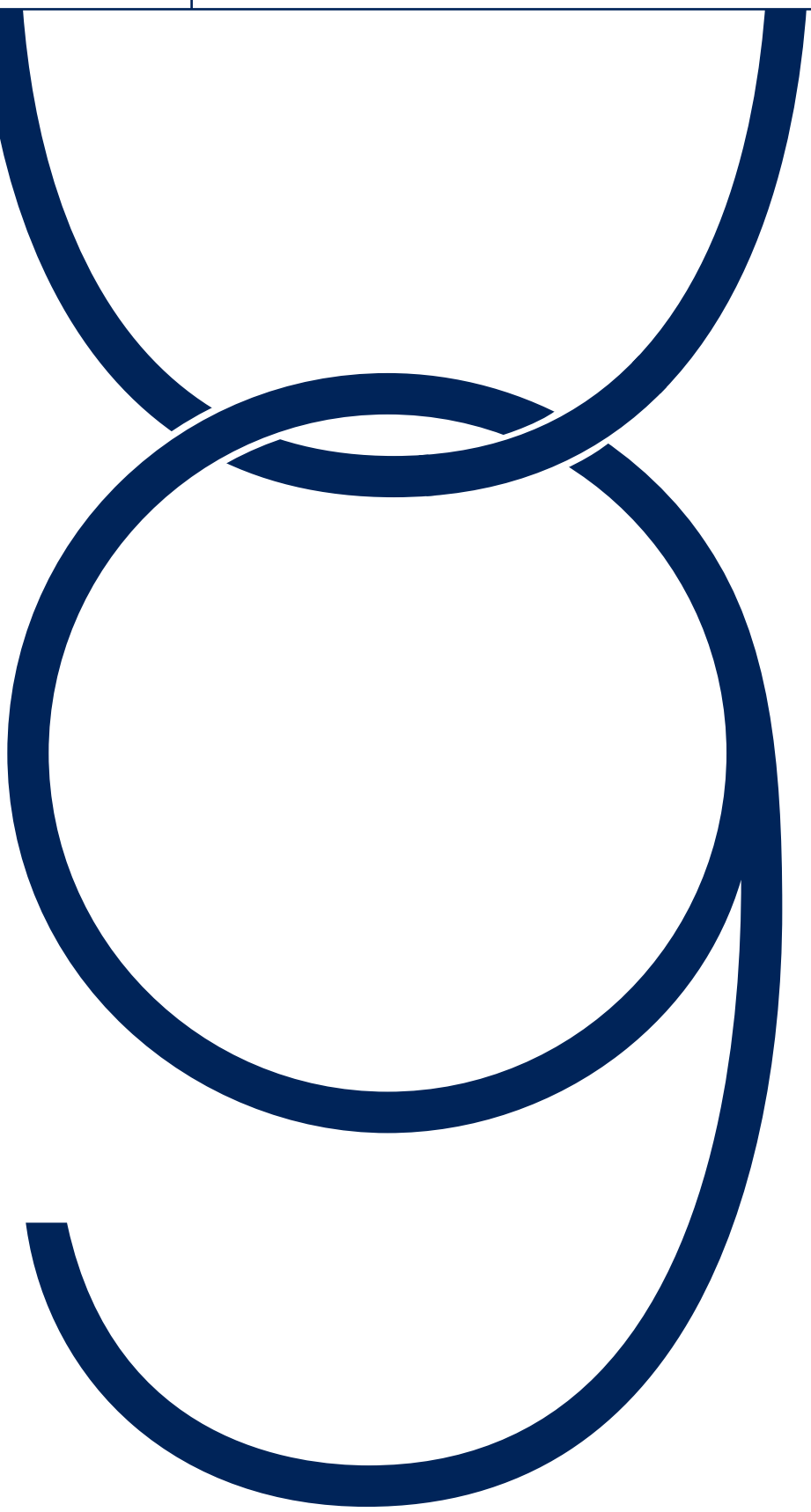
vallourec

2009 Registered Document



vallourec

Registered Document
Year ended 31 December 2009

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

The original version of this Registered Document (document de référence) in French was filed with the French securities regulator (*Autorité des Marchés Financiers* – AMF) on 19 April 2010 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 Registered Document of the Vallourec Group for the year ended 31 December 2009.

Its purpose is to assist English speaking readers. The greatest attention has been paid to its preparation. However, the only official document is the 2009 Registered Document in French, filed with the French securities regulator (*Autorité des Marchés Financiers* – AMF) on 19 April 2010.

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1.1 PERSON RESPONSIBLE FOR THE REGISTERED DOCUMENT

Mr Philippe Crouzet,

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

1.2 ATTESTATION BY THE PERSON RESPONSIBLE FOR THE REGISTERED DOCUMENT

I attest, having taken all reasonable steps to ensure that such is the case, that the information given in this Registered 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 profit of the Company and of the Group and that the management report included in Section 8 (on pages 198 to 215) of this Registered 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 Registered Document and read the Registered Document in its entirety.

The consolidated financial statements for the year ended 31 December 2009 presented in this Registered Document are the subject of the Statutory Auditors' report on pages 241 and 242, which contains the following observation: *"Without qualifying our opinion, we draw your attention to Note A-1 of the notes to the consolidated financial statements entitled "Framework for the preparation and presentation of financial statements", which provides details of the new standards and interpretations applied as from 1 January 2009."*

Boulogne-Billancourt, 19 April 2010



The Chairman of the Management Board

Philippe Crouzet

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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 Ordinary 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 Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011.

Deloitte & Associés

represented by:

Mr Jean-Paul Picard and
Mr Jean-Marc Lumet

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 Ordinary 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 Ordinary 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
2 bis, rue de Villiers
92300 Levallois-Perret

Date on which first appointment commenced: 1 June 2006

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

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1.4 PERSON RESPONSIBLE FOR THE COMMUNICATION OF FINANCIAL INFORMATION

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 Shareholders' 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 PROFIT (ARTICLE 15 OF THE BY-LAWS)

The distributable net profit, as defined by law, is allocated by a Shareholders' Meeting.

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

A Shareholders' 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 SHAREHOLDERS' MEETINGS

Shareholders' Meetings are called in accordance with the conditions provided for by law. A Shareholders' 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 Shareholders' 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 Shareholders' 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 than 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 Shareholders' Meetings and evidence of the quantities held, under the provisions of current legislation.

1 2 3 4 5 6 7 8

2.2 GENERAL INFORMATION CONCERNING THE CAPITAL

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

An Extraordinary Shareholders' 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 Shareholders' Meeting;
- any other issue of securities that could later give access to the capital, authorized by a Shareholders' Meeting.

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

2.2.2 SHARE CAPITAL

On 1 January 2009, the start of the financial year 2009, the fully paid-up share capital amounted to €215,154,864, divided into 53,788,716 shares with a par value of €4 each.

On 29 July 2009, the Management Board noted that, in accordance with the *fourth resolution* of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009, a capital increase had been carried out on 7 July 2009 by means of the issue of 2,783,484 new shares (i.e. 5.2% of the share capital on that date) at the price of €74.28 per share in payment of the 2008 dividend of €6 per share. The issue of said new shares resulted in a capital increase in the nominal amount of €11,133,936 which increased Vallourec's share capital on 7 July 2009 from €215,154,864, to €226,288,800, divided into 56,572,200 shares with a par value of €4 each.

On 17 December 2009, the share capital was increased by a nominal amount of €2,834,356, from €226,288,800 to €229,123,156, divided into 57,280,789 shares with a par value of €4 each, as a result of three capital increases, under the terms of the "Value 09" employee share ownership plan, in the nominal amounts of €1,848,748, €771,908 and €213,700 respectively by means of the issue of 462,187, 192,977 and 53,425 new shares respectively at the price of €91.74 per share.

On 31 December 2009 the fully paid-up share capital thus totalled €229,123,156, divided into 57,280,789 shares with a par value of €4 each.

2.2.3 AUTHORIZED CAPITAL NOT YET ISSUED

2.2.3.1 General authorizations

The financial authorizations granted by the Extraordinary Shareholders' Meeting of 6 June 2007 expired on 6 August 2009. Consequently, the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 was asked to replace them with a new set of authorizations by virtue of *resolutions 10 to 15*. Said Ordinary and Extraordinary Shareholders' Meeting granted to the Management Board, subject to the prior agreement of the Supervisory Board, (see 2.2.1 above) and for a period of 26 months expiring on 3 August 2011, the following delegations of authority:

- a delegation of authority to decide to issue, with preferential subscription rights, ordinary shares and any securities giving access to the share capital of the Company or any company of which it owns directly or indirectly more than half of the share

capital within the limit of a maximum nominal amount of a capital increase of €105 million[1] *(Tenth resolution)*. In addition, the maximum nominal amount of debt securities which may be issued under this delegation of authority is set at €1 billion;

- a delegation of authority to decide to issue, without preferential subscription rights, ordinary shares and any securities giving access to the share capital of the Company or any company of which it owns directly or indirectly more than half of the share capital within the limit of a maximum nominal amount of a capital increase of €30 million[2]. In accordance with the law, the issues could be made through a public offering or a private placement and the issue price of the shares which may be issued under this delegation of authority should be at least equal to the weighted average of Vallourec's share prices during the last three trading sessions prior to its determination, the Management Board having the right to deduct a maximum discount of 5% from the average so obtained *(Eleventh resolution).* In addition, the maximum nominal amount of debt securities which may be issued under this delegation of authority is set at €1 billion;
- a delegation of authority, in the event of the issue of shares or securities referred to in the preceding paragraph without preferential subscription rights within the limit of 10% of the share capital per period of 12 months, to set the issue price at the most favourable level given market conditions at the time of the offering, within the upper limit provided by the *eleventh resolution* and the global upper limit provided by the *tenth resolution.* The Management Board may deviate from the price terms provided by the aforementioned *eleventh resolution* and set it at such a level that the issue price may not be lower, at the option of the Management Board, than either (i) the average price of the share, weighted by the volumes during the trading session preceding the pricing of the issue or (ii) the average price of the share, weighted by the volumes, set during the trading session when the issue price is determined, in each case, potentially reduced by a discount of up to a maximum of 5% *(Twelfth resolution)*;
- a delegation of authority to decide, in the event of a capital increase with or without preferential subscription rights and excessive demand, to increase the number of securities to be issued within thirty days following the closing of the subscription and at the same price as that used for the initial issue. The maximum number of securities that could be issued in the event of excessive demand is, in accordance with the provisions of Articles L.225-135-1 and R.225-118 of the French *Code de commerce,* 15% of the initial issue *(Thirteenth resolution)*;
- a delegation of authority to decide to issue ordinary shares or securities giving access to the share capital, without preferential subscription rights, in consideration of in-kind contributions made to the Company which would consist of equity securities or securities giving access to the share capital. The maximum amount of share capital that may be issued under this resolution is 10% of the share capital *(Fourteenth resolution)*;
- a delegation of authority to decide to increase the share capital by incorporation of premiums, reserves or profits, within the limit of a maximum nominal amount of €60 million. The capital increase may be achieved through the allocation of shares or through the increase of the nominal value of existing shares or through the joint use of these two processes *(Fifteenth resolution)*.

Without prejudice to the upper limits specific to each of these delegations of authority, the aggregate nominal amount of the capital increases which may be decided under these various delegations may not exceed **€105 million**. In addition, the overall nominal amount of capital increases without preferential subscription rights *(Eleventh, twelfth, thirteenth and fourteenth resolutions)* may not exceed an intermediary upper limit of **€30 million.**

2.2.3.2 Employee share ownership

The Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 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 the members' favour, with a nominal amount not exceeding €8.6 million *(Seventeenth resolution).* The issue price of new shares or marketable securities granting access to the capital would be determined in accordance with the provisions of Articles L.3332-18 to L.3332-23 of the French *Code du travail* and would be equal to at least 80% of the reference price, which is equal to the average opening price of the Company's shares listed on the regulated market of Euronext Paris during the 20 trading sessions prior to the date of the decision setting the opening date of subscription for participants in a company savings plan. The Management Board could reduce or cancel the 20% discount, within the legal and regulatory limits, if it considers it to be advisable;
- 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 €8.6 million *(Eighteenth resolution).* The issue price of the securities to be issued under the *eighteenth resolution* shall be equal to the reference price used for the purposes of the use of the delegation granted by the *seventeenth resolution,* reduced by a discount of 20%;
- 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 €8.6 million *(Nineteenth resolution).* The issue price of the securities to be issued under the *nineteenth resolution* shall be equal to the reference price used for the purposes of the use of the delegation granted by the *seventeenth resolution,* reduced by a discount of 20%;
- to allocate shares (whether existing shares or shares to be used) to the Group's employees who are not French residents (and beneficiaries and similar parties), or to certain of them as part of the implementation of an offering reserved for employees (and

(1) The amount of €105 million represented at 31 December 2009 approximately 46% of the Company's share capital.

(2) The amount of €30 million represented at 31 December 2009 approximately 13% of the Company's share capital.

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beneficiaries and similar parties), up to a limit of 0.3% of the share capital on the date of the Management Board's decision *(Twentieth resolution).*

These resolutions are virtually identical in their formulation to the corresponding resolutions approved by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008 and which they replace.

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 €105 million provided for in paragraph 3 of the *tenth resolution* adopted by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 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 *seventeenth, eighteenth* or *nineteenth resolutions* will reduce the aforementioned overall limit by €8.6 million, which applies to these three delegations.

The delegations granted under the terms of the *seventeenth* and *twentieth resolutions* were granted for a period of 26 months expiring on 3 August 2011, whereas those granted under the terms of the *eighteenth* and *nineteenth* resolutions were granted for a period of 18 months expiring on 3 December 2010.

Under the terms of these authorizations, the Management Board decided, on 31 July 2009, having obtained the agreement of the Supervisory Board, to renew in 2009 for the second consecutive year an international employee share ownership plan ("Value" plan) under the name "Value 09". Consequently, on 17 December 2009, making use of the aforementioned *seventeenth, eighteenth* and *nineteenth resolutions,* the Management Board carried out a capital increase on the Paris stock exchange involving the issue of 708,589 new shares at the subscription price of €91.74 per share. At the same time, by virtue of the aforementioned *twentieth resolution,* the Management Board implemented, under the terms of the "Value 09" offering, a plan to allocate existing shares, involving 34,700 shares, i.e. 0.06% of the share capital, to employees not resident in France for tax purposes and who work for Group companies whose registered offices are in Germany, Brazil, Canada, the United States, Mexico or the United Kingdom.

2.2.4 ALLOCATION OF PERFORMANCE SHARES

- The *ninth resolution* of the Ordinary and Extraordinary Shareholders' 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 6.3.1.2, page 190 of this Registered Document and in the special report of the Management Board on performance share allocations (Section 8.1.3, pages 217 and 218).

- The Ordinary and Extraordinary Shareholders' 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 of 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 3 August 2011 *(Sixteenth resolution)* (1).

  Under the terms of this authorization, the Management Board, with the approval of the Supervisory Board, implemented:

  - on 1 September 2008, the allocation of 11,850 performance shares, i.e. 0.02% of the share capital on that date. This allocation was carried out under the terms of the 3 May 2007 performance share allocation plan; and
  - on 31 July 2009, an additional performance share allocation in respect of the last tranche of the 3 May 2007 performance share allocation plan relating to a total of 17,733 performance shares, *i.e.* 0.03% of the share capital on that date.

  In addition, and also under the terms of this authorization, on 31 July 2009 the Management Board decided, with the agreement of the Supervisory Board, on the principle of awarding in 2009 a maximum of three performance shares to all Group employees (with the exception of Corporate Officers), the maximum number of shares that may be awarded as a result of this decision being 54,000 performance shares, i.e. 0.10% of the share capital at 17 December 2009, the date on which the formal decision to award the shares was taken. Such an award is subject to the employee continuing to be employed by the Group and to performance conditions based on the Group's results for the financial years 2010 and 2011.

Details of the procedures applicable to these plans are provided in Section 6.3.1.2, page 190 of this Registered Document and in the special report of the Management Board on performance share allocations (Section 8.1.3, pages 217 and 218).

2.2.5 SECURITIES GIVING ACCESS TO CAPITAL: SHARE SUBSCRIPTION OPTIONS

- The *seventh resolution* of the Extraordinary Shareholders' 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).

  Under this authorization, which was granted for a period of 26 months expiring on 5 August 2009, two share subscription option plans were implemented by the Management Board, with the approval of the Supervisory Board, on 3 September 2007 and 1 September 2008 respectively. Details of the procedures applicable to these plans are provided in Section 6.3.1.1, pages 188 and 189 of this Registered Document and in the special report

(1) It is stipulated that this authorization rendered null and void as from the Ordinary and Extraordinary Shareholders' 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 Ordinary and Extraordinary Shareholders' Meeting of 7 June 2005.

of the Management Board on performance share allocations (Section 8.1.2, pages 215 to 217).

- Pursuant to the Group's policy of motivating employees and management on the basis of the Group's performance, the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 delegated to the Management Board, subject to the prior agreement of the Supervisory Board (see 2.2.1 above), the authority to grant share subscription and/or share purchase options to the Group's employees and, where relevant, Corporate Officers, up to the limit of 3% of the share capital and 2% of the share capital per 12-month period, it being specified that the portion reserved for Corporate Officers may not exceed 20% of the allocations under the plan (*Twenty-first resolution*) [1] . The upper limit of 3% of the share capital provided for by this delegation is reduced by any allocation of shares made under the terms of the *sixteenth resolution* of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008 (see below).

  The nominal amount of capital increases resulting from the exercise of options comes within the aforementioned global limit of €105 million referred to in Section 2.2.3.1, pages 11 and 12.

  On 1 September 2009, under the terms of this authorization, which was given for a period of 38 months expiring on 3 August 2012, the Management Board implemented a share subscription option plan in respect of a total of 289,000 options, i.e. 0.51% of the share capital on that date.

Details of the procedures applicable to these plans are provided in Section 6.3.1.1, pages 188 and 189 of this Registered Document and in the special report of the Management Board on options (Section 8.1.2, pages 215 to 217).

2.2.6 CHANGES IN CAPITAL OVER THE LAST FIVE YEARS

	New shares created by					*In €*
Transaction dates	Exercise of subscription options	Subscriptions in cash	Total number of shares	Capital increase	Issue premium	Share capital
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
07/07/2009	–	2,783,484	56,572,200	11,133,936	–	226,288,800
17/12/2009	–	708,589	57,280,789	2,834,356	62,171,599	229,123,156

(*) 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.

2.2.7 SECURITIES NOT REPRESENTING CAPITAL

The Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 granted the Management Board, subject to the prior agreement of the Supervisory Board (see 2.2.1 above), the authority, for a period of 26 months, to issue securities which give the right to the allocation of debt securities and which do not result in a capital increase of the Company, such as bonds with bond warrants, within the limit of a maximum nominal amount of €1 billion *(Sixteenth resolution)*.

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

(1) It is stipulated that this authorization rendered null and void as from the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 the previous delegation of authority granted to the Management Board to carry out allocations of share subscription and share purchase options to the Group's employees and, where relevant, Corporate Officers under the terms of the seventh resolution of the Ordinary and Extraordinary Shareholders' Meeting of 6 June 2007.

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2.3 BREAKDOWN OF CAPITAL AND VOTING RIGHTS

2.3.1 COMPANY'S SHAREHOLDERS

As at 31 December 2009, the breakdown of share capital was as follows:

Shareholders	Number of shares	% of shares	Number of voting rights (gross)	% of voting rights (gross)
Bolloré Group	2,990,588	5.22%	2,990,588	5.22%
Sumitomo Metal Industries	986,567	1.72%	986,567	1.72%
Free float	51,561,306	90.02%	51,871,935	90.46%
Group employees	1,487,614	2.60%	1,489,024	2.60%
Own shares directly held by Vallourec (*)	254,714	0.44%	–	0.00%
TOTAL	**57,280,789**	**100%**	**57,338,114**	**100%**

(*) Own shares held directly by Vallourec include those held under the liquidity contract, which totalled 32,500 shares at 31 December 2009. 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 three plans implemented in July 2006, July 2008 and July 2009 respectively.

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 6.3.3 below).

The third plan, which was named "Value 09", related to 708,589 shares issued and subscribed for at the price of €91.74. It applies to all Group employees in all the countries involved (see 6.3.3 below).

In addition, on 31 July 2009 the Management Board decided, with the agreement of the Supervisory Board, on the principle of awarding in 2009 a maximum of three performance shares to all Group employees (with the exception of Corporate Officers), the maximum number of shares that may be awarded as a result of this decision being 54,000 performance shares. The formal decision to award the shares was taken on 17 December 2009, when the "Value 09" capital increase was carried out. Such an award, which is subject to the employee continuing to be employed by the Group and to performance conditions based on the Group's results for the financial years 2010 and 2011, is in accordance with the *sixteenth resolution* of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008 (see 6.3.3 below).

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

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As far as the Company is aware, at 31 December 2009, 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 31/12/2009
Messrs	Jean-Paul Parayre	116,039
	Patrick Boissier	289
	Jean-François Cirelli	50
	Michel de Fabiani	267
	Denis Gautier-Sauvagnac	370
	François Henrot	250
	Edward G. Krubasik	50
	Jean-Claude Verdière	540
Company	Bolloré (*) (represented by Mr Thierry Marraud) (**)	54
Messrs	Arnaud Leenhardt *(Censeur)*	1,186
	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 2009, Mr Thierry Marraud held no Vallourec shares in his personal capacity.

At 31 December 2009, the number of shares held by each of the members of the Management Board was as follows:

Members of the Management Board		Number of Vallourec shares held at 31/12/2009
Messrs	Philippe Crouzet	100
	Jean-Pierre Michel	8,396
	Olivier Mallet	–

Agreement entered into by Vallourec with Sumitomo Metal Industries

In recognition of their strengthened industrial 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.

On 31 December 2009, Sumitomo Metal Industries held 986,567 Vallourec shares, i.e. a 1.72% stake in Vallourec's share capital, and, under the reciprocal arrangements, Vallourec held 47,194,000 Sumitomo Metal Industries shares, i.e. a 0.98% stake in Sumitomo Metal Industries' share capital.

Significant event during first quarter of 2010

In line with its objective to remain a long-term shareholder in the Group and to assist the Group in implementing its strategy, Fonds Stratégique d'Investissement (FSI) declared that, on 9 February 2010, it had, jointly with *Caisse des Dépôts et Consignation,* crossed the 5% threshold and now held more than 5% of Vallourec's share capital.

Own shares held

At 31 December 2009, Vallourec held directly 254,714 of its own shares, which represented 0.44% of the share capital. 32,500 of these shares were held under the terms of a liquidity contract. The remaining 222,214 shares were allocated by the Management Board to cover share purchase option and performance share allocation plans set up in 2003, 2006, 2007, 2008 and 2009.

Details of the 2009 buy-backs, following the authorization given by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009, are available on the Vallourec website under the heading "Regulated information" – Section 11 (http://www.vallourec.com).

(1) Includes the 50 guarantee shares which they are required to own for the duration of their terms of office in accordance with the statutory obligation (Article 10).

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

	31/12/2007				31/12/2008				**31/12/2009**			
Shareholders	Number of shares	%	Number of voting rights (gross)	%	Number of shares	%	Number of voting rights (gross)	%	Number of shares	%	Number of voting rights (gross)	%
Bolloré Group (*) (***) (****) (******)	2,107,449	3.97	3,547,833	6.51	1,558,954	2.90	1,558,954	2.90	2,990,588	5.22	2,990,588	5.22
Barclays Group (**) (***)	4,257,447	8.03	4,257,447	7.81	2,956,264	5.49	2,956,264	5.49	N/C	N/C	N/C	N/C
Sumitomo Metal Industries									986,567	1.72	986,567	1.72
Free float (*****)	46,104,452	86.93	46,604,934	85.52	48,048,768	89.33	48,468,000	90.08	51,561,306	90.02	51,871,935	90.46
Group employees	85,843	0.16	85,843	0.16	824,311	1.53	824,311	1.53	1,487,614	2.60	1,489,024	2.60
Own shares directly held by Vallourec	483,529	0.91	–	–	400,419	0.74	0	0	254,714	0.44	0	0
TOTAL	**53,038,720**	**100**	**54,496,057**	**100**	**53,788,716**	**100**	**53,807,529**	**100**	**57,280,789**	**100**	**57,338,114**	**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).*

*(****\) By means of the declaration of transactions in the Company's shares, on 26 January 2010, Compagnie de Cornouaille, a company controlled by Bolloré, declared that it had sold forward 1,200,000 shares with the option of delivery in cash at maturity on 18 July 2011 (AMF press release of 1 February 2010).*

*(*****\) By means of the declaration of crossing a threshold dated 10 February 2010, Caisse des Dépôts et Consignation (CDC) declared that, on 9 April 2010, it had, directly and indirectly via Fonds Stratégique d'Investissement (FSI) which it controls, crossed the 5% share capital and voting right thresholds and held, directly and indirectly via FSI, 2,875,809 Vallourec shares representing the same percentage of Vallourec's share capital (5.02%) and voting rights (5.02%) (AMF press release of 12 February 2010).*

*(******\) By means of the declaration of transactions in the Company's share, on 24 March 2010, Compagnie de Cornouialle declared that it had sold forward 1,874,478 shares with the option of delivery in cash at maturity on 05 May 2011. The declaration renders null and void the one aforementioned filed with the AMF (AMF press release of 26 March 2010).*

N/C Non communicated

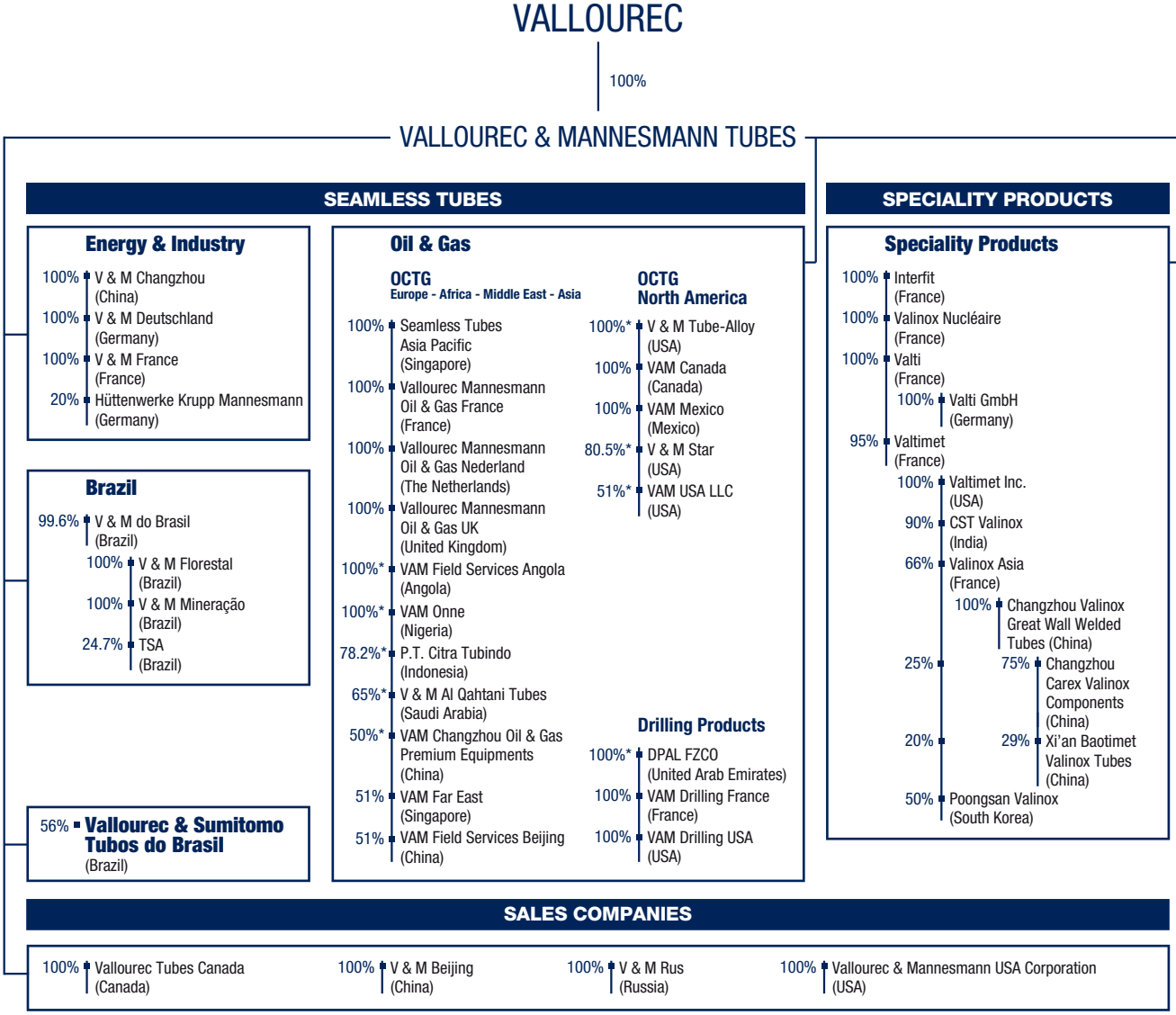
Vallourec was informed of the number of shares shown as held by the Bolloré and Barclays Groups by those groups.

2.3.3 OTHER PERSONS EXERCISING CONTROL OVER VALLOUREC

None.

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2.3.4 DESCRIPTION OF THE VALLOUREC GROUP (ORGANIZATION CHART AT 31/12/2009)



* *Percentage comprising the Group's direct and indirect shareholdings.*

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2.4 MARKET FOR THE COMPANY'S SHARES

2.4.1 LISTING MARKET

The Company's shares are listed on the NYSE Euronext Paris (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 indices. FTSE classification: engineering and machinery.

2.4.2 OTHER REGULATED MARKETS

Not applicable.

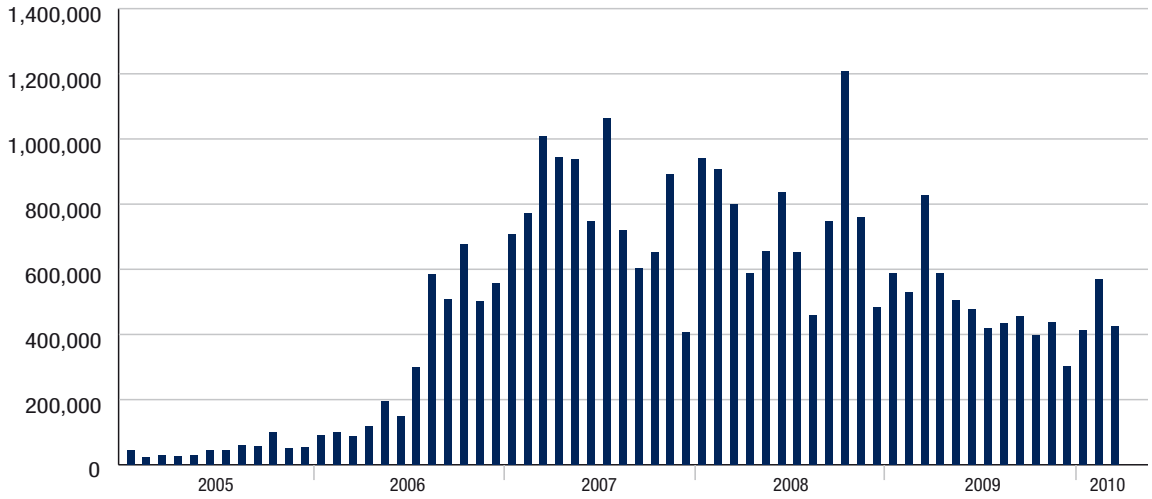
2.4.3 VOLUMES TRADED AND SHARE PRICE PERFORMANCE

Performance of the Vallourec share compared to the CAC 40 index at 31 March 2010.

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 €	2005	2006 (*)	2007	2008	**2009**
Number of shares (at 31 December)	10,600,332	53,011,870	53,038,720	53,788,716	57,280,789
Highest price (*)	465.00	232.00	243.25	224.450	128.500
Lowest price (*)	99.01	90.96	161.29	64.185	52.520
Average (closing) price for the year	266.78	172.07	201.69	149.658	94.67
Year-end price	465.00	220.30	185.15	81.000	127.050
Market capitalization (at year-end price)	4,929,154,380	11,678,514,961	9,820,119,008	4,356,885,996	7,277,524,242

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

VALLOUREC SHARES (ISIN CODE FR0000120354-VK)

	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*
2009							
January	98.180	69.245	76.885	12,285,518	1.01	585,025	0.05
February	88.790	59.120	62.480	10,498,397	0.78	524,920	0.04
March	73.250	52.520	69.810	17,685,175	1.09	803,872	0.05
April	86.500	67.400	83.390	11,743,533	0.94	587,177	0.05
May	94.200	81.110	88.490	10,107,222	0.89	505,361	0.04
June	99.750	82.000	86.530	11,898,751	1.08	540,852	0.05
July	93.200	75.620	92.300	10,678,154	0.91	464,268	0.04
August	112.000	92.000	105.950	9,775,216	1.01	465,486	0.05
September	126.800	98.390	115.800	11,128,566	1.29	505,844	0.06
October	125.550	105.200	107.700	9,638,927	1.11	438,133	0.05
November	125.300	106.550	111.400	9,643,175	1.12	459,199	0.05
December	128.500	112.100	127.050	7,222,123	0.86	328,278	0.04
2010							
January	136.000	120.700	125.000	8,233,758	1.07	411,688	0.05
February	141.750	120.850	140.350	11,364,331	1.50	568,217	0.07
March	154.600	139.200	149.300	9,797,096	1.43	425,961	0.06

Source: Euronext.

2.4.4 PLEDGING OF SHARES OF THE ISSUER

None.

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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 profit attributable to owners of the parent.

At the Shareholders' Meeting to be held on 31 May 2010 *(Third* and *fourth resolutions),* shareholders will be asked to approve the payment of a net dividend of €3.5 per share in respect of the financial year 2009 and, for the second consecutive year, 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 7 June 2010.

To this effect, each shareholder will be able to opt for payment of the entire net dividend in cash or in shares between 7 June 2010 and 22 June 2010 inclusive. Once this time limit has expired, the dividend will be paid in cash on 30 June 2010.

This dividend corresponds to a payout ratio of 38.6% of the net profit attributable to the owners of the parent in respect of the year ended 31 December 2009 and an average payout ratio of 35.9% 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
2004	3.20	None	3.20
2005	11.20	None	11.20
2006	6.00	None	6.00 (*)
2007	11.00	None	11.00 (**)
2008	6.00	None	6.00 (***)

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
2004	0.64	None	0.64
2005	2.24	None	2.24
2006	6.00	None	6.00 (*)
2007	11.00	None	11.00 (**)
2008	6.00	None	6.00 (***)

(*) 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.
(***) It should be noted that the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 gave each of the Company's shareholders the option to receive payment of the dividend in cash or in shares, in accordance with the prevailing legal and regulatory provisions.

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2.6 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.

2.6.1 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 Registered Document and the half-year report, filed with the French securities regulator (*Autorité des Marchés Financiers* – AMF);
- the annual report and the sustainable development report;
- all the information disclosed to the financial markets (quarterly results, press releases, financial and strategic presentations, audio and video transmissions and information placed on Vallourec's website);
- all the information concerning Shareholders' Meetings (notices of meetings, draft resolutions, voting form and letter to shareholders).

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

2.6.2 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 audiocasted and can be consulted as it takes place or subsequently on the Group's website;
- 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".

2.6.3 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;
- **a guarantee of receiving personalized information:** direct registered shareholders are guaranteed to receive personalized information:
  - notices of Shareholders' Meetings: direct registered shareholders will automatically be sent the invitation to attend, the postal voting form, an admission card request form and statutory information documents,

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- telephone information about securities management, the taxation of securities and the organization of Shareholders' Meetings. A team of operators is always available from 9 a.m. until 6 p.m. Monday to Friday, on +33 (0)1 57 78 34 44;
- **attending Shareholders' Meetings is easier:** all registered shareholders are automatically invited to Shareholders' Meetings 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: +33 (0)1 57 78 34 44; or
- by fax: +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

2.6.4 2010 CALENDAR

- 12 May: release of 2010 first quarter results;
- 31 May: Shareholders' Meeting;
- 28 July: release of 2010 second quarter and first half results;
- 24 September: Investor Day;
- 9 November: release of 2010 third quarter results.

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3 Information on the activities of the Vallourec Group

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3.1 PRESENTATION OF VALLOUREC COMPANY AND GROUP

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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 has also developed 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 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-Alloy™, 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 operated 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 metalworking 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) in early 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.

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

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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) based in the United States (Houston), which specializes in the manufacture of drill pipes, drill collars and heavy weight drill pipes. This acquisition enabled V & M Tubes to rise to 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 products previously owned by GIAT and located in Tarbes, France, which was integrated into Vallourec Mannesmann Oil & Gas France and transferred to SMFI in 2007. 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. Also 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 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 2009, €331 million had been spent on the new plant.

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. During the first half of 2009, VAM USA and V & M Atlas Bradford® merged to form VAM USA LLC and, on 1 July, V & M Star absorbed V & M TCA® with the aim of capitalizing on the synergies envisaged at the time of the acquisition.

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 longstanding 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 (which is 49%-owned by Valtimet and various of Valtimet's subsidiaries), 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;
- 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.

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 & Zivy Industries and their subsidiaries, was sold in 2001 to the managers of this division in association with two investment funds;
- Valtubes' participating interest (one-third) in DMV Stainless was sold in December 2003 for a nominal amount to its majority (two-thirds) 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);

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- Cerec, which specializes 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;
- Vallourec Précision Étirage (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, owned, at the time of the sale, 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 2009

- The first quarter of 2009 saw the strengthening of the longstanding collaboration in the field of Premium OCTG connections of Vallourec and Sumitomo Metal Industries in the United States through the merger on 27 February 2009 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 accelerated the integration of the Atlas Bradford® and VAM® lines of Premium connection products, combining Research and Development capabilities and generating industrial and commercial synergies. The combined entity employs 400 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 specializes in heat treatment operations and is located in Muskogee (Oklahoma, United States). It was acquired by Vallourec in May 2008 from the Grant Prideco Group and was absorbed on 1 July 2009 by V & M Star following the acquisition by the latter of all of the share capital of V & M TCA® from Vallourec Industries (which had a 80.5% stake) and Sumitomo Corporation (which had a 19.5% stake).
- On 16 March 2009, the Group announced its decision to invest €80 million in new production capacities to meet the growing needs of the nuclear power industry. Valinox Nucléaire will thus increase the annual production capacity of its Montbard plant to 4,500 km of tubes in 2011. In addition, Valtimet will double its production capacity for condenser tubes at its plants in Venarey-les Laumes (Côte-d'Or, France) and Brunswick (Georgia, United States).

  This investment decision was strengthened by the signing of two long-term agreements by Valinox Nucléaire. The first was signed in May with Shanghai Electric Nuclear Power Equipement Corp. (SENPEC) and commits the Group to delivering steam generator tubes for several nuclear power plants per year over the period 2012-2015, thus guaranteeing the supply of these critical components for the Chinese programme. Under the second, finalized in July, the Group is committed to supplying components for Areva's projects in France and overseas with deliveries starting in 2012.
- Having acquired, during the second half of 2008, 11.25% of the share capital of P.T. Citra Tubindo (PTCT), in which it already owned a 25% stake through its subsidiaries V & M Tubes and Premium Holding Limited (formed in 2008), on 2 July 2009, Vallourec increased its strategic shareholding to 78.2% of the share capital. The company has manufacturing facilities located in Batam, Indonesia, providing heat treatment and threading of oil country tubular goods (OCTG) together with oil-field accessories, serving the Oil & Gas industry throughout the Asia-Pacific region. The leader in the Indonesian market, PTCT has been a VAM® licensee since 1985. This strategic investment allows Vallourec to strengthen its presence in Indonesia and the Asia-Pacific region, where oil and gas exploration and production are expanding, under technical conditions which increasingly require Premium products and solutions.
- On 1 October 2009, the Group acquired DPAL FZCO, a well-established supplier of drill pipes based in Dubai and owned by the Soconord Group.

  The DPAL FZCO manufacturing facility located in Jebel Ali Free Zone (Dubai, United Arab Emirates) offers a wide range of drill pipes to the oil drilling industry in the Middle East, which is an important market for drill pipes, with growing demand for Premium products. This acquisition will strengthen the presence of VAM Drilling in the Middle East thanks to the local manufacturing facility which produces 25,000 pipes per year for its major international customers operating throughout the region and for local national oil and drilling companies. VAM Drilling will complement DPAL FZCO's existing offering with premium products and a broader range of services.

The Group did not make any significant disposals in 2009.

First quarter of 2010

- On 8 February 2010, the Group acquired Protools, the largest producer of drill stem components in the Middle East. This operation enables the Group's VAM Drilling business to offer an integrated solution for the entire drill string.
- On 15 February 2010, Vallourec announced its decision to build a new state-of-the art small diameter tube mill in Youngstown (Ohio, United States) for an investment of USD 650 million. This decision was made on the basis of the long-term development of unconventional gas production in the US which is driving increased demand for premium quality, small diameter OCTG tubes. This new mill will initially produce 350,000 tonnes per year and provide heat treatment and threading facilities. Construction will begin during the second quarter of 2010, and production at the mill is scheduled to start towards the end of 2011.

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This new offer will complement the range produced by Vallourec in North America and will consolidate the Group's leadership position as a provider of Premium tubular solutions. Located close to major shale basins (e.g. Marcellus), and combined with the Group's other operations in the vicinity of other shale plays (e.g. Fayetteville and Haynesville), this new facility will benefit Vallourec's customers in the US.

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 Group's management 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 currency sales within V & M Tubes. At 31 December 2009, 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 2009, V & M Tubes had 153 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, do not come within the scope of the regulated agreements in accordance with the prevailing legislation and regulations.

3.1.2 DESCRIPTION OF MAIN BUSINESS ACTIVITIES

At 31 December 2009, Vallourec's subsidiaries were organized into four divisions:

- Energy and Industry division (E & I);
- Oil & Gas division:
  - OCTG EAMEA (Europe, Africa, Middle East and Asia),
  - OCTG North America,
  - Drilling Products;
- Brazil division;
- Speciality Products division;

and sales companies.

3.1.2.1 Energy and Industry division

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 EAMEA and Speciality Products divisions.

It is structured into two activities:

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

Since 2008, each activity, like the sales departments, has had its own Marketing, Research and Development and Business Development functions to enable it to better address the requirements of its customers and develop improved synergies.

This structure should help the Group to monitor as closely as possible the growth strategies of its customers, strengthen its partnerships, address major technological challenges and, as a result, develop Research and Development programmes and new products.

The Group is also focussing on continuing to improve the quality and range of the products and services it offers.

Making communications more transparent and improving its ability to meet the needs of its customers and anticipate how those might change in the future are the key issues the division needs to address if it is to ensure sustainable growth.

In 2009, the E & I division continued the process of upgrading its industrial equipment and increasing the specialization of its production facilities:

- the Stiefel rolling mill at the Aulnoye-Aymeries (Nord) tube mill was taken out of production in October 2009 and replaced by a patented new tube forging technology. This new technology will enable the Group to market products with enhanced properties that are more versatile and competitive;
- the Rath Pilger mill continued the overhaul of its heat treatment equipment. The improvements that are currently underway will enable the mill to improve the reliability and productivity of the plant and develop tube production in new grades of steel, and, in particular, those intended for high temperature boiler applications;

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- the heat treatment capacity of the Reisholz plant was increased to enable it to handle the development of premium products for the energy markets.

The E & I division comprises three subsidiaries:

- **V & M France – France (100%)**

  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 Transval and Stiefel continuous-process rolling mills.

- **V & M Deutschland – Germany (100%)**

  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 (100%)**

  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 EAMEA, 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 EAMEA 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. In 2009, the Group continued to develop the site services network providing worldwide coverage from service centres based in Scotland, the United States, Mexico, Singapore, China, Angola, Nigeria and the Middle East.

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 EAMEA (Europe, Africa, Middle East and Asia) activity

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

  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) comprising a heat treatment unit and several oil and gas tube threading lines enabling it to produce all diameters and connections of the VAM® product range.

  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 (100%)**

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

  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) – Netherlands (100%)**

  This company, which was 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 Onne Nigeria – Nigeria (100%)**

  This company was formed in February 2008 to operate the tube threading plant in the Onne free trade zone (Port Harcourt). This plant has been in operation since December 2009.

- **VAM (Changzhou) Oil & Gas Premium Equipments – China (50%)**

  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 shareholders in this subsidiary.

- **P.T. Citra Tubindo – Indonesia (78.2%) (see 3.1.1 above)**

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

  It operates a production unit on the island of Batam (Indonesia).

- **Vietubes – Vietnam (33.3%)**

  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 operates a production unit in Vung Tau.

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

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

  This service company was formed in 2007. Its operational base is in Luanda.

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

  This service company was formed in 2007. Its operational base is in Lagos.

- **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.

- **V & M Al Qahtani Tubes – Saudi Arabia (65%)**

  This company was formed in December 2009 in association with the Saudi partner Al Qahtani & Sons to develop a tube threading business in Dammam.

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 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), Houston (Texas) and Muskogee (Oklahoma).

  On 1 July 2009, V & M Star acquired all of the share capital of V & M TCA® (a company acquired from the Grant Prideco Group in May 2008) from Vallourec Industries and Sumitomo Corporation (which owned 80.5% and 19.5% respectively of V & M TCA®) prior to its absorption, thus enabling V & M Star to integrate the heat treatment of high-grade tubular products which had until then been developed by V & M TCA® with a strong focus on short lead time orders. V & M TCA® has thus provided V & M Star with additional Premium capacity, specific expertise in sour service as well as a good geographical fit enabling Vallourec to extend its North American footprint.

- **VAM Mexico (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 (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 V & M 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 significant expertise in the field 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 (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-Aymeries (Nord) and Tarbes (Hautes-Pyrénées).

- **VAM Drilling USA – 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).

- **VAM Drilling Dubai – Dubai (100%)**

  Formed in October 2009 following the acquisition of DPAL from the Soconord Group (Belgium), VAM Drilling Dubai manufactures tubular products suited to the needs of the Oil & Gas drilling industry.

  The company has a production unit in Dubai (United Arab Emirates).

3.1.2.3 Brazil division

V & M do Brasil – Brazil (99.6%)

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. For many years, it has focussed on:

- the Oil & Gas sector, with a longstanding partnership with Petrobras serving the domestic market with increasingly sophisticated products 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 cultivates 115,137 hectares of eucalyptus for the production of charcoal which is used in the blast furnaces of V & M do Brasil and will be used in those of Vallourec & Sumitomo Tubos do Brasil. In 2009, 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 for V & M do Brasil and in 2015 for Vallourec & Sumitomo Tubos do Brasil;
- **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%) (1)

This company was incorporated in 2007 in association with Sumitomo Metal Industries (44%) (1) as a vehicle for 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 mil. 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 during the second half of 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.

Following the Group's announcement on 16 March 2009 of its decision to invest €80 million in additional production capacity, Valtimet will double the condenser tube production capacity of its plants in Venarey-les Laumes (Côte-d'Or, France) and Brunswick (Georgia, United States).

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

(1) Percentage of interest.

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United States subsidiary: Valtimet Inc. (100%), with plants in Morristown (Tennessee) and Brunswick (Georgia).

Chinese subsidiaries:

- Changzhou Valinox Great Wall Welded Tube (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. It operates a 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.

Following the Group's announcement on 16 March 2009 of its decision to invest €80 million in additional production capacity, Valinox Nucléaire will increase the annual capacity of its Montbard plant two-and-a-half fold to 4,500 km of tubes in 2011.

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.

Its offices are located in Houston (Texas) and Pittsburgh (Pennsylvania).

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

  - Canada
  - China
  - Dubai
  - Italy
  - United Kingdom
  - Russia
  - Singapore
  - 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. However, the following table provides a summary of production output, which corresponds to the volumes produced in the Vallourec rolling mills, expressed in tonnes of tubes, hot-rolled and delivered to customers:

In thousand of tonnes	**2009**	2008	Comparison 2009/2008
1st quarter	488.3	658.1	-25.8%
2nd quarter	370.5	740.4	-50.0%
3rd quarter	314.6	671.6	-53.2%
4th quarter	329.6	696.3	-52.7%
TOTAL	**1,503.0**	**2,766.4**	**-45.7%**

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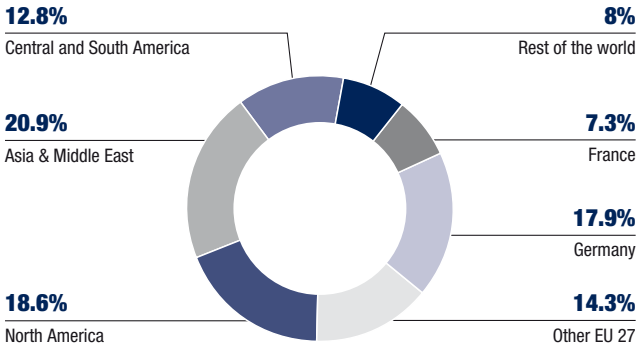
3.1.4 SALES BY MARKETS AND GEOGRAPHIC SEGMENTS

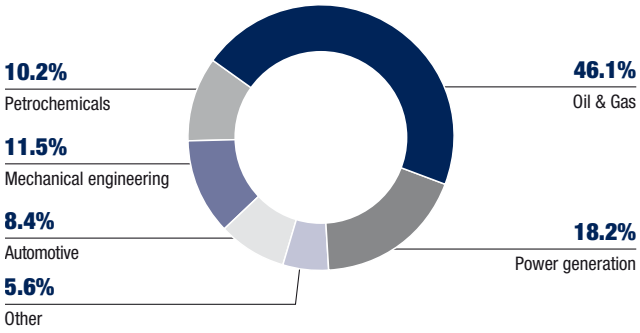
The breakdown of business activity by markets and geographic segments is the only really meaningful indicator, due to the scale of the integrated industrial processes and the development of downstream activities. This breakdown is as follows:

By region

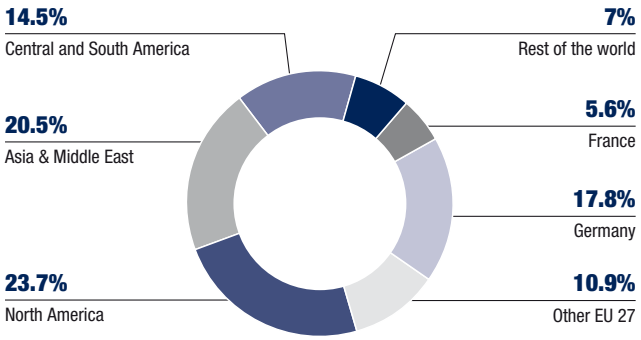
By market

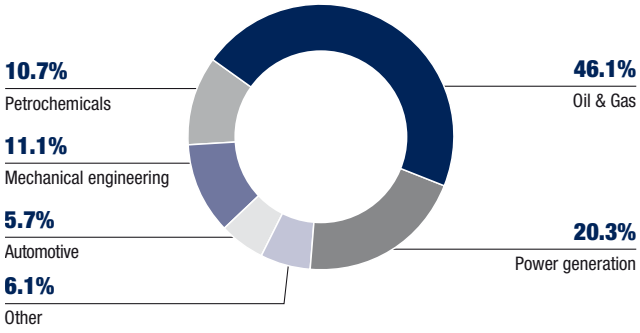
2007



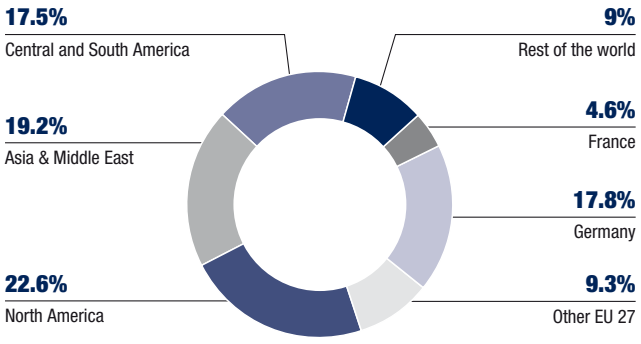


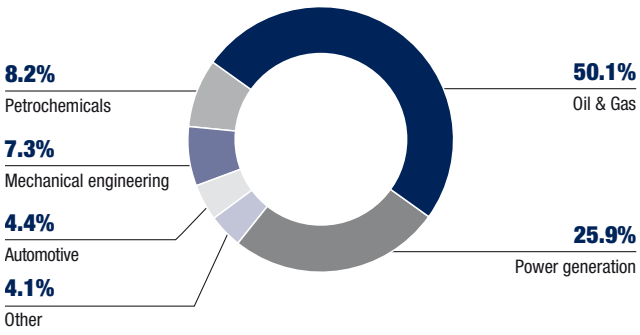
2008





2009





Consolidated sales totalled:

- €6,141 million in 2007, of which 60.5% outside Europe;
- €6,437 million in 2008, of which 65.7% outside Europe;
- €4,465 million in 2009, of which 68.3% outside Europe.

The main changes in consolidation scope were:

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, which did not significantly affect the Group's scale.

In 2008

- the acquisition by Valtimet Inc. of the assets of High Performance Tubes, on 17 March 2008;
- the acquisition, on 16 May 2008, of Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™ from the Grant Prideco Group.

In 2009

- the increase, on 2 July 2009, in Vallourec's strategic stake in the equity of P.T. Citra Tubindo (PTCT), bringing it to 78.2%;
- the acquisition by VAM Drilling (Vallourec subsidiary), on 24 September 2009, of DPAL FZCO, a drill pipe supplier based in Dubai.

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 2009, the Group operated 55 production facilities, most of which were owned on a freehold basis. These plants are 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 industrial 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 €2,367 million at the end of 2009 (compared with €1,640 million at the end of 2008 and €1,266 million at the end of 2007). 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, pages 82 to 84;
- geographical distribution of tangible and intangible assets (net values) and acquisitions made during the year, in Note 2, pages 82 to 84;
- Group commitments under the terms of finance leases (organized by main due date) in Note 20, pages 130 to 132.

Details of capital investments made in 2009, which extended the Company's tangible asset base, are provided hereafter (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:
  - 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. As of 31 December 2009, all of the above facilities held current prefectoral operating licences;
- 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.

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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.

In the United States, the great majority of production facilities have carried out analyses. As far as the Group is aware, there are no significant pollution risks at the analysed sites

3.1.6 MAIN MARKETS

At 31 December 2009, the Group's main markets were as follows:

Market	Sales *(in € million)*	Sales *(in %)*
Oil & Gas	2,239	50.1
Power generation	1,155	25.9
Petrochemicals	365	8.2
Mechanical engineering	326	7.3
Automotive industry	197	4.4
Other markets	183	4.1
TOTAL	**4,465**	**100**

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

BREAKDOWN OF VALLOUREC GROUP SALES BY PRODUCT DESTINATION

	France	Germany	Other EU-27	CIS	North America	China	Other Asia and Middle East	Total Asia and Middle East	Brazil	Other Central & South America	Total South America	Rest of World	**Total 2009**
TOTAL 2009													
(In € thousand)	203,876	793,611	414,038	33,742	1,007,818	432,917	423,044	855,960	712,506	67,914	780,420	375,014	4,464,479
(in %)	4.57	17.77	9.27	0.76	22.57	9.70	9.48	19.18	15.96	1.52	17.48	8.40	100.00

	France	Germany	Other EU-27	Russia	North America	China	Other Asia and Middle East	Total Asia and Middle East	Brazil	Other Central & South America	Total South America	Rest of World	Total 2008
Total 2008 *(in € thousand)*	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
(in %)	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-27	Russia	North America	China	Other Asia and Middle East	Total Asia and Middle East	Brazil	Other Central & South America	Total South America	Rest of World	Total 2007
Total 2007 *(in € thousand)*	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
(in %)	7.29	17.92	14.33	0.14	18.63	10.16	10.75	20.91	11.99	0.82	12.81	7.97	100.00

3.1.7 EXCEPTIONAL EVENTS

The severe economic crisis that began in 2008 had a significant negative impact on the Group's business in 2009, resulting in lower production volumes, sales and earnings.

The main catalysts of this decrease in activity were:

- weaker industrial activity, which in turn affected global energy demand:
  - oil: -1.5% *(source: IEA),*
  - gas: -5% *(source: Cedigaz/IFP),*
  - electricity: -4.9% *(source: IEA for OECD);*
- postponement or cancellation of projects in the energy sector (e.g. investments in oil and gas exploration and production, thermal power plants, petrochemical plants and refineries), caused by:
  - restrictions on access to credit,
  - expectations of falling prices for services and durable goods,
  - uncertainty regarding environmental policies,
  - a less urgent need to complete projects, in view of the weaker demand;
- the aggravating effect of large-scale destocking at each stage of the value chain:
  - by end users: domestic and multi-national oil companies, Chinese boilermakers, car makers and their suppliers,
  - OCTG tube distributors in the United States and general-purpose tube distributors in Europe.

Despite these sudden adverse effects, many market participants publicly reiterated their confidence in the energy market's underlying medium- and long-term growth potential.

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: oilfield country threaded goods (OCTG – threaded seamless tubes for use in oil and gas exploration and production), drill pipes and offshore oil and gas line pipe:

- in the OCTG segment, Vallourec is among the world's four leading suppliers of Premium products, in terms of volumes delivered:
  - 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 ranks 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 offshore pipe market, Vallourec is the number two in the global market, with a particularly strong position in very deep (>2,000 m) wells requiring high-technology products.

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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 leader in this global market;
- nickel alloy seamless tubes for steam generators at nuclear power plants: Vallourec is the leader in this technically very demanding global 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. In February 2009, the Group signed an agreement with Tubacex, the world's second largest producer of stainless steel seamless tubes for the energy market, enhancing Vallourec's offering. This agreement also covers Research and Development efforts to design solutions for developing tubes that comply with the increasingly demanding temperature and pressure specifications of the next generation of power plants. From a sales and marketing perspective, Vallourec will be able to harness Tubacex's expertise in order to extend its Premium offering, while Tubacex will benefit from Vallourec's market positions and experience as it introduces solutions for the energy markets.

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.

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.

3.1.8.5 Automotive industry

- Vallourec, via its Valti subsidiary, is the number two in the European market for ball-bearing rings manufactured from seamless tubes. The Group supplies products for a range of applications, in particular in the Automotive industry.
- In Latin America, V & M do Brasil is the market-leading manufacturer of the following products manufactured from forged tubes or hot-rolled or cold-drawn seamless tubes: suspension shafts, steering columns, drive shafts and ball races. V & M do Brasil supplies a complete range of axle bearings, primarily for heavy goods vehicles but also for cars, heavy plant and agricultural machinery.

3.1.9 DEPENDENCY ON THE ECONOMIC, INDUSTRIAL AND FINANCIAL ENVIRONMENT

3.1.9.1 Breakdown of raw materials supplies at 31 December

Purchases consumed during 2009 were as follows:

In € thousand	Amount as at 31/12/2009
• Scrap metal and alloys	109,844
• Round parts	543,967
• Flat parts	84,193
• Tubes	96,038
• Others (*)	377,319
TOTAL	**1,211,361**

(*) including stock variations.

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

In 2009, the following customers accounted for sales greater than €35 million:

Name	Home country	Vallourec markets	Activity
Açotubo	Brazil	Mechanical engineering/Petrochemicals/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
BHR Group	Germany	Power generation	Power plant construction
Champions Pipe & Supply	United States	Oil & Gas	Distributor
Dongfang	China	Power generation	Power plant construction
Doosan	South Korea	Power generation	Power plant construction
Hitachi Power	Japan	Power generation	Power plant construction
Petrobras	Brazil	Oil & Gas	Oil company
Pipeco Services	United States	Oil & Gas	Distributor
Premier Pipe	United States	Oil & Gas	Distributor
Pyramid	United States	Oil & Gas	Distributor
Salzgitter	Germany	Automotive/Mechanical engineering	Tube manufacturing
Subsea 7	Norway	Oil & Gas	Engineering & construction
Sonatrach	Algeria	Oil & Gas	Oil company
ThyssenKrupp	Germany	Mechanical engineering/Other	Distributor
Total	France	Oil & Gas	Oil company

3.1.10 MAJOR CONTRACTS

During the two years preceding publication of this Registered Document, neither Vallourec nor any Vallourec Group companies secured any major contracts, with the exception of those awarded during the first quarter of 2009 by Sumitomo Metal Industries and Tubacex, respectively.

The agreement with Sumitomo Metal Industries is described in Sections 2.3.1 on page 16 and 3.1.1 on page 28 of this Registered Document, and the contract with Tubacex is described in Section 3.3.1 on page 43.

In addition, a description of the main acquisition, partnership and disposal operations conducted, and the changes in consolidation scope over the last three years is included in Note 11 to the financial statements, on pages 104 to 106 of this Registered Document.

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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;
- maintaining and where necessary replacing obsolete facilities;
- complying with legal obligations, notably those relating to safety and the environment.

Capital expenditure decisions are subject to a dedicated process that systematically includes an economic impact study and a risk assessment to ensure that the selected projects will support long-term growth and deliver an acceptable return on investment.

3.2.2 MAIN INVESTMENTS

3.2.2.1 Main investments over the period 2007-2009

In recent years, industrial investment programmes have been directed mainly towards increasing capacity and streamlining production facilities, reorganizing activities by business line, 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 years, investments have been made as follows:

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

In € million	31/12/2007	31/12/2008	**31/12/2009**
• Europe	278.5	234.7	186.2
• North America and Mexico	57.2	62.7	46.3
• Central and South America	93.7	259.7	436.8
• Asia	15.4	9.9	7.9
• Others	–	1.4	5.0
TOTAL INDUSTRIAL INVESTMENT	**444.8**	**568.4**	**682.2**
ACQUISITIONS AND FINANCIAL INVESTMENTS	**3.6**	**541.4** (*)	**98.3** (**)

(*) Including the acquisition of an 11.25% stake in P.T. Citra Tubindo, and the acquisition of Atlas Bradford, TCA and Tubes-Alloy from the Grant Prideco group.
(**) On 2 July 2009, Vallourec increased its strategic stake in P.T. Citra Tubindo to 78.2%.

The most significant investment programmes carried out in 2007, 2008 and 2009 are outlined below:

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;
- initial 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 Cleanwell® 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.

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 Nigeria and the United States;
- new processes providing enhanced surface protection for tubes and couplings, such as phosphate coatings and the Cleanwell® 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.

In 2009

In 2009, the general economic situation led the Group to limit its commitments – without delaying the strategic projects already underway – and to focus new initiatives in the following growth areas:

- doubling manufacturing capacity for products destined for the nuclear power sector, primarily in France but also in the United States, in order to satisfy growing demand in this industry. Accordingly, on 16 March 2009, Vallourec Group announced that it would be investing €80 million in new production facilities. Valinox Nucléaire is to expand the annual capacity of its Montbard plant by a factor of 2.5, enabling it to produce 4,500 km of tubular products a year by 2011. Valtimet is to double the condenser tube manufacturing capacity at its plants in Venarey-les Laumes (Côte-d'Or, France) and Brunswick (Georgia, United States), with effect from the first half of 2010;
- streamlining the Group's threading facilities for Premium products in the United States, following the merging on 27 February 2009 between V & M Star's VAM® threading business and the threading business of V & M Atlas Bradford®, which was acquired from the Grant Prideco group in May 2008 following the merger between VAM USA and V & M Atlas Bradford®;
- developing internal raw material resources in Brazil, particularly iron ore and charcoal, in order to optimize the Group's current resources and ensure that the industrial startup of the Vallourec & Sumitomo Tubos do Brasil plant takes place smoothly;
- expanding Research & Development resources, especially within the context of the February 2009 agreement with Tubacex concerning the development of technical solutions for manufacturing tubes that comply with the increasingly demanding temperature and pressure specifications of the next generation of power plants;
- improving production flows and pursuing the existing cost reduction policy.
- completing work at the new Vallourec & Sumitomo Tubes do Brasil pipe mill, which is scheduled to begin operating in the second half of 2010.

Energy and Industry division

- **Research and Development**

  A rolling competence centre and test facilities were created in Riesa (Germany).

  Work began on a new research centre for Powergen products, located in Dusseldorf (Germany).

  The capacity of the creep testing facilities at the research centre in Aulnoye-Aymeries (France) was increased.

- **V & M Deutschland Rath**

  New handling equipment was installed to improve finishing work flows and make them safer.

  The foundations of the Pilger rolling mill were strengthened and adapted to make them suitable for rolling Premium products.

- **V & M Deutschland Reisholz**

  Crane tracks were strengthened to handle heavier tubes.

- **V & M France – Aulnoye-Aymeries**

  A new non-destructive examination system suitable for Premium forged products was installed.

- **V & M France – Saint-Saulve pipe mill**

  The final phase of the operation to transfer the boiler line from the Zeithain plant in Germany to the pipe mill in Saint-Saulve (France) was carried out.

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Oil & Gas division

OCTG EAMEA (Europe, Africa, Middle East, Asia)

- **VMOG France**

  A new machining centre was built to manufacture tubing couplings.

OCTG North America

- **VAM USA LLC**

  An industrial plan was rolled out to optimize the Premium threading businesses following the merger between VAM USA and V & M Atlas Bradford®, which came into effect on 27 February 2009. This plan involved creating two new threading lines and closing three manufacturing facilities (with no loss of capacity); industrializing the VAM product lines at all of the production facilities formerly operated by Atlas Bradford; and increasing coupling manufacturing capacity.

Drilling Products

- **VAM Drilling France – Tarbes**

  A new tool-joint lathe was installed.

Brazil division

- **V & M do Brasil**

  New chamfering machines were installed, expanding the range of products available from V & M do Brasil's continuous rolling mill.

- **V & M do Brasil/Mineração**

  Mandatory site drainage work continued.

  The mine was reconfigured and a project to build an ore concentration plant was launched. This new facility will enhance productivity and increase accessible reserves.

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

  Two cloned eucalyptus forests (covering 11,114 and 9,903 hectares) were planted to satisfy the requirements of V & M do Brasil and Vallourec & Sumitomo Tubos do Brasil.

  The carbonization furnaces used in the charcoal production process were revamped.

Speciality Products division

- **Valinox Nucléaire – Montbard (France)**

  Work began on a new steam generator tube shop that will increase the Group's production capacity by a factor of 2.5. The new shop is scheduled to begin operating in 2011.

- **Valtimet – Morristown, Tennessee (United States) and Les Laumes (France)**

  Finning and finishing capacities were doubled in order to keep pace with the boom in the number of projects to build new nuclear power plants.

3.2.2.2 Ongoing capital expenditure

In 2010, the Group will be making significant investments in a series of strategic projects that are expected to show a positive return on investment by 2011-2012. Firstly, the Group is to continue construction work at the new premium pipe mill, steel mill and rolling mill in Jeceaba in the Brazilian state of Minas Gerais. This complex is scheduled to begin operating in the second half of 2010. In addition, following Vallourec's announcement on 16 March 2009 of the decision to invest €80 million in new production facilities, the Group will be expanding its steam generator tube production capacity, increasing the annual capacity of the Valinox Nucléaire plant in Montbard (France) by a factor of 2.5. Construction work for a new premium pipe mill specializing in small-diameter pipes in Youngstown (Ohio, United States) is due to start during the second quarter. A total of €650 million is being invested in this new facility, which is scheduled to begin operating in late 2011. Other capital expenditure projects in 2010 relate to additional Research and Development resources, safety improvements to protect employees and facilities, projects to reduce costs, maintenance at existing facilities and measures to reduce the environmental impact of the Group's activities.

The table below summarizes the capital expenditure forecast for the Group's main investments in 2010:

In € million

• Strategic projects	676
• Cost improvements and maintenance	205
• Environmental and safety regulations	19
TOTAL	**900**

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3.3 RESEARCH AND DEVELOPMENT – INDUSTRIAL PROPERTY

3.3.1 RESEARCH AND DEVELOPMENT

Vallourec continues to devote significant efforts to Research and Development, in particular in areas associated with Oil & Gas and Power generation. These efforts focus on three main aspects:

- manufacturing processes (charcoal, steel making, tube rolling, non-destructive testing, forming, welding and machining);
- new products and product improvements;
- new services (customer support for tube design, working and use).

Vallourec's Research and Development organization revolves around research centres and development teams based in the Group's various divisions, close to customers and plants.

With effect from 1 January 2010, Vallourec's Research and Competence Centres now operate under a common corporate identity. This change coincides with the merging of the Technology department and the Research and Development department to form a single, new Technology, Innovation, Research and Development department. Faced with a fiercely competitive global environment, the Group intends to strengthen its organization and research capabilities, in order to anticipate customers' future needs effectively and respond with innovative, differentiated products and service offerings.

This restructuring is organized around a number of competence centres specialising in particular products, processes or technologies:

- in **France,** the long-established Vallourec Research Centre (CEV) has become "Vallourec Research Aulnoye". The role of this centre is to support Research & Development teams in the areas of metallurgy, non-destructive examinations, corrosion resistance, surface treatments, product and process simulations, OCTG products and Mechanical engineering applications;
- in **Germany,** Vallourec Research Düsseldorf-Boiler will conduct research into pipes for the power plant market and the oil and gas sector (Boiler & Line Pipe Competence Centre), as well as research in the area of hot-rolled tubes (Rolling Competence Centre). This long-established facility, which is responsible for innovations in Vallourec's core processes has now been strengthened with the inclusion of Vallourec Research Riesa's Rolling Laboratory, which will accelerate these innovations. The centre is already equipped with versatile facilities suitable for carrying out hot working tests on the Group's steels and alloys. Other cutting-edge facilities are set to be added to this research complex in 2010.

  Note that Vallourec's research complex is supported by Salzgitter Mannesmann Forschungsinstitut, a long-standing German partner that plays an active role in research, testing and expert assessments for V & M Tubes;
- in **Brazil,** V & M do Brasil, working closely with its Brazilian customers, conducts its own investigations with the support of teams of experts and the testing and analytical laboratory operated by Vallourec Research Belo Horizonte.

The Group's development resources have recently been strengthened with the creation of a VAM® joint development centre in Houston, which will leverage the combined resources and experience of VAM USA LLC and V & M Atlas Bradford®. A coordinated Research and Development programme involving teams working in France and the United States is being run to ensure that the VAM® joint remains a success. Four test beds are used to perform full-scale tests on oil industry joints, in the same service conditions as in oil wells.

Lastly, programmes concerned with more fundamental research 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 departments and 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 Research and Development 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). The dynamic nature of this partnership is reflected in the recent launches of the new "VAM® 21" high-performance threaded connection and the Cleanwell® Dry grease-free lubrication solution;
- Tubacex: collaboration for the development of seamless tubes made of stainless steel and innovative alloys, thereby enhancing the Group's offering for the Oil & Gas market and the Power generation sector. This recent joint programme (established in the first quarter of 2009) focuses on the most demanding applications in terms of corrosion and high temperatures; Research and Development resources from both companies have been assigned to the initiative;

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- Timet: development of titanium applications since 1997;
- Petrobras: innovative 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;
- British Petroleum: development of high-performance drill pipes for extended-reach drilling (ERD), and development of riser tubes and connections;
- Hitachi Power Europe and Alstom: development of high-performance steels for ultra-supercritical power plants.

A staff of 500 is involved in Research and Development activities within the Vallourec Group. To strengthen the Group's strategic situation in the area of competitiveness and innovation, Vallourec introduced the "Expert Career" programme in 2009. The purpose of this initiative is to offer new career opportunities to the Group's Research and Development engineers, who at each stage of their careers, are now able to choose between taking on management responsibilities or working as a technical expert with the same status and pay. To enable this, the Group's Human Resources department coordinated the introduction of bridges between the two career paths, at equivalent grades.

The Research and Development budget represents around 1.5% of annual sales and has risen steadily in absolute terms for the past three years.

3.3.2 INDUSTRIAL PROPERTY

Vallourec Group has strengthened its organization in the area of industrial property over the last two years. The Industrial Property department is actively pursuing a strategy to centralize and standardize patent application procedures throughout the Group.

Furthermore, the Group is investing in resources to enhance its teams' ability to develop innovations, and the number of patent applications rose sharply in 2008 as a result. In 2009, 24 initial patent applications were filed. These patents will be the basis for 24 new patent families, compared with an average of 18 per year over the previous five years. In addition, the patent families resulting from applications filed in previous years were enhanced with the addition of 266 geographic extensions, a significantly higher number than in recent years. A number of the Group's innovations have been registered by means of postmarked letters or "SOLEAU envelopes", as a prelude to subsequent patent applications.

Vallourec continues to develop new products and services, and registered two new trade marks in 2009 (VMEC, and PREMIUM PIPE PAK). During the year, geographic extensions were also made to 33 trademarks already registered.

The Industrial Property department also helped to prepare 34 contracts, mainly in conjunction with independent centres and university laboratories.

4 Risk factors

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4.1 MAIN RISKS

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

This is the case with regard to the global economic and financial crisis that began in 2008, and which had repercussions on the Group's industrial activity throughout 2009. Uncertainty still prevailed at the beginning of 2010, particularly with regard to the timing and scale of the recovery in several of the business sectors in which Vallourec operates.

The Group has reviewed the risks that could have a significant impact on its business and/or results (or on its ability to achieve its targets) and considers there are no significant risks other than those presented below. 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 LEGAL RISKS

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.

In the normal course of its business, the Group is involved in law suits and may be subject to inspections or inquiries by tax or customs authorities and other national and supranational authorities. The Group recognizes a provision whenever a tangible risk is identified and a reliable estimate of the cost arising from said risk can be made.

As far as the Group is aware, there is currently no legal dispute or inspection or inquiry by tax or customs authorities or by any other authority that could materially affect the business, assets, earnings or financial position of the Company or of the Vallourec Group. However, there is always the possibility that such a dispute or inspection could arise and have an impact.

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. However, the possibility that the Group's development may require such material commitments in the future cannot be ruled out.

4.1.2 INDUSTRIAL AND ENVIRONMENTAL RISKS

4.1.2.1 Type of risks

To the Group's knowledge there are currently no specific industrial or environmental risks 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 of 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 numerous environmental regulations that are extensive and constantly changing. These regulations concern, in particular, control of major accidents, the use of chemicals (REACH regulations), disposal of wastewater, disposal of special industrial waste, air and water pollution and site protection. The Group's activities could, in the future, be subject to even more stringent regulations requiring it to incur expenditure in order to comply with regulations or pay taxes.

All the French plants require an authorization to operate in accordance with the provisions of Law no. 76-663 of 19 July 1976, as amended, relating to environmental protection in connection with classified facilities and with Decree no. 77-1133 of 21 September 1977 codified in Article R.512-1 of the French *Code de l'environnement*. Any major changes at these sites (investments, extensions, reorganization, etc.) require the updating of said authorizations in collaboration with the local Regional Directorates for the Environment, Planning and Housing (*Directions Régionales de l'Environnement, de l'Aménagement et du Logement* – DREAL).

Although, in accordance with its sustainable development principles, the Group endeavours to comply strictly with these authorizations and more generally with all the environmental regulations applicable in France and abroad, and takes every precaution to avoid environmental accidents, the nature of its industrial activity generates a risk for the environment. The Group is therefore not exempt from the possibility of an environmental accident that could have a material impact on the continuing operation of the sites concerned and on the Group's financial situation.

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 in use or are no longer in use and which have for a long time been used for industrial purposes, the soil or ground water may have been polluted and instances of pollution may be discovered or occur in the future. In such a case, Vallourec could be required to decontaminate 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 its 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.

4.1.2.2 Risk measurement

The operating entities assess the industrial and environmental risks of their activities before these are developed and then regularly during operations. They comply with the regulatory requirements of the countries in which these activities are carried out and have developed specific risk measurement procedures.

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At sites with significant technological risks, risk analyses are performed when new activities are developed and updated in the event of significant changes in existing installations and kept up to date on a regular basis. With the aim of standardizing these analyses and improving risk management, Vallourec has developed a shared methodology which will gradually be applied to all its operating activities. In France all the sites that meet the criteria of the Seveso II directive draw up a technology risk prevention plan (*Plan de prévention des risques technologiques* – PPRT), in compliance with the law of 30 July 2003 relating to major technological risks. Each of these plans provides for urbanization measures to reduce the vulnerability of neighbouring buildings with regard to the presence of industrial installations.

Similar measures have been taken at Vallourec's other European sites.

Moreover, environmental impact studies are carried out before any industrial development including, in particular, an analysis of the initial state of the site, the taking into account of its vulnerability and the choice of measures to reduce or prevent incidents. These studies also take into account the impact of these activities on the health of neighbouring populations. They are performed using common methodologies. In the countries that have authorization procedures and controls of the progress of the projects, no project is launched until the appropriate authorities authorize the project based on the studies submitted to them.

All Vallourec entities monitor regulatory changes in order to ensure that they comply at all times with the local and international regulations and standards relating to measurement and management of industrial and environmental risk. The accounting data relating to environmental matters is recorded in the Group's consolidated balance sheet under "Provisions" (see Note 16 of the Notes to the consolidated financial statements). Future expenses for rehabilitation of sites is recognized by the Group using the accounting principles described in Note 2.14 of the Notes to the consolidated financial statements.

4.1.2.3 Risk management

Risk assessment results in the definition of risk management measures designed to reduce the likelihood of accidents and limit their consequences and environmental impact. These measures relate to the design of the installations, strengthening protective measures, the organization to be put in place, and even the compensation for any eventual environmental impact if it seems inevitable. These studies may be accompanied, on a case by case basis, by an assessment of the cost of the measures to control risk and reduce impact.

Vallourec endeavours to limit the industrial and environmental risk inherent in its activities by putting in place efficient organizational structures and quality, safety and environmental management systems, by obtaining certification or assessing management systems, by performing stringent inspections and audits, training the staff and heightening the awareness of all the parties involved as well as by an active policy of investments that respect the environment and reduce industrial risk.

4.1.3 OPERATIONAL RISKS

To the Group's knowledge, there are currently no identified specific risks likely to have a significant impact on 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 of each of its business sectors, which could materialize and have an adverse effect on the Company:

- **Risks linked to the 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 trends in oil prices, which influence demand for certain of its products. Some of the Group's main business sectors were affected in 2008 by extremely volatile raw materials and energy prices, and in 2008 and 2009 by major fluctuations in exchange rates. Other sectors were particularly badly affected by the prevailing environment, in particular the Mechanical engineering, automotive and Power generation sectors.

  An even more severe deterioration in the global economic climate and in the financial markets could have a significant adverse effect on the Group's sales, earnings, cash flow and outlook.

- **Risks linked to competition**

  Vallourec operates in a highly competitive international environment. To respond efficiently to this competitive pressure, Vallourec's strategy is to stand out from its competitors by specializing in Premium solutions for the energy markets. Meeting the complex needs of demanding customers in sophisticated markets requires a level of local knowhow, innovation and product and service quality that only a few manufacturers are in a position to provide.

  The Group nonetheless faces competition, with varying degrees of intensity according to the market concerned:

  - In the oil and gas sector, the main element of differentiation is Premium joints for OCTG tubes. These patented joints ensure perfect sealing for tube columns thereby meeting customers' safety requirements, with regard to their workers, the environment and their financial investment. However, the strong competition in the OCTG commodity tubes market could bring downward pressure to bear on prices throughout the market, including the prices of Premium tubes and joints.
  - In the Power generation sector, the Premium solutions concern high-alloy steel capable of withstanding extreme temperatures and pressure, requiring top-level metallurgical skills and state-of-the-art technology. The world leader in Premium solutions for supercritical and ultra-supercritical power plants, the Group noted increased competition in this sector in 2009, in particular in the Chinese market, linked to some customers' decisions to reduce their technical requirements and give preference to some local manufacturers that have upgraded their range.

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- In other business sectors (Petrochemicals, Mechanical engineering, automotive and construction), the Group faces stronger competition as customer requirements are less sophisticated. The Group is nonetheless the regional leader in Europe and in Brazil, thanks to local operations that enable it to offer short delivery times and related services. It works to innovate so as to create new differentiated offers, such as fine-grain steel for industrial cranes and the PREON solutions for the construction of industrial buildings.

Risks linked to an industry that consumes raw materials and energy

Tube production consumes raw materials such as iron ore, coal, coke and scrap metal. The Group has some own sources of supply and diversifies its external sources of supply whenever possible.

In addition, raw materials and energy represent a significant expense item for the Group. As a result, the volatility of raw materials and energy prices could have a significant impact on the conditions in which the Group conducts its business and create some uncertainty as regards earnings.

Risks linked to activities in emerging countries

The Group conducts a significant part of its business in emerging countries, in particular because being located close to its customers in these countries enables it to improve its responsiveness and develop appropriate products and services. 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.

Risks linked to maintaining high technology on key products

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

Technological innovation could affect the competitiveness of the Group's existing products and services and have a negative impact on the value of existing patents and on the revenue generated by the Group's licences. Failure to develop or access (either alone or through partnerships) new technology, products or services ahead of its competitors could affect the Group's financial results and place it at a competitive disadvantage.

Risks linked to deficient manufacturing processes, production of defective products or defects in the quality of products and services

The defectiveness of certain manufacturing procedures or products, failure to supply or deficient performance of services relative to contractual commitments could have a negative impact on product delivery times and on the Group's financial situation, earnings and image.

4.1.4 OTHER SPECIFIC RISKS

Risks linked to Human Resources

Vallourec's success depends on keeping key men within the Group and on recruiting qualified staff.

The Group's success depends largely on the strong and continuing contribution made by its key executives. A limited number of people have responsibility for managing the Group's business, including relations with customers and licence holders. If the Group were to lose an important member of its management team, whether to a competitor or for any other reason, this could reduce the Group's capacity to implement its industrial or business strategy successfully or lead to the loss of major customers or licence holders or have a negative impact on the operation of its businesses.

The Group's performance also depends on the talents and efforts of highly-qualified staff. Its products, services and technology are complex and its future growth and success depend largely on the skills of its engineers and other key personnel. Ongoing training of already skilled staff is also necessary to maintain a high level of innovation and adapt to technological change. The Group's ability to recruit, keep and develop top-quality staff is critical to its success. Failure to do so could have a negative impact on its operating performance.

The Group has put in place a number of Human Resources management programmes designed to limit the possible impact of these risks, such as drawing up succession plans for key persons in each division and programmes to develop high-potential profiles. These programmes are monitored regularly by the Executive Committee.

Risks linked to occupational safety and health

In the area of occupational safety and health, strict preventive measures are taken to limit danger to the health of employees and subcontractors. Some employees and subcontractors may be exposed to products that are dangerous to their health, such as organic solvents. Strict preventive measures are taken to limit these risks.

In addition, the risk of a H1N1 flu pandemic was taken into account by implementing a specific prevention plan at the various entities and drawing up business continuity plans.

With regard to occupational safety, the Group has made efforts to reduce accidents in the workplace by implementing an active prevention and protection programme called Cap Ten Safe. A significant reduction in work accidents was achieved in 2009, reflecting the effectiveness of the prevention and protection measures taken and the increased awareness of safety issues of the Group's staff and subcontractors at the various sites where they work.

Risks linked to protection of intellectual property

As part of its endeavour to maintain a constant technological lead over competitors, the Group's policy is to protect its innovations by patenting them. It is, however, possible that some innovations

cannot be patented. The Group relies on trade secrets, patents, trademarks and models, the prevailing legal and regulatory provisions as well as, when appropriate, 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. Moreover, the laws in some countries where 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 sales of products using the rights concerned.

To protect the Group against identified risks, a dedicated team has been assigned to manage the technology used by the various entities. This team ensures in particular that such technology is used within the framework of contractual agreements and if necessary in the negotiation of licence agreements with reasonable licensing fees.

- **Risks linked to the development of partnerships and acquisitions and disposals of companies**

The Group has for several years implemented an active acquisitions policy:

- in the United States in 2008, acquisition from Grant Prideco of the businesses of Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™, experts in premium joints technology;
- in 2009, acquisition of Dubai-based DPAL FZCO, which markets a large range of drill pipes; and
- also in 2009, acquisition of 78.2% of the capital of P.T. Citra Tubindo in Indonesia. P.T. Citra Tubindo's Batam plants provide heat treatment and threading for OCTG tubes, together with oil-field accessories serving the oil and gas industry throughout the Asia-Pacific region.

Also, in 2007, the Group disposed of businesses, in particular in the automotive sector, that it considered no longer formed part of its core business.

Although the Group takes great care in the drafting and negotiation of acquisition and sale contracts and its protection in the form of guarantees or in some other form, the Group cannot rule out the risk that a liability, impairment of assets or claim may arise as a result of one of these contracts.

- **Risks linked to new production facilities**

The Group has also worked to modernize and substantially strengthen its industrial resources in recent years. In 2007, jointly with Sumitomo Metal Industries, it began the construction of a new seamless Premium tubes plant in the Minas Gerais region in Brazil, which is scheduled to start operating in the second half of 2010.

In February 2009, the Group embarked on an €80 million investment programme for new production capacity to meet growing demand from the nuclear industry. This investment concerns three sites: Valinox Nucléaire in France and Valtimet in the United States and in France.

At the beginning of 2010, the Group announced the construction of a small diameter rolling mill in Youngstown (Ohio) to cater for the needs of the fast growing shale gas industry in the United States. The investment will amount to USD 650 million.

Although the Group is careful to protect its interests and obtain adequate guarantees from its suppliers for the construction and commissioning of these major investments, it is nonetheless possible that these very complex projects could experience delays, budget overruns or non-compliance when the various installations are put into service resulting in damages, losses and other significant negative consequences for the Group that exceed the ceiling for and terms of the guarantees and other legal protection obtained when the corresponding contractual commitments were entered into.

- **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 circumstances, in the event of a change of control of the other party.

SMI and/or Sumitomo 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 the Vallourec Group in the capital of VAM USA LLC (resulting from the merger on 27 February 2009 of VAM USA and V & M Atlas Bradford® in the United States), Vallourec & Sumitomo Tubos do Brasil and VAM Holding Hong Kong. Similarly, 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, while retaining the right to use the Research and Development results jointly obtained and to enable any licensees to benefit from such results. VMOGF has 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 the VAM® brand name for three years from the date of such cancellation.

4.1.5 MARKET RISKS (INTEREST RATE, EXCHANGE RATE, CREDIT AND SHARE PRICE RISK) AND LIQUIDITY RISK

Given its financial structure, the Group is exposed to (i) market risks, which comprise interest rate, foreign exchange, credit and share price risks, and (ii) liquidity risk.

A description of market and liquidity risks is provided in Notes 8 and 15 of the Notes to the consolidated financial statements, i.e. on pages 91 to 102 and 109 to 112 respectively of this document.

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4.1.5.1 Market risks

Interest rate risk

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.

Part of the variable-rate debt has been swapped to fixed rate: €260 million (maturing March 2012) was swapped at 3.55% excluding spread: USD 300 million (maturing April 2013) was swapped at 4.36% excluding spread.

Financial debt with exposure to changes in interest rates amounted to €122.5 million (around 16.31% of total gross debt) at 31 December 2009.

Taking into account the interest rate hedges arranged by the Group, the impact of a 1 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 €1.1 million increase in the Group's annual financial costs, based on the assumption that the level of debt and exchange rates remain absolutely stable and after taking into account the impact of the various hedging instruments. This impact does not take into account the interest rate risk on cash and cash equivalents as these are invested on a short-term basis.

In addition, based on our simulations, a 0.5 percentage point rise or fall in interest rates applied to all yield curves would result in an increase, or a decrease, of €6 million in the value of the swaps at 31 December 2009 (at the level of Vallourec SA).

Therefore, although significant financial expense could result from the application of variable interest rates to the Group's debt, the hedging measures taken and summarized above minimize this risk.

The tables below summarize the Group's situation with regard to interest-rate risk in 2008 and 2009:

TOTAL DEBT AT 31 DECEMBER 2009

In € thousand	Other loans	Cash
Fixed rate at origin	159,851	-
Variable rate at origin swapped to fixed rate	468,775	-
Fixed rate	628,626	-
Variable rate	122,535	1,157,803
TOTAL	**751,161**	**1,157,803**

TOTAL DEBT AT 31 DECEMBER 2008

In € thousand	Other loans	Cash
Fixed rate at origin	90,628	-
Variable rate at origin swapped to fixed rate	475,473	-
Fixed rate	566,101	-
Variable rate	308,557	528,146
TOTAL	**874,658**	**528,146**

Exchange rate risks

Translation risk

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 2009, about 50.1% of the net profit attributable to the owners of the Company was generated by subsidiaries that prepare their financial statements in foreign currencies (mainly in US dollars and Brazilian real). A 10% change in exchange rates would have an impact on net profit attributable to the owners of the Company of around €26 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 foreign currency translation reserve booked to equity (a gain of €48.1 million as at 31 December 2009) which, in recent years, have been linked mainly to movements in the US dollar and Brazilian real.

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FOREIGN CURRENCY TRANSLATION RESERVE ATTRIBUTABLE TO OWNERS OF THE COMPANY

In € thousand	31/12/2007	31/12/2008	**31/12/2009**
USD	-75,572	-27,685	-51,922
GBP	-4,277	-16,480	-13,717
MXM (Mexican peso)	-6,006	-13,246	-12,292
BRL (Brazilian real)	61,798	-74,375	126,791
Others	-2,981	705	-748
	-24,038	**-131,081**	**48,112**

As far as the Group is aware, translation risk is unlikely to threaten its financial equilibrium.

Transaction risk

Vallourec is subject to exchange rate risks due to sales transactions entered into by some of its subsidiaries in currencies other than that of the country in which they are incorporated.

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 (24% of Group sales in 2009).

Fluctuations in EUR/USD exchange rates 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. some sales, although denominated in euros, are influenced by the level of the US dollar. They are therefore, sooner or later, indirectly affected by movements in US dollar exchange rates.

The Group actively manages its exposure to exchange rate risks to reduce the sensitivity of its profit or loss to changes in rates by implementing hedges as soon as an 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, mainly forward purchases and sales. The Group sometimes uses options.

Order cancellations 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.

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

Group companies manage their foreign exchange positions on foreign-currency transactions so as to hedge against exchange rate fluctuations, mainly by subscribing to forward contracts as soon as an order is taken.

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.

The following table shows the amounts outstanding as at 31 December 2007, 2008 and 2009 under foreign exchange contracts to hedge foreign currency denominated purchases and sales:

Hedging contracts in respect of commercial transactions – Exchange rate risk

In € thousand	31/12/2007	31/12/2008	**31/12/2009**
Forward exchange contract: forward sales	1,939,536	1,584,281	755,136
Forward exchange contract: forward purchases	152,430	79,977	28,331
Currency options: sales	36,296	17,281	-
Currency option: purchases	249,650	-	-
Commodities: call options	639	188	-
TOTAL	**2,378,551**	**1,681,727**	**783,467**

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CONTRACT MATURITIES AT 31 DECEMBER 2009

Contracts in respect of commercial transactions *In € thousand*	Total	< 1 year	1 – 5 years	> 5 years
Forward exchange contract: forward sales	755,136	706,189	48,947	-
Forward exchange contract: forward purchases	28,331	28,331	-	-
Currency options: sales	-	-	-	-
Currency option: purchases	-	-	-	-
Commodities: call options	-	-	-	-
TOTAL	**783,467**	**734,520**	**48,947**	-

Forward sales correspond mainly to sales of US dollars (€755 million of the €783 million total). These contracts were transacted at an average forward EUR/USD exchange rate of 1.41.

In 2009, like in 2008, the hedges entered into generally covered an average period of 12 months and mainly hedged highly probable future transactions and foreign currency receivables.

As well as hedging its business transactions, in 2009 Vallourec arranged a USD 205 million (€142.7 million) foreign exchange swap to hedge debt in US dollars. This swap expires in April 2013, when the hedged debt matures.

Credit risks

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

The Group has identified four main types of receivables with 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 there is any delay in the collection of the amounts due. It should be noted that these loans are measured using the effective interest rate method applied to expected cash flows up to the loan maturity date (the contractual 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 the disputes is unfavourable since the risk has already been assessed and a provision booked in respect of these receivables and the funds already paid in full or in part,
  - trade receivables: the Group's policy with regard to 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 counterparty's position.

The Group considers that at 31 December 2009 there is no reason to assume there is any risk in respect of receivables for which no provision has been made and which are less than 90 days overdue.

Moreover, Vallourec considers that 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.

The total amount of trade receivables that were more than 90 days overdue and for which no provision had been made came to €29.5 million at 31 December 2009, corresponding to 4.9% of total net trade receivables.

At 31 December 2009, trade receivables not yet due amounted to €476.5 million and represented about 80% of total net trade receivables.

Breakdown of trade receivables by due date:

At 31 December 2009	<30 days	30 – 60 days	60 – 90 days	90 – 180 days	>180 days	**Total**
Not yet due	391.2	59.8	19.5	5.5	0.5	476.5

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Share price risk

The own shares held by Vallourec at 31 December 2009 comprised:

1. shares to cover the allocation of shares to Group employees, executives and Corporate Officers.

   Following the exercise in 2009 of 7,273 options under the terms of the 15 June 2003 share purchase plan and the definitive allocation of 39,092 performance shares under the 3 May 2007 plan, at 31 December 2009 Vallourec held 172,214 own shares acquired on 5 July 2001 and 50,000 own shares acquired in 2008 under the 4 June 2008 share buyback programme.

   The Management Board, with the approval of the Supervisory Board, has 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. 17,144 shares (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 2011,
- to cover performance shares allocated on 16 December 2008, the definitive quantity of which will not be known until 2013,
- to cover performance shares allocated on 31 July 2009, the definitive quantity of which will not be known until 2013,
- to cover performance shares allocated on 17 December 2009, the definitive quantity of which will not be known until 2014,
- to cover performance shares allocated on 17 December 2009, the definitive quantity of which will not be known until 2013,
- 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;

2. the shares held in the context of the liquidity agreement concluded with Crédit Agricole Chevreux, i.e. 32,500 shares for a total value of €3.7 million.

   In 2007, Vallourec entered into a liquidity contract with Crédit Agricole Chevreux which was implemented under the general annual share buyback authorization granted by the Ordinary and Extraordinary Shareholders' Meeting on 4 June 2009 (*Ninth resolution*). To implement this contract, €20 million was transferred to the liquidity account.

   To the best of its knowledge, the Group had no other exposure to 'share price risk' at 31 December 2009.

4.1.5.2 Liquidity risk

The Company has carried out a specific review of liquidity risk and considers that it is in a position to meet its future obligations. The maturities of current bank loans and other borrowings totalling €116,231 thousand and non-current bank loans and other borrowings totalling €634,930 thousand as at 31 December 2009 are shown in the table below:

BREAKDOWN BY MATURITY OF NON-CURRENT BANK LOANS AND OTHER BORROWINGS (DUE IN OVER ONE YEAR)

In € thousand	> 1 year	> 2 years	> 3 years	> 4 years	> 5 years	**Total**
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**
At 31/12/2009	22,574	282,863	214,110	7,554	107,829	**634,930**

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

This €460 million facility requires Vallourec to maintain its ratio of consolidated net debt to consolidated equity at less than or equal to 75% calculated at 31 December each year. A change of control of Vallourec could result in the repayment of the loan if so decided by a two-thirds majority of the participating banks. It is also provided that the loan would become immediately repayable if the Group failed to make a repayment in respect of one of its other borrowings (cross default), or if a significant event occurred affecting the Group's business or financial situation and ability to repay its borrowings.

At 31 December 2009, a tranche of €260 million (included in non-current liabilities) had been drawn down.

In addition, the capital expenditure of V & M do Brasil, V & M Florestal and V & M Mineração required these subsidiaries to put in place several medium-term financing lines since 2006, denominated in Brazilian real. The total amount of these lines (239 million Brazilian real or €95 million in 2010) is spread among several banks (mainly BNDES, BDMG and BNB).

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. These lines mature in 2013, with the exception of one line which has been renewed until 2014.

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In 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 2009, Vallourec was using the USD 300 million (€208.2 million) term loan, which was included in non-current liabilities.

Vallourec took out a six-year €100 million loan in November 2008 with the Crédit Agricole Group (maturing end-October 2015 – extension of one year obtained in October 2009). This loan was drawn down at the end of January 2009. The loan documentation contains commitments of the same type as those entered into under the terms of the €460 million facility described above.

The US companies (V & M Star, VAM Drilling USA, Valtimet Inc., VAM USA LLC, V & M Tube-Alloy, V & M USA Corporation and V & M Holdings Inc.) benefit from a series of bilateral bank lines totalling USD 170 million (Bank of America and CIC). The amount used at 31 December came to USD 38 million. The terms of these lines with maturities of less than one year contain clauses relating to the indebtedness of each of the companies referred to above and a change of control clause.

In 2009, Vallourec & Sumitomo Tubos do Brasil, which is 56% owned by the Group, contracted a loan of 448.8 million Brazilian real from BNDES (Banco National de Desenvolvimento Economico e Social). This fixed-rate loan at 4.5% is denominated in Brazilian real and has a term of eight years. It is repayable as from 15 February 2012. This loan had not been drawn down at 31 December 2009.

The carrying amount of these borrowings is a fair approximation of their market value.

At 31 December 2009, the Group complied with its commitments and the conditions for obtaining and maintaining all the financial resources referred to above.

The totality of the facilities described above adequately covered the Group's liquidity requirements as at 31 December 2009.

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4.2 RISK MANAGEMENT

Since 2006 and in addition to the internal control procedures drawn up by the functional departments, Vallourec has relied 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 for the Group as a whole. Each mapping 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*.

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.

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The Group's policy with regard to purchasing insurance cover for industrial risks is designed to achieve two objectives:

- to take out shared insurance policies to ensure the consistency of transferred risks and insurance cover purchased and to optimize economies of scale, while taking into account the specific characteristics of the Group's different businesses and the contractual or legal constraints;
- to optimize thresholds and means of action on the insurance and reinsurance markets through suitably adapted deductibles.

In 2009, the Group pursued its policy of minimizing the amount of insurance premiums paid.

The Group's policy with regard to insurance consists of defining the global policy for insuring the Group's businesses based on expressions of needs drawn up by the subsidiaries, selecting and contracting with an internal services provider (the brokerage firm, Assurval, which is a wholly-owned subsidiary of Vallourec) and external services providers (brokers, insurers, etc.), and overseeing and coordinating the network of insurance managers at the main subsidiaries.

Implementation of the risk insurance policy is coordinated with the risk management policy within a single department at Vallourec's head office. It takes into account the insurability of the risks linked to the Group's activities, the capacity available in the insurance and reinsurance markets, the premiums proposed in the light of the guarantees provided, the exclusions, limits, sub-limits and deductibles.

Action in 2009 focused mainly on:

- continuing action on identifying risks and preventive and protective measures, thanks in particular to a system for assessing "property damage and operating losses" risks at the main plants;
- communicating detailed information on the Company to the insurance and reinsurance markets;
- continuing to roll out the Group's programmes.

The risk management and insurance policy is to define, in close collaboration with the internal structures at each subsidiary, major catastrophic risk scenarios (maximum possible claim), assess the financial consequences for the Group, help implement the measures designed to limit the likelihood and the scale of damage were such events to occur and decide whether to maintain the financial consequences of such events within the Group or transfer them to the insurance market.

The Group takes out global insurance cover covering all its subsidiaries for third party liability and material damages. The amounts covered vary according to the financial risks defined in the loss scenario and the insurance conditions offered by the market (available capacity and premium prices) The main insurance contracts that cover all the Group's division are:

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.

As an example, for natural catastrophes in the United States (cyclones, etc.) the cover limit was USD 60 million in 2009.

Deductibles applied to material damages claims range from €15,000 to €500,000 according to the size of the risk concerned, and are borne by the subsidiaries.

The main insurance programmes provide for cover based on a proportion of the total value or based on contractual limits per claim. In the latter case, the limits are established on the basis of major accidents estimated according to insurance market rules.

Insurance cover for operating losses and supplementary operating expenses is taken out on a case by case basis according to each analysis of the risk taking into account the existing emergency plans.

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 Group contract and local contracts. The Group 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.

The insurance cover limit for third-party liability, general and products, was raised in 2009 to take into account the Group's increased size.

Employee benefits

In accordance with applicable law and company-level agreements, insurance programmes covering employees against accidents and medical costs have been put in place at the operating entities.

Third-party liability of Corporate Officers

The Group has taken out liability insurance covering Corporate Officers 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.

The policy described above gives a picture of the situation at a given moment in time and cannot be considered representative of a permanent situation. The Group's policy with regard to insurance may change at any time according to market conditions, opportunities and the Management Board's assessment of the risks incurred and the adequacy of the insurance cover. The Group cannot guarantee that it will not suffer an uninsured loss.

5 Financial statements

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5.1 CONSOLIDATED FINANCIAL STATEMENTS

5.1.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(in € thousand)*

ASSETS

	Note	31/12/2007	31/12/2008	**31/12/2009**
NON-CURRENT ASSETS				
Intangible assets, net	1	21,714	260,876	250,295
Goodwill	1	79,900	308,289	397,803
Gross property, plant and equipment	2	2,002,421	2,469,278	3,333,009
less: accumulated depreciation	2	-736,458	-828,289	-965,984
Property, plant and equipment, net	2	1,265,963	1,640,989	2,367,025
Investments in equity affiliates	3	55,044	76,885	56,682
Other non-current assets	4	43,006	38,639	188,215
Deferred tax assets	5	26,545	36,951	36,400
Total		**1,492,172**	**2,362,629**	**3,296,420**
CURRENT ASSETS				
Inventories and work-in-progress	6	1,168,754	1,443,661	927,239
Trade and other receivables	7	1,048,622	1,203,572	611,906
Derivatives – assets	8	158,148	26,280	23,742
Other current assets	9	142,753	200,548	152,920
Cash and cash equivalents	10	912,478	528,146	1,157,803
Total		**3,430,755**	**3,402,207**	**2,873,610**
TOTAL ASSETS		**4,922,927**	**5,764,836**	**6,170,030**

EQUITY AND LIABILITIES

	Note	31/12/2007	31/12/2008	31/12/2009
EQUITY	12			
Issued capital		212,155	215,155	229,123
Additional paid-in capital		60,655	105,438	361,838
Consolidated reserves		1,418,786	2,048,204	2,721,552
Reserves, financial instruments		70,026	-54,359	-7,019
Foreign currency translation reserve		-24,038	-131,081	48,112
Profit or loss for the period		986,205	967,191	517,707
Own shares		-16,020	-17,789	-10,814
Equity attributable to owners of the Company		**2,707,769**	**3,132,759**	**3,860,499**
Non-controlling interests	14	**81,892**	**99,171**	**241,477**
Total equity		**2,789,661**	**3,231,930**	**4,101,976**
NON-CURRENT LIABILITIES				
Bank loans and other borrowings	15	337,247	650,226	634,930
Employee benefits	17	168,243	146,567	132,828
Provisions	16	6,882	6,937	5,602
Deferred tax liabilities	5	101,802	84,007	125,711
Other long-term liabilities		441	767	1,310
Total		**614,615**	**888,504**	**900,381**
CURRENT LIABILITIES				
Provisions	16	80,105	93,193	140,474
Overdrafts and other short-term bank borrowings	15	332,841	224,432	116,231
Trade payables		671,900	721,807	482,846
Derivatives – liabilities	8	28,110	113,337	29,517
Tax liabilities		112,933	102,005	66,201
Other current liabilities	18	292,762	389,628	332,404
Total		**1,518,651**	**1,644,402**	**1,167,673**
TOTAL EQUITY AND LIABILITIES		**4,922,927**	**5,764,836**	**6,170,030**

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5.1.2 CONSOLIDATED INCOME STATEMENT *(in € thousand)*

	Note	31/12/2007	31/12/2008	31/12/2009
Sales	21	**6,140,521**	**6,437,014**	**4,464,479**
Production taken into inventory		97,721	107,064	-330,654
Other operating revenues	22	35,215	39,125	36,934
Purchases consumed		-2,265,607	-2,525,572	-1,211,361
Taxes and duties	23	-56,250	-51,603	-44,411
Payroll costs	24	-827,040	-856,612	-820,929
Other operating costs	25	-1,339,775	-1,442,490	-1,077,225
Net provisions	27	-34,003	-13,073	-36,226
EBITDA		**1,750,782**	**1,693,853**	**980,607**
Depreciation and amortization	28	-117,973	-165,585	-187,922
Impairment of assets and goodwill	29	-21,169	-1,386	-7,828
Asset disposals and restructuring costs	29	10,933	-5,077	1,478
OPERATING PROFIT		**1,622,573**	**1,521,805**	**786,335**
Financial income		36,304	34,956	20,507
Interest costs		-40,619	-51,463	-42,606
Net financial costs		*-4,315*	*-16,507*	*-22,099*
Other financial income and charges		-14,936	6,692	33,451
Other discounting costs		-9,757	-9,039	-15,994
FINANCIAL INCOME (LOSS)	30	**-29,008**	**-18,854**	**-4,642**
PROFIT BEFORE TAX		**1,593,565**	**1,502,951**	**781,693**
Income tax	31	-575,344	-480,691	-247,506
Net profit of equity affiliates	3	6,242	2,431	2,291
NET PROFIT FROM CONTINUING OPERATIONS		**1,024,463**	**1,024,691**	**536,478**
CONSOLIDATED NET PROFIT		**1,024,463**	**1,024,691**	**536,478**
Non-controlling interests		38,258	57,500	18,771
Owners of the Company		**986,205**	**967,191**	**517,707**
Profit attributable to owners of the parent:				
Earnings per share	13	18.9	18.3	9.4
Diluted earnings per share	13	18.8	18.2	9.4

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5.1.3 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(in € thousand)*

	Note	31/12/2007	31/12/2008	**31/12/2009**
CONSOLIDATED NET PROFIT		**1,024,463**	**1,024,691**	**536,478**
Other comprehensive income:				
• Exchange differences arising on translating the net assest of foreign operations	12 and 14	-31,791	-101,962	162,222
• Gain/loss on hedging instrument designated as a hedge of the net assets of foreign operations		39,171	-187,295	63,998
• Change in fair value of available-for-sale securities		-	-	6,564
• Tax relating to the change in fair value of financial instruments		-11,776	62,922	-21,037
• Tax relating to the change in fair value of available-for-sale securities		-	-	-2,170
Other comprehensive income (net of tax)		**-4,396**	**-226,335**	**209,577**
TOTAL COMPREHENSIVE INCOME		**1,020,067**	**798,356**	**746,055**
Profit attributable to non-controlling interests		31,233	62,593	1,817
Profit attributable to owners of the Company		**988,834**	**735,763**	**744,238**

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5.1.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(in € thousand)*

	Issued capital	Additional paid-in capital	Consolidated reserves	Foreign currency translation reserve	Reserves – changes in fair value of financial instruments – net of tax	Own shares	Profit or loss for the period	**Total equity – owners of the Company**	**Total non-controlling interests**	**Total equity**
As at 31 December 2006	**212,047**	**206,568**	**764,937**	**634**	**42,725**	**-13,514**	**917,005**	**2,130,402**	**92,819**	**2,223,221**
Change in foreing currency translation reserve	-	-	-	-24,672	-	-	-	-24,672	-7,119	-31,791
Financial instruments	-	-	-		27,301	-	-	27,301	94	27,395
Other comprehensive income	-	-	-	*-24,672*	*27,301*	-	-	*2,629*	*-7,025*	*-4,396*
2007 net profit							**986,205**	**986,205**	**38,258**	**1,024,463**
Total comprehensive income	-	-	-	*-24,672*	*27,301*	-	*986,205*	*988,834*	*31,233*	*1,020,067*
2006 net profit	-	-	917,005	-	-	-	-917,005	-		-
Change in share capital and additional paid-in capital	108	94	-	-	-	-	-	202		202
Change in own shares	-	-	664	-	-	-2,506	-	-1,842		-1,842
Dividends paid		-146,007	-65,973	-	-	-	-	-211,980	-42,148	-254,128
Interim dividend paid by Vallourec	-	-	-210,292	-	-	-	-	-210,292		-210,292
Share-based payments	-	-	12,512	-	-	-	-	12,512		12,512
Changes in consolidation scope and other	-	-	-67	-	-	-	-	-67	-12	-79
As at 31 December 2007	**212,155**	**60,655**	**1,418,786**	**-24,038**	**70,026**	**-16,020**	**986,205**	**2,707,769**	**81,892**	**2,789,661**
Change in foreign currency translation reserve	-	-	-	-107,043	-	-	-	-107,043	5,081	-101,962
Financial instruments	-	-	-		-124,385	-	-	-124,385	12	-124,373
Other comprehensive income	-	-	-	*-107,043*	*-124,385*	-	-	*-231,428*	*5,093*	*-226,335*
2008 net profit							**967,191**	**967,191**	**57,500**	**1,024,691**
Total comprehensive income	-	-	-	*-107,043*	*-124,385*	-	*967,191*	*735,763*	*62,593*	*798,356*
2007 net profit	-	-	986,205	-	-	-	-986,205	-		-
Change in share capital and additional paid-in capital	3,000	44,783	-	-	-	-	-	47,783		47,783
Change in own shares	-	-	-4,530	-	-	-1,769	-	-6,299		-6,299
Dividends paid	-	-	-370,335	-	-	-	-	-370,335	-45,412	-415,747
Interim dividend paid by Vallourec	-	-	-	-	-	-	-	-		-
Share-based payments	-	-	17,819	-	-	-	-	17,819		17,819
Changes in consolidation scope and other	-	-	259	-	-	-	-	259	98	357
As at 31 December 2008	**215,155**	**105,438**	**2,048,204**	**-131,081**	**-54,359**	**-17,789**	**967,191**	**3,132,759**	**99,171**	**3,231,930**

	Issued capital	Additional paid-in capital	Consolidated reserves	Foreign currency translation reserve	Reserves – changes in fair value of financial instruments – net of tax	Own shares	Profit or loss for the period	**Total equity – owners of the Company**	**Total non-controlling interests**	**Total equity**
Change in foreign currency translation reserve	-	-	-	179,193	-	-	-	179,193	-16,971	162,222
Financial instruments	-	-	-		42,944	-	-	42,944	17	42,961
Available-for-sale financial assets					4,394			4,394		4,394
Other comprehensive income	-	-	-	*179,193*	*47,338*	-	-	*226,531*	*-16,954*	*209,577*
2009 net profit							**517,707**	**517,707**	**18,771**	**536,478**
Total comprehensive income	-	-	-	*179,193*	*47,338*	-	*517,707*	*744,238*	*1,817*	*746,055*
2008 net profit	-	-	967,191	-	-	-	-967,191	-		-
Change in share capital and additional paid-in capital	2,834	60,777		-	-	-	-	63,611		63,611
Change in own shares	-	-	3,400	-	-	6,975	-	10,375		10,375
Dividends paid	11,134	195,623	-320,822	-	-	-	-	-114,065	-26,319	-140,384
Interim dividend paid by Vallourec	-	-	-	-	-	-	-	-		-
Share-based payments	-	-	19,618	-	-	-	-	19,618		19,618
Changes in consolidation scope and other	-	-	3,963	-	-	-	-	3,963	166,808	170,771
AS AT 31 DECEMBER 2009	**229,123**	**361,838**	**2,721,554**	**48,112**	**-7,021**	**-10,814**	**517,707**	**3,860,499**	**241,477**	**4,101,976**

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5.1.5 STATEMENT OF CHANGES IN NON-CONTROLLING INTERESTS *(in € thousand)*

	Consolidated reserves	Foreign currency translation reserve	Reserves – changes in fair value of financial instruments -net of tax	Profit or loss for the period	Non-controlling interests
As at 31 December 2006	**14,309**	**-3,757**	**-23**	**82,290**	**92,819**
Change in foreign currency translation reserve	-	-7,119	-	-	-7,119
Financial instruments	-	-	94	-	94
Other comprehensive income	-	*-7,119*	*94*		*-7,025*
2007 net profit	**-**	**-**	**-**	**38,258**	**38,258**
Total comprehensive income	-	*-7,119*	*94*	*38,258*	*31,233*
2006 net profit	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 foreign currency translation reserve	-	5,081	-	-	5,081
Financial instruments	-	-	12	-	12
Other comprehensive income	-	*5,081*	*12*	-	*5,093*
2008 net profit	**-**	**-**	**-**	**57,500**	**57,500**
Total comprehensive income	-	*5,081*	*12*	*57,500*	*62,593*
2007 net profit	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**
Change in foreign currency translation reserve	-	-16,971	-	-	-16,971
Financial instruments	-	-	17	-	17
Other comprehensive income	-	*-16,971*	*17*	-	*-16,954*
2009 net profit	**-**	**-**	**-**	**18,771**	**18,771**
Total comprehensive income	-	*-16,971*	*17*	*18,771*	*1,817*
2008 net profit	57,500	-	-	-57,500	-
Dividends paid	-26,319	-	-	-	-26,319
Changes in consolidation scope and other (*)	166,808	-	-	-	166,808
AS AT 31 DECEMBER 2009	**245,372**	**-22,766**	**100**	**18,771**	**241,477**

(*) Please refer to Note 14.

5.1.6 CONSOLIDATED STATEMENT OF CASH FLOWS *(in € thousand)*

	31/12/2007	31/12/2008	**31/12/2009**
Consolidated net profit (including non-controlling interests)	**1,024,463**	**1,024,691**	**536,477**
Net charges to amortization, depreciation and provisions	181,409	186,778	261,839
Unrealized gains and losses linked to changes in fair value	5,076	-3,391	-33,219
Income and charges linked to share options and equivalent	12,512	17,819	19,618
Capital gains and losses on disposals	-7,834	4,865	6,985
Share of profit (loss) of equity affiliates	-6,242	-2,431	-2,291
Dividends reclassified as other flows linked to investing activities	-1,825	-2,728	-3,229
Cash flow from operating activities after cost of net debt and tax	**1,207,559**	**1,225,603**	**786,180**
Cost of net debt	4,315	16,507	22,099
Tax charge (including deferred taxes)	575,344	480,691	247,507
Cash flow from operating activities before cost of net debt and tax	**1,787,218**	**1,722,801**	**1,055,786**
Interest paid	-41,089	-49,207	-42,637
Tax paid	-586,123	-474,007	-267,414
Interest received	36,304	34,956	20,507
Cash flow from operating activities	**1,196,310**	**1,234,543**	**766,242**
Change in operating working capital requirement	-214,367	-351,191	844,973
NET CASH FLOW FROM OPERATING ACTIVITIES (1)	**981,943**	**883,352**	**1,611,215**
Cash outflows for acquisitions of property, plant and equipment and intangible assets	-437,713	-528,486	-676,488
Cash inflows from disposals of property, plant and equipment and intangible assets	11,757	2,284	854
Impact of acquisitions (changes in consolidation scope)	-3,618	-541,399	-98,336
Cash of subsidiaries acquired (changes in consolidation scope)	-250	-	14,801
Impact of disposals (changes in consolidation scope)	133,066	-	147,365
Cash of subsidiaries sold (changes in consolidation scope)	8,472	-	-
Other cash flows from investing activities	5,944	5,557	-92,354
NET CASH FLOW FROM INVESTING ACTIVITIES (2)	**-282,342**	**-1,062,044**	**-704,158**
Increase and decrease in equity	-	47,783	63,611
Amounts received on exercise of share options	202	-	**-**
Dividends paid during the year			
• Dividends paid in cash to shareholders in the parent Company	-422,272	-370,335	-114,065
• Dividends paid to non-controlling shareholders in consolidated companies	-42,846	-34,961	-37,604
Movements in own shares	-1,841	-6,300	10,376
Cash drawn down re new loans	92,728	411,600	159,894
Repayments of borrowings	-93,965	-196,953	-331,260
Other cash flows from financing activities	-23,867	-22,841	-37,541
CASH FLOW FROM FINANCING ACTIVITIES (3)	**-491,861**	**-172,007**	**-286,589**
Impact of changes in exchange rates (4)	-191	-32,023	22,148
Impact of assets and liabilities classified in the balance sheet as held for sale (5)	-	-	**-**
CHANGE IN CASH (1 + 2 + 3 + 4 + 5)	**207,549**	**-382,722**	**642,616**
Opening net cash	**679,318**	**886,867**	**504,145**
Closing net cash	**886,867**	**504,145**	**1,146,761**
Change	207,549	-382,722	642,616

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Cash represents cash and cash equivalents less bank overdrafts with an initial maturity of less than three months. The figures for 2008, 2007 and 2006 have been restated to comply with this definition.

STATEMENT OF CHANGES IN NET DEBT: FINANCIAL YEAR 2009 *(in € thousand)*

	Note	31/12/2008	Change	**31/12/2009**
Gross cash (1)	10	528,146	629,657	1,157,803
Bank current accounts in debit and overdrafts (2)	15	24,001	-12,959	11,042
Cash (3) = (1) - (2)		**504,145**	**642,616**	**1,146,761**
Gross debt (4)	15	850,657	-110,538	740,119
Net debt = (4) - (3)		**346,512**	**-753,154**	**-406,642**

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	25,611	-1,610	24,001
Cash (3) = (1) - (2)		**886,867**	**-382,722**	**504,145**
Gross debt (4)	15	644,477	206,180	850,657
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	210,055	-184,444	25,611
Impact of short-term assets and liabilities classified in the balance sheet as held for sale (3)		-995	995	0
Cash (4) = (1) - (2) + (3)		**679,318**	**207,549**	**886,867**
Gross debt (5)	15	637,934	6,543	644,477
Impact of medium- and long-term assets and liabilities classified in the balance sheet as held for sale (6)		-49	49	0
Net debt = (5) + (6) - (4)		-41,433	-200,957	-242,390

5.1.7 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2009, including the related notes to the consolidated financial statements, were approved by the Vallourec Management Board on 23 February 2010 and will be submitted for approval to the Shareholders' Meeting.

Pursuant to European Commission regulation 1606/2002 adopted on 19 July 2002 for all listed companies in the European Union, Vallourec has prepared its consolidated financial statements 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 2009. 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.

As regards the new standards that are applicable as from 1 January 2009:

- IFRS 8 "Operating Segments": the segments presented previously pursuant to IAS 14 comply with the definition of operating segments identified and grouped together in accordance with paragraphs 5 to 12 of IFRS 8. The Group presents its segment information based on the "Seamless tubes" and "Speciality Products" business segments as used for internal reporting purposes and provides a reconciliation with the summary reports;
- the amendments to IAS 23 "Borrowing Costs": they 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 manufacture or get ready for their intended use). The Group decided to apply the standard prospectively as from 1 January 2009 but had not, as at the end of December 2009, identified any borrowing costs which relate to the acquisition of qualifying assets;
- Revised IAS 1 "Presentation of Financial Statements": the Group elected to present its performance in the form of two statements: an income statement and a statement of comprehensive income. The amount of tax relating to each of the components of other comprehensive income is detailed in the statement of comprehensive income. The balance sheet has become the statement of financial position and the statement of changes in equity combines transactions with Vallourec's shareholders with those with its subsidiaries' non-controlling interests;
- IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

The Group has decided to apply revised IFRS 3 and amended IAS 27 early, as from 1 January 2009, as explained in paragraphs 2.9 "Goodwill" and 2.18 "Financial instruments".

In addition, the Group is not affected by the other legislation adopted by the European Union [1] and has not applied early any of the other standards or interpretations whose application will become mandatory only for financial years commencing on or after 1 January 2010.

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 or through equity (see paragraph 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 paragraph 2.11).

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.

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

2.3 Consolidation of subsidiaries

The Group's consolidated financial statements comprise the financial statements of Vallourec and of its subsidiaries covering the period from 1 January 2009 to 31 December 2009.

Subsidiaries 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 and profit or loss of the subsidiaries concerned. Equity and profit or loss are split between the portion attributable to the owners of the Company and the portion attributable to the non-controlling 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 and components of profit or loss.

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 consolidated 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 equity. The Group's share of such differences is included under the heading "Foreign currency translation reserve".

However, in accordance with the option authorized by IFRS 1 "First-time adoption of IFRS", the Group has chosen to reclassify under the heading "Consolidated reserves" the accumulated "Foreign currency 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 "Foreign currency 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 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 in connection with a business combination, 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 paragraph 2.11).

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 booked as expenses 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 builindings	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 vehicules	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 paragraph 2.11 below).

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 paragraph 2.7) and the lease term. They are tested for impairment in accordance with IAS 36 "Impairment of Assets" (see paragraph 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

The Group measures goodwill as the excess of:

- on the one hand, the total of:
  - the fair value of the consideration transferred,
  - the amount of any participating interest that does not give control of the acquired company (non-controlling interests valued either at fair value (total goodwill) or at the carrying amount (partial goodwill)),
  - the fair value on the acquisition date of the participating interest previously owned by the acquirer in the acquired company in the case of a business combination achieved in stages;
- on the other hand, the net balance of the amounts, on the acquisition date, of the identifiable assets acquired and liabilities assumed.

In the case of material acquisitions, fair value is measured with the help of independent experts.

The decision as to whether to apply the partial goodwill method or the total goodwill method must be taken separately for each business combination.

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 paragraph 2.11: Impairment of property, plant and equipment and intangible assets). If any impairment is noted, an irreversible provision is recognized within the heading "Impairment of assets and goodwill" within operating profit.

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.

In accordance with the provisions of revised IFRS 3 and amended IAS 27, the Group recognizes in equity the difference between the price paid and the share of the non-controlling shareholders repurchased in companies previously controlled.

The acquisition expenses incurred by the Group in the carrying out of the business combination, such as referral agents' commission, legal and due diligence fees and other professional or consultancy fees, are written off as expenses when incurred.

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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 and capitalization 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 2009, as was the case in 2008 and 2007.

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 a business combination are recorded separately from the goodwill if their fair value may be measured during the acquisition phase. Intangible assets with finite useful lives are amortized over the period during which they will be used by the entity.

Since IFRIC 3 has been withdrawn, greenhouse gas emissions quotas received free of charge are recognized at nil value (in accordance with IAS 20). When the quotas granted by the state are insufficient to cover actual emissions, a provision is recognized. Notes 1 and 20 to the financial statements contain information about the methods used to measure the unused quotas at the end of the reporting period.

2.10.3 Impairment

Intangible assets are tested for impairment in accordance with the provisions of IAS 36 "Impairment of Assets" (see paragraph 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. goodwill in the case of the Vallourec 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 profit 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 of the CGU's other 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 and V & M North America. The CGU comprising the stainless steel activities was split and replaced in 2009 by Valti, Interfit and Valinox Nucléaire. 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 booked 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 Group has used the option available under IFRS 1 of booking to equity all actuarial gains and losses at that date.

Net charges for retirement and similar commitments are recognized in operating profit or loss 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 services 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 and Brazil, 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 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 share allocation plans under which the vesting of rights is linked to performance conditions (percentage of 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 equity. Proceeds from the sale of own shares are booked directly as an increase in equity so that gains or losses on disposal do not affect consolidated profit.

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 paragraph 2.18.4 – Derivatives and hedge accounting).

Moreover, in accordance with IAS 32, the sale of a put option to a non-controlling 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 non-controlling interests are recorded and as a deduction from equity attributable to owners of the Parent, in the case of the portion of the liability that exceeded said non-controlling interests.

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 at the end of the reporting period

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 other comprehensive income 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 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 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;
- listed shares valued at their fair value at the end of the reporting period. Said fair value is determined on the basis of the stock exchange price at the end of the reporting period.

Changes in fair value are recognized directly in equity other than when a material or permanent fall in the fair value, to an amount that is less than the asset's acquisition cost, occurs, in which case the corresponding loss is recognized in profit or loss.

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 cash as defined above, net of overdrafts and other short-term bank borrowings which mature in under three months.

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

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 fair value 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 equity when they relate to the effective portion, with the balance being 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 paragraph 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 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 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 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 equity is now classified as 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 are recognized only for companies and tax groups in which recovery in the foreseeable future is reasonably 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 within other comprehensive income or directly in equity (see in particular accounting for hedging instruments, paragraph 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 reasonably 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.: 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 paragraphs 2.6.2 and 2.18.4 as regards the procedures for accounting for sales denominated in foreign currencies.

2.21 Determination of operating profit (loss)

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

Operating profit is calculated as the difference between pre-tax revenues and costs other than those of a financial nature or relating to the profits or losses of equity affiliates, and excluding any profits 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 profit 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 paragraph 2.11);

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- 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 profit 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

IFRS 8 "Segment reporting" is applied for the first time as from 1 January 2009. The coming into effect of this standard does not call into question the information previously disclosed in the Group's consolidated financial statements since the segments formerly presented under IAS 14 comply with the definition of operating segments identified and grouped in accordance with IFRS 8. This information corresponds to that reviewed by the Executive Committee.

The Group presents its segment information on the basis of the following operating segments reconciled with consolidated data:

- "Seamless tubes". This segment 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.);
- "Speciality Products". 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 IFRS 8. It includes the production of stainless steel and titanium tubes as well as specific forming and machining activities.

In addition, geographical information is presented, distinguishing between five areas determined on the basis of an analysis of the specific risks and returns associated with them:

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

Operating segments

Note 32 shows, for each operating segment, information on the revenues and results as well as certain information on the assets, liabilities and capital expenditure for the financial years 2009, 2008 and 2007.

Geographical information

Note 32 shows, by geographical area, 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 2009, 2008 and 2007.

B – Consolidation scope

Fully consolidated companies	% interest 31/12/2007	% interest 31/12/2008	**% interest 31/12/2009**	***% control 31/12/2009***
Changzhou Valinox Great Wall – China	62.5	62.5	62.5	*100.0*
CST Valinox – India	85.6	85.6	85.6	*90.1*
Changzhou Carex Valinox Components – China	70.7	70.7	70.7	*100.0*
Drilling Pipe Assembly Line (DPAL FZCO) – United Arab Emirates	-	-	100.0	*100.0*
Interfit	100.0	100.0	100.0	*100.0*
Kestrel Wave Investment Ltd – Hong Kong	-	-	100.0	*100.0*
Premium Holding Limited – Hong Kong		100.0	100.0	*100.0*
Seamless Tubes Asia Pacific – Singapore	-	-	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	-	-
Vallourec & Mannesmann Holdings – United States	100.0	100.0	100.0	*100.0*
Vallourec Inc. – United States	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	*100.0*
V & M 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	99.6	*99.6*
V & M Florestal Ltda – Brazil	99.4	99.4	99.6	*100.0*
V & M Mineração Ltda – Brazil	99.4	99.4	99.6	*100.0*
V & M One	100.0	100.0	100.0	*100.0*
Vallourec & Mannesmann Rus. – Russia	100.0	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*
V & M Two – United States	-	-	100.0	*100.0*
Vallourec & Mannesmann Tubes	100.0	100.0	100.0	*100.0*
V & M 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	*100.0*
VMOG Nigeria – Nigeria	100.0	100.0	100.0	*100.0*
VAM Onne Nigeria – Nigeria	100.0	100.0	100.0	*100.0*
Vallourec Mannesmann Oil & Gas UK – United Kingdom	100.0	100.0	100.0	*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*

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Fully consolidated companies	% interest 31/12/2007	% interest 31/12/2008	**% interest 31/12/2009**	***% control 31/12/2009***
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	100.00	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 (Merged on 27 February 2009 with VAM USA – United States)	-	100.0	-	-
V & M TCA® – United States (Merged on 1 July 2009 with V & M Star – United States)	-	100.0	-	-
V & M Tube-Alloy™ – United States	-	100.0	100.0	*100.0*
V & M Qahtani – Saudi Arabia	-	-	65.0	*65.0*
P.T. Citra Tubindo – Indonesia	-	-	78.2	*78.2*
Proportionately consolidated companies				
VAM Changzhou Oil & Gas Premium Equipments – China	51.0	51.0	51.0	*50.0*
VAM Holding Hong Kong – Hong Kong	51.0	51.0	51.0	*50.0*
Vallourec & Sumitomo Tubos do Brasil – Brazil	56.0	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	-	-
Poongsan Valinox – South Korea	47.5	47.5	47.5	*50.0*
P.T. Citra Tubindo – Indonesia	25.0	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.

2009

- 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 interests 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 employs 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 acquired by Vallourec in May 2008, specializes in heat treatment operations and is located in Muskogee, Oklahoma.

- On 2 July 2009, Vallourec announced that it had acquired control of P.T. Citra Tubindo Tbk (PTCT) by increasing its stake to 78.2% and therefore now owns the majority of the share capital. It increased its stake gradually during 2008 and 2009 by means of the successive acquisition of a number of blocks of shares and the launch of a tender offer, the details of which were submitted to the Indonesian Financial Institution Supervisory Agency (Bapepam-LK).

- Drilling Pipe Assembly Line (DPAL FZCO – United Arab Emirates), which produces drill pipes, was acquired on 1 October 2009.

  These changes in consolidation scope have been accounted for in accordance with revised IFRS 3 and amended IAS 27 and their main consequences are described in Note 11.

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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 was 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 Ltda, 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.

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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 31/12/2006	**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
Other movements	1,714	253	1,967	-
At 31/12/2008	**45,370**	**306,624**	**351,994**	**308,308**
Acquisitions	2,537	3,002	5,539	-
Disposals	-215	-245	-460	-
Impact of changes in exchange rates	1,964	-10,329	-8,365	-12,456
Changes in consolidation scope	1,251	28,115	29,366	101,971
Other movements	559	310	869	-
At 31/12/2009	**51,466**	**327,477**	**378,943**	**397,823**
AMORTIZATION AND IMPAIRMENT				
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	-
Other movements	-1,689	-	-1,689	-
At 31/12/2008	**-32,782**	**-58,336**	**-91,118**	**-19**
Net amortization charges for the year	-3,720	-35,418	-39,138	-
Impairment losses (charges net of reversals)	-	-	-	-
Disposals	211	243	454	-
Impact of changes in exchange rates	-1,846	2,998	1,152	-1
Other movements	-	2	2	-
At 31/12/2009	**-38,137**	**-90,511**	**-128,648**	**-20**
NET VALUES				
At 31/12/2007	12,890	8,824	21,714	79,900
At 31/12/2008	12,588	248,288	260,876	308,289
At 31/12/2009	**13,329**	**236,966**	**250,295**	**397,803**

Intangible assets

- 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.
- In 2009, the changes in consolidation scope correspond mainly to the valuation, carried out by independent experts, of the customer bases of P.T. Citra Tubindo (Indonesia) and Drilling Pipe Assembly Line (Dubai, United Arab Emirates), which are amortized over a maximum period of 20 years (see Note 11).

Vallourec devotes significant efforts on an ongoing basis to Research and Development, particularly in the field of Power generation. These efforts cover three main areas:

- manufacturing processes (charcoal, steel making, tube rolling, non-destructive testing, forming, welding and machining);
- new products and product improvements;
- new services (customer support for tube transformation, use and design matters).

No costs were identified that were incurred in connection with major projects and met the criteria of the standard and therefore no such costs were capitalized.

There are no intangible assets with indefinite useful lives, other than goodwill.

Goodwill: analysis of gross values

Cash generating unit (CGU) (see § 2.11 of Consolidation principles section)	V & M do Brasil	V & M North America	V & M Europe	Others	Total
At 31/12/2007	2,918	62,972	12,340	1,670	79,900
At 31/12/2008	2,918	287,550	12,340	5,500	308,308
Impact of changes in exchange rates	26	-9,762	-2,608	-112	-12,456
Changes in consolidation scope	253	-	101,718	-	101,971
At 31/12/2009	**3,197**	**277,788**	**111,450**	**5,388**	**397,823**

Origin of goodwill

Goodwill represents 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 is carried out by independent experts.

In 2008, goodwill of USD 307.5 million (see Note 11) was recognized in respect of the acquisition of V & M Atlas Bradford®, V & M Tube-Alloy™ and V & M TCA®, which were consolidated into the V & M North America CGU, and of USD 5.6 million in respect of the acquisition by Valtimet Inc. (Stainless Steel CGU) of the assets of HPT.

In 2009, goodwill was recognized in respect of the acquisition of a controlling interest in Drilling Pipe Assembly Line (€9.7 million) and P.T. Citra Tubindo (€91.4 million). The partial goodwill method was used to account for the acquisition of P.T. Citra Tubindo.

Impairment testing

Goodwill is tested for impairment at each year end. Value in use of the CGUs is defined as the sum of the future cash flows in accordance with the discounted cash flow method (see paragraph 2.11 of the accounting principles section).

Future cash flows

For these purposes, the Group uses future cash flows, as per its most recent forecasts, over a six-year period, since this corresponds to the best estimate of a complete business cycle. These forecasts have been prepared taking into account cyclical variations that affect selling prices, volumes and raw material costs. Beyond six years, the Group uses a standard year calculated as the average of the last six years and therefore representative of a complete business cycle. This standard year is projected to infinity by applying a growth rate of 1%, which is the same as the rate used in 2008 and 2007.

Discount rate

Future cash flows are discounted at a rate corresponding to the weighted average cost of capital applicable to companies in the sector. This rate is defined as the product of the cost of equity and the post-tax cost of debt, weighted on the basis of their respective amounts.

The main components of weighted average cost of capital are:

- a risk premium that is stable in relation to preceding years;
- a risk-free rate corresponding to the average of the last six months' rates on French ten-year government bonds. It is different in the Europe/United States zone from that of the Brasil zone and is between 3% and 5%;
- a beta calculated on the basis of a sample of companies in the sector (generally between 0.9 and 1.3);
- a country risk specific to the activities carried out outside Europe and the United States.

Implementation of these parameters results in a discount rate of 7.28% for Europe and the United States and 11.69% for Brazil.

Sensitivity analysis

The comparison of the carrying amounts of the CGUs with their value in use did not result in the recognition of any impairment losses as at 31 December 2009.

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

In addition, the marginal discount rates to be used, to ensure that the value in use is equal to the carrying amounts of the CGUs, are significantly higher than those used by the Group for its impairment testing.

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 31/12/2006	**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
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**
Acquisitions	1,003	13,457	94,450	379,264	188,504	676,678
Disposals	-680	-1,562	-29,941	-	-2,200	-34,383
Impact of changes in exchange rates	16,483	11,128	76,796	46,896	51,219	202,522
Changes in consolidation scope	-	12,546	21,323	1,881	2,444	38,194
Other movements	-1,266	9,436	175,309	-194,164	-8,595	-19,280
At 31/12/2009	**109,545**	**344,384**	**1,956,494**	**451,992**	**470,593**	**3,333,009**
DEPRECIATION AND IMPAIRMENT						
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**	0	**-51,994**	**-736,458**

	Land	Buildings	Technical installations, equipment and industrial tools	Property, plant and equipment in progress	Other property, plant and equipment	Total
Net depreciation charge for the year	-2,069	-12,401	-100,955	-61	-10,202	-125,688
Impairment losses	-	-1,348	-18	-	-	-1,366
Disposals	-	-	7,257	-	2,101	9,358
Impact of changes in exchange rates	2,859	2,235	18,911	4	3,289	27,298
Other movements	-	44	-1,479	-	2	-1,433
At 31/12/2008	**-16,452**	**-99,178**	**-655,798**	**-57**	**-56,804**	**-828,289**
Net depreciation charge for the year	-2,315	-11,882	-124,231	-3	-10,236	-148,667
Disposals	1	246	21,987	61	2,229	24,524
Impact of changes in exchange rates	-3,681	-3,002	-25,240	-1	-4,506	-36,430
Other movements	59	9	22,845	-	-35	22,878
At 31/12/2009	**-22,388**	**-113,807**	**-760,437**	**0**	**-69,352**	**-965,984**
NET VALUES						
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
At 31/12/2009	**87,157**	**230,577**	**1,196,057**	**451,992**	**401,241**	**2,367,025**

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

	31/12/2007	31/12/2008	**31/12/2009**
Europe	278,536	234,682	186,289
North America and Mexico	57,147	62,747	46,307
South America	93,665	259,687	436,753
Asia	15,398	9,910	7,860
Other	53	1,392	5,008
TOTAL	**444,799**	**568,418**	**682,217**
Capital expenditure payments during the year totalled:	437,713	528,486	676,488

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 plant integrating a steel mill, a tube mill and threading lines. It is located in the state of Minas Gerais in Brazil.

In 2009, the general economic situation caused the Group to limit its commitments. However, in so doing, it ensured that strategic projects already underway were not delayed and that resources were focused on the following development initiatives:

- doubling capacity for the nuclear industry, mainly in France but also in the United States;
- rationalizing Premium threading capacity in the United States following the integration of Atlas Bradford® in 2008;
- developing internal raw material resources in Brazil (iron ore and charcoal), optimizing existing resources and preparing for Vallourec & Sumitomo Tubos do Brasil to begin industrial production;
- developing Research and Development resources;
- improving production flows.

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 2009, the Company had about 115,137 hectares of eucalyptus forests under cultivation.

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 2009, the biological assets are included within "Other property, plant and equipment" in an amount of €56.3 million (€30.6 million as at 31 December 2008 and €18.2 million at 31 December 2007). V & M Florestal achieved sales of €68 million in 2009 compared with €97.5 million in 2008 and €44 million in 2007.

Leases

The amounts capitalized accounted for finance leases were not material to the Group's financial statements in 2007, 2008 and 2009.

Note 3 Investments in equity affiliates

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

	HKM Germany	P.T. Citra Tubindo Indonesia (*)	Tubos Soldados Atlântico	Others	Total
At 31/12/2006	**24,962**	**15,063**	**5,898**	**9,075**	**54,998**
Impact of changes in exchange rates	-	-1,693	465	-921	-2,149
Dividends paid	-5	-2,942	-	-1,100	-4,047
Contribution to net profit of the period	-18	4,783	-525	2,002	6,242
At 31/12/2007	**24,939**	**15,211**	**5,838**	**9,056**	**55,044**
Changes in consolidation scope	-	21,412	-	-	21,412
Capital increase	-	-	-	916	916
Impact of changes in exchange rates	-	1,625	-439	-703	483
Dividends paid	-9	-2,616	-	-776	-3,401
Contribution to net profit of the period	-	4,226	-4,073	2,278	2,431
At 31/12/2008	**24,930**	**39,858**	**1,326**	**10,771**	**76,885**
Changes in consolidation scope	-	-39,708	-	-1,024	-40,732
Capital increase	8,500	-	10,042	-	18,542
Impact of changes in exchange rates	-	-664	1,385	188	909
Dividends paid	-8	-	-	-1,205	-1,213
Contribution to net profit of the period	672	514	-367	1,472	2,291
At 31/12/2009	**34,094**	**-**	**12,386**	**10,202**	**56,682**

(*) Until 30 June 2009.

On 2 July 2009, Vallourec announced that it had acquired control of P.T. Citra Tubindo Tbk (PTCT) by increasing its stake to 78.2% and therefore now owns the majority of the share capital. It increased its stake gradually during 2008 and 2009 by means of the successive acquisition of a number of blocks of shares and the launch of a tender offer, the details of which were submitted to the Indonesian Financial Institution Supervisory Agency (Bapepam-LK)

Key company financial data *(in € thousand)*		Equity	Sales	Net profit
	2009	**170,471**	**1,628,041**	**32**
	2008	124,590	2,603,973	38
HKM – Germany	2007	124,693	2,166,920	44
	2009	**-**	**-**	**-**
	2008	70,727	161,248	16,195
P.T. Citra Tubindo – Indonesia (*)	2007	60,845	165,756	17,095
	2009	**37,782**	**34,529**	**-2,161**
	2008	1,769	25,298	-17,303
Tubos Soldados Atlântico	2007	19,987	14,716	-1,333

(*) Company proportionately consolidated as from 2 July 2009 (see Note 11).

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

	31/12/2007	31/12/2008	**31/12/2009**
P.T. Citra Tubindo	4,783	4,226	514
Pacific Tubular Ltd	201	48	-
HKM	-18	-	672
Poongsan Valinox	1,547	909	659
Tubos Soldados Atlântico	-525	-4,073	-367
Xi'an Baotimet Valinox Tubes	254	1,321	813
TOTAL	**6,242**	**2,431**	**2,291**

Note 4 Other non-current assets

	Other investments in equity instruments	Loans	Other financial investments	Total
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**
Gross value	138,104	4,652	47,663	190,419
Provisions	-1,690	-	-514	-2,204
At 31/12/2009	**136,414**	**4,652**	**47,149**	**188,215**

As at 31 December 2009, other investments in equity instruments consisted mainly of:

- the investments held by P.T. Citra Tubindo in unlisted companies not directly controlled by Vallourec (€30.1 million);
- the Sumitomo Metal Industries listed participating interests acquired for USD 120 million (€81.9 million).

The Sumitomo Metal Industries shares are listed on the Tokyo stock exchange and were acquired between August and October 2009 at an average price per share of JPY 230.8.

At 31 December 2009, Sumitomo Metal Industries' share price was JPY 249. The positive change in the fair value affected the Group's equity.

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 2009 was 3.46% (compared with 3.6% at 31 December 2008 and 4.2% at 31 December 2007). 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 (€20.5 million at 31 December 2009, see also Note 16) and tax receivables due in over one year, also in Brazil (€9.8 million in 2009).

Maturities of other non-current assets

	Between 1 and 5 years	Over 5 years	Total
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**
Gross values at 31/12/2009			
Loans	1,519	3,133	4,652
Other investments in equity instruments	42,957	95,147	138,104
Other financial investments	45,064	2,599	47,663
TOTAL	**89,540**	**100,879**	**190,419**

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 closing date.

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* (French Social Security Code) 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%.

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 2009 were 34.43% for current tax and 0% for long-term capital gains and losses. The same rates were applicable in 2008 and 2007.

The deferred tax rates used in 2009 were 31.6% for Germany (unchanged since 2007), 34% for Brazil (unchanged since 2007) and 36.5% for the United States (36.5% in 2008 and 38% in 2007).

The 2010 Finance Act, which was passed on 30 December 2009, made French entities no longer liable to French business use tax *(taxe professionnelle)* as from 2010 and replaced it with the Local Economic Contribution (*Contribution économique territoriale* – CET), which comprises two new contributions:

- the Enterprises' Land Contribution (*Cotisation foncière des entreprises* – CFE) based on the land rental values used to calculate the current business use tax;
- the Enterprises' Added Value Contribution (*Cotisation sur la valeur ajoutée des entreprises* – CVAE), based on the added value shown in company financial statements.

The Group recognizes business use tax within operating costs.

The Group has decided that, at this stage, the tax change referred to above represents mainly a change in the methods of calculating local French tax but does not change the overall nature of the tax. The Group therefore considers that it is not appropriate to apply a different accounting treatment to the CVAE and the CFE from that applied to business use tax. The same accounting treatment will therefore be adopted for these two new contributions as was adopted for business use tax and they will be classified as operating costs.

The information in the following table presents deferred taxes net, by type and source, which may be reconciled with the net amounts shown in the balance sheet.

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 reserves and reserves from translation of foreign operations	-	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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At 31/12/2009	Assets	Liabilities	Net deferred tax liabilities
Non-current assets	-	157,740	
Other assets and liabilities	-	3,828	
Inventories	43,350	-	
Employee benefits	15,737	-	
Derivatives	4,273	-	
Distributable reserves and foreign currency translation reserve	-	2,135	
Net balance	**63,360**	**163,703**	**100,343**
Recognition of tax losses	11,032		-11,032
TOTAL	**74,392**	**163,703**	**89,311**

The following table provides an analysis of the Group's deferred tax balances (gross values) as at 31 December 2007, 31 December 2008 and 31 December 2009:

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 assets		105,624	105,624	-
Total tax assets		**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 assets		132,650	132,635	15
Total tax assets		**135,151**	**133,731**	**1,420**
Tax liabilities		-180,788	-180,788	
Total tax liabilities		**-180,788**	**-180,788**	
TOTAL			**-47,057**	**1,420**

At 31/12/2009	Gross values	Corresponding deferred tax	Deferred tax recognized	Deferred tax not recognized
Tax losses carried forward	59,600	13,247	11,032	2,215
Other tax assets		159,303	159,303	
Total tax assets		**172,550**	**170,335**	**2,215**
Tax liabilities			-259,646	
Total tax liabilities			**-259,646**	
TOTAL			**-89,311**	**2,215**

The tax losses carried forward in 2009 relate mainly to Vallourec & Sumitomo Tubos do Brasil, the French tax consolidation group, 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	2007	2008	**2009**
As at 1 January	**55,797**	**75,256**	**47,057**
Impact of changes in exchange rates	-7,905	4,577	-4,762
Recognized in profit or loss	18,292	30,133	14,117
Recognized in reserves	11,776	-62,922	23,207
Change in consolidation scope and other	-2,704	13	9,692
AS AT 31 DECEMBER	**75,256**	**47,057**	**89,311**

The amount of the deferred tax recognized in reserves corresponds mainly to the change in deferred tax calculated on the derivatives and available-for-sale financial assets.

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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 31/12/2006	**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**
Changes in inventories recognized in the income statement	-201,702	-165,805	-164,981	-532,488
Changes in consolidation scope	14,384	1,318	1,344	17,046
Impact of changes in exchange rates	23,429	339	26,017	49,785
Other movements	-34,318	16,676	3	-17,639
At 31/12/2009	**463,517**	**274,702**	**287,858**	**1,026,077**
PROVISIONS				
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**
Impact of changes in exchange rates	-2,204	123	-2,597	-4,678
Charges to provisions	-43,612	-9,158	-22,503	-75,273
Reversals of provisions	14,199	2,174	12,813	29,186
Other movements	17,637	-	2	17,639
At 31/12/2009	**-57,845**	**-13,925**	**-27,068**	**-98,838**
NET VALUES				
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
At 31/12/2009	**405,672**	**260,777**	**260,790**	**927,239**

Note 7 Trade and other receivables

	Advances and deposits paid on orders	Accounts receivable (gross) (*)	Provisions	Total
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**
Changes in consolidation scope	-	23,809		23,809
Impact of changes in exchange rates	2,547	30,696	-379	32,864
Changes in gross values	-26,546	-621,754	-2,670	-650,970
Charges to provisions	-	-	-5,988	-5,988
Reversals of provisions	-	-	8,619	8,619
At 31/12/2009	**13,766**	**611,132**	**-12,992**	**611,906**

(*) Please refer to paragraph 2.18.1 of the accounting principles section for details of the recognition and measurement methods.
The decrease in trade receivables is linked to the decrease in sales.

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 equity and profit or loss

As explained in paragraph 2.18 of the accounting principles section, 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 and the accounting treatment of available-for-sale financial asets. 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.

The position regarding hedging instruments changed from net liabilities of €87 million at 31 December 2008 to net liabilities of €5.7 million at 31 December 2009.

This change is due mainly to the hedging of commercial transactions entered into by the European subsidiaries in US dollars. The movement of the euro against the US dollar in 2009 mainly explains the €63 million change in the intrinsic value of hedges in respect of currency purchase and sale forecasts and the €27 million change in the intrinsic value of hedges backed by receivables and payables.

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In view of the effectiveness of the hedges in accordance with the criteria of IAS 39, the impact recognized in the income statement concerns mainly the premium/discount, changes in the value of which at the year end gave rise to a charge of €14.9 million in respect of the financial year 2009.

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

Balance sheet items concerned			Movements in 2009		
	At 31/12/2008	At 31/12/2009	Total	o/w reserves	o/w profit (loss)
1- Derivatives recognized in the balance sheet, see Note 9 (*)					
Changes in the intrinsic value of forward sales of currencies and forward purchases (**) linked to order books and commercial tenders	-55,332	8,269	63,601	62,402	1,199
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with accounts receivable (and accounts payable (**))	-22,008	4,918	26,926		26,926
Changes in the intrinsic value of hedges of raw material and energy purchases linked to order books and commercial tenders					
Changes in the intrinsic value of hedges of raw material and energy purchases linked to accounts payable	-79		79		79
Recognition of premium/discount	14,842	-68	-14,910		-14,910
Recognition of changes in fair value of interest rate swaps	-26,664	-25,156	1,508	1,508	
Changes in values linked to hedging instruments implemented under the terms of the employee share ownership plans	2,839	6,759	3,920		3,920
Changes in value due to derivatives not classified as such	-655	-497	158		158
Sub-total: Derivatives	**-87,057**	**-5,775**	**81,282**	**63,910**	**17,372**
Of which: derivatives – assets	*26,280*	*23,742*			
Of which: derivatives – liabilities	*113,337*	*29,517*			
2 - Accounts receivable (accounts payable (**)) hedged in currencies – translation gain/loss					
Measurement at period-end exchange rate	17,351	-5,566	-22,917		-22,917
Impact of hedging operations	**-69,706**	**-11,341**	**58,365**	**63,910**	**-5,545**
3 - Measurement of receivables (payables (**)) not hedged in currencies – translation gain/loss (***)	**9,232**	**1,543**	**-7,689**		**-7,689**
4 - Measurement of construction loans at the effective interest rate	**-1,773**	**-1,576**	**197**		**197**
5 - Measurement of marketable securities at fair value	**63**	**36**	**-27**		**-27**
6 - Measurement of other investments in equity instruments at fair value		**6,564**	**6,564**	**6,564**	
7 - Deferred taxes (on exchange rate and interest rate hedges)	**25,245**	**4,673**	**-20,572**	**-23,206**	**2,634**
TOTAL	**-36,939**	**-101**	**36,838**	**47,268**	**-10,430**
Impact – see statement of changes in equity					
Revaluation reserves – financial instruments	-54,276	-6,921	47,355	47,355	
Of which: attributable to owners of the Company	-54,359	-7,021	47,338	47,338	
Of which: attributable to non-controlling interests	83	100	17	17	
Other consolidation reserves	-20,735	17,250	37,985	37,985	
Profit (loss)	38,072	-10,430	-48,502	-38,072	-10,430
TOTAL	**-36,939**	**-101**	**36,838**	**47,268**	**-10,430**

(*) Assets and liabilities offset in this table to give net position: + = net assets, - = net liabilities.
(**) Amounts not material.
(***) The €7.7 million reduction in the revaluation difference is related to an exchange gain of around €11 million realized during 2009.

The change in the fair value of financial instruments hedging the exchange rate risk which affected equity as at 31 December 2008 was a negative figure of €55.3 million. During 2009, around 97% of the change in fair value allocated to the order book and commercial tenders at the end of 2008 was transferred from equity to the income statement, within the Group's foreign exchange gain or loss. This amount represents the impact of the changes in the value of exchange rate hedges in respect of the order book and commercial tenders at 31 December 2008, which have been fully or partially unwound or converted into receivables during 2009.

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

Balance sheet items concerned			Movements in 2008		
	At 31/12/2007	At 31/12/2008	Total	o/w reserves	o/w profit (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**
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 equity					
Revaluation reserves – financial instruments	70,097	-54,276	-124,373	-124,373	
Of which: attributable to owners of the Company	70,026	-54,359	-124,385	-124,385	
Of which: attributable to non-controlling interests	71	83	12	12	
Other consolidation reserves	-19,676	-20,735	-1,059	-1,059	
Profit (loss)	-805	38,072	38,877	805	38,072
TOTAL	**49,616**	**-36,939**	**-86,555**	**-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.

Balance sheet items concerned			Movements in 2007		
	At 31/12/2006	At 31/12/2007	Total	o/w reserves	o/w profit (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 equity					
Revaluation reserves – financial instruments	42,702	70,097	27,395	27,395	
Of which: attributable to owners of the Company	42,725	70,026	27,301	27,301	
Of which: attributable to non-controlling interests	-23	71	94	94	
Other consolidation reserves	-11,926	-19,676	-7,750	-7,750	
Profit (loss)	-7,768	-805	6,963	7,768	-805
TOTAL	**23,008**	**49,616**	**26,608**	**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.

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

31/12/2009	Other loans	Cash and cash equivalents
Fixed rate on date granted	159,851	
Variable rate on date granted swapped to fixed rate	468,775	
Fixed rate	628,626	
Variable rate	122,535	1,157,803
TOTAL	**751,161**	**1,157,803**

31/12/2008	Other loans	Cash and cash equivalents
Fixed rate on date granted	90,628	
Variable rate on date granted swapped to fixed rate	475,473	
Fixed rate	566,101	
Variable rate	308,557	528,146
TOTAL	**874,658**	**528,146**

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

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

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 €122.5 million (about 16.31% of total gross debt) at 31 December 2009.

No significant element of the Group's fixed rate finance reaches contractual maturity during the 12 months following the 31 December 2009 closing except in the case of the Chinese subsidiaries (€20 million).

After taking into account the Group's interest rate risk hedging policy, the impact of a one-percentage-point rise in interest rates applied to short-term rates of the eurozone, to Brazilian and Chinese rates and to UK and US money market rates would result in a €1.1 million increase in the Group's annual financial costs, based on the assumption that the level of debt and exchange rates remained completely stable and after taking into account the effects of any hedging instruments. This impact has not taken into account the interest rate risk on cash and cash equivalents, since they have been invested for the short term.

In addition, according to our simulations, the impact of a half-percentage-point rise or fall in interest rates applied to all yield curves would result in an increase or reduction of €6 million in the measurement of the swaps in place at 31 December 2009 (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 2009, about 50.1% of the net profit attributable to owners of the Company 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 the net profit attributable to owners of the Company of around €26 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 foreign currency translation reserve booked to equity (€+48.1 million as at 31 December 2009) which, in recent years, have been linked mainly to movements in the US dollar and Brazilian real (Note 12).

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Foreign currency translation reserve attributable to owners of the Company	31/12/2007	31/12/2008	**31/12/2009**
USD	-72,572	-27,685	-51,922
GBP	-4,277	-16,480	-13,717
MXM (Mexican peso)	-6,006	-13,246	-12,292
BRL (Brazilian real)	61,798	-74,375	126,791
Others	-2,981	705	-748
	-24,038	**-131,081**	**48,112**

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 (24% of sales in 2009).

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

1. there is an adjustment phenomenon on selling prices denominated in US dollars related to market conditions in the various sectors of activity in which Vallourec operates;
2. certain sales, even if they are denominated in euros, are influenced by the level of the US dollar. They are 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 risk in order to reduce the sensitivity of its profit or loss to changes in exchange rates by implementing hedges as soon as the order is placed and sometimes as soon as a quotation is given.

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

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

We estimate that a 10% rise or fall in the currencies used in all hedges implemented by the Group would result in a €42 million decrease or increase in the intrinsic value recognized in consolidated equity at 31 December 2009. Most of these amounts would be due to changes in the US dollar against the euro.

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

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

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

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

At 31 December 2009, 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	31/12/2007	31/12/2008	**31/12/2009**
Forward exchange contracts: forward sales	1,939,536	1,584,281	755,136
Forward exchange contracts: forward purchases	152,430	79,977	28,331
Currency options: sales	36,296	17,281	-
Currency options: purchases	249,650	-	-
Commodities: call options	639	188	-
TOTAL	**2,378,551**	**1,681,727**	**783,467**

CONTRACT MATURITIES AT 31 DECEMBER 2009

Contracts in respect of commercial transactions	Total	One year or less	One to five years	Over five years
Foreign exchange contracts: forward sales	755,136	706,189	48,947	-
Foreign exchange contracts: forward purchases	28,331	28,331	-	-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Commodities: call options	-	-	-	-
TOTAL	**783,467**	**734,520**	**48,947**	**-**

Forward sales correspond mainly to sales of US dollars (€755 million of the €783 million total). These contracts were transacted at an average forward EUR/USD rate of 1.41.

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

In 2009, in addition to hedges of its commercial operations, Vallourec implemented a USD 205 million (€142.7 million) currency swap to hedge its US dollar debt. This currency swap matures in April 2013, when the hedged debt matures.

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.

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.

Vallourec considers that the risk is limited given its existing customer risk management procedures, which include:

- the use of credit insurance and documentary credits;
- the long-standing nature of the Group's commercial relations with major customers;
- the commercial collection policy.

The total amount of trade receivables that were more than 90 days overdue and against which no provision had been made totalled €29.5 million at 31 December 2009, i.e. 4.9% of the Group's total net trade receivables.

In addition, trade receivables not yet due at 31 December 2009 totalled €476.5 million, i.e. 80% of total net trade receivables.

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

At 31 December 2009	0 to 30 days	30 to 60 days	60 to 90 days	90 to 180 days	> 180 days	Total
Trade receivables not yet due	391.2	59.8	19.5	5.5	0.5	476.5

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Share price risks

The own shares held by Vallourec at 31 December 2009 comprised:

- on the one hand, shares allocated for use in the Group's employee share ownership plans.

  Vallourec held 172,214 own shares acquired on 5 July 2001, following the exercise in 2009 of 7,273 options under the terms of the 11 June 2003 share purchase plan and the definitive allocation of 39,092 shares under the terms of the 3 May 2007 performance share plan and 50,000 own shares acquired in 2008 under the terms of the 4 June 2008 share buy-back plan.

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

  - to cover share purchase options granted under the option plan dated 11 June 2003, i.e. 17,144 shares (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 2011,
  - to cover performance shares allocated on 16 December 2008, the definitive quantity of which will not be known until 2013,
  - to cover performance shares allocated on 31 July 2009, the definitive quantity of which will not be known until 2013,
  - to cover performance shares allocated on 17 November 2009, the definitive quantity of which will not be known until 2014,
  - to cover performance shares allocated on 17 December 2009, the definitive quantity of which will not be known until 2013,
  - the balance to cover future allocations to certain Group employees, managers or officers, in accordance with the procedures to be defined jointly by the Management Board and the Supervisory Board;
- on the other hand, 32,500 shares held under the terms of the liquidity contract with Crédit Agricole Cheuvreux, the value of which was €3.7 million.

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 Ordinary Shareholders' Meeting on 1 June 2006 (*Sixteenth resolution*). To implement this contract, €20 million was transferred to the liquidity account.

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.

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2009	Note	Category (*)	Carrying amount at 31/12/2009	Amortized cost	At fair value through equity	At fair value through profit or loss
ASSETS						
Other non-current assets	4					
Listed participating interests		AVS	88,249	-	88,249	-
Other investments in equity instruments		AVS	49,855	-	49,855	-
Loans		L&R	4,652	4,652	-	-
Other financial investments		L&R/HTM (**)	47,663	47,663	-	-
Trade receivables	7	**L&R**	**611,132**	**611,132**	**-**	**-**
Derivatives – assets	8					
Hedging financial instruments (******)		CFH	23,742		9,415	14,327
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	9	**L&R**	**152,920**	**152,920**	**-**	**-**
Cash and cash equivalents	10	**A-FVTPL**	**1,157,803**	**-**	**-**	**1,157,803**
EQUITY AND LIABILITIES						
Bank loans and other borrowings (***) (*****)	15	**AC-EIR**	**694,085**	**694,085**	**-**	**-**
Other		AC-EIR	46,034	46,034	-	-
Overdrafts and other short-term bank borrowings (****) (*****)	15	**AC-EIR**	**11,042**	**11,042**	**-**	**-**
Trade payables		**AC**	**482,846**	**482,846**	**-**	**-**
Derivatives – liabilities	8					
Hedging financial instruments		CFH	29,035	-	26,911	2,124
Speculative financial instruments		L-FVTPL	482	-	-	482
Other current liabilities	18	**AC**	**332,404**	**332,404**	**-**	**-**

(*) 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 equity to the extent that they are effective, with the ineffective portion being recognized in financial income (loss).

(******) Including the "Value 08" and "Value 09" warrant, the fair value of which was €6.8 million at 31 December 2009.

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The financial instruments measured at fair value are classified by category on the basis of their measurement method. Fair value is determined as follows:

- the main method used is based on listed prices on an active market. Participating interests are measured in this manner;
- on the basis of observable methods and data and with reference to the financial markets (yield curve, forward prices, etc.).

2009			Fair value		
Balance sheet headings and classes of instruments	Category	Total fair value in balance sheet	Listed prices (*)	Internal model with observable parameters (**)	Internal model with non-observable parameters
ASSETS					
Listed participating interests	AVS	88,249	88,249		
Other investments in equity instruments	AVS	49,855		49,855	
Derivatives – assets					
Hedging financial instruments	CFH	23,742		23,742	
Speculative financial instruments	L-FVTPL	-		-	
Cash and cash equivalents	**A-FVTPL**	**1,157,803**	**1,157,803**		
EQUITY AND LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	29,035		29,035	
Speculative financial instruments	L-FVTPL	482		482	

(*) 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.

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**
EQUITY AND LIABILITIES						
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	27,627
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 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**	**1,032,265**	**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**
EQUITY AND LIABILITIES						
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 equity to the extent that they are effective, with the ineffective portion being recognized in financial income (loss).

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 31/12/2006	**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**
Impact of changes in exchange rates	308	1,465	220	1,246	3,223	6,462
Other movements	-3,540	-27,593	7,063	-11,387	-18,633	-54,090
At 31/12/2009	**6,646**	**45,384**	**18,960**	**26,479**	**55,451**	**152,920**

Note 10 Cash and cash equivalents

	Marketable securities (gross)	Cash	Total
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**
Impact of changes in exchange rates	39,104	-7,834	31,270
Other movements	644,720	-46,333	598,387
At 31/12/2009	**967,194**	**190,609**	**1,157,803**

"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

2009

P.T. Citra Tubindo carries out the heat treatment and threading of oil country tubular goods (OCTG) serving the Oil & Gas industry throughout the Asia - Pacific region. Leader in the Indonesian market, P.T. Citra Tubindo also owns the patents and technology for "NS" Premium joints.

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

In accordance with revised IFRS 3, the acquisition of P.T. Citra Tubindo was treated as two separate transactions: on the one hand, the disposal of the interest owned before control was acquired, resulting in the recognition of a capital gain of €31.7 million and, on the other hand, the subsequent acquisition of a 78.2% interest in P.T. Citra Tubindo.

The following table shows the impact of the full consolidation of this company on the Group's assets and liabilities:

	At 2 July 2009
Intangible assets	26,224
Property, plant and equipment	35,828
Goodwill (*)	91,410
Financial investments (**)	-9,723
Inventories	6,208
Trade receivables	23,165
Cash and cash equivalents	13,624
Other assets	5,955
TOTAL ASSETS	**192,691**
Net assets (revised IFRS 3) (***)	26,415
Non-controlling interests	16,862
Put option on minority interests (****)	9,905
Overdrafts and other short-term bank borrowings	3,475
Employee benefits	1,798
Trade payables	23,102
Deferred tax liabilities	9,186
Other operating liabilities	14,972
TOTAL LIABILITIES	**105,714**
CONSIDERATION PAID IN CASH (*****)	**86,978**

(*) The residual goodwill of €91.4 million is justified mainly by the defensive and commercial synergies expected from this acquisition.
(**) This amount represents the investments acquired less the value under the equity method, in the consolidated financial statements, of the Company prior to 2 July 2009.
(***) As a result of the early application of revised IFRS 3 and amended IAS 27, the expenses associated with the acquisition of P.T. Citra Tubindo totalling €1.6 million were written off in 2009.
(****) Vallourec has signed an agreement to purchase an additional 5% of the shares in P.T. Citra Tubindo as from 1 April 2011.
(*****) Cash paid during 2009 in respect of the acquisition of P.T. Citra Tubindo.

This company has been fully consolidated into the Group's financial statements as from 2 July 2009.

It had 600 employees at 31 December 2009 and has, since its acquisition, contributed €48.9 million to the Group's sales.

If this company had been acquired on 1 January 2009, it would have contributed €119.2 million to the Group's sales.

The intangible assets of P.T.Citra Tubindo, which were valued by independent experts, are amortized over the following periods:

- brands and patents: 6.5 years;
- customer relations: 20 years;
- land use rights: 10.5 years.

Customer relations are the main component of intangible assets.

Vallourec, Sumitomo Metal Industries and Sumitomo Corporation strengthened their longstanding collaboration in the field of premium OCTG connections through the merger in the United States of VAM USA . 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 transaction generated a capital gain/loss which, in accordance with revised IFRS 3 and amended IAS 27, was recognized within "Other equity".

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.

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.

If these companies had been acquired on 1 January 2008, they would have contributed €206.3 million to the Group's 2008 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 and 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 and 18	18,347
TOTAL		**77,882**
NET ASSETS HELD FOR SALE		**97,696**

Note 12 Equity

Capital

Vallourec's issued capital comprised 57,280,789 ordinary shares with a nominal value of €4 per share fully paid-up as at 31 December 2009 compared with 53,788,716 shares with a nominal value of €4 per share as at 31 December 2008 and 53,038,720 shares at the end of 2007.

2009

On 7 July 2009, the option to pay the dividend in shares, which was approved by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009, resulted in the creation of 2,783,484 new shares (5.2% of the issued capital) issued at the price of €74.28, giving a capital increase of €206.8 million, including issue premium net of costs.

On 17 December 2009, under the terms of the "Value 09" employee share ownership plan, 708,589 new shares were subscribed at a price of €91.74 giving a capital increase of €63.6 million, including issue premium net of costs.

2008

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 a capital increase of €47.8 million, 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/equity), which gives investors an understanding of the Group's net debt in relation to its total equity. Equity for this purpose includes, in particular, the reserve for changes in the value of cash flow hedges and the reserve from translation of foreign operations 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 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 equity.

Foreign currency translation reserve

This reserve arises as a result of the translation of the equity of subsidiaries outside the euro zone. The movement in the reserve corresponds to changes in exchange rates used to translate the equity and profit or loss for the 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**
Movements	-24,237	2,763	201,166	954	-1,453	179,193
At 31/12/2009	**-51,922**	**-13,717**	**126,791**	**-12,292**	**-748**	**48,112**

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
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
2009				
Average rate	**1.39**	**0.89**	**2.77**	**18.78**
Closing rate	**1.44**	**0.89**	**2.51**	**18.92**

Note 13 Earnings per share

Basic earnings per share are calculated by dividing the net profit 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 profit 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.

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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	31/12/2007	31/12/2008	**31/12/2009**
Net profit attributable to the ordinary shareholders for basic earnings per share	**986,204**	**967,191**	**517,707**
Weighted average number of ordinary shares for basic earnings per share	53,034,478	53,069,970	55,368,979
Weighted average number of own shares for basic earnings per share	-825,444	-143,317	-344,168
Weighted average number of shares for basic earnings per share	52,209,034	52,926,653	55,024,811
Earnings per share	**18.9**	**18.3**	**9.4**
Earnings per share comparable to 2009	18.8	18.2	-
Dilution effect – share purchase and share subscription options and performance shares	332,131	159,497	18,273
Adjusted weighted average number of ordinary shares for diluted earnings per share	52,541,165	53,086,150	55,043,084
Diluted earnings per share	**18.8**	**18.2**	**9.4**
Earnings per share comparable to 2009	18.7	18.2	-

Dividends paid during the year:	2007	2008	**2009**
In respect of the previous period	4.00	7.00	6.00
Interim dividend in respect of the current period	4.00	-	-

Note 14 Non-controlling interests

	Reserves	Translation difference	Net profit	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
At 31/12/2009	**245,472**	**-22,766**	**18,771**	**241,477**

Non-controlling interests relate mainly to the Sumitomo Group.

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 on which VAM USA and V & M Atlas Bradford® merged.

In addition, Sumitomo Corporation, which already owned 19.5% of the share capital of V & M Star, an American company 80.5%-owned by Vallourec, acquired 19.5% of V & M TCA® on 27 February 2009.

Following these transactions, the Sumitomo Group's interests increased by €137.8 million.

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 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 2009, a tranche of €260 million (included in non-current liabilities) had been drawn down.

In addition, the capital expenditure of V & M do Brasil, V & M Florestal and V & M Mineração has required this subsidiary to put in place several medium-term financing lines since 2006, denominated in Brazilian reals. The total amount of these lines (239 million reals or €95 million in 2010) was spread among several banks (mainly BNDES, BDMG and BNB).

Vallourec & Sumitomo Tubos do Brasil (VSB), a 56%-owned subsidiary of the Group, took out a 448.8 million real loan from BNDES (Banco National de Desenvolvimento Econômico e Social). This loan is at the fixed rate of 4.5%, is denominated in Brazilian reals and has a term of eight years. It is repayable as from 15 February 2012. None of the loan was drawn down at 31 December 2009.

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. All of these lines mature in 2013 with the exception of one which has been renewed until 2014.

During April 2008, Vallourec took out a five-year USD 300 million term loan and a €350 million revolving facility, also available for five years, with a syndicate of seven banks.

This credit agreement contains commitments of the same type as those entered into under the terms of the €460 million facility described above.

At 31 December 2009, Vallourec was using the USD 300 million (€208.2 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 2015 – term extended by one year in October 2009). This loan was drawn down at the end of January 2009. The loan documentation contains commitments of the same type as those entered into under the terms of the €460 million facility described above.

The Group's American companies (V & M Star LP, VAM Drilling USA Inc., Valtimet Inc., VAM USA LLC, V & M Tube-Alloy™ LLC, V & M USA Corporation and V & M Holdings Inc.) benefit from a number of bilateral bank lines totalling USD 170 million (Bank of America and CIC). The amount used at 31 December 2009 totalled USD 38 million. These programmes, which mature within one year, contain gearing clauses and a change of control clause.

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

The carrying amount of these borrowings is a good approximation of their market value since most of them were variable rate borrowings when they were taken out.

The Group complied with its covenants as at 31 December 2009.

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Financial liabilities – Non-current liabilities

	Bank borrowings	Other bank and similar borrowings	Total
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**
New borrowings taken out	111,349	35,163	146,512
Repayments	-133,294	-32,315	-165,609
Reclassifications	-17,583	-9,882	-27,465
Impact of changes in exchange rates	14,529	1,968	16,497
Changes in consolidation scope	-	14,713	14,713
Other movements	-	56	56
At 31/12/2009	**623,739**	**11,191**	**634,930**

Financial liabilities – current liabilities

	Bank overdrafts	Accrued interest on bank overdrafts	Bank borrowings (one year or less)	Accrued interest on bank borrowings	Other bank and similar borrowings (one year or less)	Total
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	-3,618	-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**
Reclassifications	-139,607	-	25,988	-898	138,018	23,501
Impact of changes in exchange rates	20,257	-	5,282	-84	2,337	27,792
Changes in consolidation scope	-	-	3,475	-	-	3,475
Other movements	-14,186	-55	-32,190	1,803	-118,341	-162,969
At 31/12/2009	**11,038**	**4**	**70,346**	**3,780**	**31,063**	**116,231**

Indebtedness by currency

	USD	EUR	REAL	Others	Total
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
At 31/12/2009 – *currency thousand*	**361,542**	**372,753**	**234,362**	**n/a**	**n/a**
At 31/12/2009 – *€ thousand*	**250,966**	**372,753**	**93,323**	**34,119**	**751,161**

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

	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
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
At 31/12/2009	**22,574**	**282,863**	**214,110**	**7,554**	**107,829**	**634,930**

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Breakdown by maturity of current bank loans and other borrowings

2009	< 3 months	> 3 months and < 1 year	Total
Bank borrowings	24,902	45,444	70,346
Other borrowings	-	31,063	31,063
Accrued interest on borrowings	3,784	-	3,784
Bank overdrafts (negative cash and cash equivalents)	11,038	-	11,038
At 31/12/2009	**39,724**	**76,507**	**116,231**

Indebtedness by interest rate

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

	Rate < 3%	Rate 3% to 6%	Rate 6% to 10%	Rate > 10%	Total
At 31/12/2007					
Fixed rate on date granted	1,845	75,835	42,301	788	120,769
Variable rate on date granted swapped to fixed rate	-	360,124	-	-	360,124
Fixed rates	1,845	435,959	42,301	788	480,893
Variable rates	-	6,727	44,713	21,986	73,426
Total long-term borrowings on date granted	*1,845*	*442,686*	*87,014*	*22,774*	*554,319*
Bank overdrafts and accrued interest	n/a	n/a	n/a	n/a	115,769
TOTAL					**670,088**
At 31/12/2008					
Fixed rate on date granted	10,362	33,854	45,629	783	90,628
Variable rate on date granted swapped to fixed rate	-	475,473	-	-	475,473
Fixed rates	10,362	509,327	45,629	783	566,101
Variable rates	117,122	78,891	81,891	30,653	308,557
TOTAL	**127,484**	**588,218**	**127,520**	**31,436**	**874,658**
At 31/12/2009					
Fixed rate on date granted	4,879	121,504	33,468	-	159,851
Variable rate on date granted swapped to fixed rate	-	468,775	-	-	468,775
Fixed rates	4,879	590,279	33,468	-	628,626
Variable rates	57,563	22,508	40,925	1,539	122,535
TOTAL	**62,442**	**612,787**	**74,393**	**1,539**	**751,161**

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

Note 16 Provisions

Non-current liabilities	Provisions for environmental risks
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	-1,469
Other	-
At 31/12/2008	**6,937**
Allocations for the year	307
Provisions used	-2,495
Impact of changes in exchange rates	1,539
Other	-686
At 31/12/2009	**5,602**

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.

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Current liabilities	Commercial disputes	Orders outstanding – losses on completion	Reorganization measures	Tax risks (duties, taxes, tax audits, etc.)	Other	Total
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**
Allocations for the year	64,666	3,219	2,405	4,238	12,998	87,526
Provisions used	-50,145	-5,690	-18	-3,154	-9,534	-68,541
Other reversals	-8,574	-	-239	-	-77	-8,890
Impact of changes in exchange rates	1,475	-4	-12	8,181	2,479	12,119
Changes in consolidation scope	-1,116	-	-11	2	26,192	25,067
At 31/12/2009	**46,006**	**4,210**	**2,410**	**37,897**	**49,951**	**140,474**

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.

For 2009, actual annual greenhouse gas emissions were lower than the quotas granted by the state and therefore no provision has been recognized in respect of them.

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**
At 31/12/2009					
Discounted value of the commitment	**183,530**	**33,232**	**83,886**	**49,413**	**350,061**
Retirement	158,709	29,729	83,886	28,248	300,572
Early retirement commitments	12,619	-	-	42	12,661
Long-service awards and medical benefits	12,202	3,503	-	21,123	36,828
Fair value of the plan assets	-91,250	-4,425	-68,355	-8,815	-172,845
Past service costs not recognized	-114	-1,616	-	-	-1,730
Actuarial gains and losses not recognized	-16,572	-1,188	-18,318	-6,580	-42,658
Provision	**75,594**	**26,003**	**-2,787**	**34,018**	**132,828**

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%
At 31/12/2009				
Discount rate	5.20%	5.20%	5.70%	between 6.35% and 11.00%
Long-term return on plan assets	4.50%	4.00%	6.35%	between 8.50% and 10.24%
Rate of salary increase	2.75%	2.81%	4.60%	between 3.50% and 8.00%

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 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 2007, 2008 and 2009:

- the value of payments into the plans was €40.1 million in 2007, €28.3 million in 2008 and €49.1 million in 2009;
- the return on plan investments was €6.2 million in 2007, €-11.9 million in 2008 and €12 million in 2009.

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 2009 for the Group totalled €38 million (€18 million in 2008 and €3.5 million in 2007).

The Group envisages paying in 2010 an amount of €29.7 million in respect of defined benefit schemes, including €16.2 million in respect of German schemes, €6.9 million in respect of UK schemes, €2.8 million in respect of French schemes and €2.2 million in respect of Brazilian schemes.

Those schemes which are fully or partially outsourced represented a total commitment of €262.6 million at 31 December 2009 for assets of €172.8 million.

The discount rate was based on the iBoxx index (eurozone, AA-rated corporate bonds with a maturity of more than ten years, estimated on the date the commitments are measured). This index uses a basket of bonds composed of financial and non-financial stocks.

In 2009, a general fall in discount rates resulted in an overall increase in commitments generating material actuarial losses.

The plan assets made significant gains during the year which offset in part the falls suffered in 2008 (particularly in the United Kingdom where plan assets achieved a performance that exceeded the expected returns by €6.9 million).

France

Commitments in France correspond mainly to retirement gratuities, additional retirement schemes and long-service award schemes.

At 31 December 2009 a sensitivity test was carried out: a 1% change in the discount rate would result in a change of about €1.6 million in these commitments.

On 14 September 2005, an additional retirement scheme with its own plan assets was set up for senior management. The scheme is partially outsourced 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. In 2008, this scheme generated a surplus of around €0.2 million (€0.4 million in 2007), which is recognized in the balance sheet and which represents an actual future saving for the Group. In 2009, due to the transfer of employees, the Group recognized a substantial portion of the commitments in the process of being amortized and booked a provision in the financial statements for the year ended 31 December 2009. The past service cost not recognized amounted to €1.6 million at 31 December 2009, €2,8 million at 31 December 2008 and €2.9 million at 31 December 2007.

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 €16.3 million in these commitments.

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 and 2009 with additional contributions of €20 million and then €40 million respectively paid to a financial institution.

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.

Since 2008, contributions have exceeded the pension expense, which has resulted in an asset automatically appearing in the Group's financial statements (€1.9 million at 31 December 2008 and €2.8 million at 31 December 2009) even though the commitment has continued to exceed the plan assets. Local actuaries have 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 €14.5 million in these commitments.

An actuarial loss of €6.6 million was generated during the year. It was mainly associated with losses on the commitment due to the fall in the discount rate (€13.9 million) partially offset by gains on the assets which outperformed the expected returns (by €7.3 million).

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 €0.8 million in 2007, €0.7 million in 2008 and €0.9 million in 2009. The amount paid into the fund totalled €0.5 million in 2009 (which was comparable to the payments made in 2008 and 2007).

In 2009, a new plan was recognized. This plan facilitates the offsetting of the increase in the cost of health care insurance for certain employees and retired employees. The scheme is closed and by 30 June 2010, all beneficiaries will be retired. At 31 December 2009, the total provision was €26.6 million.

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 €0.7 million in 2009, €0.5 million in 2008 and €0.5 million in 2007, correspond mainly to retirement gratuities, which are partially financed.

No events occurred during 2009 which would have a material impact on the Group's commitments.

United States

Employees benefit from retirement benefits and health care insurance once they have retired.

As regards the assumption concerning the increase in medical benefits, the rate used will reduce successively from 2010 to 2018: i.e. from 9% to 5% for active employees and from 10.5% to 5.5% for retired employees.

No significant events occurred during 2009 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 recognized within financial income or loss and the return on plan assets is recognized within financial income.

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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**
At 31/12/2009					
Cost of services rendered	5,432	1,736	1,762	2,077	11,007
Interest charges on the commitment	9,361	1,899	5,910	4,297	21,467
Expected return on plan assets	-2,925	-103	-3,768	-620	-7,416
Net actuarial gains (-)/losses (+) recognized during the period	5,199	-11	297	8,747	14,232
Past service costs	88	1,290	-	4,542	5,920
Impact of any reduction or liquidation	-	-	-	-	-
Net charge recognized	**17,155**	**4,811**	**4,201**	**19,043**	**45,210**
Actual return on plan assets	**-64**	**103**	**10,639**	**1,338**	**12,016**

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The following table provides a breakdown of commitments not recognized (actuarial gains and losses and past service costs):

2006	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
Change	**5,323**	**-1,478**	**2,789**	**-150**	**6,484**

2007	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
Change	**9,614**	**1,477**	**5,184**	**1,096**	**17,371**

2008	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
Change	**5,069**	**2,047**	**-3,200**	**-2,407**	**1,509**

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2009	Germany	France	United Kingdom	Other	Total
Commitments not recognized at 31/12/2008 – losses (-)/gains (+)	427	2,278	11,102	7,338	21,145
Commitments not recognized at 31/12/2009 – losses (-)/gains (+)	16,686	2,804	18,318	6,580	44,388
Change	**16,259**	**526**	**7,216**	**-758**	**23,243**
Amortization of commitments not recognized during the year losses (-)/gains (+)	5,288	1,219	296	15,640	22,443
Commitments not recognized generated during the year – experience adjustments	-6,253	39	7,254	-7,382	-6,342
Commitments not recognized generated during the year – changes in assumptions	-15,294	-1,812	-13,890	-7,016	-38,012
Exchange gains or losses and other	-	28	-876	-484	-1,332
Change	**-16,259**	**-526**	**-7,216**	**758**	**-23,243**

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**
Value of the assets	51,314	2,557	52,385	6,318	112,574
Return on assets	-64	103	10,639	1,338	12,016
Additional benefits	40,000	1,765	5,577	1,803	49,145
Benefits paid	-	-	-4,082	-582	-4,664
Acquisitions, disposals, liquidations	-	-	-	-	-
Impact of changes in exchange rates	-	-	3,836	-62	3,774
At 31/12/2009	**91,250**	**4,425**	**68,355**	**8,815**	**172,845**

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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**

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**

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Changes in the commitment	Germany	France	United Kingdom	Other	Total
At 31/12/2008	**162,734**	**30,199**	**61,584**	**25,769**	**280,286**
Cost of services rendered	5,432	1,736	1,762	2,077	11,007
Interest charges on the commitment	9,361	1,899	5,910	4,297	21,467
Employee contributions	-	-	680	-	680
Actuarial gains (+) and losses (-) generated during the year	18,557	1,594	13,507	8,080	41,738
Acquisitions/disposals	-1,367	-	-	-	-1,367
Payment of benefits	-11,087	-2,268	-4,081	-3,670	-21,106
Scheme amendments	-	106	1,853	7,037	8,996
Exchange rate differences	-	-	2,671	4,087	6,758
Other	-100	-34	-	1,736	1,602
At 31/12/2009	**183,530**	**33,232**	**83,886**	**49,413**	**350,061**

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
Provision/(asset) at 31/12/2008	**110,993**	**25,318**	**-1,901**	**12,157**	**146,567**
Total charge for the period	17,155	4,811	4,201	19,043	45,210
Benefits or contributions to the funds	-51,087	-4,128	-4,946	-2,555	-62,716
Impact of changes in exchange rates	-	-	-141	3,615	3,474
Change in consolidation scope and other	-1,467	2	-	1,758	293
Provision/(asset) at 31/12/2009	**75,594**	**26,003**	**-2,787**	**34,018**	**132,828**

The following table provides a breakdown of the plan assets:

United Kingdom	31/12/2009		31/12/2008		31/12/2007	
	Proportion	**Rate of return**	Proportion	Rate of return	Proportion	Rate of return
Equities (UK and Overseas)	54.70%	8.00%	60.00%	7.75%	63.00%	7.75%
Bonds	23.40%	3.70%	15.00%	5.30%	12.00%	4.87%
Property	0.40%	3.70%	0.00%	0.00%	0.00%	0.00%
Other (Cash & Index Linked Gilts)	21.50%	5.10%	25.00%	4.20%	25.00%	4.22%

United States	31/12/2009		31/12/2008		31/12/2007	
	Proportion	**Rate of return**	Proportion	Rate of return	Proportion	Rate of return
Equities	44.80%	10.00%	42.00%	9.00%	50.00%	9.00%
Bonds	45.80%	6.00%	50.00%	5.00%	40.00%	5.00%
Property	9.40%	10.00%	8.00%	9.00%	10.00%	9.00%
Other	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

France	31/12/2009		31/12/2008		31/12/2007	
	Proportion	**Rate of return**	Proportion	Rate of return	Proportion	Rate of return
Equities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Bonds	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Property	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	100.00%	4.00%	100.00%	4.00%	100.00%	4.50%

In Germany, the funds are invested in short-term, risk-free interest-bearing deposits.

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Amounts booked 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**
At 31/12/2009			
Employer's share of retirement contributions	4,219	10,569	14,788
Life insurance paid by the employer	1,415	2,074	3,489
Other retirement contributions	401	1	402
TOTAL	**6,035**	**12,644**	**18,679**

Other employee benefits (options and performance shares)

Share subscription and share purchase option plans

Characteristics of the plans

Vallourec's Management Board authorized the setting up of a share purchase option plan in 2003 and share subscription plans in 2007, 2008 and 2009 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	**2009 plan**
Grant date	11/06/2003	03/09/2007	01/09/2008	01/09/2009
Maturity date	11/06/2007	03/09/2011	01/09/2012	01/09/2013
Expiry date	10/06/2010	03/09/2014	01/09/2015	01/09/2019
Number of beneficiaries at outset	148	65	9	303
Exercise price in euros	10.73	190.60	183.54	103.34
Exercise price in euros adjusted following rights offering on 13 July 2005	10.57	n/a	n/a	n/a
Number of options granted	965,000	147,300	71,800	289,400
Adjustment to the number of options following rights offering on 13 July 2005	14,480	n/a	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	31/12/2007	31/12/2008	**31/12/2009**
Total at start of year	996,390	184,414	236,517
Options distributed	147,300	71,800	289,400
Options exercised	-955,466	-12,697	-7,273
Options not exercised at expiry date	-3,810	-	-
Options cancelled (*)	-	-7,000	-1,500
Total at end of year	**184,414**	**236,517**	**517,144**
Of which options remaining to be exercised	37,114	24,417	17,144

(*) Beneficiaries who have left the Group.

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

	31/12/2007	31/12/2008	**31/12/2009**
2003 plan	37,114	24,417	17,144
2007 plan	147,300	140,300	138,800
2008 plan	-	71,800	71,800
2009 plan	-	-	289,400

Measurement of plans (*)

In € thousand	2003 plan	2007 plan	2008 plan	**2009 plan**
Charge for financial year 2007	406	705	-	-
Charge for financial year 2008	-	2,912	711	-
Charge for financial year 2009	-	1,817	1,445	820
Accumulated charge as at 31 December 2009	**1,318**	**5,434**	**2,156**	**820**
Assumptions				
Share price on grant date	€11.75	€198.00	€190.84	€101.30
Volatility (**)	41.75%	35.00%	35.00%	43.00%
Risk-free rate (***)	3.00%	4.20%	4.40%	2.39%
Exercise price	€10.57	€190.60	€183.54	€103.34
Dividend rate (****)	2.72%	3.75%	3.50%	5.00%
Fair value of the option	€3.74	€58.20	€63.57	€34.21

(*) The binomial model of projecting share prices has been used to measure the fair value of the options granted.
(**) Volatility corresponds to an historical volatility observed over a period corresponding to the duration of the plans.
(***) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries (Institut des Actuaires)).
(****) The expected dividend rates have been determined on the basis of analysts' expectations and the Group's dividend policy.

Options granted to employees who were members of the Executive Committee as at 31 December

As at 31 December		2003 plan	2007 plan	2008 plan	**2009 plan**
2007	Number of options granted	175,000	60,000	-	-
	Adjustment to number of options following rights offering on 13 July 2005	2,660	-	-	-
	Number of senior managers involved	6	8	-	-
	Number of options exercised	177,660	-	-	-
2008	Number of options granted	118,745	38,000	68,000	-
	Adjustment to number of options following rights offering on 13 July 2005	1,805	-	-	-
	Number of senior managers involved	4	6	8	-
	Number of options exercised	120,550	-	-	-
2009	Number of options granted	43,750	21,500	50,200	52,000
	Adjustment to number of options following rights offering on 13 July 2005	665	-	-	-
	Number of senior managers involved	3	4	6	7
	Number of options exercised	44,415	-	-	-

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, 2008 and 2009.

The characteristics of these plans are as follows:

	2006 plan (*)	2007 plan (**)	2008 plan (***)	"Value 08" plan	**2009 plan** (****)	**"Value 09" plan**	"123" plan (*****)
Grant date	16/01/2006	03/05/2007	01/09/2008	16/12/2008	31/07/2009	17/11/2009	17/12/2009
Acquisition period	2 years	2, 3 and 4 years	2 and 3 years	4.5 years	2 years (French residents) or 4 years (non-French residents)	4.6 years	2 years (French residents) or 4 years (non-French residents)
Holding period	2 years	2 years	2 years	-	2 years (French residents) or none (non-French residents)	-	2 years (French residents) or none (non-French residents)
Number of beneficiaries at outset	199	280	41	8,697	53	8,097	17,067
Theoretical number of shares allocated	148,000	111,000	11,590	33,856	13,334	34,700	51,201

(*) The definitive attribution, in terms of number of shares, will be based on the Vallourec Group's performance in terms of consolidated EBITDA in 2006 and 2007. 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 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.

(****) The definitive allocation, in terms of numbers of shares, will be allocated in 2011 in the case of French residents and in 2013 in the case of non-French residents and 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 the two 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 2011 in the case of French residents and in 2013 in the case of non-French residents based on the Vallourec Group's performance in terms of consolidated EBITDA for the period from 1 January 2010 to 30 September 2011. The number of shares actually acquired by each beneficiary at the end of the acquisition period can range from 0 to 3.

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	**2009 plan**	**"Value 09" plan**	"123" plan
Initial theoretical number of shares allocated	148,000	111,000	11,590	33,856	13,334	34,700	51,201
Number of shares cancelled	-700	-10,729	-	-447	-	-	-
Number of shares acquired or being acquired	147,300	100,271	11,590	33,409	13,334	34,700	51,201
Number of shares delivered	188,853	39,092	-	-	-	-	-

Measurement of plans (*)

In € thousand	2006 plan	2007 plan	2008 plan	"Value 08" plan	**2009 plan**	**"Value 09" plan**	"123" plan
Charge for financial year 2007	7,202	5,429	-	-	-	-	-
Charge for financial year 2008	380	7,099	264	17	-	-	-
Charge for financial year 2009	-	3,757	821	414	271	83	63
Accumulated charge as at 31 December 2009	**15,833**	**16,285**	**1,085**	**431**	**271**	**83**	**63**
Assumptions							
Share price on allocation date	€93.30	€198.50	€190.84	€82.15	€92.30	€119.00	€121.00
Volatility (**)	40%	40%	35%	40%	40%	40%	40%
Risk-free rate (***)	5%	4.40%	4.20%	3.03%	2.37%	2.40%	2.24%
Dividend rate (****)	2%	3%	3.5%	7.30%	5%	5%	5%
Fair value of the share: tranche 1	€83.84	€180.77	€171.22	€56.23	€74.63 (French residents) or €71.42 (non-French residents)	€92.08	€104.15 (French residents) or €98.56 (non-French residents)
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.

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

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

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

Shares allocated to employees who were members of the Executive Committee as at 31 December

		2006 plan	2007 plan	2008 plan	"Value 08" plan	**2009 plan**	**"Value 09" plan**	"123" plan
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	-	-	-	-	-	-
2009	Theoretical number of shares allocated	12,500	3,600	3,200	5	7,496	6	12
	Number of senior managers involved	3	3	3	1	3	1	4
	Number of shares acquired	16,000	1,301	-	-	-	-	-

Details are provided in Note 24 of the impact of the employee share ownership plans on the income statement.

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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 31/12/2006	**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**
Impact of changes in exchange rates	8,276	2,297	7,027	-69	-345	17,186
Other movements	-30,497	-17,195	8,266	1,621	-36,605	-74,410
At 31/12/2009	**181,316**	**41,586**	**65,775**	**8,566**	**35,161**	**332,404**

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 31/12/2007				
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
At 31/12/2009				
HKM	278	263,834	56	22,838
Rothschild & Cie	-	190	-	73
Proportionately consolidated companies	30,117	1,125	3,082	20,337

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 2007, 2008 and 2009 with Rothschild & Cie relate to the consultancy agreement to assist the Management Board.

As regards Vallourec & Sumitomo Tubos do Brasil, which is proportionately consolidated, it has total assets of €657.6 million. In 2009, the Group invested capital totalling €410.3 million in the Company but did not carry out any commercial transactions with it.

Supervisory Board and Management Board remuneration

The total remuneration paid to those employees who were members of the Executive Committee at 31 December of the year concerned (7 people in 2009, 8 people in 2008 and 7 people in 2007) and the retirement commitments at the year end were as follows:

	31/12/2007	31/12/2008	**31/12/2009**
Remuneration and benefits in kind	2,647	3,156	3,436
Share-based payments (*)		800	1,455
Retirement commitments	504	738	275
Supplementary pension commitments	2,988	4,054	2,478

(*) Information provided based on the 2009 and 2008 share subscription option plans, performance share plans and other employee share ownership plans.

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

	31/12/2007	31/12/2008	**31/12/2009**
Purchase options granted on 11 June 2003 and exercisable between 11 June 2007 and 10 June 2010	177,660	120,550	44,415
Options exercised as at 31 December (1 option = 1 share) by the members of the Executive Committee	177,660	120,550	44,415
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	21,500
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	21,500
Subscription options granted on 1 September 2008 and exercisable between 1 September 2012 and 1 September 2015	-	68,000	50,200
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	50,200
Subscription options granted on 1 September 2009 and exercisable between 1 September 2013 and 1 September 2019	-	-	52,000
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	-	-	52,000

Performance shares (Note 17) allocated to employees who were members of the Executive Committee on 31 December of the year concerned

	31/12/2007	31/12/2008	**31/12/2009**
16 January 2006 plan			
Theoretical number of shares allocated	30,000	22,500	12,500
Number of shares acquired during the year	-	28,845	16,000
3 May 2007 plan			
Theoretical number of shares allocated	8,400	6,000	3,600
Number of shares acquired during the year	-	-	
1 September 2008 plan			
Theoretical number of shares allocated	-	3,200	3,200
Value 08 plan dated 16 December 2008			
Theoretical number of shares allocated	-	5	5
31 July 2009 plan			
Theoretical number of shares allocated	-	-	7,496
Value 09 plan dated 17 November 2009			
Theoretical number of shares allocated	-	-	6
123 plan dated 31 July 2009			
Theoretical number of shares allocated	-	-	12

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 2009, 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 of 106,037 tonnes for 2009. The allowances due in respect of the three-year period from 2010 to 2012 amount to 106,000 tonnes per year.

Commitments received (excluding financial instruments)

	31/12/2007	31/12/2008	**31/12/2009**
Firm non-current asset orders	n/a	457,846	214,202
Guarantees and commitments received	43,869	125,998	234,560
HKM supply contract	37,775	28,535	-
Other commitments received	92,302	70,526	39,725
TOTAL	**173,946**	**682,905**	**488,487**
Commitments given (excluding financial instruments)	**410,214**	**858,037**	**587,572**

n/a: non available

Commitments given by maturity

	31/12/2009	< 1 year	> 1 year	> 5 years
BALANCE SHEET				
Long-term borrowings	735,685	101,409	527,099	107,177
OFF-BALANCE SHEET				
Market guarantees and letters of credit given	146,961	85,525	61,352	84
Other security, mortgages and pledges given	25,083	8,030	15,796	1,257
Long-term leasing contract	33,110	7,463	23,260	2,387
HKM supply contract	-	-	-	-
Pensions and retirement gratuities (actuarial gains and losses)	44,801	-	22,682	22,119
Firm non-current asset orders given	214,202	114,397	99,805	-
Other commitments	123,415	62,033	23,884	37,498
TOTAL	**587,572**	**277,448**	**246,779**	**63,345**

	31/12/2008	< 1 year	> 1 year	> 5 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**

	31/12/2007	< 1 year	> 1 year	> 5 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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The firm non-current asset orders relate mainly to Vallourec & Sumitomo Tubos do Brasil. 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 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

	31/12/2007	31/12/2008	**31/12/2009**
France	444,099	361,003	203,876
Germany	1,101,205	1,143,218	793,611
Other EU Member States	882,720	700,029	414,038
North America (NAFTA)	1,144,166	1,525,869	1,007,818
South America	786,034	935,910	780,420
Asia	1,284,169	1,318,921	869,989
Rest of the world	498,128	452,064	394,727
TOTAL	**6,140,521**	**6,437,014**	**4,464,479**

For the full year 2009, sales decreased by 30.6% to €4,464.5 million (the decrease was 32.13% on a comparable basis after adjusting 2008 sales to make them comparable with 2009 sales).

Note 22 Other operating revenues

	31/12/2007	31/12/2008	**31/12/2009**
Fees for concessions and patents	19,939	19,661	21,591
Operating subsidies and other revenues	15,276	19,464	15,343
TOTAL	**35,215**	**39,125**	**36,934**

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

Note 23 Taxes and duties

	31/12/2007	31/12/2008	**31/12/2009**
Taxes on remuneration	-9,061	-10,014	-10,935
Business use tax	-26,411	-18,943	-15,553
Property tax	-6,394	-7,817	-7,821
Other taxes and duties	-14,384	-14,829	-10,102
TOTAL	**-56,250**	**-51,603**	**-44,411**

Note 24 Payroll costs and average number of employees in consolidated companies

	31/12/2007	31/12/2008	**31/12/2009**
PAYROLL COSTS			
Wages and salaries	-543,787	-568,715	-539,093
Employee profit sharing	-61,420	-58,885	-41,301
Charge in respect of share subscription and share purchase option plans and performance shares	-12,522	-17,027	-19,618
15 June 2003 share purchase option plan	*-406*	-	-
3 September 2007 share subscription option plan	*-705*	*-2,912*	*-1,817*
1 September 2008 share subscription option plan	-	*-711*	*-1,445*
1 September 2009 share subscription option plan	-	-	*-820*
16 January 2006 performance share allocation plan	*-7,048*	*-380*	-
3 May 2007 performance share allocation plan	*-4,363*	*-7,099*	*-3,757*
1 September 2008 performance share allocation plan	-	*-264*	*-821*
16 December 2008 "Value 08" employee share ownership plan including 16 December 2008 share allocation plan	-	*-5,661*	*-771*
31 July 2009 performance share allocation plan	-	-	*-271*
17 November 2009 "Value 09" employee share ownership plan including 17 November 2009 share allocation plan	*n/a*	*n/a*	*-9,853*
123 performance share allocation plan dated 17 December 2009	*n/a*	*n/a*	*-63*
Social security contributions	-209,311	-211,985	-220,917
TOTAL	**-827,040**	**-856,612**	**-820,929**

n/a: non available

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.

2009

An employee share ownership plan was offered to employees. In order to comply with the legal and tax requirements of each country, a number of different formulas have been proposed:

- Leveraged company mutual fund *(Fonds commun de placement entreprise levier – FCPE levier):* employees subscribe, by means of a company mutual fund, for a number of Vallourec shares, discounted by 20%, 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 structuring the transaction by means of a swap contract;
- Company mutual fund *(Fonds commun de placement classique – FCPE classique):* employees subscribe by means of an FCPE for Vallourec shares at a price discounted by 20% and receive any dividends;
- Shares and Stock Appreciation Rights (SAR): employees, by means of the acquisition of a share at a price discounted by 20%, 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 structuring the transaction. The issue of the warrants was obtained as consideration for the issue of shares, reserved for the bank, at a price discounted by 20%;
- 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 structuring the transaction. The issue of the warrants was obtained as consideration for the issue of shares, reserved for the bank, at a price discounted by 20%.

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. The fair value of the benefit corresponds, in the case of the classic formula, to the value of the economic benefit granted less the cost to the employee of the non-transferability of the share, and, for the leveraged formula, to the expected present value of the amounts ultimately paid to the employee. In the case of 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.

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Characteristics of "Value" plans	2008	**2009**
Grant date	16 December 2008	17 November 2009
Maturity date of plans	1 July 2013	1 July 2014
Reference price	€82.48	€114.67
Subscription price	€65.99	€91.74
Discount	20%	20%
Total amount subscribed	49,492	65,006
Total number of shares subscribed	749,996	708,589
Total discount	12,372	16,251
Multiple per share		
Leveraged company mutual fund formula	7.3	6.7
Share + SAR formula	5.1	4.7
Cash + SAR formula	6.1	5.9
Measurement assumptions		
Volatility (*)	40%	40%
Risk-free rate (**)	3.03%	2.40%
Annual dividend rate (***)	7.30%	5.00%
Total IFRS 2 charge (****)	**6,435**	**9,949**

(*) Volatility corresponds to an historical volatility observed over a period corresponding to the duration of the plans.
(**) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries (Institut des Actuaires)).
(***) The expected dividend rates have been determined on the basis of analysts' expectations and the Group's dividend policy.
(****) Calculated using the binomial model to project share price.

This benefit resulted in the recognition of payroll costs of €9.9 million in 2009.

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	"Value 08"	**"Value 09"**
Measurement date	31 December 2009	31 December 2009
Maturity date	1 July 2013	1 July 2014
Share price on measurement date	€127.05	€127.05
Multiple per share		
Share and SAR formula	5.1	4.7
Cash and SAR formula	6.1	5.9
Measurement assumptions		
Volatility (*)	40%	40%
Risk-free rate (**)	2.07%	2.07%
Annual dividend rate (***)	5.00%	5.00%
IFRS 2 charge (****)	**3,296**	**803**

(*) Volatility corresponds to an historical volatility observed over a period corresponding to the duration of the plans.
(**) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries (Institut des Actuaires)).
(***) The expected dividend rates have been determined on the basis of analysts' expectations and the 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 €4.1 million in 2009.

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	"Value 08"	**"Value 09"**
Measurement date	31 December 2009	31 December 2009
Maturity date	1 July 2013	1 July 2014
Share price on measurement date	€127.05	€127.05
Multiple per share		
Share and SAR formula	5.1	4.7
Cash and SAR formula	6.1	5.9
Measurement assumptions (*)		
Implied volatility	46%	44%
Interest rate	from 1.07% to 2.81%	from 1.07% to 2.81%
Annual dividend (in €)	€3.00	€3.00
IAS 39 income	**2,939**	**980**

(*) Assumptions of bank structuring the transaction.

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 €3.9 million in 2009 since it is intended to cover the charge associated with the SARs (see above).

Average number of employees in consolidated companies (*)	31/12/2007	31/12/2008	**31/12/2009**
Executives	1,310	1,342	1,440
Supervisory, clerical and technical staff	3,710	3,872	4,350
Production staff	12,751	12,496	12,591
TOTAL	**17,771**	**17,710**	**18,381**

(*) The workforces of proportionately consolidated companies are included on the basis of the percentage interest held by the Group.

The Group's workforce totalled 18,238 at 31 December 2009 compared with 18,344 at 31 December 2008.

Note 25 Other operating costs

	31/12/2007	31/12/2008	**31/12/2009**
Purchases of materials and supplies not for stock, sub-contracting	-426,985	-359,120	-259,920
Energy	-211,930	-246,088	-164,913
Maintenance	-184,716	-191,754	-152,119
Agents' commission, transportation costs	-329,941	-323,836	-224,853
Services, professional fees and other	-186,203	-321,692	-275,420
TOTAL	**-1,339,775**	**-1,442,490**	**-1,077,225**

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Note 26 Statutory Auditors' fees

	KPMG			Deloitte		
	Amount (excl. tax)					
	2009	2008	2007	**2009**	2008	2007
AUDIT						
Statutory audit, certification, examination of company and consolidated financial statements						
Issuer	235	215	171	235	215	171
%	23%	26%	17%	17%	14%	13%
Fully consolidated companies	685	579	540	1,094	1,271	1,033
%	68%	69%	53%	81%	85%	77%
Other services directly associated with the statutory audit						
Issuer	48	48	59	19	17	38
%	5%	6%	6%	1%	1%	3%
Fully consolidated companies			244			99
%			24%			7%
Sub-total	**968**	**842**	**1,014**	**1,348**	**1,503**	**1,341**
%	96%	100%	100%	100%	100%	100%
OTHER SERVICES PROVIDED BY AUDIT NETWORK TO FULLY CONSOLIDATED SUBSIDIARIES						
Legal, tax, employment						
%						
Other (details to be provided if > 10% of audit fees)	39					
%	4%					
Sub-total	**39**					
%	4%					
TOTAL	**1,007**	**842**	**1,014**	**1,348**	**1,503**	**1,341**

Note 27 Charges to provisions net of reversals

	31/12/2007	31/12/2008	**31/12/2009**
Provisions for operating liabilities and charges	-57,925	-72,117	-104,255
Provisions against current assets	-41,313	-29,960	-73,275
Reversals of provisions for operating liabilities and charges	48,650	56,803	103,440
Reversals of provisions against current assets	16,585	32,201	37,864
TOTAL	**-34,003**	**-13,073**	**-36,226**

Note 28 Depreciation and amortization

	31/12/2007	31/12/2008	**31/12/2009**
Charges to amortization of intangible assets (see Note 1)	-7,351	-39,955	-39,138
Charges to depreciation of property, plant and equipment (see Note 2)	-110,622	-125,977	-148,815
Reversals of depreciation and provisions on property, plant and equipment	-	347	31
TOTAL	**-117,973**	**-165,585**	**-187,922**

Note 29 Impairment of assets and goodwill, asset disposals and restructuring costs

	31/12/2007	31/12/2008	**31/12/2009**
Impairment of assets and goodwill	-21,169	-1,386	-7,828
Reorganization measures (net of expenses and provisions)	-133	-93	-21,040
Gains and losses on disposals of non-current assets	11,066	-4,984	22,518
TOTAL	**10,933**	**-5,077**	**1,478**

2009

Provisions for depreciation and impairment have been recognized as at 31 December 2009 in respect of industrial assets (equipment, tools and specific spare parts) used in operations the Group has decided during the year to discontinue.

In 2009, due to the early application of revised IFRS 3, the acquisition of P.T. Citra Tubindo was treated as two separate transactions: on the one hand, the disposal of the interest owned before control was acquired, resulting in the recognition of a capital gain of €31.7 million and, on the other hand, the subsequent acquisition of a 78.2% interest in P.T. Citra Tubindo.

2008

In 2008, the €5 million loss corresponded mainly to the disposal and scrapping of property, plant and equipment.

2007

An additional €20 million impairment provision was recognized in respect of the assets held for sale of VPS and VCAV.

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.

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Note 30 Financial income (loss)

	31/12/2007	31/12/2008	**31/12/2009**
FINANCIAL INCOME			
Income from marketable securities	17,348	25,470	16,033
Income from disposals of marketable securities	18,956	9,486	4,474
TOTAL	**36,304**	**34,956**	**20,507**
INTEREST COSTS	**-40,619**	**-51,463**	**-42,606**
OTHER FINANCIAL INCOME AND CHARGES			
Income from securities	1,825	2,728	3,229
Income from loans and receivables	1,082	5,612	4,023
Exchange losses (-) and gains (+) and changes in premiums/discounts	-18,138	-7,894	25,137
Charges to provisions, net of reversals	2,189	2,120	880
Other financial income and charges	-1,894	4,127	182
TOTAL	**-14,936**	**6,693**	**33,451**
OTHER DISCOUNTING COSTS			
Financial charges: discounting of retirement commitments (see Note 17)	-16,144	-16,392	-23,569
Financial income: discounting of certain assets and liabilities	769	-170	80
Financial income from retirement plan assets (see Note 17)	5,618	7,522	7,495
TOTAL	**-9,757**	**-9,040**	**-15,994**
FINANCIAL INCOME (LOSS)	**-29,008**	**-18,854**	**-4,642**

Note 31 Reconciliation of theoretical and actual tax charge

Breakdown of the tax charge	2007	2008	**2009**
Current tax charge	-557,052	-450,558	-233,390
Deferred taxes (see Note 5)	-18,292	-30,133	-14,117
Net charge	**-575,344**	**-480,691**	**-247,507**
Net profit (loss) of consolidated companies	1,018,222	1,022,258	534,186
Tax charge	-575,344	-480,691	-247,507
Net profit (loss) of consolidated companies, before tax	**1,593,566**	**1,502,949**	**781,693**
Statutory tax rate of consolidating company (see Note 5)	34.43%	34.43%	34.43%
Theoretical tax charge	-548,665	-517,465	-269,137
Impact of main losses carried forward	116	-1,939	644
Impact of permanent differences	-2,703	19,184	-250
Other effects	-121	-	-26
Impact of differences in tax rates	-23,971	19,530	21,262
	-575,344	-480,690	-247,507
ACTUAL TAX RATE	**36.10%**	**31.98%**	**31.66%**

The permanent differences consist mainly of the net profit attributable to non-controlling 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%).

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Note 32 Segment information

Operating segments

The following tables provide, for each operating segment, information on the revenues and results as well as certain information on the assets, liabilities and capital expenditure for the financial years 2007, 2008 and 2009.

Information about profit or loss, assets and liabilities by operating segment

2009	Seamless tubes	Speciality Products	Holding companies & other (*)	Inter-segment transactions	Total
INCOME STATEMENT					
Sales to external customers	4,104,463	320,803	39,213	-	4,464,479
EBITDA	982,560	33,589	-37,407	1,865	980,607
Depreciation and amortization	-176,785	-9,728	-1,757	348	-187,922
Impairment of assets and goodwill	-8,188	-1,230	1,348	242	-7,828
Asset disposals and restructuring costs	-26,488	-1,792	30,242	-484	1,478
Operating profit	771,098	20,838	-7,852	2,251	786,335
Unallocated income					53,958
Unallocated charges					-58,600
Profit before tax					781,693
Income tax					-247,507
Net profit of equity affiliates					2,291
Consolidated net profit					536,477
BALANCE SHEET					
Non-current assets	3,004,453	111,372	2,054,455	-1,873,860	3,296,420
Current assets	1,612,581	110,367	331,766	-338,907	1,715,807
Cash and cash equivalents	859,184	96,958	1,104,716	-903,055	1,157,803
TOTAL ASSETS	**5,476,218**	**318,697**	**3,490,937**	**-3,115,822**	**6,170,030**
Equity	3,133,718	162,391	2,353,089	-1,788,699	3,860,499
Non-controlling interests	231,058	10,440		-21	241,477
Non-current liabilities	364,568	17,696	594,396	-76,279	900,381
Current liabilities	1,747,511	128,730	543,452	-1,252,020	1,167,673
TOTAL EQUITY AND LIABILITIES	**5,476,855**	**319,257**	**3,490,937**	**-3,117,019**	**6,170,030**
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	626,330	31,560	24,327	-	682,217
Other information					
Average number of employees	16,806	1,409	166		18,381
Payroll costs	717,111	53,499	50,403	-84	820,929

(*) Vallourec, V & M Tubes and the marketing subsidiaries Vallourec Tubes Canada and Vallourec Inc.

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2008	Seamless tubes	Speciality Products	Holding companies & other (*)	Inter-segment transactions	Total
INCOME STATEMENT					
Sales to external customers	5,908,517	479,765	48,732		6,437,014
EBITDA	1,664,498	63,982	-33,716	-911	1,693,853
Depreciation and amortization	-154,894	-9,046	-2,125	480	-165,585
Impairment of assets and goodwill	-19	-19	-1,348		-1,386
Asset disposals and restructuring costs	-4,538	-472	-67		-5,077
Operating profit	1,505,047	54,446	-37,256	-432	1,521,805
Unallocated income					49,543
Unallocated charges					-68,397
Profit before tax					1,502,951
Income tax					-480,691
Net profit of equity affiliates					2,431
Consolidated net profit					1,024,691
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**
Equity	2,419,021	142,141	1,729,496	-1,157,899	3,132,759
Non-controlling 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 EQUITY AND LIABILITIES	**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	Speciality Products	Holding companies & other (*)	Inter-segment transactions	Total
INCOME STATEMENT					
Sales to external customers	5,405,111	659,934	75,476	-	6,140,521
EBITDA	1,694,610	77,411	-22,121	882	1,750,782
Depreciation and amortization	-106,737	-9,234	-2,193	191	-117,973
Impairment of assets and goodwill	-1,079	-28,768	8,678	-	-21,169
Asset disposals and restructuring costs	1,266	6,498	18,477	-15,308	10,933
Operating profit	1,588,060	45,906	2,842	-14,235	1,622,573
Unallocated income					41,400
Unallocated charges					-70,408
Profit before tax					1,593,565
Income tax					-575,344
Net profit of equity affiliates					6,242
Consolidated net profit					1,024,463
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**
Equity	2,091,390	140,019	1,356,647	-880,287	2,707,769
Non-controlling 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 EQUITY AND LIABILITIES	**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.

Geographical areas

The following tables provide, by geographical area, 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).

By geographical area

2009	Europe	North America and Mexico	South America	Asia	Rest of the world	Total
Sales						
Sales to external customers	1,411,525	1,007,818	780,420	869,989	394,727	4,464,479
Balance sheet						
Property, plant and equipment, intangible assets and goodwill (net)	897,453	831,125	1,058,489	222,122	5,934	3,015,123
Cash flows						
Capital expenditure: property, plant and equipment and intangible assets	186,289	46,307	436,753	7,860	5,008	682,217
Other information						
Average number of employees	9,407	2,344	5,747	866	17	18,381
Payroll costs	533,470	130,759	149,120	7,253	327	820,929

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, intangible assets and goodwill (net)	795,482	878,428	475,201	59,537	1,506	2,210,154
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, intangible assets and goodwill (net)	640,583	321,076	356,921	48,945	53	1,367,578
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

Note 33 Events after the reporting period

No events occurred between 31 December 2009 and 23 February 2010, 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.

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5.2 COMPANY FINANCIAL STATEMENTS OF VALLOUREC SA

5.2.1 BALANCE SHEET *(in € thousand)*

ASSETS

	31/12/2007	31/12/2008	**31/12/2009**
NON-CURRENT ASSETS			
Intangible assets	79	79	79
Property, plant and equipment	131	131	131
Participating interests	1,057,383	1,057,496	1,057,079
Own shares	16,700	12,502	5,526
Receivables, loans and other investments	1	327,212	148,741
Total I	**1,074,294**	**1,397,420**	**1,211,556**
CURRENT ASSETS			
Trade receivables	616	855	612
Other receivables	117,821	406,679	927,349
Marketable securities	9,110	8,922	22,934
Cash and cash equivalents	40	295	426
Prepayments		45	63
Translation differences – premium/discount		31,876	3,293
Total II	**127,587**	**448,672**	**954,677**
TOTAL ASSETS (I+II)	**1,201,881**	**1,846,092**	**2,166,233**

LIABILITIES AND EQUITY

	31/12/2007	31/12/2008	**31/12/2009**
EQUITY			
Issued capital	212,155	215,155	229,123
Additional paid-in capital	64,345	109,128	365,528
Revaluation reserve	634	634	634
Reserves	79,954	79,964	80,265
Retained earnings	47,116	20,372	430,086
Interim dividend	-210,292		
Net profit for the financial year	553,894	730,836	427,377
Total I	**747,806**	**1,156,089**	**1,533,013**
Provisions for liabilities and charges	2,314	817	1,027
Bank loans and other borrowings	410,762	587,019	571,646
Trade payables	4,112	5,312	2,888
Other payables	36,887	64,979	53,066
Translation differences – premium/discount		31,876	4,593
Total II	**454,075**	**690,003**	**633,220**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (I+II)	**1,201,881**	**1,846,092**	**2,166,233**

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5.2.2 INCOME STATEMENT *(in € thousand)*

	2007	2008	2009
Sales		**4,094**	**108**
Provision reversals and charges transferred	9	4,214	1,791
Other revenues	1,434	1,427	1,137
External services	-10,068	-18,134	-11,655
Taxes, duties and similar payments	-70	-351	-474
Payroll costs	-419	-2,537	-3,496
Other operating costs	-643	-645	-636
Amortization, depreciation and provisions	-1,257	-767	-590
Operating profit (loss)	**-11,014**	**-12,699**	**-13,815**
Financial income	**559,825**	**760,652**	**476,859**
Participating interests	554,407	748,771	447,630
Other long-term securities and receivables		17	426
Other interest and similar income	1,841	11,176	2,892
Provision reversals and financial charges transferred		119	2,216
Exchange gains		91	23,622
Net income on disposal of marketable securities	3,577	478	73
Financial charges	**-17,929**	**-24,155**	**-51,769**
Financial depreciation and provisions		-1,944	
Interest and similar charges	-17,924	-22,039	-26,471
Exchange losses	-5	-172	-25,298
Net charges on disposal of marketable securities			
Net financial income	**541,896**	**736,497**	**425,090**
Operating profit (loss) before tax	**530,882**	**723,798**	**411,275**
Exceptional income	2,443	4,816	6,025
Exceptional charges	-1,429	-13,671	-1,483
Net exceptional income (charges)	**1,014**	**-8,855**	**4,542**
Income tax credit (charge)	21,998	15,893	11,560
NET PROFIT	**553,894**	**730,836**	**427,377**

5.2.3 NOTES TO THE COMPANY FINANCIAL STATEMENTS

In thousand of euros (€ thousand) unless stated otherwise

Notes to the balance sheet (before allocation) for the year ended 31 December 2009, which totals €2,166.2 million, and to the income statement, which shows a net profit of €427.4 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 7 July 2009, the option to pay the dividend in shares, which was approved by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009, resulted in the creation of 2,783,484 new shares (5.2% of the capital) issued at the price of €74.28, giving a capital increase of €206.8 million, including issue premium net of expenses.

On 17 December 2009, under the terms of the "Value 09" employee share ownership plan, 708,589 new shares were subscribed for at a price of €91.74 resulting in a capital increase of €63.6 million, 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. 99-03 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 share ownership plans for employees, managers and Corporate Officers;
- 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).

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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.

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.

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 5.20% (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 and additional retirement agreements are measured by an independent actuary based on an actuarial calculation (projected credit method) and provided for as a liability in the balance sheet. At 31 December 2009, the discount rate was based on the iBoxx index (eurozone, AA-rated corporate bonds with a maturity of more than ten years, estimated on the date the commitments are measured). This index uses a basket of bonds composed of financial and non-financial stocks.

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

	31/12/2008	Additions Charge	Disposals Reversals	31/12/2009	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*		
Participating interests	**1,057,496**		**-417**	**1,057,079**	**611**	**1,057,079**
Participating interests	1,057,794		-695	1,057,099	611	1,057,099
Provisions on participating interests	*-298*		*278*	*-20*		*-20*
Long-term investments and own shares	**12,502**	**81,947**	**-6,976**	**87,473**		
Receivables, loans, other investments	**327,212**		**-260,418**	**66,794**		**66,794**
Other investments	327,212		-260,418	66,794		66,794
TOTAL	**1,397,420**	**81,947**	**-267,811**	**1,211,556**	**634**	**1,123,873**

Own shares classified as non-current assets and as marketable securities

- Allocations to Group employees, managers and Corporate Officers (see paragraph 3.5):

  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,
- 31 July 2009 performance share allocation plan,
- 17 November 2009 “Value 09” share allocation plan,
- 17 December 2009 “123” share allocation plan.

In 2009 Vallourec made a final allocation of 39,092 shares (€0.4 million) under the terms of the first tranche of the 3 May 2007 performance share allocation plan at the end of the two-year acquisition period and sold 7,273 shares, corresponding to the exercise of 7,273 shares 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 2009, Vallourec held 32,500 shares with a value of €3.7 million.

In 2009, in accordance with the agreements entered into by the two companies concerning the exchange of shareholdings, Vallourec acquired 47,194,000 Sumitomo Metals Industries’ shares for USD 120 million. These shares are included within long-term investments.

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. In 2009, V & M Tubes repaid USD 355 million (€257.4 million).

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2. MARKETABLE SECURITIES

	31/12/2008	**31/12/2009**	Measurement 31/12/2009	Loss provided for	Unrealized gain
MUTUAL and investment funds	4,893	16,967	16,980		13
TOTAL	**4,893**	**16,967**	**16,980**		**13**

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 Vallourec & Mannesmann Tubes (V & M Tubes). Vallourec became 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 at €6 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 the "123" share allocation plan.

	31/12/2008	Acquisition Charge	Disposal Reversal	**31/12/2009**
Own shares	5,968			5,968
Impairment provision	-1,938		1,938	0
TOTAL	**4,030**		**1,938**	**5,968**

3. RECEIVABLES AND PAYABLES

Assets at 31/12/2009	Gross value	Of which accrued receivables	Of which affiliated companies	Gross value -1 year	Gross value +1 year
Receivables, loans and other investments	**66,794**	**849**	**66,794**	**849**	**65,945**
Trade receivables	**612**			**612**	
Advances and deposits paid to suppliers	32			32	
Accounts receivable					
Other trade receivables	580			580	
Other receivables	**927,349**		**911,793**	**927,349**	
Intra-Group cash advance	911,737		911,737	911,737	
Sundry receivables	15,612		56	15,612	
TOTAL	**994,755**	**849**	**978,587**	**928,810**	**65,945**

Loans granted during the year: nil.

Loans repaid during the year: €257,401 thousand.

Receivables represented by commercial paper: nil.

Liabilities at 31/12/2009	Gross value	Of which accrued payables	Of which affiliated companies	-1 year	+1 year	+5 years
Bank loans and other borrowings	**571,646**	**3,323**		**3,334**	**468,306**	**100,006**
Bank borrowings	571,601	3,323		3,323	468,278	100,000
Other borrowings	45			11	28	6
Intra-Group cash advance						
Trade payables	**2,888**	**1,185**	**631**	**2,888**		
Accounts payable	1,370	288	631	1,370		
Tax and social security liabilities	1,518	897		1,518		
Other liabilities	**53,066**	**126**	**52,923**	**53,066**		
Tax liabilities (income tax)						
Sundry liabilities	53,066	126	52,923	53,066		
TOTAL	**627,600**	**4,634**	**53,554**	**59,288**	**468,306**	**100,006**

Loans drawn down during the year: €100,000 thousand.

Loans repaid during the year: €97,167 thousand (see paragraph 3.7).

Liabilities represented by commercial paper: nil.

Accrued charges within “Bank borrowings” represent accrued interest at the period end.

4. TRANSLATION DIFFERENCES ON FOREIGN CURRENCY DENOMINATED RECEIVABLES AND PAYABLES

At 31/12/2009	Amount	Of which offset by foreign currency hedges	Provisions for foreign exchange losses
Translation differences – unrealized losses			
Reduction in receivables			
Increase in liabilities	3,293	3,293	
Translation differences – unrealized gains			
Increase in receivables	4,412	4,412	
Reduction in liabilities			

The translation of the USD 300 million debt taken out in May 2008 (paragraph 3.7) generated an unrealized translation loss of €3.3 million. This debt is hedged by the USD 95 million loan granted to the subsidiary V & M Tubes (paragraph 3.1), which produced the opposite effect, i.e. an unrealized translation gain of €4.4 million and by the implementation of foreign exchange hedging instruments totalling USD 205 million.

No provision for foreign exchange losses was recognized in respect of the unrealized translation loss as at 31 December 2009.

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5. EQUITY

The changes in shareholders' equity are shown below:

	Number of shares	Capital	Net profit (loss) for the financial year	Additional paid-in capital and reserves	Equity
As at 31/12/2007	**53,038,720**	**212,155**	**553,894**	**-18,243**	**747,806**
Allocation of net profit 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 profit 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**
Allocation of net profit for 2008			-730,836	730,836	
Capital increase	3,492,073	13,968		256,400	270,368
Revaluation reserve					
Dividend paid				-320,821	-320,821
Interim dividend					
Net profit for 2009			427,377		427,377
Change	**3,492,073**	**13,968**	**-303,459**	**666,415**	**376,924**
As at 31/12/2009	**57,280,789**	**229,123**	**427,377**	**876,513**	**1,533,013**

Vallourec's issued capital comprised 57,280,789 ordinary shares with a nominal value of €4 per share fully paid-up as at 31 December 2009 compared with 53,788,716 shares with a nominal value of €4 per share fully paid-up as at 31 December 2008.

The reserve account to which is posted the corresponding credit to the debit in respect of the carrying amount of the own shares (254,714 shares) had a balance of €16 million.

The capital increase resulting from the payment of the dividend in shares, at the shareholder's option, at the price of €74.28, led to the issue of 2,783,484 new shares, i.e. a capital increase of €206.8 million, including issue premium net of expenses.

In accordance with the Group's employee share ownership policy, in 2009 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 between 15 October and 11 November 2009, i.e. €91.74.

The capital increase reserved for employees and the bank guaranteeing the leverage effect of the share ownership plan resulted in the issue of 708,589 new shares, giving a capital increase of €63.6 million, including issue premium net of expenses.

Employee share ownership

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, 2008 and 2009 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	**2009 plan**
Allocation date	11/06/2003	03/09/2007	01/09/2008	01/09/2009
Maturity date	11/06/2007	03/09/2011	01/09/2012	01/09/2013
Expiry date	10/06/2010	03/09/2014	01/09/2015	01/09/2019
Number of beneficiaries at outset	148	65	9	303
Exercise price in euros	10.73	190.60	183.54	103.34
Exercise price in euros adjusted following rights offering on 13 July 2005	10.57	n/a	n/a	n/a
Number of options granted	965,000	147,300	71,800	289,400
Adjustment to the number of options following the rights offering on 13 July 2005	14.480	n/a	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)	2007	2008	**2009**
Total at start of year	996,390	184,414	236,517
Options distributed	147,300	71,800	289,400
Options exercised	-955,466	-12,697	-7,273
Options not exercised at expiry date	-3,810	-	-
Options cancelled (*)	-	-7,000	-1,500
TOTAL AT END OF YEAR	**184,414**	**236,517**	**517,144**
Of which options remaining to be exercised	*37,114*	*24,417*	*17,144*

(*) Beneficiaries who have left the Group

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

	2007	2008	**2009**
2003 plan	37,114	24,417	17,144
2007 plan	147,300	140,300	138,800
2008 plan	-	71,800	71,800
2009 plan	-	-	289,400

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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 2007, 2008 and 2009.

The characteristics of these plans are as follows:

	2007 plan (*)	2008 plan (**)	"Value 08" plan	**2009 plan** (***)	**"Value 09" plan**	"123" plan (****)
Allocation date	03/05/2007	01/09/2008	16/12/2008	31/07/2009	17/11/2009	17/12/2009
Acquisition period	2, 3 and 4 years	2 and 3 years	4.5 years	2 years (French residents) or 4 years (non-French residents)	4.6 years	2 years (French residents) or 4 years (non-French residents)
Holding period	2 years	2 years	-	2 years (French residents) or none (non-French residents)	-	2 years (French residents) or none (non-French residents)
Number of beneficiaries at outset	280	41	8,697	53	8,097	17,067
Theoretical number of shares allocated	111,000	11,590	33,856	13,334	34,700	51,201

(*) 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.

(***) The definitive allocation, in terms of numbers of shares, will be allocated in 2011 in the case of French residents and in 2013 in the case of non-French residents and will be based on the Vallourec Group's performance in terms of consolidated EBITDA in 2010 and 2011. It will be calculated by applying a performance factor, calculated for the two 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 2011 in the case of French residents and in 2013 in the case of non-French residents based on the Vallourec Group's performance in terms of consolidated EBITDA for the period from 1 January 2010 to 30 September 2011.The number of shares actually acquired by each beneficiary at the end of the acquisition period can range from 0 to 3.

Change in number of shares

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

	2007 plan	2008 plan	"Value 08" plan	**2009 plan**	**"Value 09" plan**	"123" plan
Initial theoretical number of shares allocated	111,000	11,590	33,856	13,334	34,700	51,201
Number of shares cancelled	-10,729	-	-447	-	-	-
Number of shares acquired or being acquired	100,271	11,590	33,409	13,334	34,700	51,201
Number of shares delivered	39,092	-	-	-	-	-

6. PROVISIONS FOR LIABILITIES AND CHARGES

The change in provisions for liabilities and charges is shown below:

	31/12/2008	Charge	Reversals used	Reversals of provisions no longer needed	**31/12/2009**
Provisions for liabilities and charges					0
Provisions for retirement commitments	56	2	-30		28
Provisions for additional retirement commitments		488			488
Provisions for charges re performance shares	761	100	-351		510
TOTAL	**817**	**590**	**-381**	**0**	**1,026**

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.

The balance of the provision for charges relating to the performance share plans (2007, 2008 and 2009 plans) totalled €0.5 million (see paragraph 3.5).

Retirement provisions

The total commitment in respect of retirement plans as at 31 December 2009 is €0.2 million.

The actuarial gains not recognized totalled €0.1 million. 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 method.

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 March 2005, a seven-year credit facility totalling €460 million, which may be drawn down 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 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 2009, a tranche of €260 million had been drawn down. The other tranche of USD 150 million drawn down in 2008 has been repaid.

- In 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 has been using the USD 300 million term loan since May 2008.

- In November 2008, the Company took out a €100 million loan with the Crédit Agricole Group with an initial term of six years (expiring on 27 October 2014). In 2009, the term was extended by one additional year, making the final maturity date 27 October 2015. 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) on the bank loans and other borrowings of €260 million and USD 300 million was a negative amount of €25 million at 31 December 2009.

Information on exchange rate risk

At 31 December 2009, the USD 300 million borrowing was fully hedged, partly by a USD 95 million receivable due to the American subsidiaries and partly by means of a currency swap.

D – Notes to the income statement

OPERATING REVENUES

Other operating revenues: Vallourec invoiced fees totalling €1.1 million for the use of its brand name.

FINANCIAL CHARGES AND INCOME CONCERNING AFFILIATED COMPANIES

Financial charges: nil.

Financial income: €450,520 thousand.

NET EXCEPTIONAL INCOME

Net exceptional income for the year amounted to €4.5 million.

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 gain of €5.6 million, the charge of €0.4 million associated with the exercise of the 2007 performance share allocation plan (see paragraph 3.1) and the liquidation loss of €0.6 million in respect of the US subsidiary Vallourec Inc.

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E – Other information

AVERAGE NUMBER OF EMPLOYEES

The Company's staff comprises six 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 2009, the tax group comprised Vallourec, Assurval, Interfit, Starval, Vallourec Composants Automobiles Hautmont, Valti, Valtimet, Valsept, Sopreneuf, Valinox Nucléaire, Vallourec & Mannesmann 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 profit 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 profit of losses generated by Vallourec itself and tax losses carried forward definitively belonging to Vallourec.

In respect of 2009:

The net tax credit in the income statement amounted to €11,560 thousand.

It can be broken down as follows:

- tax charge relating to Vallourec €0;
- tax credit relating to the tax group €11,560 thousand.

At 31 December 2009, the saving recognized by Vallourec, which heads the tax group in France, totalled €27.7 million, which was recognized as a liability in the balance sheet.

The Vallourec tax group was in a loss-making situation in 2009, with losses carried forward totalling €10.4 million at the end of 2009.

Increase and reduction in future tax liabilities

Nature of temporary differences	Amount at 31/12/2009 (base)
Reductions	
Provision for retirement commitments	517
Provision for employee share ownership arrangements	229
Provision for paid holidays	15
Solidarity social security contribution provision	2
Unrealized gains on UCITS	13

Vallourec was in a loss-making situation in 2009, with tax losses carried forward totalling €20.2 million at the end of 2009.

Breakdown of income tax between operating profit (loss) and exceptional income (loss)

	Profit before tax	Tax due	Net profit
Operating profit (loss)	411,275		411,275
Exceptional income (loss)	4,542		4,542
Sub-total	**415,817**	**0**	**415,817**
Charge specific to Vallourec			0
Income relating to the tax group		11,560	11,560
TOTAL VALLOUREC	**415,817**	**11,560**	**427,377**

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REMUNERATION OF MEMBERS OF ADMINISTRATIVE AND MANAGEMENT BODIES

Administrative bodies

Board attendance fees paid during the year amounted to €0.4 million.

Management bodies

This information is not provided as it is not relevant in relation to the assets and liabilities, financial position and net profit of Vallourec.

OFF-BALANCE-SHEET COMMITMENTS

Off-balance-sheet commitments are as follows:

Retirement gratuities: €177 thousand (actuarial deficit).

The company has not issued any form of collateral against its liabilities.

EVENTS AFTER THE REPORTING PERIOD

No events occurred between 31 December 2009 and 23 February 2010, 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.

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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 THE ADMINISTRATION, MANAGEMENT AND SUPERVISORY BODIES AT 31 DECEMBER 2009

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				
Philippe Crouzet (*)	1956	01/04/2009	–	15/03/2012
Members				
Jean-Pierre Michel – Chief Operating Officer (*)	1955	01/04/2006	04/06/2008	15/03/2012
Olivier Mallet	1956	30/09/2008	–	15/03/2012

(*) 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.

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List of positions held by members of the Management Board at 31 December 2009

Philippe CROUZET (1)

Date of first appointment: 1 April 2009

Date appointment most recently renewed: not applicable

Date on which appointment ceases: 15 March 2012

Date of birth: 18 October 1956

Business address:

Vallourec
27, avenue du Général Leclerc
92100 Boulogne-Billancourt

Expertise and managerial experience

- Graduate of *École Nationale d'Administration;*
- Counsel *(Maître des requêtes)* to the *Conseil d'État;*
- Twenty-three years experience with the Saint-Gobain group;
- Chairman of the Management Board of Vallourec since 1 April 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 (since 01/04/2009) • Chairman of Vallourec & Mannesmann Tubes (since 01/04/2009) • Chairman of the Supervisory Board of V & M France (since 01/04/2009) • Director of VMOG France (since 01/05/2009) **Positions held in foreign companies** • Director of V & M do Brasil (Brazil) (since 31/07/2009) • Director of Finalourec (Luxembourg) (since 01/04/2009)	**Positions held in French companies** • Director of Electricité de France
Positions expired within the last five years	**Positions held in French companies** • Member of the Supervisory Board of Vallourec (up to 31/03/2009)	**Positions held in French companies** • Chairman of Saint-Gobain Distribution Bâtiment (up to March 2009) • Chairman of the Supervisory Board of Point P (up to March 2009) • Chairman of the Supervisory Board of Lapeyre (up to March 2009) • Chairman of Aquamondo (up to March 2009) • Chairman of Partidis (up to March 2009) • Chairman of Projeo (up to March 2009) **Positions held in foreign companies** • Chairman of Saint-Gobain Distribution (Switzerland) (up to March 2009) • Chairman of Saint-Gobain Distribution Nordic (Sweden) (up to March 2009) • Chairman of the Board of Directors of Dahl International (Sweden) (up to March 2009) • Member of the Supervisory Board of Raab Karcher Baustoffe (Germany) (up to March 2009) • Director of Saint-Gobain Cristaleria (Spain) (up to March 2009) • Director of Norandex Distribution (United States) (up to March 2009) • Director of Saint-Gobain Building Distribution (United Kingdom) (up to March 2009) • Director of Jewson (United Kingdom) (up to March 2009) • Director of Meyer Owerseas Investment (United Kingdom) (up to March 2009)

(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.

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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).

	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 and Chief Operating Officer of Vallourec (since 07/03/2006 and 25/02/2009, respectively) • Director and CEO of Vallourec & Mannesmann Tubes (since 15/03/2006 and 07/11/2006, respectively) • Member of the Supervisory Board of V & M France (since 21/06/2005) • Director of VMOG France (since 13/11/2002) • Director of Valtimet (since 29/12/2006) • Director of Valti (since 30/04/2007) • Director of Interfit (since 28/05/2004) • Director of V & M Services (since 28/04/2006) • Director of Valinox Asia (since 18/06/2004) • Director of Valinox Nucléaire (since 28/05/2004) • Director of VAM Drilling France (since 14/02/2007) • Manager of V & M One (since 02/06/2004) **Positions held in foreign companies** • Chairman of the Supervisory Board of V & M do Brasil (Brazil) (since 31/10/2008) • Director of V & M do Brasil (Brazil) (since 30/04/2008) • Director of Vallourec & Sumitomo Tubos do Brasil (Brazil) (since 19/07/2007) • Chairman of the Board of Directors of Vallourec Industries Inc. (United States) (since 01/07/2001) • Director of V & M Holdings (United States) (since 10/06/2004) • Member of the Supervisory Board of VAM USA (United States) (since 01/01/2001) • Member of the Executive Committee of V & M Two (United States) (since 31/12/2009) • Member of the Executive Committee of V & M Star (United States) (since 28/06/2002) • Director of V & M USA Corp. (United States) (since 03/05/2000) • Director of Vallourec Inc. (United States) (since 21/03/2007) • Director of VAM Drilling USA (United States) (since 15/09/2005) • Chairman of the Board of Directors and Director of Finalourec (Luxembourg) (since 06/06/2008) • Director of VMOG UK (United Kingdom) (since 29/06/2000)	None

(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.

	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions expired within the last five years	**Positions held in French companies** • Chairman of Valtimet (up to 22/04/2008) • Director of VCAV (up to 16/11/2007) • Director of VPS (up to 16/11/2007) • Director of VPE (up to 02/07/2007) • Director of ValTubes (up to 29/12/2006) **Positions held in foreign companies** • Chairman of the Board of Directors of V & M do Brasil (Brazil) (up to 31/07/2009) • Chairman of the Board of Directors of Vallourec Industries Inc. (United States) (up to 31/03/2009) • Director of V & M Atlas Bradford (United States) (up to 27/02/2009) • Director of V & M TCA (United States) (up to 24/02/2009) • Member of the Supervisory Board of V & M Deutschland (Germany) (up to 31/03/2009)	**Positions held in French companies** • Director of Akantis S.A. (up to December 2005)

Olivier MALLET

Date of first appointment: 30 September 2008

Date appointment most recently renewed: not applicable

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-Billancourt

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 (since 30/09/2008) • Chairman and CEO of V & M Services (since 30/09/2008) • CEO and Director of Vallourec & Mannesmann Tubes (since 29/07/2008) • Member of the Supervisory Board of V & M France (since 29/10/2008) • Director of Vallourec Mannesmann • Director of Oil & Gas France (since 30/09/2008) • Director of Interfit (since 30/09/2008) • Director of Valti (since 30/09/2008) • Director of Valtimet (since 12/12/2008) **Positions held in foreign companies** • Chairman of Vallourec Industries Inc. (United States) (since 01/04/2009) • Chairman of V & M Holdings (United States) (since 01/04/2009) • Member of the Supervisory Board of V & M Deutschland (Germany) (since 23/07/2008)	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 for a term expiring on 15 March 2012.

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	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	• Director of V & M do Brasil (Brazil) (since 31/10/2008) • Director of Vallourec Tubes Canada (Canada) (since 30/09/2008) • Director of V & M Holdings (since 30/09/2008) • Director of V & M USA Corp. (since 29/09/2008) • Director of V & M Tube-Alloy™ (since 30/09/2008) • Director of Vallourec Industries Inc. (since 30/09/2008) • Director of VAM Drilling USA (United States) (since 29/09/2008) • Member of the Executive Committee of V & M Two (since 31 December 2009) • Member of the Executive Committee of VAM USA (since 27/02/2009) • Member of the Executive Committee of V & M Star (United States) (since 29/09/2008) • Director of Finalourec (Luxembourg) (since 30/09/2008)	None
Positions expired within the last five years	**Positions held in foreign companies** • Director of V & M Atlas Bradford® (United States) (up to 27/02/2009) • Director of V & M TCA (United States) (up to 24/02/2009)	**Positions held in French companies** • Chairman and CEO of CFMM (up to May 2008) • Chairman and CEO of CMM (up to March 2008) • Chairman of ANC Expansion 1 (up to June 2008) • Chairman of SET (up to March 2008) • Member of the Supervisory Board of Eurodif (up to June 2008) • Permanent representative of Areva NC on the Boards of Directors of Comurhex and Sofidif (up to September 2008) • Director of SGN, TN International (up to June 2008) • Chairman of CFMM Développement (up to October 2007) **Positions held in foreign companies** • Director of Songaï Mining Corp. (South Africa) (up to May 2008) • Chairman of the Board of Directors of UG GmbH (Germany) (up to September 2008) • Director of Cogema Deutschland (Germany) (up to September 2007) • Director of Areva NC Australia (Australia) (up to May 2008) • Director of La Mancha Ressources (Canada) (up to June 2008) • Director of Areva Ressources Canada (Canada) (up to May 2008) • Chairman of the Board of Directors of PMC Inc. and of Comin (United States) (up to June 2008) • Director of Areva NC Inc. (United States) (up to August 2008) • Director of CRI USA (United States) (up to June 2008) • Director of Katco (Kazakhstan) (up to July 2008) • Vice-Chairman, permanent representative of Areva NC on the Board of Directors of Cominak (Nigeria) (up to June 2008) • Chairman of the Board of Directors, permanent representative of Areva NC on the Board of Directors of Somair (Nigeria) (up to June 2008)

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6.1.1.2 Supervisory Board

	Year of birth	Date of first appointment to the Supervisory Board	Date appointment most recently renewed	Date on which appointment ceases	Other main positions held
Chairman					
Jean-Paul Parayre	1937	13/06/1989	Ordinary Shareholders' Meeting (OSM) 01/06/2006	2011 OSM 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	OSM 01/06/2006	2011 OSM to approve financial statements for year ended 31/12/2010	Chairman and CEO of DCNS
Members					
Jean-François Cirelli (*)	1958	13/05/2009	–	2012 OSM to approve financial statements for year ended 31/12/2011	Vice-Chairman and Chief Operating Officer of GDF SUEZ
Michel de Fabiani	1945	10/06/2004	–	2010 OSM to approve financial statements for year ended 31/12/2009	Director of BP France and Rhodia
Denis Gautier-Sauvagnac	1943	07/02/1997	OSM 01/06/2006	2011 OSM to approve financial statements for year ended 31/12/2010	
François Henrot	1949	08/06/1999	OSM 07/06/2005	2011 OSM to approve financial statements for year ended 31/12/2010	Managing Partner of Rothschild & Cie
Edward G. Krubasik	1944	06/03/2007	OSM 04/06/2008	2012 OSM 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	OSM 06/06/2007	2010 OSM to approve financial statements for year ended 31/12/2009	Member of the Management Board of Vallourec up to 30 June 2001
Bolloré represented by Thierry Marraud	1942	13/11/2008	–	2010 OSM to approve financial statements for year ended 31/12/2009	CFO of Bolloré group
Censeurs					
Arnaud Leenhardt Honorary Chairman	1929	–	–	2010 OSM 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 OSM to approve financial statements for year ended 31/12/2011	Lawyer and Professor of International Law

(*) At its meeting on 13 May 2009, the Supervisory Board appointed Mr Jean-François Cirelli as a member of the Supervisory Board to replace Mr Philippe Crouzet, who had resigned, for the remainder of his term of office, i.e. until the OSM called to approve the financial statements for the year ended 31 December 2011. This appointment was ratified by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 as required by the law and regulations.

Positions held by members of the Supervisory Board at 31 December 2009

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: Shareholders' 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

- Chairman of the Management Board of PSA Peugeot-Citroën (1977-1984);
- COO then Chairman of the Management Board of Dumez (1984-1990);

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- Vice-President and COO of Lyonnaise des Eaux Dumez (1990-1992);
- Vice-President and COO of Bolloré (1994-1999);
- CEO of Saga (1996-1999).

	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 • Permanent representative of Vallourec on the Board of Directors of Vallourec & Mannesmann Tubes	**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 Société Financière du Planier **Positions held in foreign companies** • Manager B of Stena International Sarl (Luxembourg) (*)
Positions expired within the last five years	**Positions held in French companies** • Permanent representative of Vallourec on the Board of Directors of ValTubes (up to 29/12/2006) **Positions held in foreign companies** • Member of the Advisory Board of V & M do Brasil (up to 06/10/2006)	**Positions held in foreign companies** • Director of SNEF (up to June 2009) • Director of Stena International BV (Netherlands) (up to October 2006) • Director of SDV Cameroun (up to October 2005) • Director of Stena Line (Sweden) (up to June 2005)

(*) Position held within the Stena group.

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: Shareholders' 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 *École 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 • Member of the Supervisory Board of Steria
Positions expired within the last five years	None	**Positions held in French companies** • CEO of Cegelec (up to 31/12/2008) • Chairman and CEO of Chantiers de l'Atlantique (up to March 2008) • Chairman of Chambre syndicale des Constructeurs de navires (up to July 2006) • Chairman and CEO of Ateliers de Montoir (up to 2005) • Director of Sperian Protection (up to June 2009) • Director of Aker Yard (up to 2006) • Director of École des Mines de Nantes (up to 2006) • Director of Société Nationale de Sauvetage en Mer (SNSM) (up to 2005)

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Jean-François CIRELLI [1]

Date of first appointment: 13 May 2009

Date appointment most recently renewed: not applicable

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2011

Date of birth: 9 July 1958

Business address:

GDF Suez
22, rue du docteur Lancereaux
75392 Paris Cedex 08

Expertise and managerial experience

- Former pupil of *École Nationale d'Administration,* law degree;
- Various positions within the French Ministry for Economy and Finance's Treasury department (1985-1995);
- Technical advisor to the French Presidency (1995-1997);
- Economic advisor to the French Presidency (1997-2002);
- Deputy Director of the Prime Minister's office (2002-2004);
- Chairman and CEO of Gaz de France (2004-2008);
- Vice-Chairman and Chief Operating Officer of GDF SUEZ since July 2008.

	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** • Vice-Chairman and Chief Operating Officer of GDF SUEZ (*) • Director of GDF Suez Énergie Services (*) • Director of Suez Environnement Company **Positions held in foreign companies** • Chairman of the Board of Directors of Electrabel (Belgium) (*) • Director of Suez-Tractebel (Belgium)(*)
Positions expired within the last five years	None	**Positions held in French companies** • Chairman and CEO of Gaz de France (up to July 2008) • Chairman of *Fondation d'entreprise Gaz de France* (up to December 2009) • Director of Neuf Cegetel (up to March 2009) • Member of the Supervisory Board of Atos Origin (up to February 2009)

(*) Position held within the GDF-Suez group.

(1) At its meeting on 13 May 2009, the Supervisory Board appointed Mr Jean-François Cirelli as a member of the Supervisory Board to replace Mr Philippe Crouzet, who had resigned, for the remainder of his term of office, i.e. until the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011. This appointment was ratified by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 as required by the law and regulations.

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Michel de FABIANI

Date of first appointment: 10 June 2004

Date appointment most recently renewed: not applicable

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2009 (1)

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

- CFO BP Europe (1991-1994);
- CEO of BP Mobil Europe joint-venture (1997-2001);
- Vice-Chairman of BP Europe (1997-2004);
- Chairman of BP France (1995-2004).

	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 • Director of Valeo • Chairman of the Franco-British Chamber of Commerce **Positions held in foreign companies** • Director of EBtrans (Luxembourg) • Chairman of Hertford British Hospital Corporation (United Kingdom)
Positions expired within the last five years	None	**Positions held in French companies** • Director of Institut Français du Pétrole (up to March 2005) **Positions held in foreign companies** • Director of Star Oil (Mali) (up to September 2009) • Director of SEMS (Morocco) (up to May 2009)

(1) The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010 is asked to renew, in accordance with Article 10.1 of the Company's by-laws, the appointment of Mr Michel de Fabiani as a member of the Supervisory Board for a term of four (4) years to expire at the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2013. Mr Michel de Fabiani is deemed an independent member in accordance with the criteria set forth in Article 8 of the AFEP-MEDEF Code.

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Denis GAUTIER-SAUVAGNAC

Date of first appointment: 7 February 1997

Date appointment most recently renewed: 1 June 2006

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2010

Date of birth: 28 May 1943

Business address:

Conseil Économique, Social et Environnemental
1, place d'Iéna
75116 Paris

Expertise and managerial experience

- Graduate of *École Nationale d'Administration* (1967) and General Inspector of Finance;
- CEO of an agri-food group (1979-1985);
- Chairman and CEO of the French subsidiary of a UK merchant bank (1990-1993).

	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 • Member of the Economic, Social and Environmental Council • Chairman and CEO of Accor Sciences
Positions expired within the last five years	None	**Positions held in French companies** • President and Managing Director of UIMM (up to November 2007) • Vice-President and Managing Director of UIMM (up to March 2006) • Managing Director of UIMM (up to March 2008) • Chairman of the Board of Directors of UNEDIC (up to December 2005) • Vice-Chairman of the Board of Directors of UNEDIC (up to January 2008) • Member of the Executive Board of MEDEF (up to December 2007) • Chairman of the MEDEF *Commission Relations du Travail* (up to November 2007) • Member of the Supervisory Board of France Convention (up to 2005)

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François HENROT

Date of first appointment: 8 June 1999

Date appointment most recently renewed: 7 June 2005

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2010

Member of the Strategy Committee within the Supervisory Board

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).

	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 **Positions held in foreign companies** • Member of the Supervisory Board of Yam Invest N.V. (Netherlands)
Positions expired within the last five years	None	**Positions held in French companies** • Member of the Supervisory Board of Cogedim (up to 2007) • Director of Eramet (up to 07/03/2007)

(1) Position held within the Rothschild group.

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Edward-Georg KRUBASIK

Date of first appointment: 6 March 2007

Date appointment most recently renewed: not applicable

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2011

Chairman of the Strategy Committee within the Supervisory Board

Member of the Finance and Audit 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 Siemens 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).

	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 Federal Government Commission for Innovation and Growth • 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) • Member of the Supervisory Board of Asahi Tec (Japan)
Positions expired within the last five years	None	**Positions held in French companies** • Chairman of the Board of Directors of Siemens France SA (up to October 2006) **Positions held in foreign companies** • Chairman of the Federal Committee of the Economic, Development and Innovation Council (Germany) (up to September 2008) • Chairman of the Federation of the Electrical and Electronics Industry (Germany) (up to November 2008) • Vice-Chairman of the Federation of German Industries (Germany) (up to September 2006) • Member of the Supervisory Board of Dresdner Bank (Germany) (up to December 2008) • Chairman of Orgalime (European association) (up to November 2007) • Chairman of the Supervisory Board of Siemens VDO (up to September 2006)

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BOLLORÉ [1] represented by Thierry MARRAUD

Date of first appointment: 13 November 2008

Date appointment most recently renewed: not applicable

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2009 [2]

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	**Positions held in French companies** • Chairman of Compagnie Saint-Gabriel (*) • Director of Bolloré Média (*), Direct Soir (*), Havas, IER (*), SFDM (*), Société de Culture des Tabacs et Plantations Industrielles (*), Financière Moncey (*), Société Française de Production, Direct 8 (*), Financière de Cézembre (*), MP 42 (*), Saga (*), Transisud (*), BatScap (*), Fred & Farid • Member of the Supervisory Board of CSA TMO Holding (*) **Positions held in foreign companies** • Director of S.E.T.V. (Ivory Coast) (*)
Positions expired within the last five years	None	**Positions held in French companies** • Director of Video Communication France (up to 28/11/2007) • Director of Euro Media Télévision (up to 28/09/2007) • Director of SFP Holding (up to 29/06/2005) **Positions held in foreign companies** • Director of Comarine (Morocco) (up to 31/07/2007)

(*) Position held within the Bolloré group.

Thierry MARRAUD

Date of first appointment: 10 June 2004

Date appointment most recently renewed: not applicable

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2009 [3]

Member of the Finance and Audit 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 of the Mechanical Paper and Packaging division;
- 5 years as a member of the Executive Committee of Crédit Lyonnais (1995-2000), CEO of Marsh MacLennan France (2001-2002) and CFO of Bolloré group (2003-2008), Central Director of the head office since 2008.

(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 was, in accordance with the legislation and regulations, ratified 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.

(2) The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010 is asked to renew, in accordance with Article 10.1 of the Company's by-laws, the appointment of Bolloré as a member of the Supervisory Board for a term of four (4) years to expire at the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2013. Bolloré is deemed an independent member in compliance with the criteria set forth in Article 8 of the AFEP-MEDEF Code.

(3) Mr Thierry Marraud sits on the Board as the permanent representative of Bolloré until decided otherwise. The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010 is asked to renew, in accordance with Article 10.1 of the Company's by-laws, the appointment of Bolloré as a member of the Supervisory Board for a term of four (4) years to expire at the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2013.

	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies** • Permanent representative of Bolloré on Vallourec's Supervisory Board	**Positions held in French companies** • Chairman, CEO and Director of SAFA (*) • Chairman of the Management Board of Compagnie du Cambodge (*) • Member of the Supervisory Board of Euro Média group • Chairman of Domaine de la Croix (*), Compagnie des Glénans (*), Compagnie de Lanmeur (*), Financière de l'Argol (*), Compagnie de Broceliande (*), Compagnie de Dinan (*) and Financière de l'Ile Tudy (*) • Director of BGFI International • Permanent representative of Bolloré (*) on the Board of Financière de Cézembre (*) • Representative of Compagnie du Cambodge (*) on the Boards of IER (*), Société Bordelaise Africaine (*) and Société Industrielle et Financière de l'Artois (*) • Permanent representative of Financière de l'Odet on the Boards of Saga (*) and SFDM (*) • Permanent representative of Financière V (*) on the Board of Bolloré • Permanent representative of MP 42 (*) 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 (*), Cook Redlands Corporation (*) and of PTR Finances (*) • 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 (*), JSA Holding BV (*), Financière de Kéréon (*), S.F.A SA (*) and BB group (*) • Permanent representative of S.F.A SA on the Boards of Dumbarton Invest SA, Latham Invest SA, Morisson Investissements SA, Madison Investissements SA, Montrose Invest SA, Peachtree Invest SA, Renwick Invest SA, Elycar Investissemments SA, Cormoran Participations SA and Arlington Investissements SA
Positions expired within the last five years	**Positions held in French companies** • Permanent representative of Financière de Sainte-Marine on Vallourec's Supervisory Board (up to 13/11/2008)	**Positions held in French companies** • Chairman and CEO of Compagnie des Glénans (up to 11/06/2009) • Chairman of Financière de Sainte-Marine (up to 31/12/2008) • Chairman of Financière de Douarnenez (up to 18/02/2008) • Director of Compagnie des Glénans (up to 11/06/2009) • Director of Havas (up to 05/03/2008) • Permanent representative of Financière de l'Odet on the Board of Directors of Société Française de Production (up to 07/12/2007) • Permanent representative of Bolloré on the Board of Directors of SFDM (up to 25/10/2006) • Member of the Supervisory Board of Emin Leydier (up to 25/05/2007) then Director (up to 30/07/2009) **Positions held in foreign companies** • Director of Forestière Équatoriale (up to 03/04/2009)

(*) Position held within the Bolloré group.

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Jean-Claude VERDIÈRE

Date of first appointment: 1 July 2001

Date appointment most recently renewed: 6 June 2007

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2009 (1)

Chairman of the Finance and Audit Committee within the Supervisory Board

Member of the Strategy Committee within the Supervisory Board

Member of the Appointments and Remuneration 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.

	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 • Director of Vallourec & Mannesmann Tubes	None
Positions expired within the last five years	**Positions held in French companies** • Director of ValTubes (up to 29/12/2006)	None

Censeurs (non-voting members)

Arnaud LEENHARDT

Censeur

Date of first appointment: 1 June 2006

Date appointment most recently renewed: not applicable

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2009 (2)

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 *École Polytechnique;*
- 40 years with the Vallourec Group, mainly in plant and general management;
- Chairman and CEO of Vallourec (1981-1994);
- Chairman of the Supervisory Board of Vallourec (1994-2000).

	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 Fives (ex Fives-Lille)
Positions expired within the last five years	None	**Positions held in French companies** • Member of the Supervisory Board of ODDO et Cie (up to June 2009) • Director of AON France (up to 01/01/2009)

(1) The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010 is asked to renew, in accordance with Article 10.1 of the Company's by-laws, the appointment of Mr Jean-Claude Verdière as a member of the Supervisory Board for a term of two (2) years to expire at the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011. Having reached the statutory age limit of 70 years, Mr Jean-Claude Verdière can be re-appointed once, for a maximum term of two years, in accordance with Article 10-1 of the Company's by-laws. Mr Jean-Claude Verdière is deemed an independent member in compliance with the criteria set forth in Article 8 of the AFEP-MEDEF Code.

(2) Mr Arnaud Leenhardt's term of office as a censeur expires at the end of this Shareholders' Meeting. Mr Leenhardt spent his entire career with the Vallourec Group of which he was Chairman from 1981 to 2000. Mr Leenhardt was behind many of the key decisions that have ensured the Group's development and the success of its products.

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Luiz-Olavo BAPTISTA

Censeur

Date of first appointment: 4 June 2008

Date appointment most recently renewed: not applicable

Date on which appointment ceases: Shareholders' 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.

	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 **Positions held in foreign companies** • Member of the Advisory Board of V & M do Brasil	**Positions held in foreign companies** • Director of De La Ronce (Luxembourg) • Director of Vale do Mogi (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 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 Guala Closures do Brasil (Brazil) • 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 expired within the last five years	**Positions held in French companies** • Member of the Supervisory Board of Vallourec (up to 10/04/2008)	**Positions held in foreign companies** • Member of the Management Board of Bedford Investor C/V (Netherlands) (up to December 2006) • Member of the Management Board of VDM Trading Limited (Ometto group) (BVI) (up to September 2006) • Chairman of the Board of Directors of Oxon Participaçoes (Brazil) (up to October 2005) • Legal officer of Eagle River Holdings (BVI) (up to 16/03/2009)

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6.1.1.3 Executive Committee

At 31 December 2009, Vallourec's Executive Committee was composed of the following members:

Philippe Crouzet	Chairman of the Management Board
Flavio de Azevedo	Chief Executive Officer of V & M do Brasil
Pierre Frentzel	Managing Director of the Oil & Gas division
Jean-Yves Le Cuziat	Managing Director of the Energy & Industry division
Olivier Mallet	Member of the Management Board, CFO: Finance, Legal and External Communication
Jean-Pierre Michel	Member of the Management Board, Chief Operating Officer
Philippe Roch	Chief Performance Officer, Vice-President, Controlling and Quality, Marketing and Purchasing

The Executive Committee meets each week.

Following the changes in the Group's internal organization implemented in the first quarter of 2010, the following people were appointed to the Executive Committee:

- with effect from 1 March 2010:
  - Didier Hornet, appointed Managing Director of the OCTG division,
  - Dirk Bissel, appointed Managing Director of the Drilling Products division,
  - Alexandre Lyra, Chief Executive Officer of V & M do Brasil ;
- with effect from 1 May 2010:
  - François Curie, who has joined Vallourec as Corporate Vice-President Human Resources,
  - Hedi Ben Brahim, who has joined Vallourec as Plan Director. He will take responsibility for the Executive Committee's secretariat.

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 are strictly internal and are not intended to and do not replace the Company by-laws or the laws and regulations governing commercial companies. 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 12 November 2009, with the aim in particular of bringing the terms and conditions of these regulations into line with the applicable legal and regulatory provisions.

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 allocation to directors and/or Group employees of options to subscribe for or purchase the Company's shares, the allocation of performance shares, or any other granting of benefits of a similar nature under the terms of authorizations granted by the Shareholders' Meeting;
- any significant transaction such that could 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 Shareholders' Meeting. 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 deems 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, gathers said information. The specific information required by each of the Committees of the Supervisory Board for the performance of its duties is gathered by the Chairman of each Committee in collaboration with the Management Board.

In addition, each member of the Supervisory Board is required to:

- attend, unless specifically prevented, Board meetings and the meetings, if relevant, of the Committee to which he/she belongs;
- comply with the legal and regulatory obligations arising from his position and, in particular, to comply with the law relating to the plurality of offices;
- behave as a representative of all the shareholders and act in the Company's interest at all times;
- inform the Supervisory Board of any conflict of interests situation, even potential, and to refrain from voting on any issue examined by the Board with regard to which he would be in a situation of conflict of interests;
- convert 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, given the confidential information obtained in the course of his duties, and as such, in particular, to respect the provisions laid down by the Board concerning the periods during which members in

possession of insider knowledge may not buy, sell or take positions in the Company's shares or in any other financial instrument linked to the Vallourec share (options, warrants, etc.), i.e. the three weeks preceding each of the four earnings releases (annual, first half, first quarter and third quarter) as required by the applicable laws and regulations;

- comply with the general regulation of the French securities regulator (*Autorité des Marchés Financiers,* AMF) as regards the obligation to disclose transactions carried out by Corporate Officers on financial instruments issued by the Company and in particular to inform the Company of all the purchases and sales of Vallourec shares made during each half-year period, in accordance with the decision approved unanimously by the Board at its meeting on 24 April 2002;
- comply with the rules of deontology of Article 17 of the December 2008 AFEP-MEDEF corporate governance Code of listed corporations.

Once a year, the Supervisory Board carries out a formalized assessment of the Supervisory Board's operation and that of the Management Board. It reports on this assessment in the minutes of the meeting during which the assessment is made.

6.1.2.2 Meetings of the Supervisory Board during the year ended 31 December 2009

The Supervisory Board met seven times in 2009. 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 set forth in the December 2008 AFEP-MEDEF corporate governance Code for listed companies 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 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.

At 31 December 2009, in the light of the aforementioned AFEP-MEDEF Code:

- can be deemed independent members: Messrs Patrick Boissier, Jean-François Cirelli [(1)], Michel de Fabiani, Denis Gautier-Sauvagnac, Edward G. Krubasik and Jean-Claude Verdière, and Bolloré, represented by Mr Thierry Marraud;
- can be considered associated with the Company:
  - Mr François Henrot, after taking account of the assistance agreement entered into by the Management Board with Rothschild & Cie [(2)] (see 8.3.2. below – Auditors' Special report on 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 2009, 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 set up three Committees:

- the Finance and Audit 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.

The term of office of the members of each of the Committees is the same as that as a member of the Supervisory Board. The appointment to the Committee may be renewed at the same time as that as a member of the Supervisory Board.

The Supervisory Board appoints a Chairman for each Committee for a term identical to that of his term of office.

A Committee's composition may be changed at any time by decision of the Supervisory Board .

Finance and Audit Committee

At its meeting of 30 July 2009, the Supervisory Board decided that this Committee (created on 5 March 2002 as the Audit Committee and subsequently renamed the Finance Committee) would be renamed the Finance and Audit Committee. At the same meeting the Supervisory Board revised the Committee's internal regulations (initially approved by the Supervisory Board meeting of 17 April 2003) to bring them into line with the provisions of Order No. 2008-1278 of 8 December 2008. These regulations define the Committee's role, composition and operating rules. Their scope is strictly internal and they do not in any way replace the Company's by-laws nor the laws applicable to companies.

(1) The only change relative to 2008 concerns Mr Jean-François Cirelli who was appointed as a member of the Supervisory Board at the Supervisory Board meeting of 13 May 2009 to replace Mr Philippe Crouzet, who had resigned, for the remainder of his term of office, i.e. until the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011. This appointment was ratified by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 as required by the law and regulations.

(2) Vallourec and Rothschild & Cie jointly decided to terminate, with effect from 31 December 2009, the assistance agreement entered into in 2006.

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In application of the legal and regulatory provisions, the Finance and Audit Committee oversees:

- the process of preparation of financial information.

  In this respect, the Committee is presented with:

  - the retrospective and forward-looking financial data each quarter,
  - at its request, any accounting matters that could have a material impact on the preparation of the financial statements, such as information relating to subsidiaries in special situations.

  Also in this respect, annual meetings are organized between the Committee and the Chief Financial Officer on the one hand, and the Statutory Auditors on the other.

  Draft financial releases are presented to the Committee for its opinion;

- the effectiveness of the internal control and risk management systems.

  In this respect, each year the Committee is presented with:

  - the internal audit plan,
  - the assignment reports and main findings of the audits,
  - a summary of the actions taken in the area of risk management.

  Also in this respect, annual meetings are held between the Committee, the head of internal audit and the head of risk management;

- the legal audit of the Company and consolidated financial statements.

  In this regard, the Statutory Auditors present their audit findings to the Committee every six months.

  The Committee gives the Supervisory Board its opinion as to the relevance and consistency of the accounting methods used to prepare the Company and consolidated financial statements;

- the independence of the Statutory Auditors.

  In this regard, the Committee oversees the procedure for selecting the auditors, issues a recommendation prior to the proposal submitted to the Shareholders' Meeting, receives the Auditors' statement of independence and receives an annual summary of all the services provided to the Vallourec Group by the auditors and their networks.

In addition to the above duties, the Supervisory Board or its Chairman may decide to refer to the Finance and Audit Committee any issue requiring the Board's prior approval (transactions affecting the share capital, the issue of convertible bonds, loans, etc.).

Also, the Supervisory Board or its Chairman may request it to examine a specific matter in order to determine the financial implications.

More generally, the Finance and Audit Committee reviews the various elements of the Group's financial strategy.

The Committee, which has no decision-making powers, formulates its opinions and recommendations to the Supervisory Board, reports to it regularly on its work and findings and informs it of any difficulties encountered in the course of its duties.

As at 31 December 2009, the Finance and Audit Committee was composed of Messrs Jean-Claude Verdière [(1)] (Chairman), Edward G. Krubasik and Thierry Marraud, i.e. three independent members out of a total of three.

The Finance and Audit Committee met six times in 2009 with an average effective attendance rate of 94%. One of its main duties was to review the financial statements for the year ended 31 December 2008, the half year ended 30 June 2009 and the quarters ended 31 March and 30 September 2009. The Committee also met on 19 February 2010 to review the financial statements for the year ended 31 December 2009.

The Statutory Auditors attended five Finance and Audit Committee meetings (preparatory meetings concerning the annual, half-year and quarterly financial statements) in respect of the financial year 2009. They submitted a report to the Supervisory Board on the work performed in the context of their assignment.

Among the important subjects examined in 2009, the Finance and Audit Committee in particular reviewed and issued opinions on:

- the 2009 forecast figures and outlook for 2010;
- the Group's financial communication policy;
- the quarterly cash situation and the medium and long-term financing plan;
- the results of the "Cap Ten" costs savings plan;
- the results of the Liquidity Agreement;
- the main areas for improvement in the Finance department's organization, in particular so as to enhance the process for analysing Group earnings and forecasts;
- the structure, organization and activities of the Audit department and the audit programme scheduled for 2009 and 2010; and
- significant acquisition and capital expenditure projects such as:
  - the "Tomahawk" rolling mill project for small-diameter tubes to be installed in Youngstown (Ohio),
  - the takeover of P.T. Citra Tubindo in Indonesia.

The Finance and Audit Committee also examined the implementation of the plan to strengthen internal control, in particular by (i) implementing several Group procedures, (ii) rolling out a risk management module in the Group's information systems, and (iii) assessing the internal accounting and financial control process.

(1) As the Company considers that the expiry of Mr Jean-Claude Verdière's term of office at the end of the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010 is prejudicial to the quality of the Supervisory Board's work and that of the Finance and Audit Committee, of which he is a qualified member with particular expertise in financial and accounting matters, the Shareholders' Meeting is asked to renew Mr Jean-Claude Verdière's appointment as a member of the Supervisory Board for a term of two (2) years, in accordance with Article 10-1 of the Company's by-laws, i.e. until the end of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2011.

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. At 31 December 2009, 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 succession arrangements.

The Committee met six times in 2009 with an average effective attendance rate of 92%. In particular, it reviewed the following subjects:

- the trend in the fixed and variable monetary remuneration of Management Board members,
- the determination of the entire remuneration package of its new Chairman and the conditions for payment of compensation in the event of the Chairman's departure,
- Vallourec's policy with regard to the remuneration of employees and their involvement in the Group's results, particularly with regard to the provisions of Law No. 2008-1258 of 3 December 2008 in favour of work-related revenues,
- 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 the appointment of Mr Philippe Crouzet as Chairman of the Management Board with effect from 1 April 2009 to replace Mr Pierre Verluca,
- the search for new members, resulting in the provisional appointment on 13 May 2009 of Mr Jean-François Cirelli as a member of the Supervisory Board, and the proposal to appoint Vivienne Cox and Alexandra Schaapveld made at the meeting of 23 February 2010.

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. At its meeting of 23 February 2010, the Supervisory Board decided to draw up a set of internal regulations to formalize the Strategy Committee's duties.

The Strategy Committee is responsible for preparing the Supervisory Board's deliberations with regard to the Group's strategic directions and long-term future. To this end, it issues opinions, proposals and recommendations in its area of expertise. It acts under the authority of the Supervisory Board, to which it reports whenever necessary and which it does not replace.

In the course of its duties, the Strategy Committee reviews:

- each year, the Group strategy plan presented by the Management Board and any changes as well as the assumptions on which it is based;
- any projected merger agreement or partial transfer of assets, all industrial and commercial agreements with other companies that could affect the Company's future and, more generally, any major transaction that could materially alter the business scope or financial structure of the Company and of its Group or the type of risks it incurs;
- based on the Management Board's report, any major acquisition, disposal or capital expenditure.

The Committee may carry out any other duties, regular or occasional, assigned to it by the Supervisory Board in its area of competence. It may suggest that the Supervisory Board refer to it on any particular point with regard to which it considers such referral necessary or relevant.

At 31 December 2009, the Committee was composed of Messrs Edward G. Krubasik (Chairman), François Henrot and Jean-Claude Verdière, i.e. two independent members out of a total of three.

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The Committee met four times in 2009 with an average effective attendance rate of 75%. In particular, it examined and issued an opinion on the following:

- the various strategic product lines and analysis of growth rates, global competitive positions and Research and Development issues to be addressed;
- the potential of the various business and geographic markets, and any possible opportunities for external expansion;
- strategic investment projects, including:
  - the "Tomahawk" rolling mill project for small-diameter tubes to be installed in Youngstown (Ohio),
  - DPAL FZCO located in Dubai,
  - the creation of three new tube production lines in France and the United States catering for nuclear power stations,
  - the takeover of P.T. Citra Tubindo in Indonesia.

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 [(1)].

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 been 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.

Note that, under current legislation and regulations, only the Shareholders' Meeting 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 by the Company or by a Group company to any member of the Management Board or Supervisory Board.

6.1.5 SERVICE AGREEMENTS PROVIDING FOR THE GRANTING OF BENEFITS

To the Company's knowledge, there is no service agreement between any member of the Management Board or Supervisory Board providing for the granting of benefits.

(1) Mr Arnaud Leenhardt's term of office as censeur expires at the end of this Shareholders' Meeting.

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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 AFEP-MEDEF Code, 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).

6.2.1.1 Tables of Executive Corporate Officers' compensation

The following tables show the compensation paid to members of the Management Board as at 31 December 2009.

TABLE 1: TABLE SUMMARIZING THE COMPENSATION, OPTIONS AND SHARES AWARDED TO EACH EXECUTIVE CORPORATE OFFICER

In €	Year ended 31 December 2008	**Year ended 31 December 2009**
Philippe Crouzet, Chairman of the Management Board (*)		
Compensation due in respect of the financial year *(detailed in Table 2)*	–	987,255 (****)
Valuation of options awarded during the financial year *(detailed in Table 3)* (**)	–	752,620
Valuation of performance shares awarded during the financial year *(detailed in Table 5)* (***)	–	447,734
TOTAL	**–**	**2,187,609**
Jean-Pierre Michel, Chief Operating Officer		
Compensation due in respect of the financial year *(detailed in Table 2)*	581,394	698,890
Valuation of options awarded during the financial year *(detailed in Table 3)* (**)	780,746	342,100
Valuation of performance shares awarded during the financial year *(detailed in Table 5)* (***)	–	169,228
TOTAL	**1,362,140**	**1,210,218**
Olivier Mallet, Chief Financial Officer		
Compensation due in respect of the financial year *(detailed in Table 2)*	144,376 (*)	620,000
Valuation of options awarded during the financial year *(detailed in Table 3)* (**)	1,480,016	273,680
Valuation of performance shares awarded during the financial year *(detailed in Table 5)* (***)	201,726	127,045
TOTAL	**1,826,118**	**1,020,725**

(*) Prorata as from his appointment to the Management Board.

(**) A significant portion of the share subscription options awarded to members of the Management Board in 2008 and all of those awarded in 2009 were 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 €183.54 for the options awarded in 2008 and €103.34 for those awarded in 2009.

(***) Note that the 2007 plan performance shares were awarded in three tranches, available in 2009, 2010 and 2011, respectively, and transferable in 2011, 2012 and 2013 respectively. The performance shares allocated in 2008 and 2009 were allocated in respect of an additional allocation under the 2007 plan. The recipients therefore benefited in 2008 from the aforementioned three tranches of the last two and in 2009 from the last. The acquisition of performance shares is subject to performance requirements.

(****) Including an attendance fee of €4,000 received in his capacity as a member of the Supervisory Board in respect of the first quarter of 2009.

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The above table summarizes the compensation due in respect of the year ended 31 December 2009 and the valuation of the share subscription options and performance shares awarded during the financial year.

TABLE 2: TABLE SUMMARIZING THE COMPENSATION PAID TO EACH EXECUTIVE CORPORATE OFFICER

	Year ended 31/12/2008		**Year ended 31/12/2009**	
In €	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**
Philippe Crouzet, Chairman of the Management Board				
Fixed compensation	–	–	569,997 (*)	569,997 (*)
Variable compensation	–	–	410,000	190,585
Extraordinary compensation	–	–	–	–
Attendance fees	17,500 (**)	17,500 (**)	4,000 (***)	4,000 (***)
Benefits in kind	–	–	3,258	3,258
TOTAL	**–**	**17,500**	**987,255**	**767,840**
Jean-Pierre Michel, Chief Operating Officer				
Fixed compensation	350,000	350,000	429,996	429,996
Variable compensation	227,500	219,862	265,000	226,266
Extraordinary compensation	–	–	–	–
Attendance fees	–	–	–	–
Benefits in kind	3,894	3,894	3,894	3,894
TOTAL	**581,394**	**573,756**	**698,890**	**660,156**
Olivier Mallet, Chief Financial Officer				
Fixed compensation	87,501 (*)	87,501 (*)	375,000	375,000
Variable compensation	56,875 (*)	27,307 (*)	245,000	148,918
Extraordinary compensation	–	–	–	–
Attendance fees	–	–	–	–
Benefits in kind	–	–	–	–
TOTAL	**144,376**	**114,808**	**620,000**	**523,918**

(*) Prorata as from his appointment to the Management Board.
(**) Attendance fee in his capacity as a member of the Supervisory Board in respect of 2008 for the period from 7 May to 31 December 2008.
(***) Attendance fee in his capacity as a member of the Supervisory Board in respect of the first quarter of 2009.

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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 €

Name of Executive Corporate Officer	No. and date of plan	Type of options (purchase or subscription)	Valuation (*) of options according to the method used for the consolidated financial statements	Number of options awarded during the financial year	Exercise price	Exercise period	Performance requirements (**)
Philippe Crouzet	2009 plan 01/09/2009	Subscription options	752,620	22,000 (***)	103.34	01/09/2013 to 01/09/2019	Yes
Jean-Pierre Michel	2009 plan 01/09/2009	Subscription options	342,100	10,000 (***)	103.34	01/09/2013 to 01/09/2019	Yes
Olivier Mallet	2009 plan 01/09/2009	Subscription options	273,680	8,000 (***)	103.34	01/09/2013 to 01/09/2019	Yes

(*) 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 €103.34 for the options awarded in 2009.

(**) Note that the awarding of share subscription options is subject to performance requirements based on the Group's consolidated EBITDA/sales ratios for the financial years 2009, 2010 and 2011.

(***) The totality is 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 2009.

TABLE 5: PERFORMANCE SHARES AWARDED DURING THE FINANCIAL YEAR TO EACH EXECUTIVE CORPORATE OFFICER BY VALLOUREC AND BY EACH GROUP COMPANY

Name of Executive Corporate Officer	No. and date of plan	Number of shares awarded during the financial year	Valuation of shares according to the method used for the consolidated financial statements	Acquisition date	Availability date	Performance requirements
Philippe Crouzet	2009 plan 31/07/2009	4,511	447,734	31/07/2011	31/07/2013	Yes (*)
Jean-Pierre Michel	2009 plan 31/07/2009	1,705	169,228	31/07/2011	31/07/2013	Yes (*)
Olivier Mallet	2009 plan 31/07/2009	1,280	127,045	31/07/2011	31/07/2013	Yes (*)
TOTAL		**7,496**	**744,007**			

(*) Note that the awarding of performance shares is, in all cases, subject to performance requirements based on the achievement of specified Group consolidated EBITDA/sales ratios in 2009 and 2010.

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 to each of the members of the Management Board became available during the year ended 31 December 2009.

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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	Plan No. 4
Date of authorization by Shareholders' Meeting	15 June 2000	6 June 2007	6 June 2007	4 June 2009
Date of Plan	11 June 2003	3 September 2007	1 September 2008	1 September 2009
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	289,400
Philippe Crouzet	–	–	–	22,000
Jean-Pierre Michel	–	11,000	12,000	10,000
Olivier Mallet	–	–	23,000	8,000
Date from which options may be exercised	11 June 2007	3 September 2011	1 September 2012	1 September 2013
Expiry date	10 June 2010	3 September 2014	1 September 2015	1 September 2019
Subscription or purchase price	10.57	190.60	183.54	103.34
Exercise procedures	–	–	–	–
Number of shares subscribed	948,586	–	–	-
Accumulated number of share subscription or purchase options that have been cancelled or become null and void	13,750	8,500	-	-
Shares subscription or purchase options remaining at the end of the financial year	17,144	–	–	–

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 largest number of options was awarded	24,000	–	1 September 2009 plan
Options exercised during the year by the ten Group employees who purchased or subscribed for the largest number of shares in this way	–	–	–

TABLE 9: BREAKDOWN OF COMPENSATION OF MANAGEMENT BOARD MEMBERS

	Contract of employment	Complementary retirement scheme	Payments or benefits due or likely to become due in respect of termination of office or change of position	Payment relating to a non-competition clause
Philippe Crouzet Chairman of the Management Board Date of first appointment: 1 April 2009 Date of appointment as Chairman of the Management Board: 1 April 2009 Date appointment ceases: 15 March 2012 (*)	No	Yes	Yes	None
Jean-Pierre Michel Member of the Management Board Date of first appointment: 7 March 2006 Date appointment renewed: 4 June 2008 (**) Date appointment ceases: 15 March 2012 (**)	Yes (****)	Yes (*****)	None	None
Olivier Mallet Member of the Management Board Date of first appointment: 30 September 2008 (***) Date appointment ceases: 15 March 2012 (***)	Yes (****)	Yes (*****)	None	None

(*) 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.

(**) 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, as it sees fit, to its members were increased to €400,000 by the Shareholders' Meeting of 1 June 2006 (*Fifteenth resolution*).

Since 2007, each Board member and each *Censeur* has received attendance fees set at €28,000 per year. Up to 2008 these were reduced pro rata in the case of an appointment or termination of an appointment during the year.

To ensure compliance with Article 18 of the AFEP-MEDEF Code of corporate governance and to bring its practice into line with that of the majority of companies in the CAC 40 index, the Supervisory Board, following the recommendation made by the Appointments and Remuneration Committee, decided to adopt a new system of compensation for Supervisory Board members and of allocation of attendance fees consisting of two equal parts, one of which is paid in all circumstances, the other being allocated based on attendance. This new rule applies as from 1 July 2009.

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 are not awarded any share options, performance shares or termination payments of any kind.

Compensation of Committee members

Members of the Committees (Finance and Audit 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*, which is described above in the Section relating to compensation of Supervisory Board members, comes within the annual budget for attendance fees allocated to the Supervisory Board.

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TABLE 10: ATTENDANCE FEES RECEIVED BY THE MEMBERS OF THE SUPERVISORY BOARD

In €

Members of the Supervisory Board		Amounts paid in 2008	**Amounts paid in 2009**
MM.	Jean-Paul Parayre	28,000	28,000
	Patrick Boissier	40,500	40,500
	Philippe Crouzet (*)	17,500	4,000
	Jean-François Cirelli (**)	–	17,500
	Michel de Fabiani	40,500	40,500
	Denis Gautier-Sauvagnac	16,500	7,000
	François Henrot	35,500	25,833
	Edward G. Krubasik	54,500	52,166
	Jean-Claude Verdière	65,500	74,000
	Thierry Marraud (Bolloré)	40,500	43,000
	Arnaud Leenhardt (*Censeur*)	28,000	28,000
	Luiz-Olavo Baptista (*Censeur*)	28,000	25,666
TOTAL		**395,000**	**386,165**

(*) 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.

(**) At its meeting on 13 May 2009, the Supervisory Board appointed Mr Jean-François Cirelli as a member of the Supervisory Board to replace Mr Philippe Crouzet, who had resigned, for the remainder of his term of office, i.e. until the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011. This appointment was ratified by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 as required by the law and regulations.

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 2009 by the Group's French and foreign companies in respect of all the Group's senior managers (i.e. the seven members of the Group's Executive Committee at 31 December 2009) amounted to €3,436,000. The variable portion represented 30.31% of the total.

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 2009 was €1,455,000.

6.2.2.2 Pension commitments

As regards pension provision, Management Board members, like the entire 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 Sectionof 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 supplementary 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 in respect of members of the Executive Committee are provided in Note 19 of sub-section 5.1 of Section 5.

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6.3 MANAGERS' INTERESTS AND EMPLOYEE PROFIT SHARING

At its meeting of 13 May 2009, the Supervisory Board approved the policy for involving employees in the Group's results presented by the Management Board.

This policy and its underlying principles were implemented at the Supervisory Board's meetings of 3 June (employee share ownership plan and allocation of bonus shares to all employees) and 30 July 2009 (performance shares and share subscription options) as regards the allocations to be made in 2009. In this context, the Supervisory Board has also determined the principles of compensation of Management Board members in the form of options and performance shares.

This information was published in accordance with the AFEP-MEDEF Code *via* a notice on the Company's website *http://www.vallourec.com* thereby supplementing the information relating to Corporate Officers' compensation posted on the Company's website on 9 April 2009 – *www.vallourec.com.*

Vallourec has thus developed and adopted a policy aimed, above all, at supplementing the compensation paid to its employees with various schemes designed to involve them in the Group's performance over the long-term. This policy is also designed to gradually build a significant level of employee share ownership, in line with Vallourec's development ambitions. The policy will gradually be extended to all categories of staff and to all the countries where Vallourec operates, subject to and in accordance with local legislation and regulations:

- all Vallourec Group employees benefited in 2008 and 2009 from an employee share ownership plan (the "Value" plan);
- also, in 2009 and for the first time, shares were allocated to all Group employees subject to presence and performance requirements;
- the Group's French employees also benefit from profit-sharing and incentive schemes.

The second aim of Vallourec's compensation policy is to achieve closer convergence between the interests of Vallourec's management and those of its shareholders over the long term through the annual allocation of options and/or performance shares subject to the achievement of performance targets over several financial years.

These allocations will be gradually extended to a growing number of Group managers.

They are conditional upon:

- continuing employment within the company;
- the fulfilment of objective and predefined performance requirements.

Beneficiaries therefore run the risk of a reduction in or the loss of their gains if Vallourec does not achieve its objectives over a period of several years.

6.3.1 OPTIONS AND PERFORMANCE SHARES

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.

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6.3.1.1 Share subscription and/or purchase 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	11 June 2003
Number of option holders when plan implemented	148
Total number of options granted at the outset	979,480
• of which options granted to members of the Management Board (as at 15 June 2003)	228,405
• number of senior managers concerned	3
• exercise price (*)	€10.73
• exercise price adjusted for rights offering of 13/07/2005	€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 31/12/2009	948,586
Number of options cancelled since their allocation (option holders who have left the Group)	13,750
Number of options that could be exercised at 31/12/2009 (1 option = 1 share)	17,144

(*) 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 members of the Management Board (as at 3 September 2007)	46,000
• number of senior managers concerned	4
Total number of options awarded to the ten employees that are not Corporate Officers and to whom the largest number of options was awarded	32,000
Potential dilution	0.26% (**)
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 since their allocation (option holders who have left the Group)	8,500

(*) Average of the last twenty prices for the twenty trading sessions preceding the grant date.
(**) On the basis of the 57,280,789 shares that made up the Company's share capital at 31 December 2009.

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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 options granted to members of the Management Board (as at 1 September 2008)	49,000
• number of senior managers concerned	3
Total number of options awarded to the ten Group employees that are not Corporate Officers and to whom the largest number of options was awarded	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 since their allocation (option holders who have left the Group)	–

(*) Average of the last twenty prices for the twenty trading sessions preceding the grant date
(**) On the basis of the 57,280,789 shares that made up the Company's share capital at 31 December 2009.

Share subscription options: 1 September 2009 plan

Date of Shareholders' Meeting	4 June 2009
Date of Management Board meeting	1 September 2009
Number of option holders when plan implemented	303
Total number of options granted	289,400
• of which options granted to members of the Management Board (as at 1 September 2009)	40,000
• number of senior managers concerned	3
Total number of options awarded to the ten Group employees that are not Corporate Officers and to whom the largest number of options was awarded	24,000
Potential dilution	0.51% (**)
Exercise price (*)	€103.34
Date from which options may be exercised	1 September 2013
Expiry date of exercise period	1 September 2019
Number of options cancelled since their allocation (option holders who have left the Group)	–

(*) Average of the last twenty prices for the twenty trading sessions preceding the grant date.
(**) On the basis of the 57,280,789 shares that made up the Company's share capital at 31 December 2009.

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6.3.1.2 Performance shares

Special report of the Management Board on allocations of performance shares – financial year 2009

	2006 plan (*)	2007 plan (**)	2008 plan (***)	"Value" 08 plan	**2009 plan** (****)	"Value 09" plan	"123" plan (*****)
Allocation date	16/01/2006	03/05/2007	01/09/2008	16/12/2008	31/07/2009	17/11/2009	17/12/2009
Acquisition period	2 years	2, 3 and 4 years	2 and 3 years	4.5 years	2 years (French residents) or 4 years (non-French residents)	4.6 years	2 years (French residents) or 4 years (non-French residents))
Holding period	2 years	2 years	2 years	-	2 years (French residents) or none (non-French residents)	-	2 years (French residents) or none (non-French residents)
Number of beneficiaries at outset	199	280	41	8,697	53	8,097	17,067
Theoretical number of shares allocated	148,000	111,000	11,590	33,856	13,334	34,700	51,201

(*) The definitive attribution, in terms of number of shares, will be based on the Vallourec Group's performance in terms of consolidated EBITDA in 2006 and 2007. 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 attribution, in terms of number 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 attribution, in terms of number 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.

(****) The definitive attribution, in terms of number of shares, will be allocated in 2011 in the case of French residents and in 2013 in the case of non-French residents and 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 the two years concerned, to the theoretical number of shares allocated. The factor can range from 0 to 1.33.

(*****) The definitive attribution, in terms of number of shares, will be allocated in 2011 in the case of French residents and in 2013 in the case of non-French residents and will be based on the Vallourec Group's performance in terms of consolidated EBITDA for the period from 1 January 2010 to 30 September 2011. The number of shares actually acquired by each beneficiary at the end of the acquisition period can range from 0 to 3.

A description of the performance share plans is also provided in Notes 17 and 19 of the notes to the consolidated financial statements, i.e. on pages 115 to 127 and 128 to 130 respectively of this Registered Document.

6.3.2 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	2005	2006	2007	2008	**2009**
	11.28	19.27	21.62	12.30	4.70

Incentive schemes

Most Group companies have put in place incentive and profit sharing schemes that involve the employees in the company's business performance, based on the EBITDA/sales ratio.

The amounts paid in respect of special reserves for incentive schemes during the last five financial years are as follows:

In € million	2005	2006	2007	2008	**2009**
	44.25	38.07	39.80	46.58	36.60

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:

	2005		2006		2007		2008		2009	
In € million	PEE	PERCO	PEE	PERCO	PEE	PERCO	PEE	PERCO	**PEE**	**PERCO**
	0.56	0.93	1.45	1.53	1.20	1.50	2.19 (*)	1.37 (*)	2.95 (**)	1.04 (**)

(*) Including €823,000 in respect of the "Value 08" employee share ownership scheme.
(**) Including €907,847 in respect of the "Value 09" employee share ownership scheme.

6.3.3 EMPLOYEE SHAREHOLDING

An employee share ownership plan introduced in July 2001 reached 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 have needed 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.

In 2008 all the Group's employees benefited from an employee share ownership plan known as Value 08. On 16 December 2008, 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* and *fourteenth 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.

The Value plan was continued for the second year running in 2009 under the Value 09 scheme. On 17 December 2009, the Group carried out a capital increase on the Paris Stock Exchange of 708,589 new shares with a subscription price of €91.74 per share (i.e. a total capital increase of €65 million, share premium included) in accordance with the authorizations granted to the Management Board by the Shareholders' Meeting of 4 June 2009 (*Seventeenth, Eighteenth* and *Nineteenth resolutions*). Nearly 11,146 employees in eight countries, i.e. 62% of eligible employees, chose to subscribe to the proposed share offering. The shares owned as a result of the offering represented 2.60% of Vallourec's share capital at 31 December 2009 compared with 1.53% at 31 December 2008.

Under the Value 09 scheme, the Management Board has also put in place a plan for the allocation of existing shares, relating to 34,700 shares, i.e.0.06% of the share capital, in favour of employees who are not French tax residents and who are employed by Group companies whose registered offices are located in Germany, Brazil, Canada, United States, Mexico and the United Kingdom.

The "Value 08" and "Value 09" plans have been a great success, all the more so in that they took place during an international financial crisis. By subscribing massively, employees have demonstrated their loyalty to their company, as well as their confidence in Vallourec's strategy and future.

They have also enabled the Group to achieve the three objectives it had set for each of these operations:

- 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 and Value 09 arrangements are provided in Note 24 of paragraph 5.1 of Section 5.

7 Information on recent developments and outlook

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2009 was characterized by an unprecedented world economic recession caused by the 2008 financial crisis and its effects particularly on the confidence of economic agents and the availability of credit. World GDP fell by 2% [1] during the year. However, the position varies greatly from country to country: China, India and Brazil succeeded in maintaining significant growth rates whereas the OECD and CIS countries were severely affected by the recession.

However, during the fourth quarter, the world economy showed modestly positive growth in a sign that it was coming out of the recession it had entered three quarters earlier. Nevertheless, the recovery was not as yet well established across all Vallourec's markets.

7.1 OIL & GAS

The gradual increase in oil and gas prices during the year from their low point in December 2008 was not enough to persuade oil companies to reverse their decision, taken at the end of 2008, to reduce exploration and production expenditure.

As a result of the lower level of world economic activity, oil consumption fell by 1.5% over the year as a whole (84.9 million barrels per day compared with 85.8 in 2008 [2]). Despite a huge increase of nearly 100% in the first half, the average oil price fell by 38% over the full year 2009 (USD 61.7 per WTI [3] barrel compared with USD 99.5 in 2008).

Faced with falling sales (due to lower volumes and prices) and the dearth of credit, and anticipating that suppliers would lower their costs, most oil companies reduced their capital expenditure budgets in 2009 and therefore postponed the purchase of tubes, of which most held high inventories. Exploration and production expenditure fell by around 14% overall to USD 395 billion (compared with USD 457 billion in 2008 [4]), resulting in the postponement of some projects and the fall in the number of active rigs [5] worldwide to a six-year low of 1,089 in 2009, more than 42% below the 2008 count (1,879 active rigs).

The fall in drilling activity caused a reduction in the demand for OCTG tubes and other tubular products used for drilling, transportation and processing oil and gas.

It was only towards the end of the year, as the world economy came out of recession and the upturn in the oil price looked set to last, that the first positive signs appeared of an upturn in the demand for and expenditure on tubes. The national oil companies in the Middle East (Saudi Arabia, United Arab Emirates, Kuwait and Iraq) and North Africa (Algeria) increased the level of tenders submitted during the second half, on the basis of low extraction costs and the need to ensure the budgetary balance of their state authorities. As regards the international and independent oil companies, they retained a prudent attitude towards investment, with the international companies continuing to strictly control their inventories and the independent companies testing their financial limits.

The volumes and prices of new orders placed in this market during 2009 were lower than those applicable to goods and services supplied during the year.

In the US, the increased production of gas (up 3.7% in 2009 [6]) resulting from record drilling activity combined with increased drilling productivity in 2008, in non-conventional gas. These factors coincided with a fall in demand caused by the economic recession. The resulting imbalance in the natural gas market resulted in inventory levels surging to record highs and a sharp drop in natural gas prices from USD 13/Mmbtu in July 2008 to less than USD 3/Mmbtu during the summer of 2009. On average, the price of American gas fell by more then 50% in 2009, to USD 4/Mmbtu, compared with USD 8.9/Mmbtu in 2008 [7]. American producers, in particular the small independents, who did not benefit from favourable selling prices, reacted by massively reducing their drilling activity. In June 2009, the US active rig count totalled 876 rigs, which represented a fall of 57% compared to a peak of 2,031 rigs at the beginning of September 2008 [8]. Over the same period, inventories of OCTG tubes held by US distributors reached the record level of 3.5 million tonnes in March 2009 [9], due to the high level of Chinese commodity imports ordered in 2008. At their highest level, and relative to a significantly reduced level of consumption, these inventories rose to more than 15 months of supply, well above the average working level held by distributors of around five to six months.

(1) Source: Global Insight.
(2) Source: IEA.
(3) West Texas Intermediate, source Thomson.
(4) Source: Barclays Capital, Global EXP Survey, December 2009.
(5) Source: Baker Hughes.
(6) Source: IEA.
(7) Source: Henry Hub.

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During the second half, the gas price increased due to the combined effect of the decline in production caused by the severe depletion of the wells drilled in 2008 and the increased demand resulting from lower-than-normal temperatures at the end of the year. The average gas price therefore rose from USD 3.2/Mmbtu in the third quarter to USD 4.4/Mmbtu in the following quarter [7]. Drilling activity increased as a result and the number of active rigs rose by 36% [8] compared to the low point in the summer to 1,189 at the end of the year [8]. The annual average, nevertheless, fell by 42% in 2009 to 1,089 active rigs compared with 1,879 in 2008. At the same time, Chinese imports, which had largely contributed to the imbalance in supply and demand for OCTG tubes, ceased in the summer of 2009 due to the threat of anti-dumping action. With the gradual improvement in demand, inventory levels began to fall significantly, by around 450,000 tonnes per quarter, to 2.3 [9] million tonnes at the year end, representing nine months' consumption. The depletion of the inventories of certain dimensions of alloy steel tubes during the fourth quarter, which caused distributers to place increased orders with producers, appeared to be a sign that destocking of the most sophisticated products would soon come to an end.

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7.2 POWER GENERATION

Despite strong, long-term fundamentals linked to growing energy needs in emerging markets (notably China and India) and the need to replace obsolete power plants in the OECD countries, the Power generation market was on hold. For the first time since the Second World War, worldwide electricity consumption fell in 2009. This, combined with the dearth of credit and the failure of the authorities to give clear direction as regards energy policy (mechanisms of the CO_2 market, renewable energy incentives, clean coal and the uncertainty caused by the controversial results of the Copenhagen summit) has resulted in many power station projects being put on hold, particularly in Europe and the United States. The lengthy decision-making process involved in re-activating new projects has resulted in a slowdown in activity for the time being.

In China, the electricity market fell during the first half due to the slowdown in growth, despite the government's stimulus plan, the energy section of which was devoted mainly to the development of the energy distribution network (T & D). In addition to the effect of the fall in the number of new projects, Chinese boiler makers had to consume their significant inventories of tubes built up in advance in 2008.

In the second half, both China and India were able to launch new power plant projects due to their good economic performance. China recommenced the process of replacing small sub-critical power plants with more productive and less polluting super-critical power plants. However, competition has become much more intense.

Overall, 2009 was characterized by a significant fall in worldwide demand for tubes for conventional power plants.

The market for nuclear power, however, appears to have completely avoided the crisis. The efforts to reduce CO_2 emissions are encouraging several countries to select this option for the production of electricity. The nuclear renaissance is reflected in an increased number of nuclear power plant construction projects worldwide, notably in China, where the authorities revised their nuclear programme upwards on several occasions during 2009. Following the lifting of the nuclear power ban in Italy in July and the re-launch of an ambitious programme for ten power plants in the United Kingdom, the United States seems to be preparing to re-launch its nuclear power programme, as indicated by the governmental decision to award USD 54 billion of guarantees for loans for power plant construction. France is expected to revamp its installed capacity of nuclear power plants (by 2025, 24 of the existing reactors will have been in operation for over 40 years) and to install one EPR (European Pressurised Reactor) per year between 2020 and 2025. The worldwide installed nuclear capacity should thereby increase by more than 300 GW between 2006 and 2030 [10]. These new projects helped to make demand for tubes for nuclear power plants particularly buoyant in 2009.

(8) Source: Baker Hughes.

(9) Source: Preston Pipe Report.

(10) Source: AREVA.

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7.3 OTHER APPLICATIONS

The economic crisis was accompanied by a contraction in industrial activity: the world index fell by 9.1% in 2009, after a fall of 0.2% in 2008 (11). This caused a reduction in demand for tubes for industrial applications which was accentuated by destocking on the part of both distributers and end users in the various markets.

The fall in consumption of Petrochemicals products, the excess capacity in the European market and the erosion of refining margins contributed to the difficulties in the **Petrochemicals** market in 2009. Many end users postponed investment decisions and re-evaluated their budgets, speculating on price reductions and on an improvement in credit conditions. Only the Middle East and North Africa have completed any major projects during the year, including the giant refineries at Al Jubail in Saudi Arabia and Ruwais in the United Arab Emirates. In the maintenance and small projects market, inventories of tubes held by distributers remained excessive throughout most of the year, which contributed to weak demand worldwide.

In the **Mechanical engineering** sector, the fall in industrial investments (down 6.5% worldwide in 2009 (11)) affected European equipment sales, notably in Germany and Italy. The industrial equipment index thus fell by 20.6% in 2009 (12). The market for tubes for the Mechanical engineering industry (hydraulic cylinders, axles, cranes, mining equipment and agricultural machinery) was particularly seriously affected since a massive destocking process on the part of distributers was accompanied by a fall in final demand. There was, however, a technical rebound in the demand for tubes after the summer due to the end of destocking in respect of certain product ranges. However, the levels of demand for tubes for Mechanical engineering applications remained lower than in 2008.

The **Automotive** market also experienced a sharp downturn as from the fourth quarter of 2008. For the full year 2009, European vehicle production fell by 26% (11). In Brazil, this fall was limited to 10.9% (11). The market for redraw hollows and bearing tubes was severely affected by this fall in activity as well as the efforts of various car makers and their sub-contractors to reduce their inventory levels. In the fourth quarter, government incentive measures such as the advantageous loan terms granted by BNDES for the purchase of lorries by Brazilian companies contributed to an increase in final demand. The normalization of inventory levels also contributed to a slight increase in the demand for tubes which occurred in Europe in September following the end of the summer holidays.

Other activities (construction in particular) were also significantly affected by the crisis, as demonstrated by the sharp contraction in the construction index en 2009 (which fell by 16.9% in the United States and by 9% in Europe (13)), despite expenditure on infrastructure initiated by governments to boost their economies. As in other industrial sectors, destocking measures contributed to the significant reduction in demand for tubes for the construction sector.

7.4 OUTLOOK FOR 2010

In 2010, the effects of the crisis will continue to affect the Group's results. On the positive side, destocking has reached an end in most markets and activity has picked up in the US Oil & Gas market. Nevertheless, Power generation activity will remain subdued throughout the year and there is continued uncertainty surrounding the timing and scale of the world economic recovery.

Vallourec has significant strengths that will enable it to cope with this difficult environment:

- a healthy financial position: as a result of the cash generated by its operations, the Group's net cash position improved to net cash of €407 million at the end of the year, compared with net debt of €346 million at the end of 2008. At the end of December, cash and cash equivalents exceeded overdrafts and other short-term bank borrowings by €1,042 million. More than 82% of bank loans and other borrowings (which total €751 million) matured in over two years. In addition, Vallourec has undrawn confirmed credit lines totalling approximately €1.2 billion with a range of maturities in 2012 and 2013;
- a track record of flexibility perfected as a result of 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.

Overall, Vallourec anticipates that both sales and EBITDA in the first half of 2010 will be significantly lower than in the second half of 2009. Sales volumes should rebound as from the second quarter of 2010. Vallourec will continue to roll out its cost savings programme and implement its strategic capital expenditure plan, geared at increasing its service offering and strengthening its presence in markets with strong growth potential.

Thanks to its strong balance sheet, Vallourec remains ready to seize new development opportunities for Premium tubular solutions.

(11) Source: Global insight

(12) Eurofer

(13) Source: Global insight

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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 OF 31 MAY 2010

8.1.1.1 Results

As a result of weaker demand, production shipped of rolled tubes totalled 1,503 thousand tonnes in 2009, 46% lower than the preceding year (€2,766 thousand tonnes).

Thanks to a favourable price and product mix effect, the fall in value of sales was less than the fall in volume terms: sales fell by 31% to €4,465 million compared with €6,437 million in 2008. The fall consisted of a negative volume effect (-46%), which was partially offset by positive consolidation scope (+2%), currency (+0.2%) and price/mix effects (the combined price/mix effect was +24%).

This price/mix effect was due mainly to the delivery during 2009 of orders placed under favourable conditions during the second half of 2008 and the start of 2009 in the Oil & Gas (rest of the world) and Power generation sectors.

The positive consolidation scope effect was due to the consolidation as from 2 July 2009 of P.T. Citra Tubindo (PTCT), after the Group had increased its holding to 78.2% of the issued capital of its Indonesian subsidiary.

The currency effect was negligible during 2009. The positive contribution linked to the strengthening of the US dollar during the first half was largely eradicated during the second half.

EBITDA fell 42.1% from €1,694 million in 2008 to €981 million in 2009. The 2009 EBITDA/sales ratio was 22%.

At €3,190 million for the full year 2009, operating costs were 35% lower than in 2008. Whilst annual sales fell by 31%, purchases consumed fell by 52% to €1,211 million, in line with the fall in volumes purchased and the reduction in raw material costs. Other operating costs fell by 17.4% to €1,942.5 million.

Adaptation measures which were implemented throughout the year led to a 23% reduction in working hours in 2009 compared to the 2008 peak. By the year end, the number of hours worked had increased in Brazil and the United States, whilst adaptation measures remained in place in Europe. The Cap Ten plan, which was launched early in 2008 with the aim of generating recurring cost savings of €200 million within three years, is ahead of target at the end of the second year. These measures contributed to the resilience of the Group's EBITDA margin in 2009 and are evidence of the Group's significant flexibility.

Amortization and depreciation amounted to €188 million in 2009, up 13.5% compared to 2008, due to the effect for a full year of the acquisitions in May 2008 and the acquisition in 2009 of PTCT in Indonesia and DPAL FZCO in Dubai. Impairment losses in respect of assets and goodwill, which totalled €8 million, include inventory write-downs related to the reduced activity levels and the closure of two sites in the United States, which were offset to a large extent by the positive impact, in accordance with revised IFRS 3, of the Group's increased shareholding in PTCT.

The effective tax rate was 31.7% in 2009, in line with that of 2008 (32%).

In 2009, total net profit was €537 million compared with €1,025 million in 2008. Net profit attributable to the owners of the Company fell 47% from €967 million in 2008 to €518 million in 2009.

During 2009, cash generated from operations linked to the reduction in the working capital requirement contributed to record cash flow of €1,611 million compared with €883 million in 2008.

In 2009, the Group reduced its net debt by €753 million, resulting in a negative gearing ratio of -9.9% at 31 December 2009, compared with 10.7% at 31 December 2008.

At the end of December, the Group's cash and cash equivalents exceeded its overdrafts and other short-term bank borrowings by €1,042 million. More than 82% of the €751 million bank loans and other borrowings have a maturity in excess of two years. In addition, Vallourec has undrawn confirmed credit lines of around €1.2 billion, which mature at various times during 2012 and 2013.

8.1.1.2 Industrial and financial investments

During the year, the Group financed capital expenditure totalling €676.5 million, up 28% on 2008 (€528.5 million). Nearly half of the 2009 expenditure related to the construction of Vallourec & Sumitomo Tubos do Brasil's integrated site, as well as other strategic investments.

The Group also acquired financial investments costing €108.7 million. This figure was much lower than the total investment in 2008 (€541.4 million), during which the Group acquired Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™. In 2009, Vallourec acquired shares in Sumitomo Metal Industries for USD 120 million (€82 million) under the terms of the cross-shareholding agreement. Vallourec also acquired DPAL FZCO in Dubai, and participated in the capital increases of TSA in Brazil and HKM in Germany.

8.1.1.3 Highlights

On 18 February 2009, Vallourec signed a co-operation agreement with Tubacex, the aim of which was to strengthen its seamless stainless steel tubes offering designed for the Oil and Gas and Power generation markets. The two companies' R & D and sales teams have begun to work together for the success of this new partnership, which has been well-received by customers.

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

At the same time, Sumitomo Metal Industries and Sumitomo Corporation acquired shareholdings in V & M Atlas Bradford® and V & M TCA® in order to maintain the same level of shareholding as their respective interests prior to the merger. As a further gesture of co-operation, Vallourec and Sumitomo Metal Industries purchased each other's shares for an amount of approximately USD 120 million. Following this transaction, which was carried out during the second half of the year, Vallourec owns 0.98% of the issued capital of Sumitomo Metal Industries, which owns 1.72% of the issued capital of Vallourec.

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

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

On 2 July 2009, Vallourec increased its strategic shareholding in PTCT to 78.2% of the issued capital. The Company has manufacturing facilities located in Batam, Indonesia, providing heat treatment and threading of oil country tubular goods (OCTG) together with oil-field accessories, serving the oil & gas industry throughout the Asia-Pacific region. The leader in the Indonesian market, PTCT has been a VAM® licensee since 1985. This strategic investment allows Vallourec to strengthen its presence in Indonesia and the Asia-pacific region, where oil and gas exploration and production are expanding, under technical conditions which increasingly require Premium products and solutions.

The 2008 dividend was paid on 7 July 2009, through the issue of 2,783,484 new shares (i.e. 5.2% of the issued capital) and a cash amount of €114.1 million.

On 24 September 2009, VAM Drilling signed an agreement to acquire DPAL FZCO, a supplier of drill pipes based in Dubai, in the United Arab Emirates, with an annual production capacity of 25,000 drill pipes. This acquisition strengthened the presence of VAM Drilling in the Middle East, which is an important market experiencing strong growth in the demand for Premium products.

In December, the Group successfully finalized its "Value 09" employee share ownership plan. More than 11,000 employees in eight countries, or more than 62% of the workforce concerned, chose to subscribe to the second worldwide operation of this type to be offered by the Group. The capital increase totalled €65 million and was implemented by the issue of 708,589 new shares. Following this transaction, employee shareholders owned 2.64% of the Group's issued capital compared to their previous 1.25% interest.

First quarter of 2010

On 10 February 2010, VAM Drilling signed an agreement to acquire Protools, the largest producer of drill stem components in the Middle East. Following the acquisition of DPAL FZCO in September 2009, this transaction has enabled VAM Drilling to become the only producer in the Middle East able to offer an integrated solution for the entire drill string.

On 15 February 2010, after the end of the financial year 2009, Vallourec announced its decision to build a new small diameter tube mill in Youngstown (Ohio, United States). This decision was made on the basis of the long-term development of unconventional gas production in the United States which is driving increased demand for small OCTG tubes. This plant, which will initially produce 350,000 tonnes per year, will have an annual nominal seamless tube capacity of 500,000 tonnes. The plant also comprises heat treatment and threading lines. Capital expenditure on the plant will total USD 650 million. Production at the plant will begin during the fourth quarter of 2011. This project will create around 350 new jobs.

8.1.1.4 Transactions with related parties

The main transaction with related parties in 2009 concerned purchases of steel billets from HKM totalling €263.8 million.

During the year, a capital increase of €410 million (attributable to the owners of the parent) was subscribed in favour of Vallourec & Sumitomo Tubos do Brasil.

Transactions were entered into with Rothschild & Cie under the consultancy agreement to assist the Management Board. In 2009, this expenditure totalled €0.4 million.

8.1.1.5 Vallourec (Holding company)

Vallourec posted a loss of €13.8 million compared with a loss of €12.7 million in 2008. This loss resulted from costs charged to the holding company (recharging of V & M Tubes' services, payroll costs, legal fees and communication expenses).

Net financial income (the difference between financial income and financial costs) was €425.1 million compared with €736.5 million in 2008, due mainly to the dividend of €436.7 million received from V & M Tubes.

Net exceptional income totalled €4.5 million compared with net exceptional charges of €8.8 million in 2008. They included income of €5.6 million associated with the disposals of own shares under the terms of the liquidity contract, and charges of €0.4 million associated with the allocation of shares under the 3 May 2007 performance share allocation plan, for which a provision was booked in the financial statements.

The income tax charge was negative once again this year and represents a net credit of €11.6 million (€15.9 million in 2008) as a result of the transfer of tax losses in consolidated companies to Vallourec, the Company heading the tax group.

Net profit for the year was €427.4 million compared with net profit of €730.8 million in 2008.

At 1 January 2009, Vallourec's issued capital totalled €215,154,864, divided into 53,788,716 shares with a nominal value of €4 each. On 7 July 2009, the option to pay the dividend in shares, at the price of €74.28, resulted in the creation of 2,783,484 new shares, giving a capital increase of €206.8 million. On 17 December 2009, the "Value 09" capital increase reserved for employees resulted in the creation of 708,589 new shares, i.e. an increase of €65 million. At 31 December 2009, Vallourec's issued capital therefore totalled

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€229,123,156, divided into 57,280,789 shares with a nominal value of €4 each.

Equity increased by €376.9 million to €1,533 million at 31 December 2009. This increase resulted from the net profit for the financial year 2009 of €427.4 million, the distribution of a dividend of €6 per share on 7 of July 2009, giving a total dividend of €114.1 million, and the €65 million capital increase in respect of the "Value 09" employee share ownership plan. Financial liabilities were €15.3 million lower than in 2008, at €571.6 million. To the best of the Company's knowledge, the financial year 2009 did not generate any expenses referred to in Article 39-4 of the French *Code général des impôts* (CGI).

In accordance with Article D.441-4 of the French *Code de commerce*, the following table provides a breakdown by due date of trade payables as at 31 December 2009. However, since this is the first year such a breakdown has been required, no comparative information is provided in respect of the preceding financial year.

In € thousand (D = 31/12/2009)	Amounts due at 31/12/2009	Due date D+ 15	Due dates between D+ 16 and D+ 30	Due dates between D+ 31 and D+ 45	Due dates between D+ 46 and D+ 60	Due dates beyond D+ 60	Not yet due	Total trade payables
Trade payables	1,082	885		197			-	1,082
Payables to suppliers of property, plant and equipment								
Total payables	**1,082**	**885**		**197**			**-**	**1,082**
Invoices not yet received							288	288
Others								
TOTAL	**1,082**	**885**		**197**			**288**	**1,370**

8.1.1.6 Other information

The following information is included in the 2009 Registered 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 the 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";
- 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, paragraph 2.2.3 "Authorized capital not yet issued".

8.1.1.7 Trends in Vallourec Group markets

In the **Oil & Gas** market, the Group, which now includes PTCT, recorded sales of €2,239 million in 2009, down 25% on the 2008 figure of €2,969 million. Oil & Gas was Vallourec's largest market, accounting for 50% of the Group's consolidated sales.

In the United States, demand fell during the year, due to the weakening of the drilling business, destocking by distributors and price discounting. The fall in annual sales in this region was partly offset by strong performance in the Premium threading business, by the inclusion for the whole of 2009 of the companies purchased in May 2008 (i.e. Atlas Bradford® Premium Threading & Services, Tube-Alloy™ and TCA®), and by the recovery in activity levels in the fourth quarter. This recovery was driven by a sharp rise in the number of active rigs in the final quarter of 2009, combined with the depletion of stocks of certain alloy tubes, prompting distributors to begin replenishing their stocks. As a result of this upturn, a second shift was introduced at the Group's American pipe mill, where production was increased from under 30% of capacity during the second and third quarters, to around 45% during the fourth quarter.

In the rest of the world, the orders placed in 2008 on favourable terms with regard to prices, product mix and volumes kept activity levels high throughout most of the year. In the fourth quarter, several orders featuring large proportions of Premium products were delivered ahead of schedule, generating a quarter-on-quarter rise in sales income. In Brazil, sales held up throughout the year, supported by investments by the state-controlled oil company Petrobras and its partners, although price adjustments had an impact in the second half.

In the **Power generation** market, the Group recorded sales of €1,155 million in 2009, compared with €1,308 million in 2008. The decrease was limited to 12%, thanks to the strong order book developed in 2008, which featured a better product mix and higher prices than in 2009. Strong sales in India and South Africa partially offset the fall in deliveries to China, which nevertheless accounted for around 30% of total sales.

The share of business represented by nuclear power increased slightly. Despite strong demand in this area, the Group's sales in this market will remain limited by production constraints until the new facilities currently under construction enter service, doubling production capacity in 2011.

In **Petrochemicals,** sales slipped significantly to €365 million, from €691 million in 2008 (-47%). The majority of sales were made in Europe and the Middle East, with business remaining particularly weak in the rest of the world, due to the postponement of numerous projects and the destocking strategy adopted by distributors. The quarter-on-quarter decrease in sales was smaller in the fourth quarter than in the preceding quarters. The slight increase in volumes helped to mitigate the fall in prices in this market segment.

Over the full year, business in the Energy sector (Oil & Gas, Power generation and Petrochemicals) accounted for 84% of the Group's total sales, compared with 77% in 2008.

Sales in other sectors (**Mechanical engineering, Automotive industry** and **Other activities**) amounted to €705 million, down 52% on the 2008 figure of €1,469 million. Business was badly affected during the first half by the sharp slowdown in industrial activity that occurred in late 2008, and by the measures adopted by end users and distributors to run down their stocks. Quarter-on-quarter sales increases were achieved in the third and fourth quarters, however, as destocking in these markets came to an end.

The hardest-hit markets were **Mechanical engineering** (€325 million, down 54% from the 2008 figure) and **Other activities** (€183 million, down 53%). After declining in similar proportions to Mechanical Engineering and Other Activities during the first nine months of the year, sales to the **Automotive industry** (€197 million, down 46%) increased by 35% in the fourth quarter, benefiting in particular from favourable credit terms offered by BNDES for the purchase of heavy vehicles in Brazil.

8.1.1.8 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 constantly 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.

  The Group has developed a range of high-tech solutions for highly corrosive or oxidizing environments, based on 9% and 13% chromium steels. The increase in capacity at the Saint-Saulve steel mil now enables these steels to be produced in greater quantities.

  Hot-rolling steel is a core technology for the Group and many innovations have been made in this area. In 2009, a new Premium Forged Pipes process was developed to facilitate production of large-diameter and very thick tubes. The new process is particularly suitable for tubes intended for the Mechanical engineering and Oil & Gas markets and this patented technological solution will make the Group's production facilities significantly more versatile.

  A new rolling mill laboratory began operating in 2009, with a mission to develop innovative proprietary technologies that will accelerate Vallourec's progress in the area of production facilities and processes.

  The rollout of a network of process communities across the Group continued in 2009. These communities enable rapid, uninterrupted progress by sharing best practices for the Group's main processes, including threading, steel-making and casting, heat treatment processes, hot rolling and non-destructive examinations.

- As oil & gas drilling conditions become more challenging, the related 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 (presalt reservoirs), the United States (Gulf of Mexico and Alaska) and West Africa.

  Developing steel grades for the oil and gas industry that are able to resist corrosion by hydrogen sulphide is an essential task. This range of sour service grades was extended in 2009 with the introduction of the VM125SS grade. This grade, specially designed for deepwater applications, is proving to be a commercial success.

  The new generation of VAM® 21 Premium threaded connections is suitable for use in the most extreme operating conditions. These innovative, top-of-the-range connections feature outstanding compressive strength and fully comply with the requirements of ISO 13679 CAL IV, the qualificatory technical specification required by oil industry customers for the most demanding applications.

  Cleanwell Dry® 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; in particular, products formulated for use in extremely cold conditions were introduced in 2009.

  As operating conditions become more severe, state-of-the-art drilling and well lining technologies are needed, and pipe 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. The VAM® HTF featuring self-locking variable threads and metal-to-metal seals is now commercially available, providing solutions for the most challenging situations in diverted well shafts with long horizontal sections.

  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 and the corresponding connections are emerging, particularly in the area of reusing existing wells. Industrial projects carried out in partnership with drilling companies resulted in the approval of the VAM® ET WISE family of threaded connections, which are specially designed for this highly demanding application. These threaded connections simplify well engineering and enable increased oil or gas production.

  The corrosion-resistant alloy (CRA) solutions being developed via the Research and Development partnership with Tubacex are strengthening the Group's market position in the area of challenging wells.

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The VAM® EXPRESS high-performance threaded connection for drill pipes was developed in close partnership with our customers. VAM Drilling, which is responsible for products for the oil drilling sector, is applying this technical solution to excellent effect in the particularly challenging area of highly-deviated well shafts (Extended Reach Drilling). VAM Drilling is using its advanced technologies to develop innovative solutions to facilitate drilling activities, and ERD operations in particular. A new generation of HydroClean products has been developed to enhance drilling performance by removing drilling waste more quickly.

- Demand in the Power generation sector remained strong, driven by the construction of coal, lignite and oil-fired thermal power plants, which require an extensive range of tubes in diameters and alloyed steel grades in which the Group has strong market positions.

  The newly-developed VM12SHC 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 long-running approval tests.

  The stainless steel tubes being developed jointly with Tubacex enhance the Group's offering in the market for very high-performance power plants.

- 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 is now used in numerous industrial applications.

- 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 both in this field and in Valtimet's automotive applications, such as improvements to exhaust gas recirculation systems, for which a number of innovative solutions were developed in 2009).

8.1.1.9 Information on the social implications of the Group's activity

The employment-related indicators detailed below have been prepared on the basis of the companies fully consolidated by the Group and are disclosed in accordance with the provisions of Articles L.225-102-1, Section 4 and R.225-104 of the French *Code de commerce.*

I – Workforce

At 31 December 2009, Vallourec had 18,567 employees at its production and service sites working under contract (permanent employees and employees working under fixed-term contracts). These employees are spread across a large number of countries worldwide. The table below provides details of the countries in which Vallourec has at least 100 employees.

1.	Brazil	6,057	6.	China	422
2.	France	4,786	7.	Mexico	343
3.	Germany	4,146	8.	United Kingdom	236
4.	United States	1,762	9.	India	154
5.	Indonesia	554			

On a like-for-like basis, the total workforce fell by more than 500. The consolidation of the Indonesian workforce into the Group's workforce as from 2 July 2009, after Vallourec had increased its strategic shareholding in P.T. Citra Tubindo (Indonesia) to 78.2% of its share capital, fully compensated for this fall.

CHANGE IN WORKFORCE BY GEOGRAPHICAL AREA

Workforce registered as at 31 December	2007	2008	**2009**	2009/2008 change	2008 breakdown	**2009 breakdown**
Europe	9,181	9,556	9,195	-4%	52%	50%
Brazil	5,388	5,833	6,057	+4%	31%	33%
NAFTA (United States and Canada)	1,747	2,562	2,151	-16%	14%	11%
Asia	556	599	1 149	+92%	3%	6%
Africa	2	11	15	+36%	-	-
TOTAL	**16,874**	**18,561**	**18,567**	**0%**	**100%**	**100%**

Europe, where the workforce fell slightly, continues to account for half of the Group's workforce.

Brazil accounts for one-third of the Group's workforce: the personnel required for the construction of the Jeceaba plant have been supplied by means of transfers from plants not operating at full capacity and by the recruitment of new employees.

The workforce in the United States, which was slightly smaller than the previous year, was adapted to take account of the fall in activity levels.

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As a result of the consolidation of P.T. Citra Tubindo's workforce into that of the Group, at 31 December 2009, Asia accounted for 6% of the Group's employees.

Breakdown of workforce by socio-professional category

The workforce breaks down as follows:

- workers, most of whom are experienced professionals: 68%;
- middle-managers and technical, administrative and sales staff: 24%;
- senior managers and technical experts: 8%. The proportion of senior managers and technical experts is much higher in France (17%) due to Vallourec's centralized teams at its registered office in Boulogne-Billancourt.

Breakdown of workforce by gender

Women mostly occupy administrative or sales positions where they constitute one-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%	4%	2%	23%	3%
Technical and supervisory staff	31%	22%	31%	43%	29%
Managerial staff	17%	7%	15%	21%	16%
TOTAL	**10%**	**9%**	**11%**	**27%**	**10%**

Breakdown between permanent and temporary staff

Due to the highly cyclical nature of its markets, Vallourec needs to be able to adapt rapidly to changes in activity levels. Its policy is to employ a stable nucleus of permanent staff so that it is able to handle its ongoing workload and to use temporary staff (staff employed under fixed-term contracts and interim staff) to cope with unusually high activity levels.

The fall in the activity level during 2009 resulted in a 73% reduction in temporary staff.

The permanent workforce remained stable on a like-for-like basis, its increase being due to the consolidation of PTCT's workforce into the Group's workforce as from 2 July 2009.

	Total		Of which Brazil		Of which NAFTA		Of which Asia		Of which Europe	
At 31 December	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**
Permanent staff	17,592	18,003	5,822	6,018	2,499	2,151	565	1,112	8,695	8,707
Staff employed under fixed-term contracts	581 (*)	244	1	39	63	0	34	36	488	169
Temporary staff	1,282	272	75	16	166	23	6	94	1,035	93
% flexibility	11%	3%	1%	1%	9%	1%	7%	12%	17%	3%

(*) Due to the application of new methods for allocating temporary staff, Vallourec decided, for 2009, not to recognize the "apprentices" category within the "Staff employed under fixed-term contracts" category and therefore to remove 388 apprentices (including 373 in Europe, 10 in Brazil and 5 in the rest of the world) from the figures released in 2008.

Employees leaving the Group

During the year ended 31 December 2009, 1,621 employees under permanent contracts, i.e. 9% of the permanent workforce, left the Group.

	Brazil	United States	United Kingdom	China	Germany	France
% of permanent staff leaving the Group	**11%**	**24%**	**15%**	**10%**	**3%**	**4%**
Of which retired	15%	1%	3%	2%	62%	39%
Of which resigned	6%	4%	9%	84%	12%	16%
Of which were made redundant	77%	44%	64%	9%	2%	29%
Of which left for other reasons	2%	52%	19%	5%	23%	16%

The Group has needed to implement workforce reduction plans to adapt to low capacity utilization in countries where flexibility is low (the use of temporary staff and overtime working was suspended and use was made of time recording meters and short-time working). Thus the United States, the United Kingdom and Brazil implemented workforce reduction measures.

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New employees

The Group recruited 1,455 new employees during 2009. More than half of these new employees were recruited in Brazil to assist with preparations for the new plant to begin operations.

Number of new permanent employees (excluding company acquisitions and employees transferred)	2009	As a % of the permanent workforce
Europe	370	4%
Brazil	891	15%
NAFTA	156	7%
Asia	37	7%
TOTAL	**1,455**	**8%**

The breakdown by professional category was as follows:

Breakdown of new employees and employees transferred by category (%)	Workers	Technical and supervisory staff	Managerial staff	Total
Europe	50%	21%	29%	100%
Brazil	76%	23%	1%	100%
NAFTA	63%	23%	14%	100%
Asia	50%	20%	30%	100%
TOTAL	**67%**	**22%**	**11%**	**100%**

The above movements comprise nearly 480 planned transfers which enabled the Group to reduce the workforces of companies with falling activity levels and provide additional staff for companies that are expanding, including Vallourec & Sumitomo Tubos do Brasil in Brazil and Valinox Nucléaire in France.

The positions occupied by women are as follows:

% of women recruited by category (under fixed-term and permanent contracts)	Workers	Technical and supervisory staff	Managerial staff	Total
Europe	12	59	29	100
Brazil	43	57	0	100
NAFTA	6	68	26	100
Asia	61	35	4	100
TOTAL	**29**	**57**	**14**	**100**

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. Working hours

The fall in activity levels resulted in a sharp reduction in overtime and – in France and Germany – the use of time accounts. In a certain number of cases, however, the Group had to resort to short-time working. Thus, in France, short-time working affected 148 employees on average over the year, which represented 30,344 hours of short-time working benefit. In Germany, these provisions resulted in 23,400 days not being worked, which affected an average of 114 employees for the year.

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	Number of hours worked	Average number of hours of overtime worked during the year	
	2009	**2009**	2008
China	2,300	252	506
Mexico	2,473	126	224
Brazil	1,994	68	62
United States	1,871	183	354
United Kingdom	1,721	87	48
Germany	1,359	81	195
France	1,433	14	51

3. Individual and part-time working arrangements

In France, as at 31 December 2009, 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, 39 employees in France (7 men and 32 women) 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 in the lower range of rates observed in industries comparable to ours.

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	5%
Brazil	4%
NAFTA	2%
Asia	1%
TOTAL	**4%**

III – Remuneration

1. Payroll costs

In 2009, the Group's payroll costs, excluding temporary staff, totalled €821 million, down 4.3% on 2008:

- wages and salaries: €539 million;
- employee profit-sharing and incentives: €41 million;
- charges associated with share subscription and share purchase options and performance shares: €20 million;
- social security charges: €221 million.

The breakdown by country was as follows:

	2009	
	Breakdown of total payroll costs	Breakdown of average workforce
Germany	30%	23%
Brazil	19%	31%
United States	15%	10%
China	0.5%	2%
France	32%	27%
Mexico	1%	2%
United Kingdom	2%	2%
Other	0.5%	3%
TOTAL	**100%**	**100%**

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All amounts are expressed in euros. In addition to the differences associated with the standard of living in the countries concerned, account must be taken of the fluctuations of local currencies against the euro, which is a very significant factor.

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.

	2007 Average salaries including profit sharing and social security charges	2008 Average salaries including profit sharing and social security charges	**2009 Average salaries including profit sharing and social security charges**	% of 2009 social security charges
Germany	58,060	61,980	57,160	31%
Brazil	23,610	25,180	25,950	67%
Canada	51,850	55,550	58,910	21%
China	6,570	8,660	10,150	16%
France	56,600	62,180	56,560	49%
Mexico	23,690	30,070	24,510	24%
United Kingdom	76,060	61,310	52,290	43%
United States	70,690	64,350	61,270	33%

The fall in activity levels has had a significant impact on remuneration due to the sharp drop in overtime worked and the fall in bonuses based on company performance. The movements in exchange rates and inflation rates explain the major changes.

3. Employee profit sharing

Profit-sharing schemes enable employees to become involved with the enterprise's performance

In 2009, profit-sharing and incentive payments totalled €41 million, which was lower than the previous year.

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.

For the second consecutive year, an employee share ownership plan ("Value 09") was offered to employees in the main countries in which the Group operates. Despite a somewhat difficult economic climate (involving short-time working), this plan was well-received by employees, 62% of whom participated.

IV – Industrial relations – Internal communication

1. 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 French and German workforce, 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 and 2009. It is stipulated that each of the mutual investment funds votes at the Vallourec Annual 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 the level of the Group's French companies, each of the five trade unions represented within the Group in France (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 2009, negotiations facilitated the signing of wage agreements by all companies and an agreement on the employment of older

workers in accordance with the provisions of law no. 2008-1330 of 17 December 2008 on the financing of social security for 2009.

The agreements require, inter alia, the setting up of a programme to reduce the strenuousness of employees' duties and more account to be taken of employees' physical aptitudes when allocating them to specific positions.

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.

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**

Labour relations are organized in accordance with the principles of co-determination, by virtue of 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 2009, the signing of an agreement on short-time working enabled the short-time working benefit to be increased to 90% of net pay.

- **In the United Kingdom**

Employees are represented by four trade unions (three for manual workers and one for technical and administrative staff). 2009 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. Negotiations take place at industry sector level.

- **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 by means of *ad hoc* bodies.

2. 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 via a number of internal media (factual, multi-media publications):

- *Vallourec Info,* a magazine intended for the 18,000 Group employees worldwide and published in the Group's five languages (English, German, French, Portuguese and Chinese);
- *a corporate brochure,* "*Vallourec Aujourd'hui*", which presents key information on the Group's profile. It is sent to all Group employees worldwide and is published in five languages;
- *Executive Letter,* a bi-monthly information letter sent to the Group's 2,400 managers. It is published in English and French;
- *Executive Flash,* in electronic format, used for quick dissemination of information on recent developments to all managers worldwide;
- *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 within the Group;
- *a corporate seminar,* attended twice a year by the Group's 50 top executives;
- *an annual managers' Convention* is attended by 250 managers from all the Group's subsidiaries, who are provided with information and analysis about the Group's financial results for the year under review, its priorities and strategic objectives in the short, medium and long term.
- *two other annual managers' conventions* are held in the United States and Brazil.

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3. 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 (*Groupes d'Amélioration Continue* – GAC), 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 2009, 1,300 groups operated worldwide, including 215 dealing with health and safety matters.

V – Health and safety 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.

As regards safety in the workplace, the Group implemented a radical prevention and protection programme named the Cap Ten Safe programme to equip itself with the resources necessary to enable it to reduce industrial accidents. The significant reduction in industrial accidents achieved in 2009 demonstrates that the Group has adopted appropriate prevention and protection measures and that staff and subcontractors at the Group's various sites have been properly informed of safely issues.

The Group's results in 2009 were markedly better than those of previous years. The 2009 consolidated accident frequency rate (FR, which corresponds to the number of notifiable accidents per million hours worked) fell from 9.28 in 2008 to 5.25 in 2009 for all staff (permanent and temporary) whilst the consolidated accident severity rate (SR: the number of non-working days due to accidents per thousand hours worked) was 0.33 in 2009 compared with 0.38 in 2008.

VI – Professional training

Vallourec needs staff that 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 improving 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 to familiarize them with the Group's strategy and help them to integrate into their teams.

In 2009, nearly 520,000 hours were spent on professional training for employees, at a cost equivalent to 2.4% of total salaries (training costs + remuneration).

The number of employees trained during the year – i.e. receiving at least one day's training – was close to 90%.

The breakdown of training hours between the various professional categories reflects their respective numerical importance.

Breakdown of hours as %	Europe	Brazil	United States	Asia	Total
Workers	59	67	62	48	60
Technical and supervisory staff	26	29	29	36	29
Managerial staff	15	4	9	16	11

Almost half (47%) of the time spent on training focuses on improving business skills. Safety training accounts on average for one-third (32%) of the time devoted to training.

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By country, the breakdown is as follows:

Number of hours of training	Germany	Brazil	China	France	United States
Average	31	26	48	22	25
Technical	18	13	19	10	9
Management	8	2	13	6	5
Safety	5	11	16	6	11

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 aspirations 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.

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. In addition, as they do every year, the French companies provided a number of student internships.

At 31 December 2009, Vallourec had 320 apprentices in total (274 in Germany, 41 in France, 4 in the United Kingdom and 1 in Singapore). Since 2008, German apprentices in the sales and marketing divisions have served part of their apprenticeship in France.

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 to help the Group to prepare for loss of skills linked to age or sickness.

In France, the Group has 96 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);
- transport: buses subsidized by the Company;
- cultural and sporting events: sponsoring undertaken by the Group.

IX – Levels of sub-contracting

Against the backdrop of the difficult economic climate that affected Vallourec in 2009, particular attention was paid by the purchasing division, in association with staff responsible for placing orders with them, to the monitoring of the panel of regional suppliers.

The aim was to establish, in the main regions in which the Group operates (both in France and abroad), closer and more formal relationships with those suppliers for which the volume of business transacted with the Group represents a significant proportion of their total sales.

In addition, long-term contracts were signed with the Group's training providers at local level in order to develop longer-term relationships with them.

8.1.1.10 Sustainable development

Vallourec has designed 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 in 2004.

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.

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The Health, Safety and Environment department, which reports to the Quality department and is based at the Group's research centre in Aulnoye-Aymeries (in northern France), 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 enabling comparison of 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 sustainable development 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, *Système de gestion* Vallourec) 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 ASPE standards), Health and Safety (OHSAS 18001) and the Environment (ISO 14001).

The Vallourec Management System is organized around three main pillars:

- Total Quality Management (TQM) action plans;
- steering committees;
- Continuous Improvement Groups (*Groupes d'Amélioration Continue* – GAC).

The three fundamental principles underpinning the VMS are:

- risk 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.

At 31 December 2009, the following Group sites held ISO 14001 certification:

- **France:** V & M France CEV; V & M France's plants in Deville, Saint-Saulve (steel mill and pipe mill), Aulnoye-Aymeries and Montbard; Valti (Montbard and La Charité plants); Valinox Nucléaire; Valtimet (Laumes plant); VMOGF (Aulnoye-Aymeries plant); VAM Drilling (Aulnoye-Aymeries, Cosnes and Tarbes plants); and Interfit;
- **Germany:** V & M Deutschland's Mülheim, Rath and Reisholz plants;
- **Scotland:** Vallourec Mannesmann Oil & Gas UK in Bellshill;
- **United States:** V & M Star in respect of its two plants in Youngstown and Houston; VAM USA's four facilities in Houston; VAM Drilling in Houston and V & M Tube-Alloy™, in respect of its four plants in Broussard, Houma, Casper and Houston;
- **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 and VAM (Changzhou) Oil & Gas Premium Equipment;
- **Indonesia:** P.T. Citra Tubindo (PTCT).

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.

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. Regular, systematic reviews of these provisions enable frequent action to be taken in terms of improvements, investment and organization.

Reach regulation

In order to comply with the Reach regulation and assess the related issues and impacts on Vallourec's activities, a steering committee with representatives from the HSE, Legal, Production, Purchasing and R & D departments was set up in 2008.

In view of the significant impact of this regulation on the Group's activities, local HSE teams carried out a full inventory of chemicals manufactured and/or used by Group companies. A total of 21 chemicals used in steel-making were identified and pre-registered.

The Purchasing department has played a leading role in this effort, working closely and productively with numerous suppliers. Particularly close attention is paid to suppliers of the most environmentally-sensitive products.

The first stage of the process (pre-registration) was completed in 2008, in accordance with the calendar defined by the steering committee.

The Group pursued this work in 2009, remaining in close contact with major suppliers, to ensure that its products are successfully registered. Vallourec is also in the process of registering certain chemicals, especially slags [(1)], that were identified in 2009 but have not yet been registered.

(1) Slag: byproduct formed during steel production.

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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.

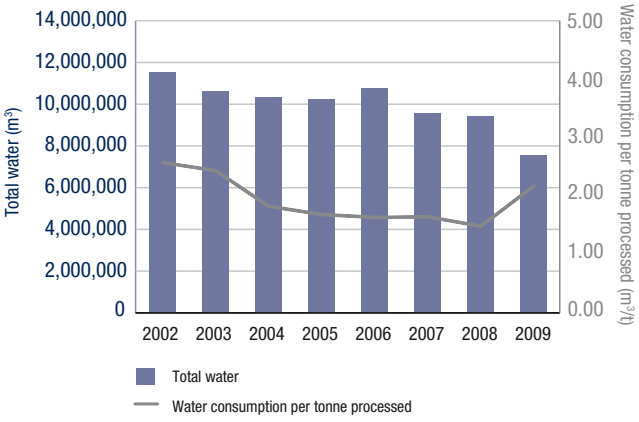
In order to facilitate progress measurement, indicators have been introduced at the various sites. The table below summarizes some of the main indicators for 2006 to 2009 for the Group as a whole.

	2006	2006 (*)	2007	2008	**2009**
Water consumption *(m^3)*	10,778,479	9,302,090	9,554,272	9,444,031	7,326,310
Effluent discharge *(m^3)*	5,181,164	4,794,099	6,138,381	5,880,281	4,830,400
Electricity *(GWh)*	1,787	1,707	1,668	1,680	1,197
Gas *(GWh)*	4,096	3,718	3,693	3,687	2,652
Waste *(tons)*	669,554	655,907	721,320	682,370	512,793
Greenhouse gases (tonnes CO_2 equivalent) (**)	849,148	779,940	828,468	976,209	739,804

(*) 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: methanol, 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 2010).

Among these natural resources, **water** occupies an important place for the Group, which operates in an industry that consumes large quantities of water. Thanks to the considerable efforts made at all sites to reduce consumption, significant progress has been achieved: in terms of relative value (i.e. water consumption in relation to tube production) the Group's consumption fell between 2002 and 2009 from 2.7 m^3/tonne to 2.3 m^3/tonne, as shown in the following graph. Note that the increase in the value per tonne in 2009 was a mathematical consequence of the sharp drop in output by plants, given that total water consumption includes a significant non-variable component.



(*) 2006 result including 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 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 owns 232,000 hectares of forests (consisting of one hectare of native forest for every 1.5 hectare of eucalyptus forest), which consume carbon dioxide (CO_2) and produce oxygen as they grow. This process directly helps to reduce the greenhouse effect inasmuch as 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 2009 (as in 2008), with quotas of 106,037 tonnes of carbon dioxide. The 2009 emissions, which were verified by APAVE with no reservations, totalled 53,625 tonnes. The difference is the result of a sharp fall in activity, and to a lesser extent, performance gains achieved, in particular, by optimizing furnace loading plans and improving energy efficiency.

All **measurements of pollutant discharges into the environment** are within the current regulatory limits and in most cases 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.

An in-depth study is currently being carried out at one site, to determine whether special treatment is required, and work is underway to identify the most appropriate forms of treatment at another site.

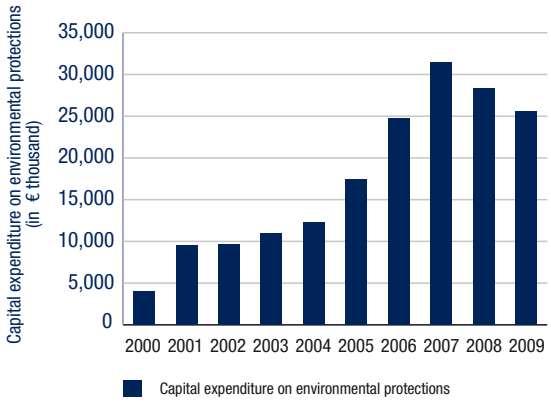
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Investment in environmental protection and safety

In 2009, the Group continued to invest heavily in environmental protection and safety, committing a total of €25.6 million to projects in this area (compared with €28.4 million in 2008).

As the graph below shows, investment in environmental protection and safety was sustained at a high level throughout the period from 2000-2009.



In 2009, 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;
- development and safety work (rooftops, parking facilities, etc.);
- noise abatement.

Contribution of Vallourec products to 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 awa 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).

8.1.1.11 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 2009, directly or indirectly, by Vallourec or by any Group company, were as follows:

A - Supervisory Board

The maximum annual attendance fees for allocation by the Supervisory Board to its members were increased to €400,000 by the Ordinary Shareholders' Meeting of 1 June 2006 *(Fifteenth resolution)*.

From 2007 until 2008, each Board member and each *Censeur* 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.

To ensure that it complies with the provisions of Article 18 of the AFEP-MEDEF Code and the practice of most CAC 40 companies, which allocate all or part of their attendance fees on the basis of members' attendance at meetings, the Supervisory Board, in accordance with the recommendation made to it by the Appointments and Remuneration Committee, decided to adopt a new procedure as regards the remuneration of Board members: the aforementioned €28,000 total is now divided into two halves, one of which will be paid in full and the other allocated on the basis of members' attendance at meetings. This new rule has been applied since 1 July 2009.

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 and Audit 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, at the rate of €2,500 per meeting. Committee Chairmen receive €3,500 per meeting, with the exception of the Chairman of the Appointments and Remuneration Committee, who has waived his right to receive remuneration in his capacity as Chairman of said Committee.

Remuneration of the *Censeurs* comes within the annual budget for attendance fees allocated to the Supervisory Board.

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ATTENDANCE FEES RECEIVED BY THE MEMBERS OF THE SUPERVISORY BOARD

In €

Members of the Supervisory Board		Amounts paid in 2008	**Amounts paid in 2009**
Messrs	Jean-Paul Parayre	28,000	28,000
	Patrick Boissier	40,500	40,500
	Philippe Crouzet (*)	17,500	4,000
	Jean-François Cirelli (**)	–	17,500
	Michel de Fabiani	40,500	40,500
	Denis Gautier-Sauvagnac	16,500	7,000
	François Henrot	35,500	25,833
	Edward G. Krubasik	54,500	52,166
	Jean-Claude Verdière	65,500	74,000
	Thierry Marraud (Bolloré)	40,500	43,000
	Arnaud Leenhardt (Censeur)	28,000	28,000
	Luiz-Olavo Baptista (Censeur)	28,000	25,666
TOTAL		**395,000**	**386,165**

(*) Due to the fact that 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 Crouzet resigned from his position as a member of the Supervisory Board with effect from 31 March 2009.

(**) Mr Jean-François Cirelli was appointed by the Supervisory Board at its meeting on 13 May 2009 as a member of the Supervisory Board to replace Mr Philippe Crouzet, who had resigned, for the remainder of his predecessor's term of office, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011. This appointment was ratified by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 in accordance with the legislation and regulations.

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B - Management Board

TABLE SUMMARIZING THE REMUNERATION, OPTIONS AND SHARES AWARDED TO EACH EXECUTIVE CORPORATE OFFICER

In euros	Year ended 31/12/2008	**Year ended 31/12/2009**
Philippe Crouzet, Chairman of the Management Board (*)		
Remuneration due in respect of the financial year	–	1,011,255 (****)
Valuation of options awarded during the financial year (**)	–	752,620
Valuation of performance shares awarded during the financial year (***)	–	447,734
TOTAL	**–**	**2,221,609**
Jean-Pierre Michel, member of the Management Board		
Remuneration due in respect of the financial year	581,394	698,890
Valuation of options awarded during the financial year (**)	780,746	342,100
Valuation of performance shares awarded during the financial year (***)	–	169,228
TOTAL	**1,362,140**	**1,210,218**
Olivier Mallet, Chief Financial Officer		
Remuneration due in respect of the financial year	144,376 (*)	620,000
Valuation of options awarded during the financial year (**)	1,480,016	273,680
Valuation of performance shares awarded during the financial year (***)	201,726	127,045
TOTAL	**1,826,118**	**1,020,725**

(*) Pro-rata as from his appointment to the Management Board.

(**) A significant portion of the share subscription options awarded in 2008, and all those awarded in 2009, to Management Board members are 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 €183.54 in the case of options awarded in 2008 and €103.34 in the case of those awarded in 2009.

(***) It should be noted that 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. In 2008 and 2009, the performance shares were awarded as a complement to the 2007 plan. In 2008 the beneficiaries were awarded the last two tranches and in 2009 the last tranche. The awarded performance shares are subject to performance requirements.

(****) Including an attendance fee of €4,000 received in his capacity as a member of the Supervisory Board for the first quarter of 2009.

The above table summarizes the remuneration due in respect of the year ended 31 December 2009 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 Registered Document.

Details of the share purchase and share subscription options and performance shares awarded during the financial year by Vallourec to each Corporate Officer and Group company are provided in Section 6, paragraph 6.2.1 "Compensation and benefits of all kinds paid to executive Corporate Officers".

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 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 2009: 29 employees), including the members of the Management Board.

The aim of the amendment was 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.

The 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, or 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 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 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 of the French *Code de commerce* 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 of the French *Code de commerce* 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.

8.1.1.12 Information on the breakdown of capital

At 31 December 2009, the shareholders and their respective shareholdings were as follows:

Shareholders	Number of shares	% of shares	Number of voting rights (gross)	% of voting rights (gross)
Bolloré group	2,990,588	5.22%	2,990,588	5.22%
Sumitomo Metal Industries	986,567	1.72%	986,567	1.72%
Free float	51,561,306	90.02%	51,871,935	90.46%
Group employees (*)	1,487,614	2.60%	1,489,024	2.60%
Own shares directly held by Vallourec (**)	254,714	0.44%	–	0.00%
TOTAL	**57,280,789**	**100%**	**57,338,114**	**100%**

(*) Under the terms of the employee share ownership plan (see 6.3.4 above).
(**) Own shares held directly by Vallourec include those held under the liquidity contract, which totalled 32,500 shares at 31 December 2009. This contract, by its nature, results in a monthly change which is the subject of ad hoc declarations on Vallourec's 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 Registered Document, of which this management report forms an integral part.

8.1.2 SPECIAL REPORT OF THE MANAGEMENT BOARD ON OPTIONS – FINANCIAL YEAR 2009

This report has been drawn up in accordance with the provisions of Article L.225-184 of the French *Code de commerce*.

A description of the share purchase and share subscription option plans is also provided in Notes 17 and 19 of the notes to the consolidated financial statements, i.e. on pages 115 to 127 and 128 to 130 respectively of this Registered Document.

Option plans implemented prior to 2007

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 issued 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 11 June 2003, under which options could be exercised as from 11 June 2007 and which will expire on 10 June 2010. There were initially 148 beneficiaries under this plan. 965,000 existing shares, which were own shares held by Vallourec, have been allocated under the plan. As at 31 December 2009, there were 17,144 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

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Cantegrit, Marco Antônio 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, all of the share purchase options (which totalled 44,415) awarded in 2003 to those employees who were members of the Executive Committee (including the members of the Management Board) as at 31 December 2009 were exercised.

3 September 2007 share option plan implemented

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 issued 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 32,000. In addition, the total number of options allocated in 2007 to those employees who were members of the Executive Committee (including the members of the Management Board) was 21,500 as at 31 December 2009.

1 September 2008 share option plan

The Management Board used part of the aforementioned authorization of the Shareholders' Meeting 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 allocated to the ten employees other than Corporate Officers who were granted the highest number of options was 22,800. The total number of options granted in 2008 to those employees who were members of the Executive Committee (including the members of the Management Board) was 50,200 as at 31 December 2009.

1 September 2009 share option plan

Pursuant to the Group's policy of motivating employees and management on the basis of the Group's performance, the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 delegated to the Management Board, subject to the prior agreement of the Supervisory Board (see 2.2.1 above), the authority to grant share subscription and/or share purchase options to the Group's employees and, where relevant, Corporate Officers, up to the limit of 3% of the issued capital and 2% of the issued capital per 12-month period, it being specified that the portion reserved for Corporate Officers may not exceed 20% of the allocations under the plan (*Twenty-first resolution*).

Under the terms of this authorization, which was given for a period of 38 months expiring on 3 August 2012, the Management Board used part of this authorization and, after consulting the Supervisory Board on 30 July 2009, implemented a new share subscription option plan on 1 September 2009.

The number of beneficiaries is 303 and the total number of options that may be granted is 289,400. 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 40,000. 22,000 were allocated to Mr Philippe Crouzet, 10,000 to Mr Jean-Pierre Michel and 8,000 to Mr Olivier Mallet. All of these options are subject to performance requirements based on the Group's EBITDA.

The options granted under this plan may be exercised during a period of six years, from 1 September 2013 to 31 August 2019 inclusive, at the end of a holding period of four years, from 1 September 2009 to 31 August 2013.

The exercise price of the options is €103.34 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 2009 to 31 August 2009 inclusive.

In accordance with the prevailing legislation and regulations and the recommendations of the AFEP-MEDEF Code, the Supervisory Board decided at its meeting on 30 July 2009 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 24,000. The total number of options granted in 2009 to those employees who were members of the Executive Committee (including the members of the Management Board) as at 31 December 2009 was 52,000.

8.1.3 SPECIAL REPORT OF THE MANAGEMENT BOARD ON ALLOCATIONS OF PERFORMANCE SHARES – FINANCIAL YEAR 2009

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 issued 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 issued capital.

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, 2008 and 2009. Details are provided in Section 6, paragraph 6.2.1 "Compensation and benefits of all kinds paid to executive Corporate Officers" of the performance shares allocated to each executive Corporate Officer in office as at 31 December 2009 by Vallourec and each Group company.

The characteristics of these plans are as follows:

	2006 plan (*)	2007 plan (**)	2008 plan (***)	"Value" 08 plan	**2009 plan (****)**	"Value 09" plan	"123" plan (*****)
Allocation date	16/01/2006	03/05/2007	01/09/2008	16/12/2008	31/07/2009	17/11/2009	17/12/2009
Acquisition period	2 years	2, 3 and 4 years	2 and 3 years	4.5 years	2 years (French residents) or 4 years (non-French residents)	4.6 years	2 years (French residents) or 4 years (non-French residents))
Holding period	2 years	2 years	2 years	-	2 years (French residents) or none (non-French residents)	-	2 years (French residents) or none (non-French residents)
Number of beneficiaries at outset	199	280	41	8,697	53	8,097	17,067
Theoretical number of shares allocated	148,000	111,000	11,590	33,856	13,334	34,700	51,201

(*) The definitive attribution, in terms of number of shares, will be based on the Vallourec Group's performance in terms of consolidated EBITDA in 2006 and 2007. 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 attribution, in terms of number 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 attribution, in terms of number 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.

(****) The definitive attribution, in terms of number of shares, will be allocated in 2011 in the case of French residents and in 2013 in the case of non-French residents and 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 the two years concerned, to the theoretical number of shares allocated. The factor can range from 0 to 1.33.

*(****\) The definitive attribution, in terms of number of shares, will be allocated in 2011 in the case of French residents and in 2013 in the case of non-French residents and will be based on the Vallourec Group's performance in terms of consolidated EBITDA for the period from 1 January 2010 to 30 September 2011. The number of shares actually acquired by each beneficiary at the end of the acquisition period can range from 0 to 3.*

2007 plan: the total number of shares allocated to the ten employees who were not Corporate Officers and to whom the largest number of shares was allocated was 12,000.

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2008 plan: the total number of shares allocated to the ten employees who were not Corporate Officers and to whom the largest number of shares was allocated was 6,620.

2009 plan: the total number of shares allocated to the ten employees who were not Corporate Officers and to whom the largest number of shares was allocated was 2,366.

Shares allocated to employees who were members of the Executive Committee as at 31 December

	2006 plan	2007 plan	2008 plan	"Value 08" plan	**2009 plan**	**"Value 09" plan**	"123" plan
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	-	-	-	-	-	-
2009							
Theoretical number of shares allocated	12,500	3,600	3,200	5	7,496	6	12
Number of senior managers involved	3	3	3	1	3	1	4
Number of shares acquired	16,000	1,301	-	-	-	-	-

A description of the performance share plans is also provided in Notes 17 and 19 of the notes to the consolidated financial statements, i.e. on pages 115 to 127 and 128 to 130 respectively of this Registered Document.

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.

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*.

At its meeting on 6 April 2009, the Supervisory Board verified that the rules regarding remuneration and pensions applied by the Company to Management Board members complied with the AFEP-MEDEF Code. It approved, in particular, the terms of the contract appointing Philippe Crouzet as Chairman of the Management Board, having satisfied itself that said contract complies with the AFEP-MEDEF Code. These rules were, in accordance with the AFEP-MEDEF Code, published on Vallourec's website on 9 April 2009. The rules were supplemented on 10 August 2009 by an information document in connection with the incentive policy aimed at strengthening employees' stake in the results of the Vallourec Group and with the compensation policy relating to the allocation for 2009 of share options and performance shares to Management Board members.

This report was approved by the Supervisory Board at its meeting on 23 February 2010.

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 Code and the composition and operation of the three Committees (Finance and Audit Committee, Appointments and Remuneration Committee and Strategy Committee) set up within the Supervisory Board are detailed in Section 6 of the Registered Document for the year ended 31 December 2009 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. The Board met seven times in 2009. 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 meetings timetable for 2010, a preliminary version of which was presented to the Board at its meeting on 13 May 2009, was adopted by the Board at its meeting on 30 September 2009.

The effective attendance rate of Board members at meetings was higher than 80% on average for all the meetings held in 2009.

Dates of Board meetings (Financial year 2009)	Attendance rate
25 February	7/9 (78%)
6 April	7/8 (88%)
13 May	7/8 (88%)
3 June	7/9 (78%)
30 July	6/9 (67%)
30 September	7/9 (78%)
12 November	8/9 (89%)

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 on average a week 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 Board meetings.

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 2009, Vallourec's Statutory Auditors attended those Supervisory Board Meetings at which the annual and half-year financial statements were reviewed.

After the assessments of the operation of the Board carried out in 2003, 2006 and 2008, a further assessment was carried out in 2009 based on an updated version of the same questionnaire, which comprised six assessment topics. An analysis of the results, which was sent to Board members and discussed at a Board Meeting, shows a high level of satisfaction among all members. In the light of this summary, it was recommended and agreed that the composition of the Board be enlarged and that, where necessary, it be enlarged up to the statutory limit of 12 members to allow for, in particular, members who are women and/or have international stature or experience, or who may be of foreign nationality. The length of Board meetings, which increased during 2009, in accordance with the recommendation resulting from the assessment carried out in 2008, to allow for matters to be discussed in greater depth, appears to be appropriate overall, although some believe that three hours is a minimum. The quality of discussions was also assessed. The documentation presented as background information for these meetings is judged to be sufficiently detailed and constantly improving. Finally, Board members have expressed their support for continuing to visit employees on site once a year.

For the purposes of assessing the Group's performance, in 2009 the Supervisory Board focussed mainly on reviewing the annual and first half financial statements, the Group's activity, the results of the Cap Ten competitiveness plan, the strategic issues facing the Group and the projects and negotiations currently in progress.

As regards corporate governance, the Supervisory Board examined the following subjects in particular:

- the setting of the remuneration of the members of the Management Board and of its new Chairman;
- Vallourec's policy as regards remuneration and its incentive policy aimed at strengthening employees' stake in the results of the Vallourec Group, in particular as regards the measures adopted by the Management Board to ensure compliance with the provisions of law no. 2008-1258 of 3 December 2008 relating to employment income;
- the overall budgets and the number of performance shares and share subscription options allocated to each member of the Management Board, and the requirement for such members to retain a portion of the shares and options allocated;
- the payment of attendance fees to Supervisory Board members, Committee members and the Censeurs;
- the composition of the Supervisory Board following the appointment of Mr Philippe Crouzet as Chairman of the Management Board as from 1 April 2009 to replace Mr Pierre Verluca, and the resulting provisional appointment on 13 May 2009 of Mr Jean-François Cirelli as a member of the Supervisory Board.

B – Shareholder participation in Vallourec's Shareholders' Meetings

Any shareholder is entitled to participate in the Company's Shareholders' 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.com/download.asp?murl=pub/assemblee_generale_fr/155_A.pdf* and at the registered office – relating to Shareholders' 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 Shareholders' Meetings. These shares shall be deducted in the calculation of the quorum".

Since Vallourec places great importance on the attention paid to its shareholders, it endeavours, whenever it can, to improve shareholder participation at its Shareholders' 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 Annual Shareholders' Meeting.

The list of attendees at the Ordinary and Extraordinary Shareholders' Meeting held on 4 June 2009 shows that 1,677 shareholders were present, represented or voted by correspondence; they owned 26,293,488 shares out of a total of 53,788,716 (48.88%) and 26,339,066 voting rights out of a total of 53,495,793 (49.23%), resulting in a quorum increased by 5%. The attendees included the Bolloré group, which owned 2,990,534 shares representing the same number of voting rights, i.e. 5.56% of the capital represented and 5.55% of 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 Section 2 of the 2009 Registered 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 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. COMPONENTS OF INTERNAL CONTROL

To guarantee the consistency of day-to-day procedures carried out worldwide in the Group's name, in 2009 Vallourec implemented a group of procedures which constitute the basis of the internal rules applicable to all its staff and departments.

Situated at the heart of Vallourec's internal control system, these procedures provide a framework for the actions of each employee.

They relate, in particular, to ethics, the delegation of authority, the confidentiality of information, the prevention of insider trading, external communication and financial communication.

The Code of Ethics

The Group's ethical standards have, since 2009, been set out in a single document: the Code of Ethics.

The Code of Ethics is based on a set of fundamental values, such as integrity and transparency, standards and professionalism, performance and responsiveness, respect for men and women and joint commitment.

It provides a frame of reference for the proper conduct of the day-to-day activities of each employee by means of principles for action, which are based on the aforementioned values. These principles for action reflect the way in which Vallourec means to conduct its relations with all partners and other parties, such as employees, its customers, shareholders and suppliers and constitute a benchmark for the Group, especially in implementing its sustainable, responsible development plans.

The Code of Ethics also prescribes rules of conduct on a variety of subjects, such as conflicts of interests, relations with third parties and the conservation of assets in such a way as to protect, under all circumstances, the Group's reputation and image.

Vallourec's Code of Ethics applies to all Group consolidated companies. Each employee is personally responsible for implementing its values and principles and complying with rules Vallourec publishes.

Management makes the Code of Ethics known to all Group personnel. It has been translated into five languages. It has also been published on the Company's website – *http://www.vallourec.com/download.asp?murl=pub/publication_uk/39_P.pdf* – to affirm the Group's values with regard to third parties.

In order to support implementation of the Code of Ethics by all Vallourec personnel, in particular managers, a Code of Ethics officer has been appointed for the Group, whose duties are:

- to assist Group companies in disseminating the Code of Ethics;
- to coordinate actions to make new employees aware of the Code of Ethics;
- to participate in setting procedures for applying the Code;
- to ascertain any difficulties in interpreting or applying the Code of Ethics that are raised by staff; to that end, the officer receives any information relative to breaches of the principles of responsibility;
- to produce an annual report on implementation of the Code of Ethics for the Chairman of the Management Board.

The Code of Ethics officer reports to the Management Board and relies on a network of local contacts.

Delegated authority procedure

The level of authority given to each manager within the Group must remain compatible with the maintenance of an overall level of control, the Group's strategy and the application of rules common to all Group entities.

To better meet these requirements, the aim, at Group level, of the delegated authority procedure implemented in 2009 is to define clearly the approval levels which must be complied with before commitments can be entered into by any Group entity. It may not constitute a departure from the prevailing legislation and regulations.

Confidentiality Charter

Against a backdrop of intense competition, the Group has needed to make all staff aware of their obligations as regards confidentiality. Vallourec therefore drew up a confidentiality charter with the aim, on the one hand, of enabling it to carry out its business in better conditions when faced with such competition and, on the other hand, of protecting people working for Vallourec by informing them as accurately as possible of the duty of confidentiality with which they must comply.

The Code of good practice on transactions in Vallourec shares

Vallourec has a Code of good practice on the prevention of insider trading that could occur in connection with transactions in its shares.

This Code concerns not only all the members of its management and control bodies, but also all senior managers and employees of Vallourec and all its subsidiaries. It is sent to all employees who come into possession of insider knowledge, of whom the Companies maintains an up-to-date list.

Its objective is to ensure compliance with the precautionary principle in order to (i) protect staff at all levels by making them aware of stock exchange regulations and applicable penalties, so as to enable them to avoid being the subject of legal proceedings, (ii) protect Vallourec and its Group, in particular from the risks of damage to its image and reputation and a fall in the value of its shares, and (iii) retain the confidence of investors and maintain equality between shareholders.

External communication procedure

Vallourec has drawn up an external communication procedure, the aim of which is to ensure the consistency of information provided to the outside world (oral and written), which may affect Vallourec's reputation (social, environmental, etc.).

Any information communicated outside the Group relating, in particular, to the order book, new contracts, capital expenditure, planned acquisitions or more generally the Group's past or future activity must be the subject of an internal approval process.

The financial communication procedure

In 2009, Vallourec drew up a financial communication procedure, the aim of which is to ensure that the Group's system of providing financial information to the public complies with the prevailing legislation and regulations.

Annual and half-year financial reports and quarterly financial information is thus the subject of an internal approval process prior to its release and filing with the French securities regulator (*Autorité des Marchés Financiers* – AMF).

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3. DESCRIPTION OF INTERNAL CONTROL PROCEDURES

3.1 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.

In accordance with Article L.823-19 of the French *Code de commerce,* the Finance and Audit Committee monitors the financial information preparation process and the effectiveness of the internal control and risk management systems.

The Group's key operations and the control procedures applicable to them are as follows.

3.2 Internal control procedures in respect of financial and accounting information

3.2.1 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.

3.2.2 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. The annual financial statements are audited and the half-year financial statements are reviewed by the Statutory Auditors; quarterly data is neither audited nor reviewed.

3.2.3 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.

In 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 Head of Group Treasury and submitted to the Management Board.

3.2.4 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 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.

In 2008, all fully-consolidated companies carried out a self-assessment review of their accounting and financial procedures on the basis of a questionnaire comprising 121 questions. The questionnaire was based on the report of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) and complies with the provisions of the application guide for 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.

In 2009, all these companies were the subject of an on-site review by the Internal Audit department on the basis of this questionnaire. The review covered the following financial and accounting cycles: capital expenditure, purchasing, inventories, sales, cash, provisions, staff, taxes and reporting processes. Each company received a summary in 2009 of the points for improvement and prepared an action plan for each weakness identified in respect of which the risk of occurrence and the potential impact on the financial statements was considered to be significant.

3.2.5 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.

In addition to the team based at the Group's head office, Vallourec 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.

3.3 Other key processes analyzed

3.3.1 Industrial investment

The Technology and Investment department, grouped since 1 January 2010 with the Research and Development department

within a single department (the Technology, R & D and Innovation department) reports to a member of the Management Board and to an Investments Committee composed of members of the Executive Committee, the Management Control department and the Corporate Investment department.

This Committee meets six times a year. It examines budgets, expenses for the period and, where relevant, deferred expenses. The agenda comprises a review of projects with a forecast cost of more than €5 million or less than this amount when they are strategic in nature. In accordance with the Large Capex Approval procedure, a file is prepared in respect of these projects by the division concerned and a memorandum drawn up by the Management Control department before the projects are submitted for approval to the Management Board, in accordance with the Delegated Authority procedure detailed on page 221.

A posteriori controls are carried out on expenses, expected objectives and the profitability of capital expenditure projects. Such controls are performed by the Technology and Investments department or the Management Control department on projects that are deemed highly representative, which were authorized in earlier years and which involve mass production. In addition, project management audits may be carried out during the project implementation phase by the Group Quality department. The results of these audits are brought to the attention of the divisions and Investments Committee.

3.3.2 Quality – Safety – Environment

The QSE (Quality, Safety and Environment) department defines the systems, methods and tools used in the Group, 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).

These elements form the Vallourec Management System (VMS), which has been implemented in all Group companies. The VMS has been structured around three main components:

- Total Quality Management (TQM) plans, i.e. plans for monitoring the Group's entities, which facilitate the control of processes by identifying operational performance measurement indicators;
- the Continuous Improvement Teams (CIT), which promote the commitment of staff to continuous improvement in accordance with the same operational indicators, by implementing a stringent, standardized method for resolving problems;
- the steering committees, which ensure the commitment of senior management, and the monitoring and support of the continuous improvement approach.

In addition to the control of processes and continuous improvement, the VMS is responsible for ensuring that initiatives are consistent with the aims of the strategic plan.

The QSE department is responsible for the continuous auditing of the 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.

- As regards quality, the QSE department is responsible, in the context of the VMS, for applying specific methods and tools designed for the continuous improvement of the quality of the Group's products and control of its manufacturing processes. It assists with their implementation, sets up the necessary training programmes and oversees the sharing of best practice. By means of the audits it carries out at all Group sites, in addition to those carried out by external certification bodies, it ensures said practices are properly applied to all processes which contribute to customer satisfaction.

  The Vallourec Quality approach takes into account the requirements of the most stringent standards, in particular as regards standardization, the control of variations in quality, risk prevention and problem resolution.

- As regards safety, in 2008 the Group launched the Cap Ten Safe project, the aim of which is to significantly enhance our performance in this area. It illustrates the Group's intention to make a complete break with the past and to carry out an extensive overhaul of all safety measures with the aim of achieving 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 appropriate monitoring indicators.

  It comprises, in respect of the period 2009-2010, the following main initiatives:

  - improving performance at all plants to ensure compliance with Vallourec standards, particularly in the areas of risk evaluation, monitoring, control and updating of safety initiatives and order and cleanliness of the shop floor;
  - building a safety management system: Vallourec intends to gain OHSAS 18001 certification for its main industrial sites during the 2009-2010 period;
  - fostering a genuine safety culture: at the end of 2008, the Group launched a programme under which all plant staff would receive a safety visit. These visits, which took place throughout 2009, 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 is to carry out two visits per employee per year;
  - the Cap Ten Safe project has enabled the Group to achieve significantly improved safety performance as from 2009: the accident frequency rate (or Lost Time Injury Rate – LTIR) decreased, for the entire Group, from 9.2 in 2008 to 5.3 in 2009.

- As regards the environment, the QSE department is responsible for coordinating and directing environmental matters and relies on local environment managers who are responsible for ensuring compliance with regulations and improving Group performance in the field of environmental protection in accordance with the sustainable development charter drawn up by the Group in 2004.

  It carries out audits and establishes key indicators that enable the main parameters to be periodically monitored.

  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. There are a few relatively small sites for which the Group plans to obtain certification in 2010.

The aim of the GreenHouse project, launched in 2009, is to draw up and implement initiatives designed to prepare the Group for the "carbon economy" and thereby to integrate its efforts to combat global warming into its strategic decisions. The objective is to significantly reduce the consumption of energy (gas and electricity) and therefore greenhouse gas emissions. The QSE department is responsible for coordinating these initiatives.

Finally, the Group has continued to make significant investment in the field of environmental protection and safety. In 2009, investment in these fields represented around 7% of the Group's total capital expenditure.

3.3.3 *Research and Development*

The Research and Development department, which has since 1 January 2010 been grouped with the Technology and Investment department within the Technology, R & D and Innovation department, as described on page 43 above, has drawn up procedures at Group level 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, particularly as regards 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, in particular, of their potential benefit to the Group and the risks that might be incurred.

Each year, audits are also carried out by the Group Quality department in accordance with the VMS.

3.3.4 *Purchasing*

In 2009, the Purchasing department quickly adapted to the economic crisis by expanding its principal annual objectives for priority action.

The Group focussed on three additional initiatives:

- renegotiating all annual and long-term contracts against a backdrop of falling activity levels;
- ensuring the financial security of and monitoring of the Group's strategic suppliers;
- rapidly adapting volumes purchased on the basis of orders placed by Group employees.

These initiatives enabled the Purchasing department to meet, in 2009, the contribution targets set by the Cap Ten Safe project.

The Group continued in 2009 the actions taken in 2008 to improve the structure of the purchasing function. As a result, the involvement of the Purchasing department in the areas of raw materials and capital expenditure resulted in significant gains for the Group.

3.3.5 *Information systems*

In 2009, the Group continued to implement the programme of IT security audits initiated in 2008, as a result of which corrective action has been taken. In particular, a contract was entered into for the hosting by a third party of the Saint-Saulve IT centre, housing the French application servers and certain services at Group level. Migration is in progress and will be completed in May 2010. As a result, the Group will be able to eliminate the risk of the IT centre being out of action since these new arrangements will guarantee that it is permanently operational.

Several initiatives were implemented in 2009 to improve the Group's IT security:

- the first phase of the project for the segregation of access rights (segregation of duties) to IT applications was completed (GRC project);
- the Group continued with the deployment of the SAP core model in the United States via VAM USA. The system is scheduled to become fully operational during 2010;
- a global contract was signed with an anti-virus software provider for the use of one single system throughout the Group;
- the architecture was defined for a new distance connection solution for Vallourec's staff and partners, the aim of which is to strengthen the security of communication. It will be deployed gradually as from 2010;
- finally, a project was launched to make uniform and strengthen the management of access to the Group's information system. The new architecture will be deployed in 2010 and early 2011.

3.3.6 *Human Resources*

In 2009, the Human Resources department introduced an internal control process which audits all its operations: the performance of its duties, training and skills management, the working environment, compliance with the Group's internal regulations and the prevailing national labour regulations, compensation management and the protection of privacy and information regarding the Company and its employees.

Each country with its own Human Resources department carries out a self-assessment review of its operations using a standardized questionnaire. On the basis of the answers received, the Group Human Resources department carries out audits and monitors plans for corrective action or improvements. In 2009, the main countries in which the Group operates completed the self-assessment questionnaire and were audited on the basis of their replies. The countries concerned were Brazil, France, Germany, the United States, China, the United Kingdom, Mexico and the United Arab Emirates.

The same type of assessment is also used in respect of the acquisition and integration of new Group companies.

This approach also enables best practice to be identified and implemented on a Group-wide basis.

As regards the prevention of industrial accidents and sickness, the Group-wide Cap Ten Safe programme (see 3.3.2 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.

In 2009, the Group significantly reduced the number of accidents and the resulting number of working days lost.

3.3.7 *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. In the same spirit, general sales terms have been drawn up to be applied by all

Group entities, with the aim of making practices consistent throughout the Group and reducing risk exposure.

The Legal department periodically analyzes the legal provisions applicable to sales contracts entered into between the subsidiaries and their customers. General terms, standard documents, sales contracts and bids in response to invitations to tender are reviewed on a regular basis.

3.3.8 Insurance

Industrial risks are covered by two types of Group insurance: general insurance (direct material damage to Group property, not subject to specific exclusions, as well as any costs and resulting 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).

4. 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 principal 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 meeting handles the following matters:

- validation and monitoring of action plans, presented by the owner of each priority risk;
- validation of the key risk indicators which will guarantee the relevance of new controls, after closure of the action plan, and their long-term survival;
- updating of the 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. The risk management function serves as a supplement to the Group's internal control and internal audit functions. It collaborates with them and helps to draw up the internal audit programme. It methodically tests the efficacy of the internal control procedures referred to above and then elevates them to the level of best practice. As a result, specific procedures have been implemented to ensure the prevention of:

- physical risk to an employee in the performance of his duties;
- the risk of the disclosure of confidential information ;
- the risk of media attention not under the Group's control.

Additional cover has been taken out at Group level or by certain subsidiaries against a number of other insurable risks.

In conclusion, risk management is based on internal control that is becoming increasingly comprehensive and tailored to the Group's specific requirements, with the result that it assists in the development of said internal control by anticipating risks, benchmarking procedures and managing action plans at the highest level within the divisions and Management Board.

Additional information is provided in Section 4, paragraph 4.2 "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 2009 Registered 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.

At its meeting on 23 February 2010, the Board decided that, in 2010, the variable portion of Management Board members' remuneration would be calculated in thirds, the first third being based on the net profit, the second on EBITDA and the third on the achievement of targets set by the Board. The basis for calculating the first two thirds will be 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 and to all option granted to them since 2009.

Since 2007, and in accordance with the AFEP-MEDEF Code, Management Board members have been required to retain until the end of their terms of office, (i) one quarter of the performance shares granted to them under the terms of a plan, and (ii) the equivalent in Vallourec shares of one quarter of the gross capital gain realized on the date of sale of the shares resulting from the exercise of options. Management Board members formally undertake not to use hedging instruments in connection with the exercise of options, the sale of shares resulting from the exercise of options or the sale of performance shares.

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. 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. 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 gross theoretical annuity is equal to the sum of the annual rights calculated in respect of each full financial year in accordance with the following formula: C = 0.25 x (B/P) - 1[(1)].

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, 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%.

(1) *C = Annual rights capped at 2%*
B = Annual base salary
P = Annual social security ceiling

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 Ordinary Shareholders' Meeting of 1 June 2006 *(Fifteenth resolution)*.

From 2007 until 2008, each Board member and each *Censeur* 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.

To ensure that it complies with the provisions of Article 18 of the AFEP-MEDEF Code and the practice of most CAC 40 companies, which allocate all or part of their attendance fees on the basis of members' attendance at meetings, the Supervisory Board, in accordance with the recommendation made to it by the Appointments and Remuneration Committee, decided to adopt a new procedure as regards the remuneration of Board members: the aforementioned €28,000 total is now divided into two equal fractions, one of which will be paid in full and the other allocated on the basis of members' attendance at meetings. This new rule has been applied since 1 July 2009.

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.

3. REMUNERATION OF COMMITTEE MEMBERS

Members of the Committees (Finance and Audit 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, at the rate of €2,500 per meeting. Committee Chairmen receive €3,500 per meeting, with the exception of the Chairman of the Appointments and Remuneration Committee, who has waived his right to receive remuneration in his capacity as Chairman of said Committee.

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 Code, 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 REPORT OF THE MANAGEMENT BOARD ON THE DRAFT RESOLUTIONS

8.3.1 RESOLUTIONS TO BE SUBMITTED TO THE ORDINARY SHAREHOLDERS' MEETING

8.3.1.1 Approval of the statutory financial statements and allocation of net profit

The *first resolution* relates to the approval of Vallourec's statutory financial statements for the 2009 fiscal year showing profits of €427,376,830.66.

The *second resolution* relates to the approval of Vallourec's consolidated financial statements for the 2009 fiscal year showing profits of €536,478,000.

The *third resolution* relates to the allocation of net profit. It is proposed that the dividend for the 2009 fiscal year be set at €3.50 per share. In accordance with Article 243 *bis* of the French *Code général des impôts,* it is specified that this dividend is eligible, when it is paid to shareholders who are individuals residing in France for tax purposes, to an abatement of 40% as a result of the application of Article 158-3 of this same Code. In accordance with Article 117 quater of the General Tax Code, the shareholders may nevertheless, subject to certain conditions and instead of the progressive income tax rate scale, opt for a lump-sum withholding at the rate of 18%; the dividend is then no longer eligible for the 40% abatement. The shareholders are reminded that, in these two cases, under certain conditions, the social security withholdings relating to these dividends are withheld at the source.

It is reiterated that the following dividends were distributed in the three fiscal years prior to those of the 2009 fiscal year:

Fiscal year	Number of shares	Dividend per share (1) *In €*
2006	53,011,870	6.00 (2)
2007	53,038,720	11.00 (3)
2008	53,788,716	6.00 (4)

(1) The dividends distributed during the course of the 2006 to 2008 fiscal years entitle their holders to the 40% abatement resulting from the application of Article 158-3 of the French Code général des impôts.
(2) Including an interim dividend of €2 per share distributed on 20 October 2006.
(3) Including an interim dividend of €4 per share distributed on 4 July 2007.
(4) It is recalled that the Combined Ordinary and Extraordinary Shareholders' of 4 June 2009 granted each shareholder the option to receive the payment of the dividend either in cash, in shares, in accordance with the legal and regulatory provisions in force.

The dividend will be detached from the share on 7 June 2010 and paid on 30 June 2010.

The *fourth resolution* relates to the granting of an option to each shareholder of the Company to receive payment of the dividend either in cash or in shares, in accordance with applicable legal and regulatory provisions.

To this end, each shareholder may opt for the payment of the dividend in cash between 7 June 2010 and 22 June 2010, included. After this period, the dividend will only be paid in cash.

For the shareholders who opt for a payment in cash, the dividend will be paid on 30 June 2010; on the same date, the delivery of the shares will occur for those who opt for the payment of the dividend in shares. The shares delivered as dividend payments will bear rights as of 1 January 2010

The new shares, in the event of the exercise of this option, will be issued for a price equal to 90% of the average of the opening listing price of the share on Euronext Paris during the twenty days prior to the date of this Shareholder's Meeting, reduced by the net amount of the dividend referred to in the *third resolution* and rounded to the next highest euro cent.

If the amount of the dividends for which the option is exercised does not correspond to a whole number of shares, the shareholder may:

- obtain the next higher whole number of shares by paying, on the date that he or she exercises the option, the difference in cash; or
- receive the next lower whole number of shares supplemented by a payment of the balance in cash.

8.3.1.2 Approval of agreements subject to Article L.225-86 of the French *Code de commerce*

The Company did not enter into any new so-called "regulated" agreement during the course of the 2009 fiscal year that would not have already been submitted to the Shareholder's Meeting.

Accordingly, and in application of Article L.225-88 of the Commercial Code, no resolution relating to agreements subject to Article L.225-86 of the Commercial Code is submitted, given the lack thereof, to the Shareholder's Meeting.

Regulated agreements and undertakings that were previously concluded, authorized and approved, particularly during prior fiscal years and which remained in effect during the 2009 fiscal year are described in detail in the special report of the Statutory Auditors, which appears on pages 239 and 240 of the 2009 Registered Document.

The report specifies that the Company and Banque Rothschild & Cie mutually agreed to terminate, effective 31 December 2009, the mandate conferred to this bank in 2006 for assignments relating to Vallourec's strategic options, as well as the assistance in the event of a takeover bid. The advice of Banque Rothschild & Cie was significant, in particular for its contribution to the Group's strategic analysis and planning. Since Vallourec has now set up teams and working groups allowing the preparation and approval of its strategic options without the need to receive permanent outside counsel, it no longer appears necessary to continue this mandate in 2010.

8.3.1.3 Composition of the Supervisory Board

Resolutions 5 through 9 relate to the composition of the Supervisory Board.

1. Renewal of the mandate of three members of the Supervisory Board

The mandates as a member of the Supervisory Board of Michel de Fabiani and Jean-Claude Verdière as well as Bolloré S.A., the permanent representative of which is Mr Thierry Marraud, expire at the end of this Shareholder's Meeting.

The *filth resolution* relates to the renewal, in accordance with Article 10.1 of the by-laws, of the mandate of Mr Michel de Fabiani as member of the Supervisory Board for a period of four (4) years, i.e. until the end of the Ordinary Shareholder's Meeting called to approve the financial statements for the fiscal year ending on 31 December 2013. Mr Michel de Fabiani is independent under the terms of the AFEP-MEDEF Code.

The *sixth resolution* relates to the renewal, in accordance with Article 10.1 of the by-laws, of the mandate of Bolloré S.A. as member of the Supervisory Board for a period of four (4) years, i.e., until the end of the Ordinary Shareholder's Meeting called to approve the financial statements for the fiscal year ending on 31 December 2013. Bolloré S.A. is independent under the terms of the AFEP-MEDEF Code.

The *seventh resolution* relates to the renewal, in accordance with Article 10.1 of the bylaws, of the mandate of Mr Jean-Claude Verdière [(1)] as member of the Supervisory Board for a period of two (2) years, i.e. until the end of the Ordinary Shareholder's Meeting called to approve the financial statements for the fiscal year ending on 31 December 2011 in order to ensure the continuity of the works of the Board, in particular the works of the Financial and Audit Committee, of which he is a qualified member with specific expertise in financial and audit related matters. This postponement will allow the new members of the Board to acquire an in-depth knowledge of the Group. Mr Jean-Claude Verdière is independent under the terms of the AFEP-MEDEF Code.

2. Appointment of two new members to the Supervisory Board

The *eighth resolution* relates to the appointment, in accordance with Article 10.1 of the by-laws, of Mrs Vivienne Cox as member of the Supervisory Board for a period of four (4) years, i.e. until the end of the Ordinary Shareholder's Meeting called to approve the financial statements for the fiscal year ending on 31 December 2013. Mrs Vivienne Cox is independent under the terms of the AFEP-MEDEF Code.

The *ninth resolution* relates to the appointment, in accordance with Article 10.1 of the by-laws, of Mrs Alexandra Schaapveld as member of the Supervisory Board for a period of four (4) years, i.e. until the end of the Ordinary Shareholder's Meeting called to approve the financial statements for the fiscal year ending on 31 December 2013. Mrs Alexandra Schaapveld is independent under the terms of the AFEP-MEDEF Code.

The biographies of Mrs Vivienne Cox and Mrs Alexandra Schaapveld are provided on page 10 of this brochure "Notice of calling".

3. Expiration of the mandate of a Censor

Mr Arnaud Leenhardt's mandate as Censor expires at the end of the Shareholder's Meeting. Having spent his entire career in the industry with the Vallourec Group of which he was the Chairman from 1981 to 2000, Mr Arnaud Leenhardt was the source of pivotal decisions that furthered the Group's international expansion as well as the success of its products and services in the global market.

The Management Board expresses the recognition of his attachment to Vallourec and its profound gratitude for the job he has done.

8.3.1.4 Adjustment of the compensation of the members and the Censors of the Supervisory Board

The *tenth resolution* sets the maximum annual amount of the attendance fees to be paid to the Supervisory Board at €520,000. This change aims at adapting this amount to the composition of the Board, its international nature and the increased frequency of the meetings of the Supervisory Board and the Committees, also taking into account the practice of European listed companies.

8.3.1.5 Authorization to be given to the Management Board to trade in the Company's own shares

The *eleventh resolution* relates to the renewal of the authorization given to the Management Board to trade in the Company's shares granted by the Shareholder's Meeting of 4 June 2009 which will expire on 4 December 2010. Pursuant to this new authorization, the Management Board, in terms that are basically identical to those of the

(1) Having reached the age limit of 70 years set forth in the bylaws, Mr Jean-Claude Verdière may be reelected one more time, for a maximum period of two years, in accordance with the provisions of Article 10-1 of the bylaws.

prior authorization, may decide to acquire a number of shares of the Company that may not exceed 10% of the Company's share capital. This percentage will apply to the capital as adjusted following changes in share capital that may occur after the date of this Shareholder's Meeting.

The purpose of the purchases of shares will be the following:

- to implement any stock option plan of the Company;
- to award or sell shares to employees in order to allow them to participate in the Company's expansion and in connection with any company savings plan established under applicable law;
- to award shares;
- to develop the market or liquidity of the shares through an investment services provider, in connection with a liquidity contract;
- delivering shares in connection with transactions involving external growth;
- to deliver shares upon exercise of rights attached to securities that give access to shares; or
- cancelling shares.

These actions may be carried out by any means, on the market or over-the-counter, in accordance with Article L.225-209 of the Commercial Code and the rules imposed by the *Autorité des marchés financiers*. These actions may be carried out at any time, in accordance with applicable law, except during periods in which a takeover bid has been made for the Company's shares.

The maximum purchase price may not exceed €204, corresponding to the volume-weighted average price of the Vallourec share, from 1 January 2010 until 31 March 2010, increased by 50%.

The maximum amount that may be allocated to share repurchase program is set at €800 million.

This authorization is granted for a period of eighteen months.

8.3.2 RESOLUTIONS TO BE SUBMITTED TO THE EXTRAORDINARY SHAREHOLDER'S MEETING

8.3.2.1 Division of the nominal value of the shares

The price of the Vallourec share is one of the highest on the market, and is much higher the average price of the CAC 40. This situation could affect trades and may discourage certain investors from purchasing the Vallourec share. This is the reason for which Vallourec wishes to divide the nominal value of its share in order to enhance the accessibility of the share and improve its liquidity.

The *twelfth resolution* therefore proposes to this Shareholder's Meeting a division by two (2) of the nominal value of the Vallourec share through the creation of 114,561,578 new shares with a nominal value of two (2) euros each that will be allocated to the shareholders holding 57,280,789 existing shares with a nominal value of €4 each, through an exchange, at the ratio of two (2) new shares for one (1) existing share.

The division of the nominal value and the corresponding allocation of new shares to the shareholders have no effect on the rights to which the shares are entitled under the Company's by-laws. The new shares will have the same rights as the existing shares for which they will be substituted.

The division of the nominal value will be effective after the distribution, on 30 June 2010, of the dividend proposed for the 2009 fiscal year.

8.3.2.2 Amendment of the by-laws to provide for the introduction of remote electronic voting

The Company intends to carry on its policy to promote and facilitate the exercise of voting rights by shareholders during Shareholders' Meetings. Taking note of the accessibility of the Internet, and adopting a practical approach in line with the opportunities offered by the law, the Company wishes to set up a mechanism of prior remote voting via Internet, subject to the conditions of functioning and security being fully met.

Remote voting via Internet will allow shareholders to vote in advance using a secured electronic means. This voting option will complete those already at the disposal of shareholders, i.e., presence at Shareholders' Meetings, vote by proxy, or vote by correspondence.

The use of remote electronic voting requires a prior amendment of Company's by-laws in accordance with the provisions of Articles L.225-107, R.225-61 and R.225-71 of the French Commercial Code. The *thirteenth resolution* is therefore proposed to the Shareholders' Meeting in order to amend the by-laws accordingly.

Shareholders using remote electronic voting by means of the voting form available on the website set up by the centralizing agent of the Shareholders' Meeting, will be deemed to be physically present or represented. The entry and signature of the electronic voting form may, upon decision of the Management Board, be made directly on the website, using any process decided upon by the Management Board which meets the conditions provided for by the first sentence of paragraph 2 of Article 1316-4 of the French Civil Code, for instance using a username and a password.

8.3.2.3 Delegation of authority to the Management Board to issue warrants during takeover bids

In application of Article L.233-32-II of the Commercial Code, the *fourteenth resolution* aims to authorize the Management Board to issue for free to the shareholders of Vallourec warrants with preferential rights to subscribe shares of the Company during an unsolicited takeover bid.

In accordance with the law, this delegation may only be implemented in the case that a public offer is initiated by an entity which is under no obligation to obtain the approval of its shareholders before taking defensive measures during takeover periods, or which is controlled by an entity that is not bound by this obligation. In all other cases, this resolution must be confirmed by a vote of the Shareholder's Meeting of Shareholders during the takeover bid.

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The issuance of these warrants may not exceed an amount equal to 25% of the share capital on the date of the Management Board's decision to issue the warrants, it being specified that this cap is set independently from any other cap relating to the issuance of shares or other securities giving access to the share capital of the Company authorized by the Shareholder's Meeting or any other prior or subsequent Shareholder's Meeting, and will result in a maximum dilution of 20% of the share of the capital held by the bidder following its offer.

The proposed resolution is not intended to result in the failure of a takeover bid but is intended to protect the interests of its shareholders by inciting the bidder to improve the terms of its offer if they were otherwise deemed to be inadequate.

To this end, the proposed resolution includes important provisions that guarantee the protection of the interests of the shareholders. Hence, the issuance of warrants may only be decided by the Management Board on the basis of a report prepared by a bank with no interest in the Company that will have been designated and approved by a majority of the independent members of the Supervisory Board. In light of the conclusions of this report, the Management Board will have to justify the circumstances and reasons for which they believe that the offer is not in the shareholders' interests and which justify the issuance of such warrants.

Moreover, even if the Management Board decides to issue warrants, they will automatically become null and void should the takeover bid and any other competitive offer lapse or be withdrawn.

This authorization may be used by the Management Board in the event of a takeover bid filed eighteen months from the vote on this resolution. Its renewal will require a valid consultation with the shareholders.

8.4 SUPERVISORY BOARD REPORT

In 2009, the world economic crisis caused unprecedented falls in Vallourec's sales volumes (-46%). The effect on sales in monetary terms was less severe: at €4,465 million, consolidated sales were 31% lower than in 2008. Net profit attributable to the owners of the Company fell 46% to €518 million but nevertheless represented 12% of sales.

This resilience resulted partly from a favourable price/mix effect due to the delivery during 2009 of orders placed under favourable conditions during the second part of 2008 and early in 2009 in the oil & gas and power generation sectors. Another factor which contributed to this resilience was the Group's ability, when faced with this sudden deterioration in market conditions, to adapt quickly and demonstrate its flexibility by reducing operating costs, which were 35% lower in 2009 than in 2008 and 46% lower in the fourth quarter of 2009 than in the fourth quarter of 2008. Cash generated by the Group reached the record level of €1,611 million, including €845 million resulting from the sharp, strictly controlled reduction in the working capital requirement.

During the crisis, the Group maintained its capital expenditure at a high level to enable it to meet its customers' requirements and increase efficiency. Examples include the new integrated production site under construction in Brazil, the acquisition of a controlling interest in PTCT in Indonesia, the acquisition of two companies producing drill pipes and accessories in the Middle East, and the building of a new small-diameter tube mill in the United States, which will produce components to be used in unconventional gas production.

The Board would like to thank all Group staff and the Management Board for their hard work and for the results achieved during 2009 in an extremely challenging environment.

In 2010, the Group will continue its efforts to become more flexible and competitive, with the aim of emerging from the crisis an even stronger force.

The Supervisory Board, which met seven times during the financial year 2009, ensured that it was regularly informed of the performance and activity of the Company and the Group, in accordance with the legislation and the Company's by-laws. As part of its supervisory duties, it carried out the verifications and checks it considered necessary and took particular care to ensure that its structure was such as to facilitate good corporate governance.

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The Supervisory Board has examined the Management Board's management report and the financial statements for the year ended 31 December 2009 as well as the various documents attached thereto, on which it does not have any specific comments.

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 2009 at €3.50 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 pay-out ratio is 38.6% and the average pay-out ratio for the last five financial years is 35.9% ;

- as regards the composition of the Supervisory Board, you are asked to renew for a period of four years the terms of office as members of the Supervisory Board of Mr Michel de Fabiani and Bolloré (for which Mr Thierry Marraud is the permanent representative).

  You are also asked to renew the term of office of Mr Jean-Claude Verdière for a period of two years to ensure the continuity of the work of the Board and, in particular, that of the Finance and Audit Committee, to which he contributes significant expertise in the field of finance and accounting. This two-year period will give new Board members the time to acquire an in-depth knowledge of the Group.

  You are also asked to appoint Mrs Vivienne Cox and Mrs Alexandra Schaapveld as members of the Supervisory Board for a period of four years.

  Mrs Cox and Mrs Schaapveld are regarded as independent according to the criteria of the AFEP-MEDEF Code, as are Mr Jean-Claude Verdière and Bolloré.

  Mr Arnaud Leenhardt's term of office as a *Censeur* expires at the close of this Shareholders' Meeting. Having served his entire career within the Vallourec Group, of which he was Chairman from 1981 to 2000, Mr Leenhardt was instrumental in the key decisions which resulted in the Group's exceptional international expansion and the success of its products in the world market.

  The Supervisory Board would like to pay tribute to his loyalty to Vallourec and to express its sincere gratitude for the work he has accomplished;

- you are also asked to set at €520,000 the annual attendance fees to be allocated to the Supervisory Board. The amount of the fees needs to be adapted to reflect the composition of the Board, its international nature and the growing number of its meetings and of those of its Committees and to bring it into line with the practice of other listed European companies;

- you are also asked to renew the annual share buy-back authorization. The terms of the authorization are the same as for 2009. 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:

- you are asked to approve a division by two of the nominal value of Vallourec's shares to make share ownership more accessible and to improve the liquidity of the shares;

- you are also asked to authorize a change in the by-laws to allow electronic voting at Shareholders' Meetings and to specify the procedures to be adopted, in particular as regards identification. The aim of this change is to facilitate active participation in Shareholders' Meetings;

- in order to enable Vallourec to pursue its strategy of creating long-term value despite the uncertainties of a cyclical market, you are asked to authorize the Management Board, in the event of an unsolicited takeover bid, to issue, free of charge, share warrants enabling holders to subscribe for the Company's shares on preferential terms.

  Such action would be initiated by the Management Board under the control of independent members of the Supervisory Board who must take advice from a bank that is likewise independent. The maximum nominal amount of a capital increase that could result in the exercise of warrants issued in this way may not exceed 25% of the share capital in issue at that time. Such an authorization, which would remain in force for a period of 18 months, would come under the category of "statutory reciprocity exception". It could only be implemented against an initiator that cannot, and whose controlling shareholder cannot, be the subject of a takeover bid.

  This measure will ensure, in the event of a hostile takeover bid, that a better valuation is placed on the Company and that the interests of its shareholders are safeguarded.

We invite you to approve all the resolutions proposed to you.

8.5 PROPOSED RESOLUTIONS SUBMITTED TO THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF 31 MAY 2010

ORDINARY PART

First resolution

(Approval of the statutory financial statements for the 2009 fiscal year)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholders' Meetings, having examined the statutory financial statements for the fiscal year ending as at 31 December 2009, the Management Board's management report, the Supervisory Board's report on the Management Board's report concerning the annual financial statements, approves the financial statements for the fiscal year ending as at 31 December 2009, as well as all transactions reflected in the financial statements or summarized in these reports, showing profits of €427,376,830.66 for such fiscal year.

Second resolution

(Approval of the consolidated financial statements for the 2009 fiscal year)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholders' Meetings, having examined the consolidated financial statements for the fiscal year ending as at 31 December 2009, the Management Board's management report, the Supervisory Board's report on the Management Board's report concerning the annual financial statements, approves the consolidated financial statements for the fiscal year ending as at 31 December 2009, as well as all transactions reflected in the financial statements or summarized in these reports, showing profits of €536,478,000 for such fiscal year.

Third resolution

(Allocation of the net profit for the 2009 fiscal year and determination of the dividend)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholders' Meetings, having examined the Management Board's report, approves the allocation of income proposed by the Management Board as follows:

Profits for the fiscal year	€427,376,830.66
Allocation to the statutory reserve	€-1,396,829.20
Retained earnings carried forward	€430,085,999.04
Distributable profit	€856,066,000.50
Payment to the shareholders of a dividend of €3.50 corresponding to a total dividend of	€200,482,761.50
Balance allocated entirely to the retained earnings carried forward account	€655,583,239.00

The dividend for the 2009 fiscal year is therefore set at €3.50 for each of the 57,280,789 shares comprising the share capital as at 31 December 2009.

The Shareholders' Meeting specifies that the Company will not receive a dividend for its own shares that it holds in treasury on the payment date. The corresponding amount will be carried forward. Accordingly, the Shareholders' Meeting authorizes the Management Board to revise the final amount of the distribution if needed, as well as the final amount of the retained earnings carried forward.

In accordance with Article 243 bis of the French *Code général des impôts,* it is specified that this dividend is eligible, when it is paid to shareholders who are individuals residing in France for tax purposes, to an abatement of 40% as a result of the application of Article 158-3 of this same Code. In accordance with Article 117 quater of the General Tax Code, the shareholders may nevertheless, subject to certain conditions and instead of the progressive income tax rate scale, opt for a lump-sum withholding at the rate of 18%; the dividend is then no longer eligible for the 40% abatement. The shareholders are reminded that, in these two cases, under certain conditions, the social security withholdings relating to these dividends are withheld at the source.

The Shareholders' Meeting acknowledges that the following dividends were distributed in the three fiscal years prior to the 2009 fiscal year:

Fiscal year	Number of shares	Dividend per share [1] *In €*
2006	53,011,870	6.00 [2]
2007	53,038,720	11.00 [3]
2008	53,788,716	6.00 [4]

(1) The dividends distributed during the course of the 2006 to 2008 fiscal years entitle their holders to the 40% abatement resulting from the application of Article 158-3 of the French Code général des impôts.
(2) Including an interim dividend of €2 per share distributed on 20 October 2006.
(3) Including an interim dividend of €4 per share distributed on 4 July 2007.
(4) It is recalled that the Combined Shareholder's Meeting of 4 June 2009 granted each shareholder the option to receive the payment of the dividend either in cash, in shares, in accordance with the legal and regulatory provisions in force.

The dividend shall be detached from the share on 7 June 2010 and paid on 30 June 2010.

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Fourth resolution

(Option to receive payment of the dividend in shares)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholders' Meetings, having examined the Management Board's report, and in accordance with Article 15 of the by-laws, decides to grant each owner of ordinary shares the possibility of opting for the payment in new shares of the entire net dividend to which he or she is entitled by virtue of the shares owned by him or her.

The new shares, in the event of the exercise of this option, will be issued for a price equal to 90% of the average of the opening listing price of the share on Euronext Paris during the twenty days prior to the date of this Shareholder's Meeting, reduced by the net amount of the dividend referred to in the *third resolution* and rounded to the next highest euro cent.

If the amount of the dividends for which the option is exercised does not correspond to a whole number of shares, the shareholder may:

- obtain the next higher whole number of shares by paying, on the date that he or she exercises the option, the difference in cash; or
- receive the next lower whole number of shares supplemented by a payment of the balance in cash.

The shares delivered as dividend payments will bear rights as of 1 January 2010. The shareholders may opt for the payment of the dividend in cash or in new shares between 7 June 2010 to and including 22 June 2010. After this period, the dividend may only be paid in cash.

For the shareholders who opt for a payment in cash, the dividend will be paid on 30 June 2010; on the same date, the delivery of the shares will occur for those who opt for the payment of the dividend in shares.

The Shareholder's Meeting delegates all powers to the Management Board, with the option to sub-delegate in accordance with applicable law, for purposes of taking all necessary measures for the application and performance of this resolution, to define the terms of application and performance, to record the capital increase that will result from this decision, to modify the Company's by-laws accordingly, and more generally, to do all that is useful or necessary.

Fifth resolution

(Renewal of the mandate of Mr Michel de Fabiani as member of the Supervisory Board)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholder's Meetings and in accordance with Article 10.1 of the by-laws, having examined the Management Board's report, decides to renew the mandate of Mr Michel de Fabiani as member of the Supervisory Board for a period of four (4) years, i.e. until the end of the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ending on 31 December 2013.

Sixth resolution

(Renewal of the mandate of Bolloré S.A. as member of the Supervisory Board)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholder's Meetings and in accordance with Article 10.1 of the by-laws, having examined the Management Board's report, decides to renew the mandate of Bolloré S.A. as member of the Supervisory Board for a period of four (4) years, i.e. until the end of the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ending on 31 December 2013.

Seventh resolution

(Renewal of the mandate of Mr Jean-Claude Verdière as member of the Supervisory Board)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholder's Meetings and in accordance with Article 10.1 of the by-laws, having examined the Management Board's report, decides to renew the mandate of Mr Jean-Claude Verdière as member of the Supervisory Board for a period of two (2) years, i.e. until the end of the Ordinary Shareholder's Meeting called to approve the financial statements for the fiscal year ending on 31 December 2011.

Eighth resolution

(Appointment of Mrs Vivienne Cox as member of the Supervisory Board)

The Shareholder's Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholder's Meetings and in accordance with Article 10.1 of the by-laws, having examined the Management Board's report, decides to appoint Mrs Vivienne Cox as member of the Supervisory Board for a period of four (4) years, i.e. until the end of the Ordinary Shareholder's Meeting called to approve the financial statements for the fiscal year ending on 31 December 2013.

Ninth resolution

(Appointment of Mrs Alexandra Schaapveld as member of the Supervisory Board)

The Shareholder's Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholder's Meetings and in accordance with Article 10.1 of the by-laws, having examined the Management Board's report, decides to appoint Mrs Alexandra Schaapveld as member of the Supervisory Board for a period of four (4) years, i.e. until the end of the Ordinary Shareholder's Meeting called to approve the financial statements for the fiscal year ending on 31 December 2013.

Tenth resolution

(Adjustment of the compensation of the members of the Supervisory Board)

The Shareholder's Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholder's Meetings of the by-laws, having examined the Management Board's report, decides to set the maximum total attendance fees to be paid to the Supervisory Board for the fiscal year ending on 31 December 2010, and for every subsequent fiscal year until decided otherwise, at €520,000.

Eleventh resolution

(Authorization to be given to the Management Board to trade in the Company's own shares)

The Shareholder's Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholder's Meetings, and having examined the Management Board's report, authorizes the Management Board, with the power to sub-delegate as provided by law, in accordance with the terms of Article L.225-209 *et seq.* of the Commercial Code, and the conditions defined in Articles 241-1 to 241-6 of the General Regulations of the *Autorité des Marchés Financiers* and European Regulation no. 2273/2003 of 22 December 2003 taken in implementing directive 2003/6/CE of 28 January 2003, to purchase the Company's shares for the following purposes:

- to implement any stock option plan of the Company in accordance with Articles L.225-177 *et seq.* of the Commercial Code;
- to award or sell shares to employees in order to allow them to participate in the Company's expansion and in connection with any group or company savings plan established under applicable law (in particular Articles L.3332-1 *et seq.* of the Labour Code);
- to award shares in accordance with Articles L.225-197-1 *et seq.* of the Commercial Code;
- to develop the market or liquidity of the shares through an investment services provider, within the framework of a liquidity contract signed with such provider conforming to the deontological charter approved by the *Autorité des Marchés Financiers*;
- delivering shares (as exchange, payment or otherwise) in connection with transactions involving external growth, mergers, split-offs or contributions;
- to deliver shares upon exercise of rights attached to securities that give access to share capital through repayment, conversion, exchange, exercise of a warrant or in any other manner; or
- cancelling all or part of such repurchased shares within the framework of the authorization resulting from the *twenty-second resolution* of the Combined Shareholder's Meeting of 4 June 2009.

This program would also allow the Company to proceed with any other objective currently authorized under existing laws and regulations, or which may in the future be authorized by such laws and regulations. In such a case, the Company would inform shareholders by way of press release.

Repurchases of the Company's shares will apply to a number of shares such that the number of shares that the Company is allowed to purchase over the course of the share repurchase program may not, at any time, exceed 10% of the share capital. A figure that may be adjusted following changes in share capital that may occur after the date of this Shareholder's Meeting, provided that (i) the number of shares acquired for holding and subsequent delivery in the case of mergers, spin-offs or contributions shall not exceed 5% of the share capital; (ii) when shares are repurchased in order to favor liquidity in accordance with the terms defined by the general regulations of the *Autorité des Marchés financiers*, the number of shares taken into account for purposes of calculating the 10% limit mentioned above corresponds to the number of purchased shares, minus the number of shares sold during the term of the authorization and (iii) the number of shares that the Company may hold at any given moment may not exceed 10% of its share capital at the date thereof.

These purchase, sale, exchange or transfer transactions may be carried out by the Management Board in one or more times by any means, on the market or over-the-counter, at any time, except during periods in which a takeover bid has been made for the Company's shares.

The maximum purchase price of each share shall be €204 and the maximum amount that may be allocated to the share repurchase program is set at €800 million.

The Shareholder's Meeting grants the Management Board, in case of modification of the par value of the share, increase in capital through incorporation of reserves, granting of free shares, stock-split or reverse stock split, distribution of reserves or any other assets, amortization of capital or any other transaction affecting equity, the authority to adjust the aforementioned maximum purchase price to take into account the effect the foregoing transactions may have had on share value.

The Shareholder's Meeting grants all powers to the Management Board, including the ability to sub-delegate its powers subject to applicable law, to decide upon and implement this authorization, to specify the terms thereof, if necessary, and to decide upon the conditions for effecting the share repurchase program and, in particular, to make any stock exchange order, to enter into any agreement, with a view to maintaining share purchase and sale registers, allocate or reallocate repurchased shares to objectives pursued in compliance with applicable laws and regulations, making all declarations to the *Autorité des Marchés Financiers* and any other authority that may take its place, performing all formalities and, generally, taking all necessary actions.

The Management Board is expressly authorized to sub-delegate its powers to its Chairman, including the ability to sub-delegate his or her powers to the person of his choice, the execution of the decisions made by the Management Board further to this authorization.

This authorization is granted for a period of eighteen (18) months from the date hereof.

The Shareholder's Meeting decides that as of the use of this authorization by the Management Board, it cancels and replaces the authorization granted by the Shareholder's Meeting on 4 June 2009, for the remainder of the term of such authorization.

EXTRAORDINARY PART

Twelfth resolution

(Division of the nominal value of the Company's shares in half)

The Shareholder's Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholder's Meetings, and having examined the Management Board's report, decides to divide the par value of the share by two (2) bringing the par value of each share of the Company from four (4) euros to two (2) euros.

Accordingly, the Shareholder's Meeting acknowledges that the share capital remains set at €229,123,156 divided into 114,561,578 shares, each with a par value of two (2) euros. The 114,561,578 new shares will be allocated to the shareholders of the Company at the ratio of two (2) new shares for one (1) share held.

The Shareholder's Meeting therefore decides to amend Article 6 of the Company's by-laws, which shall read as follows:

"The share capital is set at €229,123,156, divided into 114,561,578 shares with a par value of €2 each."

The Shareholder's Meeting acknowledges that the division of the par value and the corresponding allocation of new shares to the shareholders shall have no effect on the rights to which the holders of the shares are entitled under the Company's by-laws. The new shares will be entitled to the same rights as the existing shares for which they will be substituted.

The Shareholder's Meeting decides that all of the fees relating to the division of the par value will be borne by the Company.

The Shareholder's Meeting grants all powers to the Management Board, including the ability to sub-delegate its powers subject to applicable law, to set the effective date of this division of the par value of the share, which will be after 30 June 2010, carry out any adjustments required by this division, in particular in connection with the performance share plans, the stock options plans, or free shares plans that may have been implemented by the Company before now, amend accordingly the Company's by-laws and carry out any acts, formalities, make any statements as a result of this decision.

Thirteenth resolution

(Amendment of by-laws to provide for the introduction of remote electronic voting)

The General Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholder's Meetings, and having examined the Management Board's report, decides to introduce an option for a remote electronic voting during General Shareholders' Meetings.

Consequently, the General Shareholders' Meeting decides to amend Section 3, "Participation" of Article 12 of the Company's by-laws as follows:

"3. Participation

Shareholder's Meetings of the shareholders shall be made up of all shareholders regardless of the number of shares they own.

Any shareholder has the right to participate in Shareholder's Meetings, in accordance with the terms set by laws and regulations.

Upon decision of the Management Board, the shareholders may vote by any telecommunication and remote transmission means, including the Internet, under the conditions provided for by applicable regulations at the time of use. This decision, if any, shall be noted in the notice of meeting of Shareholder's Meeting published in the Bulletin of Mandatory Legal Announcements (Bulletin des Annonces Légales Obligatoires).

The shareholders voting remotely within the prescribed time limit by electronic means using the electronic voting form, containing the mentions required by regulations, available on the website set up by the centralizing agent of the Shareholder's Meeting will be treated like shareholders present or represented. The entry and signature of the electronic form may, if the Management Board so decides at the time of the Shareholder's Meeting's convening, be made directly on the website set up by the centralizing agent of the Shareholder's Meeting by any process decided upon by the Management Board and meeting the conditions defined in the first sentence of the second paragraph of Article 1316-4 of the French Code civil; this may for instance consist of a login and a password. The proxy or the vote so expressed before the meeting by use of this electronic means, as well as the acknowledgement of receipt thereof, will be considered as instruments in writing, irrevocable and opposable to all, it being specified that in case of transfer of securities taking place before the third business day preceding the Shareholder's Meeting at midnight, Paris time, the Company will invalidate or amend accordingly, as the case may be, the proxy or vote expressed before this date and time.

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 Shareholder's Meetings. These shares shall be deducted in the calculation of the quorum.

Where shares are encumbered by usufruct, the voting right shall be exercised by the usufructuary in all Shareholder's Meetings, whether they are ordinary, extraordinary or special.

Shareholder's Meetings may be held at the registered office or at any other place in mainland France."

Consequently, the Shareholder's Meeting decides that paragraph 10 of Section 4, "Holding of Shareholder's Meetings" of Article 12 of the by-laws, currently worded as follows:

"A presence sheet is duly signed by all participants and certified accurate by the Shareholders' Meeting bureau."

is replaced by a new paragraph, worded as follows:

"A presence sheet is established under the conditions provided for by the law."

The Shareholder's Meeting grants all powers to the Management Board, including the ability to sub-delegate its powers subject to applicable law, to amend accordingly the Company's by-laws and carry out any acts, formalities, make any statements as a result of this decision.

Fourteenth resolution

(Delegation of authority to the Management Board to issue warrants during takeover bids)

The Shareholder's Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholder's Meetings and having examined the Board of Directors' report and the Auditors' special report, and acting in accordance with Articles L.233-32 II and L.233-33 of the Commercial Code:

1. delegates to the Management Board the authorization to decide, during a takeover bid, on an issuance, on one or several occasions

with the ability to delay or renounce, of warrants with preferential rights to subscribe shares of the Company, and on the award of these warrants to the shareholders of the Company eligible before the expiration of the takeover bid period, for no consideration;

2. sets the maximum number of warrants that may be issued by virtue of this delegation as the number of shares comprising the share capital and the maximum nominal value of the share capital increases resulting from the exercising of these warrants may not exceed an amount equal to 25% of the share capital on the date of the Management Board's decision to issue the warrants, it being specified that this cap is set independently from any other cap relating to the issuance of shares or other securities giving access to the share capital of the Company authorized by the Shareholder's Meeting or any other prior or subsequent Shareholder's Meeting; if needed, this cap will be increased by an amount proportionate to any subsequent capital increase carried out prior to the decision to issue the warrants, it being specified that this cap does not take into account any other adjustment that may be carried out pursuant to applicable laws and regulations, and any contractual provisions providing for other cases of adjustments in order to protect the rights of the holders of securities giving access to the Company's share capital;
3. decides that the maximum number of warrants to be issued shall not exceed the number of shares composing the share capital at the time of the issuance of the warrants;
4. decides that the Management Board must report, on the basis of a report prepared by a bank with no interests in the Company, the designation of which will have been approved by a majority of the independent members of the Supervisory Board, of the circumstances and reasons for which they believe that the offer is not in the shareholders' interest and which justify the issuance of such warrants, as well as the criteria and methods by which the exercise price of the warrants will be determined;
5. decides that the warrants issued pursuant to this delegation may not be exercised and will automatically become null and void should the takeover bid and any other competitive offer lapse or be withdrawn;
6. decides that the Management Board will have all powers to implement this delegation, in particular, to:
   - determine the criteria for the allocation of the warrants based in particular on a reference date on which the status of shareholder shall be established,
   - set the number of warrants to be allocated per share,
   - set the conditions for the exercise of these warrants as well as all of the other features of the warrants, in particular the exercise period, the exercise price of the warrants or the terms of the determination, tradability and/or transferability of the warrants,
   - provide an option to suspend the exercise of the rights attached to the warrants for a maximum period of three months,
   - set the manner to protect, if needed, the rights of the warrant holders in accordance with applicable laws, regulations, and contractual provisions,
   - if needed, declare or acknowledge the nullity, or on the other hand, the exercisable nature of the warrants,
   - determine, if need be, the conditions of exercise of the rights attached to the shares subscribed by the exercise of the warrants and, in particular, set the date, even retroactive, as from which the new shares shall bear rights,
   - decide that the fractional rights shall not be tradable and that the corresponding securities shall be sold,
   - aknowledge the completion of the capital increases resulting from the exercise of the warrants and make the corresponding changes to the by-laws,
   - make the necessary adjustments, as needed, to allow for the preservation, in relation to this issuance of warrants, to the rights of the holders of securities giving access to the share capital or of the holders of stock options,
   - make public the intention of the Company to issue warrants in accordance with this delegation,
   - generally take all measures and perform all formalities necessary to issue, list and service the securities issued pursuant to this delegation and facilitate exercise of rights attached thereto;
7. decides that this delegation is granted for a term expiring at the end of the offering period for any takeover bid (after reopening, if applicable) for the Company filed eighteen (18) months from the date of this Shareholder's Meeting;
8. decides that this delegation will be deemed not to have been used and will therefore remain fully enforceable in the event that the warrants should be declared null and void;
9. acknowledges that this delegation includes the waiver by the shareholders of their preferential subscription rights with respect to the shares of the Company to which the warrants issued pursuant to this delegation might entitle.

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8.6 STATUTORY AUDITORS' REPORTS

8.6.1 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered 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 also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2009

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 2009, on:

- the audit of the accompanying financial statements of Vallourec;
- the justification of our assessments;
- the specific verification and information required by law.

These 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 involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2009 and of 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* relating to 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 procedures and disclosures

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to 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 shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L.225-102-1 of French *Code de commerce* relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we ascertained that the information relating to the controlling interests and the identity of the shareholders has been properly disclosed in the management report.

Paris La Défense and Neuilly-sur-Seine, 16 April 2010

The Statutory Auditors

KPMG Audit		**Deloitte & Associés**	
Department of KPMG SA			
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Jean-Marc Lumet

8.6.2 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 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 2009

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.

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 French *Code de commerce,* to evaluate the benefits arising from these agreements and commitments prior to their approval.

Absence of agreements or commitments entered into by the Company during the year and not approved by the Shareholders' Meeting

We inform you that we have not been advised of any agreements or commitments entered into during the year and mentioned in Article L.225-86 of French *Code de commerce* and that has not been approved by the Shareholders' Meeting.

Commitment approved by the Shareholders' Meeting held on 4 June 2009

In accordance with the French *Code de commerce* we have been advised that the following commitment, approved by the Shareholders' Meeting held on 4 June 2009 on the basis of the Statutory Auditors' report on regulated agreements and commitments dated 23 April 2009, was applicable during the period.

Indemnity for the termination of office of the Chairman of the Management Board

Member of the Management Board concerned: Mr Philippe Crouzet

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 French Commercial *Code de commerce,* entitlement to this indemnity is subject to achievement of performance conditions.

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 conditions based on three criteria: (i) the EBITDA expressed in 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. These all three criteria expressed in percentage of the fixed portion of the remuneration are limited to 30.

The performance conditions are met if the total of the three criteria determining the Performance Criteria (hereinafter "PC") is in the average over the last three financial periods, equal or higher than the half of the targeted variable portion of the remuneration. Would PC be lower than this threshold then no indemnity has to be paid. Would PC equal the half of the targeted variable portion then the indemnity paid amounts to one and a half times the reference remuneration; its varies on a linear basis between PC=40 and PC=80.

Furthermore, stock-options as well as stocks based on performance conditions are definitively attributed even in case of termination of office under circumstances as described above, if PC is equal or higher than 40 in the average over the last three years.

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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

Member of the Supervisory Board concerned: Mr François Henrot

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.

Vallourec and Banque Rothschild & Cie decided not to renew this agreement with effect on 31 December 2009.

An amount of €.360,000 excluding VAT has been paid in the financial period ended 31 December 2009.

Additional pension scheme attributed to executive officers

Additional pension scheme attributed to executive officers dated 15 September 2005

Members of the Management Board concerned: Mr Pierre Verluca (resigning on 31 March 2009), Mr Philippe Crouzet (appointed on 1 April 2009), Mr Jean-Pierre Michel and Mr Olivier Mallet.

On 14 September 2005 your Supervisory Board approved the implementation of this agreement and noted that the members of the Vallourec's Management Board are likely to benefit from these rights.

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 Vallourec & Mannesmann Tubes, which supplements the income following retirement of the Group's former managerial staff, under acceptable economic, financial and social conditions, was renewed in 2009.

The Company 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.

Endorsement to the additional pension scheme attributed to executive officers dated 7 May 2008

On 7 May 2008 your Supervisory Board authorized an endorsement to the additional pension scheme dated 15 September 2005.

The purpose of the endorsement is to allow 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.

All terms and conditions of the additional pension scheme attributed to executive officers are detailed above.

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.

Paris La Défense and Neuilly-sur-Seine, 16 April 2010

The Statutory Auditors

KPMG Audit		**Deloitte & Associés**	
Department of KPMG SA			
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Jean-Marc Lumet

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8.6.3 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

This is a free translation into English of the Statutory Auditor's report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information presents below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered 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 balances, transactions, or disclosures or on information taken outside of the consolidated financial statements.

This report also includes information relating to the specific verification of information given in the Group's management report.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2009

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 2009 on:

- the audit of the accompanying consolidated financial statements of Vallourec S.A.;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these consolidated 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 2009 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the Note A-1 "Framework for the preparation and presentation of financial statements" of the consolidated financial statements disclosing new standards and interpretations from 1 January 2009.

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 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 2009, we considered that these significant assumptions and estimates concern goodwill and intangible assets (Notes A-2.9 to 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 goodwill and intangible assets, 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;

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- 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

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris La Défense and Neuilly-sur-Seine, 16 April 2010

The Statutory Auditors

KPMG Audit		**Deloitte & Associés**	
Department of KPMG SA			
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Jean-Marc Lumet

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8.6.4 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

This is a free translation into English of the Statutory Auditors' report issued in French prepared in accordance with Article L.225-235 of French Code de commerce *on the report prepared by the Chairman the Supervisory Board on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information issued in French and is provided solely for the convenience of English speaking users.*

This report should be read in conjunction and construed in accordance with French law and the relevant professional standards applicable in France.

Year ended 31 December 2009

To the Shareholders,

In our capacity as Statutory Auditors of Vallourec 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 L.225-68 of French *Code de commerce* for the year ended 31 December 2009.

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.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management 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 French *Code de commerce,* it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The 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 and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the 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 and risk management procedures relating to the preparation and processing of 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 *Code de commerce*.

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by Article L.225-68 of French *Code de commerce*.

Paris La Défense and Neuilly-sur-Seine, 16 April 2010

The Statutory Auditors

KPMG Audit		**Deloitte & Associés**	
Department of KPMG SA			
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Jean-Marc Lumet

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8.6.5 STATUTORY AUDITORS' REPORT ON THE ISSUANCE OF WARRANTS DURING TAKEOVER BIDS *(Fourteenth resolution)*

This is a free translation into English of the Statutory Auditors' report issued in French and it is provided solely for the convenience of English-speaking users.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Shareholders' Meeting on 31 May 2010

To the Shareholders,

In accordance with our appointment as Statutory Auditors of your Company and pursuant to the procedures set forth in Article L.228-92 of the French *Code de commerce,* we hereby report to you on the issuance of warrants during takeover bids on which you are asked to decide.

Your Management Board proposes that, based on its report, shareholders delegate to it in accordance with Article L.233-32 II of the French *Code de commerce,* the authority to:

- issue warrants in accordance with the provisions of Article L.233-32 II of the French *Code de commerce,* allowing shareholders to subscribe with preferential rights one or several shares capital of the Company and on their free award to the shareholders of the Company eligible before the expiration of the takeover bid period;
- set the conditions of exercise and features of warrants.

The maximum number of warrants that may be issued by virtue of this delegation is set to the number of shares comprising the share capital and the maximum nominal value of the share capital increases resulting from the exercising of these warrants may not exceed an amount equal to 25% of the share capital on the date of the Management Board's decision to issue the warrants.

The Management Board is responsible for preparing a report pursuant to Articles R.225-113, R.225-114, R.225-115 et R.225-117 of the French *Code de commerce*. Our role is to express an opinion on the fair presentation of the quantified information extracted from the accounts and on certain other information concerning the issuance contained in this report.

We performed the procedures we deemed necessary in accordance with the professional standards of the French National Institute of Statutory Auditors *(Compagnie nationale des Commissaires aux comptes)* relating to this engagement. These procedures consisted in verifying the content of the report of the Management Board relating to this operation.

We have no comment on the information contained in the report established by the Management Board on the issuance of warrants during takeover bids.

We shall issue, if necessary, a further report to the Shareholder's meeting pursuant to Article L.233-32 III of the French *Code de commerce* confirming, in compliance with provisions of Article R.225-116 of the French Commercial Law, the use of this delegation by your Management Board.

Paris La Défense and Neuilly-sur-Seine, 16 April 2010

The Statutory Auditors

KPMG Audit		**Deloitte & Associés**	
Department of KPMG SA			
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Jean-Marc Lumet

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8.6.6 SUPPLEMENTARY STATUTORY AUDITOR'S REPORT ON CAPITAL INCREASES WITH CANCELLATION OF PREFERENTIAL SUBSCRIPTION RIGHTS

Decision of the Management Board of 12 November 2009

To the Shareholders,

In our capacity of Statutory Auditors of your Company and in accordance with Article R.225-166 of the French *Code de commerce,* we hereby issue our supplementary report to our report dated 28 April, 2009 on capital increases with cancellation of preferential subscription rights authorized by your Extraordinary General Meeting of 4 June 2009 in the seventeenth, eighteenth and nineteenth resolutions.

This General Meeting delegated to your Management Board the ability to decide such operations for a period of twenty-six months (seventeenth resolution) and of eighteen months (eighteenth and nineteenth resolutions) respectively and for a maximum amount of €8,600,000 (individual and global limit to be applied to these resolutions) increased if needed under the terms of the seventeenth 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 12 November 2009, to proceed with capital increases for a maximum nominal global amount of €4,300,000 by issuing a maximum of 1,075,000 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 (seventeenth resolution);
- the capital increase reserved for employees of foreign companies of the Vallourec Group outside of a corporate savings plan (eighteenth resolution);
- the capital increase reserved for a credit institution as part of a transaction reserved for employees (nineteenth 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 30 June 2009 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 in 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 half-year 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 4 June, 2009 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.

Paris La Défense and Neuilly-sur-Seine, 18 November 2009

The Statutory Auditors

KPMG Audit		**Deloitte & Associés**	
Department of KPMG SA			
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Jean-Marc Lumet

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8.7 SUBSIDIARIES AND PARTICIPATING INTERESTS AT 31 DECEMBER 2009

In € thousand

Companies	Capital	Other equity before allocation of profit (loss)	Share of capital held (%)	Carrying amount of securities held		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	Profit (loss) for the last financial year	Dividends received by Vallourec during the financial year
				Gross	Net					
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 company										
Vallourec & Mannesmann Tubes 27, Avenue du Général-Leclerc 92100 Boulogne-Billancourt 411 373 525 RCS Nanterre	492,584	1,360,790	100.00	1,056,403	1,056,403	–	–	32,710	655,703	436,758
B) OVERALL INFORMATION ON WOTHER SUBSIDIAIRES AND PARTICIPATING INTERESTS										
I. Subsidiaries (at least 50%-owned)										
a) French companies	–	–	–	53	34	–	–	–	–	146
b) Foreign companies	–	–	–	643	643	–	–	–	–	677
II. Participating interests (10%- to 50%-owned)										
a) French companies	–	–	–	–	–	–	–	–	–	–
b) Foreign companies	–	–	–	–	–	–	–	–	–	–
C) SECURITIES										
Foreign companies	–	–	–	–	–	–	–	–	–	–
Sumitomo Metal Industries				81,947	81,947					

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8.8 COMPANIES CONTROLLED DIRECTLY OR INDIRECTLY AS AT 31 DECEMBER 2009 *(Article L.233-3 of the French Code de commerce)*

DIRECT CONTROLLING INTEREST:

Fully consolidated companies	% interest 31/12/2007	% interest 31/12/2008	**% interest 31/12/2009**	**% control 31/12/2009**
Changzhou Valinox Great Wall – China	62.5	62.5	62.5	*100.0*
CST Valinox Ltd – India	85.6	85.6	85.6	*90.1*
Changzhou Carex Valinox Components – China	70.7	70.7	70.7	*100.0*
Drilling Pipe Assembly Line (DPAL FZCO) – United Arab Emirates	-	-	100.0	*100.0*
Interfit	100.0	100.0	100.0	*100.0*
Kestrel Wave Investment Ltd – Hong Kong	-	-	100.0	*100.0*
Premium Holding Limited – Hong Kong	-	100	100.0	*100.0*
Seamless Tubes Asia Pacific – Singapore	-	-	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	-	-
Vallourec & Mannesmann Holdings Inc. – United States	100.0	100.0	100.0	*100.0*
Vallourec Inc. – United States	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	*100.0*
V & M 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	99.6	*99.6*
V & M Florestal Ltda – Brazil	99.4	99.4	99.6	*100.0*
V & M Mineração Ltda – Brazil	99.4	99.4	99.6	*100.0*
V & M One	100.0	100.0	100.0	*100.0*
Vallourec & Mannesmann Rus. – Russia	100.0	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*
V & M Two – United States	-	-	100.0	*100.0*
Vallourec & Mannesmann Tubes	100.0	100.0	100.0	*100.0*
V & M 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	*100.0*
VMOG Nigeria Ltd – Nigeria	100.0	100.0	100.0	*100.0*
VAM Onne Nigeria Ltd– Nigeria	100.0	100.0	100.0	*100.0*
Vallourec Mannesmann Oil & Gas UK – United Kingdom	100.0	100.0	100.0	*100.0*

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Fully consolidated companies	% interest 31/12/2007	% interest 31/12/2008	**% interest 31/12/2009**	**% control 31/12/2009**
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	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	*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	-	-
(Merged on 27 February 2009 with VAM USA – United States)				
V & M TCA® – United States	-	100.0	-	-
(Merged on 1 July 2009 with V & M Star – United States)				
V & M Tube-Alloy™ – United States	-	100.0	100.0	*100.0*
V & M Al Qahtani – Saudi Arabia	-	-	65.0	*65.0*
P.T. Citra Tubindo – Indonesia	-	-	78.2	*78.2*

Proportionately consolidated companies	% interest 31/12/2007	% interest 31/12/2008	**% interest 31/12/2009**	**% control 31/12/2009**
VAM Changzhou Oil & Gas Premium Equipments Co, Ltd – China	51.0	51.0	51.0	*50.0*
VAM Holding Hong Kong Limited – Hong Kong	51.0	51.0	51.0	*50.0*
Vallourec & Sumitomo Tubos do Brasil Ltda – Brazil	56.0	56.0	56.0	*50.0*

Equity affiliates	% interest 31/12/2007	% interest 31/12/2008	**% interest 31/12/2009**	**% control 31/12/2009**
HKM – Germany	20.0	20.0	20.0	*20.0*
Pacific Tubular Limited – Jersey	24.8	24.8	-	-
Poongsan Valinox – South Korea	47.5	47.5	47.5	*50.0*
P.T. Citra Tubindo – Indonesia	25.0	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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8.9 EVALUATION OF SECURITIES PORTFOLIO AS AT 31 DECEMBER 2009

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
c) Other participating interests		
Assurval	495 units of €20	8
Alberto Roca Deu Sl	40 shares of €6.01	-
Subtotal		***1,057,080***
d) Securities		
Sumitomo Metal Industries	47,194,000 shares	81,947
II. BONDS AND SIMILAR SECURITIES		**-**
TOTAL		**1,139,027**

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8.10 FIVE-YEAR FINANCIAL SUMMARY

In €	31/12/2005	31/12/2006	31/12/2007	31/12/2008	**31/12/2009**
CAPITAL					
Share capital	**212,006,640**	**212,047,480**	**212,154,880**	**215,154,864**	**229,123,156**
Number of ordinary shares in issue	10,600,332	53,011,870	53,038,720	53,788,716	57,280,789
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;	8,174	30,660	147,308	212,100	500,000
• by redemption of bonds.	-	-	-	-	-
OPERATIONS AND RESULTS FOR THE YEAR					
Sales excluding taxes	-	-	-	4,093,551	108,188
Profit (loss) before tax, employee profit sharing, amortization, depreciation and provisions	- 11,515,957	158,527,985	533,143,895	715,270,552	413,810,495
Income tax	- 10,031,246	- 13,234,248	- 21,998,166	- 15,892,775	-11,559,643
Employee profit sharing for the year	-	-	-	-	-
Profit (loss) after tax, employee profit sharing, amortization, depreciation and provisions	14,144,934	172,068,021	553,894,374	730,835,635	427,376,831
Dividends distributed	**118,723,718**	**318,071,220**	**583,425,920**	**322,732,296**	**200,482,762**
PER SHARE DATA					
Profit (loss) after tax and employee profit sharing, but before amortization, depreciation and provisions	- 0.14	3.24	10.47	13.59	7.43
Profit (loss) after tax, employee profit sharing, amortization, depreciation and provisions	1.33	3.25	10.44	13.59	7.46
Dividend allotted to each share	**11.20**	**6.00**	**11.00**	**6**	**3.50**
EMPLOYEES					
Average number of employees during the financial year	5	5	4	7	7
Payroll during the financial year	573,987	732,844	353,485	1,633,803	2,566,640
Payroll-related costs (social security, employee benefits, etc.)	214,024	258,138	85,419	903,538	929,471

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8.11 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 2009 to 31 March 2010.

Year ended 31 December 2009

PUBLICATIONS IN THE BALO

Increase in capital and voting rights following payment of dividend in shares on 7 July 2009	http://balo.journal-officiel.gouv.fr	26/08/2009	Bulletin 102	Item 0906708
Approval of 2008 financial statements and Statutory Auditors' report	http://balo.journal-officiel.gouv.fr	17/06/2009	Bulletin 72	Item 0904741
Voting rights Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009	http://balo.journal-officiel.gouv.fr	17/06/2009	Bulletin 72	Item 0904741
Invitation to Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009	http://balo.journal-officiel.gouv.fr	15/05/2009	Bulletin 58	Item 0903219
Notice of Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009	http://balo.journal-officiel.gouv.fr	22/04/2009	Bulletin 48	Item 0902204
2008 Q4 sales and quarterly and full year situation 2008	http://balo.journal-officiel.gouv.fr	06/03/2009	Bulletin 28	Item 0901052

PUBLICATIONS IN THE REGISTRY OF THE COMMERCIAL COURT OF NANTERRE

Deeds in respect of the updating of the by-laws (24 August 2009)	http://www.infogreffe.fr	29/07/2009	File No. 24416
Deeds relating to the capital increase (24 August 2009)	http://www.infogreffe.fr	04/06/2009	File No. 24416
Deeds relating to the appointment of a member of the Management Board (3 July 2009)	http://www.infogreffe.fr	25/02/2009	File No. 18595

PUBLICATIONS IN JOURNALS OF LEGAL NOTICES

Capital increase of 29 July 2009	Affiches Parisiennes La Vie Judiciaire OSP	18/08/2009 26/08/2009	No. 92 No.102	No. 8088329 No. 906708
Change in Chairman and member of Management Board and appointment of member of Management Board	Affiches Parisiennes La Vie Judiciaire	22/06/2009	No. 69	No. 7949892

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REGISTERED DOCUMENT, FINANCIAL TRANSACTIONS AND AMF PRESS RELEASES

Monthly declaration of purchases and sales of own shares (liquidity contract)			
December 2009	http://www.vallourec.fr		
November 2009	http://www.vallourec.fr		
October 2009	http://www.vallourec.fr		
September 2009	http://www.vallourec.fr		
August 2009	http://www.vallourec.fr		
July 2009	http://www.vallourec.fr		
June 2009	http://www.vallourec.fr		
May 2009	http://www.vallourec.fr		
April 2009	http://www.vallourec.fr		
March 2009	http://www.vallourec.fr		
February 2009	http://www.vallourec.fr		
January 2009	http://www.vallourec.fr		
Crossing of threshold			
Deutsche Bank 24/09/2009	http://www.amf-france.org	25/09/2009	No. 209C1205
Deutsche Bank 14/09/2009	http://www.amf-france.org	15/09/2009	No. 209C1183
Deutsche Bank 24/06/2009	http://www.amf-france.org	30/06/2009	No. 209C0933
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Bolloré group 16/04/2009	http://www.amf-france.org http://www.Bollore.com	23/04/2009	No. 208C0571
Barclays Global Investors UK Holding	http://www.amf-france.org	15/04/2009	No. 209C0538
Barclays Global Investors UK Holding	http://www.amf-france.org	27/03/2009	No. 209C0462
Capital Group 19/03/2009	http://www.amf-france.org	19/03/2009	No. 209C0426
Groupe Bolloré 13/03/2009	http://www.amf-france.org	13/03/2009	N° 209C0399
Capital Group 13/02/2009	http://www.amf-france.org	13/02/2009	N° 209C0262

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.fr
http://www.euronext.com
And circulation as required by law by Hugin

Updated daily

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OTHER PUBLICATIONS

Success of the employee share offering	http://www.vallourec.fr	17/12/2009
2009 Third Quarter Results	http://www.vallourec.fr	12/11/2009
Subscription price within the framework of the employee share offering	http://www.vallourec.fr	12/11/2009
Acquisition of DPAL	http://www.vallourec.fr	27/09/2009
Corporate governance: Incentive and Management Board member compensation policy	http://www.vallourec.fr	10/08/2009
Vallourec pursues its employee shareholding policy	http://www.vallourec.fr	31/07/2009
2009 Second Quarter Results	http://www.vallourec.fr	30/07/2009
Vallourec increases its shareholding in PTCT	http://www.vallourec.fr	02/07/2009
65% of the dividend to be delivered in shares	http://www.vallourec.fr	02/07/2009
Shareholders' Meeting 4 June 2009	http://www.vallourec.fr	05/06/2009
Supervisory Board Nomination	http://www.vallourec.fr	14/05/2009
2009 First Quarter Results	http://www.vallourec.fr	13/05/2009
Corporate governance: implementation of AFEP-MEDEF Code	http://www.vallourec.fr	09/04/2009
2008 dividend	http://www.vallourec.fr	06/04/2009
Vallourec invests to meet the needs of the nuclear industry	http://www.vallourec.fr	16/03/2009
Résultats annuels 2008	http://www.vallourec.fr	25/02/2009
Financial notice: 2009 full-year sales and results	http://www.vallourec.fr http://www.euronext.com And circulation as required by law by Hugin Les Échos Le Figaro économie Investir Hebdo Le journal des finances Le Revenu Hebdo	23/02/2010 27/02/2009 28/02/2009 25/02/2010 25/02/2010 27/02/2010 27/02/2010 26/02/2010
Financial notice: 2009 third quarter results	http://www.vallourec.fr http://www.euronext.com And circulation as required by law by Hugin Les Échos Investir Hebdo	12/11/2009 12/11/2009 12/11/2009 16/11/2009 21/11/2009
2009 financial calendar	http://www.vallourec.fr	
Financial notice: 2009 second quarter and first half results	http://www.vallourec.fr http://www.euronext.com And circulation as required by law by Hugin Les Échos Investir Hebdo	30/07/2009 28/08/2009 28/08/2009 03/08/2009 08/08/2009
Invitation to Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009	Les Échos Le Revenu Hebdo Le journal des finances Investir Hebdo	20/05/2009 22/05/2009 23/05/2009 23/05/2009
Financial notice: 2009 first quarter results	http://www.vallourec.fr Les Echos Investir Hebdo http://www.euronext.com	13/05/2009 15/05/2009 16/05/2009 13/05/2009
Financial notice: 2008 full-year sales and results	Les Échos Le Figaro économie Investir Hebdo Le journal des finances Rheinische Post (Germany) Le Revenu Hebdo http://www.euronext.com	27/02/2009 28/02/2009 28/02/2009 28/02/2009 02/03/2009 06/03/2009 28/05/2009

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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Appendix I of the European prospectus regulations		Vallourec Registered Document	
		Sections	Pages
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8.14 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 Registered Document:

For the year ended 31 December 2007

- the Registered 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. D.08-0316;
- 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.

For the year ended 31 December 2008

- the Registered Document for the year ended 31 December 2008 was registered with the French securities regulator (*Autorité des Marchés Financiers* – AMF) on 30 April 2009 under file no. D.09-0364;
- the consolidated financial statements are included in Section 5, sub-section 5.1 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 5.2 and the corresponding audit report is included in Section 8, sub-section 8.3.1.

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GLOSSARY

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Alloy: combination of a metal and one or more other chemical elements that acquires greatly enhanced mechanical properties when subjected to mechanical and heat treatments.

API standards: American Petroleum Institute (API): US organization that produces standards relating to the oil industry.

Billet: section cut from a steel bar (round tube) for the purpose of transforming it into a tube by mechanically working it while hot.

Blast furnace: reactor that uses carbon (in the form of coke or charcoal) as an iron ore-reducing agent to produce iron.

Buttress: standard threading for OCTG products.

Casing: tubes assembled by means of leak-tight threaded connections to form a column consolidating the walls of an oil or gas well.

Continuous caster: industrial facility that solidifies metal in a mould in a continuous process, forming long bars.

Drilling: use of appropriate tools to penetrate underground formations, whether for geological studies or to remove fluids (oil, gas, water, etc.) from the drilled terrain.

Drill pipe: extremely strong tubeused to drill oil or gas wells. Drillpipes are assembled end-to-end to form a drill string, which may be up to 10,000 m long.

Electric arc furnace: furnace designed for smelting scrap metalor prepared ore, in which the main heat source is an electric arc.

Heat treatment: transformations in the structure of steel obtained by performing heating and cooling cycles for the purpose of improving the steel's mechanical properties.

Hollow: semi-finished tube, which can subequently be transformed into a product satisfying the specific requirements of a particular market.

Line-pipe: oil and gas transport pipes, generally consisting of seamless tubes in the offshore section and large-diameter welded tubes in the onshore section.

MSH section: trade mark registered by the Vallourec Group for premium structural tubes.

OCTG: Oil Country Tubular Goods- casing and tubing products for oil and gas production.

Premium tube: high-performance tube, the manufacturing of which demands considerable technological and industrial expertise.

Riser: offshore pipe that carries oil extracted from the sea bed to the export facility on the surface.

Rolling mill: plant where seamless tubes are manufactured in a three stage hot process:

1. pierce the billet;
2. draw the resulting hollow on an internal mandrel;
3. calibrate the final dimensions.

Structural tube (hollow section, micro-pile, etc.): round, square or rectangular hollow sections used in a vast range of applications in the mechanical engineering, construction and civil engineering sectors.

Supercritical or ultra-supercritical power plant: enhanced-performance thermal power plants that operate at high temperature (>374°C) and high pressure (>221 bar). The term "ultra-supercritical" applies to plants operating at temperatures in excess of 600°C.

Threading: machined profile at the ends of tubes, allowing them to be assembled by screwing the male and female parts together.

Tubing: steel tubes assembled by means of gas-tight threaded connection to form a production string through which fluids are piped from a well bottom to the surface.

VAM® joints: family of premium threaded joints invented and patented by Vallourec. VAM®joints ensure a totally gas-tight connection and are suitable for a wide range of demanding applications.

Direction and writing: Vallourec - Legal, Investor Relations and External Communications.

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