,014**	**-8,855**
Income tax credit (charge)	13,234	21,998	15,893
NET INCOME	**172,068**	**553,894**	**730,836**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

In thousands of euros (€ thousand) unless stated otherwise.

Notes to the balance sheet (before allocation) for the year ended 31 December 2008, which totals €1,846.1 million, and to the income statement, which shows net income of €730.8 million.

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

Vallourec prepares consolidated financial statements.

A - Significant events, measurement methods and comparability of financial statements

On 16 May 2008, Vallourec indirectly acquired Grant Prideco's three tubular businesses, Atlas Bradford® (which was renamed V & M Atlas Bradford), TCA (which was renamed V & M TCA) and Tube-Alloy (which was renamed V & M Tube-Alloy).

On 16 December 2008, under the terms of the "Value 08" employee share ownership plan, 749,996 new shares were subscribed for at a price of €65.99 resulting in a capital increase of €47,783 thousand, including issue premium net of expenses.

The presentation and measurement methods used in the preparation of the financial statements for the year under review have remained the same as those used the previous year.

B - Accounting principles

The annual financial statements are prepared in accordance with current French accounting regulations (regulation no. 99-3 of the French Accounting Regulation Committee (*Comité de la réglementation comptable - CRC*)) and the fundamental accounting concepts (true and fair view, comparability, going concern, accuracy, reliability, prudence and consistency of accounting methods).

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at their acquisition cost. Property, plant and equipment acquired before 31 December 1976 were legally revalued in 1977 and 1978.

Buildings are depreciated using the straight-line method over a 40-year period for all buildings allocated to non-operating activities.

PARTICIPATING INTERESTS

The gross value of participating interests comprises their purchase cost excluding associated expenses and the amount of any associated capital increases.

Securities acquired in foreign currencies are recorded at their acquisition price translated into euros at the rate applicable on the date of the transaction.

Provisions for impairment of participating interests are calculated with reference to their value to the Group, which takes account of various criteria such as their consolidated net worth, profitability, share price and the Company's growth prospects.

OWN SHARES

The own shares included within intangible assets on the balance sheet comprise:

- the shares acquired on 5 July 2001 and allocated to the Group's various employee share ownership plans;
- the shares held under the terms of the liquidity contract.

In accordance with regulation no. 2008-15 of the French Accounting Regulation Committee (*Comité de la réglementation comptable - CRC*) dated 4 December 2008 on the accounting treatment of employee share purchase and share subscription plans and performance share allocation plans, no provisions for impairment are made in respect of the shares set aside for allocation under such plans on the basis of their market value due to the allocation commitment to employees and the provision recognized as a liability on the balance sheet – please refer to the paragraph below on provisions for liabilities and charges.

As regards the own shares held under the terms of the liquidity contract, their carrying amount is the lower of their acquisition cost and their market value (defined as the average price over the previous month).

RECEIVABLES AND PAYABLES

Receivables and payables are measured at their nominal value.

Provisions may be made against receivables to take account of specific collection difficulties. Such provisions are assessed on a case-by-case basis.

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MARKETABLE SECURITIES

Investment securities are measured at acquisition cost increased by accrued income for the period, or at market value if lower.

The own shares acquired in 2008 and available to be allocated to employees have been classified as marketable securities. A provision for impairment is booked in respect of them if their carrying amount exceeds their market value (average price over the previous month).

TRANSLATION OF FOREIGN CURRENCY DENOMINATED TRANSACTIONS AND FINANCIAL INSTRUMENTS

Revenues and costs denominated in foreign currencies are recorded using the exchange rate applicable on the transaction date. Foreign currency denominated receivables, cash and cash equivalents and payables at the balance sheet date are translated using the exchange rate applicable at that date.

Unrealized losses resulting from the translation into euros are shown, net of any associated foreign exchange cover, as a provision for exchange risk.

The Company uses various financial instruments to reduce its exchange rate and interest rate risk. All positions are taken by means of instruments traded either on organized markets or on over-the-counter markets and are measured at their market value and recognized as off-balance-sheet items at each balance sheet date.

PROVISIONS FOR LIABILITIES AND CHARGES

Retirement pensions

Pensions are paid by an external organization and the Company therefore has no commitment in this respect.

Retirement gratuities

Commitments in respect of gratuities paid to retiring employees are measured based on an actuarial calculation and provided for as a liability in the balance sheet.

They are based on the assumption that all employees leaving the Group will do so on a voluntary basis.

The actuarial assumptions used vary depending on the specific requirements of the applicable retirement plans and collective agreements.

The following assumptions have been used:

- discount rate of 6.20% (including inflation);
- inflation rate of 2%;
- staff turnover rate variable in accordance with age and category;
- INSEE 2000/2002 mortality table.

Commitments in respect of retirement gratuities are measured on the basis of an actuarial calculation and provided for as a liability in the balance sheet. At 31 December 2008, the discount rate was based on the iBoxx index (eurozone, AA-rated corporate bonds with a maturity of more than ten years). This index uses a basket of bonds composed of financial and non-financial stocks.

At 31 December 2008, to take account of the exceptional economic situation, the Company used a discount rate of 6.20% for the eurozone even though, on the basis of the same composition of the basket of reference bonds, the Company would have used a discount rate of 6.90%.

Actuarial differences arising are amortized using the “corridor” rule over the average residual period of service for employees.

Provision against shares allocated to employee share ownership plans

In accordance with regulation no. 2008-15 of the French Accounting Regulation Committee (*Comité de la réglementation comptable - CRC*) dated 4 December 2008 on the accounting treatment of employee share purchase and share subscription plans and performance share allocation plans, as soon as an outflow of resources becomes probable, a liability is recognized by the Company. Said provision is measured on the basis of the product of:

- the acquisition cost of the shares or their carrying amount (when they were already owned) on the date they were allocated to the employee share ownership plan less the price likely to be paid by the beneficiaries;
- the number of shares that are expected to be allocated to the employee share ownership plan given the provisions of said plan (satisfaction of conditions regarding continuing employment and performance) as assessed on the balance sheet date.

A provision for liabilities and charges has been recognized at each period end since these plans were put in place, on a pro rata basis, equal to the costs relating to the allocations of performance shares to employees, managers and corporate officers of Vallourec and its subsidiaries.

Other provisions

All disputes (technical, tax audit, etc.) and risks have been provided against to the extent of the likely cost to be incurred estimated at the year end.

EXCEPTIONAL INCOME AND CHARGES

In general, exceptional income and charges comprise those amounts of an exceptional nature, i.e. those that fall outside the scope of the Company’s ordinary activities.

C - Notes to the balance sheet

1. MOVEMENTS IN NON-CURRENT ASSETS

Movements in the value of non-current assets

	31/12/2007	Additions Charge	Disposals Reversals	31/12/2008	Of which revaluation reserve	Of which affiliated companies
Intangible assets	**79**			**79**		
Trademarks	79			79		
Property, plant and equipment	**131**			**131**	**23**	
Land	131			131	23	
Buildings	172			172		
Depreciation of buildings	*-172*			*-172*		
Investments	**1,057,383**	**-6**	**119**	**1,057,496**	**611**	**1,057,496**
Participating interests	1,057,794			1,057,794	611	1,057,794
Provisions on participating interests	*-411*	*-6*	*119*	*-298*		*-298*
Own shares	**16,700**		**-4,198**	**12,502**		
Receivables, loans, other investments	**1**	**327,211**		**327,212**		**327,212**
Other investments	1	327,211		327,212		327,212
TOTAL	**1,074,294**	**327,205**	**-4,079**	**1,397,420**	**634**	**1,384,708**

Own shares classified as non-current assets

- Allocations to Group employees, managers and corporate officers (see Section C.5)

  The own shares acquired on 5 July 2001 in connection with the financial transactions associated with the capital increase reserved for employees have been allocated to the following share option and allocation schemes set up for certain Group employees, managers and corporate officers:

- 15 June 2003 share purchase option plan;
- 3 May 2007 performance share allocation plan;
- 1 September 2008 performance share allocation plan;
- 16 December 2008 “Value 08” share allocation plan.

  In 2008, Vallourec made a final allocation of 188,853 shares (€2 million) under the terms of the 16 January 2006 performance share allocation plan at the end of the two-year acquisition period and sold 12,697 shares for €0.1 million, which corresponds to the exercise of 12,697 share purchase options under the share purchase option plan dated 15 June 2003.

- Liquidity contract

  In 2007, Vallourec signed a liquidity contract with Crédit Agricole Cheuvreux. To implement this contract, €20 million was allocated to the liquidity account. At 31 December 2008, Vallourec held 131,840 shares with a value of €10.7 million.

Receivables, loans, other investments

- On 16 May 2008, Vallourec acquired, indirectly via its subsidiary V & M Tubes, Grant Prideco’s three tubular businesses, Atlas Bradford® (V & M Atlas Bradford), TCA® (which was renamed V & M TCA) and Tube-Alloy™ (which was renamed V & M Tube-Alloy). To finance this acquisition, Vallourec took out a USD 450 million loan (€323.3 million) on behalf of V & M Tubes.

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2. MARKETABLE SECURITIES

	31/12/2007	**31/12/2008**	**Measurement 31/12/2008**	Loss provided for	Unrealized gain
Mutual and investment funds	9,110	4,893	4,909	-	16
Own shares	-	5,968	-	1,938	-
TOTAL	**9,110**	**10,861**	**4,909**	**1,938**	**16**

During 2007, the Group centralized the euro and US dollar cash management for its main European companies and the currency hedging operations in respect of its US dollar sales within V & M Tubes. Vallourec has become a member of this centralized cash management system.

Cash is invested in risk-free money market funds. Vallourec only enters into financial transactions with first-rate financial institutions.

In addition, in 2008, Vallourec acquired 50,000 of its own shares valued on 31 December at €4 million. These own shares are classified as marketable securities: the intention is that they will be allocated to the Group's employees, managers and corporate officers under the terms of future employee share ownership plans.

	31/12/2007	Acquisition Charge	Disposal **Reversal**	**31/12/2008**
Own shares	-	5,968	-	5,968
Provision for depreciation of own shares	-	-1,938	-	-1,938
TOTAL	-	**4,030**	**-**	**4,030**

3. RECEIVABLES AND PAYABLES

Assets at 31/12/2008	Gross value	Of which accrued receivables	Of which affiliated companies	Gross value -1 year	Gross value +1 year
Receivables, loans and other investments	**327,212**	**3,866**	**327,212**	**3,866**	**323,346**
Trade receivables	**855**			**855**	
Accounts receivable					
Other trade receivables	855			855	
Other receivables	**406,679**		**379,711**	**406,679**	
Intra-Group cash advance	374,018		374,018	374,018	
Sundry receivables	32,661		5,693	32,661	
TOTAL	**734,746**	**3,866**	**706,923**	**411,400**	**323,346**

Loans granted during the year: €323,346 thousand.

Loans repaid during the year: €0.

Receivables represented by commercial paper: none.

Liabilities at 31/12/2008	Gross value	Of which accrued payables	Of which affiliated companies	- 1 year	+ 1 year	+ 5 years
Bank loans and other borrowings	**587,019**	**2,886**	**643**	**3,629**	**583,378**	**12**
Bank borrowings	586,320	2,886		2,975	583,345	
Other borrowings	56			11	33	12
Intra-Group cash advance	643		643	643		
Trade payables	**5,312**	**1,597**	**1,307**	**5,312**		
Accounts payable	4,052	798	1,307	4,052		
Tax and social security liabilities	1,260	799		1,260		
Other liabilities	**64,978**	**127**	**58,730**	**64,978**		
Tax liabilities (income tax)						
Sundry liabilities	64,978	127	58,730	64,978		
TOTAL	**657,309**	**4,610**	**60,680**	**73,919**	**583,378**	**12**

Loans drawn down during the year: €323,346 thousand.

Loans repaid during the year: €150,012 thousand (see Section C.7).

Liabilities represented by commercial paper: none.

Accrued charges within “Bank borrowings” represent accrued interest at the period end.

4. TRANSLATION DIFFERENCES ON FOREIGN CURRENCY DENOMINATED RECEIVABLES AND PAYABLES

At 31/12/2008	Amount	Of which offset by foreign currency hedges	Provisions for foreign exchange losses
Translation differences – unrealized losses	-	-	-
Reduction in receivables	-	-	-
Increase in liabilities	31,876	31,876	-
Translation differences – unrealized gains	-	-	-
Increase in receivables	31,876	31,876	-
Reduction in liabilities	-	-	-

The translation of the USD 450 million debt taken out in May 2008 (Section C.7) at the rate of €1.54/USD and the rate at 31 December 2008 of €1.39/USD generated an unrealized translation loss of €31.9 million. The USD 450 million loan granted to the subsidiary V & M Tubes (Section C.1) as a hedge of this debt produced the opposite effect, i.e. an unrealized translation gain of the same amount.

No provision for foreign exchange losses was recognized in respect of the unrealized translation loss as at 31 December 2008.

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5. SHAREHOLDERS' EQUITY

The changes in shareholders' equity are shown below:

	Number of shares	Capital	Net income (loss) for the financial year	Additional paid-in capital and reserves	Shareholders' equity
As at 31/12/2006	**53,011,870**	**212,047**	**172,068**	**231,867**	**615,982**
Allocation of net income for 2006			-172,068	172,068	
Share subscription options	26,850	108		94	202
Revaluation reserve					
Dividend paid				-211,980	-211,980
Interim dividend				-210,292	-210,292
Net income for 2007			553,894		553,894
Change	**26,850**	**108**	**381,826**	**-250,110**	**131,824**
As at 31/12/2007	**53,038,720**	**212,155**	**553,894**	**-18,243**	**747,806**
Allocation of net income for 2007			-553,894	553,894	
Capital increase	749,996	3,000		44,783	47,783
Revaluation reserve					
Dividend paid				-370,336	-370,336
Interim dividend					
Net income for 2008			730,836		730,836
Change	**749,996**	**3,000**	**176,942**	**228,341**	**408,283**
As at 31/12/2008	**53,788,716**	**215,155**	**730,836**	**210,098**	**1,156,089**

Vallourec's share capital comprised 53,788,716 ordinary shares with a nominal value of €4 per share fully paid-up as at 31 December 2008 compared with 53,038,720 shares with a nominal value of €4 per share fully paid-up as at 31 December 2007.

The reserve account to which is posted the corresponding credit to the debit in respect of the carrying amount of the own shares (400,419 shares) had a balance of €16,532 thousand.

In accordance with the Group's employee share ownership policy, in 2008 Vallourec offered to its employees in eight countries the opportunity to subscribe to a reserved capital increase at a price discounted by 20% in relation to the average of the 20 opening prices of the Vallourec share preceding 17 November 2008, i.e. €65.99.

The capital increase reserved for employees and the bank guaranteeing the leverage effect of the share ownership plan resulted in the issue of 749,996 new shares, giving a capital increase of €47,783 thousand, including issue premium net of expenses.

Employee share ownership

A leveraged plan was offered to employees in 2008. A bank, Calyon in this case, invests nine times the employee's amount such that the total amount subscribed (employees and bank) is invested in Vallourec shares issued at a price discounted by 20%. The investment is blocked until 1 July 2013. In order to comply with the legal and tax requirements of each country, different formulas have been proposed:

- Company mutual fund (FCPE – *Fonds commun de placement d'entreprise*): employees subscribe, by means of a company mutual fund, for a number of discounted Vallourec shares enabling them to benefit, on expiry of the period during which their holdings are locked up, from a multiple of the performance of the Vallourec shares and protection for their initial investment, excluding foreign exchange rate effects. The multiple of the increase is obtained as a result of the transfer of the discount, dividends and other financial rights linked to the holding of the shares to the bank by means of a swap contract;
- Share and Stock Appreciation Rights (SAR): employees, by means of the acquisition of a share at a discounted price, benefit from an SAR (protection of their initial investment, excluding foreign exchange rate effects and multiple of performance of the share) which will be paid by the employer, in cash, on expiry of the lock-up period. The resulting liability (SAR) is covered by warrants provided to the employer by the bank that carried out the employee's investment. The issue of the warrants was obtained as consideration for the issue of shares, reserved for the bank, at the discounted price;
- Cash and Stock Appreciation Rights (SAR): employees, by means of an investment in an interest-bearing bank account, benefit from SARs (multiple of performance on this investment) which will be paid to the employee by the employer, in cash, on expiry of the lock-up period. The resulting liability (SAR) is covered by warrants provided to the employer by the bank that carried out the employee's investment. The issue of warrants was obtained as consideration for the issue of shares, reserved for the bank, at the discounted price.

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 option plans in 2007 and 2008 for the benefit of certain managers and corporate officers of the Vallourec Group.

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 the rights offering on 13 July 2005	14,480	N/A	N/A

Change in number of unexpired options

The following table shows the change in the number of unexpired options for all plans put in place between 2000 and 2008:

In number of options	2006	2007	**2008**
Total at start of year	1,006,600	996,390	184,414
Options distributed	-	147,300	71,800
Options exercised	(10,210)	(955,466)	(12,697)
Options not exercised at expiry date	-	(3,810)	-
Options cancelled (*)	-	-	(7,000)
TOTAL AT END OF YEAR	**996,390**	**184,414**	**236,517**
Of which options remaining to be exercised	*30,660*	*37,114*	*24,417*

(*) Beneficiaries who have left the Group.

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

	2006	2007	**2008**
2000 Plan	30,660	-	-
2003 Plan	965,730	37,114	24,417
2007 Plan	-	147,300	140,300
2008 Plan	-	-	71,800

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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 2006, 2007 and 2008.

	2006 Plan (*)	2007 Plan (**)	**2008 Plan (***)**	**"Value 08" Plan**
Date of Management Board decision	16/01/2006	03/05/2007	01/09/2008	16/12/2008
Acquisition period	2 years	2, 3 and 4 years	2 and 3 years	4.5 years
Holding period	2 years	2 years	2 years	-
Number of beneficiaries at outset	199	280	41	8,697
Theoretical number of shares allocated	148,000	111,000	11,590	33,856

(*) The definitive allocation in terms of numbers of shares was based on the Vallourec Group's performance in terms of consolidated EBITDA in 2006 and 2007. It was 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 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 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 range 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:

	2006 Plan	2007 Plan	**2008 Plan**	**"Value 08" Plan**
Initial theoretical number of shares allocated	148,000	111,000	11,590	33,856
Number of shares cancelled	(700)	(2,200)	-	-
Number of shares acquired or being acquired	147,300	108,800	11,590	33,856
Number of shares delivered	188,853	-	-	-

The amounts of the provisions for charges in respect of these plans recognized in the statutory financial statements for the financial year were as follows:

- 3 May 2007 performance share allocation plan: the provision recognized in respect of this plan was €742 thousand for the year ended 31 December 2008 (compared with €325 thousand for the year ended 31 December 2007) (see Section C.3.6);
- 1 September 2008 performance share allocation plan: the provision recognized in respect of this plan was €17 thousand for the year ended 31 December 2008 (see Section C.3.6).

6. PROVISIONS FOR LIABILITIES AND CHARGES

The change in provisions for liabilities and charges is shown below:

	31/12/2007	Charge	Reversals used	Reversals of provisions no longer needed	31/12/2008
Provisions for liabilities and charges	-	-	-	-	-
Provisions for retirement commitments	50	6	-	-	56
Provisions for long-service awards	-	-	-	-	-
Provisions for allocations of performance shares	2,264		-1,940	-324	-
Provisions for charges re employee share ownership plans	-	761	-	-	761
TOTAL	**2,314**	**767**	**-1,940**	**-324**	**817**

Disputes are provided for to the extent of the likely cost to be incurred estimated at the year end, in application of CRC regulation no. 2000-06 on liabilities.

A provision totalling €761 thousand has been booked for 2008 in respect of the allocation of performance shares (2006, 2007 and 2008 plans, see Section C3.5).

Retirement provisions

The total commitment in respect of retirement plans as at 31 December 2008 is €38 thousand.

The provision recognized in the balance sheet amounted to €56 thousand. The actuarial gains not recognized therefore totalled €18 thousand. The commitments not recognized in the balance sheet correspond to changes in or the non-crystallization of assumptions, the effect of which is amortized over time using the "corridor" principle.

The main changes in relation to the measurements used in the previous year's financial statements concern the base salary used in the calculation of retirement benefits and the discount rate.

7. BANK LOANS AND OTHER BORROWINGS

- In 2003, the Company entered into a five-year €150 million credit facility with the Crédit Agricole group maturing in September 2008. This loan was repaid in full on maturity in September 2008.
- In March 2005, a seven-year credit facility totalling €460 million was made available to Vallourec by a syndicate of banks to finance the acquisition of the 45% stake in V & M Tubes.

  This facility requires the Group to maintain its ratio of consolidated net debt to consolidated shareholders' equity at less than or equal to 75% calculated on 31 December each year and for the first time on 31 December 2005. 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 borrowing.

  On 31 December 2008, a tranche of €260 million and another tranche of USD 150 million had been drawn down.
- During April 2008, the Company 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.

  The Company used the USD 300 million term loan in May 2008.
- In November 2008, the Company took out a six-year €100 million loan with the Crédit Agricole Group (which matures on 27 October 2014). This loan was drawn down on 27 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.

Information on interest rate risk

Vallourec used hedging instruments (swaps) to hedge its variable-rate borrowing at a fixed interest rate.

The fair value of interest rate hedges (swaps and caps) on the bank loans and other borrowings of €260 million and USD 300 million was a negative amount of €26.6 million at 31 December 2008.

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D - Notes to the income statement

OPERATING REVENUES

- Sales: in 2008, Vallourec recharged the costs incurred in connection with the acquisition of V & M Atlas Bradford, V & M TCA and V & M Tube-Alloy, as well as the acquisition cost of the shares granted under the terms of the employee share ownership plans described above (paragraph C.5).
- Other operating revenues: Vallourec invoiced fees totalling €1,100 thousand for the use of its brand name.

FINANCIAL CHARGES AND INCOME CONCERNING AFFILIATED COMPANIES

Financial charges: €5 thousand.

Financial income: €759,945 thousand.

NET EXCEPTIONAL CHARGES

Net exceptional charges for the year amounted to €8,855 thousand.

This figure includes the gains and losses resulting from the sales of own shares carried out under the terms of the liquidity contract totalling a net loss of €6,861 thousand and the charge of €1,987 thousand associated with the exercise of the 2006 performance share allocation plan (see Section C.1).

E - Other information

AVERAGE NUMBER OF EMPLOYEES

The Company's staff comprises seven employees: three corporate officers (who are members of the Management Board) and their assistants.

TAX

Tax Group

Since 1 January 1988 the Company has been a member of a tax Group constituted under the provisions of Article 223A of the French Code général des impôts (CGI). This agreement has been renewed automatically for five-year periods since 1999. In 2008, the tax Group comprised Vallourec, Assurval, Interfit, Starval, Vallourec Composants Automobiles Hautmont, Valti, Valtimet, Valsept, Sopreneuf, Valinox Nucléaire, V & M Tubes, VAM Drilling France, V & M France, V & M Oil & Gas France, V & M One and V & M Services.

The tax Group agreement requires subsidiaries of the tax Group to record a tax charge equivalent to the amount they would have borne in the absence of the tax Group.

The saving resulting from the allocation to the combined income of losses generated by subsidiaries, i.e. companies that pay their tax to Vallourec, is not recognized in the income statement but as other liabilities.

Any profits resulting from the tax Group that are recorded by Vallourec correspond mainly to the allocation to the combined income of losses generated by Vallourec itself and tax losses carried forward definitively belonging to Vallourec.

In respect of 2008:

The net tax credit in the income statement amounted to:	€15,893 thousand
It can be broken down as follows:	
- Tax charge relating to Vallourec	€-3,733 thousand
- Tax credit relating to the tax Group	€19,626 thousand

At 31 December 2008, the saving recognized by Vallourec against tax due, which may become payable by the Group if the companies in question return to profitability before their deficits are fully utilized, amounted to €6,122 thousand.

The Vallourec tax Group is now in a profit-making situation and had no losses available for carry forward at the end of 2008.

Increase and reduction in future tax liabilities

Nature of temporary differences	Amount at 31/12/2008 (base)
Increase	-
Reductions	-
Provision for retirement commitments	56
Provision for employee share ownership arrangements	366
Provision for paid holidays	19
Solidarity social security contribution provision	6
Unrealized gains on UCITS	16

Breakdown of income tax between operating income (loss) and exceptional income (loss)

	Income before tax	Tax due	Net income
Operating income (loss)	723,798	-	723,798
Exceptional income (loss)	-8,855	-	-8,855
Sub-total	**714,943**	**-**	**714,943**
Charge specific to Vallourec	-	-3,733	-3,733
Income relating to the tax Group	-	19,626	19,626
TOTAL VALLOUREC	**714,943**	**15,893**	**730,836**

REMUNERATION OF MEMBERS OF ADMINISTRATIVE AND MANAGEMENT BODIES

Administrative bodies

Board attendance fees paid during the year amounted to €395 thousand.

Management bodies

This information is not provided as it is not relevant in relation to the assets and liabilities, financial position and net income of Vallourec.

OFF-BALANCE-SHEET COMMITMENTS

Off-balance-sheet commitments are as follows:

Retirement gratuities: €18 thousand (actuarial surplus).

The Company has not issued any form of collateral against its liabilities.

POST BALANCE SHEET EVENTS

No events occurred between 31 December 2008 and 24 February 2009, the date on which the financial statements were approved by the Management Board, that are likely to have a material impact on the accuracy and reliability of the financial statements.

6 Corporate governance

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6.1 COMPOSITION AND OPERATION OF THE ADMINISTRATION, MANAGEMENT AND SUPERVISORY BODIES

The Ordinary and Extraordinary Shareholders' Meeting held on 14 June 1994 approved the adoption of a management structure with a Management Board and a Supervisory Board.

This legal structure facilitates a clear separation between the functions of the Management Board, which is responsible for management and administration, and those of the Supervisory Board, which is responsible for supervising said management and administration, and is the representative body of the shareholders:

- the Management Board, which is a collegial body, manages the Group using the powers conferred on it by legislation, regulations and the Group's by-laws; and
- the Supervisory Board is responsible for ongoing control of said management. It receives the necessary information to enable it to fulfil its duties.

6.1.1 COMPOSITION OF ADMINISTRATION, MANAGEMENT AND SUPERVISORY BODIES AS AT 31 DECEMBER 2008

6.1.1.1 Management Board

	Year of birth	Date of first appointment to Management Board	Date appointment most recently renewed	Date term of office expires
Chairman				
Pierre Verluca (*)	1944	12/12/2000	04/06/2008	15/03/2012
Members				
Jean-Pierre Michel	1955	01/04/2006	04/06/2008	15/03/2012
Olivier Mallet (**)	1956	30/09/2008	–	15/03/2012

(*) Pierre Verluca's term of office was renewed by the Supervisory Board at its meeting on 3 June 2008, with effect from the end of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008, and expires on 15 March 2012. Pierre Verluca's appointment as Chairman of the Management Board was renewed at the same Supervisory Board meeting, for the duration of his term of office as a member of the Management Board. Pierre Verluca resigned as from 31 March 2009 since he had reached the statutory age limit of 65.
At its meeting on 25 February 2009, the Supervisory Board appointed Mr Philippe Crouzet as Chairman of the Management Board as from 1 April 2009, thereby succeeding Mr Pierre Verluca for the remainder of his term of office.
The Board also appointed Mr Jean-Pierre Michel as Chief Operating Officer as from 25 February 2009.
As from 1 April 2009, Vallourec's Management Board is therefore composed of Messrs Philippe Crouzet, Chairman, Jean-Pierre Michel, Chief Operating Officer, and Olivier Mallet, Chief Financial Officer: Finance, Legal and External Communication.

(**) At its meeting on 29 September 2008, the Supervisory Board appointed Mr Olivier Mallet as a member of the Company's Management Board with effect from 30 September 2008 until 15 March 2012. Mr Mallet replaced Mr Bertrand Cantegrit who resigned on 30 September 2008.
It should also be noted that Mr Marco Antônio Castello Branco resigned as a member of the Management Board on 4 June 2008.

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6.1.1.2 Supervisory Board

	Year of birth	Date of first appointment as Director or Supervisory Board member	Date appointment most recently renewed	Date on which appointment ceases	Other main appointment
Chairman					
Jean-Paul Parayre	1937	13/06/1989	AGM 01/06/2006	2011 AGM to approve financial statements for year ended 31/12/2010	Member of the Supervisory Board of Peugeot Chairman of the Supervisory Board of Stena Maritime
Vice-Chairman					
Patrick Boissier	1950	15/06/2000	AGM 01/06/2006	2011 AGM to approve financial statements for year ended 31/12/2010	Chairman and CEO of DCNS
Members					
Philippe Crouzet (*)	1956	10/04/2008	AGM (***) 04/06/2008	2012 AGM to approve financial statements for year ended 31/12/2011	Senior Vice-President of Saint-Gobain in charge of the Building Distribution sector
Michel de Fabiani	1945	10/06/2004	–	2010 AGM to approve financial statements for year ended 31/12/2009	Director of BP France and Rhodia
Denis Gautier-Sauvagnac	1943	07/02/1997	AGM 01/06/2006	2011 AGM to approve financial statements for year ended 31/12/2010	
François Henrot	1949	08/06/1999	AGM 07/06/2005	2011 AGM to approve financial statements for year ended 31/12/2010	Managing Partner of Rothschild & Cie
Edward G. Krubasik	1944	06/03/2007	AGM 04/06/2008	2012 AGM to approve financial statements for year ended 31/12/2011	Vice-Chairman of the Federation of German Industries
Jean-Claude Verdière	1938	01/07/2001	AGM 06/06/2007	2010 AGM to approve financial statements for year ended 31/12/2009	Member of the Management Board of Vallourec until 30 June 2001
Bolloré (**) represented by Thierry Marraud	1942	13/11/2008	–	2010 AGM to approve financial statements for year ended 31/12/2009	CFO of Bolloré Group
Censeurs					
Arnaud Leenhardt Honorary Chairman	1929	–	–	2010 AGM to approve financial statements for year ended 31/12/2009	Chairman of the Board of Directors of Vallourec from 1981 to 1994, then of the Supervisory Board from 1994 to 2000
Luiz-Olavo Baptista (****)	1938	04/06/2008	–	2012 AGM to approve financial statements for year ended 31/12/2011	Lawyer and Professor of International Law

(*) Since the Supervisory Board, at its meeting on 25 February 2009, appointed Mr Philippe Crouzet as Chairman of the Management Board as from 1 April 2009, he resigned from his position as a member of the Supervisory Board with effect from 31 March 2009.

(**) At its meeting on 13 November 2008, the Supervisory Board appointed Bolloré as a member of the Supervisory Board to replace Financière de Sainte-Marine (Bolloré Group), which resigned, for the duration of the remainder of the term of office of its predecessor, i.e. until the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2009. This appointment is, in accordance with the legislation and regulations, subject to the ratification of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009.

(***) The General Shareholders' Meeting of 4 June 2008 ratified the appointment, decided on at the Supervisory Board meeting on 10 April 2008, of Mr Philippe Crouzet as a member of the Supervisory Board to replace Mr Luiz Olavo Baptista. Since the term of office of Mr Philippe Crouzet was due to expire, like that of his predecessor, at said General Shareholders' Meeting, the Meeting decided to renew Mr Crouzet's term of office for a period of four (4) years, expiring at the end of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011.

(****) The General Shareholders' Meeting of 4 June 2008 appointed Mr Luiz Olavo Baptista as Censeur for a period of four (4) years expiring at the end of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011.

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6.1.1.3 Executive Committee

As at 31 December 2008, the Executive Committee of the Vallourec Group comprised the following members:

Flavio de Azevedo	Chief Executive Officer of V & M do Brasil
Pierre Frentzel	Managing Director, Oil & Gas Division
Jean-Yves Le Cuziat	Managing Director, Energy & Industry division
Olivier Mallet	Member of the Management Board, Chief Financial Officer: Legal and External Communication
Jean-Louis Merveille	Vice-President, Human Resources
Jean-Pierre Michel	Member of the Management Board, Chairman of Oil & Gas activities, Speciality Products division and V & M do Brasil
Philippe Roch	Chief Performance Officer, Vice-President, Controlling and Quality, Marketing and Purchasing
Pierre Verluca	Chairman of the Management Board

The Executive Committee meets each week.

On 31 March 2008, the date on which Mr Jean Charpentier retired, Mr Jean-Louis Merveille took over as Head of Human Resources for the Group.

6.1.2 OPERATION OF ADMINISTRATION, MANAGEMENT AND SUPERVISORY BODIES

6.1.2.1 Internal regulations of the Supervisory Board

At its meeting on 17 April 2003, the Vallourec Supervisory Board drew up internal regulations designed to formalize its operating rules and working methods. These regulations may be amended or added to at any time as a result of a decision taken by the Supervisory Board. They were updated on 3 May 2007.

The Supervisory Board meets at least four times a year.

In addition to the restrictions on the powers of the Management Board as stipulated in Article 9, Section 3 of the by-laws (see 2.2.1 above), it is also stipulated that the following actions must receive the prior approval of the Supervisory Board:

- the repurchase by the Company of its own shares;
- the granting to directors and/or Group employees of options to subscribe for or purchase the Company's shares, the granting of performance shares, or any other granting of benefits of a similar nature under the terms of authorizations granted by the General Shareholders' Meeting;
- any significant transaction of a type likely to substantially modify the scope of activity or financial structure of the Company or of the Group that it controls or the nature of the risks incurred.

Once a quarter, the Management Board, in accordance with the provisions of Section 4 of Article L. 225-68 of the French *Code de Commerce*, submits a report to the Supervisory Board describing as comprehensively as possible the Group's current performance.

The Management Board consults the Supervisory Board about the dividend to be proposed to the General Meeting of shareholders. At the end of the year, it submits the budget, forecast capital expenditure programme and financing plan for the following year.

In the performance of its duties, the Supervisory Board is regularly informed by the Management Board of any significant event concerning the Group's performance. It ensures that the latter keeps it informed of all matters that it judges useful and necessary in the exercise of its supervisory role. In order to ensure the process operates correctly, the Chairman of the Supervisory Board, assisted by all members of the Board, ensures that such information is provided. The specific information required by each of the Committees of the Supervisory Board for the performance of their duties is gathered by the Chairman of each of the Committees in collaboration with the Management Board.

In addition, each member of the Supervisory Board is required to:

- have converted into registered form all of the Vallourec shares he holds. The minimum holding requirement, as stipulated by the by-laws, is fifty (50) shares;
- regard himself as being in possession of insider knowledge and as such, in particular, to respect the periods during which members in possession of insider knowledge may not buy, sell or take positions in the Company's shares. During its meeting on 14 November 2007, the Board decided to standardize said periods, which are now the three weeks preceding the four occasions on which the Group releases its results (annual, first half, first quarter and third quarter results). Said periods for the year ended 31 December 2009 were decided on by the Supervisory Board at its meeting on 15 December 2008;
- comply with the rules of deontology of Article 17 of the December 2008 AFEP-MEDEF corporate governance code of listed corporations;
- comply with the regulations of the French securities regulator *(Autorité des Marchés Financiers, AMF)* published on 24 November 2004 as regards the obligation to disclose transactions carried out by Corporate officers on financial instruments issued by the Company.

A timetable indicating those times at which members in possession of insider knowledge may not trade in the Company's shares is sent each year to Supervisory Board members.

6.1.2.2 Meetings of the Supervisory Board during the year ended 31 December 2008

Nine meetings of the Supervisory Board were held in 2008. The attendance rate was very high and members who were not able to attend a meeting always appointed a proxy to represent them (see 8.2 below – Report of the Chairman of the Supervisory Board, prepared in accordance with the provisions of Article L. 225-68 of the French *Code de Commerce*). The average duration of meetings was about three hours.

6.1.2.3 Independent members and members associated with the Company

The Supervisory Board has examined, on an individual basis, the position of each of its members with regard to the independence criteria in accordance with the AFEP-MEDEF corporate governance code of listed corporations of December 2008, resulting from the consolidation of the October 2003 AFEP and MEDEF report and their January 2007 and October 2008 recommendations concerning the compensation of executive directors of listed companies. It based its examination on the recommendations made by the Appointments and Remuneration Committee (see 6.1.2.4 below).

As in preceding years, all the necessary steps have been taken to ensure that the Board comprises independent members who enable it to assure shareholders and the market that its duties are fulfilled with the necessary independence and objectivity, and to prevent the risk of conflicts of interest with the Company and its management.

In the light of the aforementioned AFEP-MEDEF corporate governance code, the Supervisory Board decided, at 31 December 2008, to:

- consider as independent members Messrs Patrick Boissier, Philippe Crouzet, Michel de Fabiani, Denis Gautier-Sauvagnac, Edward G. Krubasik, Jean-Claude Verdière and Bolloré, represented by Mr Thierry Marraud;
- consider as members associated with the Company:

– Mr François Henrot, after taking account of the assistance agreement entered into by the Management Board with Rothschild & Cie in 2006 and 2007 (see Management Board management report – Regulated Agreements),

– Mr Jean-Paul Parayre, who was first appointed as a Director more than 12 years ago, on 13 June 1989.

At 31 December 2008, seven out of the nine members of the Supervisory Board were independent. The Supervisory Board therefore comprised a greater number of independent members than that recommended by the AFEP-MEDEF code of corporate governance, which requires that, in the case of widely-held corporations without controlling shareholders, one half of the members of the Board must be independent.

6.1.2.4 Committees set up within the Supervisory Board

The Supervisory Board has three committees:

- the Finance Committee;
- the Appointments and Remuneration Committee;
- the Strategy Committee.

The role of these Committees is to provide advice and to prepare the necessary information for the Board's deliberations. They issue proposals, make recommendations and provide advice in their areas of expertise.

Finance Committee

The Finance Committee (formerly called the Audit Committee) was set up on 5 March 2002. It advises the Supervisory Board on the relevance and consistency of the accounting methods adopted for the preparation of Vallourec's Company and consolidated financial statements, particularly at the time of publication of the annual or interim financial statements.

The Finance Committee's regulations were approved by the Supervisory Board during its meeting on 17 April 2003. They were updated on 3 May 2007.

The Committee is informed of changes in the earnings, cash, indebtedness, financial risks and corresponding forecasts for the Company and its main subsidiaries. It is also kept informed on off-balance sheet commitments. More generally, the Finance Committee reviews the various elements of the Group's financial strategy.

The Chairman of the Supervisory Board may decide to refer to the Finance Committee any issue requiring the Board's prior approval (transactions affecting the share capital, the issue of convertible bonds, bonds or other loans, redemptions, etc.), as well as any proposed acquisitions of significant value.

The Finance Committee supervises the selection of the Auditors, gives its opinion as to the level of fees charged for the performance of the statutory audit and submits the results of this selection process to the Supervisory Board.

It reports to the Supervisory Board in respect of its duties.

As at 31 December 2008, the Finance Committee was composed of Messrs Jean-Claude Verdière (Chairman), Edward G. Krubasik and Thierry Marraud, i.e. three independent members out of a total of three.

The Finance Committee met five times in 2008. All members were present at each meeting. One of its main duties was to review the financial statements for the year ended 31 December 2007, the half year ended 30 June 2008 and the quarters ended 31 March and 30 September 2008. The Committee also met on 24 February 2009 to review the financial statements for the year ended 31 December 2008.

The Statutory Auditors attended four Finance Committee meetings (preparatory meetings concerning the annual, half-year and quarterly financial statements) in respect of the financial year 2008. They submitted a report to the Supervisory Board on the work performed in the context of their assignment.

Among the important subjects examined in 2008, the Finance Committee paid particular attention to:

– the monitoring of the 2008 and 2009 forecasts;

– the Group's financial communication policy;

– proposals as regards acquisitions or significant capital expenditure;

– the medium- and long-term financing plan.

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Appointments and Remuneration Committee

The Remuneration Committee, set up in 1994 when Vallourec adopted a management structure with a Management Board and a Supervisory Board, was renamed the Appointments and Remuneration Committee on 17 April 2003. As at 31 December 2008, the Appointments and Remuneration Committee was composed of Messrs Jean-Paul Parayre (Chairman), Patrick Boissier, Michel de Fabiani and Jean-Claude Verdière (who replaced Mr Denis Gautier-Sauvagnac), i.e. three independent members out of a total of four.

The regulations of the Appointments and Remuneration Committee were approved by the Supervisory Board during its meeting on 17 April 2003. They were updated on 3 May 2007.

The duties of the Appointments and Remuneration Committee are as follows:

Appointments

– preparation of the procedure used to select members of the Supervisory Board and Management Board and determination of the criteria to be used;

– drawing up proposals for appointments and re-appointment.

The Committee's choice of candidates for appointment as members of the Board must be guided by the interests of the Company and all its shareholders. It must take into account, in particular, the desired balance of the composition of the Board in view of the composition of, and changes in, the Company's shareholder base.

Remuneration

– proposals concerning the amounts and allocation of attendance fees paid to Board members as well as the remuneration of members of the Committees;

– proposals concerning the remuneration of the Chairman of the Supervisory Board;

– remuneration of members of the Management Board: the Committee is responsible for recommending to the Board the structure and level of the remuneration paid to each member of the Management Board (fixed part, variable part and benefits in kind);

– share subscription and share purchase options or allocations of performance shares granted to the members of the Management Board. In addition, the Committee issues a recommendation on the policy for granting share subscription and share purchase options and performance shares and reviews each plan that the Management Board envisages implementing for the benefit of Group managers and/or employees.

Finally, as regards members of the Executive Committee, the Committee is informed of their appointment, remuneration and the arrangements for subsequent appointments.

The Committee met five times in 2008. Its main duties involved:

– updating of the remuneration of the members of the Management Board;

– policy as regards the allocation of performance shares and options (1 September 2008 plans);

– recommendations concerning the overall budgets and the number of performance shares and share subscription options allocated to each member of the Management Board, and requirements for such members to retain a portion of the shares and options allocated;

– payment of attendance fees to the members of the Supervisory Board, the members of the Committees and the Censeurs (non-voting Board members);

– composition of the Supervisory Board following, in particular, the expiry of the term of office of Mr Luiz-Olavo Baptista and his appointment as a Censeur in addition to Mr Arnaud Leenhardt, definition of the desired profile of new members to be recruited and the appointment of a specialized recruitment firm to identify suitable candidates, which resulted in the provisional appointment on 10 April 2008 of Mr Philippe Crouzet as a member of the Supervisory Board.

Strategy Committee

The Strategy Committee set up in 2000 and disbanded in 2002 was reformed on 3 May 2007 since the Board felt that it was important to undertake preliminary reviews of proposals for significant acquisitions and capital expenditure.

The Committee is composed of Messrs Edward G. Krubasik (Chairman), François Henrot and Jean-Claude Verdière, i.e. two independent members out of a total of three.

The Committee's main purpose is to review and give consideration to the Group's principal objectives and long-term strategy.

The Committee met four times during 2008.

6.1.2.5 Censeurs (non-voting Board members)

The Extraordinary Shareholders' Meeting of 1 June 2006 (*Sixth resolution*) decided to create the position of Censeur (non-voting Board member), thereby enabling the Supervisory Board to benefit, where relevant, from the skills and experience of people who, for whatever reason, cannot or do not wish to be appointed members of the Supervisory Board.

There may not be more than two Censeurs. The main role of the Censeurs is to ensure the strict application of the by-laws. They attend meetings of the Supervisory Board and take part in discussions in an advisory capacity.

Since the appointment by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008 of Mr Luiz-Olavo Baptista (who was a member of the Supervisory Board from 11 June 2002 until 10 April 2008) as a Censeur for a term of four years, the Supervisory Board is assisted by two Censeurs, the other being Mr Arnaud Leenhardt.

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6.1.3 DECLARATIONS CONCERNING ADMINISTRATION, MANAGEMENT AND SUPERVISORY BODIES

To the Company's knowledge:

- no member of the Management Board or Supervisory Board has been convicted of fraud during the past five years;
- no member of the Management Board or Supervisory Board has been involved, during the past five years, with a bankruptcy, receivership or liquidation as a member of an administration, management or supervisory body;
- no member of the Management Board or Supervisory Board has been charged, during the past five years, with an offence or the subject of disciplinary action on the part of the statutory or regulatory authorities (including designated professional bodies);
- no member of the Management Board or Supervisory Board has been prevented, during the past five years, by a court from acting as a member of an administration, management or supervisory body of an issuer or being involved in the management or conduct of the business of an issuer;
- no Supervisory Board member has a current or potential conflict of interest between his duties to Vallourec and his private interests and/or other duties.

It is important to remember that, under current legislation and regulations, only the General Meeting of Shareholders is competent to remove from office a member of the Supervisory Board. Members of the Management Board may be removed from office, under the terms of the Company's by-laws, by the Supervisory Board and, in accordance with current legislation and regulations, the Shareholders' Meeting.

6.1.4 LOANS AND GUARANTEES

No loans or guarantees have been granted or constituted in favour of any of the corporate officers of the Company or of a Group company.

6.2 COMPENSATION AND BENEFITS

Details are provided below of the compensation and benefits of all types paid to Vallourec's executive corporate officers by the Company and companies controlled by the Company within the meaning of Article L. 233-16 of the French *Code de Commerce*, in accordance with the presentation defined by the December 2008 AFEP-MEDEF code of corporate governance for listed companies, as laid down by the Recommendation of 22 December 2008 of the French securities regulator *(Autorité des Marchés Financiers – AMF)*.

6.2.1 COMPENSATION AND BENEFITS OF ALL KINDS PAID TO EXECUTIVE CORPORATE OFFICERS

The general principles and rules for determining Management Board compensation are detailed in the report of the Chairman of the Supervisory Board, drawn up in accordance with the provisions of Article L. 225-68 of the French *Code de Commerce* (see 8.2.D below).

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6.2.1.1 Tables of executive Corporate officers' compensation

The following tables provide details of the compensation of those employees who were members of the Management Board as at 31 December 2008.

TABLE 1: TABLE SUMMARIZING THE COMPENSATION, OPTIONS AND SHARES AWARDED TO EACH EXECUTIVE CORPORATE OFFICER

In euros	Year ended 31/12/2007	**Year ended 31/12/2008**
Pierre Verluca, Chairman of the Management Board		
Compensation due in respect of the financial year *(detailed in table 2)*	898,129	939,163
Valuation of options awarded during the financial year *(detailed in table 3)* (*)	756,600	910,640
Valuation of performance shares awarded during the financial year *(detailed in table 5)* (**)	216,555	–
TOTAL	**1,871,284**	**1,849,803**
Jean-Pierre Michel, member of the Management Board		
Compensation due in respect of the financial year *(detailed in table 2)*	485,862	581,394
Valuation of options awarded during the financial year *(detailed in table 3)* (*)	640,200	780,746
Valuation of performance shares awarded during the financial year *(detailed in table 5)* (**)	216,555	–
TOTAL	**1,342,617**	**1,362,140**
Olivier Mallet, member of the Management Board (***)		
Compensation due in respect of the financial year *(detailed in table 2)*	–	144,376
Valuation of options awarded during the financial year *(detailed in table 3)* (*)	–	1,480,016
Valuation of performance shares awarded during the financial year *(detailed in table 5)* (**)	–	201,726
TOTAL	**–**	**1,826,118**

(*) A significant portion of the share subscription options awarded in 2008 to Management Board members was subject to performance requirements. The valuation of the options shown in the table is theoretical and results from the application of the binomial model used for the consolidated financial statements. The actual valuation is zero if the share price is equal to or less than €190.60 in the case of options awarded in 2007 and €183.54 in the case of those awarded in 2008.

(**) The 2007 Plan performance shares were awarded in three tranches. They are available in 2009, 2010, and 2011 respectively and transferable in 2011, 2012 and 2013 respectively. The performance shares allocated in 2008 were allocated in respect of an additional allocation under the 2007 Plan. They were awarded in two tranches only. The acquisition of performance shares is subject to performance requirements.

(***) Pro-rata as from his appointment to the Management Board.

The above table summarizes the compensation due in respect of the year ended 31 December 2008 and the valuation of the share subscription options and performance shares awarded during the financial year.

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TABLE 2: TABLE SUMMARIZING THE COMPENSATION PAID TO EACH EXECUTIVE CORPORATE OFFICER

In euros	Year ended 31/12/2007		**Year ended 31/12/2008**	
	Amounts due in respect of the financial year	Amounts paid during the financial year	**Amounts due in respect of the financial year**	**Amounts paid during the financial year**
Pierre Verluca, Chairman of the Management Board				
Fixed compensation	500,000	500,000	525,000	525,000
Variable compensation	393,466	286,684	409,500	420,534
Extraordinary compensation	–	–	–	–
Attendance fees	–	–	–	–
Benefits in kind	4,663	4,663	4,663	4,663
TOTAL	**898,129**	**791,347**	**939,163**	**950,197**
Jean-Pierre Michel, member of the Management Board				
Fixed compensation	300,000	300,000	350,000	350,000
Variable compensation	181,968	145,182	227,500	219,862
Extraordinary compensation	–	–	–	–
Attendance fees	–	–	–	–
Benefits in kind	3,894	3,894	3,894	3,894
TOTAL	**485,862**	**449,076**	**581,394**	**573,756**
Olivier Mallet, member of the Management Board	–	–		
Fixed compensation (*)	–	–	87,501	87,501
Variable compensation (*)	–	–	56,875	27,307
Extraordinary compensation	–	–	–	–
Attendance fees	–	–	–	–
Benefits in kind	–	–	–	–
TOTAL	**–**	**–**	**144,376**	**114,808**

(*) Pro-rata as from his appointment to the Management Board.

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TABLE 3: SUBSCRIPTION OR PURCHASE OPTIONS AWARDED DURING THE FINANCIAL YEAR TO EACH EXECUTIVE CORPORATE OFFICER BY VALLOUREC AND EACH GROUP COMPANY

In euros

Name of executive Corporate officer	No. and date of the plan	Nature of the options (purchase or subscription)	Valuation (*) (**) of options according to the method used for consolidated financial statements	Number of options awarded during the financial year	Exercise price	Exercise period
Pierre Verluca	2008 Plan 01/09/2008	Subscription options	910,640	14,000 (***)	183.54	01/09/2012 to 01/09/2015
Jean-Pierre Michel	2008 Plan 01/09/2008	Subscription options	780,746	12,000 (****)	183.54	01/09/2012 to 01/09/2015
Olivier Mallet	2008 Plan 01/09/2008	Subscription options	1,480,016	23,000 (*****)	183.54	01/09/2012 to 01/09/2015

(*) The valuation of the options shown in the table is theoretical and results from the application of the binomial model used for the consolidated financial statements. The actual valuation is zero if the share price is equal to or less than €183.54 in the case of options awarded in 2008.
(**) It is specified that the awarding of share subscription options is subject, to a large extent, to performance requirements based on the Group's consolidated EBITDA/sales ratio for the years ended 31 December 2008 and 31 December 2009.
(***) Including 7,500 subject to performance requirements.
(****) Including 6,500 subject to performance requirements.
(*****) Including 6,500 subject to performance requirements.

TABLE 4: SUBSCRIPTION OR PURCHASE OPTIONS EXERCISED DURING THE FINANCIAL YEAR BY EACH EXECUTIVE CORPORATE OFFICER

No Management Board members exercised share subscription or share purchase options during the year ended 31 December 2008.

TABLE 5: PERFORMANCE SHARES AWARDED TO EACH EXECUTIVE CORPORATE OFFICER

Name of executive Corporate officer	No. and date of the plan	Number of shares awarded during the financial year	Valuation of shares according to the method used for consolidated financial statements	Acquisition date	Availability date	Performance requirements
Pierre Verluca	–	–	–	–	–	–
Jean-Pierre Michel	–	–	–	–	–	–
Olivier Mallet	Additional award in 2008 under 2007 Plan 01/09/2008	600 600	102,729 98,997	01/09/2010 01/09/2011	01/09/2012 01/09/2013	Yes (*)

(*) It is stipulated that the awarding of shares is subject, since 2006, in all cases, to performance requirements based on the achievement of a specified Group consolidated EBITDA/sales ratio.

TABLE 6: PERFORMANCE SHARES THAT HAVE BECOME AVAILABLE DURING THE FINANCIAL YEAR FOR EACH EXECUTIVE CORPORATE OFFICER

None of the performance shares awarded since 2006, where relevant, to each of the members of the Management Board became available during the year ended 31 December 2008.

TABLE 7: RECORD OF ALLOCATIONS OF SHARE SUBSCRIPTION AND SHARE PURCHASE OPTIONS

Information about share subscription and share purchase options

	Plan no. 1	Plan no. 2	Plan no. 3
Date of authorization by Shareholders' Meeting	15 June 2000	6 June 2007	6 June 2007
Date of Plan	15 June 2003	3 September 2007	1 September 2008
Total number of shares that can be subscribed for or purchased, of which the number that can be subscribed for or purchased by:	979,480	147,300	71,800
Pierre Verluca	76,135	13,000	14,000
Jean-Pierre Michel	–	11,000	12,000
Olivier Mallet	–	–	23,000
Date from which options may be exercised	11 June 2007	3 September 2011	1 September 2012
Expiry date	10 June 2010	3 September 2014	1 September 2015
Subscription or purchase price	€10.57	€190.60	€183.54
Exercise procedures	–	–	–
Number of shares subscribed	941,313	–	–
Accumulated number of share subscription or share purchase options that have been cancelled or become null and void	13,750	7,000	–
Share subscription or share purchase options remaining at the end of the financial year	24,417	–	–

TABLE 8: SHARE SUBSCRIPTION AND SHARE PURCHASE OPTIONS AWARDED TO THE TEN EMPLOYEES WHO RECEIVED THE MOST OPTIONS AND ARE NOT CORPORATE OFFICERS, AND OPTIONS EXERCISED BY THEM

	Total number of options awarded/ shares subscribed or purchased	Weighted average exercise price	Share subscription or share purchase option Plans
Options awarded during the year to the ten Group employees to whom the highest number of options was awarded	22,800	–	1 September 2008 plan
Options exercised during the year by the ten Group employees who purchased or subscribed for the highest number of shares in this way	11,830	€10.57	15 June 2003 plan

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TABLE 9: BREAKDOWN OF COMPENSATION OF MANAGEMENT BOARD MEMBERS

	Contract of employment	Additional retirement scheme	Payments or benefits due or likely to be due in respect of a termination of office or change of position	Payment relating to a non-competition clause
Pierre Verluca Chairman of the Management Board Date of first appointment: 12 December 2000 Date of appointment as Chairman of the Management Board: 10 June 2004 Date on which appointment ceases: 15 March 2012 (*)	Yes (****)	Yes (*****)	None	None
Jean-Pierre Michel Member of the Management Board Date of first appointment: 7 March 2006 Date appointment renewed: 4 June 2008 (**) Date on which appointment ceases: 15 March 2012 (**)	Yes (****)	Yes (*****)	None	None
Olivier Mallet Member of the Management Board Date of first appointment: 30 September 2008 (***) Date on which appointment ceases: 15 March 2012 (***)	Yes (****)	Yes (*****)	None	None

(*) Pierre Verluca's term of office was renewed by the Supervisory Board at its meeting on 3 June 2008, with effect from the end of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008, and expires on 15 March 2012. Pierre Verluca's appointment as Chairman of the Management Board was renewed at the same Supervisory Board meeting, for the duration of his term of office as a member of the Management Board. Pierre Verluca resigned from all his positions with Vallourec Group companies as from 31 March 2009 since he had reached the statutory age limit of 65.

(**) Jean-Pierre Michel's term of office was renewed by the Supervisory Board at its meeting on 3 June 2008, with effect from the end of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008. It will expire on 15 March 2012.

(***) At its meeting on 29 September 2008, the Supervisory Board appointed Mr Olivier Mallet as a member of the Company's Management Board with effect from 30 September 2008 until 15 March 2012.

(****) The contracts are suspended during their respective terms of office.

(*****) In respect of their contracts of employment.

6.2.1.2 Attendance fees received by the members of the Supervisory Board

Compensation of Supervisory Board members

The maximum annual attendance fees for allocation by the Supervisory Board to its members were increased to €400,000 by the Shareholders' Meeting of 1 June 2006 (*Fifteenth resolution*).

Each Board member and each Censeur has, since 2007, received attendance fees set at €28,000 per year, reduced pro rata in the case of an appointment or termination of an appointment during the year.

In addition to the attendance fees allocated to him, the Chairman of the Supervisory Board receives compensation, the amount of which was increased by the Supervisory Board, as recommended by the Appointments and Remuneration Committee, to €250,000 per year with effect from 1 January 2006. The Chairman and the other members of the Supervisory Board were not awarded any share options, performance shares or termination payments of any kind.

Compensation of Committee members

Members of the Committees (Finance Committee, Appointments and Remuneration Committee and Strategy Committee), with the exception of Mr Jean-Paul Parayre in his capacity as Chairman of the Appointments and Remuneration Committee, receive as part of the aforementioned €400,000 annual budget, additional attendance fees based on their actual attendance at meetings of said Committees. For each meeting, the Chairman of a Committee receives attendance fees of €3,500 and the other members receive €2,500.

Compensation of the Censeurs

Compensation of the Censeurs comes within the annual budget for attendance fees allocated to the Supervisory Board.

TABLE 1: ATTENDANCE FEES RECEIVED BY THE MEMBERS OF THE SUPERVISORY BOARD

In euros

Members of the Supervisory Board		Amounts paid in 2007	**Amounts paid in 2008**
Messrs	Jean-Paul Parayre	28,000	28,000
	Patrick Boissier	35,500	40,500
	Philippe Crouzet	–	17,500
	Michel de Fabiani	41,000	40,500
	Denis Gautier-Sauvagnac	35,500	16,500
	François Henrot	38,000	35,500
	Edward G. Krubasik	55,500	54,500
	Jean-Claude Verdière	58,500	65,500
	Thierry Marraud (Bolloré)	45,500	40,500
	Arnaud Leenhardt (Censeur)	28,000	28,000
	Luiz-Olavo Baptista (Censeur)	28,000	28,000
TOTAL		**393,500**	**395,000**

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6.2.2 COMPENSATION AND PENSION BENEFITS OF THE GROUP'S SENIOR MANAGEMENT

6.2.2.1 Compensation of the Group's senior management

The total amount of direct and indirect compensation of all kinds paid in 2008 by the Group's French and foreign companies in respect of all the Group's senior managers (i.e. the eight members of the Group's Executive Committee at 31 December 2008) was €3,156,494. The variable portion represented 36.30% of the total amount.

The charge in respect of the share subscription options and performance shares granted to the Group's senior management during the year and recognized in the income statement for the year ended 31 December 2008 was €800,000.

6.2.2.2 Pension commitments

As regards pension provision, Management Board members, like all the Group's senior management, are covered by a supplementary pension scheme that complies with the AFEP-MEDEF code of corporate governance for listed companies. The terms and conditions applicable to this supplementary pension scheme are detailed in the Section of the management report dealing with regulated agreements. Moreover, beneficiaries may retain their benefits under the scheme if they are dismissed on or after their 55th birthday and are unable to find alternative employment.

This scheme, which does not give any specific benefits to Management Board members over and above those applicable generally to the Group's senior management, appears reasonable since the additional pension is capped at 20% of the average base salary, excluding the variable portion, for the last three years and limited to four times the annual social security ceiling.

Details of the pension commitments of members of the Executive Committee are provided in Note 19 of Sub-Section 5.1 of Section 5.

6.3 MANAGERS' INTERESTS AND EMPLOYEE PROFIT SHARING

The Supervisory Board is responsible for deciding the number of share subscription or share purchase options and performance shares awarded to Management Board members as well as the conditions for awarding such options and shares.

It is also responsible for approving the number of beneficiaries and the number of share subscription or share purchase options and performance shares that the Management Board proposes to allocate to Group employees under the terms of a plan.

The Management Board is responsible for determining the conditions for implementing any award of share subscription or share purchase options and performance shares, including the identification of beneficiaries of such plans and, in the case of share subscription or share purchase options, the reference price. It is also responsible for ensuring the proper implementation of each plan and reports to the Supervisory Board, in the context of its control function.

6.3.1 OPTIONS

(The figures in the following tables have been recalculated, where necessary, to take into account the rights offering in July 2005 and/or the division by five of the nominal value of Vallourec's shares, effective as from 18 July 2006).

Share purchase options: 15 June 2003 Plan

Date of Shareholders' Meeting	15 June 2000
Date of Management Board Meeting	15 June 2003
Number of option holders when plan implemented	148
Total number of options granted at the outset	979,480
• of which number of options granted to those employees who were members of the Management Board (as at 15 June 2003)	228,405
• number of senior managers involved	3
• exercise price (*)	€10.73
• exercise price adjusted for rights offering on 13 July 2005	€10.57
Impact on dilution	none
Date from which options may be exercised	11 June 2007
Expiry date of exercise period	10 June 2010
Number of shares purchased at 31 December 2008	941,303
Number of options cancelled after being granted (option holders who have left the Group)	13,750
Number of options that could be exercised at 31 December 2008 (1 option = 1 share)	24,417

(*) Average of the last twenty prices for the twenty trading sessions preceding the grant date.

Share subscription options: 3 September 2007 Plan

Date of Shareholders' Meeting	6 June 2007
Date of Management Board Meeting	3 September 2007
Number of option holders when plan implemented	65
Total number of options granted	147,300
• of which total number of options granted to those employees who were members of the Management Board at 3 September 2007	46,000
• number of senior managers involved	4
Total number of options granted to the ten employees who were not executive corporate officers and who were granted the highest number of options	33,000
Potential dilution	0.3%
Exercise price (*)	€190.60
Date from which options may be exercised	3 September 2011
Expiry date of exercise period	3 September 2014
Number of options cancelled after being granted (option holders who have left the Group)	7,000

(*) Average of the last twenty prices for the twenty trading sessions preceding the grant date.

Share subscription options: 1 September 2008 Plan

Date of Shareholders' Meeting	6 June 2007
Date of Management Board Meeting	1 September 2008
Number of option holders when plan implemented	9
Total number of options granted	71,800
• of which total number of options granted to those employees who were members of the Management Board at 3 September 2007	49,000
• number of senior managers involved	3
Total number of options granted to the ten employees who were not executive corporate officers and who were granted the highest number of options	22,800
Potential dilution	0.13%
Exercise price (*)	€183.54
Date from which options may be exercised	1 September 2012
Expiry date of exercise period	1 September 2015
Number of options cancelled after being granted (option holders who have left the Group)	–

(*) Average of the last twenty prices for the twenty trading sessions preceding the grant date.

6.3.2 PERFORMANCE SHARES

16 January 2006 Plan

Date of Shareholders' Meeting: 7 June 2005

Date of Management Board Meeting: 16 January 2006

Number of beneficiaries when plan implemented: 199

Acquisition period: two years from 16 January 2006

Conditions of allocation:

The definitive allocation, on 16 January 2008, has been based on the consolidated EBITDA/sales ratio achieved by the Group in 2006 and 2007.

Theoretical number of shares allocated on 16 January 2006: 148,000

Number of shares acquired on 16 January 2008: 188,838

Last listed price on 13 January 2006 (last trading day preceding allocation): €92.76

(figure recalculated to take into account the division by five of the nominal value on 18 July 2006).

Impact on dilution: none (allocation of existing shares)

Total number of shares allocated on 16 January 2006 to those employees who were members of the Management Board (as at 16 January 2006): 15,000

Total number of shares allocated on 16 January 2006 to the ten main beneficiaries other than the members of the Management Board: 37,500

Holding period: two years as from 16 January 2008.

3 May 2007 Plan

Date of Shareholders' Meeting: 7 June 2005

Date of Management Board Meeting: 3 May 2007

Number of beneficiaries when plan implemented: 280

Acquisition period/Conditions of allocation:

The allocation is subject to the same performance requirements as the 16 January 2006 plan.

The shares will be allocated in three successive tranches on 3 May 2009 (based on 2008 EBITDA/sales ratio), 3 May 2010 (2009 EBITDA/sales ratio) and 3 May 2011 (2010 EBITDA/sales ratio).

Theoretical number of shares allocated on 3 May 2007: 111,000

Last listed price on 2 May 2007 (last trading day preceding allocation): €198.50

Impact on dilution: none (allocation of existing shares)

Total number of shares allocated to those employees who were members of the Management Board (as at 3 May 2007): 4,800

Total number of shares allocated on 3 May 2007 to the ten employees who were not executive corporate officers and who were allocated the highest number of shares: 12,000

Holding period: two years as from the allocation date.

2008 additional award under 2007 Plan - 1 September 2008

Date of Shareholders' Meeting: 4 June 2008

Date of Management Board Meeting: 1 September 2008

Number of beneficiaries when plan implemented: 41

Acquisition period/Conditions of allocation:

The allocation is subject to the same performance requirements as the 16 January 2006 plan.

The shares will be acquired in two successive tranches on 1 September 2010 (2009 EBITDA/sales ratio) and 1 September 2011 (2010 EBITDA/sales ratio).

Theoretical number of shares allocated on 1 September 2008: 11,850

Last listed price on 29 August 2008 (last trading day preceding allocation): €190.84

Impact on dilution: none (allocation of existing shares)

Total number of shares allocated to those employees who were members of the Management Board (as at 1 September 2008): 1,200

Total number of shares allocated on 1 September 2008 to the ten employees who are not executive Corporate officers and who were allocated the highest number of shares: 6,620

Holding period: two years as from the allocation date.

6.3.3 PROFIT SHARING, INCENTIVE AND SAVINGS PLANS

Profit sharing

The amounts paid in respect of special reserves for profit sharing during the last five financial years are as follows:

In € million	2004	2005	2006	2007	**2008**
	2.97	11.28	19.27	21.62	12.30

Incentive plans

Most companies in the Group have incentive plans enabling employees' compensation to be related to the Company's performance. Such performance is determined as a function of operating income or loss in relation to sales.

Amounts paid in this respect during the last five financial years are as follows:

In € million	2004	2005	2006	2007	**2008**
	15.8	44.25	38.07	39.80	46.58

Company savings plan

In France, in 1989, the Group formed a Company savings plan *(Plan d'Épargne d'Entreprise – PEE)* to help employees build up capital over the medium and long term. Since 2005, these arrangements have been supplemented by the implementation, by agreement, of a group retirement savings plan *(Plan d'Epargne Retraite Collectif – PERCO)*.

Employees' voluntary payments are topped up by the Company in accordance with a scale updated each year in relation to the Group's performance.

The amounts paid by way of Company contributions over the last five financial years were as follows:

In € million	2004	2005		2006		2007		**2008**	
		PEE	PERCO	PEE	PERCO	PEE	PERCO	**PEE**	**PERCO**
	0.48	0.56	0.93	1.45	1.53	1.20	1.50	2.19 (*)	1.37 (*)

(*) Including €823,000 in respect of the "Value 08" employee share ownership scheme.

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6.3.4 EMPLOYEE SHAREHOLDING

An employee share ownership plan introduced in July 2001 reached its maturity after five years in July 2006. Taking into account movements in the Vallourec share price, performance has been remarkable, with subscribers' investments having been multiplied by 27.6 on average.

A new five-year plan was proposed, which was implemented on 13 July 2006. This plan was intended for all French and German employees with at least three months' service. The plan was not introduced in other countries due to the complex problems, particularly regulatory and tax problems, which would need to be overcome in view of the amounts involved. The investment, the capital of which was guaranteed, was capped at €1,000 per person with a target of 4,000 subscribers. The operation was a real success since the number of employees subscribing totalled 4,956, i.e. 1,054 more than in 2001, of whom 2,397 were in France and 2,559 in Germany, for a total of €4.4 million, which was invested in Vallourec shares acquired on the market. There was therefore no dilution.

On 16 December 2008, the Group completed the implementation of the "Value 08" international employee share ownership scheme. Under the terms of the scheme, the Group carried out a capital increase on the Paris Stock Exchange of 749,996 new shares with a subscription price of €65.99 per share (i.e. a total capital increase of €49.5 million) in accordance with the authorizations granted to the Management Board by the Shareholders' Meeting of 4 June 2008 (*Twelfth, thirteenth, fourteenth and fifteenth resolutions*). Nearly 12,200 employees in eight countries, i.e. 68% of eligible employees, chose to subscribe to the proposed share offering. The shares owned as a result of the offering represented 1.53% of Vallourec's share capital at 31 December 2008 compared with 0.16% at 31 December 2007.

"Value 08" has been a great success, particularly in view of the fact that it took place during an international financial crisis.

By subscribing massively, employees have demonstrated their loyalty to their company, as well as their confidence in the strategy and future of Vallourec.

They have also enabled the Group to achieve the three objectives it had set for this operation:

- to involve as many employees as possible in the Group's performance;
- to strengthen the "Group spirit", the cornerstone of its culture;
- to develop a long-term relationship with employees that will help Vallourec to maintain a stable shareholder base.

Details of the terms and conditions of the Value 08 arrangements are provided in Note 24 of paragraph 5.1 of Section 5.

The intention is to submit for approval to the Annual Shareholders' Meeting on 4 June 2009 a new employee share ownership programme, which will have a duration of 26 months.

7 Information on recent developments and outlook

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In 2008, for the fifth consecutive year, Group consolidated sales rose sharply, to €6,437 million, up 6.3% on a comparable basis [1], whilst net income, Group share for the full year 2008 remained virtually the same as in 2007 at €967.2 million (-1.9%).

At the beginning of 2009, the Group has had to cope with a dramatic change in market conditions. As a result of the world economic crisis and its consequences (falling oil and gas prices, lower industrial production, massive destocking, and difficulties in financing new infrastructure projects), the Group is anticipating lower activity levels in 2009.

As regards the **Oil & Gas** market, in the United States, the price of natural gas has fallen sharply and with it, the number of rigs in operation which, by the end of March 2009, was around 50% lower than at the peak in September 2008. Under the combined effect of this drop in activity and the increase in tube imports, distributors' inventory levels ballooned, from four months' consumption at the beginning of the fourth quarter of 2008 to around ten months' consumption at the end of the first quarter of 2009. As a result, the Group has experienced a significant fall in its sales in this market. An upturn in activity will depend on changes in gas consumption by US industrial companies, the fall in gas production as wells are worked to depletion and the reduction in inventories of tubes held by distributors.

In the rest of the world, Vallourec is benefiting from an order book that guarantees a good level of activity and prices during the first half of 2009. However, during the first quarter of 2009, several customers adopted a wait-and-see approach and are delaying placing orders.

In the **Power Generation** sector, Vallourec is also benefiting from an order book that guarantees a good level of activity in the first half. However, the number of power plant projects launched fell in the first quarter of 2009, due to the fact that it is taking longer to secure financing for such projects. This phenomenon has been accentuated in China by the slowdown in demand following the significant efforts made during recent years to catch up in this sector. Against this backdrop, nuclear energy is an exception, with growth in demand for tubes for steam generators constantly increasing. The "renaissance" of the nuclear sector has resulted in a healthy order book (more than three years' sales), which has resulted in Vallourec investing to double its capacity in this sector.

In those sectors in which sales are mostly made through distributors, notably **Petrochemicals**, **Mechanical Engineering** and **Construction**, orders have fallen significantly as from the last quarter of 2008, due to the combined effect of the fall in demand from end-consumers and the desire on the part of distributors to reduce their inventory levels. The Group anticipates an improvement in the level of orders received following this destocking process. Finally, as is the case with the entire automotive industry, Vallourec's **Automotive** sales have remained particularly low, both in Brazil and to an even greater extent in Europe.

Overall, the Group expects a reduction in production output of around 200 thousand tonnes of rolled tubes during the first quarter of 2009 compared to an average quarterly output of 690 thousand tonnes in 2008. As a result, the Group has put in place a number of measures to adapt production to this lower level of demand. These measures include reduced overtime, adjustments to staffing levels (mainly among temporary staff and those employed under fixed-term contracts), the use of time-savings accounts and short-time working. The aim of these measures is to enable the Group to adapt working hours, without delay, to changing production levels. The levels of activity and flexibility measures adopted vary by plant and by country.

As a consequence of this lower level of activity, the Group anticipates a decline in sales in 2009. Nevertheless, in the first quarter, this should be limited to a drop of 5% on the level of sales in the first quarter of 2008, since the lower volumes are expected to be offset by higher prices on orders already received. Beyond the first quarter, the outlook for demand is difficult to predict due to the combined effect of the destocking currently in progress and the wait-and-see approach adopted by many customers.

Vallourec has significant strengths that will enable it to cope with this difficult environment:

- a healthy financial position: a low gearing ratio (10.7% of shareholders' equity at the end of 2008), borrowings that do not need to be refinanced in the short term (more than 93% of the Group's non-current borrowings mature in over three years), and the facility to draw down confirmed credit lines totalling €1 billion;
- a track record of flexibility resulting from the cyclical nature of its business: Vallourec has adopted a prudent approach during its periods of growth (e.g. by using temporary staff);
- a significant presence in the premium product market, where prices will hold up better than in the standard product segment;
- increased competitiveness resulting from the investment made in recent years.

In the longer term, outlook for the Group remains good, particularly in the Oil & Gas and Power Generation markets, due to demand for energy resulting from worldwide growth, the depletion of oil and gas reserves and the increasingly complex technology needed to access such reserves and to produce electric power.

To prepare for the future, the Group is continuing with the construction in Brazil of a new integrated plant that will begin production in mid-2010 and will be one of the most competitive in the world. Vallourec is also continuing to invest in research and development in order to develop increasingly high-performance products and retain its competitive advantage. Finally, it is taking steps to position itself to take advantage of all opportunities for corporate acquisitions, particularly in the field of high-end products for the energy market.

(1) After restatement of 2007 sales to make them comparable with 2008 sales by taking into account, in particular, the disposal in 2007 of the precision tubes businesses (VPE and Zeithain plant) to Salzgitter and of VPS and VCAV to Arcelor Mittal, as well as the acquisition of Atlas Bradford, TCA and Tube-Alloy, which have been consolidated as from 16 May 2008.

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8.1 MANAGEMENT BOARD REPORTS

8.1.1 MANAGEMENT REPORT OF THE MANAGEMENT BOARD TO THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING ON 4 JUNE 2009

In 2008, for the fifth consecutive year, the Group's consolidated sales rose significantly. Sales of €6,437 million represented a 4.8% increase over the 2007 figure of €6,140.5 million. On a comparable (1) basis, sales increased by 6.3%.

For 2008 as a whole, the 4.8% sales increase consisted of a negative consolidation scope effect (-1.3%), a virtually stable volume effect (-0.2%) and a combined positive mix/price/currency effect (+6.5%).

EBITDA totalled €1,693.9 million in 2008, giving an EBITDA/sales ratio of 26.3%. The slight (3.2%) decrease as compared with 2007 resulted from increased operating costs (+8.1%), due mainly to raw material cost inflation and the unfavourable impact of the weak dollar.

Operating income, at €1,521.8 million, represented 23.6% of Group sales. It was adversely affected by significantly increased amortization and depreciation charges stemming mainly from the US companies acquired during the year.

At €1,024.7 million, **total net income** was the same as in 2007 and represented 15.9% of sales.

Net income, Group share totalled €967.2 million in 2008, a drop of 1.9% on the previous year. It benefitted from a fall in the actual tax rate, which was 32% compared with 36.1% in 2007 and was due to a reduction in the German tax rate.

The **cash flow from operations** generated by the Group was high, at €1,234.6 million. This enabled the Group, in addition to paying dividends totalling €405.3 million, to increase once again its capital expenditure, which was up 20.7% on the previous year at €528.5 million. Of this amount, €116.2 million related to Vallourec & Sumitomo Tubos do Brasil's new pipe mill, work on which is progressing according to schedule for production to start in 2010 as planned. Expenditure on corporate acquisitions during 2008 totalled €541.4 million, mainly for the three US companies acquired in the Oil & Gas sector.

The Group's financial position is particularly healthy. At 31 December 2008, **net debt** totalled €346.5 million, giving a gearing ratio of 10.7%. The Group's cash exceeded its overdrafts and other short-term bank borrowings by more than €300 million. More than 94% of the €650.2 million of bank loans and other borrowings have a maturity in excess of three years. In addition, Vallourec has undrawn confirmed credit lines of around €1 billion, maturing in 2012 and 2013.

Vallourec (Holding company)

The holding company Vallourec does not usually have sales but, in 2008, it recharged the costs borne in connection with the acquisition of Atlas Bradford, TCA and Tube-Alloy, as well as the acquisition costs of the shares awarded under the terms of the "Value 08" employee share ownership plan, the total value of which was €4 million.

Vallourec posted a loss of €12.7 million compared with a loss of €11.0 million in 2007. This loss is not meaningful since it is not comparable from one year to the next.

Net financial income (the difference between financial income and financial costs) was €736.5 million compared with €541.9 million in 2007, due mainly to the dividend of €738.9 million received from V & M Tubes.

Net exceptional charges totalled €8.8 million. They included charges of €6.9 million associated with the disposals of own shares under the terms of the liquidity contract, and charges of €1.9 million associated with the allocation of shares under the 2006 performance share allocation plan.

The income tax charge was negative once again this year and represents a net credit of €15.9 million (€22 million in 2007) as a result of the transfer of tax losses in consolidated companies to Vallourec, the company heading the tax group.

Net income for the year was €730.8 million compared with net income of €553.9 million in 2007.

On 16 December 2008, the share capital was increased from €212,154,880 to €215,154,864, divided into 53,788,716 shares with a nominal value of €4 each, by means of a capital increase in the nominal amount of €2,999,984, resulting from three capital increases, under the terms of the Value 08 employee share ownership plan implemented by the Company, in the nominal amounts of €1,076,432, €889,804 and €1,033,748 respectively.

A comparison of the balance sheets at 31 December 2007 and 2008 shows the loan of USD 450 million (€323.3 million) granted to V & M Tubes to finance the acquisition of Grant Prideco's three tubular businesses, Atlas Bradford®, TCA® and Tube-Alloy™, which were purchased in May 2008. In addition, it should be noted that Vallourec joined the Group's system for centralizing its cash management, known as cash pooling, the centralizing company of which is V & M Tubes. Moreover, at the end of 2008, Vallourec acquired 50,000 own shares, which were recognized as marketable securities, with the intention that such shares be allocated to the Group's employees, managers or Corporate officers under the terms of future allocation plans or the "Value 08" employee share ownership plan.

(1) After restatement of 2007 sales to make them comparable with 2008 sales by taking into account, in particular, the disposal, in 2007, of the precision tubes businesses (VPE and Zeithain plant) to Salzgitter and of VPS and VCAV to ArcelorMittal, as well as the acquisition of Atlas Bradford, TCA and Tube-Alloy, which have been consolidated as from 16 May 2008).

On the liabilities side of the balance sheet, the Company took out loans totalling €323.3 million and made loan repayments totalling €150 million.

In 2008, Vallourec had no excessive expenditure or overheads and expenses within the scope of Article 39-4 of the French *Code Général des Impôts (CGI)* that were disallowed for tax purposes.

The Group benefitted from strong demand during most of 2008. Despite the downturn in activity in the Mechanical Engineering, Automotive and Construction markets in the fourth quarter, Vallourec's plants continued to operate at high levels.

In 2008, production output totalled 2,766.4 thousand tonnes compared with 2,838.4 thousand tonnes in 2007, which represents a fall of 2.5% but a stable position on a comparable basis [1].

The main driving forces behind the strong growth in 2008 were sales in the **Power generation** (+16.9%), **Petrochemicals** (+10.6%), **Oil & Gas** (+4.9%) and Construction markets (construction sales, which are recognized under the **Other** heading, rose by 12.7%). Sales remained stables in the **Mechanical engineering** market (+0.8%), but fell significantly (-28.8%) in the **Automotive** sector, due to the major disposals made by the Group in 2007 [2].

Other information

The following information is included in the 2008 Reference Document, of which this management report is an integral part:

- information about the Group's business is provided in Section 3;
- details of the foreseeable trends and outlook for the Group are provided in Section 7 "Recent developments and outlook";
- significant events occurring between the financial year end and publication of the management report are disclosed in Section 3, paragraph 3.1.1 "Changes in the Group's structure in recent years" and Section 5, paragraph 5.1 "Consolidated financial statements of the Group";
- a description of the main risks and uncertainties facing the Group, with information on the use of financial instruments, is provided in Section 4 "Risk factors";
- details of the powers delegated by the Shareholders' Meeting to the Management Board are provided in Section 2.2.3 "Authorized capital not yet issued".

8.1.1.1 Trends in the Vallourec Group markets

Oil & Gas

In the **Oil & Gas** market, the Group recorded sales of €2,969 million in 2008, up 4.9% on the 2007 figure of €2,830 million, at a scope including the three American companies bought from the Grant Prideco group, with effect from May 2008. Oil & Gas was Vallourec's largest market, accounting for 46.1% of the Group's consolidated sales, as in 2007.

The surge in oil and gas prices during the first half of the year led to a 10% increase in world-wide drilling activity in 2008, resulting in a total of 116,000 wells drilled[3], an increasing proportion of which were complex structures (such as deviated or horizontal onshore wells, or very deep offshore wells) requiring sophisticated, Premium tubing solutions.

The destocking by US distributors that had been a constant feature in 2007 drew to an end, and although certain sovereign companies in the Middle East continued to run down their stocks, final demand for OCTG products was very strong throughout the world in 2008. Taking advantage of this strong demand and increases in raw material costs, the Group was able to pass on significant price rises, which translated into excellent results in the North American market in the second half of the year. In the rest of the world, on the other hand, the first effects of these increases were not felt until the start of 2009, due to the size of the order book.

VAM Drilling, the Group's drill pipe business, also benefited from the positive trends that persisted in the Oil and Gas market until mid-2008 and delivered a strong sales performance. This favourable climate aided Vallourec's Oil and Gas division with its strategy of international growth focussed near customers and in regions with high potential.

This strategy bore fruit in 2008, in the form of maiden orders from new customers as well as contracts in new fields in Russia and CIS countries, as well as in Angola, Algeria, Norway, the United Kingdom and Egypt.

Furthermore, a number of strategic projects were implemented or launched, underlining the Group's commitment to growth. Some of these initiatives are outlined below:

- three companies with tubing businesses were acquired from the Grant Prideco group: Atlas-Bradford (threading), TCA (heat treatment and threading) and Tube-Alloy (accessories for tubular products). Work to integrate these companies into the Group's North American businesses began in earnest on 16 May 2008;
- in Brazil, work continued on a new integrated plant being built in cooperation with Sumitomo Metals. The new facility will begin operating in mid-2010;
- the Group launched a project to build a threading shop in Nigeria;
- a service centre was opened in Norway, to extend the local offering and increase the Group's sales;
- Vallourec opened a commercial office in Moscow.

(1) After restatement of 2007 sales to make them comparable with 2008 sales by taking into account, in particular, the disposal, in 2007, of the precision tubes businesses (VPE and Zeithain plant) to Salzgitter and of VPS and VCAV to ArcelorMittal, as well as the acquisition of Atlas Bradford, TCA and Tube-Alloy, which have been consolidated as from 16 May 2008.

(2) Disposal of Automotive business (VPE, VPS and VCAV) in Europe.

(3) Source: Spears & Associates, Inc.: Drilling and Production Outlook, December 2008.

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Power generation

The Group recorded sales of €1,308 million in the **Power generation** market in 2008, up 17% on the 2007 figure of €1,119 million and 4.5 times higher than in 2003. This market's share of the Group's consolidated sales grew from 18.2% in 2007 to 20.3% in 2008.

In 2008, the Group took full advantage of favourable market conditions carried over from 2007. Prices rose to high levels on the back of spiralling raw material prices, and the product mix was further improved to reflect the increasing sophistication of power plants.

Demand was particularly strong in Europe, South-East Asia and South Africa, whereas in China, demand subsided somewhat from the high levels maintained in recent years while the country sought to catch up in this area. Sizeable orders were obtained in South Africa (for twelve 750 MW plant units), Germany (two 800 MW units and one 750 MW unit) and the Netherlands (three 800 MW units).

The market fundamentals remain sound. Growth is being driven by programmes to replace obsolete coal-fired power plants in Europe, and by the need for developing economies to increase their power generating capabilities in order to satisfy rising demand. Vallourec stands to gain from the growing sophistication of today's power plants, which operate at higher temperatures and pressures in order to maximize their energy efficiency and reduce their carbon dioxide emissions. These more demanding operating conditions call for highly-alloyed steel tubes — a requirement that Vallourec is well placed to satisfy.

However, the volume of orders began to subside in the early months of 2009, owing to the postponement of certain projects, mainly for finance-related reasons attributable to the economic crisis. This phenomenon has been particularly marked in China, where increases in coal prices in 2008 could not be fully offset by raising the price charged for electricity, resulting in lower cash flow for a number of Chinese utilities. Lastly, in the United States, no new coal-fired power plants are planned for 2009, due to the moratorium imposed pending new legislation on carbon dioxide emissions. This situation is likely to benefit the combined-cycle and maintenance markets, in which the Group also operates.

In the nuclear field, the revival in demand for steam generator tubes was confirmed. The 30% increase in production capacity introduced by Valinox Nucléaire in late 2007 was fully utilized in 2008. The Montbard plant delivered more than 1,700 km of stainless steel tubes in 2008. Valinox Nucléaire's order book now represents more than two years' output, thanks to new Chinese orders and the continuation of the programme to renovate EDF's nuclear power plants. The long-term growth outlook for this segment has been boosted by several developments, including the acquisition of British Energy by EDF in England, the announcement of new EPR plants in France, the stepping-up of the Chinese nuclear programme and the increasing number of countries interested in returning to nuclear power. As a result, the Group has decided to invest €80 million in new production capacity to cope with the sector's growing requirements. Valinox Nucléaire therefore intends to expand the Montbard plant's annual production capacity to 4,500 km of tubes by 2011. For its part, Valtimet is to double its condenser tube manufacturing capacity at its plants in Venarey-les-Laumes (Côte-d'Or, France) and Brunswick (Georgia, United States).

Petrochemicals

Sales in the **Petrochemicals** market rose by 10.6% to €691 million in 2008, compared with €625 million in the previous year. The relative weight of the petrochemicals sectors as a share of the Group's total consolidated sales increased slightly, from 10.2% in 2007 to 10.7% in 2008.

The lacklustre state of the European market in 2008 was offset by continued strength in Middle Eastern and Asian markets, which were boosted by new projects and facility maintenance operations. In North America, the market experienced two distinct periods: a stable first half, followed by a brief upturn attributable to restocking.

With effect from the fourth quarter of 2008, demand has eased throughout the world as a result of falling margins in the refining industry and difficulties in obtaining financing for new projects. This phenomenon has been exacerbated by distributors' efforts to reduce their stocks to match the new, lower level of demand.

Mechanical engineering

In 2008, sales in the **Mechanical engineering** industry stabilized at €713 million after a period of exceptional growth that had lasted since 2003. The share of total Group sales accounted for by this business declined slightly, to 11.1%.

Activity slowed significantly toward the end of 2008 as a consequence of the global economic crisis, which has led to a pronounced downturn in demand for durable goods (which has hit Germany particularly hard), and to a trend for distributors to run down their stocks.

Automotive

In the **Automotive industry**, Vallourec saw sales drop off sharply in the fourth quarter of 2008, resulting in a year-on-year fall of 28.8%. The €365 million generated by this sector represents less than 6% of the Group's total sales.

The European automotive market slowed at an unprecedented rate in the final months of 2008. This downturn had an immediate impact on the order book for redraw hollows, for which the automotive industry is the main outlet. The Group expects these weak trading conditions to persist in 2009.

In Brazil, where the bulk of Vallourec's automotive business is concentrated and where sales had previously been buoyed by a booming car market, car sales pulled back sharply during the last two months of the year, as a result of tighter lending criteria in the consumer credit sector.

In bearing tubes, activity levels grew during the first half of 2008 before tailing off in the latter part of the year, hit hard by the crisis in the automotive and mechanical engineering sectors.

Other markets

Sales rose significantly in 2008, reaching €391 million (an increase of 12.7% compared with the figure of €347 million achieved in 2007), despite a pronounced slowdown at the end of the year in the market for major construction projects such as bridges, sports venues and airports.

8.1.1.2 Research and Development

- A combination of intense demand for steel and sustainable development issues is boosting interest in Brazil's cast iron/charcoal industry, which Vallourec is consistently enhancing and which operates competitively and in an environmentally sound manner. The main thrusts of this programme include scientific tree selection, improving forest nutrition programmes and industrializing the continuous charcoal-making process.

  The new continuous caster at the Saint-Saulve steelworks has many innovative features and has enhanced the Group's production capacity as well as increasing its independence in terms of steel procurement.

  Production volumes of 9% and 13% chromium steels are high, and benefit from the Group's increased manufacturing capacity, in particular at the Saint-Saulve steelworks.

  The rollout of a network of process communities spreading across the Group continued through 2008. These communities enable rapid, uninterrupted progress by sharing best practices for the Group's main processes, including threading, steel-making, heat transfer technology, hot rolling and non-destructive testing.

- As oil & gas drilling conditions become more challenging, the corresponding technologies must also evolve; the development of stronger, more resistant steels and new high-performance threaded connections is strengthening Vallourec's position as the leader in areas such as deep-water operations, "high-temperature, high-pressure" deep reservoirs and the injection of steam to enhance crude oil recovery rates.

  Many projects are underway, particularly in Brazil (TUPI project – presalt reservoirs) and the United States (Gulf of Mexico).

  A new generation of premium threaded connection has recently been introduced. The VAM® 21 is suitable for use in the most extreme operating conditions. This innovative, top-of-the-range connection features outstanding compressive strength and fully complies with the requirements of ISO 13679 CAL IV, the qualificatory technical specification required by oil industry customers for the most demanding applications.

  CLEANWELL® is a non-polluting coating developed for use on threaded connections, where it replaces the greases customarily used, offering effective protection against seizing and corrosion. Demand for these environmentally-friendly solutions, which facilitate the use of our tubes, is strong, particularly in the North Sea. This family of coatings is being extended to cover an increasingly wide spectrum of applications.

  The VAM® RISER threaded connection range has established itself as the market leader for deep-water applications. The threaded riser tubes that link floating platforms to the sea bed require exceptional fatigue resistance, necessitating the development of cutting-edge technology and special approval tests. Numerous projects are being carried out in Brazil, the Gulf of Mexico and Indonesia.

  Many new applications for expandable tubes are emerging, particularly in the area of reusing existing wells. The industrial work performed with the drilling companies resulted in the approval of a family of threaded connections specially designed for this highly-demanding application: VAM® ET WISE. This product simplifies well engineering and enables increased oil or gas production.

  As operating conditions become more severe, state-of-the-art drilling and well lining technologies are needed, and tube strings must be able to withstand very high torque. The VAM® HTF joint was specially designed as a compact solution for very high torque applications. This product line has been deployed at various facilities for several different customers.

  The VAM® EXPRESS high-performance threaded connection for drill pipes was developed in record time, working in close partnership with our customers. VAM Drilling, which is responsible for products for the oil drilling sector, is harnessing and developing the many high technologies available in the Group's subsidiaries.

- The Power generation sector continues to benefit from sustained demand, driven by the construction of thermal power plants, which require large quantities of large-diameter tubes in a wide variety of steel grades. The Group is a significant player in these markets.

  The newly-developed 12% chromium steel alloy, designed for use at high temperatures, is now being used industrially in highly efficient, ultra-supercritical power plants. The outstanding steam oxidation resistance of this steel is of particular interest to our customers. Work to optimize this material is continuing, with greater industrialization and long-running approval tests.

- Stainless steel and titanium welded tubes continue to grow in popularity in the energy, desalination and automotive markets. In addition to familiar titanium solutions, super-stainless steel alloys such as Valbrite are being developed to extend the range of available solutions. Enhancing heat exchange processes is one major innovation area (which has benefited from the acquisition of the assets of High Performance Tubes, a company that has considerable expertise in this field and in automotive applications, such as improvements to exhaust gas recirculation systems).

- The Group won further orders relating to buildings and other architectural structures such as bridges, stadiums and airports. Highly innovative solutions are being developed for industrial and commercial buildings, in particular in Germany and Brazil. The patented Preon large-span tubular roof frame system was used in numerous industrial applications.

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8.1.1.3 Information provided in accordance with Article L. 225-102, Section 4, of the French *Code de Commerce*

A – Information on the social implications of the Group's activities

The employment-related indicators detailed below have been prepared on the basis of the companies fully consolidated by the Group.

These indicators are in accordance with the provisions of Decree no. 2002-221 of 20 February 2002.

I – Workforce

At 31 December 2008, Vallourec had 18,561 employees at its production and service sites working under contract (permanent employees and employees working under fixed-term contracts). The Group's workforce is spread across 14 countries worldwide, eight of which have an entity employing more than 100 employees.

1.	Brazil	(5,833)	5.	China	(444)
2.	France	(4,898)	6.	Mexico	(355)
3.	Germany	(4,331)	7.	United Kingdom	(300)
4.	United States	(2,167)	8.	India	(138)

In 2008, the Group's workforce rose by 10%. This increase was due mainly to the acquisition of Grant Prideco's tubular businesses in the United States, which resulted in the integration of more than 700 employees, but also to a general increase in staffing levels linked to current expansion in all countries.

CHANGE IN WORKFORCE BY GEOGRAPHICAL AREA

Workforce registered as at 31 December 2008	2006	2007	**2008**	2008/2007 Change	2007 Breakdown	2008 Breakdown
Europe	10,932	9,181	9,556	4%	55%	52%
Brazil	5,259	5,388	5,833	8%	32%	31%
NAFTA	1,631	1,747	2,562	47%	10%	14%
Asia	395	556	599	8%	3%	3%
Africa	–	2	11		–	–
TOTAL	**18,217**	**16,874**	**18,561**	**10%**	**100%**	**100%**

Breakdown of workforce by socio-professional category

The workforce breaks down as follows:

- workers, most of whom are experienced professionals: 70%;
- middle-managers and technical, administrative and sales staff: 22%;
- senior managers and technical experts: 8%.

In France, the proportion of managerial staff (17%) is greater than the average due to the parent company's centralized teams at the registered office in Boulogne.

Degree of flexibility

Due to the highly cyclical nature of the Group's activities, Vallourec's policy is to employ a stable nucleus of permanent staff so that it is able to handle its ongoing workload and adapt to changes in the economic climate.

The Group uses interim and temporary staff, employed in accordance with local legislation, to ensure adequate staffing levels during periods of very high activity, such as the levels experienced in 2008.

The increase in the degree of flexibility (proportion of temporary employees as compared with the Group's permanent workforce) reflects the way the Group has adapted to changing activity levels. The relative fall in 2008 as compared with the preceding year was due to the increase in the workforce in the United States (acquisition of Grant Prideco's tubular businesses) where the use of interim and temporary contracts is much lower than in Europe.

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Workforce as at 31 December 2008	2006	2007	**2008**
Permanent staff	17,230	15,943	17,592
Temporary staff	987	931	969
Interim staff	1,465	1,444	1,282
DEGREE OF FLEXIBILITY	**14%**	**15%**	**13%**

Breakdown of the workforce by gender

Women make up 10% of the workforce. They mostly occupy administrative or sales positions where they constitute a third of the workforce. Very few women are employed as workers, with the exception of China, where a significant proportion of workers are women.

Female managers mainly occupy functional positions but they are increasingly occupying operational positions at the Group's plants.

% of women	Europe	Brazil	NAFTA	Asia	Total
Workers	1%	3%	2%	23%	3%
Technical and supervisory staff	30%	23%	38%	40%	29%
Managerial staff	16%	7%	14%	23%	16%
TOTAL	**10%**	**7%**	**11%**	**27%**	**10%**

New employees

The Group recruited 2,830 new employees during 2008, including 1,967 permanent employees.

Number of new permanent employees (excluding those employed by companies acquired in 2008)	2008	As a % of the permanent workforce
Europe	660	8%
Mercosur	810	14%
NAFTA	411	16%
Asia	86	15%
TOTAL	**1,967**	**11%**

If one takes into account the 700 employees who work for Grant Prideco's tubular businesses which were acquired by the Vallourec Group in 2008, 15% of the permanent workforce joined the Group in 2008.

The majority of these new employees were workers but a significant number of managerial staff were also recruited in Europe. These are employees with an international profile, to whom the Group intends to give managerial responsibilities within the Group in France and abroad.

Breakdown of new employees by category	Workers	Technical and supervisory staff	Managerial staff	Total
Europe	48%	29%	23%	100%
Mercosur	82%	16%	2%	100%
NAFTA	69%	26%	4%	100%
Asia	55%	34%	12%	100%
TOTAL	**67%**	**23%**	**10%**	**100%**

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12% of new employees were women:

% of women recruited by category	Workers	Technical and supervisory staff	Managerial staff
Europe	2%	21%	13%
Mercosur	7%	53%	22%
NAFTA	1%	35%	6%
Asia	23%	52%	31%
TOTAL	**4%**	**31%**	**13%**

Employees leaving the Group

In 2008, 1,852 employees left the Group, including 1,089 permanent employees.

Their reasons for leaving were as follows:

- dismissal at the employer's initiative: 23%;
- retirement: 15%;
- resignation: 17%;
- other reasons: 14%;
- end of fixed-term contract: 31%.

II – Organization of working time

1. Working patterns – specific arrangements

The Group's policy is designed to provide maximum flexibility so that work patterns can be adapted to customer demand.

Work patterns enable the Group to tailor the functioning of its plants to production requirements. A system of continuous shift work (24 hours per day) for five or six days a week using three, four or five rotating shifts is adopted at most sites.

In order to minimize the strenuousness associated with employees' working arrangements, research is being undertaken in conjunction with occupational physicians and employees into the structuring of work patterns in line with physiological rhythms.

Innovative solutions have been implemented, which depend closely on cultural factors and prevailing national legislation.

As regards working hours, the theoretical average number of hours indicates the annual working hours, taking into account the number of days worked in the year and the standard hours of work.

2. Overtime

The extremely high activity levels in 2008 resulted in employees throughout the Group working overtime, for which they were paid at an increased rate.

In Germany and to an even greater extent in France, account needs to be taken of the opportunities offered by the working time agreements, which enable employees to "build up" hours worked in addition to the legal working time, so that they are able to take time off during periods of lower activity.

	Theoretical average number of hours worked during the year	Average number of hours of overtime worked during the year
China	2,016	506
Mexico	2,264	224
Brazil	2,019	62
United States	1,856	354
United Kingdom	1,687	48
Germany	1,564	195
France	1,527	51

3. Individual and part-time working arrangements

In France, as at 31 December 2008, virtually all technical and supervisory staff benefited from individual working arrangements, enabling them to determine their starting and finishing times on the basis of personal constraints and the requirements of the department for which they work.

In addition, 45 employees work on a part-time basis for personal or medical reasons (part-time working on health grounds).

4. Absenteeism

The rate of absenteeism is calculated by comparing the total of all paid leave (including paid leave for illness, maternity and accidents at work or while travelling to and from work) with the total number of hours actually worked.

It is difficult to make comparisons between countries due to the different regulations in force, since the methods used to calculate the rates are not based on exactly the same concepts.

	Rate of absenteeism
Europe	4%
Mercosur	3%
NAFTA	2%
Asia	2%
TOTAL	**3%**

III – Remuneration

1. Payroll costs

In 2008, the Group's payroll costs, excluding temporary staff, totalled €857 million, up 4% on 2007:

- wages and salaries: €569 million;
- employee profit sharing and incentives: €59 million;
- charges associated with share subscription and share purchase options and performance shares: €17 million;
- social security charges: €212 million.

The breakdown by country was as follows:

	2008	
	Breakdown of total payroll costs	Breakdown of average workforce
Germany	31%	25%
Brazil	16%	31%
United States	14%	10%
China	1%	2%
France	35%	27%
Mexico	1%	2%
United Kingdom	2%	2%
Other	–	1%
TOTAL	**100%**	**100%**

2. Average salaries

Vallourec's remuneration policy is based on the principles of employee motivation and fairness (whilst taking into account the conditions of the local employment market) including profit sharing arrangements.

The negative changes in the United Kingdom and United States were due to the depreciation of the pound sterling and US dollar against the euro. In France, the change in the average salary was due to the high levels of profit sharing and incentive payments and the impact of the implementation of employee share ownership arrangements.

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	2007 Average salaries including profit sharing and social security charges	2008 Average salaries including profit sharing and social security charges	% increase 2007/2008	% of 2008 social security charges
Germany	58,060	61,980	7%	27%
Brazil	23,610	25,180	7%	61%
Canada	51,850	55,550	7%	21%
China	6,570	8,660	32%	15%
France	56,600	62,180	10%	48%
Mexico	23,690	30,070	27%	24%
United Kingdom	76,060	61,310	-19%	24%
United States	70,690	64,350	-9%	29%

All the salaries detailed above are ***in euro****.*

3. Employee profit sharing

Profit-sharing schemes enable employees to become involved with the enterprise's performance.

In 2008, profit-sharing and incentive payments totalling more than €59 million were paid to almost all the Group's workforce.

In France, an employee savings plan (*Plan d'Épargne Entreprise - PEE*) and a retirement savings plan (*Plan d'Épargne Retraite - PERCO*) enable employees to invest amounts received under profit-sharing and incentive arrangements to build up savings in a fund that is tax efficient and to benefit from contributions paid by the employer.

IV – Industrial Relations – Internal communication

Organization of the social dialogue

The system ensuring dialogue between employers and employees is organized in each country in accordance with the applicable national legislation.

At European level

A **European Committee** composed of 30 French, German and British representatives is informed about Vallourec's activity, results and strategy in Europe and the rest of the world. The Committee meets in full each year in the presence of the Management Board following publication of the Group's results. A preparatory meeting is held the previous day to enable the representatives to prepare for the discussions. In addition, a smaller executive board composed of two German representatives, two French representatives and one Scottish representative meets five times a year. Its meetings are held alternately in one or other of the countries. The executive board meets with the Chairman of the Management Board and the Director of Human Resources twice a year on a regular basis and on an ad-hoc basis as and when significant events affecting the Group occur.

A Supervisory Board, composed of equal numbers of representatives from the workforce and the company, participates in the management of each of the mutual investment funds set up following the implementation of employee share ownership arrangements in France and Germany in 2006 and throughout the Group in 2008. It is stipulated that each of the mutual investment funds votes at the General Shareholders' Meeting via its representatives.

In France

Employees are represented at several levels:

The **Group Committee** is the representative body for all French companies. It has 20 representatives chosen by the trade unions from among those elected by the works councils and meets once a year in the presence of the members of the Management Board. It is provided with general information on the Group (review of financial statements, activity, capital expenditure, etc.). It is assisted by a chartered accountant. It is also involved with the management of provident and employee savings schemes.

When negotiations take place at Group level, each of the five trade unions represented within the Group (CGT, CFDT, FO, CFE-CGCC and CFTC) appoints mandated representatives and a **negotiation committee** is formed. The agreements signed in this context, in particular the agreement on the Organization of Working Time, the agreement on Workforce Planning and Management and the agreement on Lifelong Professional Training, result in joint discussions being held via **Monitoring Committees** and **Interpretation Committees**.

In 2008, negotiations were held at Group level on health care provision, resulting in the implementation by agreement of a mandatory, collective scheme to cover health care costs which applies to all employees and their families and to which the employer and works councils contribute.

In each company, the works councils, central works councils and consultative committees, which are elected, are informed and consulted about the economic affairs of the company or entity. They participate in the management of budgets in respect of employment-related matters.

The personnel representatives, who are elected by the employees of each entity, present employees' individual and collective claims in respect of salaries and working regulations.

The shop stewards are members of staff appointed by the trade unions. They represent employees in negotiations, in particular the statutory annual negotiation that takes place each year concerning salaries, the organization of working time and equal opportunities for men and women.

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Matters relating to working conditions, health and safety are dealt with by the committees for health, safety and working conditions (*Comités d'hygiène, de sécurité et des conditions de travail – CHSCT*).

- **In Germany**

  Most of the workforce is governed by the provisions of the law on works councils of 15 January 1972 (*Betriebsverfassungsgesetz*).

  The **works council** (*Betriebsrat*) represents employees. Its members are elected by the staff. It is involved in decisions concerning the Company's internal affairs and must give its prior agreement in a number of fields that affect staff. It is closely involved in matters that affect safety. The employer only attends meetings if invited to do so or if they are held at his request.

  An **economic committee** (*Wirtschaftsausschuss*) assists the works council. It meets once a month in the presence of the employer.

  The **senior managers' committee** (*Sprecherausschuss*) represents managerial staff.

  Salary negotiations take place outside the company between the employers' organization *Arbeitgeberverband Stahl*, and the *Industriegewerkschaft Metall* trade union, which represents the majority of employees.

- **In the United Kingdom**

  Employees are represented by four trade unions (three for manual workers and one for technical and administrative staff). 2008 negotiations focused on salaries and employment.

- **In Brazil**

  Most employees are represented by a trade union. A specific body, the **CRE** (Conselho Representativo dos Empregados), was implemented in 1999 to enable V & M Do Brasil's employees at the Barreiro plant to be represented. Its thirteen representatives are elected for two years. The CRE facilitates joint discussions on internal matters such as safety, working conditions, promotions, transfers, etc. As regards trade unions, they are represented by six employees appointed by the trade union and paid by V & M do Brasil. Only the trade unions have the authority to negotiate on salaries, profit sharing and remuneration systems.

- **In Mexico**

  The trade union represents only part of the staff, to which the collective agreements are applied. Negotiations relate to salaries and benefits in kind.

- **In the United States**

  As provided by law, employees voted on the method of staff representation and chose to have no trade union involvement. Social dialogue takes the form of very frequent meetings at the Group's premises attended by senior management and employees.

- **In China**

  Where the national union is represented at the plant by an employee, said employee is senior management's contact in staff matters. If there is no union representative, social dialogue takes the form of direct contact between the workers and senior management.

Group internal communication

To increase employees' involvement and to boost their motivation, Vallourec regularly circulates clearly understandable information to update staff on its strategy, trends, financial results, processes, products, etc.

This information is made available to staff by means of a number of communication media adapted to the various internal target audiences:

- *Vallourec Info,* a magazine intended for the 18,561 Group employees worldwide. It is published twice a year in five languages (English, German, French, Portuguese and Chinese);
- a printed corporate brochure *Vallourec Aujourd'hui,* in four sections, which presents key information on the Group's profile. It is sent to all Group employees worldwide, and is published in five languages (English, German, French, Portuguese and Chinese);
- *Executive Letter,* a bimonthly information letter sent to the Group's 1,350 managers. It is published in French and English;
- *Executive Flash,* in electronic format, used for quick dissemination of information on recent developments to the Group's 1,350 managers in French and English;
- *Présentation institutionnelle du Groupe* (Corporate presentation of the Group), in electronic format, updated following the release of the annual results and sent to managers with the aim of circulating the information as widely as possible. It is produced in French and English;
- an *international annual convention* is attended by around 900 of the Group's managers, who are provided with information about the Group's financial results and given a presentation on the Group's strategy, policies and objectives, in the short, medium and long term.

Continuous improvement strategy

Employees throughout the Group, in all sectors and at all levels, participate in the continuous improvement strategy via the Vallourec Management System (VMS).

The VMS is based on:

- Steering Committees, which are responsible for implementing and monitoring management policy;
- Total Quality Management (TQM) plans, which enable each employee's contribution to the Group's performance to be identified;
- Continuous Improvement Groups, which are multidisciplinary and cross-functional, and enable several members of staff, sometimes from different plants, to focus on the same objective. Membership of such groups is voluntary. The groups use methodological tools adapted to their specific needs, propose solutions and then implement said solutions. In 2008, 1,069 groups operated worldwide,including 150 dealing with health and safety matters.

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V – Health and safely conditions

High priority is given to the health and safety conditions for the staff working at Vallourec's sites. The Group's approach to health and safety is based on risk analysis and ongoing prevention.

It is essential that staff be trained in and familiarized with safety procedures on joining the Group and at regular intervals throughout their careers. More than one quarter of the total time spent on training is devoted to safety training and more than 75% of staff received safety training during the year. Temporary staff receive the same safety training as permanent staff. In the United States, Brazil and Europe, an e-learning safety training programme has been introduced, which enables the Group to carry out testing, on an ongoing basis and in respect of its entire staff, on the knowledge and understanding of the Group's safety rules.

Significant efforts are made to ensure that staff are familiar with safety procedures: communication campaigns on the topic of accidents to the hands and eyes, inter-site cross audits, introduction of continuous improvement groups on various topics linked to health and safety, improved prevention plans where external organizations are involved, etc.

The results for the Group as a whole have remained at the same level as in 2007. The consolidated accident frequency rate (FR, which corresponds to the number of notifiable accidents per million hours worked) fell from 8 to 7.8 whilst the 2008 consolidated accident severity rate (SR: the number of non-working days due to accidents per thousand hours worked) was 0.38 compared with 0.36 in 2007.

As regards safety, in 2008 the Group launched the "Cap Ten Safe" project, with the aim of achieving a definitive improvement in its performance in this area. It involved making a complete break with the past and carrying out an extensive overhaul of all safety measures whilst striving to achieve continuous, ongoing improvements in the Group's safety culture.

This plan is an integral part of the VMS in accordance with the following three fundamental principles: the commitment of all senior management, the involvement of all staff and the implementation of monitoring indicators.

The plan is based on three main aims:

- **The upgrading of all plants so that they comply with Vallourec's standard**. The audits carried out in 2007 and 2008 showed deficiencies that need to be remedied in the following areas: risk evaluation, monitoring, control and updating of safety actions, order and cleanliness of the shop floor, etc.
- **The development of a safety management system**: the Group intends to gain OHSAS 18001 certification for its main industrial sites during the 2009-2010 period.
- **The development of a safety culture**: at the end of 2008, the Group launched a programme under which all plant staff would receive a safety visit. The visit would involve observing an operator at his work station, followed by dialogue, the aim of which is to make staff aware of safety behaviour. The objective for 2009 is to carry out two safety visits per employee.

VI – Professional training

Vallourec needs staff who are well-trained, motivated and able to adapt to changes in the Group's business and markets.

The Group endeavours to reconcile its changing requirements with the individual aspirations of its employees by ensuring that all employees benefit from proper career development.

Training requirements are determined by individual entities on the basis of strategic objectives and the industrial plans drawn up on the basis of these objectives.

These requirements are the subject of annual and longer-term plans.

The training of workers focuses systematically on safety and the skills needed to enable them to carry out their work. It also enables workers to acquire other skills to qualify them for more responsible positions.

Managerial staff are trained to manage their teams and, in particular, to conduct progress meetings.

Most staff are offered technical training, language training and training to improve their efficiency and knowledge of their customers.

Managerial staff joining the Group attend a seminar run by senior management to familiarize them with the Group's strategy and help them to integrate into their teams.

On average, each employee spends 30 hours per year updating and broadening his skills. Safety training accounts for more than one-third of the time spent on training.

In France, implementation of the agreement on life-long training resulted in a number of career meetings being held with employees to ascertain their current skills and motivations and offer them ways of obtaining professional qualifications recognized by the profession (e.g. the certificate of joint qualification in metallurgy: *certificat de qualification paritaire de la métallurgie - CQPM*) to back up their professional experience. The aim is to develop a coherent career development programme that will motivate them over the long term.

In addition, a mentoring system has been introduced for certain positions. Mentors are volunteers who are selected for their skills and professional expertise in accordance with a formalized procedure. This process ensures that the skills and expertise needed for the most demanding positions are passed on.

Amount spent on training in 2008

The total amount spent on professional training (payment of salary during the training period + the cost of the training) represented 3% of the amounts paid in respect of remuneration. The time spent on training represented 2% of the working time.

Youth training

In addition to continuing professional development, Vallourec is involved in training young people in the Company's business, and metallurgy in particular, by means of apprenticeships and the use of other forms of work-linked training.

At 31 December 2008, Vallourec had 388 apprentices in total (287 in Germany, 81 in France, 10 in Brazil and 5 in the United Kingdom).

Of particular note was the launch in 2008 of a programme enabling a group of German apprentices to complete part of their apprenticeship in France. The Group intends to repeat and extend this initiative, the aim of which was to promote mobility and cultural exchanges between France and Germany.

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In addition, as is the case each year, a significant number of school pupils and students completed work experience and internships with the Group's French companies.

VII – Employment and integration of disabled employees

In Brazil, the Open Arms and Integration programmes facilitate the effective and harmonious integration of disabled employees into the company.

In Germany and France, efforts have focused on actions, taken in collaboration with the departments responsible for health and safety, to help the Group to prepare for loss of skills linked to age or sickness and to intervene when a problem arises.

In France, the Group has 111 employees who are registered as disabled. It also uses a number of *centres d'aide par le travail* (workshops that provide employment for disabled people) to which it subcontracts work (upkeep of open spaces, purchase of supplies, catering services, finishing work, etc.).

Most countries have a policy of adapting the workplace, which enables staff whose ability to work is reduced to continue working.

VIII – Welfare

Expenditure on welfare inevitably depends on the legislation and culture of the countries in which the Group operates.

The main items classified as welfare expenditure are as follows:

- health insurance: amount spent in the form of subsidies or contributions to voluntary welfare plans (excluding mandatory social security charges);
- retirement scheme: amount spent on contributions or other systems implemented by the employer voluntarily;
- housing: amount spent on accommodation (either in subsidies or mandatory contributions);
- food: amount spent on meals for employees (company restaurants);
- cultural and sporting events: sponsoring undertaken by the Group;
- transport: buses subsidized by the company.

IX – Levels of subcontracting

In 2008, the Group's various entities spent nearly €150 million on sub-contracting. 530 suppliers provided various services, mainly in the Oil & Gas division. The 15 leading suppliers accounted for 50% of this total.

The main subcontractors are systematically reviewed to ensure that social agreements in force locally are properly applied.

B – Sustainable development

Vallourec has drafted its production policy with the aim of minimizing the impact of its activities on the environment at all levels. People and their environment are at the heart of the Group's policy, details of which are given in the sustainable development charter published by the Group.

Environmental management

Pursuant to the management regulations applied to all aspects of the Group's organization, each company's environmental policy is the responsibility of its management. The site manager is responsible for implementing an effective environmental management system, in accordance with local conditions and the nature of the business. He must appoint an environment manager to be responsible for all environment matters.

The Health, Safety and Environment department, which is attached to the Quality Department and based at the Group's Research Centre in Aulnoye (Nord), is responsible for coordinating the Group's environment policy. It relies on the environmental managers at each production site to communicate the Group's policy and to ensure that improvements continue to be made at the Group's offices and workshops.

These structures exist in all countries. Across the Group, more than 100 people at production sites in each country specialize in environmental matters.

Communication between the various countries is improving and contributes to progress throughout the Group by comparing the respective performances and solutions adopted by each country.

The Environment department in France is also responsible for coordinating and supervising this benchmarking, and, in particular, for gathering and collating all the Group's environmental data. The Safety and Environment report, which is now circulated each year, summarizes this data, measures changes in the data as compared with earlier years in order to assess the progress achieved and highlights any problems encountered and the solutions implemented. The report presents by way of illustration "good examples" identified from among all Vallourec's sites around the world.

Vallourec Management System

The *Vallourec Management System* (VMS) was introduced to provide a framework for implementing the Quality, Health and Safety and Environmental policies set out by Executive Management, with the underlying aim of enhancing the Group's performance.

The Vallourec Management System verifies that initiatives are consistent with the strategic plan and deliver continuous progress. It also ensures that due consideration is given to management requirements in terms of Quality (ISO 9001, ISO/TS 16949, API and ASME standards), Health and Safety (OHSAS 18001) and the Environment (ISO 14001).

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The Vallourec Management System is organized around three main pillars:

- Total Quality Management (TQM) plans;
- steering committees;
- Continuous Improvement Teams (CIT).

The three fundamental principles underpinning the VMS are:

- accident prevention;
- control over process fluctuations;
- efficiency gains.

Audits and certifications

Environmental audits are organized regularly in each country, in order to assess compliance with regulations, environmental performance and environmental risks.

By the end of 2008, the following Group sites had obtained ISO 14001 certification:

- **France**: V & M France CEV, V & M France's plants in Deville, Saint-Saulve (steel mill and pipe mill), Aulnoye and Montbard, Valti (Montbard and La Charité plants), Valinox Nucléaire, Valtimet (Laumes plant), VMOG (Aulnoye plant), VAM Drilling (Aulnoye, Cosnes and Tarbes plants) and Interfit;
- **Germany**: V & M Deutschland in respect of its Mülheim, Rath and Reisholz plants;
- **Scotland**: Vallourec Mannesmann Oil & Gas UK (Bellshill);
- **United States**: V & M Star in respect of its two plants in Youngstown and Houston, VAM USA in Houston and VAM Drilling in Houston. All the new facilities acquired from Grant Prideco in 2008 are also certified;
- **Mexico**: VAM Mexico;
- **Brazil**: V & M do Brasil in respect of all its activities (mining, forestry, steel mills and pipe mills);
- **China**: V & M Changzhou.

All of Vallourec's main sites, accounting for more than 98% of total output, are now certified, in accordance with the goals set by the Chairman of the Management Board in 2006. Certification at a few smaller sites is planned for 2009.

Compliance with legislation

Regular audits are conducted, to assess compliance of the production sites' activities with statutory and regulatory requirements.

In France, regulations are monitored by means of the intranet, via an environment portal that can be accessed by all production sites. The regular and systematic review of these provisions enables frequent action to be taken in terms of improvements, investment and organization.

Performance

The Group has made sustained efforts over the past few years to improve the use of resources (water, power and raw materials), to optimize consumption, reduce pollutant emissions, cut waste volumes and increase the proportion of waste that is recycled and recovered. In order to facilitate progress measurement, indicators have been introduced at the various sites. The table below summarizes some of the main indicators for 2005 to 2008 for the Group as a whole.

	2005	2006	2006 (*)	2007	**2008**
Water consumption *(m^3)*	10,256,071	10,778,479	9,302,090	9,554,272	9,444,031
Effluent discharge *(m^3)*	4,741,881	5,181,164	4,794,099	6,138,381	5,880,281
Electricity *(GWh)*	1,713	1,787	1,707	1,668	1,680
Gas *(GWh)*	3,817	4,096	3,718	3,693	3,687
Waste *(tons)*	519,721	669,554	655,907	721,320	682,370
Greenhouse gases (tonnes CO_2) (**)	791,414	849,148	779,940	828,468	976,209

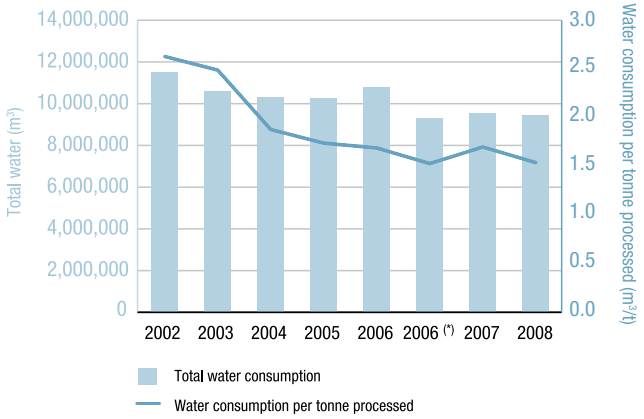
(*) In view of the significant change in consolidation scope between 2006 and 2007, following the disposal of the Vallourec Precision Étirage plants and the Zeithain plant, the 2006 indicators have been recalculated with the same scope as that for 2007 and shown as "2006".

(**) The 2007 calculations include emissions from internal transport and emissions linked to other energy sources (domestic fuel, propane, butane, etc.), which were not previously recognized. With effect from 2008, the results also include another greenhouse gas: methane, which is derived from the charcoal-making process used by V & M do Brasil. In CO_2 equivalent, methane accounts for between 25% and 35% of the Group's total emissions (although this remains an estimated value that the Group intends to further refine in 2009).

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Among these natural resources, **water** occupies an important place as far as the Group is concerned. Our industry is a major consumer of water, but thanks to the significant efforts made at all sites to reduce consumption, noticeable progress has been made: in terms of relative value (i.e. water consumption in relation to tube production) the Group's consumption fell between 2002 and 2008 from 2.7 m^3/tonne to 1.6 m^3/tonne, as shown in the following graph:



(*) 2006 result at 2007 scope.

NB: Tonnes processed = Tonnes produced at each plant, whether as steel, hot-rolled tubes, cold-finished tubes, etc. Vallourec's total production is calculated by adding together each individual plant's output (number of units of production from each plant, calculated in equivalent tonnes).

Significant progress was also made in the area of **carbon dioxide (CO_2) emissions**, attributable in part to the steel-making process implemented by V & M do Brasil, which uses charcoal instead of coke in its blast furnaces. In order to produce the charcoal needed for this process, V & M do Brasil currently cultivates around 100,000 hectares of eucalyptus forests, which consume carbon dioxide (CO_2) and produce oxygen as they grow. This process contributes directly to the reduction of greenhouse gases: the steel mill's emissions are offset by the amounts consumed by the forests.

As regards the implementation of the European Directive on managing carbon dioxide emissions quotas, this affected only the Saint-Saulve steel mill in 2008, with quotas of 106,037 tonnes of carbon dioxide. The 2008 emissions, which were verified by APAVE with no reservations, totalled 76,319 tonnes. The difference is the result of improved performance, due, in particular, to the optimization of furnace loading plans and energy efficiency.

All **measurements of pollutant discharges** into the environment are within the current regulatory limits, and, generally, have improved steadily over the past three years.

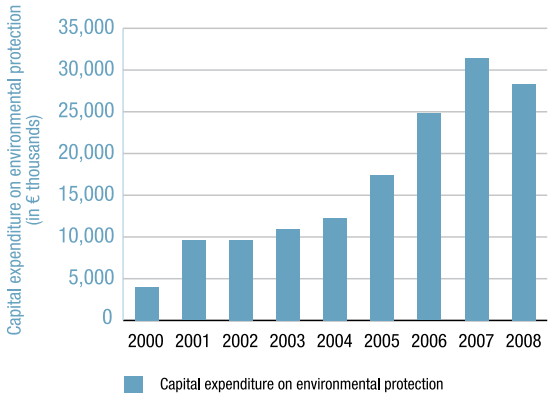
As far as the French sites are concerned, the soil is the subject of risk characterization studies in two main circumstances: if the plant has been involved in metalworking activities, even if such involvement took place before it became part of the Group, or if it possesses facilities liable to cause pollution.

No sites were identified as requiring decontamination in 2008.

Investment in environmental protection and safety

In 2008, the Group continued to invest heavily in environmental protection and safety, committing a total of €28.4 million to projects in this area (compared with €31.4 million in 2007); this sum represented 5.25% of the Group's total capital expenditure.

As the graph below shows, investment in environmental protection and safety was sustained at a high level throughout the period from 2000-2008.



In 2008, investment mainly concerned the following areas:

- environmental compliance efforts (filters, fume extraction equipment, water systems, retaining facilities, etc.);
- compliance efforts relating to plant facilities (fire protection systems, gas systems, etc.) and electrical compliance work;
- improvements to working conditions (lighting, heating and ventilation);
- costs relating to the revision of operating licences and ISO 14001 certification;
- cooling tower optimization;
- improvements to water supplies and recycling systems;
- site development and safety work (rooftops, parking facilities, etc.);
- noise abatement;
- storage facilities and shaving recovery processes.

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Contribution of Vallourec products to the sustainable development

For several years Vallourec has also been developing new products that are in line with trends in requirements associated with sustainable development and that are not harmful to land, air or water. Examples of this trend include:

- the VAM® threaded joint, the world leader as regards the safety of offshore oil wells;
- welded tubes for seawater desalination plants;
- various products made by the Group and used in the production of clean energy or to reduce chemical pollution;
- use of steel tubes as a means of lightening structures (in buildings, vehicles, transit systems, etc.);
- VM12, an important new grade of steel used in thermal power plants (in particular in the ultra-supercritical plant at Neurath, the world's most powerful lignite power plant).

8.1.1.4 Remuneration of Corporate officers

In order to comply with the requirements of Article L. 225-102-1 of the French *Code de Commerce*, we hereby inform you that the amounts of remuneration and benefits of any kind paid during the year to each employee who was a member of the Supervisory Board or Management Board as at 31 December 2008, directly or indirectly, by Vallourec or by any Group company, were as follows:

Supervisory Board

The maximum annual attendance fees for allocation by the Supervisory Board to its members were increased to €400,000 by the Ordinary General Meeting of 1 June 2006 (*Fifteenth resolution*).

Each Board member and each Censeur has, since 2007, received attendance fees set at €28,000 per year, reduced pro rata in the case of an appointment or termination of an appointment during the year.

The Chairman of the Supervisory Board receives remuneration, the amount of which was increased by the Supervisory Board, as recommended by the Appointments and Remuneration Committee, to €250,000 per year with effect from 1 January 2006. He also receives attendance fees of €28,000. The Chairman and members of the Supervisory Board were not awarded any share options, performance shares or termination payments of any kind.

Members of the Committees (Finance Committee, Appointments and Remuneration Committee and Strategy Committee) receive, as part of the aforementioned €400,000 annual budget, additional attendance fees based on their actual attendance at meetings of said Committees.

Remuneration of the Censeurs comes within the annual budget for attendance fees allocated to the Supervisory Board.

ATTENDANCE FEES RECEIVED BY THE MEMBERS OF THE SUPERVISORY BOARD

In euro

Members of the Supervisory Board		Amounts paid in 2007	**Amounts paid in 2008**
Messrs	Jean-Paul Parayre	28,000	28,000
	Patrick Boissier	35,500	40,500
	Philippe Crouzet	–	17,500
	Michel de Fabiani	41,000	40,500
	Denis Gautier-Sauvagnac	35,500	16,500
	François Henrot	38,000	35,500
	Edward G. Krubasik	55,500	54,500
	Jean-Claude Verdière	58,500	65,500
	Thierry Marraud (Bolloré)	45,500	40,500
	Arnaud Leenhardt (Censeur)	28,000	28,000
	Luiz-Olavo Baptista (Censeur)	28,000	28,000
TOTAL		**393,500**	**395,000**

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Management Board

TABLE SUMMARIZING THE REMUNERATION, OPTIONS AND SHARES AWARDED TO EACH EXECUTIVE CORPORATE OFFICER

In euros	Year ended 31/12/2007	**Year ended 31/12/2008**
Pierre Verluca, Chairman of the Management Board		
Remuneration due in respect of the financial year	898,129	939,163
Valuation of options awarded during the financial year (*)	756,600	910,640
Valuation of performance shares awarded during the financial year (**)	216,555	–
Total	1,871,284	1,849,803
Jean-Pierre Michel, member of the Management Board		
Remuneration due in respect of the financial year	485,862	581,394
Valuation of options awarded during the financial year (*)	640,200	780,746
Valuation of performance shares awarded during the financial year (**)	216,555	–
Total	1,342,617	1,362,140
Olivier Mallet, member of the Management Board (***)		
Remuneration due in respect of the financial year	–	144,376
Valuation of options awarded during the financial year (*)	–	1,480,016
Valuation of performance shares awarded during the financial year (**)	–	201,726
Total	–	1,826,118

(*) The acquisition of shares is subject to performance requirements. The same applies to a significant portion of the share subscription options awarded to the Management Board in 2008.
The valuation of the options shown in the table is theoretical and results from the application of the binomial model used for the consolidated financial statements. The actual valuation is zero if the share price is equal to or less than €190.60 in the case of options awarded in 2007 and €183.54 in the case of those awarded in 2008.

(**) The 2007 Plan performance shares were awarded in three tranches. They are available in 2009, 2010 and 2011 respectively and transferable in 2011, 2012, and 2013 respectively. The performance shares allocated in 2008 were allocated in respect of an additional allocation under the 2007 Plan. They were awarded in two tranches only.

(***) Pro-rata as from his appointment to the Management Board.

The above table summarizes the remuneration due in respect of the year ended 31 December 2008 and the valuation of the share subscription options and performance shares awarded during the financial year.

The method used to calculate the variable portion is explained in Section 8.2 (D – Principles and rules for determining the remuneration of corporate officers) of this Reference Document.

The following allocations were also made to the members of the Management Board:

- 1,200 (600 in respect of tranche 1 and 600 in respect of tranche 2) shares were allocated to Mr Olivier Mallet under the terms of the 1 September 2008 performance share allocation plan;
- 14,000 options were granted to Mr Pierre Verluca, 12,000 options to Mr Jean-Pierre Michel and 23,000 options to Mr Olivier Mallet, under the terms of the 1 September 2008 share subscription option plan.

Full details of the conditions for allocation and exercise applicable to these two plans are provided in the Special report of the Management Board on options (8.1.2) and in the Special report of the Management Board on allocations of performance shares (8.1.3).

As regards benefits in kind, each member of the Management Board had a company car.

As regards pension provision, there is no specific pension scheme for members of the Management Board who are, instead, covered by the supplementary pension scheme for the senior management of Vallourec and V & M Tubes approved by the Supervisory Board at its meeting on 14 September 2005. In addition, at its meeting on 7 May 2008, the Supervisory Board authorized an amendment to the supplementary pension scheme of 15 September 2005 applicable to the Group's senior management (membership at 31 December 2008: 30 employees), including the members of the Management Board.

The aim of the amendment is to enable Vallourec's senior managers who have left the Company when aged over 55 at the employer's initiative to retain their rights under Vallourec's supplementary pension scheme, provided that they do not subsequently take up alternative employment. It is intended that this provision will also apply to Management Board members, who would not benefit from any particular advantages above and beyond those enjoyed by other senior managers.

The terms and conditions applicable to these supplementary pension commitments are detailed below in the section of the management report dealing with regulated agreements and commitments.

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The new Chairman of the Management Board, whose term of office commenced on 1 April 2009, does not have an employment contract with the Group. He is entitled to a termination payment in the event that his departure is imposed on him, is due to a significant change in the Group's capital structure, a merger or change of strategy initiated by the Supervisory Board or the Company's shareholders. In accordance with Article L. 225-90-1 of the French *Code de Commerce* and the AFEP/MEDEF code of corporate governance for listed companies, the receipt of such payments would be conditional upon performance requirements. The amount of such payments may not exceed twice the gross annual monetary remuneration. Were the Chairman of the Management Board to leave the Company under the same circumstances and before exercising the share subscription or share purchase options granted to him, he would still be entitled to them, subject to performance conditions.

The other members of the Management Board are not entitled to any termination payments if they are dismissed by the Company. Those who had an employment contract with Vallourec & Mannesmann Tubes before they were appointed as members of the Company's Management Board, application of which is suspended during their term of office, are entitled to a redundancy payment in the event that they are dismissed by Vallourec & Mannesmann Tubes. The amount of such redundancy payment is equal to two years' gross fixed remuneration in respect of said contract of employment, increased by a lump sum variable amount of 12.5%.

The information on the Management Board laid down in Article L. 225-102-1 is provided in Section 6 on corporate governance and, in particular, in Section 6.2 dealing with compensation and benefits in kind and Section 8.2 of this Reference Document, of which this management report forms an integral part. The information on the Management Board laid down in Article L. 225-100-3 is provided in Section 6 on corporate governance of this Reference Document, of which this management report forms an integral part, and, in particular, in Section 6.1 dealing with the composition and operation of the administration, management and supervisory bodies.

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8.1.1.5 Information on the breakdown of capital

At 31 December 2008, the shareholders and their respective shareholdings were as follows:

Shareholders	Number of shares	% of shares	Number of voting rights (gross)	% of voting rights (gross)
Barclays Group Plc	2,956,264	5.50%	2,956,264	5.49%
Bolloré Group	1,558,954	2.90%	1,558,954	2.90%
Free float	48,048,768	89.33%	48,468,000	90.08%
Group employees (*)	824,311	1.53%	824,311	1.53%
Own shares directly held by Vallourec (**)	400,419	0.74%	–	0.00%
TOTAL	**53,788,716**	**100%**	**53,807,529**	**100%**

(*) Under the terms of the employee share ownership plans (see 6.3.4 above).
(**) Own shares held directly by Vallourec include those held under the liquidity contract, which totalled 131,840 shares at 31 December 2008. This contract, by its nature, results in a monthly change which is the subject of ad-hoc declarations on the Vallourec website (www.vallourec.com) under the heading "Regulated information".

Information of a general nature concerning the Company's capital is provided in Section 2.2 and information concerning the breakdown of the share capital and voting rights is provided in Section 2.3 of this Reference Document, of which this management report forms an integral part.

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Appendix to the Management Board's report for the fiscal year 2008

LIST OF POSITIONS HELD BY VALLOUREC CORPORATE OFFICERS AT 31 DECEMBER 2008

Members of the Supervisory Board

Jean-Paul PARAYRE

Date of first appointment: 13 June 1989 (*at which time Vallourec was managed by a Board of Directors*)

Date appointment most recently renewed: 1 June 2006

Date of appointment as Chairman of the Supervisory Board: 15 June 2000

Date on which appointment ceases: General Meeting called to approve the financial statements for the financial year 2010

Chairman of the Appointments and Remuneration Committee within the Supervisory Board

Date of birth: 5 July 1937

Business address:
None

Expertise and managerial experience

- 1977-1984: Chairman of the Management Board of PSA Peugeot-Citroën;
- 1984-1990: COO then Chairman of the Management Board of Dumez;
- 1990-1992: Vice-President and COO of Lyonnaise des Eaux Dumez;
- 1994-1999: Vice-President and COO of Bolloré Group;
- 1996-1999: CEO of Saga.

	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Chairman of the Supervisory Board of Vallourec • Vallourec's permanent representative on the Board of Directors of Vallourec & Mannesmann Tubes (since 15 March 2006)	**Positions held in French companies:** • Chairman of the Supervisory Board of Stena Maritime • Member of the Supervisory Board of Peugeot • Director of Bolloré • Director of SNEF **Positions held in foreign companies:** • Manager B of Stena International Sarl
Positions that expired in the last five years	**Positions held in French companies:** • Vallourec's permanent representative on the Board of Directors of ValTubes (to 29 December 2006) **Positions held in foreign companies:** • Member of the Advisory Board of V & M do Brasil (to 6 October 2006)	**Positions held in French companies:** • Director of Seabulk (to September 2004) • Director of Sea-invest France (to September 2004) **Positions held in foreign companies:** • Director of Stena International BV (to October 2006) • Director of SDV Cameroun (to October 2005) • Director of Stena Line (to June 2005) • Director of Carillion (to December 2004)

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Patrick BOISSIER

Date of first appointment: 15 June 2000

Date appointment most recently renewed: 1 June 2006

Date of appointment as Vice-Chairman of the Supervisory Board: 18 April 2005

Date on which appointment ceases: General Meeting called to approve the financial statements for the financial year 2010

Member of the Appointments and Remuneration Committee within the Supervisory Board

Date of birth: 18 February 1950

Business address:
DCNS
2, rue Sextius-Michel
75732 Paris Cedex 15

Expertise and managerial experience

- Former pupil of the Ecole Polytechnique;
- 21 years' managerial experience with industrial companies in the iron and steel, capital goods, shipbuilding and services sectors.

	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Vice-Chairman of the Supervisory Board of Vallourec	**Positions held in French companies:** • Chairman and CEO of DCNS • Director of Institut Français de la mer • Director of Sperian Protection • Member of the Supervisory Board of Steria
Positions that expired in the last five years		**Positions held in French companies:** • CEO of CEGELEC (to 31 December 2008) • Chairman and CEO of Chantiers de l'Atlantique (to March 2008) • Chairman of Chambre Syndicale des Constructeurs de Navires (to July 2006) • Director of Aker Yard (to 2006) • Director of École des Mines de Nantes (to 2006) • Chairman and CEO of Ateliers de Montoir (to 2005) • Director of Société Nationale de Sauvetage en Mer (SNSM) (to 2005)

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Philippe CROUZET [1]

Date of first appointment: 10 April 2008

Date appointment most recently renewed: 4 June 2008

Date on which appointment ceases: General Meeting called to approve the financial statements for the financial year 2011

Date of birth: 18 September 1956

Business address [2] :
Saint-Gobain Distribution Bâtiment
Les Miroirs
18, avenue d'Alsace
92096 Paris la Défense Cedex

Expertise and managerial experience

- Former pupil of the École Nationale d'Administration;
- Counsel (*maître des requêtes*) to the Conseil d'Etat;
- 23 years' experience with the Saint-Gobain Group.

	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Member of the Supervisory Board of Vallourec	**Positions held in French companies:** • Chairman of Saint-Gobain Distribution Bâtiment • Chairman of the Supervisory Board of Point P • Chairman of the Supervisory Board of Lapeyre **Positions held in foreign companies:** • Member of the Supervisory Board of Raab Karcher Baustoffe (Germany) • Director of Saint-Gobain Cristaleria (Spain) • Director of Saint-Gobain Building Distribution (United Kingdom) • Chairman of the Board of Directors of Dahl International (Sweden) • Director of Norandex Distribution (United States)
Positions that expired in the last five years		**Positions held in foreign companies:** • Director of Saint-Gobain KK (Japan) (to 2004) • Director of Saint-Gobain GNO (India) (to 2004)

(1) Since the Supervisory Board, at its meeting on 25 February 2009, appointed Mr Philippe Crouzet as Chairman of the Management Board as from 1 April 2009, thereby succeeding Mr Pierre Verluca for the remainder of his term of office, Mr Philippe Crouzet resigned from his position as a member of the Supervisory Board with effect from 31 March 2009.

(2) As at 31 December 2008.

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Michel de FABIANI

Date of first appointment: 10 June 2004

Date on which appointment ceases: General Meeting called to approve the financial statements for the financial year 2009

Member of the Appointments and Remuneration Committee within the Supervisory Board

Date of birth: 17 June 1945

Business address:
Chambre de Commerce franco-britannique
31, rue Boissy d'Anglas
75008 Paris

Expertise and managerial experience

- Chairman of BP France from 1995 to 2004;
- Vice-President of BP Europe from 1997 to 2004;
- CEO of BP Mobil Europe joint venture from 1997 to 2001;
- CFO of BP Europe from 1991 to 1994.

	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Member of the Supervisory Board of Vallourec	**Positions held in French companies:** • Director of BP France • Director of Rhodia • Vice-Chairman of the Franco-British Chamber of Commerce **Positions held in foreign companies:** • Director of EBtrans (Luxembourg) • Director of Star Oil (Mali) • Director of SEMS (Morocco) • Chairman of Hertford British Hospital Corporation (United Kingdom)
Positions that expired in the last five years		**Positions held in French companies:** • Director of Institut Français du Pétrole (to March 2005) • Chairman of the Board of Directors of BP France (to March 2004)

Denis GAUTIER-SAUVAGNAC

Date of first appointment: 7 February 1997

Date appointment most recently renewed: 1 June 2006

Date on which appointment ceases: General Meeting called to approve the financial statements for the financial year 2010

Date of birth: 28 May 1943

Business address:
Conseil Economique, Social et Environnemental
1, place d'Iéna
75116 Paris

Expertise and managerial experience

- Graduate of the Ecole nationale d'administration (1967) and General Inspector of Finance;
- COO of an agri-food group (1979-1985);
- Chairman and CEO of the French subsidiary of a UK merchant bank (1990-1993).

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	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Member of the Supervisory Board of Vallourec	**Positions held in French companies:** • Chairman and CEO of Capitol Europe since 2001 • Member of the Economic, Social and Environmental Council • Chairman and CEO of Accor Sciences since 2007
Positions that expired in the last five years	**Positions held in French companies:** • Member of the Appointments and Remuneration Committee within Vallourec's Supervisory Board (to 10 April 2008)	**Positions held in French companies:** • President and Managing Director of UIMM (to November 2007) • Vice-President and Managing Director of UIMM (to March 2006) • Managing Director of UIMM (to March 2008) • Chairman of the Board of Directors of UNEDIC (to December 2005) • Vice-Chairman of the Board of Directors of UNEDIC (to January 2008) • Member of the Executive Board of MEDEF (to December 2007) • Chairman of the MEDEF Commission Relations du Travail (to November 2007) • Member of the Supervisory Board of France Convention (to 2005) • Member of the Economic and Social Council since 2004

François HENROT

Date of first appointment: 8 June 1999

Date appointment most recently renewed: 7 June 2005

Date on which appointment ceases: General Meeting called to approve the financial statements for the financial year 2010

Member of the Strategy Committee

Date of birth: 3 July 1949

Business address:
Banque Rothschild & Cie
23 bis, avenue de Messine
75008 Paris

Expertise and managerial experience

- COO, then Chairman of the Management Board of Compagnie Bancaire (1985-1995);
- Member of the Supervisory Board of Paribas and Chairman of the Supervisory Board of Crédit du Nord (1995-1997).

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	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Member of the Supervisory Board of Vallourec	**Positions held in French companies:** • Managing Partner of Rothschild & Cie Banque • Managing Partner of Rothschild & Cie • Member of the Supervisory Board of 3 Suisses • Member of the Supervisory Board of Yam Invest N.V.
Positions that expired in the last five years		**Positions held in French companies:** • Member of the Supervisory Board of Cogedim (to 2007) • Director of Eramet (to 7 March 2007) • Director of Carrefour (to March 2004) • Member of the Supervisory Board of Pinault-Printemps-Redoute (to October 2004)

Edward-Georg KRUBASIK

Date of first appointment: 6 March 2007

Date appointment most recently renewed: N/A

Date on which appointment ceases: General Meeting called to approve the financial statements for the financial year 2009

Chairman of the Strategy Committee within the Supervisory Board

Member of the Finance Committee within the Supervisory Board

Date of birth: 19 January 1944

Business address:
Maximilian Strasse 35 A
D – 80539 Munich (Germany)

Expertise and managerial experience

- Doctor of nuclear physics (Karlsruhe), researcher at Stanford University, MBA from Insead at Fontainebleau, Honorary professor at Munich University;
- Consultant at McKinsey & Company, Inc. for 23 years (1973–1996);
- Member of the Executive Committee of Seimens AG (1997–2006), Vice-Chairman of the Federation of German Industries since 2004 and Chairman of the Federation of the Electrical and Electronics Industry (2004–2007), Chairman of Orgalime (2006–2007).

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	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Member of the Supervisory Board of Vallourec	**Positions held in French companies:** • None **Positions held in foreign companies:** • Member of the Government Federal Commission for Development and the High Committee of the European Commission for Energy, the Environment, Industry and Competition • Chairman of the Supervisory Board of Honsel AG (Germany) • Member of the Central Advisory Board of Commerzbank (Germany) • Industrial Partner of Ripplewood Holdings J.I. (Belgium)
Positions that expired in the last five years		**Positions held in French companies:** • Chairman of the Board of Directors of Siemens France SA (to October 2006) **Positions held in foreign companies:** • Chairman of the Federal Committee of the Economic Council for Development and Innovation (Germany) (to September 2008) • Chairman of the Federation of the Electrical and Electronics Industry (Germany) (to November 2008) • Vice-Chairman of the Federation of German Industries (Germany) (to September 2006) • Member of the Supervisory Board of Dresdner Bank (Germany) (to December 2008) • Chairman of Orgalime (European Association) (to November 2007) • Chairman of the Supervisory Board of Siemens VDO (to September 2004) • Director of Siemens AG (Germany) (to September 2004) • Member of the Supervisory Board of Siemens Norge (Norway) (to September 2004) • Advisor to Conference Board (United States) (to September 2004)

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BOLLORÉ represented by Thierry MARRAUD [1]

Date of first appointment: 13 November 2008

Date on which appointment ceases: General Meeting called to approve the financial statements for the financial year 2009

Business address:
Tour Bolloré
31-32, quai de Dion Bouton
92811 Puteaux

	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Member of the Supervisory Board of Vallourec (since 13 November 2008)	**Positions held in French companies:** • Chairman of Compagnie Saint-Gabriel • Director of Direct Soir, Havas, IER, SFDM, Société de Culture des Tabacs et Plantations Industrielles, Financière Moncey, Société Française de Production, Direct 8 (formerly Bolloré Média), Financière de Cézembre, MP 42, Saga, Transisud, BatScap and Fred & Farid • Member of the Supervisory Board of CSA TMO Holding and Vallourec **Positions held in foreign companies:** • Director of S.E.T.V. (Ivory Coast)
Positions that expired in the last five years		**Positions held in French companies:** • Director of Video Communication France (to 28 November 2007) • Director of Euro Media Télévision (to 28 September 2007) • Director of SFP Holding (to 29 June 2005) **Positions held in foreign companies:** • Director of Comarine (Morocco) (to 31 July 2007)

Thierry MARRAUD

Date of first appointment: 10 June 2004

Date on which appointment ceases: General Meeting called to approve the financial statements for the financial year 2009

Member of the Finance Committee within the Supervisory Board

Date of birth: 30 April 1942

Business address:
Tour Bolloré
31-32, quai de Dion Bouton
92811 Puteaux

Expertise and managerial experience

- 31 years at the Saint-Gobain Group: Group CFO and COO mechanical paper and packaging division;
- 5 years as member of the Executive Committee of Crédit Lyonnais (1995-2000), CEO of Marsh MacLennan France (2001-2002) and CFO of Bolloré Group since 2003.

(1) At its meeting on 13 November 2008, the Supervisory Board appointed Bolloré as a member of the Supervisory Board to replace Financière de Sainte-Marine (Bolloré Group), which resigned, for the duration of the remainder of the term of office of its predecessor, i.e. to the end of the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2009. This appointment is, in accordance with the legislation and regulations, subject to ratification by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009. Mr Thierry Marraud is acting as Bolloré's permanent representative until a further decision is taken.

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	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Bolloré's permanent representative on the Supervisory Board of Vallourec (since 13 November 2008)	**Positions held in French companies:** • Chairman, CEO and director of Compagnie des Glénans • Chairman and member of the Management Board of Compagnie du Cambodge • Member of the Supervisory Board of Euro Média Group • Member of the Supervisory Board of Emin Leydier • Chairman of Compagnie de Lanmeur and Financière de l'Argol • Bolloré's permanent representative on the Finance Committee of Cézembre • Compagnie du Cambodge's representative on the Boards of IER, Société Bordelaise Africaine and Société Industrielle et Financière de l'Artois • Financière de l'Odet's permanent representative on the Boards of Saga and SFDM • Financière V's permanent representative on the Board of Bolloré • MP 42's permanent representative on the Board of Société de Culture des Tabacs et Plantations Industrielles **Positions held in foreign companies:** • Chairman of Plantations des Terres Rouges SA, Babcock Redlands Corporation and Cook Redlands Corporation • Vice-Chairman of Redlands Farm Holdings • Director of African Investment Company, Madison Investissements SA, Sorebol SA, Renwick Invest SA, Dumbarton Invest SA, Morisson Investissements SA, Latham Invest SA, Montrose Invest SA, Plantations des Terres Rouges, Swann Investissements SA and JSA Holding BV
Positions that expired in the last five years	**Positions held in French companies:** • Financière de Sainte-Marine's permanent representative on the Supervisory Board of Vallourec (to 13 November 2008)	**Positions held in French companies:** • Chairman of Financière de Sainte-Marine (to 31 December 2008) • Chairman of Financière de Douarnenez (to 18 February 2008) • Director of Havas (to 5 March 2008) • Financière de l'Odet's permanent representative on the Board of Directors of Société Française de Production (to 7 December 2007) • Bolloré's permanent representative on the Board of Directors of SFDM (to 25 October 2006) • Member of the Supervisory Board of Atria Capital Partenaires (to 13 October 2004)

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Jean-Claude VERDIERE

Date of first appointment: 1 July 2001

Date appointment most recently renewed: 6 June 2007

Date on which appointment ceases: General Meeting called to approve the financial statements for the financial year 2009

Chairman of the Finance Committee within the Supervisory Board

Member of the Strategy Committee within the Supervisory Board

Date of birth: 11 April 1938

Business address:
None

Expertise and managerial experience

- Former pupil of the École Polytechnique;
- 40 years with the Vallourec Group, mainly in finance/management control;
- Member of the Management Board and COO of Vallourec from 1994 to 2001;
- Member of the Appointments and Remuneration Committee.

	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Member of the Appointments and Remuneration Committee (since 10 April 2008) • Member of the Supervisory Board of Vallourec (since 12 June 2001) • Director of Vallourec & Mannesmann Tubes (since 15 March 2006)	
Positions that expired in the last five years	**Positions held in French companies:** • Director of ValTubes (to 29 December 2006) • Director of Sopretac (to 16 December 2004)	

Censeurs

Arnaud LEENHARDT

Censeur (non-voting Board member)

Date of first appointment: 1 June 2006

Date on which appointment ceases: General Meeting called to approve the financial statements for the financial year 2009

Honorary Chairman of the Supervisory Board since 15 June 2000

Date of birth: 16 April 1929

Business address:
None

Expertise and managerial experience

- Former pupil of the École Polytechnique;
- 40 years with the Vallourec Group, mainly in plant and general management;
- Chairman of the Board of Directors of Vallourec from 1981 to 1994;
- Chairman of the Supervisory Board of Vallourec from 1994 to 2000.

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	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Honorary Chairman • Censeur of the Supervisory Board of Vallourec	**Positions held in French companies:** • Honorary Chairman of UIMM • Member of the Supervisory Board of ODDO et Cie • Member of the Supervisory Board of Fives (formerly Fives-Lille) • Director of AON France
Positions that expired in the last five years	None	None

Luiz-Olavo BAPTISTA

Censeur (non-voting Board member)

Date of first appointment: 4 June 2008

Date on which appointment ceases: General Meeting called to approve the financial statements for the financial year 2011

Date of birth: 24 July 1938

Business address:
avenue Paulista 1294, 8° Andar
01310-915 São Paulo SP (Brazil)

Expertise and managerial experience

- Professor of International Law, Barrister at the São Paulo Bar and International Arbitrator (WTO, ICSID, UNCC and ICC), Doctor of International Law at the Université de Paris I, Visiting Professor at the University of Michigan, the Université de Paris I and the Université de Paris X, Professor of Law and International Trade at the Faculty of São Paulo;
- Has published more than 20 books on international law and commercial law;
- Company director;
- Arbitrator in international trade matters.

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	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Censeur of the Supervisory Board of Vallourec since 4 June 2008 **Positions held in foreign companies:** • Member of the Advisory Board of V & M do Brasil	**Positions held in French companies:** • None **Positions held in foreign companies:** • Director of De La Ronce (Luxembourg) • Director of Guala Closures do Brasil (Brazil) • Director of Vale do Mogi (Brazil) • Manager of Sofrel do Brasil (Brazil) • Member of the Management Board of Opacco Holding (Luxembourg) • Member of the Management Board of Tote Investments Holding (Luxembourg) • Member of the Management Board of Bedford Investor C/V (Netherlands) • Member of the Management Board of Taro (Luxembourg) • Member of the Management Board of Phipe Holding SA (Luxembourg) • Member of the Management Board of Salorix Holding SA (Luxembourg) • Member of the Board of Directors of LPS Brasil – Consultoria de Imóveis (Brazil) • Member of the Board of Directors of São Martinho (Brazil) • Member of the Board of Directors of Fundação Instituto de Administração (Brazil)
Positions that expired in the last five years	**Positions held in French companies:** • Member of the Supervisory Board of Vallourec (to 10 April 2008)	**Positions held in foreign companies:** • Member of the Management Board of VDM Trading Limited (Ometto Group) (BVI) (to 22 September 2006) • Chairman of the Board of Directors of Oxon Participaçoes (Brazil) (to October 2005) • Legal Official of Eagle River Holdings (BVI) (to 16 March 2009)

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Members of the Management Board

Pierre VERLUCA

Date of first appointment: 12 December 2000

Date of appointment as Chairman of the Management Board: 10 June 2004

Date on which appointment ceases: 15 March 2012 (1)

Date of birth: 22 January 1944

Business address:
Vallourec
27, avenue du Général Leclerc
92100 Boulogne-Billancourt

Expertise and managerial experience

- Head of production at Ugine Kuhlmann from 1967 to 1973;
- CFO of SADEC (Portugal) from 1973 to 1975;
- Member of the Management Board of Vallourec from December 2000 to 31 March 2009.

	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Chairman of the Management Board of Vallourec • Chairman of Vallourec & Mannesmann Tubes • Chairman of V & M France • Director of Vallourec Mannesmann Oil & Gas France **Positions held in foreign companies:** • Chairman of the Supervisory Board of V & M Deutschland (Germany) • Chairman of the Board of Directors and CEO of V & M Holdings (United States) • Vice-President of Vallourec Inc. (United States) • CEO of Vallourec Industries Inc. (United States) • Managing Director of Finalourec (Luxembourg) • Director of V & M do Brasil (Brazil)	None
Positions that expired in the last five years	**Positions held in French companies:** • Chairman of ValTubes (formerly Sopretac) (to 29 December 2006) • Director of Valtimet (to 30 January 2007) • Chairman of ValTubes (to 16 December 2004) **Positions held in foreign companies:** • Director of Vallourec Tubes Canada (Canada) (to 30 September 2008) • Member of the Executive Committee of V & M Star (United States) (to 29 September 2008) • Chairman of the Board of Directors of Vallourec Inc. (United States) (to 20 March 2007) • Chairman of the Advisory Board of V & M do Brasil (to 15 October 2006)	None

(1) Pierre Verluca's term of office was renewed by the Supervisory Board at its meeting on 3 June 2008, with effect from the end of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008, and expires on 15 March 2012. Pierre Verluca's appointment as Chairman of the Management Board was renewed at the same Supervisory Board meeting, for the duration of his term of office as a member of the Management Board. Pierre Verluca resigned from all his positions with Vallourec Group companies as from 31 March 2009 since he had reached the statutory age limit of 65.

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Olivier MALLET

Date of first appointment: 30 September 2008

Date on which appointment ceases: 15 March 2012(1)

Date of birth: 14 July 1956

Business address:
Vallourec
27, avenue du Général Leclerc
92100 Boulogne

Expertise and managerial experience

- Former pupil of the École Nationale d'Administration – General Inspectorate of Finance (1981);
- Technical advisor within several cabinet offices, including that of the Prime Minister (1988-1993);
- CFO and member of the Executive Committee with responsibility for finance at Thomson Multimédia (1993-2001);
- CFO and member of the Executive Committee of Pechiney (2001-2004);
- At Areva: Deputy CFO (2004-2006) and Senior Executive Vice-President of the Mining, Chemistry and Enrichment sector (2006-2008);
- At Vallourec: member of the Management Board and CFO Finance, Legal and External Communication.

	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Member of the Management Board of Vallourec • Chairman and CEO of V & M Services • CEO and Director of Vallourec & Mannesmann Tubes • Member of the Supervisory Board of V & M France • Director of Vallourec Mannesmann Oil & Gas France, Interfit, Valti and Valtimet **Positions held in foreign companies:** • Member of the Supervisory Board of V & M Deutschland (Germany) • Director of V & M do Brasil (Brazil) • Director of Vallourec Tubes Canada (Canada) • Director of V & M Atlas Bradford, V & M Holdings, V & M TCA, V & M Tubes Corp., V & M Tube-Alloy, Vallourec Industries Inc. and VAM Drilling USA (formerly Omsco) (United States) • Member of the Executive Committee of VAM USA (United States) • Member of the Executive Committee of V & M Star (United States) • Director of Finalourec (Luxembourg)	None

(1) At its meeting on 29 September 2008, the Supervisory Board appointed Olivier Mallet as a member of the Company's Management Board with effect from 30 September 2008 until 15 March 2012.

Positions that expired in the last five years	None	**Positions held in French companies:** • Chairman and CEO of CFMM (to May 2008) • Chairman and CEO of CMM (to March 2008) • Chairman of ANC Expansion 1 (to June 2008) • Chairman of SET (to March 2008) • Member of the Supervisory Board of Eurodif (to June 2008) • Permanent representative of Areva NC on the Board of Directors of Comurhex and Sofidif (to September 2008) • Director of SGN, TN International (to June 2008) • Chairman of CFMM Développement (to October 2007) **Positions held in foreign companies:** • Director of Songa Mining Corp. (South Africa) (to May 2008) • Chairman of the Board of Directors of UG GmbH (Germany) (to September 2008) • Director of Cogema Deutschland (Germany) (to September 2007) • Director of Areva NC Australia (Australia) (to May 2008) • Director of La Mancha Ressources (Canada) (to June 2008) • Director of Areva Ressources Canada (Canada) (to May 2008) • Chairman of the Board of Directors of PMC Inc. and Comin (United States) (to June 2008) • Director of Areva NC Inc. (United States) (to August 2008) • Director of CRI USA (United States) (to June 2008) • Director of Katco (Kazakhstan) (to July 2008) • Vice-Chairman and permanent representative of Areva NC on the Board of Directors of Cominak (Nigeria) (to June 2008) • Chairman of the Board of Directors and permanent representative of Areva NC on the Board of Directors of Somair (Nigeria) (to June 2008)

Jean-Pierre MICHEL

Date of first appointment: 7 March 2006

Date appointment most recently renewed: 4 June 2008 (1)

Date on which appointment ceases: 15 March 2012 (1)

Date of birth: 17 May 1955

Business address:
Vallourec
27, avenue du Général Leclerc
92100 Boulogne-Billancourt

Expertise and managerial experience

- Former pupil of the École Polytechnique and Institut Français de Gestion;
- Nearly 30 years with the Vallourec Group (plant management, management control and Chairman of various divisions);
- Member of the Management Board, Chairman of the Oil & Gas and Speciality Products activities and of V & M do Brasil;
- COO of Vallourec (2009) (2).

(1) At its meeting on 3 June 2008, the Supervisory Board renewed Jean-Pierre Michel's term of office with effect from the end of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008. His term of office will expire on 15 March 2012.

(2) The Supervisory Board appointed Mr Jean-Pierre Michel as Chief Operating Officer of Vallourec as from 25 February 2009.

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	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies:** • Member of the Management Board of Vallourec (since 7 March 2006) • Director and CEO of Vallourec & Mannesmann Tubes (since 15 March 2006 and 7 November 2006 respectively) • Member of the Supervisory Board of V & M France (since 21 June 2006) • Director of VMOG France (since 13 November 2002) • Director of Valtimet (since 29 December 2006) • Director of Valti (since 30 April 2007) • Director of Interfit (since 28 May 2004) • Director of V & M Services (since 28 April 2004) • Director of Valinox Asia (since 18 June 2004) • Director of Valinox Nucléaire (since 28 May 2004) • Director of VAM Drilling France (since 14 February 2007) • Manager of V & M One (since 2 June 2004) **Positions held in foreign companies:** • Member of the Supervisory Board of V & M Deutschland (since 29 April 2005) (Germany) • Chairman of the Board of Directors and Director of V & M do Brasil (since 30 April 2008) (Brazil) • Chairman of the Supervisory Board of V & M do Brasil (since 31 October 2008) (Brazil) • Director of Vallourec & Sumitomo Tubos do Brasil (since 19 July 2007) (Brazil) • Chairman of the Board of Directors of Vallourec Industries Inc. (since 1 July 2001) (United States) • Director of V & M Holdings (since 10 June 2004) (United States) • Member of the Supervisory Board of VAM USA (since 1 January 2001) (United States) • Member of the Executive Committee of V & M Star (since 28 June 2002) (United States) • Director of V & M Atlas Bradford (since 16 May 2008) (United States) • Director of V & M TCA (since 16 May 2008) (United States) • Director of V & M Tubes Corp. (since 3 May 2000) (United States) • Director of Vallourec Inc. (since 21 March 2007) (United States) • Director of VAM Drilling USA (since 15 September 2005) (United States) • Chairman of the Board of Directors and Director of Finalourec (since 6 June 2008) (Luxembourg) • Director of VMOG UK (since 29 June 2000) (United Kingdom)	None

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	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions that expired in the last five years	**Positions held in French companies:** • Chairman of Valtimet (to 22 April 2008) • Chairman of VMOG France (to 28 May 2004) • Director of VCAV (to 16 November 2007) • Director of VPS (to 16 November 2007) • Director of VPE (to 2 July 2007) • Director of ValTubes (to 29 December 2006) **Positions held in foreign companies:** • Chairman of VAM USA (to 12 November 2004) (USA) • Chairman of VMOG UK (to 22 October 2004) (United Kingdom) • Director of Pacific Tubulars (Jersey) (to 31 January 2004) (United Kingdom)	**Positions held in foreign companies:** • Director of Akantis S.A. (to 2005)

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8.1.2 SPECIAL REPORT OF THE MANAGEMENT BOARD ON OPTIONS - FINANCIAL YEAR 2008

This report has been drawn up in accordance with the provisions of Article L. 225-184 of the French *Code de Commerce*.

Option plans implemented prior to 2007

We remind you that the Extraordinary Shareholders' Meeting held on 15 June 2000 authorized the Management Board to grant share subscription options (*First resolution*) and/or share purchase options (*Second resolution*), up to the respective limits of 4% and 10% of Vallourec's share capital, to managers and/or employees of Group companies, for a period of five years that expired on 14 June 2005.

Under the terms of these authorizations, two plans have been implemented by the Management Board, after consultation with the Supervisory Board:

- a share subscription option plan set up on 15 June 2000, under which options could be exercised as from 15 June 2004 and which expired on 14 June 2007. 856,030 new shares were subscribed for under this plan;
- a share purchase option plan set up on 15 June 2003, under which options may be exercised as from 11 June 2007 and which will expire on 10 June 2010. There were initially 148 beneficiaries under this plan. Between 11 June 2007 and 31 December 2007, 928,616 existing shares were allocated under the plan. These shares were own shares held by Vallourec. As at 1 January 2009, there were 24,417 options not yet exercised. The exercise price of these options is set at €10.57.

It should be noted that, during the financial year 2007, the four members of the Management Board exercised all of their options (Mr Pierre Verluca: 76,135 options and Messrs Bertrand Cantegrit, Marco Antonio Castello Branco and Jean-Pierre Michel: 20,305 options each). They also sold all of the shares they acquired as a result of exercising these options.

In addition, the Group's ten employees other than Corporate officers who were granted the highest number of options exercised all of their options during 2007, i.e. a total of 126,910 options.

Share option plan implemented in 2007

We remind you that the Extraordinary Shareholders' Meeting held on 6 June 2007 (*Seventh resolution*) granted a new authorization valid for 26 months, i.e. until 5 August 2009, enabling the Management Board to grant additional share subscription or share purchase options up to the limit of 2% of Vallourec's share capital as at the grant date.

The Management Board partially used this authorization, following approval from the Supervisory Board on 31 July 2007, and set up a new share subscription option plan on 3 September 2007.

The number of beneficiaries was arrived at by the Management Board in collaboration with the Supervisory Board, following the recommendation of the Supervisory Board's Appointments and Remuneration Committee.

As this plan is a share option plan, the list of beneficiaries is more restricted than it would be in the case of a performance share allocation plan. The number of beneficiaries is 65 and the total number of options that may be granted is 147,300. Each option gives the holder the right to subscribe for one Vallourec share to be issued by way of a capital increase.

These options may only be exercised during a three-year period from 3 September 2011 to 2 September 2014 inclusive, following a four-year holding period. The exercise price of the options is €190.60 per share, which corresponds to the average of the first listed prices for Vallourec's shares during the 20 trading sessions preceding the Management Board meeting that decided to implement the plan, i.e. from 6 August 2007 to 31 August 2007 inclusive.

The total number of options granted to Management Board members was set at 46,000, including 13,000 in the case of Mr Pierre Verluca and 11,000 in the case of each of the other three members. In accordance with the prevailing legislation and regulations, at its meeting on 31 July 2007, the Supervisory Board decided that Management Board members will be required to retain until the expiry of their terms of office the equivalent in Vallourec shares of one quarter of the gross capital gain realized on the date of sale of the shares acquired as a result of the exercise of options.

The total number of options allocated to the ten employees other than Corporate officers who were granted the highest number of options was 33,000.

Share option plan of 1 September 2008

The Management Board used part of the aforementioned authorization of 6 June 2007 and, after consulting the Supervisory Board on 31 July 2008, implemented a new share subscription option plan on 1 September 2008.

The number of beneficiaries is nine and the total number of options that may be granted is 71,800. Each option gives the holder the right to subscribe for one Vallourec share to be issued by way of a capital increase.

The total number of options granted to those employees who were members of the Management Board on the grant date was set at 49,000. 14,000 were allocated to Mr Pierre Verluca, of which 7,500 are subject to performance requirements based on the Group's EBITDA. Mr Jean-Pierre Michel and Mr Olivier Mallet were allocated 12,000 and 23,000 options respectively, of which 6,500 in each case were subject to the same performance requirements.

The options granted under this plan may be exercised during a period of three years, from 1 September 2012 to 31 August 2015 inclusive, at the end of a holding period of four years from 1 September 2008 to 31 August 2012.

The exercise price of the options is €183.54 per share, which corresponds to the average of the first listed prices for Vallourec's shares during the 20 trading sessions preceding the Management Board meeting that decided to implement the plan, i.e. from 4 August 2007 to 29 August 2007 inclusive.

In accordance with the prevailing legislation and regulations, at its meeting on 31 July 2008, the Supervisory Board decided that Management Board members will be required to retain until the expiry of their terms of office the equivalent in Vallourec shares of one quarter of the gross capital gain realized on the date of sale of the shares acquired as a result of the exercise of options. The total number of options granted to the ten employees who are not Corporate officers and who were allocated the largest number of options was 22,800.

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8.1.3 SPECIAL REPORT OF THE MANAGEMENT BOARD ON ALLOCATIONS OF PERFORMANCE SHARES – FINANCIAL YEAR 2008

This report has been drawn up in accordance with the provisions of Article L. 225-197-4 of the French *Code de Commerce*.

The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2005 (*Ninth resolution*) delegated to the Management Board the power to allocate existing performance shares to managers and/or employees of Group companies, up to the limit of 5% of Vallourec's share capital.

This authorization, which was valid for a period of 38 months expiring on 6 August 2008, was rendered null and void due to the approval by the Ordinary and Extraordinary Shareholders' Meeting held on 4 June 2008 of the sixteenth resolution giving the Management Board the power, for a period of 38 months expiring on 3 August 2011, to make, where appropriate, additional allocations of performance shares, whether existing shares or shares to be issued, up to the limit of 1% of Vallourec's share capital.

Under the terms of the 7 June 2005 authorization, two plans have been implemented by the Management Board, with the approval of the Supervisory Board as to the number of beneficiaries and the shares to be allocated.

Performance share allocation plan of 16 January 2006

Information has already been provided about the implementation of this plan in the 2006 report.

It should be noted that the definitive number of shares allocated was based on the application of a factor representing the Group's performance, measured in terms of the Group's consolidated EBITDA/sales ratio for each of the two financial years 2006 and 2007.

The theoretical number of shares allocated on 16 January 2006 was 148,000 (this figure was recalculated to take into account the division by five of Vallourec's shares on 18 July 2006) and the number of beneficiaries was 199 (of which 61 were based outside France).

The number of shares finally allocated was 188,853. These shares were allocated to 197 beneficiaries, taking into account the two beneficiaries who have since left the Group resulting in the forfeiture of rights.

The holding period in respect of shares allocated on 16 January 2006 is two years, i.e. until 16 January 2010.

Performance share allocation plan of 3 May 2007

A performance share allocation plan was implemented by the Management Board on 3 May 2007 after consultation with the Supervisory Board on the same date. The number of beneficiaries and the number of shares to be allocated was drawn up in collaboration with the Supervisory Board, following the recommendation of the Supervisory Board's Appointments and Remuneration Committee.

As compared with the previous plan of 16 January 2006:

- the number of beneficiaries has increased from 199 to 280;
- the number of "categories" has been reduced from 7 to 4;
- the manner in which shares are allocated has been made much less hierarchical: category 1 has been increased from 150 to 200 shares per beneficiary whilst the highest category has been reduced from 7,500 shares to 1,200;
- the allocation of shares is subject to the same performance requirements as the preceding plan, i.e. the application of a performance factor based on the Group's consolidated EBITDA/sales ratio and calculated in accordance with the same terms.

The total theoretical number of shares allocated is 111,000.

The shares will be acquired in three successive tranches on 3 May 2009 (based on the 2008 EBITDA/sales ratio), 3 May 2010 (2009 EBITDA/sales ratio) and 3 May 2011 (2010 EBITDA/sales ratio).

The holding period for each tranche has been set at two years.

The value of Vallourec's shares (most recent listed price) was €198.50 per share on 2 May 2007, the last trading day preceding the allocation.

The number of shares allocated to each of the four Management Board members was 1,200.

At its meeting on 31 July 2007, the Supervisory Board decided that Management Board members will be required to retain one quarter of the shares allocated to them until the expiry of their terms of office.

The total number of shares allocated to the ten employees who were not corporate officers and who were allocated the highest number of shares was 12,000.

2008 additional award under 2007 plan - 1 September 2008

By way of an extension to the performance share allocation plan of 3 May 2007, a performance share allocation plan was implemented by the Management Board on 1 September 2008 following consultation with the Supervisory Board on 31 July 2008. The limits applicable to the plan are 80 new beneficiaries and 20,000 additional shares. The number of beneficiaries and shares to be awarded was agreed in collaboration with the Supervisory Board, following the recommendation of the Supervisory Board's Appointments and Remuneration Committee.

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Implementation of the plan, under the terms of the sixteenth resolution approved by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008, had the following results:

- the number of beneficiaries increased by 41 (including 19 non-residents) from 280 to 321;
- the number of categories remained the same, i.e. four categories;
- the distribution per beneficiary was set as follows:
  - category 1: 200 shares x ⅔ ≈ 130 for 29 employees,
  - category 2: 400 shares x ⅔ ≈ 260 for 4 employees,
  - category 3: 800 shares x ⅔ ≈ 520 for 2 employees, 800 shares for 1 employee;
  - category 4: 1,200 shares x ⅔ = 800 for 2 employees, 1,200 shares for 3 employees.

The shares will be acquired in two successive tranches:

- 2010 (based on 2009 EBITDA) transferable in 2012;
- 2011 (based on 2010 EBITDA) transferable in 2013.

The acquisition is subject to the same performance requirements as those applicable to preceding plans, i.e. the application of a performance factor based on the Group's consolidated EBITDA/sales ratio.

The theoretical number of additional shares allocated would be 11,850.

The shares allocated will be taken from the own shares held by Vallourec at 30 June 2008, i.e. 221,052 shares, which is sufficient to cover the maximum number of shares that may be allocated, i.e. 163,390 shares, under the terms of the initial plan and the above addition.

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8.2 REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD ON THE CONDITIONS GOVERNING THE PREPARATION AND ORGANIZATION OF THE SUPERVISORY BOARD'S WORK AND THE INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES IMPLEMENTED BY VALLOUREC

In accordance with the provisions of Article L. 225-68 of the French *Code de Commerce*, the Chairman of Vallourec's Supervisory Board presents this report to the shareholders, detailing the conditions governing the preparation and organization of the Supervisory Board's work and the internal control and risk management procedures implemented by the Company.

Article L. 225-68 of the French *Code de Commerce* also stipulates that "*when a company voluntarily complies with a corporate governance code drawn up by the bodies representing companies, the report […] must also specify the provisions which have not been complied with and the reasons for said non-compliance*".

At its meeting on 15 December 2008, Vallourec's Supervisory Board examined the AFEP/MEDEF recommendations of 6 October 2008 on the compensation of executive Corporate officers of listed companies.

It decided that the recommendations are in line with Vallourec's corporate governance policy.

In application of the law of 3 July 2008 incorporating EC directive 2006/46/EC of 14 June 2006, the AFEP/MEDEF corporate governance code for listed companies of December 2008, resulting from the consolidation of the AFEP and MEDEF reports of October 2003 and their recommendations of January 2007 and October 2008 on the compensation of executive corporate officers of listed companies, is the code with which Vallourec has decided to comply in the drawing up of the report provided for under Article L. 225-68 of the French *Code de Commerce*. This report was approved by the Supervisory Board at its meeting on 6 April 2009.

A – Conditions governing the preparation and organization of the Supervisory Board's work

The internal regulations of the Supervisory Board, the situation of Board members as regards the principles resulting from the AFEP/MEDEF corporate governance code for listed companies of December 2008 and the composition and operation of the three Committees (Finance Committee, Appointments and Remuneration Committee and Strategy Committee) set up within the Supervisory Board are detailed in section 6 of the Reference Document for the year ended 31 December 2008 dealing with corporate governance, which is an integral part of this report.

The number of meetings of the Board is normally set at four per year but additional meetings may be organized where circumstances so require. In 2008, the Board met nine times. The average length of Board meetings is about three hours.

In order to ensure that Board members are able to attend meetings, the timetable of regular meetings is prepared very far in advance. The meetings timetable for 2009 was prepared at the Board Meeting held on 31 July 2008. The effective attendance rate of Board members at meetings was close to 80% for all the meetings held in 2008. Members who were unable to attend were, however, represented at all meetings, whether regular or exceptional. The members of the Management Board attended all meetings.

The arrangements for the meetings are confirmed about a fortnight in advance by means of a notice of the meeting to which is attached the agenda and the draft minutes of the previous meeting. Board members are invited to submit any comments they have in advance of the Board meeting.

The Management Board circulates documents, in particular those of a financial nature, a few days in advance of Board Meetings, thereby enabling members to familiarize themselves with such documents before meetings. At meetings, a complete file incorporating the supporting documentation in respect of items on the agenda is given to each participant. This file also contains, in the case of meetings at which quarterly results are reviewed, the Management Board's quarterly report to the Supervisory Board on the Company's performance, prepared in accordance with the provisions of Article L. 225-68, section 4, of the French *Code de Commerce*. Where necessary, the Board relies on preliminary work carried out by the Committees.

Meetings are chaired by the Supervisory Board Chairman who ensures, in particular, that each member expresses his opinion on the most important matters. In the unusual case of a Board member having a personal interest in one of the matters under consideration as specified in Article L. 225-86 of the French *Code de Commerce*, he will be required to leave the meeting while the matter concerned is being discussed.

In 2008, Vallourec's Statutory Auditors attended those Supervisory Board Meetings at which the annual and half-year financial statements were approved.

After the first assessment of the operation of the Board carried out in 2003 and a second assessment carried out in 2006, a further assessment was carried out in 2008 based on an updated version of the same questionnaire, which comprised seven assessment topics. An analysis of the results, which was sent to Board members and discussed at the Board Meeting on 15 December 2008, shows a high level of satisfaction among all members. In the light of this summary, it was recommended and agreed that the number of meetings of the Board and of the Appointments and Remuneration Committee be increased to allow for matters to be discussed in greater depth.

B – Shareholder participation in Vallourec's General Meetings

Any shareholder is entitled to participate in the Company's General Meetings in accordance with applicable laws and regulations and regardless of the number of shares held. Article 13 of the by-laws – which are available on the Company's website http://www.vallourec.fr/uk/actionaires/assemblees_generales.asp and at the registered office – relating to General Meetings does not stipulate any specific procedures for participation, it being specified, however, that "Holders of shares with regard to which not all payments due have been paid within 30 days as from formal notice being given by the Company shall not be allowed to attend General Meetings. These shares shall be deducted in the calculation of the quorum".

Since Vallourec places great importance on respect for its shareholders, it endeavours, whenever it can, to improve shareholder participation at its General Meetings, by making shareholders aware of such Meetings in advance, by publishing information over and above that required by law in specialist newspapers and by sending a shareholders' letter to all of them in the weeks preceding each General Meeting.

The list of attendees at the Ordinary and Extraordinary Shareholders' Meeting held on 4 June 2008 shows that 1,573 shareholders were present, represented or voted by correspondence; they owned 23,280,038 shares out of a total of 53,038,720 (43.9%) and 23,287,434 voting rights out of a total of 52,830,397 (44.1%), resulting in a quorum increased by 7%. The attendees included the Bolloré Group, which owned 1,067,114 shares representing 1,067,973 voting rights, i.e. 4.6% of the capital represented and the voting rights exercised.

Vallourec's policy as regards shareholder information and information concerning the structure of the Company's capital and the factors likely to have an impact in the event of a takeover bid are detailed in Sections 1 and 2 respectively of the 2008 Reference Document, as required under the provisions of Article L. 225-100-3 of the French *Code de Commerce*.

C – Internal control and risk management procedures

1. OBJECTIVES OF INTERNAL CONTROL

The Group's internal control system was developed and implemented with significant involvement from the Group's staff. It aims to provide reasonable assurance that the following four objectives may be achieved:

- compliance with the laws and regulations in force;
- proper application of the instructions issued and compliance with the policies laid down by the Management Board;
- proper operation of internal processes (in particular those relating to the safeguarding of assets); and
- accuracy of financial information.

In contributing to the effectiveness of its operations, the efficient use of its resources and the control of risk, this internal control system plays a key role in the management and supervision of the Group's various activities. As is the case with any control system, the Group's internal control system cannot provide an absolute guarantee that the Group's objectives will be achieved and that all risk of error or fraud is fully eliminated or controlled.

2. DESCRIPTION OF INTERNAL CONTROL PROCEDURES

2.1 Internal control procedures adapted to the specific characteristics of Vallourec

Responsibility for implementing appropriate internal control procedures governing risk management, financial control and compliance with legislation is delegated to the managers of each Group company.

To ensure the consistency of Group procedures worldwide, senior management relies on the functional departments to draw up the procedures necessary for the proper operation of controls, issue instructions regarding their implementation and ensure compliance with said instructions.

The key operations and the control procedures applicable to them are as follows.

2.2 Internal control procedures in respect of financial and accounting information

2.2.1 Financial and accounting reporting

Financial and accounting information is prepared centrally on the basis of the subsidiaries' financial statements, adjusted to comply with Group standards. The necessary data is collected and processed by means of a reporting and consolidation software application that is used by all consolidated subsidiaries and is compatible with the IFRS accounting standards that Vallourec adopted on 1 January 2005.

Reports are produced monthly in the month following the end of the month to which they relate whereas full accounting consolidations are produced quarterly within two months following the end of the quarter to which they relate. The monitoring of off-balance-sheet commitments is an integral part of the quarterly consolidation process.

2.2.2 External financial information

Since 2007, the Company has released quarterly information as at 31 March and 30 September including, in particular, the consolidated balance sheet and income statement. The preparation of the quarterly, half-yearly and annual consolidations is the responsibility of the Management Board under the control of the Finance Committee. The half-yearly and annual consolidations are reviewed by the Statutory Auditors.

2.2.3 Cash position and financing

Responsibility for cash management is delegated to individual companies, by means of well-defined procedures and delegation of authority. Any departure from the general rules requires the prior authorization of the Group Finance department.

The Group Finance department is also responsible for borrowings and investments with a term of more than one year. Responsibility for borrowings and investments with a term of less than one year is delegated to the subsidiaries, which are required to comply with specific Group procedures: quality of the banks involved, risk-free investment and monitoring of financial guarantees given.

Transactions in foreign currencies and foreign exchange hedging are also governed by rules issued by the Group Finance department.

During 2007, the Group centralized the euro and US dollar cash management for its main European companies and the currency hedging operations in respect of its US dollar sales. This system contributed to better cash management and the security of market transactions.

Subsidiaries' borrowings, investments and foreign exchange transactions are monitored on a monthly basis by means of a report produced by the Group treasurer and submitted to the Management Board.

2.2.4 Procedures and instructions

With the objective of producing high-quality financial and accounting information, Vallourec has produced procedures and instructions tailored to the French and foreign subsidiaries. These procedures are classified by topic and deal mainly with accounting, treasury and reporting issues and, since 2004, with the IFRS framework.

Details of the procedures are available on an intranet site that can be consulted by all of the Group's finance staff.

A self-assessment process to review accounting and financial procedures was carried out in 2004, and repeated in 2008. It used a questionnaire comprising 121 questions covering the nine accounting processes referred to below and regarded as relevant to the Group. The questionnaire was based on the report of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) and completed in 2008 taking into consideration the application guide (drawn up in accordance with the frame of reference of the French securities regulator, *Autorité des marchés financiers – AMF*) relating to the internal control of financial and accounting information published by issuers.

This new enquiry carried out in 2008 by the Group's internal audit department covered all fully-consolidated companies and the following financial and accounting cycles: capital expenditure, purchasing, inventories, sales, cash, provisions, staff, taxes and reporting processes. The self-assessment reviews were analyzed separately for each subsidiary and were required to be documented before being reviewed on site by the internal audit department. Each subsidiary received a summary of the points for improvement and prepared an action plan for each weakness identified in respect of which the risk of occurrence was considered to be significant

2.2.5 Internal audit

The Internal Audit and Financial Control department reports to the Group Finance department. It audits the subsidiaries in accordance with an audit plan, designed to assess and improve the accuracy and reliability of accounting and financial information.

Vallourec also has an auditor based at V & M Deutschland and a team based at V & M do Brasil. The team's audit plans are validated by the Internal Audit department. Its responsibilities relate mainly to internal control procedures.

External consultants may be used in the case of one-off assignments.

The internal audit department also coordinates relations with the Statutory Auditors, who are mainly affiliated with international audit firms.

2.3 Other key processes analyzed

2.3.1 Industrial investment

The Group's Investment department is part of the Technology and Investments department which reports to a member of the Management Board and an Investments Committee composed of members of the Management Board, the Management Control department, the Chief Performance Officer and the Corporate Investment department.

This committee meets six times a year. It examines budgets, expenses for the period and, where relevant, deferred expenses. In addition, it meets to examine projects with a forecast cost of more than €5 million or less than this amount when they are strategic in nature. Each such file is presented to the members of the Management Board and the corresponding capital expenditure may only be authorized by the Management Board if there is a Large Capex Approval and the expenditure is approved by each member.

The internal process for validating capital expenditure consists of two phases:

- the "nomination" phase, during which three reviews take place within the subsidiaries during year N-1 in order to arrive at the final selection of projects for year N and to draw up a budget for each project selected;
- the "authorization" phase. Authorization is given, after preparation of a comprehensive file and presentation of said file at the start of year N to the Investments department, via the Group's "Vallourec Investment Coordination Intranet" tool, which was implemented in 2007 and applies to all projects authorized from 2008 onwards. This intranet tool centralizes the information relating to all capital expenditure files, electronically manages the approval process and standardizes the documents relating to costs, work planning, profitability, risk analysis, technical specification of projects and their environmental impact. The Vallourec Investment Coordination Intranet tool is accessible to all plants, the Management Control department, the Industrial departments and the Investments department, enabling them to decide which investments to select on the basis of comprehensive information. Significant emphasis is placed on risk, and its severity, when deciding which projects to authorize.

Expenses are monitored on a monthly basis by the Group Finance department and Group Investments department.

A posteriori controls are carried out of expenses, expected objectives and the profitability of capital expenditure projects. Such controls are performed on an annual basis, jointly by the Investments department and the Management Control department on projects that are deemed highly representative, which were authorized in earlier years and in respect of which production has been underway for at least three months. In addition, customized project management audits are carried out during the project implementation phase by the Group Quality department. The results of these audits as well as the project management performance measurement are brought to the attention of the Divisions and Investments Committee.

2.3.2 Quality – Safety – Environment

In 2007, responsibility for safety was transferred to the Environment department, which had been formed in 2002, in order to form the HSE department. Said HSE department was then merged with the Quality department in 2008, to form the current **QSE** (Quality, Safety and Environment) **department**.

The department defines, in particular, the systems, methods and tools in accordance with the requirements of quality management (standards ISO 9001 and ISO/TS 16949, API, ASME, etc.), health and safety (OHSAS 18001 standards) and environmental standards (ISO 14001).

It manages and co-ordinates corrective actions and progress with all Group entities in order to achieve the defined objectives.

- As regards quality, the department is responsible for the continuous auditing of the Vallourec Management System (VMS) in all Group entities, identifying variances and areas with room for improvement, issuing recommendations and ensuring they are taken into account in the action plans. This work is carried out in collaboration with the external certification bodies and with the internal departments involved, in particular the Human Resources department and the Management Control department.

  The Vallourec Management System (VMS) is based on the breaking down of the Group into entities, on a system of individual steering, detailed control plans, continuous improvement groups implementing a standardized method of resolving problems encountered and a network of steering committees.

  This system is the basic framework applied to all companies acquired by the Group.

- As regards safety, in 2008 the Group launched the "Cap Ten Safe" project, with the aim of achieving a definitive improvement in its performance in this area. It involved making a complete break with the past and carrying out an extensive overhaul of all safety measures whilst striving to achieve continuous, ongoing improvements in the Group's safety culture.

  This plan is in line with the VMS and consistent with the following three fundamental principles: the commitment of all senior management, the involvement of all staff and the implementation of monitoring indicators.

  The plan is based on three main aims:

  - the upgrading of all plants so that they comply with Vallourec's standard. The audits carried out in 2007 and 2008 showed deficiencies that need to be remedied in the following areas: risk evaluation, monitoring, control and updating of safety actions, order and cleanliness of the shop floor, etc,
  - the development of a safety management system: Vallourec intends to gain OHSAS 18001 certification for its main industrial sites during the 2009-2010 period,
  - the development of a genuine safety culture: at the end of 2008, the Group launched a programme under which all plant staff would receive a "safety visit". The visit would involve observing an operator at his place of work, followed by dialogue, the aim of which is to make staff aware of safety behaviour. The objective for 2009 is to carry out two safety visits per employee.

- As regards the environment, the department is responsible for coordinating and directing environmental matters. It relies on local environment managers responsible for ensuring compliance with regulations and improving Group performance in the field of environmental protection.

  It carries out audits and establishes key indicators that enable the main parameters to be periodically monitored.

  A sustainable development charter was published in 2004.

  The environment report is published annually. It describes the environmental situation and the progress achieved at all Vallourec sites.

  Vallourec's main sites, which account for more than 98% of the Group's production, now have certification under ISO 14001, which is in line with the objective set by the Chairman of the Management Board in his 2006 Chairman's statement. There are a few relatively small sites for which the Group plans to obtain certification in 2009.

The Saint-Saulve steel mill is one of the European sites used for the purposes of the new regulations on the allocation of CO_2 emissions quotas since 2005. Emissions monitoring has been introduced which identified, for 2008, emissions that were below the quotas allocated.

It is also important to note that the Group has continued to make significant investment in the field of environmental protection and safety. Investment in these fields represents around 10% of the Group's total capital expenditure.

2.3.4 Research and Development

The research and development department has drawn up Group procedures concerning the management of programmes for developing new products and industrial processes. The processes thus defined are applied in a consistent manner by the entities concerned, including those aspects concerning intellectual property.

Training and specific assistance by experienced professionals were introduced in respect of certain selected projects. The Divisions' project portfolios are monitored on the basis of their potential benefit to the Group and the risks that might be incurred.

Each year, audits are carried out by the Group Quality department in accordance with the Vallourec Management System (VMS).

2.3.5 Purchasing

In 2008, the Group Purchasing department focussed on adapting its methods and procedures to achieve improved performance.

Purchasing units, for which a worldwide strategy has been developed, have now been set up with the aim of achieving better results. This involves Travel Management, IT and Telecoms purchasing, alloy purchasing and capital expenditure using strategic suppliers. An effective network of skills and expertise is in place: since 2008, this has been strengthened by an annual "Purchasing" seminar attended by the Group's main buyers.

Most purchasing units were audited in 2008; a corrective action plan was systematically introduced following these audits.

These initiatives enabled the Purchasing department to contribute in 2008 to the achievement of the Group's "Cap Ten" cost-reduction programme.

2.3.6 Information systems

Having harmonized the various information systems by implementing the same software (SAP, messaging, etc.) in all the Group's main subsidiaries, in 2008 the Information Systems department launched a programme for standardizing communications between subsidiaries. The objective was to simplify such communications and provide subsidiaries with information about all the Group's customers, thereby facilitating the monitoring of orders and related billing, and making the process as uniform as possible throughout the Group (*One Face to the Customer*).

As regards the security of systems, the Group is focussing on two priorities: the analysis and control of user access rights to applications (segregation of duties), and the drawing up of a Group-wide IT security policy. Security audits were carried out in 2008 in order to verify external access and the identification policy (passwords).

2.3.7 Human resources

The Group Human Resources department organizes career management and skills development for those positions requiring a high level of responsibility or technical skills. It carries out comparative studies of market practices in a number of sectors.

The department checks compliance with labour regulations and the information relating to the workforce and to safety. It also ensures that information for management reports is obtained and circulated.

In each country, the human resources managers are responsible for ensuring compliance with specific national requirements.

In Germany, most of the workforce is governed by the law of 21 May 1951 on joint management in the steel and mining industries.

As regards the prevention of industrial accidents and sickness, the Group-wide "Cap Ten Safe" programme (see 2.3.2 above), which was launched in 2008, is enabling the Group, by aiming to obtain OHSAS 18001 certification, to focus on generalized and standardized safety management in all plants. It relies on significant commitment on the part of the Group's senior management and the involvement of all staff.

The objective is to significantly reduce the number of accidents and the resulting number of working days lost.

2.3.8 Customer relations

With the aim of specifying and formalizing certain practices regarding contractual relations with its customers, Vallourec has developed a procedure for managing customer risk through limits in respect of credit and delegation of authority and credit insurance.

The Legal department periodically analyzes the legal provisions applicable to sales contracts entered into between the subsidiaries and their customers. These subsidiaries have standard documents defining the conditions with which their sales contracts should comply in order to reduce the level of risk. These standard documents are regularly reviewed by the Legal department.

2.3.9 Insurance

Industrial risks are covered by two types of Group insurance: general insurance (direct material damage to Group property, subject to specific exclusions, as well as any costs and consequential losses) and third-party liability insurance (liability arising as a result of injury or loss caused to third parties either resulting from the Group's operations or after delivery of goods or services).

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3. RISK MANAGEMENT

Risks are managed by the industrial and sales units and by the functional departments (Finance, Human Resources, Legal, Purchasing, Quality, IT, Insurance, etc.). In addition, Vallourec is developing a Group-wide policy to ensure that risk management is consistent, comprehensive and well-monitored.

Vallourec's Risk Manager coordinates a top-down approach, which involves the entity's principle managers evaluating the major risks in order to implement measures to reduce the probability and impact of such risks. The method establishes priorities according to the Group's projects, by taking into account the "potential for improvement" of controls. Therefore, a "major" risk, for which Vallourec already has a control in place on a par with the best practice in the industry (prevention, protection against the consequences and insurance), will simply remain under surveillance. However, a "high" risk, for which Vallourec has not yet optimized its controls, will result in the drawing up of an action plan.

Risk mapping is in place for each of Vallourec's divisions and at Group level as regards the provision of information to the Management Board. Each describes the main risks, their scenarios, past occurrences, the controls in place, and, where applicable, the best control practices of other companies. It is therefore these main risks that justify the launching of action plans.

Vallourec's divisions and Management Board manage their risk mapping by means of a committee that meets each half year. Vallourec's Risk Manager attends the committee meetings in order to stimulate discussion, guarantee the consistency of the action taken and report to the Management Board. All committee meetings are attended by the division's manager and his main assistants. The functional managers affected by certain risks are also invited to attend (e.g., R&D and IT). Each committee handles the following matters:

- validation and monitoring of action plans, presented by the owner of each priority risk;
- validation of key risk indicators which will guarantee the relevance of new controls, after closure of the action plan, and their long-term survival;
- updating of self-assessment of priority risks.

Therefore, on a regular basis since the establishment of the risk mappings in 2007, control over the priority risks has been increased to the level of the industry's best practice. Risk Management is being integrated into the Vallourec Management System via its systematic practice of committee meetings and management indicators.

Additional information is provided in paragraph 4.2 of Section 4 "Risk management".

D – Principles and rules for determining the remuneration of Corporate officers

1. REMUNERATION OF MANAGEMENT BOARD MEMBERS

The general principles of the Management Board remuneration policy and an analysis of the individual position of each of its members are presented to the Supervisory Board by the Appointments and Remuneration Committee, which bases its recommendations on research and advice from a leading international firm specializing in management and corporate officer remuneration.

A breakdown of the remuneration of the Group's Corporate officers is provided in Section 6 of the 2008 Reference Document dealing with Corporate Governance, which is an integral part of this report.

The monetary remuneration of Management Board members is composed of a fixed portion and a variable portion. Their remuneration is compared each year to a reference sample made up of listed French industrial groups, Vallourec's policy being to maintain the fixed and variable portions at or below the respective medians of this sample.

Two-thirds of the variable portion is based on the Group's consolidated net profit and one-third is based on the achievement of individual targets set by the Supervisory Board. The variable portion may not exceed 90% of the fixed portion in the case of the Chairman of the Management Board and 75% in the case of other Management Board members. The basis for calculating the Group's consolidated net profit is verified by the Statutory Auditors.

In order to enable them to obtain an interest in the Group's capital, Management Board members may be granted share subscription or share purchase options and performance shares under the conditions drawn up by the Supervisory Board, based on the recommendations of the Appointments and Remuneration Committee. Since 2006, all allocations of performance shares have been subject to the Group achieving a target EBITDA/sales ratio. The same applies to a significant portion of the share subscription options granted to Management Board members in 2008.

Since 2007, and in accordance with the AFEP/MEDEF corporate governance code for listed companies, Management Board members have been required to retain, until the end of their term of office, the equivalent in Vallourec shares to one quarter of the capital gain realized on the date of sale of the shares acquired as the result of the exercise of options.

As regards pension provision, Management Board members, like all the Group's senior management, are covered by a supplementary pension scheme that complies with the AFEP/MEDEF code of corporate governance for listed companies. The terms and conditions applicable to this supplementary pension scheme are detailed in the section of the management report dealing with regulated agreements and commitments. Moreover, beneficiaries may retain their benefits under the scheme if they are dismissed on or after their 55th birthday and are unable to find alternative employment.

This scheme, which does not give any specific benefits to Management Board members over and above those applicable generally to the Group's senior management, appears reasonable since the additional pension is capped at 20% of the average base salary, excluding the variable portion, for the last three years and limited to four times the annual social security ceiling.

The new Chairman of the Management Board, whose term of office commenced on 1 April 2009, does not have an employment contract with the Group. He is entitled to a termination payment in the event that his departure is imposed on him and in the event of a significant change in the Group's capital structure, a merger or a change of strategy initiated by the Supervisory Board or the Company's shareholders. In accordance with Article L. 225-90-1 of the French *Code de Commerce* and the AFEP/MEDEF code of corporate governance for listed companies, the receipt of such payments would be conditional upon performance requirements. The amount of such payments may not exceed twice the gross annual monetary remuneration. Were he to leave the Company under the same circumstances and before exercising the share subscription or share purchase options granted to him, the Chairman of the Management Board would still be entitled to them, subject to the performance requirements.

The other members of the Management Board are not entitled to any termination payments if they are dismissed by the Company. Those who had employment contracts with Vallourec & Mannesmann Tubes before they were appointed as members of the Company's Management Board, application of which is suspended during their term of office, are entitled to a redundancy payment in the event that they are dismissed by Vallourec & Mannesmann Tubes. The amount of such redundancy payment is equal to two years' gross fixed remuneration in respect of said contract of employment, plus a lump sum variable amount of 12.5%.

2. REMUNERATION OF SUPERVISORY BOARD MEMBERS

The maximum annual attendance fees for allocation by the Supervisory Board to its members were increased to €400,000 by the Annual General Meeting of 1 June 2006 (*Fifteenth resolution*).

Each Board member and each Censeur has, since 2007, received attendance fees set at €28,000 per year, reduced pro rata in the case of an appointment or termination of an appointment during the year.

The Chairman of the Supervisory Board receives remuneration, the amount of which was increased by the Supervisory Board, as recommended by the Appointments and Remuneration Committee, to €250,000 per year with effect from 1 January 2006. He also receives attendance fees of €28,000. The Chairman and members of the Supervisory Board will not be awarded any share options, performance shares or termination payments of any kind.

3. REMUNERATION OF COMMITTEE MEMBERS

Members of the Committees (Finance Committee, Appointments and Remuneration Committee and Strategy Committee) receive as part of the aforementioned €400,000 annual budget, additional attendance fees based on their actual attendance at meetings of said Committees.

4. REMUNERATION OF THE CENSEURS

Remuneration of the Censeurs comes within the annual budget for attendance fees allocated to the Supervisory Board.

5. CORPORATE GOVERNANCE

The Supervisory Board has decided to adopt the AFEP/MEDEF corporate governance code for listed companies, as amended for application to limited companies managed by a Supervisory Board and a Management Board. The code may be consulted on the AFEP/MEDEF website.

Vallourec has applied the recommendations of the code.

In view of the above, Vallourec believes that it complies with the corporate governance regulations currently in force in France.

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8.3 STATUTORY AUDITORS' REPORTS

8.3.1 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

This is a free translation into English of the Statutory Auditors' report on the financial statements issued in the French language and is provided solely for the convenience of English speaking users. The Statutory Auditors' report on the financial statements includes information specifically required by French law in all audit reports, whether qualified or not. This informations presented below the opinion on the financial statements and includes explanatory paragraphs discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report on the financial statements should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In accordance with our appointment as Statutory Auditors by your Shareholders' Meeting, we hereby report to you for the year ended 31 December 2008 on:

- the audit of the accompanying financial statements of Vallourec S.A.;
- the justification of our assessments;
- the specific verifications and disclosures required by law.

The financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements, based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position and the assets and liabilities of the Company as of 31 December 2008 and the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

II. Justification of our assessments

In accordance with the requirements of Article L. 823-9 of French *Code de commerce* on the justification of our assessments, we bring to your attention the following matters:

- provisions for impairment of participating interests are recorded by your Company as described in Note B of the notes to the financial statements;
- our work involved assessing the information and assumptions on which these estimates were based, reviewing the calculations made by the Company, comparing the accounting estimates of earlier periods with the corresponding actual figures and examining the procedures applied by Management for approving these estimates.

These assessments were performed as part of our audit approach for the financial statements taken as a whole and contributed to the expression of the opinion in the first part of this report.

III. Specific verifications and information

We have also performed the specific verifications required by law.

We have no matters to report regarding:

- the fair presentation and the consistency with the financial statements of the information given in the management report of the Management Board and in the documents addressed to the shareholders with respect to the financial position and the financial statements;
- the fair presentation of the information given in the management report of the Management Board in respect of remuneration and benefits granted to the relevant Corporate officers and any other commitments made in their favour in connection with, or subsequent to, their appointment, termination or change in current function.

In accordance with French law, we ascertained that the information relating to the controlling interests and the identity of shareholders was given in the management report of the Management Board.

The Statutory Auditors
Paris La Défense et Neuilly-sur-Seine, 23 April 2009

KPMG Audit A division of KPMG S.A.		Deloitte & Associés	
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Bertrand de Florival

8.3.2 STATUTORY AUDITORS' REPORT ON REGULATED AGREEMENTS AND COMMITMENTS

This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France and it should be understood that the agreements and commitments reported on are only those provided by French company law (Code de commerce) and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

Year ended 31 December 2008

To the shareholders,

In our capacity as Statutory Auditors of your Company, we hereby present to you our report on the regulated agreements and commitments relating to the financial period ended 31 December 2008 as well as on one commitment authorized after 31 December 2008.

I. Agreements and commitments entered into by the Company relating to the financial period ended 31 December 2008

In accordance with Article L. 225-88 of the French *Code de commerce* we have been advised of agreements and commitments which have been previously authorized by your Supervisory Board.

We are not required to ascertain whether any other agreements or commitments exist but to inform you, on the basis of the information provided to us, of the terms and conditions of the agreements and commitments of which we were notified. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of Article R. 225-58 of the French *Code de commerce,* to evaluate the benefits arising from these agreements and commitments prior to their approval.

Endorsement to the additional pension scheme attributed to executive officers dated 7 May 2008

- Officers concerned: Mr Pierre Verluca, Mr Jean-Pierre Michel, Mr Bertrand Cantegrit (resigning on 29 September 2008) and Mr Olivier Mallet (appointed as member of the Management Board on 30 September 2008).
- Purpose of the endorsement: it allows executive officers, including members of the Management Board, who have left the Company at an age over 55 years old following a decision taken by the employer, to benefit from the rights vested through the additional pension scheme of Vallourec on condition that they are not subsequently in active employment.
- Terms: your Supervisory Board authorized on 7 May 2008 this endorsement to the additional pension scheme dated 15 September 2005.

All terms and conditions of the additional pension scheme attributed to executive officers approved during previous years and which were applicable during the period are detailed below.

II. Continuing agreements and commitments which were entered into in prior years

Moreover, in accordance with the French Commercial Code, we have been informed of the following agreements and commitments, which were approved during previous years and which were applicable during the period.

Agreements signed with Rothschild & Cie

Agreements relating to assistance in the context of acquisition projects

Your Supervisory Board authorized the Vallourec Management Board to enter into two agreements with Banque Rothschild & Cie relating to general assistance in the context of acquisition projects.

- With regards the first agreement authorized on 31 July 2007, the success fee amounts to €4.0 million plus an additional discretionary fee of up to €2.0 million depending on the complexity of the project and on services provided by the bank.

  No amount has been paid in relation to this agreement in the 2008 financial period.
- With regards the second agreement authorized on 18 October 2007, the success fee amounts to €2.5 million.

  An amount of €2.5 million excluding VAT has been paid in the 2008 financial period.

Agreement relating to the analysis, evaluation and definition of Vallourec's strategic and defensive options and to assistance with and defense in case of a takeover bid.

On 7 March 2006 your Supervisory Board authorized the Vallourec Management Board to enter into an agreement with Banque Rothschild & Cie under which the bank has two specific tasks: firstly the analysis, evaluation and definition of Vallourec's strategic and defensive options and secondly assistance with and defense against a takeover bid. The term of the agreement is 24 months as from the date it took effect, i.e. 1 April 2006, renewable by tacit agreement for periods of six months.

An amount of €480,000 excluding VAT has been paid in the financial period ended 31 December 2008.

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Centralized cash and foreign currency management system

On 12 December 2006, your Supervisory Board gave its agreement to Vallourec's participation in a centralized cash and foreign currency management system of which V & M Tubes is the centralizing Company and which involves a number of Group companies including Vallourec S.A.

This system was implemented in 2007. With respect to cash management, market conditions are applied to Vallourec S.A. (borrowings and interest received being based on money market rates).

In accordance with this agreement, Vallourec S.A. booked financial income for an amount of €11,173,974 and financial charges for an amount of €5,281 in the financial period ended 31 December 2008.

Additional pension scheme attributed to executive officers

The defined benefit scheme (additional pension scheme) financed by the Group in respect of which the vesting of rights is conditional on the employee finishing his career at Vallourec and/or V & M Tubes, which supplements the income following retirement of the Group's former managerial staff, under acceptable economic, financial and social conditions, was renewed in 2008.

The Group undertakes to pay a lifetime annuity at a predetermined level, directly proportional to the salary and in accordance with the employee's seniority and career development. The annuity is capped at 20% of the average basic salary excluding bonus of the last three years and limited to four times the annual social security ceiling. This scheme is insured with Axa France-Vie. The scheme is established for an indefinite period but may be terminated at any time.

On 14 September 2005 your Supervisory Board approved the implementation of this agreement and noted that the members of the Vallourec Management Board are likely to benefit from these rights if they work within the Group until the end of their careers.

III. Agreements and commitments authorized by the Supervisory Board after 31 December 2008

In accordance with Article L. 225-88 of the French *Code de commerce* we have been advised of one commitment which has been previously authorized by your Supervisory Board after 31 December 2008.

We are not required to ascertain whether any other agreements or commitments exist but to inform you, on the basis of the information provided to us, of the terms and conditions of the agreements and commitments of which we were notified. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of Article R. 225-58 of the French *Code de commerce,* to evaluate the benefits arising from these agreements and commitments prior to their approval.

Indemnity for the termination of office of the Chairman of the Management Board

On 6 April 2009, your Supervisory Board authorized that the Chairman of the Management Board will benefit from an indemnity following his removal from office especially in case of a significant change in the shareholding of the Company, of merger or of a significant change in strategy initiated by the Supervisory Board or by shareholders of the Company. In accordance with Article L. 225-90-1 of the French *Code de commerce,* entitlement to this indemnity is subject to achievement of performance requirements.

The indemnity for the termination of office is limited to twice the fixed portion of the remuneration increased by a targeted variable portion as determined by the Supervisory Board and corresponding to 80% of the fixed portion ("the reference remuneration").

The payment of this indemnity depends on performance requirements based on three criteria: (i) the EBITDA expressed as a percentage of sales, (ii) the comparison between the actual EBITDA of the financial period ended expressed in euros with the budgeted EBITDA and (iii) the achievement of personal improvement objectives determined by the Supervisory Board for the financial period under examination. Each of these criteria expressed as a percentage of the fixed portion of the remuneration are limited to 30.

The performance requirements are met if the total of the three criteria determining the Performance Criteria PC is on the average over the last three financial periods, equal or higher than the half of the targeted variable portion of the remuneration. If PC is lower than this threshold then no indemnity has to be paid. If PC equal the half of the targeted variable portion then the indemnity paid amounts to one and a half times the reference remuneration; it varies on a linear basis between PC=40 and PC=80.

Furthermore, share-options as well as shares based on performance requirements are definitively attributed even in case of termination of office under circumstances as described above, if PC is equal higher than 40 on average over the last three years.

Officers concerned: Mr. Philippe Crouzet (appointed as Chairman of the Management Board starting 1 April 2009).

We conducted our work in accordance with professional standards applicable in France; those standards require that we perform the procedures deemed necessary so as to verify that the information provided to us is in agreement with the underlying documentation from which it was extracted.

The Statutory Auditors
Paris La Défense and Neuilly-sur-Seine, 23 April 2009

KPMG Audit A division of KPMG S.A.		Deloitte & Associés	
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Bertrand de Florival

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8.3.3 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

This is a free translation into English of the Statutory Auditors'report on the consolidated financial statements issued in the French language and is provided solely for the convenience of English speaking users. The Statutory Auditors' report on the consolidated financial statements includes information specifically required by French law in all audit reports, whether qualified or not. This information is presented below the opinion on the consolidated financial statements and includes explanatory paragraphs discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report on the consolidated financial statements should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2008

To the Shareholders,

In accordance with our appointment as Statutory Auditors at your Shareholders' Meeting, we hereby report to you for the year ended 31 December 2008 on:

- the audit of the accompanying consolidated financial statements of Vallourec;
- the justification of our assessments;
- the specific verification required by law.

The consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2008 and of the results of its operations for the year then ended in accordance with the IFRSs as adopted by the European Union.

II. Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French *Code de commerce* relating to the justification of our assessments, we draw to your attention the following matters:

Note A-2.2 to the consolidated financial statements mentions the significant estimates and assumptions made by the Management of Vallourec that affect certain amounts in the consolidated financial statements and accompanying notes. This note specifies that these assumptions are, by nature, subject to uncertainties, and that actual results could differ from these estimates. Moreover, this note specifies that in the actual context of the economic and financial crisis, the uncertainty of certain estimates may be increased and therefore make an understanding of the economic outlook even more difficult. In the context of our audit of the consolidated financial statements for the year ended 31 December 2008, we considered that these significant assumptions and estimates concern intangible assets and goodwill (Notes A-2.9 and A-2.11), provisions (Note A-2.14), retirement benefits and similar obligations (Note A-2.15) and financial instruments (Note A-2.18):

- concerning the intangible assets and goodwill, we have examined the methods for implementing the impairment tests that were performed as well as the cash flow forecasts and assumptions used. We have also verified the appropriateness of the information disclosed in Note C-1 to the consolidated financial statements;
- concerning the provisions, we have assessed the bases and assumptions on which such estimates were made, reviewed the calculations made by the Company, examined Management's procedures for approving these estimates, and reviewed the appropriateness of the information disclosed in Note C-16 to the consolidated financial statements;
- concerning retirement benefits and similar obligations, which have been measured by independent actuaries, our procedures consisted in examining the information used, assessing the assumptions adopted and reviewing the appropriateness of the information disclosed in Note C-17 to the consolidated financial statements;
- concerning financial instruments, we have assessed the documentation prepared by your Company justifying, in particular, the classification of financial instruments, the hedging relationships as well as their effectiveness, and reviewed the appropriateness of the information disclosed in Note C-8 to the consolidated financial statements.

These assessments were performed as part of our audit approach for the consolidated financial statements taken as a whole, and therefore contributed to the expression of our unqualified opinion in the first part of this report.

III. Specific verification

In accordance with professional standards applicable in France, we have also verified the information given in the Group management report. We have no matters to report regarding its fair presentation and consistency with the consolidated financial statements.

The Statutory Auditors
Paris La Défense and Neuilly-sur-Seine, 23 April 2009

KPMG Audit A division of KPMG S.A.		Deloitte & Associés	
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Bertrand de Florival

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8.3.4 STATUTORY AUDITORS' REPORT PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF FRENCH *CODE DE COMMERCE* ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD OF VALLOUREC S.A.

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

Year ended 31 December 2008

To the Shareholders,

In our capacity as Statutory Auditors of Vallourec S.A., and in accordance with Article L. 225-235 of French *Code de commerce*, we hereby report on the report prepared by the Chairman of the Supervisory Board of your Company in accordance with Article L. 225-68 of French *Code de commerce* for the year ended 31 December 2008.

It is the Chairman's responsibility to prepare and submit to the Supervisory Board for approval, a report on the internal control and risk management procedures implemented by the Company and containing the other disclosures required by Article L. 225-68 of French *Code de commerce,* particularly in terms of corporate governance measures.

It is our responsibility:

- to report to you our observations on the information contained in the Chairman's report in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information; and
- to attest that this report contains the other disclosures required by Article L. 225-68 of the French *Code de commerce,* it being specified that we are not responsible for verifying the fairness of these other disclosures.

We conducted our work in accordance with French professional standards.

Information on the internal control procedures relating to the preparation and processing of the accounting and financial information

These professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information.

These procedures consist mainly in:

- obtaining an understanding of the internal control procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report and existing documentation are based;
- obtaining an understanding of the work involved in the preparation of this information and existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the Company's internal control procedures relating to the preparation and processing of the accounting and financial information contained in the report prepared by the Chairman of the Supervisory Board in accordance with Article L. 225-68 of French Company Law *(Code de commerce).*

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by Article L. 225-68 of the French Company Law *(Code de commerce).*

The Statutory Auditors

Paris La Défense and Neuilly-sur-Seine, 23 April 2009

KPMG Audit A division of KPMG S.A.		Deloitte & Associés	
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Bertrand de Florival

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8.3.5 SUPPLEMENTARY STATUTORY AUDITOR'S REPORT ISSUED TO THE SPECIAL REPORT DATED 25 APRIL 2008 ON CAPITAL INCREASES WITH CANCELLATION OF PREFERENTIAL SUBSCRIPTION RIGHTS AUTHORIZED BY THE EXTRAORDINARY GENERAL MEETING OF 4 JUNE 2008 IN THE TWELTH, THIRTEENTH AND FOURTEENTH RESOLUTIONS

Decision of the Management Board of November 17, 2008

To the Shareholders,

In our capacity of Statutory Auditors of your Company and in accordance with Article R.225-116 of the French Commercial Law (*Code de commerce*), we hereby issue our supplementary report to our report dated April 25, 2008 on capital increases with cancellation of preferential subscription rights authorized by your Extraordinary general meeting of June 4, 2008 in the twelfth, thirteenth and fourteenth resolutions.

This general meeting delegated to your Management Board the ability to decide such operations for a period of twenty-six months (*Twelfth resolution*) and of eighteen months (*Thirteenth and fourteenth resolutions*) respectively and for a maximum amount of €.6,300,000 (individual and global limit to be applied to these resolutions) increased if needed under the terms of the twelfth resolution, by the nominal amount of shares to be issued in the event of a new financial operation in order to preserve the rights of holders of securities granting access to the capital.

Using these delegations, your Management Board has decided during its meeting held on November 17, 2008, to proceed with capital increases for a maximum global amount of €.3,000,000 by issuing a maximum of 750,000 shares corresponding to:

- The capital increase through the issue of shares or securities granting access to the share capital reserved for participants in corporate savings plans (*Twelfth resolution*);
- The capital increase reserved for employees of foreign companies of Vallourec outside of a corporate savings plan (*Thirteen resolution*);
- The capital increase reserved for a credit institution as part of a transaction reserved for employees (*Fourteenth resolution*).

The Management Board is responsible for preparing a report pursuant to Articles R.225-115 and R.225-116 of the French *Code de commerce*. Our role is to express an opinion on the fairness of the quantified data derived from the financial statements, on the proposed cancellation of preferential subscription rights and on certain other information pertaining to the issue, as presented in this report.

We performed the procedures that we considered necessary in accordance with the professional standards of the Compagnie nationale des commissaires aux comptes (French National Institute of Registered Auditors) applicable to this engagement. Such procedures consisted in verifying:

- The fairness of the quantified data derived from the half-year consolidated financial statements as of June 30, 2008 issued under the responsibility of the Management Board and established based on accounting methods and presentation as applied for the last consolidated financial statements. We performed a limited review of these half-year financial statements accordance with professional standards applicable in France;
- The conformity of the terms and conditions of the operation regarding the delegation conferred by the General Meeting and the fairness of information as given in the supplementary report prepared by the Management Board on the conditions under which the issue price of the equity securities and the final global amount to be issued were determined.

We have nothing to report on:

- The fairness of the quantified data derived from the consolidated financial statements of the Company and on information as given in the supplementary report prepared by the Management Board;
- The conformity of the terms and conditions of these operations regarding the delegations conferred by the Extraordinary general meeting of June 4, 2008 and on information provided to it;
- On the proposed cancellation of preferential subscription rights on which you were previously asked to decide, the conditions under which the issue price of the equity securities and the final global amount to be issued were determined.

The presentation of the consequence of these issues on the situation of holders of securities granting access to the capital regarding consolidated shareholder's equity and on the stock market value of the shares.

The Statutory Auditors

Paris La Défense and Neuilly-sur-Seine, November 24, 2008

KPMG Audit A division of KPMG S.A.		Deloitte & Associés	
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Bertrand de Florival

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8.4 SUPERVISORY BOARD REPORT

In 2008, for the fifth consecutive year, Group consolidated sales rose significantly, to €6,437 million, up 6.3% on a comparable basis [1], whilst net income, Group share for the full year 2008 remained virtually the same as in 2007 at €967.2 million.

This good performance reflects the strength of the seamless tube market during most of the year, the buoyancy of the energy sector and Vallourec's premium positioning in these markets – testimony to the relevance of the Group's strategy over the last decade, details of which were provided in the Board's report for 2007. Various initiatives undertaken by the Group during the year fit perfectly with this strategy and will help to reinforce the Group's leadership position. They include the creation of a new and significant production unit in Brazil, the acquisition in 2008 in the United States of Grant Prideco's businesses in the Oil & Gas sector, the strengthening of the Group's collaboration with Sumitomo in the United States and the signing of a long-term cooperation agreement with Tubacex, which was announced in February 2009, to offer seamless stainless steel tube solutions to the energy markets.

The Board would like to thank all Group staff for their hard work and for the results achieved during 2008 under the direction of the Management Board.

The Group is now having to face a sharp change in market conditions due to the world economic crisis and needs to adapt without delay to this unfavourable environment. It has in the past shown its ability to adapt quickly. Since its financial position is healthy, the Group is able to adapt its industrial investment policy so as to focus on strategic investments. It is determined to become more competitive, to strengthen its close relationship with its customers, to provide them with innovative solutions and to take full advantage of all opportunities for profitable growth.

The Supervisory Board has examined the Management Board's management report and the financial statements for the year ended 31 December 2008 as well as the various documents attached thereto. The Supervisory Board considers that they accurately reflect the position of the Company and of the Group and that no special remarks are called for.

The Board has also approved the report of the Chairman of the Supervisory Board on the conditions governing the preparation and organization of the Supervisory Board's work and the internal control and risk management procedures implemented by the Company.

The resolutions presented to you by the Management Board have been approved by the Supervisory Board.

As regards the ordinary resolutions:

- the Board supports the Management Board's proposal to set the dividend for the year ended 31 December 2008 at €6 per share and to give each of the Company's shareholders the choice between payment of the dividend in cash or in shares in accordance with the prevailing legislation and regulations. The ex-dividend date will be 11 June 2009.

  To this effect, each shareholder will be able to opt for payment of the entire net dividend in cash or in shares between 11 June 2009 and 26 June 2009. Once this time limit has expired, the dividend will be paid in cash on 7 July 2009.

  The pay-out ratio is 33.2% and the average pay-out ratio for the last five financial years is 33.3%;
- as regards the composition of the Supervisory Board, you are asked to ratify the provisional appointment on 13 November 2008 of Bolloré (for which Mr Thierry Marraud is the permanent representative) as a member of the Supervisory Board to replace Financière de Sainte-Marine, which resigned, for the remainder of the term of office of its predecessor. Bolloré and Financière Sainte-Marine are both members of the Bolloré Group; this resignation and provisional appointment are the result of a change in the Bolloré Group's structure;
- you are also asked to renew the annual share buy-back authorization. The terms of the authorization are the same as for 2008. It is, however, stipulated that this authorization shall not apply in the event that the Company is the subject of a takeover bid.

As regards the extraordinary resolutions, which can only be applied with the agreement of the Supervisory Board:

- the aim of the six resolutions is to confer on the Management Board a set of authorizations enabling it, where relevant, to carry out various financial transactions that would increase the Company's share capital, with or without preferential subscription rights. The authorizations thus proposed to the General Meeting will enable the Management Board to act with the necessary speed and flexibility to carry out, where relevant, issues that are as well adapted as possible to the opportunities offered by the markets and will provide the Group with the resources needed to expand;
- the aim of the group of four resolutions is to enable the Management Board, under conditions that are very similar to those of 2008, to develop and adopt as part of its long-term strategy its employee share ownership policy implemented last year as part of the "Value 08" Plan. The aim of this policy is to enable the Group's employees in France and abroad, under the terms of an offering that is already familiar to them, to enjoy the benefits of Vallourec's growth.

The other resolutions do not call for particular comment and we invite you to approve them all.

(1) After restatement of 2007 sales to make them comparable with 2008 sales by taking into account, in particular, the disposal in 2007 of the precision tubes businesses (VPE and Zeithain plant) to Salzgitter and of VPS and VCAV to ArcelorMittal, as well as the acquisition of Atlas Bradford, TCA and Tube-Alloy, which have been consolidated as from 16 May 2008.

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8.5 SUBSIDIARIES AND PARTICIPATING INTERESTS AT 31 DECEMBER 2008

In € thousand

Companies	Capital	Other shareholders' equity before allocation of income (loss)	Share of capital held (%)	Carrying amount of securities held – Gross	Carrying amount of securities held – Net	Loans and advances granted by Vallourec and not yet repaid	Total security and guarantees given by Vallourec	Sales excluding taxes for the last financial year	Income (loss) for the last financial year	Dividends received by Vallourec during the financial year
A) SUBSIDIARIES AND PARTICIPATING INTERESTS WITH A CARRYING AMOUNT IN EXCESS OF 1% OF VALLOUREC'S CAPITAL (I.E. €2,120 THOUSAND)										
I. Subsidiaries (at least 50%-owned)										
French companies										
Vallourec & Mannesmann Tubes 27, avenue du Général-Leclerc 92100 Boulogne-Billancourt 411 373 525 RCS Nanterre	492,584	1,141,952	100.00	1,056,403	1,056,403	–	–	32,818	725,711	738,877
B) OVERALL INFORMATION ON OTHER SUBSIDIARIES AND PARTICIPATING INTERESTS										
I. Subsidiaries (at least 50%-owned)										
a) French companies	–	–	–	54	34	–	–	–	–	160
b) Foreign companies	–	–	–	1,338	1,060	–	–	–	–	1,421
II. Participating interests (10%- to 50%-owned)										
a) French companies	–	–	–	–	–	–	–	–	–	–
b) Foreign companies	–	–	–	–	–	–	–	–	–	17

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8.6 COMPANIES CONTROLLED DIRECTLY OR INDIRECTLY AS AT 31 DECEMBER 2008 (Article L. 233-3 of the French *Code de commerce*)

I – Direct controlling interest:

Fully consolidated companies	% interest 31/12/2006	% interest 31/12/2007	% interest 31/12/2008	% control 31/12/2008
Changzhou Valinox Great Wall – China	62.5	62.5	62.5	100.0
CST Valinox Ltd - India	71.3	85.6	85.6	90.1
Changzhou Carex Valinox Components - China	70.7	70.7	70.7	100.0
Interfit	100.0	100.0	100.0	100.0
Premium Holding Limited – Hong Kong			100.0	100.0
VAM Drilling USA – United States	100.0	100.0	100.0	100.0
VAM Drilling France	100.0	100.0	100.0	100.0
Valinox Asia	62.5	62.5	62.5	65.8
Valinox Nucléaire	100.0	100.0	100.0	100.0
Vallourec	100.0	100.0	100.0	100.0
Vallourec Composants automobiles Hautmont	100.0	100.0	100.0	100.0
Vallourec Composants automobiles Vitry	100.0	–	–	–
Vallourec & Mannesmann Holdings Inc. – United States	100.0	100.0	100.0	100.0
Vallourec Inc. – United States	100.0	100.0	100.0	100.0
Vallourec Industries Inc. – United States	100.0	100.0	100.0	100.0
V & M Beijing – China	–	100.0	100.0	100.0
Vallourec & Mannesmann Changzhou Co. Ltd – China	100.0	100.0	100.0	100.0
V & M Deutschland GmbH – Germany	100.0	100.0	100.0	100.0
V & M France	100.0	100.0	100.0	100.0
V & M do Brasil SA – Brazil	99.4	99.4	99.4	99.4
V & M Florestal Ltda – Brazil	99.4	99.4	99.4	100.0
V & M Mineração Ltda – Brazil	99.4	99.4	99.4	100.0
V & M ONE	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Rus. – Russia	–	100.0	100.0	100.0
V & M Services	100.0	100.0	100.0	100.0
V & M Star – United States	80.5	80.5	80.5	80.5
Vallourec & Mannesmann Tubes	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Tubes Corporation - United States	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Oil & Gas France	100.0	100.0	100.0	100.0
Vallourec Mannesmann Oil & Gas Nederland – Netherlands	–	100.0	100.0	100.0
VMOG Nigeria Ltd – Nigeria	–	100.0	100.0	100.0
VAM ONNE Nigeria Ltd (formerly VMOG Freezone Nigeria Ltd) – Nigeria	–	100.0	100.0	100.0
Vallourec Mannesmann Oil & Gas UK – United Kingdom	100.0	100.0	100.0	100.0

Fully consolidated companies	% interest 31/12/2006	% interest 31/12/2007	% interest 31/12/2008	% control 31/12/2008
Vallourec Mannesmann Oil & Gas Germany – Germany (Merger with V & M Deutschland GmbH on 1 January 2007)	100.0	–	–	–
Vallourec Précision Étirage	100.0	–	–	–
Vallourec Précision Soudage	100.0	–	–	–
Vallourec Tubes Canada Inc. – Canada	100.0	100.0	100.0	100.0
Valti	100.0	100.0	100.0	100.0
Valti GmbH – Germany	100.0	100.0	100.0	100.0
Valtimet SAS	95.0	95.0	95.0	95.0
Valtimet Inc. – United States	95.0	95.0	95.0	100.0
VAM Canada – Canada	100.0	100.0	100.0	100.0
VAM Far East – Singapore	51.0	51.0	51.0	51.0
VAM Field Services Angola – Angola	–	100.0	100.0	100.0
VAM Field Services Beijing – China	51.0	51.0	51.0	51.0
VAM Mexico – Unites States	100.0	100.0	100.0	100.0
VAM USA – United States	51.0	51.0	51.0	51.0
V & M Atlas Bradford – United States	–	–	100.0	100.0
V & M TCA – United States	–	–	100.0	100.0
V & M Tube-Alloy – United States	–	–	100.0	100.0

Proportionately consolidated companies	% interest 31/12/2006	% interest 31/12/2007	% interest 31/12/2008	% control 31/12/2008
VAM Changzhou Oil & Gas Premium Equipments Co. Ltd – China	100.0	51.0	51.0	50.0
VAM Holding Hong Kong Limited – Hong Kong	100.0	51.0	51.0	50.0
Vallourec & Sumitomo Tubos do Brasil Ltda – Brazil	–	56.0	56.0	50.0

Equity affiliates	% interest	% interest	% interest	% control
HKM – Germany	20.0	20.0	20.0	20.0
Pacific Tubular Limited – Jersey	24.8	24.8	24.8	24.8
Poongsan Valinox – South Korea	47.5	47.5	47.5	50.0
P.T. Citra Tubindo – Indonesia	25.0	25.0	36.3	36.3
Tubos Soldados Atlantico – Brazil	24.6	24.6	24.6	24.7
Xian Baotimet Valinox Tubes – China	37.1	37.1	37.1	49.0

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8.7 EVALUATION OF SECURITIES PORTFOLIO AS AT 31 DECEMBER 2008

In € thousand

	Name of company	Number of securities and nominal value	Carrying amount
I.	**SHARES AND UNITS**		
a)	***French participating interests***		
	Valsept	2,500 shares of €15	26
	Vallourec & Mannesmann Tubes	32,838,963 shares of €15	1,056,403
b)	***Foreign participating interests***		
	Finalourec	47,995 shares of €4.58	39
	Vallourec Tubes Canada	526,000 shares of CAD 1 47,000 shares of CAD 10	604
	Vallourec Inc.	1,000 shares of $50	417
c)	***Other participating interests***		
	Assurval	495 units of €20	8
	Alberto Roca Deu Sl	40 shares of €6.01	–
II.	**BONDS AND SIMILAR SECURITIES**		**–**
	TOTAL		**1,057,497**

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8.8 FIVE-YEAR FINANCIAL SUMMARY

In euros	2004	2005	2006	2007	**2008**
CAPITAL					
Share capital	**197,399,120**	**212,006,640**	**212,047,480**	**212,154,880**	**215,154,864**
Number of ordinary shares in issue	9,869,956	10,600,332	53,011,870	53,038,720	53,788,716
Number of preference dividend shares (without voting rights) in issue	–	–	–	–	–
Maximum number of new shares to be issued:					
• by conversion of bonds	–	–	–	–	–
• by exercise of subscription rights	32,020	8,174	30,660	147,308	212,100
• by redemption of bonds	–	–	–	–	–
OPERATIONS AND RESULTS FOR THE YEAR					
Sales excluding taxes	–	–	–	–	4,093,551
Income (loss) before tax, employee profit sharing, amortization, depreciation and provisions	-58,687,367	-11,515,957	158,527,985	533,143,895	715,270,552
Income tax	-5,827,453	-10,031,246	-13,234,248	-21,998,166	-15,892,775
Employee profit sharing for the year	–	–	–	–	–
Income (loss) after tax, employee profit sharing, amortization, depreciation and provisions	30,064,061	14,144,934	172,068,021	553,894,374	730,835,635
Dividends distributed	**31,583,859**	**118,723,718**	**318,071,220**	**583,425,920**	**322,732,296**
PER SHARE DATA					
Income (loss) after tax and employee profit sharing, but before amortization, depreciation and provisions	-5.36	-0.14	3.24	10.47	13.59
Income (loss) after tax, employee profit sharing, amortization, depreciation and provisions	3.05	1.33	3.25	10.44	13.59
Dividend allotted to each share	**3.20**	**11.20**	**6.00**	**11.00**	**6**
EMPLOYEES					
Average number of employees during the financial year	5	5	5	4	7
Payroll during the financial year	594,460	573,987	732,844	353,485	1,633,803
Payroll-related costs (social security, employee benefits, etc.)	188,462	214,024	258,138	85,419	903,538

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8.9 ANNUAL INFORMATION DOCUMENT (Articles L. 451-1-1 of the French *Code monétaire et financier* and 222-7 of the general regulations of the French securities regulator — *Autorité des marchés financiers - AMF*)

This document contains or refers to all of the information published or made public by the issuer during the last 12 months in order to comply with the legal and regulatory obligations in force during the period 1 January 2008 to **10 March 2009.**

Year ended 31 December 2008

PUBLICATIONS IN THE BALO

2008 Q4 sales and quarterly and full year situation 2008	http://balo.journal-officiel.gouv.fr	06/03/2009	Bulletin 28	Item 0901052
Voting rights after 16 December 2008 capital increase	http://balo.journal-officiel.gouv.fr	24/12/2008	Bulletin 155	Item 0815145
2008 Q3 consolidated sales and quarterly situation	http://balo.journal-officiel.gouv.fr	21/11/2008	Bulletin 141	Item 0814494
Press release: regulated information – 2008 first-half financial statements and report	http://balo.journal-officiel.gouv.fr	27/08/2008	Bulletin 104	Item 0812300
2008 Q2 consolidated sales and quarterly situation	http://balo.journal-officiel.gouv.fr	22/08/2008	Bulletin 102	Item 0812172
Approval of 2007 financial statements and Statutory Auditors' report	http://balo.journal-officiel.gouv.fr	13/06/2008	Bulletin 72	Item 0808326
Voting rights Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008	http://balo.journal-officiel.gouv.fr	13/06/2008	Bulletin 72	Item 0808377
Second invitation to Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008	http://balo.journal-officiel.gouv.fr	28/05/2008	Bulletin 65	Item 0807137
First invitation to Ordinary and Extraordinary Shareholders' Meeting of 26 May 2008–4 June 2008	http://balo.journal-officiel.gouv.fr	12/05/2008	Bulletin 58	Item 0805807
2008 Q1 sales and quarterly situation	http://balo.journal-officiel.gouv.fr	09/05/2008	Bulletin 57	Item 0805657
Amendment to notice of Ordinary and Extraordinary Shareholders' Meeting of 26 May 2008–4 June 2008 published on 18 April 2008	http://balo.journal-officiel.gouv.fr	28/04/2008	Bulletin 51	Item 0804637
Notice of Ordinary and Extraordinary Shareholders' Meeting of 26 May 2008–4 June 2008	http://balo.journal-officiel.gouv.fr	18/04/2008	Bulletin 47	Item 0804056
2007 consolidated and Company financial statements	http://balo.journal-officiel.gouv.fr	09/04/2008	Bulletin 43	Item 0803457
Auditors fees for the financial year 2007	http://balo.journal-officiel.gouv.fr	26/03/2008	Bulletin 37	Item 0803024
2007 Q4 consolidated sales and quarterly situation and full year 2007	http://balo.journal-officiel.gouv.fr	06/02/2008	Bulletin 16	Item 0800850

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PUBLICATIONS IN THE REGISTRY OF THE COMMERCIAL COURT OF NANTERRE

Deeds in respect of the capital increase (16 December 2008)	http://www.infogreffe.fr	22/01/2009	File No. 2146
Deeds in respect of the subscription for and paying up of shares	http://www.infogreffe.fr	22/01/2009	File No. 2146
Deeds in respect of the updating of the by-laws	http://www.infogreffe.fr	22/01/2009	File No. 2146
Deeds in respect of a change in the membership of the Management Board and Supervisory Board	http://www.infogreffe.fr	15/12/2008	File No. 37878
Deeds in respect of a change in the membership of the Supervisory Board	http://www.infogreffe.fr	11/12/2008	File No. 37626
Deeds in respect of the amendment of the by-laws following the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008	http://www.infogreffe.fr	30/06/2008	File No. 19227
Deeds in respect of a change in the membership of the Supervisory Board	http://www.infogreffe.fr	26/06/2008	File No. 18872
Filing of 2007 consolidated and Company financial statements	http://www.infogreffe.fr	27/06/2008	File No. 11475

PUBLICATIONS IN THE JOURNALS OF LEGAL NOTICES

Capital increase of 16 December 2008	Affiches Parisiennes / La Vie Judiciaire Euronext notices Euronext notices	19/12/2008 12/12/2008 16/12/2008	No. 146 No. 20081212 No. 20081216	No. 7062518 No. 04772 No. 04838
Change in the membership of the Supervisory Board	Affiches Parisiennes / La Vie Judiciaire	12/12/2008	No. 143	No. 7002510
Second invitation to Ordinary and Extraordinary Shareholders' Meeting of 4 June 2006	Affiches Parisiennes / La Vie Judiciaire	25/05/2008	No. 62	No. 6038705
Invitation to Ordinary and Extraordinary Shareholders' Meeting of 26 May 2008 AND 4 June 2008	Affiches Parisiennes / La Vie Judiciaire	07/05/2008	No. 54	No. 5937721
Notice of Ordinary and Extraordinary Shareholders' Meeting of 26 May 2008 and 4 June 2008	Affiches Parisiennes / La Vie Judiciaire	18/04/2008	No. 46	No. 5835960
Change in the membership of the Supervisory Board	Affiches Parisiennes / La Vie Judiciaire	10/12/2008	No. 142	No. 6971474
Voting rights Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008	Affiches Parisiennes / La Vie Judiciaire	09/06/2008	No. 67	No. 6127595

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REFERENCE DOCUMENT, FINANCIAL TRANSACTIONS AND AMF PRESS RELEASES

Declaration of purchases and sales of own shares (liquidity agreement)			
December 2008		20/01/2009	209C0096
November 2008		16/12/2008	208C2256
October 2008		17/11/2008	208C2051
September 2008		10/10/2008	208C1849
August 2008		12/09/2008	208C1667
July 2008		04/09/2008	208C1621
June 2008		01/09/2008	208C1602
May 2008		23/06/2008	208C1195
April 2008		02/06/2008	208C1055
March 2008		18/04/2008	208C0731
February 2008		31/03/2008	208C0577
January 2008		19/03/2008	208C0521
December 2007	http://www.amf-france.org	14/01/2008	208C0077
Crossing of threshold			
Capital Group 13 February 2009	http://www.amf-france.org	13/03/2009	No. 209C0399
Capital Group 13 February 2009	http://www.amf-france.org	13/02/2009	No. 209C0262
Deutsche Bank 25 November 2008	http://www.amf-france.org	25/11/2008	No. 209C2098
Deutsche Bank 12 and 13 November 2008	http://www.amf-france.org	19/11/2008	No. 208C2065
Deutsche Bank 17 October 2008	http://www.amf-france.org	23/10/2008	No. 208C1925
Capital Research and Management Company (CRMC) 17 October 2008	http://www.amf-france.org	21/10/2008	No. 208C1913
Deutsche Bank 2 September 2008	http://www.amf-france.org	05/09/2008	No. 208C1628
Deutsche Bank 20 June 2008	http://www.amf-france.org	30/06/2008	No. 208C1235
Barclay's 27 June 2008	http://www.amf-france.org	27/06/2008	No. 208C1228
Morgan Stanley 20 June 2008	http://www.amf-france.org	20/06/2008	No. 208C1188
Capital Research and Management Company (CRMC) 23 April 2008	http://www.amf-france.org	28/04/2008	No. 208C0788
Barclays 11 January 2008	http://www.amf-france.org	21/01/2008	No. 208C0138
Barclays 6 March 2007	http://www.amf-france.org	21/01/2008	No. 208C0139
Bolloré Group 14 January 2008	http://www.amf-france.org http://www.Bollore.com	21/01/2008	No. 208C0142
Reference Document for the year ended 31 December 2007	http://www.amf-france.org http://www.vallourec.fr	28/04/2008	No. D08-0316
Management reports for the year ended 31 December 2007, Statutory Auditors' reports, report of the Chairman on procedures, etc. (see Reference Document)	http://www.amf-france.org http://www.vallourec.fr	27/04/2008	No. D08-0316
Declarations by the management (as from January 2008) too numerous to be disclosed in this document	http://www.amf-france.org		108 declarations

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FINANCIAL COMMUNICATIONS AND REGULATED INFORMATION

The aim of this heading is to make accessible all the regulated information disseminated by Vallourec in accordance with the European Transparency Directive.

The following are available for consultation:

1. The annual financial report;
2. The first half financial report;
3. Quarterly information;
4. The report on internal control and corporate governance;
5. The release on Auditors' remuneration;
6. Information about the total number of voting rights and shares making up the share capital;
7. Description of the own share buy-back programmes ;
8. Ongoing information (Press releases + Corporate officers + Thresholds);
9. Details of how to obtain the prospectus;
10. Details of how to obtain the preparatory documents for Shareholders' Meetings;
11. The weekly declarations of share buy-backs (monthly press release);
12. Other regulated information.

	http://www.vallourec.com	
	http://www.euronext.com And circulation as required by law by Hugin	Daily updating

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OTHER PUBLICATIONS

Strengthened collaboration with Sumitomo	http://www.vallourec.fr	26/02/2009
2008 FY results	http://www.vallourec.fr	25/02/2009
Changes in the composition of the Management Board	http://www.vallourec.fr	25/02/2009
Vallourec and Tubacex sign a cooperation agreement	http://www.vallourec.fr	18/02/2009
Vallourec announces the success of its Value 08 employee share offering	http://www.vallourec.fr	16/12/2008
AFEP/MEDEF recommendations concerning the compensation of executive directors	http://www.vallourec.fr	16/12/2008
Subscription price within the framework of the employee share offering	http://www.vallourec.fr	17/11/2008
2008 third quarter results	http://www.vallourec.fr	13/11/2008
Management Board changes	http://www.vallourec.fr	01/10/2008
2008 second quarter results	http://www.vallourec.fr	31/07/2008
Implementation of an employee share offering	http://www.vallourec.fr	31/07/2008
Vallourec reinforces its finance function	http://www.vallourec.fr	21/07/2008
2008 first quarter results	http://www.vallourec.fr	07/05/2008
Vallourec confirms the acquisition of three tubular businesses from Grant Prideco	http://www.vallourec.fr	05/05/2008
Changes within the Supervisory Board	http://www.vallourec.fr	23/04/2008
Management Board change	http://www.vallourec.fr	20/03/2008
Financial notice: 2008 full-year sales and results	http://www.vallourec.fr http://www.euronext.com And circulation as required by law by Hugin Les Echos Le Figaro économie	25/02/2009 27/02/2009 28/02/2009 03/03/2009 28/02/2009
In German	Rheinische Post (Germany) Investir Hebdo Le journal des finances Le Revenu Hebdo	28/02/2009 06/03/2009
Financial notice: 2008 third quarter results	http://www.vallourec.fr http://www.euronext.com And circulation as required by law by Hugin Les Echos Investir Hebdo Le Revenu Hebdo	14/11/2008 17/11/2008 22/11/2008 21/11/2008
2009 financial calendar	http://www.vallourec.fr	
Financial notice: 2008 second quarter and first half results	http://www.vallourec.fr http://www.euronext.com And circulation as required by law by Hugin Les Echos Le Figaro économie Investir Hebdo Le Revenu Hebdo Le journal des finances	04/07/2008 04/08/2008 04/08/2008 09/08/2008 08/08/2008 09/08/2008
Invitation to Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008	Les Echos Investir Le Revenu Le journal des finances	21/05/2008 24/05/2008 23/05/2008 24/05/2008

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Financial notice: 2008 first quarter results	http://www.vallourec.fr http://www.euronext.com http://www.amf-france.org Les Echos Investir Hebdo Le Revenu Hebdo	 07/05/2008 08/05/2008 10/05/2008 09/05/2008
Financial notice: 2007 full-year sales and results	Les Echos Le Figaro économie Le Revenu Le journal des finances Investir	06/03/2008 06/03/2008 07/03/2008 08/03/2008 08/03/2008
In German	Rheinische Post (Germany)	07/03/2008

The Company publishes each day, in French and English, on its website and via its authorized news distributor Hugin, the "regulated information" made mandatory by the transparency directive, Article L. 451-1-2 et seq. of the French *Code monétaire et financier*:
http://www.vallourec.fr/uk/actionnaires/information_reglementee.asp

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8.10 CONCORDANCE TABLE OF THE VALLOUREC REFERENCE DOCUMENT FACILITATING THE IDENTIFICATION OF THE INFORMATION STIPULATED IN APPENDIX I OF EC REGULATION NO. 809/2004 OF 29 APRIL 2004

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Appendix I of the European prospectus regulations			Vallourec Reference Document	
			Section	Page
1.		PERSONS RESPONSIBLE	1	6
2.		STATUTORY AUDITORS	1.3	7
3.		SELECTED FINANCIAL INFORMATION	3.1 / 5 / 8.1.1	24-38 / 51-145 / 168-169
4.		RISK FACTORS	4	43-50
5.		INFORMATION ABOUT THE ISSUER		
	5.1.	History and development of the Company	2.1 / 3.1.1	12-13 / 24-27 /
	5.2	Investments	3.2 / 8.2	39-41 / 207-208
6.		BUSINESS OVERVIEW		
	6.1	Principal activities	3.1.2 / 3.1.3 / 3.1.4	27-33
	6.2	Principal markets	3.1.6	35
	6.3	Exceptional events	3.1.7	36
	6.4	Possible dependency	3.1.9	37-38
	6.5	Group's competitive position	3.1.8	36-37
7.		ORGANIZATIONAL STRUCTURE		
	7.1	Brief description of the Group	2.3.4	19
	7.2	List of significant subsidiaries	3.1.1 / 3.1.2 / 5 / 8.6	24-31 / 69-70 / 220-221
8.		PROPERTY, PLANT AND EQUIPMENT		
	8.1	Material property, plant and equipment	3.1.5.1 / 5 (Notes 2 and 20)	33 / 74-76 / 119-120
	8.2	Environmental issues that may affect the Group's utilization of its property, plant and equipment	3.1.5.2	33-34
9.		OPERATING AND FINANCIAL REVIEW	8.1.1	168-169
10.		CAPITAL RESOURCES		
	10.1	Issuer's capital resources	5	51-145
	10.2	Sources and amounts of cash flows	5	51-145
	10.3	Borrowing requirements and financial structure	5	51-145
	10.4	Information regarding any restrictions on the use of capital resources	5	51-145
	10.5	Anticipated sources of funds	5	51-145
11.		RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES	3.3 / 5 / 8.1.1.2 / 8.2	42 / 62 / 171 / 209
12.		TREND INFORMATION	7	166
13.		PROFIT FORECASTS AND ESTIMATES	N/A	
14.		ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT		
	14.1	Names and functions of members of the supervisory and management bodies and details of the principal activities performed by them outside the Company	6.1 / 8.1 (*)	148-153 / 185-201
	14.2	Supervisory and management bodies and senior management's conflicts of interest	6.1.3 / 6.1.4 / 8.1 (*)	153 / 185-201

(*) Appendix to Management Board report – year ended 31 December 2008 (see page 185 above).

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Appendix I of the European prospectus regulations			Vallourec Reference Document	
			Section	Page
15.		REMUNERATION AND BENEFITS		
	15.1	Amount of remuneration paid and benefits in kind granted	6.2 / 6.3 / 8.1.1.3 / 8.1.1.4 / 8.2	153-164 / 172-184 / 210-211
	15.2	Total amounts set aside or accrued by the Group to provide pension, retirement or similar benefits	5.1 (Note 19) / 6.2.2	117-160
16.		BOARD PRACTICES		
	16.1	Expiry date of current terms of office	6.1.1 / 8.1 (*)	148-150 / 185-201
	16.2	Information about members of the supervisory and management bodies' service contracts with the Group	N/A	
	16.3	Information about the Supervisory Board's Committees	6.1.2	150-152
	16.4	Declaration of compliance with the corporate governance regime in force	8.2	205-211
17.		EMPLOYEES		
	17.1	Number of employees	8.1.1.3	172-176
	17.2	Shareholdings, share subscription and share purchase options and performance shares	6.2 / 6.3 / 8.1.1.3 / 8.1.1.4 / 8.1.2 / 8.1.3	153-164 / 176 / 182-184 / 202-204
	17.3	Arrangements for involving the employees in the capital	N/A	
18.		MAJOR SHAREHOLDERS		
	18.1	Shareholders owning more than 5% of the capital	2.3.1 / 2.3.2 / 2.3.3	16-18
	18.2	Existence of different voting rights	2.1.10	12
	18.3	Ownership or control of the issuer	2.3.1 / 2.3.2 / 2.3.3	16-18
	18.4	Arrangements the operation of which may result in a change of control	2.3.1	16-17
19.		RELATED PARTY TRANSACTIONS	5 – NOTE 19	117
20.		FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL SITUATION AND PROFITS AND LOSSES		
	20.1	Historical financial information	5	51-145
	20.2	Pro forma financial information	N/A	
	20.3	Financial statements	5 / 8.8	51-145 / 223
	20.4	Auditing of the historical annual financial information	8.3.1 / 8.3.3	212 / 215
	20.5	Age of latest financial information	5	51-145
	20.6	Interim and other financial information	8.9	224
	20.7	Dividend policy	2.5	22
	20.8	Legal and arbitration proceedings	5 (Note 16)	102-103
	20.9	Significant change in the issuer's financial or trading position	N/A	
21.		ADDITIONAL INFORMATION		
	21.1	Share capital	2.2	13-15
	21.2	By-laws	2.1 / 2.2	12-15
22.		MATERIAL CONTRACTS	N/A	
23.		THIRD PARTY INFORMATION, STATEMENTS BY EXPERTS AND DECLARATIONS OF INTERESTS	N/A	
24.		DOCUMENTS ON DISPLAY	1.4 / 2.1.7 / 8.9	8-9 / 12 / 224-228
25.		INFORMATION ON HOLDINGS	8.5 / 8.6 / 8.7	219-222

(*) Appendix to Management Board report – year ended 31 December 2008 (see page 185 above).

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8.11 CONCORDANCE TABLE BETWEEN THE REFERENCE DOCUMENT AND THE ANNUAL FINANCIAL REPORT

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Annual financial report		Reference Document
1	Company financial statements	Section 5 – Sub-section 5.2
2	Consolidated financial statements	Section 5 – Sub-section 5.1
3	Statutory Auditors' report on the Company financial statements	Section 8 – Sub-section 8.3.1
4	Statutory Auditors' report on the consolidated financial statements	Section 8 – Sub-section 8.3.3
5	Management report comprising as a minimum the information specified in Articles L. 225-100, L. 225-100-2, L. 225-100-3 and L. 225-211, Section 2, of the French *Code de Commerce*	Section 8 – Sub-section 8.1.1
	Declaration by the persons taking responsibility for the management report	Section 1
6	Auditors' remuneration	Section 5 – Sub-section 5.1 (Note 26)
7	Report of the Chairman of the Supervisory Board on the conditions governing the preparation and organization of the Board's work and on the internal control procedures implemented by the Company	Section 8 – Sub-section 8.2
8	Statutory Auditors' report on internal control	Section 8 – Sub-section 8.3.4
9	List of all the information published or made public by the Company during the last 12 months	Section 8 – Sub-section 8.9

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8.12 INFORMATION INCLUDED FOR REFERENCE

In accordance with Article 28 of European Commission Regulation no. 809/2004, the following information is included for reference in this Reference Document:

For the year ended 31 December 2006

- the Reference Document for the year ended 31 December 2006 was registered with the French securities regulator (*Autorité des Marchés Financiers – AMF*) on 27 April 2007 under file no. D07-0405;
- the consolidated financial statements are included in Section 5, sub-section 5.1.0 and the corresponding audit report is included in Section 8, sub-section 8.3.3;
- the Company financial statements are included in Section 5, sub-section 5.1.1 and the corresponding audit report is included in Section 8, sub-section 8.3.1.

For the year ended 31 December 2007

- the Reference Document for the year ended 31 December 2007 was registered with the French securities regulator (*Autorité des Marchés Financiers – AMF*) on 28 April 2008 under file no. D08-0316;
- the consolidated financial statements are included in Section 5, sub-section 5.1.0 and the corresponding audit report is included in Section 8, sub-section 8.3.3;
- the Company financial statements are included in Section 5, sub-section 5.1.1 and the corresponding audit report is included in Section 8, sub-section 8.3.1.

Design and realization: Labrador 00 33 1 53 06 30 80