REGISTRATION DOCUMENT

and Annual Financial Report

2010

vallourec

vallourec

Registration Document and Annual Financial Report

Year ended 31 December 2010

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

The original version of this Registration Document *(document de référence)* in French was filed with the French securities regulator *(Autorité des Marchés Financiers* - AMF) on 19 April 2011 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. This document was prepared by the issuer and is the responsibility of those who signed it.

Copies of this Registration Document are available free of charge from Vallourec (27, avenue du Général Leclerc, Boulogne-Billancourt, 92100, France), Vallourec's website (http://www.vallourec.com) and the AMF's website (http://www.amf-france.org).

This Registration Document includes all the elements of the Annual Financial Report mentioned in section I of Article L.451-1-2 of the French *Code monétaire et financier* and Article 222-3 of the AMF's general regulations. A concordance table showing documents referred to in Article 222-3 of the AMF's general regulations and the corresponding sections of this Registration Document is included on page 304.

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1.1 PERSON RESPONSIBLE FOR THE REGISTRATION 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 REGISTRATION DOCUMENT

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

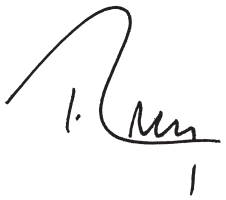
I attest that, to the best of my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the consolidated financial position, assets and liabilities and net profit of the Company and of the Group and that the management report included in Section 8 (on pages 204 to 224) of this Registration 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 Registration Document and read the Registration Document in its entirety.

The consolidated financial statements for the year ended 31 December 2009 presented in this Registration Document and filed with the French securities regulator (*Autorité des Marchés Financiers* – AMF) under no. D.10-0285 on 19 April 2010 were 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."

The consolidated financial statements for the year ended 31 December 2010 presented in the 2010 Registration Document were the subject of the Statutory Auditors' report on pages 288 and 289, 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 changes in the presentation of the income statement*."

Boulogne-Billancourt, 18 April 2011



The Chairman of the Management Board

Philippe Crouzet

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.

1.4 PERSON RESPONSIBLE FOR THE GROUP'S LEGAL AFFAIRS

Mr Philippe Dupeyré

Group General Counsel

Vallourec

27, avenue du Général Leclerc
92660 Boulogne-Billancourt Cedex – France

Tel: +33 (0)1 49 09 37 22
Fax: +33 (0)1 49 09 37 30

E-mail: philippe.dupeyre@vallourec.fr

1.5 PERSON RESPONSIBLE FOR THE COMMUNICATION OF FINANCIAL INFORMATION

Mr Étienne Bertrand

Investor Relations Director

Vallourec

27, avenue du Général Leclerc
92660 Boulogne-Billancourt Cedex – France

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

Tel: 00 33 (0)1 49 09 35 00

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 statutory and regulatory provisions at the time.

2.1.10 SHAREHOLDERS' MEETINGS (ARTICLE 12 OF THE BY-LAWS)

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 rights conferred on other shares (Article 12 paragraph 4 of the by-laws).

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

2.1.11 DECLARATIONS OF CROSSING THRESHOLDS AND IDENTIFICATION OF SHAREHOLDERS (ARTICLE 8 OF THE BY-LAWS)

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.

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."

In addition, 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.

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 2010, the start of the financial year 2010, the fully paid-up share capital amounted to €229,123,156, divided into 57,280,789 shares with a par value of €4 each.

On 2 July 2010, the Management Board noted that, in accordance with the *fourth resolution* of the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010, a capital increase had been carried out on 30 June 2010 by means of the issue of 993,445 new shares (*i.e.* 1.7% of the share capital on that date) at the price of €130.85 per share in payment of the 2009 dividend of €3.50 per share. The issue of said new shares resulted in a capital increase in the nominal amount of €3,973,780 which increased Vallourec's share capital on 30 June 2010 from €229,123,156 to €233,096,936, divided into 58,274,234 shares with a par value of €4 each.

On 9 July 2010, the Management Board recorded the carrying out of a 2:1 stock split, pursuant to the *twelfth resolution* of the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010. As a result, the par value of the Company's shares was reduced from four (4) euros to two (2) euros and the total number of shares making up the share capital was increased from 58,274,234 shares to 116,548,468 shares. As at 9 July 2010, the share capital thus totalled €233,096,936, divided into 116,548,468 shares with a par value of two (2) euros each.

On 3 December 2010, the share capital was increased by a nominal amount of €2,791,228, from €233,096,936 to €235,888,164, divided into 117,944,082 shares with a par value of €2 each, as a result of three capital increases, under the terms of the "Value 10" employee share ownership plan, in the nominal amounts of €1,466,624, €1,018,176 and €306,428 respectively by means of three issues of 733,312, 509,088 and 153,214 new shares respectively at the price of €61.14 per share.

On 31 December 2010, the fully paid-up share capital thus totalled €235,888,164, divided into 117,944,082 shares with a par value of €2 each.

2.2.3 AUTHORIZED CAPITAL NOT YET ISSUED

2.2.3.1 Financial authorizations to issue shares and securities giving access to the Company's capital that remained in force at 31 December 2010

The authorizations to issue shares and securities giving access to the Company's capital that remained in force at 31 December 2010 were as follows:

	Maximum nominal amounts of capital increases in euros or as a percentage of the share capital	Maximum nominal amount of debt securities *(in €)*	Date of Shareholders' Meeting that authorized the transaction	Duration of the authorization	Expiry date
CAPITAL INCREASES WITH PSR					
Capital increase with preferential subscription rights (PSR) *(10th resolution)*	€105 million	€1 billion	4 June 2009	26 months	4 August 2011
Increase in amount of initial issue with PSR ("Greenshoe") *(13th resolution)*	15% of the initial issue (2)	15% of the initial issue (2)	4 June 2009	26 months	4 August 2011
Capital increase by capitalization of reserves, profits or additional paid-in capital *(15th resolution)*	€60 million (1)	N/A	4 June 2009	26 months	4 August 2011
Issue of warrants while the Company is the subject of a takeover bid *(14th resolution)*	25% of the share capital	N/A	31 May 2010	18 months	31 November 2011
CAPITAL INCREASES WITHOUT PSR					
Capital increase without PSR via public or private placement(s) *(11th resolution)*	€30 million (1)	€1 billion	4 June 2009	26 months	4 August 2011
Capital increase without PSR at a price freely set by the Shareholders' Meeting *(12th resolution)*	10% per year (1) (3)	€1 billion	4 June 2009	26 months	4 August 2011
Increase in amount of initial issue without PSR ("Greenshoe") *(13th resolution)*	15% of the initial issue (2)	15% of the initial issue (2)	4 June 2009	26 months	4 August 2011
Capital increase without PSR as remuneration for in-kind contributions other than in the case of a share exchange offer initiated by the Company *(14th resolution)*	10% (1) (3)	-	4 June 2009	26 months	4 August 2011
EMPLOYEE SHARE OWNERSHIP OFFERING					
Capital increase reserved for members of a company savings scheme under the terms of an employee share ownership offering *(17th resolution)*	€8.6 million (1) (5)	N/A	4 June 2009	26 months	4 August 2011
Capital increase reserved for employees and those with similar rights of Vallourec group companies outside France under the terms of an employee share ownership offering *(18th resolution)*	€8.6 million (1) (5)	N/A	4 June 2009	18 months	4 December 2010
Capital increase reserved for banks under the terms of an employee share ownership offering *(19th resolution)*	€8.6 million (1) (5)	N/A	4 June 2009	18 months	4 December 2010
Allocation of shares free of charge under the terms of an employee share ownership offering instead of the contribution made to French employees *(20th resolution)*	0.3% of the share capital (1)	N/A	4 June 2009	26 months	4 August 2011
SHARE SUBSCRIPTION AND SHARE PURCHASE OPTIONS AND PERFORMANCE SHARES					
Share subscription or share purchase options to the Group's employees and Corporate Officers *(21st resolution)*	3% of the share capital (1)	N/A	4 June 2009	38 months	4 August 2012
Allocations of performance shares to the Group's employees and Corporate Officers *(16th resolution)*	1% of the share capital (1) (4)	N/A	4 June 2008	38 months	4 August 2011

(1) This amount or percentage is deducted from the overall €105 million cap for capital increases with the retention of preferential subscription rights.
(2) This percentage is limited by the cap applicable to the authorization pursuant to which it is implemented.
(3) This amount or percentage is deducted from the overall €30 million cap for capital increases with the cancellation of preferential subscription rights.
(4) This percentage is deducted from the 3% cap on the share capital set aside for share subscription and share purchase options.
(5) The accumulated total of capital increases carried out under the terms of an employee share ownership offering may not exceed €8.6 million.

2.2.3.2 Use of financial authorizations to issue shares and securities giving access to the Company's capital at 31 December 2010

Employee share ownership

Under the terms of authorizations relating to employee share ownership offerings, the Management Board, having obtained the agreement of the Supervisory Board, renewed in 2009 and then in 2010 an international employee share ownership scheme ("Value" scheme), launched in 2008 (see paragraph 6.3.3 below for a description of these plans). The scheme for 2009 is called "Value 09" and the scheme for 2010 is called "Value 10". The terms of the plans are as follows:

- making use of the *seventeenth, eighteenth* and *nineteenth resolutions* described in the table opposite, on 17 December 2009 the Management Board carried out a capital increase under the terms of the "Value 09" offering on the NYSE Euronext Paris regulated market, involving the issue of 708,589 (1) new shares at a price of €91.74 per share. Pursuant to the *twentieth resolution* described in the table opposite, at the same time the Management Board implemented a free share allocation plan in respect of the existing shares, involving 34,700 (2) shares, *i.e.* 0.06% of the share capital, for the benefit of subscribers to the "Value 09" offering who are non-French residents for tax purposes of Group companies whose registered office is located in Germany, Brazil, Canada, the United States, Mexico or the United Kingdom, instead of the contribution granted to employees and those with similar rights of the Group's French companies;
- making use of the *seventeenth, eighteenth* and *nineteenth resolutions* described in the table opposite, on 3 December 2010 the Management Board carried out a capital increase under the terms of the "Value 10" offering, involving the issue of 1,395,614 new shares at a price of €61.14 per share. Pursuant to the *twentieth resolution* described in the table opposite, at the same time the Management Board implemented a free share allocation plan in respect of the existing shares, involving 83,462 shares, *i.e.* 0.07% of the share capital, for the benefit of subscribers to the "Value 10" offering who are non-French residents for tax purposes of Group companies whose registered office is located in Germany, Brazil, Canada, the United States (with the exception of VAM USA LLC's employees), Mexico or the United Kingdom, instead of the contribution granted to employees and those with similar rights of the Group's French companies.

Performance shares

Under the terms of the authorization relating to performance shares (3), the Management Board, with the approval of the Supervisory Board, decided on the following transactions:

- on 1 September 2008, the allocation of a maximum number of 30,829 (4) performance shares, *i.e.* 0.029% 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 maximum number of 35,468 (5) performance shares, *i.e.* 0.031% of the share capital on that date;
- on 17 December 2009, the allocation of a maximum number of three performance shares to all staff of most of the Group's entities (with the exception of Corporate Officers), the maximum total number of shares that may be allocated in accordance with this decision totalling 104,424 performance shares, *i.e.* 0.09% of the share capital on that date. The final allocation 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;
- on 15 March 2010 and 31 July 2010, the allocation of a maximum number of 194,820 (6) performance shares, corresponding to respectively 0.17% and 0.167% of the share capital on those dates. The final allocation 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, 2011 and 2012; and
- on 3 December 2010, the allocation of a maximum number of six performance shares to all staff of most of the Group's entities (with the exception of Corporate Officers), the maximum total number of shares that may be allocated in accordance with this decision totalling 72,588 performance shares, *i.e.* 0.06% of the share capital. The final allocation is subject to the employee continuing to be employed by the Group and to performance conditions based on the Group's results for the period from 1 January 2011 to 30 September 2012.

The terms and conditions of these plans are detailed in Section 6.3.1.2.1 and in the Management Board's special report on allocations of shares free of charge and allocations of performance shares in Section 8.1.4 of this Registration Document.

Share subscription and share purchase options

Under the terms of the authorization relating to share subscription and share purchase options, the Management Board implemented:

- on 1 September 2009, a share subscription option plan relating to a total of 578,800 (7) options, *i.e.* 0.51% of the share capital on that date;
- on 1 September 2010, a share subscription option plan relating to a total of 512,400 options, *i.e.* 0.44% of the share capital on that date.

The terms and conditions of these plans are detailed in Section 6.3.1.1 and in the Management Board's special report on share subscription and share purchase options in Section 8.1.3 of this Registration Document.

(1) This figure does not take into account the 2:1 stock split on 9 July.
(2) i.e. 69,400, taking into account the 2:1 stock split which has been effective since 9 July 2010.
(3) All of the figures have been restated to take into account the 2:1 stock split on 9 July 2010.
(4) Based on the highest performance coefficient, i.e. 1.33.
(5) Based on the highest performance coefficient, i.e. 1.33.
(6) Based on the highest performance coefficient, i.e. 1.0.
(7) The initial allocation related to a maximum number of 289,400 options. This figure was doubled to take into account the 2:1 stock split on 9 July 2010.

2.2.4 SHARE BUYBACKS

2.2.4.1 Information about transactions carried out under the terms of the share buyback programme during the financial year 2010

Share buybacks (excluding liquidity contract)

At 1 January 2010, Vallourec held 222,214 of its own shares with a par value of €4, representing 0.388% of its share capital on that same date. All of these shares were allocated to cover share purchase option, free share allocation and performance share allocation plans.

When implementing the *twelfth resolution* adopted by the Extraordinary Shareholders' Meeting of 31 May 2010 relating to the 2:1 stock split, the Management Board recorded, on 9 July 2010, the 2:1 stock split and the resulting doubling of the number of shares. Consequently, the share capital totalling €229,153,156 was, as from 9 July 2010, divided into 114,561,578 shares with a par value of €2 each. With the aim of ensuring clarity and consistency, all data reported in this section relating to the period from 1 January 2010 to 9 July 2010, the date of the 2:1 stock split, have been restated as if the 2:1 stock split had occurred on the first day of the financial year 2010.

At 1 January 2010, Vallourec held, taking into account this 2:1 stock split, 444,428 of its own shares with a par value of €2, representing 0.388% of its share capital on that same date. All of these shares were allocated to cover share purchase option, free share allocation and performance share allocation plans.

Under the terms of its share buyback programmes authorized by the Ordinary Shareholders' Meeting of 4 June 2009 (*ninth resolution*) and the Ordinary Shareholders' Meeting of 31 May 2010 (*eleventh resolution*), between 1 January 2010 and 31 December 2010, Vallourec carried out the following transactions:

- 100,000 shares were purchased at a gross weighted average price of €71.54 per share to cover share purchase option, free share allocation and performance share allocation plans. Trading fees in respect of these purchases totalled €8,546.31;
- 87,314 shares were transferred following the final allocation of shares under the terms of free share allocation plans and performance share allocation plans.

The following table provides details of the total gross cash flows resulting from the share purchases, disposals and transfers (excluding those carried out under the liquidity contract) carried out between 1 January 2010 and 31 December 2010:

	Purchases	Transfers/Disposals
Number of shares	100,000	87,314
Average price per share (in €)	71.54	5.26
TOTAL AMOUNT (IN €)	**7,154,318.81**	**459,426.95**

Treasury shares (excluding liquidity contract) at 31 December 2010

At 31 December 2010, Vallourec held 457,114 of its own shares, representing 0.388% of its share capital on that same date. All of these shares were allocated to cover share purchase option, free share allocation and performance share allocation plans. At 31 December 2010, the carrying amount of the portfolio was €14,474,879.59, the nominal value €914,228 and the market value €35,929,160.40.

Liquidity contract

In 2007, Vallourec implemented a liquidity contract entered into with Crédit Agricole Cheuvreux, in accordance with the Code of Conduct (*Charte de déontologie*) of the French Association of Financial Market Professionals (*Association Française des marchés financiers* – AMAFI). The liquidity contract has a term of one year and is automatically renewable.

In 2010, under the terms of the liquidity contract, a total of 833,391 shares were repurchased, representing 0.71% of the share capital, for a total price of €59,827,063.22 and a weighted average price per share of €71.79. As regards sales under the liquidity contract, a total of 800,391 shares were sold, representing 0.68% of the share capital for total sales proceeds of €58,212,846.03 and a weighted average price per share of €72.73.

In 2010, a capital gain of €2,293,202.96 was generated in respect of the liquidity contract.

At 31 December 2010, the balance on the liquidity account comprised:

- 98,000 shares;
- €15,474,508.73.

The charge for 2010 for management commission in respect of the liquidity contract totalled €100,000 excluding VAT.

Cross-shareholding

None.

Open positions on derivatives at 31 December 2010

None.

2.2.4.2 Description of 2010-2011 share buyback programme submitted to the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 *(tenth resolution)*

The aim of this description of the programme is, in accordance with Articles 241-1 *et seq.* of the general regulations of the French securities regulator (*Autorité des Marchés Financiers* – AMF), to describe the objectives and terms and conditions of Vallourec's own share buyback programme which will be submitted for approval to the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011.

Analysis by objectives of Vallourec shares held by the Company at 31 March 2011

At 31 March 2011, Vallourec held 457,078 of its own shares, representing 0.388% of its share capital on that date. All the shares have been allocated to cover share purchase, free share allocation and performance share allocation plans.

In addition, the balance as at 31 March 2011 on the liquidity contract entered into with *Crédit Agricole Cheuvreux* included 66,000 shares, representing 0.56% of the share capital on that date.

Objectives of the share buyback programme submitted to the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011

In accordance with the provisions of European Regulation no. 2273/2003 of 22 December 2003 implementing European Directive no. 2003/6/EC of 28 January 2003 and market practices allowed by the AMF, we have set out below the objectives of the share buyback programme submitted for approval to the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011:

1. To implement any share purchase option plan of the Company in accordance with the provisions of Articles L.225-177 *et seq.* of the French *Code de commerce*;
2. To allocate or sell shares to employees to enable them to participate in the Company's expansion and in connection with any group or company savings scheme or similar scheme as established under applicable law, in particular Articles L.3332-1 *et seq.* of the French *Code du travail;*
3. To allocate free shares or to allocate performance shares in accordance with the provisions of Articles L.225-197-1 *et seq.* of the French *Code de commerce*;
4. To allocate the Company's shares to Group employees and Corporate Officers outside France;
5. To stimulate the secondary market or increase the liquidity of Vallourec shares through an investment services provider, under the terms of a liquidity contract that complies with the Code of Conduct issued by the AMAFI, approved by the AMF, in accordance with the market practices permitted by the AMF;
6. To hold and subsequently deliver shares (in payment, exchange or otherwise) in connection with any transactions involving corporate acquisitions and, in particular, mergers, split-offs or contributions, in accordance with the market practices permitted by the AMF;
7. To deliver shares upon the exercise of rights attached to securities giving access to the Company's share capital by means of redemption, conversion, exchange, exercise of a warrant or in any other manner; or
8. To cancel all or some of the shares thus bought back, provided the Management Board has been authorized to do so by an Extraordinary Shareholders' Meeting, and that such authorization is still valid, enabling it to reduce the share capital by cancelling shares acquired under the terms of a share buyback programme.

Terms and conditions of the share buyback programme submitted to the Shareholders' Meeting of 7 June 2011

Details are provided in the following table of the maximum portion of the capital, the maximum number of shares and the characteristics of the shares the Company proposes to acquire under the terms of its share buyback programme submitted for approval to the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, as well as the maximum purchase price per share:

Characteristics of the shares	Maximum portion of the capital (1)	Maximum number of shares (2)	Maximum purchase price (per share)
Ordinary shares	10%	11,794,408	€140

(1) It is stipulated that this percentage applies to capital as adjusted, where applicable, for any transactions affecting the share capital that may occur after the Shareholders' Meeting of 7 June 2011 and that, in all circumstances, the number of shares that the Company will hold, at any given time, may not exceed 10% of its share capital on the date thereof.

(2) This number corresponds to the theoretical number of ordinary shares that the Company could acquire, calculated on the basis of the share capital at 31 March 2011, i.e. €235,888,164, divided into 117,944,082 shares. Given the number of ordinary shares owned by Vallourec on that date (i.e. 523,078), Vallourec could acquire 11,271,330 of its own shares.

Term of the share buyback programme submitted to the Shareholders' Meeting of 7 June 2011

The authorization granted to the Management Board to implement the share buyback programme will be granted for a term of 18 months as from the Shareholders' Meeting of 7 June 2011, *i.e.* until 7 December 2012, subject to the approval of the programme by the Ordinary Shareholders' Meeting.

2.2.5 CHANGES IN CAPITAL OVER THE LAST FIVE YEARS

Transaction date	Exercise of subscription options	Number of shares subscribed for in cash	Total number of shares after transaction	Nominal amount of capital increase *(in €)*	Issue premium *(in €)*	Share capital after transaction *(in €)*
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 (1)	–	–	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	195,623,256	226,288,800
17/12/2009	–	708,589	57,280,789	2,834,356	62,171,599	229,123,156
02/07/2010	-	993,445	58,274,234	3,973,780	126,018,498	233,096,936
09/07/2010 (2)	-	-	116,548,468	-	-	233,096,936
03/12/2010	-	1,395,614	117,944,082	2,791,228	82,536,612	235,888,164

(1) 5:1 stock split, as a result of which the par value was reduced from €20 to €4 and the number of shares was multiplied by 5.
(2) 2:1 stock split, as a result of which the par value was reduced from €4 to €2 and the number of shares was doubled.

2.2.6 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 Section 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.

2.3 BREAKDOWN OF CAPITAL AND VOTING RIGHTS

2.3.1 COMPANY'S SHAREHOLDERS

As at 31 December 2010, the breakdown of share capital was as follows:

Shareholders	Number of shares	% of shares	Number of voting rights (gross)	% of voting rights (gross)
FSI [1]	7,097,617	6.02%	7,097,617	6.01%
Capital Research [2]	5,906,563	5.01%	5,906,563	5.00%
Bolloré Group [3]	6,141,152	5.21%	6,141,152	5.20%
Sumitomo Metal Industries	1,973,134	1.67%	1,973,134	1.67%
Free float	92,250,915	78.22%	92,855,364	78.60%
Group employees	4,019,587	3.41%	4,159,417	3.52%
Own shares held directly by Vallourec [4]	555,114	0.47%	0	0.00%
TOTAL	**117,944,082**	**100%**	**118,133,247**	**100%**

(1) Jointly with Caisse des dépôts et consignations (CDC). By means of a letter dated 10 February 2010, Caisse des dépôts et consignations (CDC) declared that, on 9 February 2010, it had, directly and indirectly via Fonds Stratégique d'Investissement (FSI) which it controls, crossed the 5% share capital and voting rights 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 decision and information notice no. 210C0159 of 12 February 2010). In addition, in accordance with Article 5 of Vallourec's by-laws, Caisse des dépôts et consignations (CDC) declared, by means of a letter dated 12 August 2010, that, on 11 August 2010 it had, directly and indirectly via Fonds Stratégique d'Investissement (FSI), crossed the statutory 6% share capital and voting rights thresholds and held, directly and indirectly via FSI, 7,097,617 Vallourec shares representing 6.09% of the share capital and 6.08% of the voting rights.

(2) By means of a letter dated 17 December 2010, Capital Research and Management Company declared that, on 15 December 2010, it had crossed the 5% share capital and voting rights thresholds and held 5,906,563 Vallourec shares representing the same percentage of Vallourec's share capital (5.01%) and voting rights (5.002%) (AMF decision and information notice no. 201C1286 of 20 December 2010).

(3) By means of declarations dated 24 March 2010, 16 April 2010 and 20 May 2010, Compagnie de Cornouaille, a corporate body affiliated to Bolloré, indicated that it had entered into forward sales relating to 1,874,478 Vallourec shares with the option of delivery in cash at maturity on 5 May 2011, 88,308 Vallourec shares with the option of delivery in cash at maturity on 5 May 2011 and 48,000 Vallourec shares with the option of delivery in cash at maturity on 5 May 2011, respectively (AMF decisions and information notices no. 210D1480 dated 26 March 2010, no. 210D1900 dated 21 April 2010 and no. 210D2631 dated 2 June 2010). See Section 8.1.1.12 below for details of all individual declarations relating to transactions in Vallourec's shares carried out by the persons referred to in Article L.621-18-2 of the French Code monétaire et financier during the financial year 2010.

(4) Own shares held directly by Vallourec include those held under the liquidity contract which, by its very nature, results in a monthly change in the own shares held directly by Vallourec. At 31 December 2010, the liquidity contract comprised 98,000 shares.

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 2010, Sumitomo Metal Industries held 1,973,134 Vallourec shares, *i.e.* a 1.67% 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.

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

	31/12/2008				31/12/2009				31/12/2010			
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)	%
FSI [1]	NC	NC	NC	NC	NC	NC	NC	NC	7,097,617	6.02	7,097,617	6.01
Capital Research [2]	NC	NC	NC	NC	NC	NC	NC	NC	5,906,563	5.01	5,906,563	5.00
Bolloré Group [3]	1,558,954	2.90	1,558,954	2.90	2,990,588	5.22	2,990,588	5.22	6,141,152	5.21	6,141,152	5.20
Barclays Group	2,956,264	5.49	2,956,264	5.49	NC	NC	NC	NC	NC	NC	NC	NC
Sumitomo Metal Industries	-	-	-	-	986,567	1.72	986,567	1.72	1,973,134	1.67	1,973,134	1.67
Free float	48,048,768	89.33	48,468,000	90.08	51,561,306	90.02	51,871,935	90.46	92,250,915	78.22	92,855,364	78.6
Group employees	824,311	1.53	824,311	1.53	1,487,614	2.60	1,489,024	2.60	4,019,587	3.41	4,159,417	3.52
Own shares held directly by Vallourec [4]	400,419	0.74	0	0	254,714	0.44	0	0	555,114	0.47	0	0
TOTAL	**53,788,716**	**100**	**53,807,529**	**100**	**57,280,789**	**100**	**57,338,114**	**100**	**117,944,082**	**100**	**118,133,247**	**100**

(1) Jointly with Caisse des dépôts et consignations (CDC). By means of a letter dated 10 February 2010, Caisse des dépôts et consignations (CDC) declared that, on 9 February 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 decision and information notice no. 210C0159 of 12 February 2010). In addition, in accordance with Article 5 of Vallourec's by-laws, Caisse des dépôts et consignations (CDC) declared, by means of a letter dated 12 August 2010, that, on 11 August 2010 it had, directly and indirectly via Fonds Stratégique d'Investissement (FSI), crossed the statutory 6% share capital and voting rights thresholds and held, directly and indirectly via FSI, 7,097,617 Vallourec shares representing 6.09% of the share capital and 6.08% of the voting rights.

(2) By means of a letter dated 17 December 2010, Capital Research and Management Company declared that, on 15 December 2010, it had crossed the 5% share capital and voting rights thresholds and held 5,906,563 Vallourec shares representing the same percentage of Vallourec's share capital (5.01%) and voting rights (5.002%) (AMF decision and information notice no. 201C1286 of 20 December 2010).

(3) By means of declarations dated 24 March 2010, 16 April 2010 and 20 May 2010, Compagnie de Cornouaille, a corporate body affiliated to Bolloré, indicated that it had entered into forward sales relating to 1,874,478 Vallourec shares with the option of delivery in cash at maturity on 5 May 2011, 88,308 Vallourec shares with the option of delivery in cash at maturity on 5 May 2011 and 48,000 Vallourec shares with the option of delivery in cash at maturity on 5 May 2011, respectively (AMF decisions and information notices no. 210D1480 dated 26 March 2010, no. 210D1900 dated 21 April 2010 and no. 210D2631 dated 2 June 2010). See Section 8.1.1.12 below for details of all individual declarations relating to transactions in Vallourec's shares carried out by the persons referred to in Article L.621-18-2 of the French Code monétaire et financier during the financial year 2010.

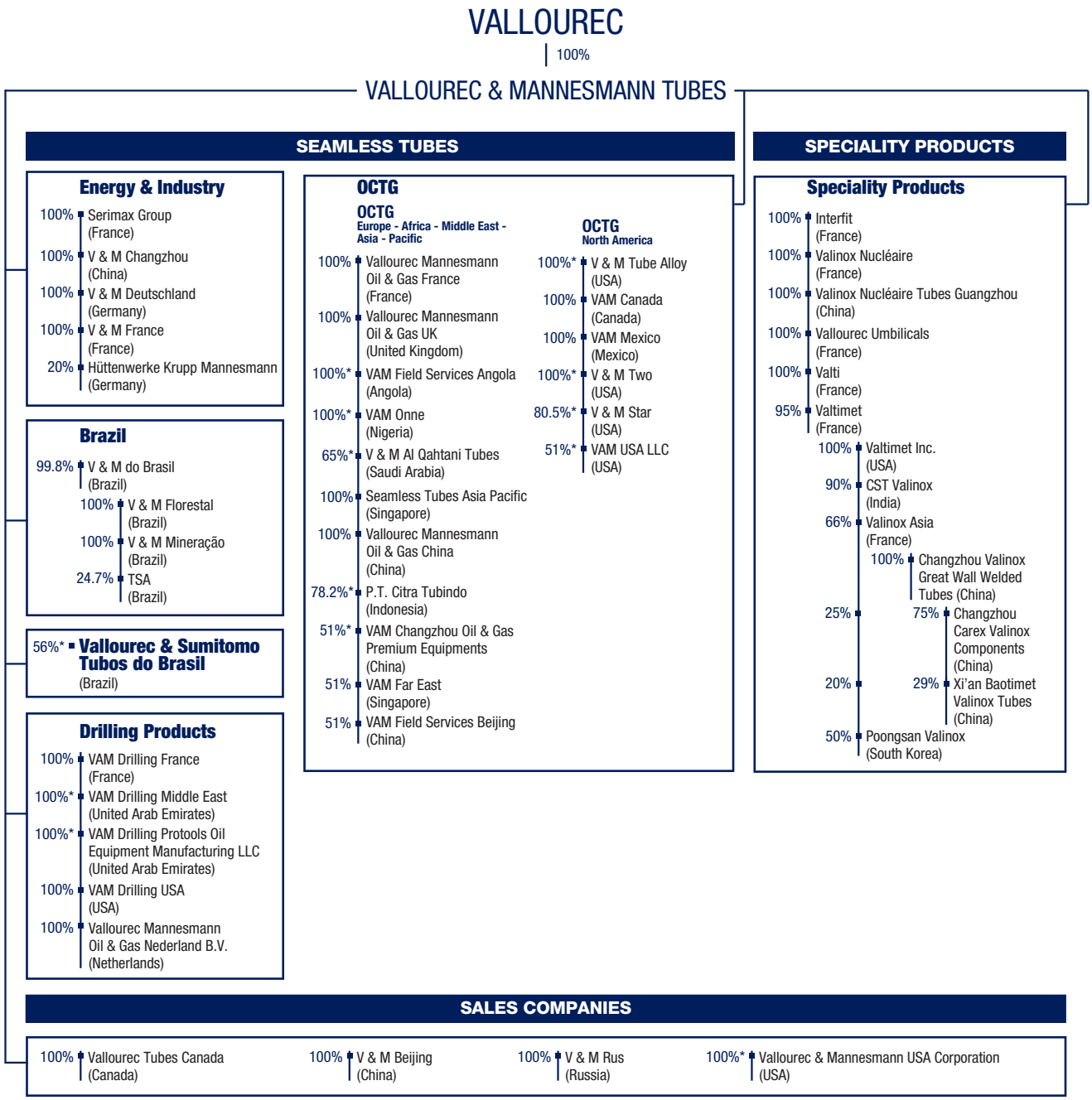
(4) Own shares held directly by Vallourec include those held under the liquidity contract which, by its very nature, results in a monthly change in the own shares held directly by Vallourec. At 31 December 2010, the liquidity contract comprised 98,000 shares.

NC : Not communicated.

2.3.3 OTHER PERSONS EXERCISING CONTROL OVER VALLOUREC

None.

2.3.4 ORGANIZATION CHART OF THE VALLOUREC GROUP AT 31 DECEMBER 2010



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

2.4 MARKET FOR THE COMPANY'S SHARES

2.4.1 LISTING MARKET

The Company's shares are listed on the NYSE Euronext Paris regulated market (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 MARKETS

In October 2010, Vallourec implemented a sponsored Level 1 American Depositary Receipt (ADR) programme in the United States. This new initiative demonstrates the Group's intention to broaden its investor base by enabling a larger number of US-based investors to participate in its future expansion.

An ADR is a US dollar denominated security representing shares in a non-US company, which allows American investors to hold shares indirectly and to trade them on securities markets in the United States. Vallourec's ADRs may be traded on the US over-the-counter (OTC) market.

JP Morgan is the depository bank responsible for administering the ADR programme. Technical information about the ADR programme is available from the Group's website, under the ADR heading. For further information, ADR holders may contact JP Morgan as follows:

- by phone: (800) 990-1135 (general) or (651) 453-2128 (if calling from outside the USA)
- by e-mail: jpmorgan.adr@wellsfargo.com, or by post at the following address:

  JP Morgan Service Center
  JP Morgan Chase & Co
  P.O. Box 64504
  St Paul, MN 55164-0504
  USA

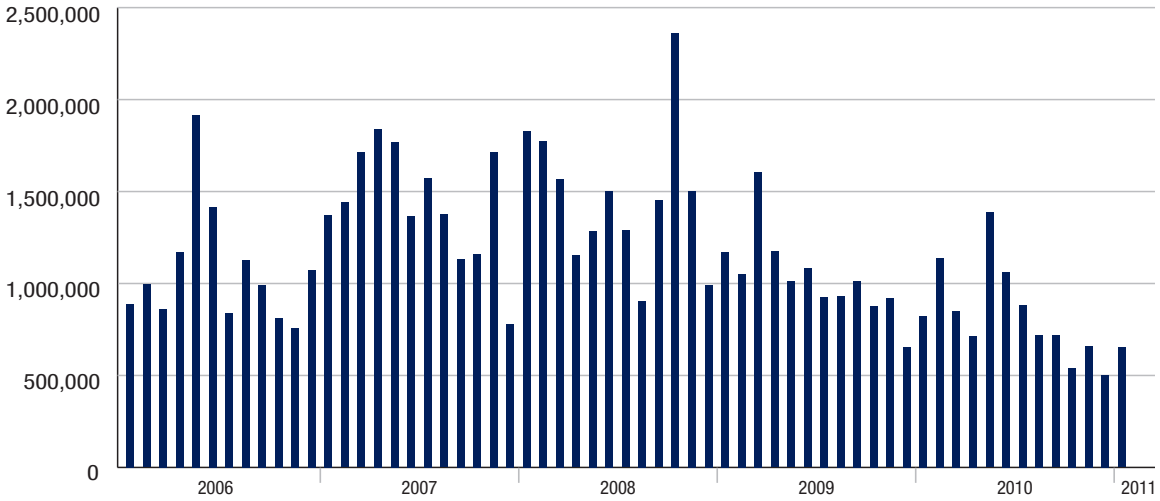
2.4.3 VOLUMES TRADED AND SHARE PRICE PERFORMANCE

Vallourec adjusted (*) share price performance over five years, compared to the CAC 40 index



* *Adjusted to take into account the 2:1 stock split on 9 July 2010.*

Adjusted (*) monthly average of volumes traded per day



(*) Adjusted to take into account the 2:1 stock split on 9 July 2010.

Share price performance over five years adjusted (*) for stock split

In €	2006	2007	2008	2009	2010
Adjusted (1) number of shares (at 31 December)	106,023,740	106,077,440	107,577,432	114,561,578	117,944,082
Highest price	116.00	121.63	112.23	64.25	81.61
Lowest price	45.48	80.65	32.09	26.26	60.35
Average (closing) price for the year	86.04	100.85	74.83	47.34	73.05
Year-end price	110.15	92.58	40.50	63.53	78.60
Market capitalization (at year-end price)	11,678,514,961	9,820,119,008	4,356,885,996	7,277,524,242	9,270,404,845

Source: Euronext.
(1) The par value of the Vallourec share was halved on 9 July 2010.

VALLOUREC SHARES (ISIN CODE FR0000120354-VK)

	Price *(in €)*			Volume of transactions			
				Monthly total		Daily average	
	Highest	Lowest	Month-end	Number of shares	Capital *(in € billion)*	Number of shares	Capital *(in € billion)*
2010							
January	68.00	60.35	62.50	16,467,516	1.07	823,376	0.05
February	70.88	60.43	70.18	22,728,462	1.50	1,136,423	0.07
March	77.30	69.60	74.65	19,594,192	1.43	851,921	0.06
April	79.93	70.75	75.23	14,325,696	1.08	716,285	0.05
May	81.20	66.25	76.08	29,112,830	2.16	1,386,325	0.10
June	78.85	67.05	71.38	23,404,384	1.70	1,063,836	0.08
July	81.61	69.25	74.71	19,474,445	1.48	885,202	0.07
August	77.24	64.50	67.79	15,835,154	1.12	719,780	0.05
September	74.88	66.59	72.87	15,788,186	1.13	717,645	0.05
October	79.19	72.12	74.57	11,323,686	0.86	539,223	0.04
November	80.55	72.24	73.17	14,526,575	1.11	660,299	0.05
December	80.90	71.46	78.60	11,602,177	0.89	504,442	0.04
2011							
January	85.59	78.67	79.34	13,693,212	1.12	652,058	0.05
February	81.66	72.00	75.07	11,941,052	0.92	597,053	0.05
March	80.60	69.18	79.16	16,907,689	1.26	735,117	0.05

Source: Euronext.

2.4.4 PLEDGING OF SHARES OF THE ISSUER

None.

2.5 DIVIDEND PAYMENT POLICY

For a clear understanding of the following paragraphs, it is important to note that a 5:1 stock split was carried out on 18 July 2006 and a 2:1 stock split was carried out on 9 July 2010. The current par value of Vallourec's shares is €2.

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 Company.

At the Shareholders' Meeting to be held on 7 June 2011 (*third and fourth resolutions*), shareholders will be asked to approve the payment of a net dividend of €1.30 per share in respect of the financial year 2010 and, for the third 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 statutory and regulatory provisions. The ex-dividend date will be 16 June 2011.

To this effect, each shareholder will be able to opt for payment of the entire net dividend in cash or in shares between 16 June 2011 and 28 June 2011 inclusive. If the option is not exercised by the end of this time limit, the dividend will be paid in cash only, on 7 July 2011.

This dividend corresponds to a payout ratio of 37.3% of the consolidated net profit attributable to the owners of the Company. The average payout ratio in the last five years was 33.8%.

Based on the par value of Vallourec's shares at 31 December 2010 taking into account the 5:1 stock split on 18 July 2006 and the 2:1 stock split on 9 July 2010, the dividends per share paid in respect of the last five financial years were:

In €/share	Gross	Tax credit	Net dividend	Payout ratio
2005	1.12	None	1.12	25.1%
2006	3	None	3.00 (1)	34.7%
2007	5.50	None	5.50 (2)	37.4%
2008	3	None	3.00 (3)	33.2%
2009	1.75	None	1.75 (4)	38.6%

(1) Including an interim dividend of €1 per share paid on 20 October 2006.
(2) Including an interim dividend of €2 per share paid on 4 July 2007.
(3) 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 statutory and regulatory provisions.
(4) It should be noted that the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010 gave each of the Company's shareholders the option to receive payment of the dividend in cash or in shares, in accordance with the statutory and regulatory provisions.

Based on the par value of Vallourec's shares on the date the dividends were paid, the dividends per share paid in respect of the last five financial years were:

In €/share	Gross	Tax credit	Net dividend	Payout ratio
2005	11.20	None	11.20	25.1%
2006	6.00	None	6.00 (1)	34.7%
2007	11.00	None	11.00 (2)	37.4%
2008	6.00	None	6.00 (3)	33.2%
2009	3.50	None	3.50 (4)	38.6%

(1) Including an interim dividend of €2 per share paid on 20 October 2006.
(2) Including an interim dividend of €4 per share paid on 4 July 2007.
(3) 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 statutory and regulatory provisions.
(4) It should be noted that the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010 gave each of the Company's shareholders the option to receive payment of the dividend in cash or in shares, in accordance with the statutory and regulatory provisions.

2.6 POLICY FOR COMMUNICATING WITH INSTITUTIONAL INVESTORS AND INDIVIDUAL SHAREHOLDERS

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

To this end, a large number of dedicated communication media are produced and easily accessible and communication initiatives that specifically target institutional investors and individual shareholders are undertaken throughout the year.

2.6.1 INFORMATION MADE AVAILABLE TO SHAREHOLDERS

Financial information and communication media are available to all investors and shareholders in electronic format on the Group's website (www.vallourec.com). They include:

- the Registration Document including the annual financial report, 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 financial and strategic information communicated throughout the year: press releases on the Group's results and activity, presentations, audio transmissions, videos of conferences on specific topics and investor packs;
- all the documents relating to the Shareholders' Meetings (notices of meetings, draft resolutions, voting form, "notice of meeting" brochure and letter to shareholders) as well as the regulated information disseminated in accordance with the European Transparency Directive.

Investors and shareholders may be sent by post, upon request, the Registration Document, annual report, sustainable development report, notice of meeting and letter to shareholders. Requests for such documents may be made *via* the Group's website, to the Investor Relations and Financial Communication department, by e-mail (investor.relations@vallourec.fr or actionnaires@vallourec.fr), by phone (+33 1 49 09 39 76) or by post (27, avenue du Général Leclerc, 92100 Boulogne-Billancourt, France).

2.6.2 RELATIONS WITH INSTITUTIONAL INVESTORS AND FINANCIAL ANALYSTS

The Investor Relations and Financial Communication department organizes, in conjunction with the various members of the Group's senior management, on a regular basis and in accordance with industry best practice, meetings with institutional investors and financial analysts, in France and abroad:

- Each quarter, a telephone conference is organized when the financial results are released. Members of the Management Board present the results and answer questions from analysts and investors;
- Each half-year, a conference is organized in Paris when the half-year and full-year results are released. A video of the conference can be viewed as it takes place or subsequently on the Group's website;
- Each year an "Investor Day" is organized. A presentation is made to the financial community on the Group's strategy, products and operations. In 2010, Vallourec organized its first Investor Day in the United States (in New York), which was a great success with analysts and investors. Nearly a hundred institutions – mostly American – were represented and were receptive to the Group's ambitions in the face of the challenges of the fast-growing markets for shale gas in the United States and pre-salt offshore fields in Brazil.

In addition, a number of meetings are organized throughout the year which are attended by the Group's senior management and investors and analysts. These meetings are held either at the Company's head office or *via* "roadshows" and conferences at the main financial markets worldwide, in particular in Europe and the United States. In 2010, the Group took part in around 15 conferences and organized more than 20 "roadshows".

New ADR programme in the United States

In October 2010, Vallourec implemented a sponsored Level 1 American Depositary Receipt (ADR) programme in the United States (see Section 2.4.2 above). This new initiative demonstrates the Group's intention to broaden its investor base by enabling a larger number of US-based investors to participate in its future expansion.

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 (share price, financial timetable, 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.

The annual Shareholders' Meeting is an ideal opportunity for individual shareholders and the Group's senior management to exchange views about the Group's performance over the year. Staff from the Investor Relations Department are also available to advise shareholders on how to vote and participate in Shareholders' Meetings.

To ensure that Vallourec's shares remain accessible to individual shareholders, a 5:1 stock split was carried out in July 2006 and a 2:1 stock split was carried out in July 2010.

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,
  - 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.

Further information about direct registration and the registration 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 INDICATIVE 2011 REPORTING TIMETABLE

12 May 2011:	Release of 2011 first quarter results
7 June 2011:	Shareholders' Meeting
7 July 2011:	Payment of dividend
27 July 2011:	Release of 2011 second quarter results
29-30 September 2011:	Investor Day in Brazil
9 November 2011:	Release of 2011 third quarter results

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3.1 PRESENTATION OF VALLOUREC – COMPANY AND GROUP

The Vallourec group is over 100 years old, some of the companies at the origins of the Group having been formed in the last decade of the 19*th* century. The Group originated in two areas in France, both with long industrial traditions, and in which the Group still has a significant presence – the northern region around Valenciennes and Maubeuge and the Burgundy region around Montbard, in Côte-d'Or. Following the formation of Vallourec & Mannesmann Tubes (V & M Tubes) in 1997 (see §3.1.1. below), and the acquisition of V & M do Brasil in 2000, the Group also has a significant presence 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 by V & M Tubes at the beginning of July 2002 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).

Major events in the Group's history between 1957 and 1996 include:

- 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:
  - tubes businesses: Vallourec Industries, renamed Valtubes in 1987,
  - other metalworking businesses: Sopretac,
  - 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 of 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 (Oil Country Tubular Goods - OCTG). Now called V & M Star, this company is 80.5%-controlled by V & M Tubes and 19.5%-controlled by Sumitomo Corporation.

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

- full control over the implementation of V & M Tubes' strategy (acquisitions, capital expenditure, etc.);
- a more cohesive and clearer Group structure;
- full access to its subsidiary's results and cash-flow.

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

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

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 global 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 Equipment was formed at the end of September 2006 to operate a plant in Changzhou, in China, for threading tubing to equip oil and 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. 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 2010, €868.5 million had been invested in the project for the new plant. The first billet was pierced at the end of 2010, and production will continue to be ramped up until 2012. The first commercial deliveries are scheduled for the fourth quarter of 2011.

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, Vallourec and Sumitomo Metal Industries strengthened their longstanding partnership in the area of premium OCTG connections 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®, also 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 R&D capabilities and generating industrial and commercial synergies.

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. 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 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). This investment decision was strengthened by the signing of two long-term agreements by Valinox Nucléaire. The first of these agreements, signed in May 2009 with Shanghai Electric Nuclear Power Equipment Corp. (SENPEC), commits the Group to delivering steam generator tubes for several nuclear power plant units per year over the period 2012-2015, thus guaranteeing the supply of these critical components for the Chinese programme. Under the second agreement, finalized in July 2009, 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. PTCT is the leader in the Indonesian market, and has been supplying VAM® accessories 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 that increasingly require premium products and solutions.

On 24 September 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 has strengthened the presence of VAM Drilling in the Middle East, through the local manufacturing facility which produces 25,000 pipes per year for its major international customers operating throughout the region and for local state-owned oil and drilling companies. VAM Drilling will complement DPAL FZCO's existing offering with premium products and a broader range of services.

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. This company began producing welded titanium tubes in 2007, primarily 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 (United States) 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).
- 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, Germany), 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 2010

- On 8 February 2010, the Group acquired Protools, the largest producer of drill pipe accessories 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 began during the second quarter of 2010, and production at the mill is scheduled to start in early 2012. This new offer will extend the range produced by Vallourec in North America and will consolidate the Group's leadership position as a provider of premium tubular solutions This new facility, 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), will benefit Vallourec customers in the United States.
- On 8 June 2010, Vallourec acquired 100% of Serimax, the world leader in integrated welding solutions for offshore line pipe. This acquisition provides a good fit with Vallourec's businesses in the area of offshore line pipe. Offshore line pipe is used to connect a wellhead located on the ocean floor to a production platform at the surface, or alternatively, to an onshore facility. These undersea pipelines are made of seamless steel tubes, which are welded together. Due to the extreme mechanical stresses exerted on these pipes, which are being used in increasingly challenging operating conditions (such as in corrosive shafts, deepwater offshore applications, arctic regions and rough seas), premium

grade steel and precision welding are essential. Through this partnership, Vallourec and Serimax are pooling their respective expertise in tube manufacturing and welding, in order to optimize the various installation processes and offer their customers integrated solutions.

- On 28 July 2010, Vallourec announced its decision to expand production capacity at the V & M Changzhou plant in China. The extension project will enable the plant to produce an additional 60,000 tonnes per year of seamless tubes, using proprietary new forging technology, to satisfy local demand from power plants. A total of €160 million is being invested for this project. Production is scheduled to begin in the second half of 2012. The V & M Changzhou plant, which is located in the province of Jiangsu and has been operating since 2006, is a high-end finishing unit for large-diameter seamless tubes destined for use in power plants. The unit currently has an annual finishing capacity of 15,000 tonnes. Extending the plant will make it possible to locally produce premium tubes specially designed to meet the needs of the latest generation of supercritical and ultra-supercritical power plants. Compared with other production processes, the process developed and patented by Vallourec consumes 30% less energy per tonne produced.
- On 15 September 2010, Vallourec announced an agreement concerning the acquisition of a 19.5% stake in Tianda Oil Pipe Company Limited (TOP), a Chinese seamless tube manufacturer listed on the Hong-Kong stock exchange, *via* a reserved capital increase. This acquisition, worth approximately USD 100 million, was finalized on 1 April 2011. TOP has been manufacturing oil country tubular goods (OCTG) since 1993, and in January 2010 began operating a new PQF® seamless tube continuous rolling mill with an annual production capacity of 500,000 tonnes. TOP is a member of the Anhui Tianda Enterprise Co. Limited group, based in the Anhui province of China. Acquiring a stake in TOP has consolidated and enhanced Vallourec's position in the Chinese market. Under the terms of a cooperative agreement with TOP, VAM Changzhou is to thread premium tubes manufactured locally by TOP for the Chinese premium OCTG market.
- On 29 September 2010, Vallourec announced that its Valinox Nucléaire subsidiary would be building a steam generator tube manufacturing plant located in Nansha, in the Guangdong province of south-east China. The new plant is being built in response to strong growth in the Chinese nuclear power industry forecast out to 2020. This project is in addition to the extension currently under construction at the Valinox Nucléaire plant in Montbard, France, which will triple that facility's production capacity in 2011. When the new plant in Nansha begins operating in the second half of 2012, Vallourec's total steam generator tube supply capacity will increase from 5,000 km to almost 7,000 km per year. This plant, which represents an investment of €55 million, will employ 200 people. As a result of building this new facility, Vallourec will be ideally positioned to satisfy the requirements of its major Chinese customers, and to continue supporting the nuclear revival currently underway in several regions of the world.

The Group did not make any significant disposals in 2010.

First quarter of 2011

On 9 February 2011, Vallourec announced the start-up of a new subsidiary, Vallourec Umbilicals, which will specialize in providing solutions for increasingly demanding applications in offshore oilfields. The new plant, located near Valtimet in Venarey-Les-Laumes (France) will produce welded stainless steel tubes for umbilicals. The term umbilicals relates to structures comprising tubes, cables and optical fibres, derived from high-technology laser, ultrasound and X-ray processes. They are used to connect seabed equipment to a control station on the surface. This innovative solution will extend the Group's premium offer. Production at the new plant is scheduled to begin during 2011.

On 1 April 2011, Vallourec announced that it had finalized the acquisition of 19.5% of the capital of Tianda Oil Pipe Company Limited. The deal, which was submitted for approval to Tianda Oil Pipe's shareholders and to the Chinese and Hong-Kong authorities, was carried out in the form of a reserved capital increase in accordance with the agreement announced on 15 September 2010.

Parent company-subsidiary organization

To simplify the Group's structure, the sub-holding company ValTubes (arising out of 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 2010, the companies that were members of this centralized cash management system were Vallourec, V & M Tubes, V & M France, Vallourec Mannesmann Oil & Gas France, V & M Deutschland, VAM Drilling France, Valtimet, Valti, Valinox Nucléaire, Assurval, Interfit, Umbilicals and VAM Onne Nigeria.

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 2010, V & M Tubes had 157 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 statutory and regulatory provisions.

3.1.2 DESCRIPTION OF MAIN BUSINESS ACTIVITIES

At 31 December 2010, Vallourec's businesses were organized as five Divisions:

- Energy and Industry Division (E & I);
- Oil Country Tubular Goods (OCTG) Division, which conducts its business in two broad geographic regions:
  - OCTG EAMEA (Europe, Africa, Middle East and Asia),
  - OCTG North America;
- Drilling Products Division;
- Brazil Division; and
- Specialty Products Division.

The Group also operates a number of sales companies.

3.1.2.1 Energy and Industry Division (E & I)

The E & I Division produces seamless tubes in Europe and markets them to the energy and industry markets. It also supplies hollows to the downline OCTG EAMEA and Speciality Products Divisions. As the result of the acquisition of Serimax in 2010, it now also provides welding solutions.

The Division is organized as three business lines:

- the "energy" business, which covers the power generation (tubes for electric boilers), PLP (undersea project line pipes for the oil and gas sector) and process markets (tubes for the petrochemicals and refining sector);
- the "industry" business, which covers the mechanical engineering tubes, structural tubes and hollows markets;
- the Serimax business, which provides comprehensive welding services.

Since 2008, each of these business lines, as well as the sales departments, has had its own Marketing, R&D and Business Development functions to better address the requirements of its customers and develop synergies.

This organizational framework enables the Group to closely monitor the growth strategies of its customers, strengthen existing partnerships, address major technological challenges and, as a result, develop R&D 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 or 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 2010, the E & I Division continued the process of upgrading its industrial facilities and increasing the specialization of its manufacturing plants:

- the Group has harnessed the drilling technology developed at the Aulnoye-Aymeries plant in order to market higher-specification products 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;
- the continuous-process rolling mills were specialized by size range and by market, to improve their industrial and economic performance, in the wake of major investments at the Saint-Saulve plant in 2008 and 2009.

The E & I Division comprises four subsidiaries:

- **V & M France – France (100%)**

  V & M France operates an electric steel mill in Saint-Saulve (Nord) and three pipe mills in Déville-lès-Rouen (Seine-Maritime), Saint-Saulve (Nord) and Aulnoye-Aymeries (Nord), covering a wide range of diameters and thicknesses produced using plug and continuous-process rolling mills and a forge.

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

  This company operates four 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. In August 2010, a project was launched to extend this facility by installing a forging and heat treatment unit that will enable all of the operations involved in manufacturing large-diameter seamless tubes to be integrated locally.

- **Serimax – France (100%)**

  Serimax, the world leader in integrated welding solutions for offshore line pipe, was acquired in June 2010. This acquisition provides a good fit with Vallourec's businesses in the area of offshore line pipe.

3.1.2.2 Oil Country Tubular Goods (OCTG) Division

The business of the OCTG Division is structured as two regional entities: Europe, Africa, the Middle East and Asia (OCTG EAMEA) on one hand, and North America (OCTG North America) on the other. These two large, geographically defined entities 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, OCTG North America produces its own steel and tubes *via* V & M Star, which operates facilities including an electric steel mill and a rolling mill using modern technology.

The OCTG EAMEA Division concentrates on growth in Africa, where it operates a threading unit in Nigeria (VAM Onne), in the Middle East, where it has a threading unit in Saudi Arabia (V & M Al Qahtani Tubes), in China, *via* its VAM Changzhou Oil & Gas Premium Equipment subsidiary, and a stake in Tianda Oil Pipe Company Limited (TOP) (1), and in the Asia-Pacific region, through the P.T. Citra Tubindo heat treatment and threading plant in Indonesia. The OCTG North America Division concentrates on the North American market, operating through its main subsidiaries: V & M Star, VAM USA LLC, V & M Tube-Alloy and V & M Two.

The OCTG EAMEA and OCTG North America businesses perform all types of API and premium threading, particularly for 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 the VAM® range the number one in premium joints, Vallourec has consolidated the coordination of the Research and Development Departments involved with this line of products within Vallourec Mannesmann Oil & Gas France, and has set up a worldwide network of licensees. In 2010, 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. Since 2008, V & M Tube-Alloy, a US subsidiary, has also been producing accessories for Vallourec VAM® products.

OCTG EAMEA business line (Europe, Africa, Middle East and Asia)

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

  VMOGF also coordinates OCTG Research and Development activities throughout the world, assisted by the Vallourec Research Centre in Aulnoye-Aymeries (France).

- **Vallourec Mannesmann Oil & Gas UK – United Kingdom (100%)**

  This company, which joined the Group in early 1994, operates 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).

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

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

- **VAM Changzhou Oil & Gas Premium Equipment – China (51%)** (2)

  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.

- **VAM Mannesmann Oil & Gas China – China (100%)**

  VAM Mannesmann Oil & Gas China was formed in April 2010. This company sells V & M premium OCTG products in the Chinese domestic market. Under the terms of a cooperative agreement with Tianda Oil Pipe Company Limited (TOP), VAM Changzhou is to thread premium tubes manufactured locally by TOP for the Chinese premium OCTG market. It will sell Tianda "API" products to the export market. The company will also provide technical support and quality control services.

- **Seamless Tubes Asia Pacific – Singapore (100%)**

  Seamless Tubes Asia Pacific is a trading company dealing with OCTG tubes sold in the Asia-Pacific region.

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

  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.

  Its production unit is located on the island of Batam (Indonesia).

- **Vietubes Corporation Limited – Vietnam (33.3%)**

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

  Its production unit is located in Vung Tau (Vietnam).

(1) On 15 September 2010, Vallourec announced an agreement concerning the acquisition of a 19.5% stake in Tianda Oil Pipe Company Limited (TOP), a Chinese seamless tube manufacturer listed on the Hong-Kong stock exchange, via a reserved capital increase. This acquisition, worth approximately USD 100 million, is expected to be finalized in April 2011.

(2) Percentage interest.

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

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

  Service company formed in 2007. Operational base: Luanda.

- **VMOG Nigeria Limited – Nigeria (100%)**

  Service company formed in 2007. Operational base: Lagos.

- **VAM Far East – Singapore (51%)**

  This company, which was formed in association with Sumitomo Metal Industries, has been developing customer services and exploration/production platform consulting 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. It will begin operating in 2011.

- **Tianda Oil Pipe Company Limited (TOP) – China (19.5%)**

  On 15 September 2010, Vallourec announced an agreement concerning the acquisition of a 19.5% stake in Tianda Oil Pipe Company Limited (TOP), a Chinese seamless tube manufacturer listed on the Hong-Kong stock exchange, *via* a reserved capital increase. This approximately USD 100 million operation was finalized on 1 April 2011. TOP has been manufacturing OCTG products since 1993, and in January 2010 began operating a new PQF® seamless tube continuous rolling mill with an annual production capacity of 500,000 tonnes. TOP is a member of the Anhui Tianda Enterprise Co. Limited group, based in the Anhui province of China. Acquiring a stake in TOP has consolidated and enhanced Vallourec's position in the Chinese market. Under the terms of a cooperative agreement with TOP, VAM Changzhou Oil & Gas China is to thread premium tubes manufactured locally by TOP for the Chinese premium OCTG market.

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's production units are located 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, which enabled 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 urgent 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.

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

  V & M Two, formed in October 2009, is responsible for building a new small-diameter pipe mill in Youngstown (Ohio). The new plant will initially produce 350,000 tonnes of seamless tubes per year, rising to 500,000 tonnes when fully operational. The project also includes heat treatment and threading lines. Production at the mill is scheduled to start in the first quarter of 2012. This new offer will extend the range produced by Vallourec in North America and will consolidate the Group's leadership position as a provider of premium tubular solutions. This new facility, ideally 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), will benefit Vallourec customers in the United States.

- **VAM Mexico (100%)**

  This company specializes in threading premium 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™.

  Its production units are located 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.

  Its production units are located in Houston (Texas).

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

  V & M 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).

3.1.2.3 Drilling Products Division

The Drilling Products Division complements Vallourec's OCTG activities by manufacturing and distributing, worldwide, a full range of tubular products for the oil and gas drilling market.

In addition to the experience and expertise of the Drilling Products business developed by Vallourec, this Division includes assets of the Omsco Division of ShawCor Ltd (now VAM Drilling USA), acquired in 2005, Société de Matériel de Forage International-SMFI (now VAM Drilling France), acquired in 2006, DPAL FZCO (now VAM Drilling Middle East FZE), acquired in 2009, and Protools (now VAM Drilling Protools Oil Equipment Manufacturing LLC), acquired in 2010.

The Drilling Products Division offers an extensive range of products and services, including drill pipe, heavyweight drill pipe, drill collars, including non-magnetic drill collars and MWD sensor units (used during drilling), safety valves and accessories for all drilling applications.

It supplies high-quality, high-performance products that are used all over the world. The six main production facilities are located in France, the United States, the United Arab Emirates and the Netherlands. The Division – which has sales locations all over the world, in addition to the network of VAM service providers – maintains strong customer relations at local level, backed by a specialist support centre.

The Drilling Products Division's R&D and Marketing departments are devoted exclusively to the development of unique tubular solutions and services to improve drilling efficiency and optimize safety margins in extremely demanding drilling environments. These departments work closely with the operational companies and with drilling contractors to develop new high-performance products in response to the challenges posed by modern drilling techniques.

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

  VAM Drilling France (formerly Société Matériel de Forage International - SMFI), 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.

  Its production units are located 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 Ltd. (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.

  Its production unit is located in Houston (Texas).

- **Vallourec Mannesmann Oil & Gas Nederland B.V. (VMOG Nederland) – Netherlands (100%)**

  This company was acquired in March 2006 as part of the acquisition of SMFI (Société de Matériel de Forage International).

- **VAM Drilling Middle East FZE – Dubai, United Arab Emirates (100%)**

  VAM Drilling Middle East FZE (formerly DPAL FZCO) is a drill pipe supplier acquired in September 2009 from the Soconord group. This company supplies a wide range of drill pipes for the oil drilling industry in the Middle East. It has an annual production capacity of 25,000 drill pipes.

  Its production unit is located in Dubai (United Arab Emirates).

- **VAM Drilling Protools Oil Equipment Manufacturing LLC – Abu Dhabi, United Arab Emirates (100%)**

  VAM Drilling Protools Oil Equipment Manufacturing LLC, the largest producer of drill pipe accessories in the Middle East, was acquired in February 2010. This business enables the Vallourec group to offer an integrated solution for the entire drill string.

  Its production unit is located in Abu Dhabi (United Arab Emirates).

3.1.2.4 Brazil Division

- **V & M do Brasil – Brazil (99.9%)**

  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-process rolling mills and a number of tube finishing lines.

  V & M do Brasil produces seamless tubes for the Oil & Gas, automotive, petrochemicals, power generation and mechanical engineering sectors. For many years, it has focussed on:

  - the oil & gas sector, *via* 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 115,372 hectares of eucalyptus (out of a total of 233,480 hectares of land) in order to produce charcoal, which is already used in the blast furnaces of V & M do Brasil and will in time be used in those of Vallourec & Sumitomo Tubos do Brasil. In 2010, 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 for V & M do Brasil by 2014, and for Vallourec & Sumitomo Tubos do Brasil by 2016.
- **V & M Mineração** (100%), which produces nearly four million tonnes of iron ore a year at its Pau Branco mine, primarily 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; this subsidiary will also supply the Vallourec & Sumitomo Tubos do Brasil pelletization plant.
- **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 as a vehicle for investment in a new state-of-the-art pipe mill, integrating a steel mill and rolling mill being built in Jeceaba (Minas Gerais). Its annual steel production capacity will be one million tonnes produced in the form of billets, 700,000 tonnes of which will be needed to supply the new rolling mill. The remaining 300,000 tonnes could be used by the Vallourec group as a substitute for more expensive external purchases.

  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.

  Ground was broken for the foundation of the new pipe mill on 10 July 2008. The first billet was pierced at the end of 2010, and production will continue to be ramped up until 2012. The first commercial deliveries are scheduled for the fourth quarter of 2011.

  Vallourec & Sumitomo Tubos do Brasil is 56% (1) owned by Vallourec, 39% by Sumitomo Metal Industries and 5% by Sumitomo Corporation.

3.1.2.5 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.).

  Its production unit is located in Maubeuge (Nord).

- **Valti – France (100%)**

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

  Its production facilities are located in Montbard (Côte-d'Or) and La Charité-sur-Loire (Nièvre).

  Valti continued to implement streamlining measures during 2010, in order to adapt to the ongoing slowdown in the bearing tube market, particularly for smaller products, and to restore its competitiveness, which had been blunted by the economic crisis.

  With effect from 1 January 2010, the V & M France pipe mill in Montbard and the Valti cold-process production unit, which already co-operated closely, were merged to form Valti SAS, in order to simplify the organizational structure, reduce management and interface costs, and to be able to provide the services required by an increasingly demanding clientele.

  In a context of economic crisis, it was no longer possible for the Valti Krefeld and Valti Montbard facilities to coexist, as their combined capacity was becoming increasingly excessive in the light of the structural decline in demand for bearing tubes. As everything manufactured in Krefeld could also be produced by the Montbard facility, but the reverse was not true, the Krefeld plant was closed. As announced at the start of July 2010, production at the Krefeld site ceased on 22 December 2010. All employees were offered either early retirement or alternative employment within V & M Deutschland.

  Valti pursued its efforts to adapt to changing market trends, focusing on supplying large-diameter bearing rings and tubes, and tubes for bespoke mechanical engineering and oil & gas applications.

- **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 in Krefeld (North Rhineland-Westphalia) was closed, as mentioned above.

- **Valtimet – France (95%)**

  Vallourec controls 95% of Valtimet, with the remaining 5% being 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 has doubled the condenser tube production capacity of its plants in Venarey-les-Laumes (Côte-d'Or, France) and Brunswick (Georgia, United States).

(1) Percentage interest.

Its production unit is located in Venarey-les-Laumes (Côte-d'Or).

Valtimet has a wholly-owned US subsidiary, Valtimet Inc., which operates plants in Morristown (Tennessee) and Brunswick (Georgia).

In China, Valtimet conducts its business *via* the following companies:

- 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 (100%), located in Hyderabad (Andhra Pradesh), specializing in tubes for power plant condensers.

Furthermore, Valtimet is expanding its business in Korea *via* Poongsan Valinox, a 50-50 joint-venture with the Korean company Poongsan. Poongsan Valinox operates a production facility 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 by a factor of two and a half, to 4,500 km of tubes in 2011.

Its production unit is located in Montbard (Côte-d'Or).

- **Vallourec Umbilicals – France (100%)**

Vallourec Umbilicals was formed in September 2010. This company will supply welded stainless steel tubes for use in umbilicals. The term umbilicals relates to structures comprising tubes, cables and/or optical fibres that are used to connect seabed equipment to a control station on the surface.

- **Vallourec Nucléaire Tubes Guangzhou Co. Ltd – China (100%)**

Vallourec Nucléaire Tubes Guangzhou, formed in November 2010 in the Chinese province of Guangdong, will produce steam generator tubes when the new plant in Nansha begins operating in the second half of 2012, increasing Vallourec's total annual supply of steam generator tubes from 5,000 km to nearly 7,000 km. This new plant is being built to support the rapid growth in the Chinese nuclear fleet forecast out to 2020.

As a result of building this facility, Vallourec will be ideally positioned to satisfy the requirements of its major Chinese customers, and to support the nuclear revival currently underway in several regions of the world.

3.1.2.6 Sales companies reporting to V & M Tubes

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

Vallourec & Mannesmann USA Corporation markets in the United States all the tubular goods 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, there are **sales companies** associated with V & M Tubes 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 hot-rolled seamless tubes:

In thousands of tonnes	**2010**	2009	2008	Comparison 2010/2009
1st quarter	344.0	488.3	658.1	-30%
2nd quarter	484.2	370.5	740.4	+31%
3rd quarter	507.1	314.6	671.6	+61%
4th quarter	552.9	329.6	696.3	+68%
TOTAL	**1,888.2**	**1,503.0**	**2,766.4**	**+26%**

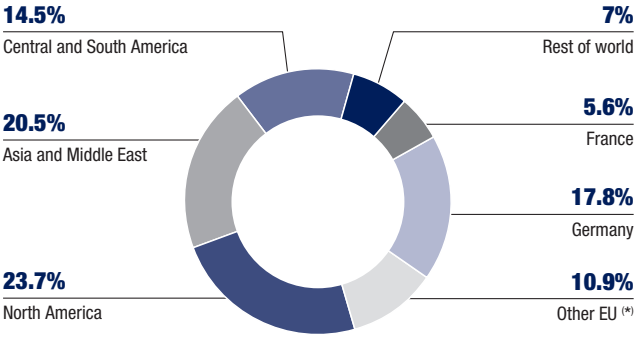
3.1.4 SALES BY MARKETS AND GEOGRAPHIC SEGMENTS

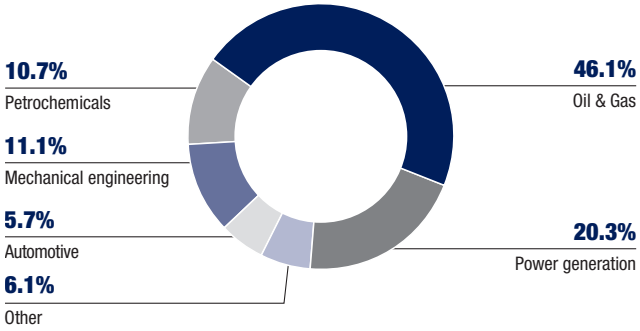
The breakdown of business activity by markets and geographic segments is the only meaningful indicator, due to the scale of the integrated industrial processes and the development of downstream activities. This breakdown is as follows:

By region

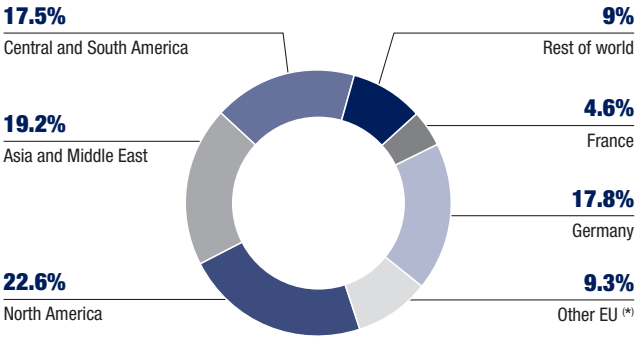
By market

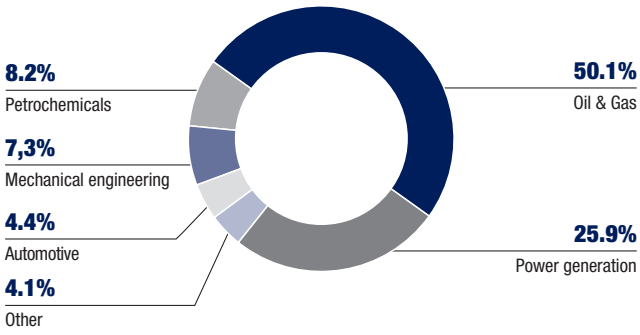
2008



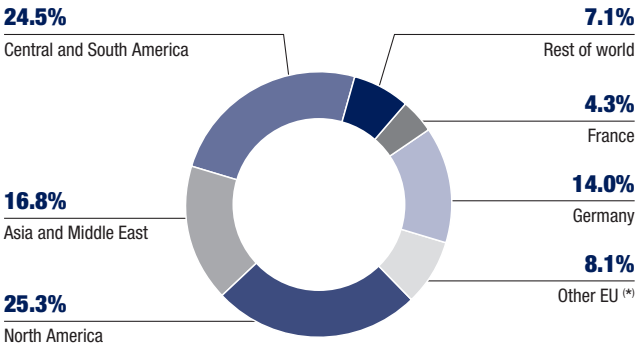


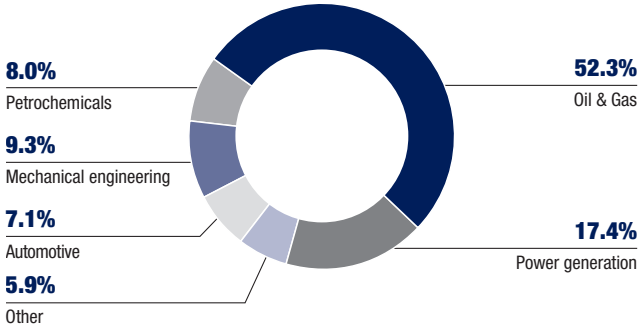
2009





2010





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

Consolidated sales totalled:

- €6,437 million in 2008, of which 65.7% outside Europe;
- €4,465 million in 2009, of which 68.3% outside Europe;
- €4,491 million in 2010, of which 73.7% outside Europe.

The main changes in consolidation scope were:

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 V & M Tubes and VAM Drilling (Vallourec subsidiary), on 24 September 2009, of DPAL FZCO, a drill pipe supplier based in Dubai.

In 2010

- on 8 June 2010, the Group acquired 100% of Serimax, the world leader in integrated welding solutions for offshore line pipe. This acquisition enhances Vallourec's undersea line pipe business, which currently accounts for approximately 10% of Group sales in the oil & gas markets. Serimax reported full-year consolidated sales of €131 million in 2010.

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.

At 31 December 2010, 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 Section 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 €3,484.4 million at the end of 2010 (compared with €2,367 million at the end of 2009 and €1,640 million at the end of 2008). 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 5.1 of this Registration Document:

- analysis of tangible assets by type and by flow, in Note 2;
- geographic distribution of tangible and intangible industrial assets in 2010 (excluding scope changes), in Note 2;
- Group commitments under the terms of finance leases (organized by main due date) in Note 21.

Details of capital investments made in 2010, which extended the Company's tangible asset base, are provided hereafter (see Section 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 these regulations:
  - two facilities are subject to a declaratory regime, and are therefore run in accordance with standard operating requirements,
  - fourteen 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. At 31 December 2010, 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.

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

After performing the appropriate analyses, underground water monitoring systems have been set up, with permission from the local authorities, at two facilities in Germany. 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. A depot formerly used to store slag (a byproduct of the steelmaking process) and a former sludge depot were made compliant with current standards and piezometric sensor-based underground water monitoring was introduced. 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, analyses were performed at the vast majority of production facilities. As far as the Group is aware, none of the analyzed sites were subject to significant pollution risks.

3.1.6 MAIN MARKETS

At 31 December 2010, the Group's main markets were as follows:

Market	Sales *(in € million)*	Sales *(in %)*
Oil & Gas	2,355	52.4
Power Generation	780	17.4
Petrochemicals	357	8.0
Mechanical Engineering	416	9.3
Automotive Industry	318	7.1
Others	265	5.9
TOTAL	**4,491**	**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	Others Asia and Middle East	Total Asia and Middle East	Brazil	Other Central and South America	Total South America	Rest of World	**Total 2010**
TOTAL 2010													
(in € thousand)	191,367	628,508	363,051	33,065	1,135,213	274,951	478,052	753,003	1,022,787	76,236	1,099,023	288,039	4,491,272
(in %)	4.26	13.99	8.08	0.74	25.28	6.12	10.64	16.77	22.77	1.70	24.47	6.41	100.00

	France	Germany	Others EU-27	CIS	North America	China	Other Asia and Middle East	Total Asia and Middle East	Brazil	Other Central and 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	Others EU-27	CIS	North America	China	Other Asia and Middle East	Total Asia and Middle East	Brazil	Other Central and 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

3.1.7 EXCEPTIONAL EVENTS IN 2010

The significantly improved economic environment in 2010 had a positive impact on most of the Group's businesses. After three consecutive quarters of reduced activity, volumes and sales recovered strongly starting in the second quarter of 2010.

The upturn in industrial activity at global level was driven mainly by the resumption of strong growth by economies in Asia (led by China and India), Brazil and the Middle East. Industrial output recovered first in the United States, then in Europe, led by Germany and the Eastern European countries. Visibility has improved, prompting market participants to significantly rebuild their depleted stocks.

This favourable environment led to a strong increase in demand for energy: demand for oil rose by 2.7 mbd compared with 2009, reaching 87.7 mbd in 2010 (+3%), a level considerably higher than forecast at the start of the year. This growth was largely driven by non-OECD countries such as China, which accounted for more than 30% of the increase. Demand for gas and electricity also returned to growth in 2010 after a difficult year in 2009. Demand rose by +2% (World) and +3.5% (OECD region), respectively.

Buoyed by this demand, and in spite of a number of disruptive factors – sovereign debts, uncertainties relating to US growth, etc. – oil prices rose strongly from their 2009 level. The average price over the course of the year was USD 79 (WTI) per barrel, 29% higher than the previous year's average price of USD 62. The rise in oil prices, which was very pronounced at the end of 2010 – after remaining relatively stable during the year - spurred greater activity in the oil & gas and petrochemicals markets. Gas prices in the United States increased only slightly, to an average of USD 4.5 per Mbtu compared with USD 4 per Mbtu in 2009, and were still well below the 2008 average price of almost USD 9 per Mbtu.

More generally, prices of natural resources and raw materials, which were particularly volatile during the early part of the year, rose strongly in the closing months.

Against this backdrop of economic recovery, worldwide expenditure on oil and gas exploration and production increased by 10% in 2010, with particularly strong rises in the United States (+20%), Asia (+19%) and Latin America (+10%), where state-owned oil companies invested heavily.

In the United States, the number of drilling rigs in operation increased by 42% in 2010, on a year-on-year basis. As at 31 December 2010, there were almost 1,700 rigs in service, compared with 1,220 on 1 January. This increase was largely due to growth in horizontal drilling in shale gas plays, despite a slowdown in offshore activity during the second half of the year in the aftermath of the accident in the Gulf of Mexico.

The oil & gas sector in the rest of the word was also dynamic. In 2010, expenditure on exploration and production outside North America increased by approximately 6% and the number of rigs in operation rose by 9% to 1,120 at the end of 2010. This rise was driven to a significant extent by the development of offshore fields in high-growth regions. In Brazil, the state-owned oil company Petrobras revised its investment plan upwards to USD 120 billion for the period 2010-2014, including requirements relating to the operation of promising pre-salt fields (Source Petrobras).

Fortunes varied in the power generation market in 2010. In Europe and the United States, there was surplus production capacity and equipment requirements remained limited. Numerous projects for new thermal power plants remained suspended or were cancelled due to uncertainties surrounding environmental policy or difficulties obtaining finance. In Asia, where energy demand from booming economies is

huge, projects to build thermal power plants are restarting, particularly in China and India, albeit in a fiercely competitive environment for international players.

Demand for tubes for nuclear power plants remains strong, and global nuclear capacity is set to increase by almost 50% by 2030, according to IEA. There are many nuclear power plant construction projects in China, but fewer projects in western countries.

3.1.8 INFORMATION RELATING TO THE COMPETITIVE STATUS OF THE COMPANY

The information below, which is estimated data based on Vallourec's internal analysis, 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 three 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 NOV/Grant Prideco (United States) and ahead of Hilong (China) and Texas Steel Conversion (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.
- in the market for integrated welding solutions for offshore line pipe, Serimax, acquired in 2010, is the world leader.

3.1.8.2 Power Generation

Vallourec is a supplier for several applications:

- seamless tubes for conventional power plants: boilers and energy recovery boilers. 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 & 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 (which will operate at temperatures approaching 700°C). From a sales and marketing perspective, Vallourec is able to harness Tubacex's expertise in order to extend its premium offering, while Tubacex is benefitting 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 2010

Purchases consumed during 2010 were as follows:

In € thousand	**At 31/12/2010**	At 31/12/2009
• Scrap metal and ferrous alloys	397,132	109,844
• Rounds/Billets	757,192	543,967
• Flat parts	66,089	84,193
• Tubes	110,797	96,038
• Others (*)	127,527	377,319
TOTAL	**1,458,737**	**1,211,361**

(*) Including stock variations.

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

In 2010, the following customers accounted for sales greater than €35 million:

Name	Home country	Vallourec markets	Activity
Açotubo	Brazil	Mech.Eng./Petrochem/Other	Distributor
Alstom	France	Power Generation	Power plant construction
Aramco	Saudi Arabia	Oil & Gas	Oil company
Areva	France	Power Generation	Power plant construction
Bharat Heavy Electricals	India	Power Generation	Power plant construction
Champions Pipe & Supply	United States	Oil & Gas	Distributor
Chickasaw	United States	Oil & Gas	Distributor
Doosan	South Korea	Power Generation	Power plant construction
Hitachi Power	Japan	Power Generation	Power plant construction
Hunting Energy Services	United Kingdom	Oil & Gas	Oil company
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/Mech.Eng.	Tube manufacturing
Subsea 7	Norway	Oil & Gas	Engineering & construction
Sonatrach	Algeria	Oil & Gas	Oil company
ThyssenKrupp	Germany	Mech.Eng./Other	Distributor
Technip	France	Oil & Gas	Engineering & construction
Total	France	Oil & Gas	Oil company

3.1.10 MAJOR CONTRACTS

In the course of the two years preceding publication of this Registration Document, neither Vallourec nor any Vallourec group companies secured any major contracts other than those with Sumitomo Metal Industries and Tubacex during the first quarter of 2009.

These agreements are described in Section 2.3.1 of this Registration Document, in the case of Sumitomo Metal Industries, and in Section 3.1.8.2 concerning Tubacex.

Furthermore, a description of the acquisitions, partnerships, disposals and changes in consolidation scope in the past two years is included in Note 11 to the consolidated financial statements in Section 5.1 of this Registration Document.

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:

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

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.

When considering capital expenditure projects, Vallourec systematically attaches great importance to ensuring that environmental consequences and energy savings are highlighted.

3.2.2 MAIN INVESTMENTS

3.2.2.1 Main investments over the period 2008-2010

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	31/12/2008	31/12/2009	**31/12/2010**
• Europe	234.7	186.2	162.2
• North America and Mexico	62.7	46.3	163.7
• Central & South America	259.7	436.8	672.3
• Asia	9.9	7.9	66.1
• Others	1.4	5.0	0.5
TOTAL INDUSTRIAL INVESTMENT	**568.4**	**682.2**	**1,064.8**
Of which capital expenditure payments during the year	***528.4***	***676.5***	***872.6***
ACQUISITIONS AND FINANCIAL INVESTMENTS	**541.4 (1)**	**98.3(2)**	**98.5(3)**

(1) 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.
(2) On 2 July 2009, Vallourec increased its strategic stake in P. T. Citra Tubindo to 78.2%.
(3) Vallourec acquired notably the Serimax Group on 8 June 2010.

The most significant investment programmes carried out in 2008, 2009 and 2010 are outlined below:

In 2008

In 2008, capital expenditure on industrial investments totalled almost €569 million (excluding acquisitions), compared with €445 million in 2007.

The purpose of Vallourec's capital expenditure projects 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 a 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 prompted a carefully controlled increase in the Group's 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. 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 merger between VAM USA and V & M Atlas Bradford® on 27 February 2009;
- developing internal raw material resources in Brazil, particularly iron ore and charcoal, in order to optimize the Group's current resources;
- 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;
- continuing work at the new Vallourec & Sumitomo Tubos do Brasil pipe mill.

In 2010

Capital expenditure in 2010 was very high; two-thirds of the sums invested were ring-fenced for implementing programmes initiated in previous years.

The main investments during the year are described below:

- a rolling competence centre was established in Riesa (Germany);
- a heat treatment facility was renovated in order to expand its capacity and greatly improve its environmental performance (France);
- threading machines were purchased to support the growth in demand for premium products (Brazil);
- two cloned eucalyptus plantations (covering 9,286 and 9,165 hectares) were created to satisfy the requirements of V & M do Brasil and Vallourec & Sumitomo Tubos do Brasil.

Numerous capital expenditure projects launched in previous years will be pursued in 2011, including:

- ongoing investment at the new Vallourec & Sumitomo Tubos do Brasil pipe mill in Jeceaba, which is scheduled to begin industrial operation in 2011;
- major extension work at the Valinox Nucléaire plant in Montbard (Côte-d'Or);
- construction of a VAM® threaded tube plant in Saudi Arabia, in response to growing demand from the world's largest oil producer, state-owned Aramco;
- construction of a new pipe mill in Youngstown (Ohio, United States), announced on 15 February 2010, in order to satisfy strong growth in the North American OCTG market. The new plant, which will have an annual production capacity of 500,000 tonnes, will begin operating in late 2011, initially producing 350,000 tonnes of small-diameter (OD <7") seamless tubes;
- a project, announced on 28 July 2010, to expand the capacity of the V & M Changzhou plant located in the Chinese province of Jiangsu. The extension will enable the plant to produce an additional 60,000 tonnes per year of seamless tubes to satisfy local demand from thermal power plants;
- a major programme of heat treatment renovation and development works, to increase available capacity while decreasing energy consumption and gaseous emissions (Germany and Brazil);
- a welding shop to produce drill pipe for the Brazilian market (Brazil);

- a workshop allowing double-length line pipe welding and coating in Brazil (coordinated investment with Serimax);
- ongoing work to reconfigure a mine and build an ore concentration plant, which will enhance productivity and increase accessible reserves (Brazil);
- construction of a plant to produce welded tubes for "umbilicals", which are used as instrumentation pipes in the manufacturing and oil industries (France);
- investment in lean manufacturing programmes designed to enhance plant productivity and efficiency.

3.2.2.2 Main capital expenditure projects planned for 2011

Capital investment in 2011 will remain high, at a level similar to 2010, and will mostly concern projects launched in 2010 or earlier.

In addition to the aforementioned projects, Vallourec has decided to launch a number of major capital investment projects as part of the Group's strategy:

- construction of a new steam generator tube production plant in Nansha, in Guangdong province in south-east China, to satisfy demand arising from the rapid growth in the Chinese nuclear power sector;
- construction of a new threading line in Brazil;
- continuation of a global programme entailing significant modifications at European plants to reorganize product flows, thereby enhancing performance and competitiveness.

In 2011, Vallourec will also be investing in additional Research and Development resources, improving safety for employees and facilities, reducing costs, maintaining existing installations and decreasing the Group's environmental impact.

3.3 RESEARCH AND DEVELOPMENT – INDUSTRIAL PROPERTY

3.3.1 RESEARCH AND DEVELOPMENT

Vallourec continues to increase its already-significant R&D efforts, in particular in areas associated with oil & gas and power generation. R&D efforts are focussed in three areas:

- manufacturing processes (charcoal, steel making, continuous-casting of steel bars, tube rolling, heat treatment, non-destructive examinations, welding, machining and threading);
- new and improved products;
- new services and solutions (customer support for tube design, working and use).

Vallourec's R&D organization is based on R&D teams in the various Divisions, close to customers and plants.

A dedicated Technology, Research, Development and Innovation department coordinates all of Vallourec's expertise and resources in this area. Faced with a fiercely competitive global environment, the Group intends to strengthen its organization, in order to anticipate customers' future needs effectively and respond with innovative solutions based on differentiated products and services.

This restructuring is organized around five competence centres specializing in particular products, processes or technologies:

1. The research complex in Aulnoye (France) accommodates:
   - Vallourec's long-established research centre, "Vallourec Research Aulnoye", specializing in metallurgy, non-destructive examinations, corrosion resistance, surface treatments, product and process simulations, OCTG products and mechanical engineering applications,
   - three VAM centres, specializing in Threaded Connection Design, Proprietary Grades and Threading Line Industrialization.
2. In Düsseldorf, Germany, "Vallourec Research Düsseldorf" specializes in:
   - thermal power plant and oil & gas line pipe applications,
   - tube hot-rolling research. This long-established centre, which is responsible for innovations involving Vallourec's core processes, is now supported by a new rolling laboratory.
3. The new hot-rolling laboratory in Riesa, Germany, which is equipped with the world's most advanced facilities, will enable Vallourec to increase the pace at which innovations in terms of process methodologies and equipment are developed. The versatile, state-of-the-art facilities operated by "Vallourec Research Riesa" are set to push back the limits of steel and alloy rolling.

4. In Brazil, "Vallourec Research Belo Horizonte" adapts the Group's solutions for its Brazilian customers, and conducts its own investigations with the support of teams of experts and a testing laboratory.
5. In the United States, a new VAM threaded connection design and testing centre has been set up in Houston (Texas). This centre harnesses the combined experience of the R&D teams of VAM USA and Atlas Bradford. Four test beds are used to perform full-scale tests on VAM joints in the full range of service conditions encountered in oil wells.

Vallourec's research, testing and investigation programme is also supported by a longstanding research partner, the "Salzgitter Mannesmann Forschungsinstitut" institute in Duisburg, Germany.

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 standardize best practices within the Group;
- advanced working methods developed in collaboration with university departments and laboratories, in particular by means of:
  - fundamental research programmes conducted with assistance from university laboratories in Europe and elsewhere,
  - industrial research programmes conducted in partnership with major industry players, in areas such as shale gas, nickel alloys and carbon dioxide transportation and storage.

This cross-functional interaction, combined with reliable, flexible and cost-effective processes enables Vallourec's range of products, services and solutions to be continuously improved.

The Group is also developing research & 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" premium threaded connection, which complies with the most stringent industry specifications (ISO CAL IV), 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. Research and Development resources from both companies have been assigned to this joint programme, which focuses on the most demanding applications in terms of corrosion and heat resistance;
- Petrobras: innovative tubular solutions for very deep-water exploration and production in hard-to-access oil and gas deposits (very deep seas, salt, carbon dioxide corrosion, etc.);
- Total: premium joints delivering unmatched performance in difficult wells;
- 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 & development activities within the Vallourec group. To strengthen the Group's strategic situation in the area of competitiveness and innovation, Vallourec has introduced the "Expert Career" programme. The purpose of this initiative is to offer new career opportunities to the Group's technology and R&D engineers, who at each stage of their careers, are now able to choose between management responsibilities and responsibilities for technical expertise 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 & development budget for 2010 was €71 million, continuing the trend of steady year-on-year increases.

3.3.2 INDUSTRIAL PROPERTY

Vallourec has strengthened its organization in the area of industrial property over the last two years, and now operates standardized patent application procedures. The corporate Industrial Property Department continues to actively implement this centralization strategy.

The Group is investing in resources to enhance its teams' ability to develop innovations, and the number of patent applications continued to rise, confirming the strong trend established in recent years. Considering Vallourec's current scope, 22 initial patent applications were filed in 2010, compared with an average of 15 per year over the period 2002-2006. More than 300 geographical extensions were made to patents in 2010, a significantly higher number than in previous years. Lastly, a considerable number of the Group's innovations have been registered by means of postmarked letters or "Soleau envelopes", as a prelude to subsequent patent applications.

In 2010, Vallourec registered one new trademark as well as 36 geographical extensions to existing trademarks. This portfolio of trademarks facilitates the ongoing development of new products and services. The corporate Industrial Property Department also helped to secure four contracts, mainly in conjunction with independent centres and university laboratories.

4 Risk factors

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4.2 RISK MANAGEMENT **59**

4.3 INSURANCE: GROUP POLICY **59**

Investors are invited to consider all information featured in this Registration Document, including the risk factors described in this section, before deciding whether to make an investment. On the date this Registration Document was drawn up, these are the risks whose crystallization the Company considers could have a significant unfavourable effect on the Group, its business, its financial situation, its earnings or its development. Investors' attention is drawn to the fact that other risks may exist, which have not been identified at the time of this Registration Document, or whose crystallization is not considered, at this same date, as likely to have a significant unfavourable effect on the Group, its business, its financial situation, its earnings or its development.

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 arising in 2008, which had repercussions on the Group's industrial activity throughout 2009 and 2010. Uncertainty still prevails at the beginning of 2011, particularly with regard to the timing and scale of the recovery in several of the business sectors in which Vallourec operates.

The Group has evaluated the risks that could have a significant impact on its business 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 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 image, 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 the payment of 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 risks 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 and clean-up operations, or even restrict its activities or close its facilities on a temporary or permanent basis. Given the long industrial past of several of the Group's sites that are currently in use or are no longer in use, the soil or ground water may have been polluted and instances of pollution may be discovered or occur in the future. 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 Vallourec's results. This could arise in the case of asbestos, which was not directly used in its production processes but was sometimes employed 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.

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, none of the Group's sites subject to authorization is classed on the SEVESO scale: each prepares its own emergency measures or internal prevention measures depending on the analysis of the risks relating to the establishment.

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 and gas prices, which influence demand for certain of its products. Other sectors are sensitive to the overall economic environment, in particular the mechanical engineering, automotive and power generation sectors.

  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 & 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, environmental and performance requirements. 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, premium solutions contain high-alloy steel capable of withstanding extreme temperatures and pressure, requiring top-level metallurgical skills and state-of-the-art technology. As the world leader in premium solutions for supercritical and ultra supercritical power plants, the Group noted increased competition in this sector in 2009 and 2010, in particular in the Chinese market, linked to some customers' decisions to give preference to some local manufacturers that have upgraded their range, even at the sacrifice of their technical requirements.
- In its other business sectors (petrochemicals, mechanical engineering, automotive and construction), the Group faces stronger competition as customer requirements are less sophisticated. The Group is nevertheless the regional leader in Europe and 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 product ranges, 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 in-house sources of supply and diversifies its external sources of supply whenever possible.

More generally, raw materials and energy represent a significant expense item for the Group.

An increase in raw materials and energy prices leads to a corresponding increase in the production cost of the Group's finished products. Uncertainty surrounding economic trends linked with a highly competitive environment in the international market for tubes means that the Group's ability to pass on any increases in raw materials and energy prices in its orders is uncertain, which could reduce Group margins, and thus have a negative impact on 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 defective or faulty production

The Group's positioning in the market for premium tube solutions necessitates the implementation of a demanding quality control programme. However, the Group cannot totally exclude the possibility that some of its products may have production defects or faults, which could potentially cause damage to property and personnel, or to installations attached to the tubes, leading to an interruption of its customers' business, or causing environmental damage. Although the Group follows quality control procedures for its products taking into account the most rigorous benchmark requirements in order to provide products without production defects or faults, these may occur in Group products, which could potentially cause a fall in demand for these products or could damage their reputation for safety or quality, and could therefore have a significant impact on the financial situation, the earnings and the image of the Group's businesses.

Risks linked to failures of the Group's equipment

The Group's success in meeting orders depends on a high level of reliability of its assets. However the Group could experience equipment failures, which could lead to delays in the delivery of current or future orders requiring the use of this equipment. Although the Group follows a regular maintenance programme in order to keep all of its assets in good working order, the Group cannot exclude the possibility of breakdowns occurring. All equipment failures are likely to lead to dissatisfaction on the part of the Group's customers, and to have an impact on the cost of orders and therefore to significantly affect the financial situation, earnings and image of the Group.

Risks linked to restrictive regulations regarding Iran

Following the adoption of resolution 1929 by the UN Security Council on 9 June 2010, a certain number of countries have adopted, or strengthened, restrictive measures concerning Iran. Within the European Union these measures were strengthened by the adoption of the Council Decision on 26 July, followed by the Council Regulation on 25 October 2010. In the United States, the measures were also strengthened by the adoption of the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISAD Act) in force since 1 July 2010. The Vallourec group

has analyzed these new regulations which restrict, or even ban, the export of certain products to Iran, notably in the oil and gas sector. The Vallourec group believes that it complies with the regulations in force. The adoption of even stricter regulations could have an unfavourable effect on the Group's sales. However, the effect would be limited as to date sales with Iran are not significant.

4.1.4 OTHER SPECIFIC RISKS

Risks linked to Human Resources

Vallourec's success depends on keeping key personnel 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 its 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.

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 statutory 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, which would have a significant adverse effect on its earnings. 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 is dedicated to managing the technology used by the various entities. This team ensures in particular that such technology is used within the framework of contractual agreements and, should the need arise, 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 that has enabled it to acquire:

- in the United States in 2008, acquisition from Grant Prideco of the businesses of Atlas Bradford® Premium Threading & Services, TCA® and Tube-AlloyTM, experts in premium joints technology,
- in 2009, acquisition of Dubai-based DPAL FZCO, which markets a large range of drill pipes, and 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,
- in 2010, Protools, the largest producer of drill stem components in the Middle East, Serimax, global leader in fully integrated welding solutions for offshore pipelines, and, in China, 19.5% of Tianda Oil Pipe Company Limited (TOP), a Chinese seamless pipe manufacturer [(1)].

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

(1) This acquisition was completed on 1 April 2011.

guarantees or in some other form, it 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 will gradually expand up until 2012, with the first commercial deliveries expected in the fourth quarter of 2011.

  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.

  In 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,
- the increase in capacity at its V & M Changzhou plant in China. This expansion relates to the production of 60,000 tonnes of seamless tubes per year for local power generation plants, using new proprietary technology. Investments for this project amount to €160 million, and
- the construction of a production plant for steam generator tubes in Nansha, in the Guangdong province in South Eastern China, where the installed capacity is expected to rise from 15 GW to more than 100 GW in 2020. The investment will amount to €55 million.

  Although the Group is careful to protect its interests and obtain adequate guarantees from its suppliers and sub-contractors 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 in relation to certain industrial collaboration agreements with Sumitomo Metal Industries (SMI) and Sumitomo Corporation**

  Certain 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, in certain circumstances, 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, in certain circumstances, to acquire the shares held by SMI (and in the case of VSB, the shares held by Sumitomo Corporation) in the capital of 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 in Section 5.1 of this Registration Document.

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 the variable-rate portion of its 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;

In addition, a loan of €100 million taken out at a fixed rate (3.75% excluding *spread*) with Crédit Agricole in October 2008 was drawn down at the end of January 2009.

Finally, Vallourec & Sumitomo Tubos do Brasil (VSB) drew down 230 million reals (*i.e.* around €100 million) of the fixed-rate loan with BNDES and has taken out a new fixed-rate finance lease.

Variable-rate debt with exposure to changes in interest rates amounted to €183.2 million (around 17.71% of total gross debt) at 31 December 2010.

There are no significant fixed-rate financing lines reaching contractual maturity during the 12 months following the close of the financial year ending 31 December 2010, except at the Brazilian subsidiaries (€27 million).

Taking into account the Group's interest rate hedging policy, 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 €1.8 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 the Group's 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 €4 million in the value of the swaps at 31 December 2010 (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 2009 and 2010:

TOTAL DEBT AT 31/12/2009

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 31/12/2010

In € thousand	Other loans	Cash
Fixed rate at origin	366,889	
Variable rate at origin swapped to fixed rate	484,317	
Fixed rate	851,206	
Variable rate	183,188	653,762
TOTAL	**1,034,394**	**653,762**

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 2010, about 80.7% of the net profit attributable to the owners of the Company was generated by subsidiaries that prepare their financial statements in currencies other than the euro (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 €33 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 reserves booked to equity (a gain of €308.5 million as at 31 December 2010) which, in recent years, have been linked mainly to movements in the US dollar and Brazilian real.

FOREIGN CURRENCY TRANSLATION RESERVE ATTRIBUTABLE TO OWNERS OF THE COMPANY

In € thousand	31/12/2009	**31/12/2010**
USD	-51,922	21,797
GBP	-13,717	-12,337
MXN (Mexican peso)	-12,292	-5,537
BRL (Brazilian real)	126,791	291,189
Others	-748	13,338
	48,112	**308,450**

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 its business exposure linked 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 currency used is the US dollar (USD): a significant proportion of Vallourec's transactions (around 19% of Group sales in 2010) is invoiced in dollars by companies whose operating currency is not the dollar.

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:

- 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;
- 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, leading to the recognition in the consolidated income statement of gains and losses in respect of these cancelled hedges.

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

The following table shows the amounts outstanding as at 31 December 2008, 2009 and 2010 under foreign exchange contracts to hedge foreign currency denominated purchases and sales:

Hedging contracts in respect of commercial transactions – Exchange rate risk
In € thousand

	31/12/2009	**31/12/2010**
Forward exchange contract: forward sales	755,136	1,147,978
Forward exchange contract: forward purchases	28,331	178,691
Currency options: sales	-	-
Currency options: purchases	-	-
Commodities – call options	-	-
TOTAL	**783,467**	**1,326,669**

CONTRACT MATURITIES AT 31/12/2010

Contracts in respect of commercial transactions
In € thousand

	Total	< 1 year	1– 5 years	> 5 years
Forward exchange contracts: forward sales	1,147,978	1,119,126	28,852	-
Forward exchange contracts: forward purchases	178,691	178,691		-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Commodities: call options	-	-	-	-
TOTAL	**1,326,669**	**1,297,817**	**28,852**	

Forward sales correspond mainly to sales of US dollars (€1,148 million of the €1,327 million total). These contracts were transacted at an average forward EUR/USD exchange rate of 1.32.

In 2010, as in 2009, the hedges entered into generally covered an average period of around 12 months (except for Valinox Nucléaire due to its specific business activity) 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 (€153.4 million) foreign exchange swap, and in 2010 forward sales of USD 150.9 million (€114.9 million).

These instruments are to hedge the net US dollar debt. The maturity date of the foreign exchange swap is April 2013 when the hedged debt matures. The forward sales mature between 2011 and 2012 dependent on the maturity of the hedged loans.

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 2010 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. The total amount of trade receivables overdue by more than 90 days and not provided against is €21 million at 31 December 2010, or 2.6% of net Group trade receivables.

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.

Moreover, at 31 December 2010, trade receivables not yet due amounted to €715.9 million, or 87% of total net trade receivables.

The following table provides an analysis by maturity of these trade receivables (in € million):

At 31/12/2010	0 to 30 days	30 to 60 days	60 to 90 days	90 to 180 days	>180 days	Total
Trade receivables not yet due	502.7	157.5	49.9	5.4	0.4	715.9

Share price risk

The own shares held by Vallourec at 31 December 2010 comprised:

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

   Within this framework, Vallourec holds:

   - 257,114 own shares acquired on 5 July 2001 following, notably, the exercise of 26,678 options in 2010 under the terms of the 11 June 2003 share purchase plan, and the final allocation of 51,608 shares under the terms of the 3 May 2007 performance share plan, and 8,812 shares under the terms of the 1 September 2008 performance share plan,
   - 100,000 own shares acquired in 2008 under the 4 June 2008 share buyback programme,
   - 100,000 own shares acquired in 2010 under the 31 May 2010 share buyback programme.

   These figures take account of the 2:1 stock split on 9 July 2010.

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

   - to cover performance shares allocated on 3 May 2007, the final quantity of which will not be known until 2011,
   - to cover performance shares allocated on 1 September 2008, the final quantity of which will not be known until 2011,
   - to cover performance shares allocated on 16 December 2008, the final quantity of which will not be known until 2013,
   - to cover performance shares allocated on 31 July 2009, the final quantity of which will not be known until 2013,
   - to cover performance shares allocated on 17 December 2009, the final quantity of which will not be known until 2014,
   - to cover performance shares allocated on 17 December 2009, the final quantity of which will not be known until 2013,
   - to cover performance shares allocated on 15 March 2010, the final quantity of which will not be known until 2014,
   - to cover performance shares allocated on 31 July 2010, the final quantity of which will not be known until 2014,

- to cover performance shares allocated on 3 December 2010, the final quantity of which will not be known until 2015,
- to cover performance shares allocated on 3 December 2010, the final quantity of which will not be known until 2014,

2. the shares held in the context of the liquidity agreement concluded with Crédit Agricole Chevreux, *i.e.* 98,000 shares for a total value of €7.5 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 31 May 2010 *(Eleventh 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 2010.

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 €220,705 thousand and non-current bank loans and other borrowings totalling €813,689 thousand as at 31 December 2010 are shown in the table below:

BREAKDOWN BY MATURITY OF NON-CURRENT BANK LOANS AND OTHER BORROWINGS (> 1 YEAR)

In € thousand	> 1 year	> 2 years	> 3 years	> 4 years	> 5 years	**Total**
At 31/12/2009	22,574	282,863	214,110	7,554	107,829	**634,930**
• Financial leases	8,825	8,839	8,855	8,875	92,261	**127,655**
• Other non-current bank loans	309,764	235,631	9,886	109,726	21,027	**686,034**
AT 31/12/2010	**318,589**	**244,470**	**18,741**	**118,601**	**113,288**	**813,689**

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 2010, 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 these subsidiaries to put in place several medium-term financing lines since 2006, denominated in Brazilian real. The total amount of these confirmed lines (336 million Brazilian reals or €151 million in 2010) is spread among several banks (mainly BNDES, BDMG and BNB).

At the beginning of the 2007 financial year, 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 credit agreements 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.

In April 2008, Vallourec took out a five-year USD 300 million loan and a €350 million renewable credit line, also available for five years, with a syndicate of seven banks. This credit agreement is subject to commitments of a similar type to those applicable to the €460 million facility described above. At 31 December 2010, Vallourec was using the USD 300 million (€224.5 million) 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 LP, VAM Drilling USA Inc., Valtimet Inc., VAM USA LLC, VM Tube-Alloy LLC, V & M USA Corp. and V & M Holdings Inc.) benefit from a series of bilateral bank lines, which were renewed in 2010, totalling USD 195 million (Bank of America and CIC). The amount used at 31 December 2010 came to USD 25 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 December 2009, Vallourec & Sumitomo Tubos do Brasil, which is 56% owned by the Group, contracted a loan of 448.8 million Brazilian reals 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. During the second half of 2010, 230 million Brazilian reals of this loan were drawn down.

During the course of the 2010 financial year, this same company in Brazil concluded a finance lease with a nominal value of 570 million Brazilian reals relating to equipment required in the operation of the plant at the Jeceaba site.

The carrying amount of these borrowings is a fair approximation of their market value, as these were mainly concluded with variable interest rates at origin.

At 31 December 2010, 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.

4.2 RISK MANAGEMENT

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 detailed 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.

The policy described below 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.

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.

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, on the one hand, the consistency of transferred risks and insurance cover purchased and, on the other, 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 2010, 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 2010 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 detailed below.

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 2010.

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 are split between 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 since 2009.

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.

5 Assets, financial position and results

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5.1 CONSOLIDATED FINANCIAL STATEMENTS

5.1.1 CONSOLIDATED STATEMENT OF THE FINANCIAL POSITION OF THE VALLOUREC GROUP

(in € thousand)

ASSETS

	Note	31/12/2009	31/12/2010
NON-CURRENT ASSETS			
Intangible assets, net	1	250,295	266,499
Goodwill	1	397,803	506,421
Gross property, plant and equipment	2	3,333,009	4,638,322
less: accumulated depreciation	2	-965,984	-1,153,901
Property, plant and equipment, net	2	2,367,025	3,484,421
Investments in equity affiliates	3	56,682	64,622
Other non-current assets	4	188,215	235,222
Deferred tax assets	5	36,400	59,821
Total		**3,296,420**	**4,617,006**
CURRENT ASSETS			
Inventories and work-in-progress	6	927,239	1,190,270
Trade and other receivables	7	611,906	863,581
Derivatives – assets	8	23,742	35,685
Other current assets	9	152,920	188,268
Cash and cash equivalents	10	1,157,803	653,762
Total		**2,873,610**	**2,931,566**
TOTAL ASSETS		**6,170,030**	**7,548,572**

EQUITY AND LIABILITIES

	Note	31/12/2009	31/12/2010
EQUITY	12		
Issued capital		229,123	235,888
Additional paid-in capital		361,838	569,491
Consolidated reserves		2,721,552	3,063,829
Reserves, financial instruments		-7,019	-9,502
Foreign currency translation reserve		48,112	308,450
Profit or loss for the period		517,707	409,600
Own shares		-10,814	-21,343
Equity attributable to owners of the Company		**3,860,499**	**4,556,413**
Non-controlling interests	14	**241,477**	**267,159**
Total equity		**4,101,976**	**4,823,572**
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	15	634,930	813,689
Employee benefits	18	132,828	122,290
Provisions	16	5,602	8,549
Deferred tax liabilities	5	125,711	136,629
Other long-term liabilities	17	1,310	50,961
Total		**900,381**	**1,132,118**
CURRENT LIABILITIES			
Provisions	16	140,474	148,229
Overdrafts and other short-term bank borrowings	15	116,231	220,705
Trade payables		482,846	647,370
Derivatives – liabilities	8	29,517	29,698
Tax liabilities		66,201	97,888
Other current liabilities	19	332,404	448,992
Total		**1,167,673**	**1,592,882**
TOTAL EQUITY AND LIABILITIES		**6,170,030**	**7,548,572**

5.1.2 CONSOLIDATED INCOME STATEMENT OF THE VALLOUREC GROUP *(in € thousand)*

	Note	2009 (A)	2010
Sales	22	**4,464,479**	**4,491,272**
Cost of sales (1)	23	-3,000,605	-3,039,466
Selling, general and administrative costs (1)	24	-448,336	-487,527
Other (1)	25	-34,931	-39,461
EBITDA		**980,607**	**924,818**
Depreciation of industrial assets	27	-151,050	-184,008
Other depreciation and amortization	27	-36,872	-39,050
Impairment of assets and goodwill	28	-7,828	-3,195
Asset disposals and restructuring costs	28	1,478	-16,175
OPERATING PROFIT		**786,335**	**682,390**
Financial income		20,507	21,283
Interest costs		-42,606	-45,441
Net financial costs		-22,099	-24,158
Other financial income and charges		33,451	7,126
Other discounting costs		-15,994	-10,810
FINANCIAL INCOME (LOSS)	29	**-4,642**	**-27,842**
PROFIT BEFORE TAX		**781,693**	**654,548**
Income tax	30	-247,506	-199,453
Net profit of equity affiliates	3	2,291	-2,260
NET PROFIT FROM CONTINUING OPERATIONS		**536,478**	**452,835**
CONSOLIDATED NET PROFIT		**536,478**	**452,835**
Non-controlling interests		18,771	43,235
Owners of the Company		**517,707**	**409,600**
Profit attributable to owners of the Company:			
Earnings per share	13	4.7	3.6
Diluted earnings per share	13	4.7	3.5

(A) The financial statements published for the financial year 2009 have been restated and presented in accordance with the new income statement format showing expenses analyzed by function, adopted by the Group as from 1 January 2010 (see Note A of the notes to the financial statements on accounting principles – "Framework for the preparation and presentation of the annual financial statements"). Sales, EBITDA and operating profit remain unchanged. Previously, the Group published an income statement using a format that analyzed expenses according to their nature.

(1) Before depreciation and amortization.

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

	Note	2009	**2010**
CONSOLIDATED NET PROFIT		**536,478**	**452,835**
Other comprehensive income:			
• Exchange differences arising on translating the net assets of foreign operations	12 and 14	162,222	278,101
• Change in fair value of hedging financial instruments		63,998	-4,809
• Change in fair value of available-for-sale securities		6,564	440
• Tax relating to the change in fair value of hedging financial instruments		-21,037	1,763
• Tax relating to the change in fair value of available-for-sale securities		-2,170	474
Other comprehensive income (net of tax)		**209,577**	**275,969**
TOTAL COMPREHENSIVE INCOME		**746,055**	**728,804**
Profit attributable to non-controlling interests		1,817	61,347
Profit attributable to owners of the Company		**744,238**	**667,457**

5.1.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY *(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 2008	**215,155**	**105,438**	**2,048,204**	**-131,081**	**-54,359**	**-17,789**	**967,191**	**3,132,759**	**99,171**	**3,231,930**
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**
Change in foreign currency translation reserve	-	-	-	260,338	-	-	-	260,338	17,763	278,101
Financial instruments	-	-	-		-3,000	-	-	-3,000	-46	-3,046
Available-for-sale financial assets					519			519	395	914
Other comprehensive income	-	-	-	*260,338*	*-2,481*	-	-	*257,857*	*18,112*	*275,969*
2010 net profit							**409,600**	**409,600**	**43,235**	**452,835**
Total comprehensive income	-	-	-	*260,338*	*-2,481*	-	*409,600*	*667,457*	*61,347*	*728,804*
2009 net profit	-	-	517,707	-	-	-	-517,707			
Change in share capital and additional paid-in capital	2,791	81,646		-	-	-	-	84,437		84,437
Change in own shares	-	-	1,247	-	-	-10,529	-	-9,282		-9,282
Dividends paid (*)	3,974	126,007	-199,649	-	-	-	-	-69,668	-34,084	-103,752
Interim dividend paid by Vallourec	-	-	-	-	-	-	-			
Share-based payments	-	-	22,649	-	-	-	-	22,649		22,649
Changes in consolidation scope and other	-	-	321	-	-	-	-	321	-1,581	-1,260
AS AT 31 DECEMBER 2010	**235,888**	**569,491**	**3,063,829**	**308,450**	**-9,502**	**-21,343**	**409,600**	**4,556,413**	**267,159**	**4,823,572**

(*) Amounts net of €2.3 million representing equalization payment.

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 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**
Change in foreign currency translation reserve	-	17,763	-	-	17,763
Financial instruments	-	-	-46	-	-46
Available-for-sale financial assets	-	-	395	-	395
Other comprehensive income	-	*17,763*	*349*	-	*18,112*
2010 net profit	**-**	**-**	**-**	**43,235**	**43,235**
Total comprehensive income	-	*17,763*	*349*	*43,235*	*61,347*
2009 net profit	18,771	-	-	-18,771	-
Dividends paid	-34,084	-	-	-	-34,084
Changes in consolidation scope and other	-1,581	-	-	-	-1,581
AS AT 31 DECEMBER 2010	**228,478**	**-5,003**	**449**	**43,235**	**267,159**

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

	2009	**2010**
Consolidated net profit (including non-controlling interests)	**536,477**	**452,835**
Net charges to amortization, depreciation and provisions	261,839	218,546
Unrealized gains and losses linked to changes in fair value	-33,219	-2,577
Income and charges linked to share options and equivalent	19,618	22,649
Capital gains and losses on disposals	6,985	2,188
Share of profit (loss) of equity affiliates	-2,291	2,260
Dividends reclassified as other flows linked to investing activities	-3,229	-2,854
Cash flow from operating activities after cost of net debt and tax	**786,180**	**693,047**
Cost of net debt	22,099	24,158
Tax charge (including deferred taxes)	247,507	199,453
Cash flow from operating activities before cost of net debt and tax	**1,055,786**	**916,658**
Interest paid	-42,637	-45,451
Tax paid	-267,414	-184,491
Interest received	20,507	21,283
Cash flow from operating activities	**766,242**	**707,999**
Change in operating working capital requirement	844,973	-268,246
NET CASH FLOW FROM OPERATING ACTIVITIES (1)	**1,611,215**	**439,753**
Cash outflows for acquisitions of property, plant and equipment and intangible assets	-676,488	-872,619
Cash inflows from disposals of property, plant and equipment and intangible assets	854	2,049
Impact of acquisitions (changes in consolidation scope)	-98,336	-98,370
Cash of subsidiaries acquired (changes in consolidation scope)	14,801	2,538
Impact of disposals (changes in consolidation scope)	147,365	-
Cash of subsidiaries sold (changes in consolidation scope)	-	-
Other cash flows from investing activities	-92,354	-3,377
NET CASH FLOW FROM INVESTING ACTIVITIES (2)	**-704,158**	**-969,779**
Increase and decrease in equity	63,611	100,757
Amounts received on exercise of share options	-	-
Dividends paid during the year		
• Dividends paid in cash to shareholders in the parent company	-114,065	-71,929
• Dividends paid to non-controlling shareholders in consolidated companies	-37,604	-32,732
Movements in own shares	10,376	-8,627
Cash drawn down re new loans	159,894	167,539
Repayments of borrowings	-331,260	-158,093
Other cash flows from financing activities	-37,541	-30,145
CASH FLOW FROM FINANCING ACTIVITIES (3)	**-286,589**	**-33,230**
Impact of changes in exchange rates (4)	22,148	27,979
CHANGE IN CASH (1 + 2 + 3 + 4)	**642,616**	**-535,277**
Opening net cash	**504,145**	**1,146,761**
Closing net cash	**1,146,761**	**611,484**
Change	642,616	-535,277

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

STATEMENT OF CHANGES IN NET DEBT: FINANCIAL YEAR 2010 *(in € thousand)*

	Note	31/12/2009	Change	**31/12/2010**
Gross cash (1)	10	1,157,803	-504,041	653,762
Bank current accounts in debit and overdrafts (2)	15	11,042	31,236	42,278
Cash (3) = (1) - (2)		**1,146,761**	**-535,277**	**611,484**
Gross debt (4)	15	740,119	251,998	992,117
Net debt = (4) - (3)		**-406,642**	**787,275**	**380,633**

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

		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**

5.1.7 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010, including the related notes to the consolidated financial statements, were approved by the Vallourec Management Board on 23 February 2011 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 2010. The financial statements are available on the Company's website (www.vallourec.com).

The IFRS framework comprises the IFRS drawn up by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) and the interpretations on them issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC).

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

New standards with mandatory application

At 31 December 2010, the Group applied the new standards whose application is mandatory in the European Union. These standards did not have a material impact on the financial statements for the year ended 31 December 2010.

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

The Group is not affected by the other new standards.

New standards not applied early

The Group 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 2011.

Income statement presentation

With effect from 1 January 2010, the Group has opted to present its income statement showing expenses analyzed by purpose, in accordance with the practices of other companies in the sector. Previously, the Group published an income statement that analyzed expenses by type. The financial statements for the year ended 31 December 2009 have thus been restated and presented in the new format. Sales, EBITDA and operating profit remain unchanged.

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 depreciation and amortization 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;
- material restructuring costs or costs associated with staff retraining relating to events or decisions of major importance;
- capital gains and 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. ACCOUNTING PRINCIPLES AND METHODS

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 certain information disclosed in the 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 present economic conditions, the uncertain nature of some estimates may be more pronounced.

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

2.3 Consolidation of subsidiaries

The Group's consolidated financial statements comprise the financial statements of Vallourec and of its subsidiaries covering the period from 1 January 2010 to 31 December 2010.

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 over which it 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

The currency in which the financial statements are presented is the euro.

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 Vallourec 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 paragraph 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 written off when incurred.

2.7.4 Depreciation

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

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

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

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

2.7.6 Impairment

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

- 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;
- and 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.

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 2010, as was the case in 2009.

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.

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 16 and 21 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, V & M North America, Valti, Interfit, Valtimet and Valinox Nucléaire. The companies within the Serimax Group, which were acquired on 8 June 2010, have been allocated to a new Serimax CGU.

2.12 Inventories and work-in-progress

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

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

The cost of raw materials, goods for resale and other supplies comprises the purchase price excluding taxes, less discounts, rebates and other payment deductions obtained, plus incidental costs of purchase (transportation, unloading charges, customs duties, buying commission, etc.). These inventories are measured in accordance with the weighted average cost method. The cost of work-in-progress and intermediate and finished goods consists of the production cost, excluding financial charges. Production cost comprises raw materials, supplies, factory labour and direct and indirect industrial overheads that may be allocated to the transformation and production process, on the basis of normal capacity. Administrative and general expenses are excluded from this measurement.

2.13 Assets held for sale and discontinued operations

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

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

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

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

2.14 Provisions

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

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

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

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

2.15 Retirement and similar commitments

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

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

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

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

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

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

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

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

For the purposes of the preparation of the opening IFRS balance sheet as at 1 January 2004, the 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.

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 Cross-shareholding

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 Company, 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 any restatements to ensure the conformity of the statutory or consolidated financial statements to Group practices;
- 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 purpose 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);

- 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

The segments presented in accordance with the Group's internal structure 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).

The Vallourec group is not dependent on its customers since none of them accounts for more than 10% of the Group's sales.

Operating segments

Note 31 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 2010 and 2009.

Geographical information

Note 31 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 2010 and 2009.

B – Consolidation scope

Fully consolidated companies	% interest 31/12/2009	% control 31/12/2009	% interest **31/12/2010**	% control **31/12/2010**
Changzhou Valinox Great Wall Welded Tubes – China	62.5	100.0	62.5	100.0
CST Valinox Ltd – India	85.6	90.1	95.0	100.0
Changzhou Carex Valinox Components – China	70.7	100.0	70.7	100.0
Interfit SAS – France	100.0	100.0	100.0	100.0
Kestrel Wave Investment Ltd – Hong Kong	100.0	100.0	100.0	100.0
Premium Holding Limited – Hong Kong	100.0	100.0	100.0	100.0
P.T. Citra Tubindo – Indonesia	78.2	78.2	78.2	78.2
Seamless Tubes Asia Pacific – Singapore	100.0	100.0	100.0	100.0
Serimax Angola Ltd – United Kingdom	-	-	100.0	100.0
Serimax Do Brasil Serviços de Soldagem e Fabricaçao Ltda – Brazil	-	-	100.0	100.0
Serimax Holdings SAS – France	-	-	100.0	100.0
Serimax Ltd – United Kingdom	-	-	100.0	100.0
Serimax North America Llc – United States	-	-	100.0	100.0
Serimax Russia SAS – France	-	-	100.0	100.0
Serimax SAS – France	-	-	100.0	100.0
Serimax South East Asia Pte Ltd – Singapore	-	-	100.0	100.0
Serimax Welding Services Malaysia sdn bhd – Malaysia	-	-	100.0	100.0
Umax Service Ltd – United Kingdom	-	-	100.0	100.0
Valinox Asia SAS – France	62.5	65.8	62.5	65.8
Valinox Nucléaire SAS – France	100.0	100.0	100.0	100.0
Valinox Nucléaire Tubes Guangzhou Co. Ltd – China	-	-	100.0	100.0
Vallourec SA – France	100.0	100.0	100.0	100.0
Vallourec Industries Inc. – United States	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Holdings Inc. – United States	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Oil & Gas France SAS – France	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Oil & Gas Nederland BV – Netherlands	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Oil & Gas UK Ltd – United Kingdom	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Tubes SAS – France	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Rus. – Russia	100.0	100.0	100.0	100.0
Vallourec Tubes Canada Inc. – Canada	100.0	100.0	100.0	100.0
Vallourec Umbilicals SAS – France	-	-	100.0	100.0
Valti SAS – France	100.0	100.0	100.0	100.0
Valti GmbH – Germany	100.0	100.0	100.0	100.0
Valtimet SAS – France	95.0	95.0	95.0	95.0
Valtimet Inc. – United States	95.0	100.0	95.0	100.0
VAM Canada – Canada	100.0	100.0	100.0	100.0
VAM Drilling France SAS – France	100.0	100.0	100.0	100.0
VAM Drilling Middle East FZE – United Arab Emirates	100.0	100.0	100.0	100.0

	% interest 31/12/2009	% control 31/12/2009	% interest **31/12/2010**	% control **31/12/2010**
VAM Drilling Protools Oil Equipment Manufacturing Llc – United Arab Emirates	-	-	100.0	100.0
VAM Drilling USA Inc. – United States	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 ONNE Nigeria Ltd – Nigeria	100.0	100.0	100.0	100.0
VAM USA – United States	51.0	51.0	51.0	51.0
VMOG China – China	100.0	100.0	100.0	100.0
VMOG Nigeria Ltd – Nigeria	100.0	100.0	100.0	100.0
V & M Al Qahtani Llc – Saudi Arabia	65.0	65.0	65.0	65.0
V & M Beijing Co. Ltd – 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 do Brasil SA – Brazil	99.6	99.6	99.9	99.9
V & M France SAS – France	100.0	100.0	100.0	100.0
V & M Florestal Ltda – Brazil	99.6	100.0	99.9	100.0
V & M Mineração Ltda – Brazil	99.6	100.0	99.9	100.0
V & M One SAS – France	100.0	100.0	100.0	100.0
V & M Services SA – France	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	100.0	100.0
V & M Tube-Alloy LP – United States	100.0	100.0	100.0	100.0
V & M USA Corporation – United States	100.0	100.0	100.0	100.0
Proportionately consolidated companies				
Vallourec & Sumitomo Tubos do Brasil Ltda – Brazil	56.0	50.0	56.0	50.0
VAM Changzhou Oil & Gas Premium Equipments – China	51.0	50.0	51.0	50.0
VAM Holding Hong Kong Limited – Hong Kong	51.0	50.0	51.0	50.0
Equity affiliates				
Hüttenwerke Krupp Mannesmann – Germany	20.0	20.0	20.0	20.0
Poongsan Valinox – South Korea	47.5	50.0	47.5	50.0
Tubos Soldados Atlântico – Brazil	24.6	24.7	24.6	24.7
Xi'an Baotimet Valinox Tubes – China	37.1	49.0	37.1	49.0

The Group does not control any special purpose entities.

2010

- In February 2010, the Vallourec group acquired Protools *via* its subsidiary VAM Drilling Dubai. Protools is the largest producer of drill stem components in the Middle East. This acquisition has enabled VAM Drilling to offer an integrated solution for the entire drill string.
- On 15 February 2010, the Group announced its decision to build a new small diameter tube mill in Youngstown (Ohio, United States). The capital expenditure on the mill, which will be incurred by V & M Two, will total USD 650 million of which USD 206 million had been incurred by 31 December 2010. Production at the mill is due to start during the fourth quarter of 2011. This project will create around 350 new jobs.
- On 8 June 2010, the Group acquired 100% of Serimax, a world leader in the provision of fully integrated welding solutions for offshore line pipes. This acquisition will complement Vallourec's existing offshore line pipe operations, which currently account for around 10% of the Group's total Oil & Gas sales. The Serimax Group's consolidated sales totalled €68 million for the first six months of the financial year 2010 and €131 million for the full year 2010. This business is included in the "Seamless tubes" operating segment.
- Valinox Nucléaire Tubes Guangzhou Ltd was incorporated in November 2010 in the province of Guangdong in China to produce steam generator tubes to meet the needs of the country's expanding nuclear power market.

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).
- 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.

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 31/12/2008	**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**
Acquisitions	1,896	3,886	5,782	-
Disposals	-78	-	-78	-
Impact of changes in exchange rates	2,289	24,044	26,333	30,404
Changes in consolidation scope	17,562	13,679	31,241	78,217
Other movements	2,955	-145	2,810	-
At 31/12/2010	**76,090**	**368,941**	**445,031**	**506,444**
AMORTIZATION AND IMPAIRMENT				
At 31/12/2008	**-32,782**	**-58,336**	**-91,118**	**-19**
Net amortization charges for the year	-3,720	-35,418	-39,138	-
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 amortization charges for the year	-3,604	-39,270	-42,874	-
Disposals	78	-	78	-
Impact of changes in exchange rates	-1,573	-5,515	-7,088	-3
Other movements	-	-	-	-
At 31/12/2010	**-43,236**	**-135,296**	**-178,532**	**-23**
NET VALUES				
At 31/12/2009	13,329	236,966	250,295	397,803
At 31/12/2010	**32,854**	**233,645**	**266,499**	**506,421**

Intangible assets

- In 2009, the changes in consolidation scope corresponded mainly to the valuation, carried out by independent experts, of the customer bases of P.T. Citra Tubindo (Indonesia) and DPAL FZCO (Dubai, United Arab Emirates), which are amortized over a maximum period of 20 years (see Note 11).
- In 2010, the main increases were due to the effects of exchange rate fluctuations and changes in consolidation scope (valuation of the customer base and technology of Serimax and its subsidiaries by independent experts: these intangible assets are amortized over a maximum period of 15 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 capitalization 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 paragraph 2.11 of Consolidation principles section)	V & M do Brasil	V & M North America	V & M Europe	Serimax	Others	**Total**
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		-132	-12,476
Changes in consolidation scope	253	-	101,718		-	101,971
At 31/12/2009	**3,197**	**277,788**	**111,450**	**-**	**5,368**	**397,803**
Impact of changes in exchange rates	37	21,707	8,178		479	30,401
Changes in consolidation scope	-	-	41,901	36,316	-	78,217
At 31/12/2010	**3,234**	**299,495**	**161,529**	**36,316**	**5,847**	**506,421**

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 2009, goodwill was recognized in respect of the acquisition of a controlling interest in DPAL FZCO (€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.

In 2010, goodwill was recognized in respect of the acquisition of controlling interests of companies in the Serimax group (€72.6 million allocated to the V & M Europe and Serimax CGUs) and VAM Drilling Protools Oil Equipment Manufacturing LLC (€5.6 million). The full goodwill method was used to account for these acquisitions.

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 and methods section). Changes in the economic climate may affect certain estimates and make it more difficult to assess the Group's outlook for the purposes of asset impairment testing. A stock market value of the Group below its consolidated net assets during a business cycle, or negative prospects associated with the economic, legislative or technological environment or a business sector, would constitute evidence of impairment.

Future cash flows

For these purposes, the Group uses future cash flows, as per its most recent forecasts, over a five-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 five years, the Group uses a standard year calculated as the average of the last five 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 2009.

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 sum 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 has increased 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 Brazil 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 8.94% for Europe and the United States and 13.72% 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 2010.

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 31/12/2008	**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**
Acquisitions	6,530	14,222	70,039	808,941	159,334	1,059,066
Disposals	-194	-271	-15,502	-476	-716	-17,159
Impact of changes in exchange rates	11,153	17,259	92,303	79,352	53,301	253,368
Changes in consolidation scope	180	4,966	22,031	5,136	3,026	35,339
Other movements	2,017	9,406	63,702	-119,418	18,992	-25,301
At 31/12/2010	**129,231**	**389,966**	**2,189,067**	**1,225,527**	**704,530**	**4,638,322**
DEPRECIATION AND IMPAIRMENT						
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**		**-69,352**	**-965,984**
Net depreciation charge for the year	-2,575	-18,374	-144,663	-	-14,572	-180,184
Impairment losses	-	-	-1,522	-820	-	-2,342
Disposals	105	153	11,948	-	607	12,813
Impact of changes in exchange rates	-2,647	-4,226	-31,524	-	-4,492	-42,889
Other movements	290	2,433	21,539	-	423	24,685
At 31/12/2010	**-27,215**	**-133,821**	**-904,659**	**-820**	**-87,386**	**-1,153,901**
NET VALUES						
At 31/12/2009	**87,157**	**230,577**	**1,196,057**	**451,992**	**401,241**	**2,367,025**
At 31/12/2010	**102,016**	**256,145**	**1,284,408**	**1,224,707**	**617,144**	**3,484,421**

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

	2009	2010
Europe	186,289	162,251
North America and Mexico	46,307	163,703
South America	436,753	672,289
Asia	7,860	66,127
Other	5,008	479
TOTAL	**682,217**	**1,064,849**
Capital expenditure payments during the year totalled:	676,488	872,619

In 2010, the Group continued to implement the programmes begun in 2009, in particular the construction of a new state-of-the-art plant located in the state of Minas Gerais in Brazil integrating a steel mill, a tube mill and threading lines as well as the development of production capacity for the nuclear industry.

In addition, Vallourec began the construction of a new tube mill in Youngstown (Ohio) to meet the needs of the North American Oil & Gas market and the extension of its V & M Changzhou plant in China to cope with demand from local power plants.

Biological assets

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

As at 31 December 2010, the Company had about 114,115 hectares under cultivation.

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 2010, the biological assets are included within "Other property, plant and equipment" in an amount of €130 million. V & M Florestal achieved sales of €107.9 million in 2010.

Leases

In 2010, the Group entered into two finance leases in respect of buildings and production equipment.

In October 2010, the Group leased a building in Germany under a finance lease. At 31 December 2010, the building had a carrying amount of €3.9 million.

Vallourec & Sumitomo Tubos do Brasil entered into a finance lease agreement for the construction of a water treatment plant which had a carrying amount of €160 million at 31 December 2010 (including €16 million of capitalized interest charges). No depreciation was recognized in respect of the plant in 2010.

In 2009, the amounts capitalized in respect of finance leases were not material to the Group's financial statements.

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 31/12/2008	**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**
Changes in consolidation scope	-	-	-	-	-
Capital increase	8,000	-	-	-	8,000
Impact of changes in exchange rates	-	-	1,509	1,152	2,661
Dividends paid	-6	-	-	-455	-461
Contribution to net profit of the period	1	-	-2,486	225	-2,260
At 31/12/2010	**42,089**		**11,409**	**11,124**	**64,622**

(*) Until 30 June 2009.

On 2 July 2009, Vallourec acquired control of P.T. Citra Tubindo Tbk (PTCT) by increasing its stake to 78.2% and therefore then owned 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
HKM – Germany	**2010**	**210,443**	**2,529,848**	**36**
	2009	170,471	1,628,041	32
Tubos Soldados Atlântico	**2010**	**40,116**	**45,205**	**-10,791**
	2009	37,782	34,529	-2,161

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

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

	2009	**2010**
P.T. Citra Tubindo (6 months)	514	-
HKM	672	1
Poongsan Valinox	659	543
Tubos Soldados Atlântico	-367	-2,486
Xi'an Baotimet Valinox Tubes	813	-318
TOTAL	**2,291**	**-2,260**

Note 4 Other non-current assets

	Other investments in equity instruments	Loans	Other financial investments	Other	Total
At 31/12/2008	**3,610**	**5,258**	**20,436**	**9,335**	**38,639**
Gross value	138,104	4,652	25,499	22,164	190,419
Provisions	-1,690	-	-514	-	-2,204
At 31/12/2009	**136,414**	**4,652**	**24,985**	**22,164**	**188,215**
Gross value	126,932	4,397	30,233	75,164	236,726
Provisions	-905	-	-599	-	-1,504
At 31/12/2010	**126,027**	**4,397**	**29,634**	**75,164**	**235,222**

As at 31 December 2010, other investments in equity instruments consisted mainly of:

- the investments held by P.T. Citra Tubindo in unlisted companies not directly controlled by Vallourec (€35.4 million);
- the Sumitomo Metal Industries' participating interests, listed on the Tokyo stock exchange, which were acquired during 2009 at an average price per share of JPY 230.8 (€81.9 million), which had a fair value of €86.9 million at 31 December 2010 and were classified as "available-for-sale financial assets". The change in fair value was recognized in Group 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 2010 was 3.36% (compared with 3.46% at 31 December 2009).

Other financial investments consist mainly of interest-bearing security deposits paid in connection with tax disputes in Brazil (€22.4 million at 31 December 2010, see also Note 16).

Other non-current assets consist mainly of tax receivables due in over one year in Brazil (€8.4 million in 2010) and a long-term supplier advance (€38.5 million).

Maturities of other non-current assets

	Between 1 and 5 years	Over 5 years	Total
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**
Gross values at 31/12/2010			
Loans	1,326	3,071	4,397
Other investments in equity instruments	35,394	91,538	126,932
Other financial investments	102,711	2,686	105,397
TOTAL	**139,431**	**97,295**	**236,726**

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 the staturory or consolidated financial statements to Group practices;
- long-term recurring items: non-tax deductible provisions for retirement commitments.

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

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

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

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

The basic income tax rate applicable to companies in France is 33.33%. The *Code de la sécurité sociale* (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 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 other deferred tax rates used in 2009 were 31.6% for Germany, 34% for Brazil and 36.5% for the United States.

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 statutory financial statements.

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 31/12/2009	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 reserves	-	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**

At 31/12/2010	Assets	Liabilities	Net deferred tax liabilities
Non-current assets	-	213,943	
Other assets and liabilities	-	3,201	
Inventories	38,004	-	
Employee benefits	27,239	-	
Derivatives	3,997	-	
Distributable reserves and foreign currency translation reserves	-	780	
Net balance	**69,240**	**217,924**	**148,684**
Recognition of tax losses	71,876		-71,876
TOTAL	**141,116**	**217,924**	**76,808**

The following table provides an analysis of the Group's deferred tax balances (gross values) as at 31 December 2009 and 31 December 2010:

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**

At 31/12/2010	Gross values	Corresponding deferred tax	Deferred tax recognized	Deferred tax not recognized
Tax losses carried forward	246,292	81,585	71,876	9,709
Other tax assets		69,784	69,240	544
Total tax assets		**151,369**	**141,116**	**10,253**
Tax liabilities			-217,924	
Total tax liabilities			**-217,924**	
TOTAL			**-76,808**	**10,253**

The tax losses carried forward in 2010 relate mainly to Vallourec & Sumitomo Tubos do Brasil, the French tax consolidation group, CST Valinox (India), Changzhou Carex (China), VAM Changzhou (China) and VAM Drilling USA.

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

Net tax liability	2009	**2010**
As at 1 January	**47,057**	**89,311**
Impact of changes in exchange rates	-4,762	-240
Recognized in profit or loss	14,117	-14,989
Recognized in reserves	23,207	-2,237
Change in consolidation scope and other	9,692	4,963
AS AT 31 DECEMBER	**89,311**	**76,808**

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.

Note 6 Inventories and work-in-progress

	Raw materials, supplies and goods for resale	Work-in-progress	Finished and semi-finished products	**Total**
GROSS VALUES				
At 31/12/2008	**661,724**	**422,174**	**425,475**	**1,509,373**
Changes in inventories recognized in the income statement	-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**
Changes in inventories recognized in the income statement	77,579	93,229	40,551	211,359
Changes in consolidation scope	18,645	-743	3,069	20,971
Impact of changes in exchange rates	19,663	12,656	21,470	53,789
Other movements	-27,446	-	424	-27,022
At 31/12/2010	**551,958**	**379,844**	**353,372**	**1,285,174**
PROVISIONS				
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**
Impact of changes in exchange rates	-2,720	-686	-2,403	-5,809
Charges to provisions	-30,114	-8,470	-9,768	-48,352
Reversals of provisions	43,639	3,788	14,762	62,189
Other movements	-3,669	-	-425	-4,094
At 31/12/2010	**-50,709**	**-19,293**	**-24,902**	**-94,904**
NET VALUES				
At 31/12/2009	**405,672**	**260,777**	**260,790**	**927,239**
At 31/12/2010	**501,249**	**360,551**	**328,470**	**1,190,270**

Note 7 Trade and other receivables

	Advances and deposits paid on orders	Accounts receivable (gross) (*)	Provisions	**Total**
At 31/12/2008	**37,765**	**1,178,381**	**-12,574**	**1,203,572**
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**
Changes in consolidation scope	1,241	44,470	-158	45,553
Impact of changes in exchange rates	2,668	27,052	-336	29,384
Changes in gross values	22,033	152,272	735	175,040
Charges to provisions	-	-	-5,393	-5,393
Reversals of provisions	-	-	7,091	7,091
At 31/12/2010	**39,708**	**834,926**	**-11,053**	**863,581**

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

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 assets. 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 €5.8 million at 31 December 2009 to net assets of €6 million at 31 December 2010.

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 2010 mainly explains the €4.6 million fall in the intrinsic value of hedges in respect of currency purchase and sale forecasts and the €11.1 million increase in the intrinsic value of hedges backed by receivables and payables.

In view of the effectiveness of the hedges in accordance with the criteria of IAS 39, the impact recognized in the income statement concerns mainly the premium/discount, changes in the value of which at the year end gave rise to income of €1.2 million in respect of the financial year 2010.

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 2010		
	At 31/12/2009	**At 31/12/2010**	**Total**	**o/w reserves**	**o/w profit (loss)**
1 - Derivatives recognized in the balance sheet [1]					
Changes in the intrinsic value of forward sales of currencies and forward purchases [2] linked to order books and commercial tenders	8,269	3,669	-4,600	-4,486	-114
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with accounts receivable (and accounts payable [2])	4,918	16,022	11,104		11,104
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					
Recognition of premium/discount	-68	1,160	1,228		1,228
Recognition of changes in fair value of interest rate swaps	-25,156	-25,433	-277	-277	
Changes in values linked to hedging instruments implemented under the terms of the employee share ownership plans	6,759	10,569	3,810		3,810
Changes in value due to derivatives not classified as such	-497	-1	496		496
Sub-total: Derivatives	**-5,775**	**5,986**	**11,761**	**-4,763**	**16,524**
Of which: derivatives – assets	*23,742*	*35,685*			
Of which: derivatives – liabilities	*29,517*	*29,698*			
2 - Accounts receivable (accounts payable [2]) hedged in currencies – translation gain/loss					
Measurement at period-end exchange rate	-5,566	-17,952	-12,386		-12,386
Impact of hedging operations	**-11,341**	**-11,966**	**-625**	**-4,763**	**4,138**
3 - Measurement of receivables (payables [2]) not hedged in currencies – translation gain/loss [3]	**1,543**	**-1,552**	**-3,095**		**-3,095**
4 - Measurement of construction loans at the effective interest rate	**-1,576**	**-1,360**	**216**		**216**
5 - Measurement of marketable securities at fair value	**36**	**48**	**12**		**12**
6 - Measurement of other investments in equity instruments at fair value	**6,564**	**7,004**	**440**	**440**	
7 - Deferred taxes (on exchange rate and interest rate hedges)	**4,673**	**4,245**	**-428**	**332**	**-760**
TOTAL	**-101**	**-3,581**	**-3,480**	**-3,991**	**511**
Impact – see statement of changes in equity					
Revaluation reserves – financial instruments	-6,921	-9,053	-2,132	-2,132	
Of which: attributable to owners of the Company	-7,021	-9,502	-2,481	-2,481	
Of which: attributable to non-controlling interests	100	449	349	349	
Other consolidation reserves	17,250	4,960	-12,290	-12,290	
Profit (loss)	-10,430	511	10,941	10,430	511
TOTAL	**-101**	**-3,582**	**-3,481**	**-3,992**	**511**

(1) Assets and liabilities offset in this table to give net position: + = net assets, - = net liabilities.
(2) Amounts not material.
(3) The €3.1 million reduction in the revaluation difference is related to an exchange gain realized during 2010.

The change in the fair value of financial instruments hedging the exchange rate risk which affected equity as at 31 December 2009 was €8.3 million. During 2010, around 72% (and nearly 100% excluding Valinox Nucléaire) of the positive change in fair value allocated to the order book and commercial tenders at the end of 2009 was transferred from equity to the income statement, within the Group's foreign exchange gain or loss.

This amount corresponds to changes in the value of exchange rate hedges in respect of the order book and commercial tenders at 31 December 2009, which have been either fully or partially unwound or converted into receivables during 2010. The hedges of receivables in US dollars represent most (more than 90%) of the changes in fair value of the hedges recognized in equity.

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 [1]					
Changes in the intrinsic value of forward sales of currencies and forward purchases [2] 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 [2])	-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 [2]) 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 [2]) not hedged in currencies – translation gain/loss [3]	**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**

(1) Assets and liabilities offset in this table to give net position: + = net assets, - = net liabilities.
(2) Amounts not material.
(3) 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 were fully or partially unwound or converted into receivables during 2009.

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

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

At 31/12/2010	Other loans	Cash and cash equivalents
Fixed rate on date granted	366,889	
Variable rate on date granted swapped to fixed rate	484,317	
Fixed rate	851,206	
Variable rate	183,188	653,762
TOTAL	**1,034,394**	**653,762**

At 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**

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 €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.

Finally, Vallourec & Sumitomo Tubos do Brasil (VSB) has drawn down part of the fixed-rate loan granted by BNDES and entered into a new fixed-rate finance lease agreement (see Note 15).

The Group is exposed to an interest rate risk on the portion of its debt that is at variable rates.

Its bank debt exposed to changes in variable interest rates amounted to about €183.2 million (about 17.71% of total gross debt) at 31 December 2010.

No significant element of the Group's fixed rate finance reaches contractual maturity during the 12 months following the 31 December 2010 closing except in the case of the Brazilian subsidiaries (€27 million).

After taking into account the Group's interest rate risk hedging policy, the impact of a one-percentage-point rise in interest rates applied to short-term rates of the eurozone, to Brazilian and Chinese rates and to UK and US money market rates would result in a €1.8 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 €4 million in the measurement of the swaps in place at 31 December 2010 (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 2010, about 80.7% 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 €33 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 reserves from translation of foreign operations booked to equity (€+308.5 million as at 31 December 2010) which, in recent years, have been linked mainly to movements in the US dollar and Brazilian real (Note 12).

Foreign currency translation reserve attributable to owners of the Company	31/12/2009	**31/12/2010**
USD	-51,922	21,797
GBP	-13,717	-12,337
MXN (Mexican peso)	-12,292	-5,537
BRL (Brazilian real)	126,791	291,189
Others	-748	13,338
	48,112	**308,450**

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 (around 19% of the Group's sales for the year ended 31 December 2010) is invoiced by companies whose operating currency is not the US dollar.

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 €61 million decrease or increase in the intrinsic value recognized in consolidated equity at 31 December 2010. Most of these amounts would be due to changes in the US dollar against the euro.

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

At 31 December 2010, 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	2009	2010
Forward exchange contracts: forward sales	755,136	1,147,978
Forward exchange contracts: forward purchases	28,331	178,691
Currency options: sales	-	-
Currency options: purchases	-	-
Commodities: call options	-	-
TOTAL	**783,467**	**1,326,669**

CONTRACT MATURITIES AT 31 DECEMBER 2010

Contracts in respect of commercial transactions	Total	One year or less	One to five years	Over five years
Foreign exchange contracts: forward sales	1,147,978	1,119,126	28,852	-
Foreign exchange contracts: forward purchases	178,691	178,691		-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Commodities: call options	-	-	-	-
TOTAL	**1,326,669**	**1,297,817**	**28,852**	

Forward sales correspond mainly to sales of US dollars (€1,148 million of the €1,327 million total). These contracts were transacted at an average forward EUR/USD rate of 1.32.

In 2009 and 2010, hedges usually covered an average period of around 12 months (excluding Valinox Nucléaire due to the specific nature of its business) 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 (€153.4 million) currency swap and in 2010 it implemented forward sales totalling USD 150.9 million (€114.9 million). The purpose of these instruments was to hedge the US dollar net debt. The currency swap matures in April 2013, when the hedged debt matures. The forward sales mature at various times during 2011 and 2012, as and when the hedged loans mature.

Other than its foreign-currency-denominated borrowings, Vallourec does not hedge any of the other foreign currency assets and liabilities in its consolidated balance sheet (translation risks).

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:** the Group's policy as regards providing against trade receivables is to recognize a provision as soon as any indications of impairment are identified. The amount of the provision is the difference between the carrying amount of the asset and the present value of the expected future cash flows, taking into account the position of the counterparty.

The Group does not consider it appropriate to assume that it is subject to any risk in respect of its receivables against which no provision has been made that are less than 90 days overdue. The total amount of trade receivables that were more than 90 days overdue and against which no provision had been made totalled €21 million at 31 December 2010, *i.e.* 2.6% of the Group's total net trade receivables.

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

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

In addition, trade receivables not yet due at 31 December 2010 totalled €715.9 million, *i.e.* 87% of total net trade receivables.

The following table provides an analysis by maturity of these trade receivables (in € million):

At 31 December 2010	0 to 30 days	30 to 60 days	60 to 90 days	90 to 180 days	> 180 days	Total
Trade receivables not yet due	502.7	157.5	49.9	5.4	0.4	715.9

Share price risks

The own shares held by Vallourec at 31 December 2010 comprised:

- on the one hand, shares allocated to cover the allocation of shares to Group employees, executives and Corporate Officers.

At 31 December 2010, Vallourec held:

- 257,114 own shares acquired on 5 July 2001 following, in particular, the exercise in 2010 of 26,678 options under the terms of the 11 June 2003 share purchase option plan and the final allocation of 51,608 shares under the terms of the 3 May 2007 performance share plan and 8,812 shares under the terms of the performance share plan of 1 September 2008;
- 100,000 own shares acquired in 2008 under the terms of the 4 June 2008 share buyback plan;
- 100,000 own shares acquired in 2010 under the terms of the 31 May 2010 share buyback plan.

These figures take into account the multiplication by two of the number of shares in 2010.

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

- to cover performance shares allocated on 3 May 2007, the final quantity of which will not be known until 2011;
- to cover performance shares allocated on 1 September 2008, the final quantity of which will not be known until 2011;
- to cover performance shares allocated on 16 December 2008, the final quantity of which will not be known until 2013;
- to cover performance shares allocated on 31 July 2009, the final quantity of which will not be known until 2013;
- to cover performance shares allocated on 17 November 2009, the final quantity of which will not be known until 2014;
- to cover performance shares allocated on 17 December 2009, the final quantity of which will not be known until 2013;
- to cover performance shares allocated on 15 March 2010, the final quantity of which will not be known until 2014;
- to cover performance shares allocated on 31 July 2010, the final quantity of which will not be known until 2014;
- to cover performance shares allocated on 17 November 2010, the final quantity of which will not be known until 2015;
- to cover performance shares allocated on 3 December 2010, the final quantity of which will not be known until 2014;
- on the other hand, 98,000 shares held under the terms of the liquidity contract with Crédit Agricole Cheuvreux, the value of which was €7.5 million.

  In 2007 Vallourec implemented a liquidity contract with Crédit Agricole Chevreux, under the terms of the annual general share buyback authorization granted by the Ordinary Shareholders' Meeting of 1 June 2006 *(eleventh 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.

2010	Note	Category [1]	Gross value at 31/12/2010	Amortized cost	At fair value through equity	At fair value through profit or loss
ASSETS						
Other non-current assets	4					
Listed participating interests		AVS	86,873	-	86,873	-
Other investments in equity instruments		AVS	40,059	-	40,059	-
Loans		L&R	4,397	4,397	-	-
Other financial investments		L&R/HTM [2]	30,233	30,233	-	-
Trade receivables	7	**L&R**	**834,926**	**834,926**	**-**	**-**
Derivatives – assets	8					
Hedging financial instruments [6]		CFH	35,685		4,222	31,463
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	9	**L&R**	**188,268**	**188,268**	**-**	**-**
Cash and cash equivalents	10	**A-FVTPL**	**653,762**	**-**	**-**	**653,762**
EQUITY AND LIABILITIES						
Bank loans and other borrowings [3] [5]	15	**AC-EIR**	**775,762**	**775,762**	**-**	**-**
Other		AC-EIR	88,702	88,702	-	-
Overdrafts and other short-term bank borrowings [4] [5]	15	**AC-EIR**	**42,276**	**42,276**	**-**	**-**
Trade payables		**AC**	**647,370**	**647,370**	**-**	**-**
Derivatives – liabilities	8					
Hedging financial instruments		CFH	29,694	-	26,464	3,230
Speculative financial instruments		L-FVTPL	4	-	-	4
Other current liabilities	19	**AC**	**448,992**	**448,992**	**-**	**-**

(1) 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.

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

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

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

(5) 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).

(6) Including the "Value 08", "Value 09" and "Value 10" warrant, the fair value of which was €10.6 million at 31 December 2010.

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

(A) the main method used is based on listed prices on an active market. Participating interests are measured in this manner;

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

2010			Fair value		
Balance sheet headings and classes of instruments	Category	**Total fair value in balance sheet**	Listed prices (A)	Internal model with observable parameters (B)	Internal model with non-observable parameters
ASSETS					
Listed participating interests	AVS	86,873	86,873	-	-
Other investments in equity instruments	AVS	40,059	-	40,059	-
Derivatives – assets					
Hedging financial instruments	CFH	35,685		35,685	
Speculative financial instruments	L-FVTPL			-	
Cash and cash equivalents	**A-FVTPL**	**653,762**	**653,762**	**-**	**-**
EQUITY AND LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	29,694		29,694	
Speculative financial instruments	L-FVTPL	4		4	

2009	Note	Category [1]	Gross value 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 [2]	47,663	47,663	-	-
Trade receivables	**7**	**L&R**	**611,132**	**611,132**	**-**	**-**
Derivatives – assets	**8**					
Hedging financial instruments [6]		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 [3] [5]	**15**	**AC-EIR**	**694,085**	**694,085**	**-**	**-**
Other		AC-EIR	46,034	46,034	-	-
Overdrafts and other short-term bank borrowings [4] [5]	**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	**19**	**AC**	**332,404**	**332,404**	**-**	**-**

(1) 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.

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

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

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

(5) 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).

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

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

(A) the main method used is based on listed prices on an active market. Participating interests are measured in this manner;

(B) 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 (A)	Internal model with observable parameters (B)	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	

Note 9 Other current assets

	Amounts due from staff and social security bodies	Receivables re taxes excluding income tax	Pre-payments	Receivables re income tax	Other receivables	Total
At 31/12/2008	**9,878**	**71,512**	**11,677**	**36,620**	**70,861**	**200,548**
Impact of changes in exchange rates	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**
Impact of changes in exchange rates	209	1,344	1,593	2,358	2,568	8,072
Other movements	-802	26,640	2,188	-7,792	7,042	27,276
At 31/12/2010	**6,053**	**73,368**	**22,741**	**21,045**	**65,061**	**188,268**

Note 10 Cash and cash equivalents

	Marketable securities (gross)	Cash	Total
At 31/12/2008	**283,370**	**244,776**	**528,146**
Impact of changes in exchange rates	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**
Impact of changes in exchange rates	31,156	-2,472	28,684
Changes in consolidation scope	-	4,293	4,293
Other movements	-577,468	40,450	-537,018
At 31/12/2010	**420,882**	**232,880**	**653,762**

"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

2010

Serimax is an international company with 800 employees, which offers comprehensive welding services in challenging conditions, comprising the planning, management and implementation of complex welding projects.

Goodwill represents the difference between the acquisition price and the fair value at the acquisition date of the identifiable and contingent assets and liabilities. The Group has a period of 12 months to finalize the measurement of said assets and liabilities.

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

	At 8 June 2010
Intangible assets	30,262
Property, plant and equipment	32,211
Goodwill (1)	72,634
Financial investments	306
Inventories	14,505
Trade receivables	44,280
Cash and cash equivalents	4,284
Other assets	11,279
TOTAL ASSETS	**209,761**
Overdrafts and other short-term bank borrowings	65,952
Provisions for liabilities and charges	6,215
Employee benefits	1,193
Trade payables	31,575
Deferred tax liabilities	4,767
Other operating liabilities	17,430
TOTAL LIABILITIES	**127,132**
CONSIDERATION PAID IN CASH (2)	**82,629**

(1) The residual goodwill of €72.6 million is justified by the value of the human capital and by the defensive and commercial synergies expected from this acquisition. It has been allocated to the V & M Europe and Serimax CGU.
(2) Cash paid in respect of the acquisition of Serimax.

The companies in the Serimax group have been fully consolidated into the Group's financial statements as from 8 June 2010.

If these companies had been acquired on 1 January 2010, they would have contributed €131.3 million to the Group's sales.

Serimax's intangible assets, which were valued by independent experts, are amortized over the following periods:

- Customer relations: 9 years;
- Technology: 15 years.

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. 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 (1)	91,410
Financial investments (2)	-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) (3)	26,415
Non-controlling interests	16,862
Put option on non-controlling interests (4)	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 (5)	**86,978**

(1) The residual goodwill of €91.4 million is justified mainly by the defensive and commercial synergies expected from this acquisition.
(2) 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.
(3) 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.
(4) Vallourec has signed an agreement to purchase an additional 5% of the shares in P.T. Citra Tubindo as from 1 April 2011.
(5) 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".

Note 12 Equity

Capital

Vallourec's issued capital comprised 117,944,082 ordinary shares with a nominal value of €2 per share fully paid-up as at 31 December 2010 compared with 57,280,789 shares with a nominal value of €4 per share as at 31 December 2009 (114,561,578 shares after the stock split in 2010).

2010

On 30 June 2010, the option to pay the dividend in shares, which was approved by the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010, resulted in the creation of 993,445 new shares (1.7% of the share capital) issued at the price of €130.85, giving a capital increase of €130 million, including issue premium net of costs.

On 9 July, with the aim of making Vallourec's shares more accessible and increasing the number of individual shareholders, a 2:1 stock split was carried out in accordance with the decision of the Shareholders' Meeting of 31 May 2010. Each shareholder was allocated two new Vallourec shares for each old share.

On 3 December 2010, under the terms of the Value 10 employee share ownership plan, 1,395,614 new shares were subscribed at a price of €61.14 giving a capital increase of €84.4 million, including issue premium net of costs.

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 share 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.

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 31/12/2008	**-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**
Movements	73,719	1,380	164,398	6,755	14,086	260,338
At 31/12/2010	**21,797**	**-12,337**	**291,189**	**-5,537**	**13,338**	**308,450**

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
2009				
Average rate	1.39	0.89	2.77	18.78
Closing rate	1.44	0.89	2.51	18.92
2010				
Average rate	**1.33**	**0.86**	**2.33**	**16.75**
Closing rate	**1.34**	**0.86**	**2.22**	**16.55**

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.

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	2009	**2010**
Net profit attributable to the ordinary shareholders for basic earnings per share	**517,707**	**409,600**
Weighted average number of ordinary shares for basic earnings per share	110,737,958	115,765,944
Weighted average number of own shares for basic earnings per share	-688,336	-539,679
Weighted average number of shares for basic earnings per share	110,049,622	115,226,265
Earnings per share	**4.7**	**3.6**
Earnings per share comparable to 2010	4.7	
Dilution effect – share purchase and share subscription options and performance shares	36,546	198,955
Adjusted weighted average number of ordinary shares for diluted earnings per share	110,086,168	115,425,220
Diluted earnings per share	**4.7**	**3.5**
Earnings per share comparable to 2010	4.7	-

Dividends paid during the year:	2009	**2010**
In respect of the previous period	3.00	1.75
Interim dividend in respect of the current period	-	-

These figures take into account the multiplication by two of the number of shares on 9 July 2010 as a result of the 2:1 stock split.

Note 14 Non-controlling interests

	Reserves	Translation difference	Net profit	Total
At 31/12/2009	245,472	-22,766	18,771	241,477
At 31/12/2010	**228,927**	**-5,003**	**43,235**	**267,159**

Non-controlling interests relate mainly to the Sumitomo Group.

Note 15 Bank loans and other borrowings

Liquidity risks

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

This €460 million facility requires Vallourec to maintain its ratio of consolidated net debt to consolidated 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 2010, a tranche of €260 million (included in non-current liabilities) had been drawn down.

In 2006, 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, denominated in Brazilian reals. The total amount of confirmed lines (totalling 336 million reals or €151 million in 2010) was spread among several banks (mainly BNDES, BDMG and BNB).

Early in 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 credit agreements 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 loan and a €350 million renewable credit line, 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 2010, Vallourec was using the USD 300 million (€224.5 million) loan, which was included in non-current liabilities.

Also during 2008, Vallourec took out a six-year, €100 million loan in November 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.

In December 2009, Vallourec & Sumitomo Tubos do Brasil (VSB), a 56%-owned subsidiary of the Group, took out a 448.8 million real loan from BNDES (Banco Nacional 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. During the second half of 2010, 230 million reals of the loan was used.

During the financial year 2010, this same company in Brazil entered into a finance lease with a face value of 570 million reals relating to equipment essential for the operation of the plant located at the Jeceaba site.

Finally, 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 Corp. and V & M Holdings Inc.) benefit from a number of bilateral bank lines totalling USD 195 million (Bank of America and CIC) which were renewed in 2010. The amount used at 31 December 2010 totalled USD 25 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 2010.

Financial liabilities – non-current liabilities

	Bank borrowings	Finance leases	Other bank and similar borrowings	Total
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**
New borrowings taken out	73,486	121,465		194,951
Repayments	-70,626	-	-729	-71,355
Reclassifications	-16,676	-	-10,617	-27,293
Impact of changes in exchange rates	9,342	6,189	1,937	17,468
Changes in consolidation scope	64,947	-	-	64,947
Other movements	-	-	41	41
At 31/12/2010	**684,212**	**127,654**	**1,823**	**813,689**

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 31/12/2008	**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**
Reclassifications	-	-	16,676	-	10,617	27,293
Impact of changes in exchange rates	222	3	8,872	38	6,079	15,214
Changes in consolidation scope	1,726	29	-	58	6,556	8,369
Other movements	29,285	-31	-4,344	-2,764	31,452	53,598
At 31/12/2010	**42,271**	**5**	**91,550**	**1,112**	**85,767**	**220,705**

Indebtedness by currency

	USD	EUR	REAL	Others	Total
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
At 31/12/2010 – *currency thousand*	**423,614**	**400,930**	**641,020**	**n/a**	**n/a**
At 31/12/2010 – *€ thousand*	**317,029**	**400,930**	**289,047**	**27,389**	**1,034,395**

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

	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
At 31/12/2009	22,574	282,863	214,110	7,554	107,829	634,930
• Finance leases	8,825	8,839	8,855	8,875	92,261	127,655
• Other non-current financial liabilities	309,764	235,631	9,886	109,726	21,027	686,034
At 31/12/2010	**318,589**	**244,470**	**18,741**	**118,601**	**113,288**	**813,689**

Breakdown by maturity of current bank loans and other borrowings

2010	< 3 months	> 3 months and < 1 year	Total
Bank borrowings	11,456	80,094	91,550
Other borrowings	10	76,697	76,707
Finance lease borrowings	-	9,064	9,064
Accrued interest on borrowings	1,112	-	1,112
Bank overdrafts (negative cash and cash equivalents)	42,272	-	42,272
At 31/12/2010	**54,850**	**165,855**	**220,705**

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 31/12/2009					
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**
At 31/12/2010					
Fixed rate on date granted	6,247	166,276	61,620	132,747	366,890
Variable rate on date granted swapped to fixed rate	-	484,317	-	-	484,317
Total fixed rates	6,247	650,593	61,620	132,747	851,207
Variable rates	118,768	26,643	35,410	2,366	183,187
TOTAL	**125,015**	**677,236**	**97,030**	**135,113**	**1,034,394**

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 31/12/2008	**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**
Allocations for the year	2,292
Provisions used	-150
Impact of changes in exchange rates	805
Other	-
At 31/12/2010	**8,549**

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

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

Current liabilities	Commercial disputes	Orders outstanding – losses on completion	Reorganization measures	Tax risks (duties, taxes, tax audits, etc.)	Other	Total
At 31/12/2008	**39,700**	**6,685**	**285**	**28,630**	**17,893**	**93,193**
Allocations for the 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**
Allocations for the year	52,031	10,825	7,799	11,174	13,971	95,800
Provisions used	-57,449	-1,371	-2,443	-10,596	-25,065	-96,924
Other reversals	-6,043	-	-	-	-1,285	-7,328
Impact of changes in exchange rates	2,012	48	31	4,862	1,743	8,696
Changes in consolidation scope	890	1	-	5,593	1,027	7,511
At 31/12/2010	**37,447**	**13,713**	**7,797**	**48,930**	**40,342**	**148,229**

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 (198 million reals of interest included in 2010). This judgment was the final judgment of the Court of Appeal. Since the Group believed that a favourable outcome of this case was more probable than improbable, no provision was booked in respect of it.

Other current provisions

This heading comprises various provisions in respect of risks in respect of customer discounts, penalties for delays and other risks identified at the balance sheet date.

For 2010, 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 Other long-term liabilities

Other long-term liabilities

At 31/12/2008	**767**
Impact of changes in exchange rates	-14
Other movements	557
Au 31/12/2009	**1,310**
Impact of changes in exchange rates	2,013
Other movements	47,638
At 31/12/2010	**50,961**

Other long-term liabilities consist mainly of liabilities in respect of acquisitions of non-current assets and a long-term €38.5 million advance.

Note 18 Employee benefits

	Germany	France	United Kingdom	Other	Total
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**
At 31/12/2010					
Discounted value of the commitment	**213,716**	**44,667**	**86,392**	**63,413**	**408,188**
Retirement	188,219	40,710	86,392	57,068	372,389
Early retirement commitments	12,475	-	-	-	12,475
Long-service awards and medical benefits	13,022	3,957	-	6,345	23,324
Fair value of the plan assets	-116,629	-3,500	-82,392	-11,849	-214,370
Past service costs not recognized	-25	-7,156		-96	-7,277
Actuarial gains and losses not recognized	-42,374	-4,485	-8,537	-8,855	-64,251
Provision	**54,688**	**29,526**	**-4,537**	**42,613**	**122,290**

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 31/12/2009				
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%
At 31/12/2010				
Discount rate	4.00%	4.00%	5.60%	from 5.67% to 11.37%
Long-term return on plan assets	4.00%	4.00%	6.30%	from 7.5% to 10.24%
Rate of salary increase	2.75%	3.05%	4.50%	from 3.5% to 10%

In 2003, an exhaustive review was carried out of the defined benefit schemes in respect of all companies within the consolidation scope. This was updated in 2010.

For 2009 and 2010:

- the value of payments into the plans was €49.1 million in 2009 and €32.2 million in 2010;
- the return on plan investments was €12 million in 2009 and €11.9 million in 2010.

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 and scheme amendments generated during 2010 for the Group totalled €1.4 million.

The Group envisages paying in 2011 an amount of €25 million in respect of defined benefit schemes, including €17 million in respect of German schemes, €3 million in respect of UK schemes, €2.9 million in respect of French schemes and €1.5 million in respect of Brazilian schemes.

Those schemes which are fully or partially outsourced represented a total commitment of €312.1 million at 31 December 2010 for assets of €214.4 million.

The discount rate was based on the iBoxx index (eurozone, AA-rated corporate bonds with a maturity or 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 2010, 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, particularly in the United Kingdom where plan assets achieved a performance that exceeded the expected returns by €4.8 million and in Germany following the payment of €24.5 million into the fund.

France

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

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. The past service cost not recognized amounted to €1.5 million at 31 December 2010.

At 31 December 2010 a sensitivity test was carried out: a 1% change in the discount rate would result in a change of about €4.1 million in these commitments.

During 2010, the Group acquired Serimax SAS and Serimax Holdings. This transaction was treated as an acquisition for a commitment of €1.2 million.

The iron and steel industry's national collective bargaining agreement was amended on 1 August 2010 and the rights to retirement gratuities increased. This amendment increased the commitment by €7.2 million, which will be amortized on a straight-line basis over the vesting period.

The reform of pensions reduced the commitment by around €1.3 million by increasing the retirement age. The impact is treated as a "plan amendment" within the meaning of the standard.

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 €21.3 million in these commitments.

As was the case in previous years, the Group continued the outsourcing process in 2010: additional contributions of €24.5 million (€40 million in 2009) were 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.

Contributions have exceeded the pension expense, which has resulted in an asset automatically appearing in the Group's financial statements (€2.8 million at 31 December 2009 and €4.5 million at 31 December 2010) 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 €18 million in these commitments.

An actuarial gain of €10 million was generated during the year. It was mainly due to the fact that the plan assets achieved a performance that exceeded the expected returns (€5 million) and will offset previous years' actuarial losses not recognized.

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 €0.9 million in 2009 and €1.1 million in 2010. No contributions were made to the fund this year (contributions totalled €0.5 million in 2009).

The provision comprises a plan, implemented in 2009, to offset the increase in the cost of healthcare for certain retired employees.

Mexico

Although the Group's commitments in Mexico increased significantly during the year (€2.5 million in 2010 compared with €0.7 million in 2009), they remain immaterial to the Group as a whole.

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 2011 to 2019: *i.e.* from 7.8% to 5% for active employees and from 8.9% to 5.5% for retired employees.

No significant events occurred during 2010 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. An analysis of these charges is provided in the following table:

Charge for the year	Germany	France	United Kingdom	Other	Total
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**
At 31/12/2010					
Cost of services rendered	7,723	1,668	2,164	3,903	15,458
Interest charges on the commitment	9,031	1,758	4,881	3,154	18,824
Expected return on plan assets	-4,115	-177	-4,556	-834	-9,682
Net actuarial gains (-)/losses (+) recognized during the period	437	209	571	1,663	2,880
Past service costs	88	932		5	1,025
Impact of any reduction or liquidation	-43		900		857
Net charge recognized	**13,121**	**4,390**	**3,960**	**7,891**	**29,362**
Actual return on plan assets	**876**	**228**	**9,394**	**1,449**	**11,947**

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

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**

2010	Germany	France	United Kingdom	Other	Total
Commitments not recognized at 31/12/2009 – Losses (+)/gains (-)	16,686	2,804	18,318	6,580	44,388
Commitments not recognized at 31/12/2010 – Losses (+)/gains (-)	42,399	11,641	8,537	8,951	71,528
Change	**25,713**	**8,837**	**-9,781**	**2,371**	**27,140**
Amortization of commitments not recognized during the year Losses (-)/gains (+)	489	592	570	3,107	4,758
Commitments not recognized generated during the year – experience adjustments and plan amendments	-2,882	-5,106	4,918	1,714	-1,356
Commitments not recognized generated during the year – changes in assumptions	-23,320	-4,323	4,904	-6,069	-28,808
Exchange gains or losses and other			-611	-1,123	-1,734
Change	**-25,713**	**-8,837**	**9,781**	**-2,371**	**-27,140**

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
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**
Value of the assets	91,250	4,425	68,355	8,815	172,845
Return on assets	876	228	9,394	1,449	11,947
Additional benefits	24,503	275	6,340	1,114	32,232
Benefits paid		-1,428	-3,829	-263	-5,520
Acquisitions, disposals, liquidations					
Impact of changes in exchange rates			2,132	734	2,866
At 31/12/2010	**116,629**	**3,500**	**82,392**	**11,849**	**214,370**

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**

Changes in the commitment	Germany	France	United Kingdom	Other	Total
At 31/12/2009	**183,530**	**33,232**	**83,886**	**49,413**	**350,061**
Cost of services rendered	7,723	1,668	2,164	3,903	15,458
Interest charges on the commitment	9,031	1,758	4,881	3,154	18,824
Employee contributions			713		713
Actuarial gains (-) and losses (+) generated during the year	22,393	3,593	-4,984	4,593	25,595
Acquisitions/disposals	1,467	1,193		-	2,660
Payment of benefits	-10,485	-3,172	-3,829	-1,658	-19,144
Scheme amendments		5,902		486	6,388
Exchange rate differences			2,661	5,677	8,338
Other	57	493	900	-2,155	-705
At 31/12/2010	**213,716**	**44,667**	**86,392**	**63,413**	**408,188**

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/(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**
Total charge for the period	13,121	4,390	3,960	7,891	29,362
Benefits or contributions to the funds	-35,494	-2,018	-5,627	-3,523	-46,662
Impact of changes in exchange rates	-		-83	4,186	4,103
Change in consolidation scope and other	1,467	1,151		41	2,659
Provision/(Asset) at 31/12/2010	**54,688**	**29,526**	**-4,537**	**42,613**	**122,290**

The following table provides a breakdown of the plan assets:

	31/12/2010		31/12/2009	
United Kingdom	**Proportion**	**Rate of return**	Proportion	Rate of return
Equities (UK and Overseas)	47.00%	8.00%	54.70%	8.00%
Bonds	48.00%	4.60%	23.40%	3.70%
Property	4.00%	7.50%	0.40%	3.70%
Other (Cash & Index Linked Gilts)	1.00%	0.50%	21.50%	5.10%

	31/12/2010		31/12/2009	
United States	**Proportion**	**Rate of return**	Proportion	Rate of return
Equities	41.10%	10.00%	44.80%	10.00%
Bonds	48.30%	6.00%	45.80%	6.00%
Property	10.60%	10.00%	9.40%	10.00%
Other	0.00%	0.00%	0.00%	0.00%

	31/12/2010		31/12/2009	
France	**Proportion**	**Rate of return**	Proportion	Rate of return
Equities	0.00%	0.00%	0.00%	0.00%
Bonds	0.00%	0.00%	0.00%	0.00%
Property	0.00%	0.00%	0.00%	0.00%
Other	100.00%	4.00%	100.00%	4.00%

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

Amounts written off as expenses in respect of defined contribution plans:	Manual workers	Management and supervisory staff	Total
At 31/12/2009			
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**
At 31/12/2010			
Employer's share of retirement contributions	6,024	9,967	15,991
Life insurance paid by the employer	3,311	2,248	5,559
Other retirement contributions	440	14	454
TOTAL	**9,775**	**12,229**	**22,004**

Other employee benefits (options and performance shares)

Share subscription plans

Characteristics of the plans

Vallourec's Management Board authorized the setting up of share subscription plans in 2007, 2008, 2009 and 2010 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 2007, 2008 and 2009 plans have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the corresponding multiplication by two of the number of shares):

	2007 plan	2008 plan	2009 plan	**2010 plan**
Grant date	03/09/2007	01/09/2008	01/09/2009	01/09/2010
Maturity date	03/09/2011	01/09/2012	01/09/2013	01/09/2014
Expiry date	03/09/2014	01/09/2015	01/09/2019	01/09/2020
Number of beneficiaries at outset	65	9	303	349
Exercise price in €	95.30	91.77	51.67	71.17
Number of options allocated	294,600	143,600	578,800	512,400

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	2009	**2010**
Total at start of year	473,034	1,034,288
Options distributed	578,800	512,400
Options exercised	-14,546	-26,678
Options not exercised at expiry date	-	-7,610
Options cancelled (*)	-3,000	-11,200
Total at end of year	**1,034,288**	**1,501,200**
Of which options remaining to be exercised	34,288	-

(*) Beneficiaries who have left the Group.

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

	2009	**2010**
2003 plan	34,288	-
2007 plan	277,600	277,600
2008 plan	143,600	143,600
2009 plan	578,800	567,600
2010 plan	-	512,400

Measurement of plans [1]

In € thousand	2007 plan	2008 plan	2009 plan	**2010 plan**
Charge for financial year 2007	705	-	-	-
Charge for financial year 2008	2,912	711	-	-
Charge for financial year 2009	1,817	1,445	820	-
Charge for financial year 2010	1,561	895	1,581	694
Accumulated charge as at 31 December 2010	**6,995**	**3,051**	**2,401**	**694**
Assumptions				
Share price on grant date	€99.00	€95.42	€50.65	€70.34
Volatility [2]	35.00%	35.00%	43.00%	35.00%
Risk-free rate [3]	4.20%	4.40%	2.39%	2.60%
Exercise price	€95.30	€91.77	€51.67	€71.17
Dividend rate [4]	3.75%	3.50%	5.00%	3.00%
Fair value of the option	€29.10	€31.79	€17.11	€24.05

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

Free share and 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, 2009 and 2010.

The characteristics of these plans are as follows (the figures for the 2007, 2008, and 2009 plans have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the resulting multiplication by two of the number of shares):

	Allocation date	Acquisition period	Holding period	Number of beneficiaries at outset	Theoretical number of shares allocated
2007 plan [(a)]	03/05/2007	2, 3 and 4 years	2 years	280	222,000
2008 plan [(b)]	01/09/2008	2 and 3 years	2 years	41	23,180
Value 08 plan	16/12/2008	4.5 years	-	8,697	67,712
2009 plan [(c)]	31/07/2009	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	53	26,668
Value 09 plan	17/12/2009	4.6 years	-	8,097	69,400
"123" plan [(d)]	17/12/2009	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	17,404	104,424
March 2010 plan [(e)]	15/03/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	848	190,540
July 2010 plan [(f)]	31/07/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	2	4,280
Value 10 plan	03/12/2010	4.6 years	-	9,632	83,462
"246" plan [(g)]	03/12/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	12,098	72,588

(a) The final 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 theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(b) The final 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 theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(c) The final 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 theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(d) The final 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 6.

(e) The final allocation, in terms of numbers of shares, will be allocated in 2012 in the case of French residents and in 2014 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. The theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(f) The final allocation, in terms of numbers of shares, will be allocated in 2012 in the case of French residents and in 2014 in the case of non-French residents and will be based on the Vallourec group's performance in terms of consolidated EBITDA in 2010, 2011 and 2012. It will be calculated by applying a performance factor, calculated for the three years concerned, to the theoretical number of shares allocated. The factor can range from 0 to 1. The theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(g) The final allocation, in terms of numbers of shares, will be allocated in 2012 in the case of French residents and in 2014 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 2011 to 30 September 2012. The number of shares actually acquired by each beneficiary at the end of the acquisition period can range from 0 to 6.

Change in number of shares

The characteristics of these plans are as follows (the figures for the 2007, 2008, and 2009 plans have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the resulting multiplication by two of the number of shares):

	Initial theoretical number of shares allocated	Number of shares cancelled	Theoretical number of shares acquired or being acquired	Number of shares delivered
2007 plan	222,000	-20,922	201,078	129,792
2008 plan	23,180	-1,225	21,955	8,812
Value 08 plan	67,712	-1,018	66,694	-
2009 plan	26,668	-266	26,402	-
Value 09 plan	69,400	-60	69,340	-
"123" plan	104,424	-378	104,046	-
March 2010 plan	190,540	-	190,540	-
July 2010 plan	4,280	-	4,280	-
Value 10 plan	83,462	-	83,462	-
"246" plan	72,588	-	72,588	-

Measurement of plans [1]

In € thousand	2007 plan	2008 plan	Value 08 plan	2009 plan	Value 09 plan	"123" plan
Charge for financial year 2007	5,429	-	-	-	-	-
Charge for financial year 2008	7,099	264	17	-	-	-
Charge for financial year 2009	3,757	821	414	271	83	63
Charge for financial year 2010	-1,462	165	411	459	692	1,671
Accumulated charge as at 31 December 2010	**14,823**	**1,250**	**842**	**730**	**775**	**1,734**
Assumptions						
Share price on allocation date	€99.25	€95.42	€41.08	€46.15	€59.50	€60.50
Volatility [2]	40%	35%	40%	40%	40%	40%
Risk-free rate [3]	4.40%	4.20%	3.03%	2.37%	2.40%	2.24%
Dividend rate [4]	3%	3.5%	7.30%	5%	5%	5%
Fair value of the share: tranche 1	€90.39	€85.61	€28.12	€37.32 (French residents) or €35.71 (non-French residents)	€46.04	€52.07 (French residents) or €49.28 (non-French residents)
Fair value of the share: tranche 2	€87.59	€82.50	-	-	-	-
Fair value of the share: tranche 3	€84.89	-	-	-	-	-

Measurement of plans [1]

In € thousand	March 2010 plan	July 2010 plan	Value 10 plan	"246" plan
Charge for financial year 2010	3,544	58	136	127
Accumulated charge as at 31 December 2010	**3,544**	**58**	**136**	**127**
Assumptions				
Share price on allocation date	€72.65	€74.71	€72.77	€72.87
Volatility [2]	40%	40%	40%	40%
Risk-free rate [3]	2.01%	1.67%	1.93%	1.78%
Dividend rate [4]	5%	3.0%	3.00%	3%
Fair value of the share	€62.22 (French residents) or €59.18 (non-French residents)	€66.94 (French residents) or €66.14 (non-French residents)	€62.49	€65.44 (French residents) or €64.51 (non-French residents)

(1) 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.
(2) Volatility corresponds to a historical volatility observed over a period corresponding to the duration of the plans.
(3) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries (Institut des Actuaires)).
(4) The expected dividend rates have been determined on the basis of analysts' expectations and the Group's dividend policy.

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

Note 19 Other current liabilities

	Social security liabilities	Tax liabilities	Payables relating to the acquisition of non-current assets	Deferred income	Other current liabilities	Total
At 31/12/2008	**203,537**	**56,484**	**50,482**	**7,014**	**72,111**	**389,628**
Impact of changes in exchange rates	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**
Impact of changes in exchange rates	8,091	2,006	7,621	210	2,617	20,545
Other movements	36,263	3,660	39,327	-390	17,183	96,043
At 31/12/2010	**225,670**	**47,252**	**112,723**	**8,386**	**54,961**	**448,992**

The movements in "Other current liabilities" relate mainly to liabilities in respect of capital expenditure, dividends payable to non-controlling interests and the reclassification of provisions as liabilities.

Note 20 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 31/12/2009				
HKM	278	263,834	56	22,838
Rothschild & Cie	-	514	-	73
Proportionately consolidated companies	30,117	1,125	3,082	20,337
At 31/12/2010				
HKM	629	406,123	2	27,500
Rothschild & Cie	-	-	-	-
Proportionately consolidated companies	8,769	1,704	3,027	34,283

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 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 €1,379.7 million. In 2010, the Group invested capital totalling €463.2 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 (11 people in 2010 and 7 people in 2009) and the retirement commitments at the year end were as follows:

	2009	**2010**
Remuneration and benefits in kind	3,436	5,160
Share-based payments (*)	1,455	2,467
Retirement commitments	275	409
Supplementary pension commitments	2,478	4,136

(*) Information provided based on the 2010, 2009 and 2008 share subscription option plans, performance share plans and other employee share ownership plans.

Share purchase or share subscription options (Note 18) granted to employees who were members of the Executive Committee as at 31 December of the year concerned

	2009 (*)	**2010 (*)**
Subscription options granted on 3 September 2007 and exercisable between 3 September 2011 and 3 September 2014	43,000	53,000
Options exercised 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	43,000	53,000
Subscription options granted on 1 September 2008 and exercisable between 1 September 2012 and 1 September 2015	100,400	108,000
Options exercised 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	100,400	108,000
Subscription options granted on 1 September 2009 and exercisable between 1 September 2013 and 1 September 2019	104,000	116,000
Options exercised 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	104,000	116,000
Subscription options granted on 1 September 2010 and exercisable between 1 September 2014 and 1 September 2020	-	104,400
Options exercised 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	-	104,400

(*) The plan figures have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the resulting multiplication by two of the number of shares.

Performance shares (Note 18) allocated to employees who were members of the Executive Committee on 31 December of the year concerned

	2009 (*)	2010 (*)
3 May 2007 plan		
Theoretical number of shares allocated	7,200	9,600
Number of shares acquired during the year	2,602	2,560
1 September 2008 plan		
Theoretical number of shares allocated	6,400	6,400
Number of shares acquired during the year		2,560
16 December 2008 Value 08 plan		
Theoretical number of shares allocated	10	42
31 July 2009 plan		
Theoretical number of shares allocated	14,992	14,992
17 December 2009 Value 09 plan		
Theoretical number of shares allocated	12	24
17 December 2009 123 plan		
Theoretical number of shares allocated	24	36
15 March 2010 plan		
Theoretical number of shares allocated	-	23,300
31 July 2010 plan		
Theoretical number of shares allocated	-	4,000
3 December 2010 Value 10 plan		
Theoretical number of shares allocated	-	24
3 December 2010 246 plan		
Theoretical number of shares allocated	-	36

(*) The plan figures have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the resulting multiplication by two of the number of shares.

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 18).

As at 31 December 2010, no loans or guarantees had been granted to senior management by the parent company Vallourec or its subsidiaries.

Note 21 Off-balance-sheet commitments

Due to the nature of its business, V & M France was granted a greenhouse gas emission allowance of 98,840 tonnes for 2010.

Off-balance-sheet commitments received (excluding financial instruments)

Commitments received (excluding financial instruments)	2009	**2010**
Firm non-current asset orders	214,202	187,638
Guarantees and commitments received	234,560	97,450
HKM supply contract	-	-
Other commitments received	39,725	110,084
TOTAL	**488,487**	**395,172**
Commitments given (excluding financial instruments)	**587,572**	**725,576**

Commitments given by maturity

	2010	< 1 year	> 1 year	> 5 years
BALANCE SHEET				
Long-term borrowings	1,034,394	220,705	700,401	113,288
OFF-BALANCE SHEET				
Market guarantees and letters of credit given	176,053	68,784	107,176	93
Other security, mortgages and pledges given	117,773	3,931	6,868	106,974
Long-term leasing contract	28,438	8,236	19,846	356
HKM supply contract	-	-	-	-
Pensions and retirement gratuities (actuarial gains and losses)	69,558	-	55,929	13,629
Firm non-current asset orders given	199,133	188,231	10,902	
Other commitments	134,621	69,319	29,363	35,939
TOTAL	**725,576**	**338,501**	**230,084**	**156,991**

	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**

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 22 Sales

	2009	**2010**
France	203,876	191,367
Germany	793,611	628,508
Other EU Member States	414,038	363,051
North America (NAFTA)	1,007,818	1,135,213
South America	780,420	1,099,023
Asia	869,989	753,003
Rest of the world	394,727	321,107
TOTAL	**4,464,479**	**4,491,272**

For the full year 2010, sales increased by 0.6% to €4,491.3 million (they decreased by 2.9% on a comparable basis after adjusting 2009 sales to make them comparable with 2010 sales).

Note 23 Cost of sales

	2009	**2010**
Direct cost of sales	-234,133	-272,788
Cost of raw materials consumed	-1,332,395	-1,322,561
Labour costs	-575,352	-671,356
Other manufacturing costs	-721,142	-881,012
Change in non-raw material inventories	-137,583	108,251
TOTAL	**-3,000,605**	**-3,039,466**
Depreciation and amortization	-151,050	-184,008
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**-3,151,655**	**-3,223,474**

Note 24 Selling, general and administrative costs

	2009	2010
Research and Development costs	-67,278	-68,120
Selling and marketing costs	-74,895	-86,405
General and administrative costs	-306,163	-333,002
TOTAL	**-448,336**	**-487,527**
Depreciation and amortization	-36,872	-39,050
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**-485,208**	**-526,577**

Payroll costs and average number of employees in consolidated companies

	2009	2010
PAYROLL COSTS		
Wages and salaries	-539,093	-632,754
Employee profit sharing	-41,301	-49,509
Charges in respect of share subscription and share purchase option plans and performance shares	-19,618	-22,649
3 September 2007 share subscription option plan	*-1,817*	*-1,561*
1 September 2008 share subscription option plan	*-1,445*	*-895*
1 September 2009 share subscription option plan	*-820*	*-1,581*
1 September 2010 share subscription option plan		*-694*
3 May 2007 performance share allocation plan	*-3,757*	*1,462*
1 September 2008 performance share allocation plan	*-821*	*-165*
December 2008 "Value 08" employee share ownership plan including 16 December 2008 share allocation plan	*-771*	*-411*
31 July 2009 performance share allocation plan	*-271*	*-459*
17 December 2009 "Value 09" employee share ownership plan including 17 December 2009 share allocation plan	*-9,853*	*-692*
17 December 2009 "123" performance share allocation plan	*-63*	*-1,671*
15 March 2010 performance share allocation plan	*N/A*	*-3,544*
31 July 2010 performance share allocation plan	*N/A*	*-58*
3 December 2010 Value 10 employee share ownership plan *including 3 December 2010 share* allocation *plan*	*N/A*	*-12,253*
3 December 2010 "246" performance share allocation plan	*N/A*	*-127*
Social security contributions	-220,917	-255,546
TOTAL	**-820,929**	**-960,458**

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.

2010

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.

Characteristics of Value plans	2009	**2010**
Grant date	17 November 2009	17 November 2010
Maturity date of plans	1 July 2014	1 July 2015
Reference price	€57.34	€76.43
Subscription price	€45.87	€61.14
Discount	20%	20%
Total amount subscribed	65,006	85,328
Total number of shares subscribed	1,417,178	1,395,614
Total discount	16,251	21,333
Multiple per share		
Leveraged company mutual fund formula	6.7	6.8
Share + SAR formula	4.7	4.8
Cash + SAR formula	5.9	6
Measurement assumptions		
Volatility [1]	40%	40%
Risk-free rate [2]	2.40%	1.93%
Annual dividend rate [3]	5.00%	3.00%
Total IFRS 2 charge [4]	**9,949**	**12,117**

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

This benefit resulted in the recognition of payroll costs of €12.1 million in 2010.

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	**Value 10**
Measurement date	31 December 2010	31 December 2010	31 December 2010
Maturity date	1 July 2013	1 July 2014	1 July 2015
Share price on measurement date	€78.60	€78.60	€78.60
Multiple per share			
Share and SAR formula	5.1	4.7	4.8
Cash and SAR formula	6.1	5.9	6
Measurement assumptions			
Volatility (1)	38%	39%	40%
Risk-free rate (2)	1.32%	1.69%	2.06%
Annual dividend rate (3)	3.00%	3.00%	3.00%
IFRS 2 charge (4)	**2,415**	**553**	**1,595**

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

The liability to employees resulting from the SARs resulted in payroll costs of €4.6 million in 2010.

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	**Value 10**
Measurement date	31 December 2010	31 December 2010	31 December 2010
Maturity date	1 July 2013	1 July 2014	1 July 2015
Share price on measurement date	€78.60	€78.60	€78.60
Multiple per share			
Share and SAR formula	5.1	4.7	4.8
Cash and SAR formula	6.1	5.9	6
Measurement assumptions (*)			
Implied volatility	38%	39%	39%
Interest rate	from 1.33% to 1.91%	from 1.33% to 2.23%	from 1.33% to 2.50%
Annual dividend *(in €)*	€1.58	€1.58	€1.58
IAS 39 income	**2,101**	**386**	**1,324**

(*) 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 €3.8 million in 2010 since it is intended to cover the charge associated with the SARs (see above).

Average number of employees in consolidated companies (*)	2009	2010
Executives	1,440	2,394
Supervisory, clerical and technical staff	4,350	3,595
Production staff	12,591	13,075
TOTAL	**18,381**	**19,064**

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

The Group's workforce totalled 20,044 at 31 December 2010 compared with 18,238 at 31 December 2009.

Note 25 Other

	2009	2010
Employee profit sharing	-41,301	-49,509
Fees for concessions and patents	21,591	19,386
Other income and expenses	-15,231	-9,338
TOTAL	**-34,941**	**-39,461**

Note 26 Statutory Auditors' fees

	KPMG		Deloitte	
	Amount (excl. tax)			
	2009	**2010**	2009	**2010**
AUDIT				
Statutory audit, certification, examination of Company and consolidated financial statements				
Issuer	235	240	235	240
%	23%	21%	17%	15%
Fully consolidated companies	685	749	1,094	1,346
%	68%	67%	81%	84%
Other services directly associated with the statutory audit				
Issuer	48	68	19	19
%	5%	6%	1%	1%
Fully consolidated companies	0	11	0	0
%	0%	1%	0%	0%
Sub-total	**968**	**1,068**	**1,348**	**1,605**
%	96%	96%	100%	100%
OTHER SERVICES PROVIDED BY AUDIT NETWORK TO FULLY CONSOLIDATED SUBSIDIARIES				
Legal, tax, employment	0	0	0	0
%	0%	0%	0%	0%
Other (details to be provided if > 10% of audit fees)	39	49	0	0
%	4%	0%	0%	0%
Sub-total	**39**	**49**	**0**	**0**
%	4%	0%	0%	0%
TOTAL	**1,007**	**1,117**	**1,348**	**1,605**

Note 27 Depreciation and amortization

	2009	2010
BY FUNCTION		
Industrial depreciation and amortization	-151,050	-184,008
Depreciation and amortization of assets allocated to Research and Development	-1,555	-2,641
Depreciation and amortization – sales and marketing departments	-26,747	-27,587
Depreciation and amortization – general and administrative costs	-8,570	-8,822
TOTAL	**-187,922**	**-223,058**
BY NATURE		
Charges to amortization of intangible assets (see Note 1)	-39,138	-42,874
Charges to depreciation of property, plant and equipment (see Note 2)	-148,815	-180,525
Reversals of depreciation and provisions on property, plant and equipment (see Note 2)	31	341
TOTAL	**-187,922**	**-223,058**

Note 28 Impairment of assets and goodwill, asset disposals and restructuring costs

	2009	2010
Reorganization measures (net of expenses and provisions)	-21,040	-14,144
Gains and losses on disposals of non-current assets	22,518	-2,031
TOTAL	**1,478**	**-16,175**

	2009	2010
Impairment of assets and goodwill	360	-2,342
Impairment of inventories specific to discontinued operations	-8,188	-853
TOTAL	**-7,828**	**-3,195**

2010

The Reorganization measures category consists mainly of the costs of the planned shutting down of Valti GmbH and the modification of the industrial equipment of V & M Deutschland and V & M France.

2009

Provisions for depreciation and impairment were recognized as at 31 December 2009 in respect of industrial assets (equipment, tools and specific spare parts) used in operations the Group 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.

Note 29 Financial income (loss)

	2009	2010
FINANCIAL INCOME		
Income from marketable securities	16,033	18,717
Income from disposals of marketable securities	4,474	2,566
TOTAL	**20,507**	**21,283**
INTEREST COSTS	**-42,606**	**-45,441**
OTHER FINANCIAL INCOME AND CHARGES		
Income from securities	3,229	2,854
Income from loans and receivables	4,023	2,125
Exchange losses (-) and gains (+) and changes in premiums/discounts	25,137	2,369
Charges to provisions, net of reversals	880	-932
Other financial income and charges	182	710
TOTAL	**33,451**	**7,126**
OTHER DISCOUNTING COSTS		
Financial charges: discounting of retirement commitments	-16,074	-10,911
Financial income: discounting of certain assets and liabilities	80	101
TOTAL	**-15,994**	**-10,810**
FINANCIAL INCOME (LOSS)	**-4,642**	**-27,842**

Note 30 Reconciliation of theoretical and actual tax charge

Breakdown of the tax charge	2009	**2010**
Current tax charge	-233,390	-214,442
Deferred taxes (see Note 5)	-14,117	14,989
Net charge	**-247,507**	**-199,453**
Net profit (loss) of consolidated companies	534,186	455,095
Tax charge	-247,507	-199,453
Net profit (loss) of consolidated companies, before tax	**781,693**	**654,548**
Statutory tax rate of consolidating company (see Note 5)	34.43%	34.43%
Theoretical tax charge	-269,137	-225,360
Impact of main losses carried forward	644	-3,133
Impact of permanent differences	-250	17,151
Other effects	-26	-547
Impact of differences in tax rates	21,262	12,436
Net charge	**-247,507**	**-199,453**
ACTUAL TAX RATE	**31.66%**	**30.47%**

The permanent differences consist mainly of the net profit attributable to non-controlling interests, withholding taxes and the change in 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%, Brazil 34% and China 25%).

Note 31 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 2009 and 2010.

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

2010	Seamless tubes	Speciality Products	Holding companies & other (*)	Inter-segment transactions	Total
INCOME STATEMENT					
Sales to external customers	4,164,220	278,171	48,881	-	4,491,272
EBITDA	943,628	20,712	-42,110	2,588	924,818
Depreciation and amortization	-211,339	-11,318	-840	439	-223,058
Impairment of assets and goodwill	-3,076	-119	-	-	-3,195
Asset disposals and restructuring costs	-11,218	-4,789	10,318	-10,486	-16,175
Operating profit	717,995	4,486	-32,632	-7,459	682,390
Unallocated income					28,409
Unallocated charges					-56,251
Profit before tax					654,548
Income tax					-199,453
Net profit of equity affiliates					-2,260
Consolidated net profit					452,835
BALANCE SHEET					
Non-current assets	4,242,835	175,773	3,196,058	-2,997,660	4,617,006
Current assets	2,105,775	154,832	146,693	-129,496	2,277,804
Cash and cash equivalents	735,560	57,074	566,733	-705,605	653,762
TOTAL ASSETS	**7,084,170**	**387,679**	**3,909,484**	**-3,832,761**	**7,548,572**
Equity	3,934,606	159,830	2,965,824	-2,503,846	4,556,414
Non-controlling interests	257,620	9,579	-	-40	267,159
Non-current liabilities	992,815	12,281	605,285	-478,264	1,132,117
Current liabilities	1,899,766	206,549	339,350	-852,783	1,592,882
TOTAL EQUITY AND LIABILITIES	**7,084,807**	**388,239**	**3,910,459**	**-3,834,933**	**7,548,572**
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	992,242	72,075	532	-	1,064,849
Other information					
Average number of employees	17,338	1,555	171		19,064
Payroll costs	842,791	63,537	57,280	-3,150	960,458

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

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.

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).

2010	Europe	North America and Mexico	South America	Asia	Rest of the world	Total
Sales						
Sales to external customers	1,182,926	1,135,213	1,099,023	753,003	321,107	4,491,272
Balance sheet						
Property, plant and equipment, intangible assets and goodwill (net)	1,040,600	1,018,705	1,865,623	327,902	4,511	4,257,341
Cash flows						
Capital expenditure: property, plant and equipment and intangible assets	109,877	193,923	672,289	88,281	479	1,064,849
Other information						
Average number of employees	9,271	2,214	6,244	1,318	17	19,064
Payroll costs	571,423	159,488	212,751	16,374	422	960,458

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

Note 32 Events after the reporting period

On 10 February 2011, the Vallourec group signed a €1 billion multi-currency revolving credit facility maturing in February 2016. This facility is available for use for the Group's general financing requirements. It will partially refinance the existing credit lines maturing in March 2012 and April 2013, enabling the Group to increase its financial flexibility and extend the maturity of its resources. This operation was significantly over-subscribed, at more than €1.4 billion, by an international syndicate of 22 banks.

On 1 April 2011, Vallourec announced that it had acquired 19.5% of the capital of Tianda Oil Pipe Company Limited. This operation was carried out through a reserved capital increase.

5.2 STATUTORY FINANCIAL STATEMENTS OF VALLOUREC SA

5.2.1 BALANCE SHEET

ASSETS

In € thousand	31/12/2009	**31/12/2010**
NON-CURRENT ASSETS		
Intangible assets	79	79
Property, plant and equipment	131	93
Participating interests	1,057,079	1,057,036
Own shares	5,526	8,901
Receivables, loans and other investments	148,741	653,045
Total I	**1,211,556**	**1,719,154**
CURRENT ASSETS		
Trade receivables	612	375
Other receivables	927,349	958,038
Marketable securities	22,934	29,881
Cash and cash equivalents	426	
Prepayments	63	77
Translation differences – premium/discount	3,293	20,070
Total II	**954,677**	**1,008,441**
TOTAL ASSETS (I+II)	**2,166,233**	**2,727,595**

EQUITY AND LIABILITIES

In € thousand	31/12/2009	**31/12/2010**
EQUITY		
Issued capital	229,123	235,888
Additional paid-in capital	365,528	573,181
Revaluation reserve	634	634
Reserves	80,265	81,661
Retained earnings	430,086	656,416
Interim dividend		
Net profit for the financial year	427,377	515,486
Total I	**1,533,013**	**2,063,266**
Provisions for liabilities and charges	1,027	7,338
Bank loans and other borrowings	571,646	589,668
Trade payables	2,888	4,940
Other payables	53,066	52,818
Translation differences – premium/discount	4,593	9,565
Total II	**633,220**	**664,329**
TOTAL EQUITY AND LIABILITIES (I+II)	**2,166,233**	**2,727,595**

5.2.2 INCOME STATEMENT

In € thousand	2009	**2010**
Sales	**108**	**3,939**
Provision reversals and charges transferred	1,791	1,950
Other revenues	1,137	998
External services	-11,655	-10,509
Taxes, duties and similar payments	-474	-419
Payroll costs	-3,496	-4,968
Other operating costs	-636	-800
Amortization, depreciation and provisions	-590	-6,868
Operating profit (loss)	**-13,815**	**-16,677**
Financial income	**476,859**	**541,784**
Participating interests	447,630	535,365
Other long-term securities and receivables	426	1,980
Other interest and similar income	2,892	2,471
Provision reversals and financial charges transferred	2,216	
Exchange gains	23,622	1,896
Net income on disposal of marketable securities	73	72
Financial charges	**-51,769**	**-27,252**
Financial depreciation and provisions		-3
Interest and similar charges	-26,471	-26,063
Exchange losses	-25,298	-1,186
Net charges on disposal of marketable securities		
Net financial income	**425,090**	**514,532**
Operating profit (loss) before tax	**411,275**	**497,855**
Exceptional income	6,025	3,311
Exceptional charges	-1,483	-711
Net exceptional income (charges)	**4,542**	**2,600**
Income tax credit (charge)	11,560	15,031
NET PROFIT	**427,377**	**515,486**

5.2.3 NOTES TO THE STATUTORY FINANCIAL STATEMENTS

In thousands of euros (€ thousand) unless stated otherwise

Notes to the balance sheet (before allocation) for the year ended 31 December 2010, which totals €2,727.6 million, and to the income statement, which shows a net profit of €515.5 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 30 June 2010, the option to pay the dividend in shares, which was approved by the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010, resulted in the creation of 993,445 new shares (1.7% of the capital) issued at the price of €130.85, giving a capital increase of €130 million, including issue premium net of expenses.

On 9 July 2010, a 2:1 stock split was carried out, giving shareholders the right to two new shares for each old share, resulting in the creation of 58,274,234 shares.

On 3 December 2010, under the terms of the "Value 10" employee share ownership plan, 1,395,614 new shares were subscribed for at a price of €61.14 resulting in a capital increase of €84.4 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 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).

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 since 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 4% (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 2010, 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.

Provisions against shares allocated to employee share ownership plans

In accordance with regulation no. 2008-15 of the French Accounting Regulation Committee (*Comité de 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

	31/12/2009	Additions Charge	Disposals Reversals	31/12/2010	Of which revaluation reserve	Of which affiliated companies
Intangible assets	**79**			**79**		
Trademarks	79			79		
Property, plant and equipment	**131**		**-38**	**93**	**23**	
Land	131		-38	93	23	
Buildings	172		-59	113		
Depreciation of buildings	-172		59	-113		
Participating interests	**1,057,079**	**-3**	**-40**	**1,057,036**	**611**	**1,057,036**
Participating interests	1,057,099		-40	1,057,059	611	1,057,059
Provisions on participating interests	*-20*	*-3*		*-23*		*-23*
Long-term investments and own shares	**87,473**	**3,835**	**-459**	**90,849**		
Receivables, loans and other investments	**66,794**	**505,152**	**-849**	**571,097**		**571,097**
Other investments	66,794	505,152	-849	571,097		571,097
TOTAL	**1,211,556**	**508,984**	**-1,386**	**1,719,154**	**634**	**1,628,133**

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:

  - 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 December 2009 “Value 09” share allocation plan,
  - 17 December 2009 “123” share allocation plan,
  - 15 March 2010 performance share allocation plan,
  - 31 July 2010 performance share allocation plan,
  - 3 December 2010 “Value 10” share allocation plan,
  - 3 December 2010 “2-4-6” share allocation plan.

  In 2010, before the 2:1 stock split, Vallourec made a final allocation of 25,804 shares (€0.3 million) under the terms of the second tranche of the 3 May 2007 performance share allocation plan at the end of the three-year acquisition period and sold 13,339 shares, corresponding to the exercise of 13,339 share purchase options under the share purchase option plan dated 15 June 2003 which matured (€0.1 million) and 216 sold early under the terms of other share option or performance share plans due to death or disability.

  Following the 2:1 stock split, Vallourec made a final allocation of 8,812 shares under the terms of the first tranche of the 1 September 2008 performance share allocation plan at the end of the two-year acquisition period.

- 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 2010, Vallourec held 98,000 shares under the terms of this contract with a value of €7.5 million.

Receivables, loans, other investments

On 16 May 2008, Vallourec acquired, indirectly *via* its subsidiary V & M Tubes, Grant Prideco’s three tubular businesses, Atlas Bradford® (V & M Atlas Bradford), TCA® (which was renamed V & M TCA) and Tube-Alloy™ (which was renamed V & M Tube-Alloy). To finance this acquisition, Vallourec took out a USD 450 million loan (€323.3 million) on behalf of V & M Tubes. In 2009, V & M Tubes repaid USD 355 million (€257.4 million). At the end of 2010, the balance of the loan was USD 95 million.

On 1 October 2010, Vallourec took out a €500 million loan on behalf of V & M Tubes to finance, *via* its subsidiary VM Two, the construction of a new plant in the United States.

2. MARKETABLE SECURITIES

	31/12/2009	**31/12/2010**	Measurement 31/12/2010	Loss provided for	Unrealized gain
Mutual and investment funds	16,967	16,759	16,794		35
TOTAL	**16,967**	**16,759**	**16,794**		**35**

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 (before taking into account the impact of the 2:1 stock split) of its own shares valued at €6 million. These own shares were classified as marketable securities: they were acquired with a view to being allocated to the Group's employees, managers and Corporate Officers under the terms of the "1-2-3" share allocation plan.

In addition, in 2010, Vallourec acquired 50,000 (before taking into account the impact of the 2:1 stock split) of its own shares valued at €7.2 million. These own shares are classified as marketable securities: they were acquired with a view to being allocated to the Group's employees, managers and Corporate Officers under the terms of the 2010 performance share allocation plan.

	31/12/2009	Acquisition Charge	Disposal Reversal	**31/12/2010**
Own shares	5,968	7,154		13,122
Impairment provision				0
TOTAL	**5,968**	**7,154**		**13,122**

3. RECEIVABLES AND PAYABLES

Assets at 31/12/2010	Gross value	Of which accrued receivables	Of which affiliated companies	Gross value -1 year	Gross value +1 year
Receivables and long-term loans	**571,097**		**571,097**		**571,097**
Trade receivables	**375**			**375**	
Advances and deposits paid to suppliers					
Accounts receivable					
Other trade receivables	375			375	
Other receivables	**958,038**		**953,216**	**958,038**	
Intra-Group cash advance	951,848		951,848	951,848	
Sundry receivables	6,190		1,368	6,190	
TOTAL	**1,529,510**		**1,524,313**	**958,413**	**571,097**

Loans granted during the year: €500,000 thousand.

Loans repaid during the year: nil.

Receivables represented by commercial paper: nil.

Liabilities at 31/12/2010	Gross value	Of which accrued payables	Of which affiliated companies	-1 year	+1 year	+5 years
Bank loans and other borrowings	**589,668**	**3,499**		**5,128**	**584,540**	
Bank borrowings	589,634	3,499		5,117	584,517	
Other borrowings	34			11	23	
Intra-Group cash advance						
Trade payables	**4,940**	**2,401**	**1,115**	**4,940**		
Accounts payable	2,488	383	1,115	2,488		
Tax and social security liabilities	2,452	2,018		2,452		
Other liabilities	**52,818**	**2,535**	**52,690**	**52,818**		
Tax liabilities (income tax)						
Sundry liabilities	52,818	2,535	52,690	52,818		
TOTAL	**647,426**	**8,435**	**53,805**	**62,886**	**584,540**	

Loans drawn down during the year: none.

Loans repaid during the year: €11 thousand.

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 31/12/2010	Amount	Of which offset by foreign currency hedges	Provisions for foreign exchange losses
Translation differences – unrealized losses			
Reduction in receivables			
Increase in liabilities	19,564	19,564	
Translation differences – unrealized gains			
Increase in receivables	9,565	9,565	
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 €19.6 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 €9.6 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 2010.

5. EQUITY

The changes in equity are shown below:

	Number of shares	Capital	Net profit (loss) for the financial year	Additional paid-in capital and reserves	Equity
As at 31/12/2008	**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**
Alllocation of net profit for 2009			-427,377	427,377	
Capital increase	993,445	3,974		126,006	129,980
2:1 stock split	58,274,234				
Capital increase	1,395,614	2,791		81,646	84,437
Revaluation reserve					
Dividend paid				-199,650	-199,650
Interim dividend					
Net profit for 2010			515,486		515,486
Change	**60,663,293**	**6,765**	**88,109**	**435,379**	**530,253**
As at 31/12/2010	**117,944,082**	**235,888**	**515,486**	**1,311,892**	**2,063,266**

Vallourec's share capital comprised 117,944,082 ordinary shares with a nominal value of €2 per share fully paid-up as at 31 December 2010, after the 2:1 stock split, compared with 57,280,789 shares with a nominal value of €4 per share fully paid-up as at 31 December 2009.

The reserve account to which is posted the corresponding credit to the debit in respect of the carrying amount of the own shares (457,114 shares) had a balance of €22.1 million.

The capital increase resulting from the payment of the dividend in shares, at the shareholder's option, at the price of €130.85, led to the issue of 993,445 new shares, *i.e.* a capital increase of €130 million, including issue premium net of expenses.

In accordance with the Group's employee share ownership policy, in 2010 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 13 October and 9 November 2010, *i.e.* €61.14.

The capital increase reserved for employees and the bank guaranteeing the leverage effect of the share ownership plan resulted in the issue of 1,395,614 new shares, giving a capital increase of €84.4 million, including issue premium net of expenses.

Employee share ownership

Share subscription plans

Characteristics of the plans

Vallourec's Management Board authorized the setting up of share subscription plans in 2007, 2008, 2009 and 2010 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 2007, 2008 and 2009 plans have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the resulting multiplication by two of the number of shares):

	2007 plan	2008 plan	2009 plan	**2010 plan**
Allocation date	03/09/2007	01/09/2008	01/09/2009	01/09/2010
Maturity date	03/09/2011	01/09/2012	01/09/2013	01/09/2014
Expiry date	03/09/2014	01/09/2015	01/09/2019	01/09/2020
Number of beneficiaries at outset	65	9	303	349
Exercise price in euros	95.30	91.77	51.67	71.17
Number of options granted	294,600	143,600	578,800	512,400

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)	2009	**2010**
Total at start of year	473,034	1,034,288
Options distributed	578,800	512,400
Options exercised	-14,546	-26,678
Options not exercised at expiry date	-	-7,610
Options cancelled (*)	-3,000	(11,200)
TOTAL AT END OF YEAR	**1,034,288**	**1,501,200**
Of which options remaining to be exercised	*34,288*	-

(*) Beneficiaries who have left the Group.

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

	2009	**2010**
2003 plan	34,288	-
2007 plan	277,600	277,600
2008 plan	143,600	143,600
2009 plan	578,800	567,600
2010 plan	-	512,400

Free share and 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, 2009 and 2010.

The characteristics of these plans are as follows (the figures for the 2007, 2008 and 2009 plans have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the resulting multiplication by two of the number of shares):

	Allocation date	Acquisition period	Holding period	Number of beneficiaries at outset	Theoretical number of shares allocated
2007 plan [(a)]	03/05/2007	2.3 and 4 years	2 years	280	222,000
2008 plan [(b)]	01/09/2008	2 and 3 years	2 years	41	23,180
Value 08 plan	16/12/2008	4.5 years	-	8,697	67,712
2009 plan [(c)]	31/07/2009	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	53	26,668
Value 09 plan	17/12/2009	4.6 years	-	8,097	69,400
1-2-3 plan [(d)]	17/12/2009	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	17,404	104,424
March 2010 plan [(e)]	15/03/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	848	191,940
July 2010 plan [(f)]	31/07/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	2	4,280
Value 10 plan	03/12/2010	4.6 years	-	9,632	83,462
2-4-6 plan [(g)]	03/12/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	12,098	72,588

(a) The final 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 theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(b) The final 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 theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(c) The final 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 theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(d) The final 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 6.

(e) The final allocation, in terms of numbers of shares, will be allocated in 2012 in the case of French residents and in 2014 in the case of non-French residents and will be based on the Vallourec group's performance in terms of consolidated EBITDA in 2010, 2011 and 2012. It will be calculated by applying a performance factor, calculated for the three years concerned, to the theoretical number of shares allocated. The factor can range from 0 to 1. The theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(f) The final allocation, in terms of numbers of shares, will be allocated in 2012 in the case of French residents and in 2014 in the case of non-French residents and will be based on the Vallourec group's performance in terms of consolidated EBITDA in 2010, 2011 and 2012. It will be calculated by applying a performance factor, calculated for the three years concerned, to the theoretical number of shares allocated. The factor can range from 0 to 1. The theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(g) The final allocation, in terms of numbers of shares, will be allocated in 2012 in the case of French residents and in 2014 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 2011 to 30 September 2012. The number of shares actually acquired by each beneficiary at the end of the acquisition period can range from 0 to 6.

Change in number of shares

The characteristics of these plans are as follows (the figures for the 2007, 2008 and 2009 plans have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the resulting multiplication by two of the number of shares):

	Initial theoretical number of shares allocated	Number of shares cancelled	Theoretical number of shares acquired or being acquired	Number of shares delivered
2007 plan	222,000	-20,922	201,078	129,792
2008 plan	23,180	-1,225	21,955	8,812
Value 08 plan	67,712	-1,018	66,694	
2009 plan	26,668	-	26,668	
Value 09 plan	69,400	-60	69,340	
1-2-3 plan	104,424	-378	104,046	
March 2010 plan	190,540	-	190,540	
July 2010 plan	4,280	-	4,280	
Value 10 plan	83,462	-	83,462	
2-4-6 plan	72,588	-	72,588	

6. PROVISIONS FOR LIABILITIES AND CHARGES

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

	31/12/2009	Charges	Reversals used	Reversals of provisions no longer needed	**31/12/2010**
Provisions for liabilities and charges					0
Provisions for retirement commitments	28	45			73
Provisions for additional retirement commitments	488	474	-308		654
Provisions for charges re performance shares	510	6,349	-248		6,611
TOTAL	**1,026**	**6,868**	**-556**	**0**	**7,338**
Of which, recognized in operating profit (loss)			*0*		
Of which, recognized in net exceptional income (charges)				*0*	

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, 2009 and 2010 plans) totalled €6.6 million (see paragraph 3.5).

Retirement provisions

Retirement commitments, net of plan assets, totalled €1.2 million at 31 December 2010.

The actuarial gains and past service costs not recognized totalled €0.4 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 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.

- 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 €25.4 million at 31 December 2010.

Information on exchange rate risk

At 31 December 2010, 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

Sales totalling €3.9 million correspond to the recharging to the subsidiaries by the Group of the costs of the performance share allocation plans.

Other operating revenues: Vallourec invoiced fees totalling €1 million for the use of its brand name.

FINANCIAL CHARGES AND INCOME CONCERNING AFFILIATED COMPANIES

Financial charges: €19 thousand

Financial income: €537,834 thousand

NET EXCEPTIONAL INCOME

Net exceptional income for the year amounted to €2.6 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 €2.2 million, the charge of €0.3 million associated with the exercise of the 2007 and 2008 performance share allocation plans (see paragraph 3.1), the €0.2 million gain on the liquidation of the subsidiary Finalourec and the €0.5 million capital gain on the disposal of property, plant and equipment.

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 CGI (*Code général des impôts* – General Tax Code). This agreement has been renewed automatically for five-year periods since 1999.

In 2010, the tax group comprised Vallourec, Assurval, Interfit, Valti, Valtimet, Valsept, Vallourec Umbilicals, 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 2010:

The net tax credit in the income statement amounted to:	€15,031 thousand
It can be broken down as follows:	
• Tax credit relating to Vallourec	€56 thousand
• Tax credit relating to the tax group	€14,975 thousand

At 31 December 2010, the saving recognized by Vallourec, which heads the tax group in France, totalled €33.9 million, which was recognized as a liability in the balance sheet.

The Vallourec tax group was in a loss-making situation in 2010, with losses carried forward totalling €93.73 million at the end of 2010.

Increase and reduction in future tax liabilities

Nature of temporary differences	**Amount at 31/12/10** (base)
Increase	**0**
Reductions	
Provision for retirement commitments	727
Provision for employee share ownership arrangements	2,069
Provision for paid holidays	17
Solidarity social security contribution provision	2
Unrealized gains on UCITS	35

Vallourec was in a loss-making situation in 2010, with tax losses carried forward totalling €16.8 million at the end of 2010.

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

	Profit before tax	Tax due	Net profit
Operating profit (loss)	497,855		497,855
Exceptional income (loss)	2,600		2.600
Sub-total	**500,455**	**0**	**500,455**
Charge specific to Vallourec		56	56
Income relating to the tax group		14,975	14,975
TOTAL VALLOUREC	**500,455**	**15,031**	**515,486**

REMUNERATION OF MEMBERS OF ADMINISTRATIVE AND MANAGEMENT BODIES

Administrative bodies

Board attendance fees paid during the year amounted to €0.5 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	€440 thousand (actuarial deficit)
Long-term vehicle lease	€48 thousand

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

EVENTS AFTER THE REPORTING PERIOD

Between 31 December 2010 and 23 February 2011, the date on which the financial statements were approved by the Management Board, the Vallourec group, on 10 February 2011, signed a €1 billion multi-currency revolving credit facility maturing in February 2016. This facility is available for use for the Group's general financing requirements. It will partially refinance the existing credit lines maturing in March 2012 and April 2013, enabling the Group to increase its financial flexibility and extend the maturity of its resources. This operation was significantly over-subscribed, at more than €1.4 billion, by an international syndicate of 22 banks, which demonstrates the confidence banks have in the quality of Vallourec's credit.

Notes to the statutory financial statements of Vallourec – Allocation of profit for the financial year ended 31 December 2010 and payment of a dividend.

The Management Board will propose to the Shareholders' Meeting of 7 June 2011 the allocation of the profit for the financial year ended 31 December 2010 and the payment of a dividend as follows:

In €	2010
Net profit for the financial year	515,485,565.85
Retained earnings carried forward	656,416,043.00
Total distributable profit	**1,171,901,608.85**
Allocation to the statutory reserve	676,500.80
Dividend	153,327,306.60
Allocation to retained earnings	1,017,897,801.45
TOTAL VALLOUREC	**1,171,901,608.85**

Based on the number of shares in circulation at 31 December 2010, the total dividend amounting to €153,327,306.60 to be distributed to Vallourec's shareholders corresponds to €1.30 per share, each share having a par value of €2.

6 Corporate governance

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6.1 COMPOSITION AND OPERATION OF THE 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 structure facilitates the separation of the management functions, which are the responsibility of the Management Board, from the supervision of said management, which is the responsibility of the Supervisory Board, which is the representative body of the shareholders:

- the Management Board, which is a collegial body, is responsible for managing the Group using the powers conferred on it by statutory and regulatory provisions 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 MANAGEMENT AND SUPERVISORY BODIES AT 31 DECEMBER 2010

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 [1]	1956	01/04/2009	–	15/03/2012
Members				
Jean-Pierre Michel – Chief Operating Officer [2]	1955	01/04/2006	04/06/2008	15/03/2012
Olivier Mallet – Chief Financial Officer	1956	30/09/2008	–	15/03/2012

(1) 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. He thus succeeded Mr Pierre Verluca for the remainder of his term of office.
(2) At its meeting on 25 February 2009, the Board appointed Mr Jean-Pierre Michel as Chief Operating Officer as from 25 February 2009.

Information about 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 by Philippe CROUZET

	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)	**Positions held in French companies** • Director of Électricité 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 foreign companies** • Director of Finalourec (Luxembourg) (up to 30 July 2010)	**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) 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. He thereby succeeded Mr Pierre Verluca for the remainder of Mr Verluca's term of office. As a result, Mr Philippe Crouzet resigned from his position as a member of Vallourec's Supervisory Board with effect from 31 March 2009.

Information about Jean-Pierre MICHEL

Date of first appointment: 1 April 2006

Date appointment most recently renewed: 4 June 2008 (1)

Date on which appointment ceases: 15 March 2012

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*;
- More than 30 years with the Vallourec group (plant management, management control and Chairman of various Divisions);
- Member of the Management Board of Vallourec since 1 April 2006;
- COO of Vallourec (2009) (2).

Positions held by Jean-Pierre MICHEL

	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 01/04/2006 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) • Director of VMOG UK (United Kingdom) (since 29/06/2000)	None

(1) At its meeting on 3 June 2008, the Supervisory Board renewed Mr 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) At its meeting on 25 February 2009, 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) • Chairman of the Board of Directors and Director of Finalourec (Luxembourg) (up to 30/07/2010)	None

Information about 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

Expertise and managerial experience

- Former pupil of the *École Nationale d'Administration* – General Inspector of Finance;
- 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 (1995-2001);
- CFO and member of the Executive Committee of Pechiney (2001-2004);
- At Areva: Deputy CFO (2004-2006) then Senior Executive Vice-President of the Mining, Chemistry and Enrichment sector (2006-2008);
- At Vallourec: member of the Management Board since 30 September 2008 and Chief Financial Officer.

Positions held by Olivier MALLET

	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 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)	None

(1) 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 for a term expiring on 15 March 2012.

	Positions held within Vallourec France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**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) • 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 Corporation (since 29/09/2008) • • Director of V & M Tube-AlloyTM (since 30/09/2008) • Director of Vallourec Industries Inc. (since 30/09/2008) • Director of VAM Drilling USA (since 29/09/2008) (United States) • 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 (since 29/09/2008) (United States)	
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) • Director of Finalourec (Luxembourg) (up to 30 July 2010)	**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 Resources (Canada) (up to June 2008) • Director of Areva Resources Canada (Canada) (up to May 2008) • Chairman of the Board of Directors of PMC Inc. and of de 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 (Niger) (up to June 2008) • Chairman of the Board of Directors, Permanent representative of Areva NC on the Board of Directors of Somair (Niger) (up to June 2008)

6.1.1.2 Composition of the Supervisory Board at 31 December 2010

	Year of birth	Date of first appointment	Date appointment most recently renewed	Date on which appointment ceases	Other main positions held
Chairman					
Jean-Paul Parayre [1]	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
Vice-Chairman					
Patrick Boissier [2]	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					
Pascale Chargrasse [3]	1960	13/12/2010	–	2011 OSM to approve financial statements for year ended 31/12/2010	Business Development Manager at Valinox Nucléaire
Jean-François Cirelli [4]	1958	13/05/2009	–	2012 OSM to approve financial statements for year ended 31/12/2011	Vice-Chairman and COO of GDF SUEZ
Vivienne Cox	1959	31/05/2010	–	2014 OSM to approve financial statements for year ended 31/12/2013	Director of Rio Tinto Chairman of Climate Change Capital
Michel de Fabiani	1945	10/06/2004	–	2014 OSM to approve financial statements for year ended 31/12/2013	Director of BP France Director of Rhodia Director of Valeo
Denis Gautier-Sauvagnac	1943	07/02/1997	OSM 01/06/2006	2011 OSM to approve financial statements for year ended 31/12/2010	Chairman and CEO of Capitol Europe and Accord Science
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 (BDI)
Alexandra Schaapveld	1958	31/05/2010	–	2014 OSM to approve financial statements for year ended 31/12/2013	Member of the Supervisory Board of Casino Holland
Jean-Claude Verdière	1938	01/07/2001	OSM 31/05/2010	2012 OSM to approve financial statements for year ended 31/12/2011	CEO, member of the Management Board of Vallourec until 30 June 2001
Bolloré	N/A	13/11/2008	–	2014 OSM to approve financial statements for year ended 31/12/2013	
represented by Thierry Marraud [5]	1942	13/11/2008	–	31/12/2010	CFO of Bolloré Group
Censeurs (non-voting Board members)					
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
François Henrot [3] [6]	1949	13/12/2010	–	2011 OSM to approve financial statements for year ended 31/12/2010	Chairman of the investment bank of the Rothschild Group

(1) The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 is asked to renew, in accordance with Article 10 paragraph 1 of the by-laws, the term of office as a member of the Supervisory Board of Mr Jean-Paul Parayre for a period of two (2) years, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2012. Having reached the age limit of 70 years as stipulated by the by-laws, Mr Jean-Paul Parayre may be re-elected once, for a maximum period of two years, in accordance with the provisions of Article 10 paragraph 1 of the by-laws.

(2) The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 is asked to renew, in accordance with Article 10 paragraph 1 of the by-laws, the term of office as a member of the Supervisory Board of Mr Patrick Boissier for a period of four (4) years, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2014.

(3) Mrs Pascale Chargrasse was provisionally appointed by the Supervisory Board at its meeting on 13 December 2010, as the member of the Supervisory Board representing shareholding employees, to replace Mr François Henrot, for the remainder of her 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 2010. The Ordinary Shareholders' Meeting on 7 June 2011 will be asked to approve the ratification of this provisional appointment and the renewal of the term of office.

(4) 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.

(5) From 1 January 2011, Bolloré appointed Mr Cédric de Bailliencourt as their permanent representative on the Supervisory Board of Vallourec, replacing Mr Thierry Marraud.

(6) Mr François Henrot was appointed as Censeur (non-voting Board member) of the Supervisory Board with effect from 13 December 2010 until the close of the Shareholders' Meeting on 7 June 2011. The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 will be asked to appoint Mr François Henrot as Censeur (non-voting Board member) of the Supervisory Board in accordance with Article 10 bis of the by-laws for a period of four (4) years, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2014.

6.1.1.2.1 Members of the Supervisory Board

Information about Jean-Paul PARAYRE (1)

Chairman of the Supervisory Board

Chairman of the Supervisory Board's Appointments, Remuneration and Governance Committee (2)

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

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);
- 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 by Jean-Paul PARAYRE

	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** • Member of the Supervisory Board of Peugeot • Director of Bolloré • Director of Société Financière du Planier • Chairman of the Supervisory Board of Stena Maritime (*) **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 French companies** • Director of SNEF (up to June 2009) **Positions held in foreign companies** • Director of Stena International BV (Netherlands) (up to October 2006)

(*) Position held within the Stena group.

(1) The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 is asked to renew, in accordance with Article 10.1 of the Company's by-laws, the term of office of Mr Jean-Paul Parayre as a member of the Supervisory Board for a period of two (2) years to expire at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2012. Having reached the statutory age limit of 70 years, Mr Jean-Paul Parayre can be re-appointed once, for a maximum period of two years, in accordance with the provisions of Article 10-1 of the Company's by-laws.

(2) At its meeting of 28 March 2011, the Supervisory Board appointed Mr Michel de Fabiani to replace Mr Jean-Paul Parayre as chairman of the Appointments, Remuneration and Governance Committee with effect from 28 March 2011. Mr Parayre will continue to be a member of the Committee.

Information about Patrick BOISSIER [1]

Vice-Chairman of the Supervisory Board

Member of the Supervisory Board's Appointments, Remuneration and Governance Committee

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

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*;
- 24 years' managerial experience with industrial companies in the iron and steel, capital goods, shipbuilding and services sectors.

Positions held by Patrick BOISSIER

	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)

(1) The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 is asked to renew, in accordance with Article 10.1 of the Company's by-laws, the term of office of Mr Patrick Boissier as a member of the Supervisory Board for a term of four (4) years to expire at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2014.

Information about Pascale CHARGRASSE

Member of the Supervisory Board representing the shareholding employees

Date of first appointment: 13 December 2010 (1)

Date appointment most recently renewed: not applicable

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

Date of birth: 10 July 1960

Business address:

Valinoz Nucléaire
5, avenue du Maréchal Leclerc
BP 50
21501 Montbard

Expertise and managerial experience

- Graduate of the Orsay Technology Institute with a DUT diploma in Computer Science;
- Employee of the Vallourec group since 1985 and currently Business Development Manager at Valinox Nucléaire, a wholly owned subsidiary of Vallourec;
- Member of the Supervisory Board of Vallourec Actions Corporate Mutual Fund (FCPE);
- Union representative on the Group's Works Council.

Positions held by Pascale CHARGRASSE

	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	None
Positions expired within the last five years	None	None

(1) Mrs Pascale Chargrasse was provisionally appointed by the Supervisory Board at its meeting on 13 December 2010 as the member of the Supervisory Board representing shareholding employees, to replace Mr François Henrot who had resigned, for the remainder of her 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 2010. The Ordinary Shareholders' Meeting on 7 June 2011 will be asked to ratify this provisional appointment and the renewal of the term of office.

Information about Jean-François CIRELLI [1]

Member of the Supervisory Board

Member of the Supervisory Board's Strategy Committee

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
1, Place Samuel de Champlain
92930 Paris-La Défense Cedex

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 by Jean-François Cirelli

	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 predecessor's 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.

Information about Vivienne COX

Member of the Supervisory Board

Member of the Supervisory Board's Finance and Audit Committee

Member of the Supervisory Board's Strategy Committee

Date of first appointment: 31 May 2010

Date appointment most recently renewed: not applicable

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2013

Date of birth: 29 May 1959

Business address:

Vallourec
27, avenue du Général Leclerc
92100 Boulogne-Billancourt

Expertise and managerial experience

- Graduate of Oxford University and INSEAD and Honorary Doctorate from the University of Hull;
- 28 years' experience with the BP Group;
- Executive Vice-President and CEO of BP Gas, Power and Renewables (2004-2009);
- Director and member of the Audit and Appointments Committee and Sustainable Development Committee of Rio Tinto;
- Chairman of the advisory and investment firm Climate Change Capital Ltd.

Positions held by Vivienne COX

	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** • Member of the Board of Directors of INSEAD (since 2009) **Positions held in foreign companies** • Director of Rio Tinto Plc (since 2006) • Director of the Department for International Development (since 2010) • Director of Climate Change Organisation (since 2010) • Director of Climate Change Capital Limited (since 2008) • Non-Executive Chairman of Climate Change Capital Limited (since 2009) • Member of the Offshore Advisory Committee of Mainstream Renewable Power (since 2010)
Positions expired within the last five years	None	**Positions held in French companies** • None **Positions held in foreign companies** • Executive Vice-President of BP plc (up to 2009) • Director of BP Shipping Limited (up to 2007) • Director of BP Oil International Limited (up to 2007) • Director of BP Turkey Refining Limited (up to 2008) • Director of Britannic Trading Limited (up to 2007) • Director of Britannic Energy Trading Limited (up to 2007) • Director of Japan Trading Limited (up to 2007) • Director of Investments Asia Limited (up to 2007) • Director of Britannic Strategies Limited (up to 2007)

Information about Michel de FABIANI

Member of the Supervisory Board

Member of the Supervisory Board's Appointments, Remuneration and Governance Committee [1]

Date of first appointment: 10 June 2004

Date appointment most recently renewed: 31 May 2010

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2013

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

Positions held by Michel de FABIANI

	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 foreign companies** • Director of Star Oil (Mali) (up to September 2009) • Director of SEMS (Morocco) (up to May 2009)

(1) At its meeting of 28 March 2011, the Supervisory Board appointed Mr Michel de Fabiani to replace Mr Jean-Paul Parayre as chairman of the Appointments, Remuneration and Governance Committee with effect from 28 March 2011. Mr Parayre will continue to be a member of the Committee.

Information about Denis GAUTIER-SAUVAGNAC

Member of the Supervisory Board

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:

Capitol Europe
BP 467110
Niederbronn-les-Bains

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);
- Former member of the Economic, Social and Environmental Council.

Positions held by Denis GAUTIER-SAUVAGNAC

	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 • Chairman and CEO of Accor Sciences **Positions held in foreign companies** • Director of Fenie Brossette (Morocco)
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) • 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)

Information about Edward-Georg KRUBASIK

Member of the Supervisory Board

Chairman of the Supervisory Board's Strategy Committee

Member of the Supervisory Board's Finance and Audit Committee

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

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);
- Former Chairman of the Federal Committee of the Economic, Development and Innovation Council (Germany), former Chairman of the Federation of the Electrical and Electronics Industry (Germany), former Vice Chairman of the Federation of German Industries (Germany), former Chairman of Orgalime (European Association), former member of the Federal Government's Economic Council and former Chairman of the Industry and Technology Committee of the Economic Council of Bavaria.

Positions held by Edward-Georg KRUBASIK

	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 Central Advisory Board of Commerzbank (Germany) • 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** • Member of the Supervisory Board of Dresdner Bank (Germany) (up to December 2008) • Chairman of the Supervisory Board of Siemens VDO (up to September 2006)

Information about Alexandra SCHAAPVELD

Member of the Supervisory Board

Member of the Supervisory Board's Finance and Audit Committee

Date of first appointment: 31 May 2010

Date appointment most recently renewed: not applicable

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2013

Date of birth: 5 September 1958

Business address:

Bernard Zweerskade 10
1077 TX Amsterdam
Netherlands

Expertise and managerial experience

- Graduate in Politics, Philosophy and Economics from Oxford University and Master in Development Economics from Erasmus University;
- 25 years' experience with the ABN AMRO Group;
- Senior Vice-President responsible for Sector expertise for the ABN AMRO Group (2001-2004);
- Head of Investment Banking for the ABN AMRO Group (2004-2007);
- Head of Europe for Royal Bank of Scotland (2007-2008);
- Member of the Advisory Council of the "Central Planning Office" of the Netherlands (Minister of Finance office);
- Member of the Supervisory Board of Holland Casino.

Positions held by Alexandra SCHAAPVELD

	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 Supervisory Board of Casino Holland • Member of the Management Board of the University of Amsterdam and University Medical Centre • Member of the Advisory Board of Plan Nederland
Positions expired within the last five years	None	**Positions held in French companies** • None **Positions held in foreign companies** • Chairman of the Supervisory Board of Druin & Kruidberg (up to 2007) • Member of the Supervisory Board of ABN AMRO Rothschild Equity Capital Markets (up to 2007) • Member of the Supervisory Board of ABN AMRO Mellon Global Custody Services (up to 2007)

Information about Jean-Claude VERDIÈRE

Member of the Supervisory Board

Chairman of the Supervisory Board's Finance and Audit Committee

Member of the Supervisory Board's Strategy Committee

Member of the Supervisory Board's Appointments, Remuneration and Governance Committee

Date of first appointment: 1 July 2001

Date appointment most recently renewed: 31 May 2010

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

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 by Jean-Claude VERDIÈRE

	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

Information about BOLLORÉ [1]

Member of the Supervisory Board

Date of first appointment: 13 November 2008 [2]

Date appointment most recently renewed: not applicable

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2013

Business address:

Tour Bolloré
31-32, quai de Dion Bouton
92811 Puteaux

Positions held by BOLLORÉ

	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, SFDM (*), Société de Culture des Tabacs et Plantations Industrielles (*), Financière Moncey (*), Euro Média France (formerly Société Française de Production), Direct 8 (*), Financière de Cézembre (*), MP 42 (*), 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) (*), • SDV Mauritanie SA (*)
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 IER (up to 16/04/2010) • Director of SAGA (up to 01/09/2010) **Positions held in foreign companies** • Director of Comarine (Morocco) (up to 31/07/2007)

(*) Position held within the Bolloré Group.

Information about Thierry MARRAUD, Bolloré's permanent representative until 31 December 2010

Bolloré's permanent representative and member of the Supervisory Board (until 13 December 2010)

Member of the Supervisory Board's Finance and Audit Committee (until 13 December 2010)

Date of first appointment: 13 November 2008

Date appointment most recently renewed: not applicable

Date on which appointment as permanent representative ceases: 31 December 2010

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;
- 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) Mr Thierry Marraud was Bolloré's permanent representative until 31 December 2010. Mr Cédric de Bailliencourt has been Bolloré's permanent representative since 1 January 2011.

(2) Following the streamlining if the Bolloré Group's structures, Bolloré was appointed as a member of the Supervisory Board by the Board meeting of 13 December 2008 to replace Société Financière de Sainte-Marine (Groupe Bolloré). This appointment was ratified by the Ordinary and Extraordinary General Meeting of 4 June 2009.

Positions held by Thierry MARRAUD

	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* (*) • 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'Île 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 *Société Bordelaise Africaine (*)* and *Société Industrielle et Financière de l'Artois* (*) • Permanent representative of *Financière de l'Odet* on the Board of 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 Babcock Redlands Corporation (*), Cook Redlands Corporation (*) and of PTR Finances (*) • Treasurer of Redlands Farm Holdings (*) • Director of African Investment Company (*), Sorebel SA (*), JSA Holding BV (*), Financière de Kéréon (*), S.F.A SA (*) and BB Group (*) • Permanent representative of S.F.A SA on the Board of Cormoran Participations 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) • Member of the Supervisory Board of Euro Média Group (up to 09/09/2010) • 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) • Representative of *Compagnie de Cambodge* (*) on the Board of IER (up to 16/04/2010) • Permanent representative of *Financière de l'Odet* on the Board of Saga (*) (up to 01/09/2010) • 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** • Chairman of *Plantations des Terres Rouges SA* (*) (up to 08/12/2010) • Director of *Forestière Équatoriale* (*) (up to 03/04/2009) • Director of Madison Investissements SA (*), Renwick Invest SA (*), Dumbarton Invest SA (*), Morisson Investissements SA (*), Latham Invest SA (*), Montrose Invest SA (*) and Swann Investissements SA (*) (up to 18/05/2010) • Director of *Plantations des Terres Rouges* (*) (up to 08/12/2010) • 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 Investissements SA (*) and Arlington Investissements SA (*) (up to 18/05/2010)

(*) Position held within the Bolloré Group.

Information about Cédric de BAILLIENCOURT, Bolloré's permanent representative as from 1 January 2011

Bolloré's permanent representative and member of the Supervisory Board (as from 1 January 2011)

Date of first appointment: 1 January 2011

Date appointment most recently renewed: not applicable

Date on which appointment as permanent representative ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2013

Date of birth: 10 July 1969

Business address:

Tour Bolloré
31/32, quai de Dion Bouton
92811 Puteaux Cedex

Expertise and managerial experience

- Graduate of the Institut d'Études Politiques de Bordeaux, DESS degree in Political and Social Communication
- 16 years with the Bolloré Group, Director of Shareholdings (1996-2008) and Chief Financial Officer of the Bolloré Group since 2008.

Positions held by Cédric de BAILLIENCOURT

	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** • None	**Positions held in French companies** • Vice-Chairman and CEO of Financière de l'Odet (*); • Vice-Chairman and CEO of Bolloré (*) • Chairman of the Boards of Directors of Compagnie des Tramways de Rouen (*), Financière Moncey (*), Société des Chemins de Fer et Tramways du Var et du Gard (*) and Société Industrielle et Financière de l'Artois (*); • Chairman of Sofibol (*), Compagnie de Bénodet (*), Compagnie de Treguennec (*), Compagnie de Cornouaille (*), Compagnie de Guénolé (*), Compagnie de Guilvinec (*), Compagnie de Pleuven (*), Financière V (*), Financière de Beg Meil (*), Financière de Bréhat (*), Financière de Quiberon (*), Financière d'Ouessant (*), Financière de Loctudy (*), Financière du Perguet (*), Financière de Sainte-Marine (*), Financière de Pont-Aven (*), Imperial Mediterranean (*) and Omnium Bolloré (*); • Manager of Socarfi (*), Financière du Loch (*) and Compagnie de Malestroit (*); • Director of Bolloré (*), Bolloré Participations (*), Compagnie des Tramways de Rouen (*), Financière V (*), Financière Moncey (*), Omnium Bolloré (*), Sofibol (*), Société Industrielle et Financière de l'Artois (*), Financière de l'Odet (*) and Société des Chemins de Fer et Tramways du Var et du Gard (*); • Member of the Management Board of Compagnie du Cambodge (*); • Permanent representative of Bolloré on the Boards of BatScap (*) and Socotab (*) and of Financière V on the Board of Société Anonyme Forestière et Agricole (Safa) (*); • Permanent representative of Bolloré on the Board of Directors of Havas; • Permanent representative of Compagnie du Cambodge on the Supervisory Board of Banque Jean-Philippe Hottinguer & Cie. **Positions held in foreign companies** • Chairman of the Board of Directors of Financière de Kéréon (*) and of Plantations des Terres Rouges (*); • Deputy Director of Financière de Kéréon (*); • Director of African Investment Company (*), Champ de Mars Investissements (*), Financière Nord Sumatra (*), Cormoran Participations (*), Financière du Champ de Mars (*), Forestière Équatoriale (*), BB Group (*), PTR Finances (*), Plantations des Terres Rouges (*), S.F.A (*), Sorebol (*) and Technifin (*); • Permanent representative of Pargefi Helios Iberica Luxembourg on the Board of Pargefi SA (*); • Permanent representative of Bolloré Participations on the Board of Nord Sumatra Investissements (*); • Permanent representative of Bolloré Participations on the Boards of Socfinasia, Intercultures, Socfinde, Terrasia, Socfinal, Induservices SA, Centrages, Immobilière de la Pépinière, Socfinco, Sogescol and Agro Products Investment Company.

	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** • None **Positions held in foreign companies** • None	**Positions held in French companies** • CEO of Bolloré (*) (up to 21/12/2006) • Chairman of Compagnie de Locmaria (*) (up to 13/11/2007) • Chairman of Financière de Port La Forêt (*) (up to 31/12/2008) • Chairman and CEO of Société Industrielle et Financière de l'Artois (*) (up to 31/08/2010) • Director of Saga (*) (up to 01/09/2010) • Permanent representative of Bolloré Participations on the Board of Compagnie des Glénans (*) (up to 11/06/2009) • Permanent representative of Plantations des Terres Rouges on the Board of Compagnie du Cambodge (*) (up to 28/08/2008) **Positions held in foreign companies** • Director of Arlington Investissements SA (*) (up to 18/05/2010) • Director of Dumbarton Invest SA (*) (up to 18/05/2010) • Director of Elycar Investissements SA (*) (up to 18/05/2010) • Director of Latham Invest SA (*) (up to 18/05/2010) • Director of Peachtree Invest SA (*) (up to 18/05/2010) • Director of Renwick Invest SA (*) (up to 18/05/2010) • Director of Swann Investissements SA (*) (up to 18/05/2010) • Permanent representative of Sofimap on the Board of SHAN (*) (up to 14/01/2009) • Permanent representative of Bolloré Participations on the Board of Plantations des Terres Rouges (*) (up to 08/12/2010) • Permanent representative of Bolloré Participations on the Board of Red Lands Roses (*) (up to 27/01/2008)

(*) Position held within the Bolloré Group.

6.1.1.2.2 Censeurs (non-voting members) of the Supervisory Board

Information about Luis-Olavo BAPTISTA

Censeur of the Supervisory Board

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 by Luiz-Olavo BAPTISTA

	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 Participações (Brazil) (up to October 2005) • Legal officer of Eagle River Holdings (BVI) (up to 16/03/2009)

Information about François HENROT

Censeur of the Supervisory Board

Date of first appointment: 13 December 2010

Date appointment most recently renewed: not applicable

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2010, *i.e.* 7 June 2011

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);
- Managing partner of Rothschild & Cie Banque (1997-2010) and, since 2010, Chairman of the investment bank of the Rothschild Group;
- Member of the Supervisory Board of Vallourec (up to 13 December 2010);
- Member of the Vallourec Supervisory Board's Strategy Committee (up to 13 December 2010).

Positions held by François HENROT

	Positions held within Vallourec (France and abroad)	Positions held outside Vallourec (France and abroad)
Positions currently held	**Positions held in French companies** • Censeur of the Supervisory Board of Vallourec (since 13 December 2010)	**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 Board of Yam Invest N.V. (Netherlands)
Positions expired within the last five years	**Positions held in French companies** • Member of the Supervisory Board of Vallourec (up to 13 December 2010)	**Positions held in French companies** • Member of the Supervisory Board of Cogedim (up to 2007) • Director of Eramet (up to 07/03/2007)

(*) Position held within the Rothschild Group.

6.1.1.2.3 Persons whose terms of office expired during the financial year 2010

Mr Arnaud Leenhardt's term of office as *Censeur* of the Supervisory Board expired at the close of the Shareholders' Meeting of 31 May 2010 and the terms of office of Mr François Henrot as a member of the Supervisory Board and a member of the Supervisory Board's Strategy Committee expired on 13 December 2010.

Arnaud LEENHARDT

Censeur of the Supervisory Board up to 31 May 2010

Honorary Chairman of Vallourec since 15 June 2000

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, *i.e.* 31 May 2010 (1)

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 by Arnaud LEENHARDT

	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 French companies** • Honorary Chairman of UIMM • Member of the Supervisory Board of Fives (formerly 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)

François HENROT

Member of the Supervisory Board (up to 13 December 2010)

Member of the Supervisory Board's Strategy Committee (up to 13 December 2010)

Please see Section 6.1.1.2.2 "*Censeurs* (non-voting members) of the Supervisory Board" for further information about Mr François Henrot.

6.1.1.3 Executive Committee

At 31 December 2010, Vallourec's Executive Committee was composed of the following members:

Philippe Crouzet	Chairman of the Management Board
Jean-Pierre Michel	Member of the Management Board and Chief Operating Officer
Olivier Mallet	Member of the Management Board and Chief Financial Officer
Dirk Bissel	Managing Director, Drilling Products Division (since 1 March 2010)
François Curie	Corporate Vice-President, Human Resources (since 1 May 2010)
Flavio de Azevedo	Chairman of V & M do Brasil and VSB
Pierre Frentzel	Managing Director, Strategic Projects
Didier Hornet	Managing Director, OCTG Division (since 1 March 2010)
Alexandre Lyra	Chief Executive Officer of V & M do Brasil (since 1 March 2010)
Jean-Yves Le Cuziat	Managing Director, Energy & Industry Division
Philippe Roch	*Chief Performance Officer*

The Executive Committee meets each week.

(1) Mr Arnaud Leenhardt's term of office as a Censeur expired at the end of the Shareholders' Meeting of 31 May 2010. 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.

6.1.2 OPERATION OF 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 and 13 December 2010, with the aim of bringing the terms and conditions of these regulations into line with the applicable statutory and regulatory provisions.

The Supervisory Board meets at least four times a year.

In addition to the legal obligations under prior authorizations (sureties and guarantees – sales of property or equity interests – constitution of sureties) and the restrictions on the powers of the Management Board as stipulated in Article 9, Section 3 of the by-laws (see Section 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 shares free of charge and 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 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 together with the strategy plan.

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);
- 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 thirty (30) calendar days preceding each of the four earnings releases (annual, first half, first quarter and third quarter) as required by the applicable statutory and regulatory provisions;
- 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 April 2010 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. The Supervisory Board 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 2010

The Supervisory Board met seven times in 2010. The attendance rate was very high and members who were not able to attend a meeting always appointed a proxy to represent them (see Section 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 April 2010 2008 AFEP-MEDEF corporate governance Code for listed companies. It based its examination on the recommendations made by the Appointments, Remuneration and Governance Committee (see Section 6.1.2.5 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 2010, in the light of the aforementioned AFEP-MEDEF Code:

- can be deemed independent members: Mmes Vivienne Cox and Alexandra Schaapveld and Messrs Patrick Boissier, Jean-François Cirelli, Michel de Fabiani, Denis Gautier-Sauvagnac, Edward G. Krubasik and Jean-Claude Verdière;
- can be considered associated with the Company:
  - Mr Jean-Paul Parayre, who was first appointed as a Director more than 12 years ago, on 13 June 1989,
  - Mrs Pascale Chargrasse, an employee of the Group since 1985,
  - Bolloré, represented by Mr Cédric de Bailliencourt, due to the stake held by Bolloré in Vallourec and past and present relations between the Bolloré Group and the Vallourec group.

At 31 December 2010, eight out of the eleven members of the Supervisory Board were independent, representing 73% of the Supervisory Board members. The Supervisory Board therefore comprised a greater number of independent members than that recommended by the AFEP-MEDEF corporate governance Code, which requires that, in the case of widely-held corporations without controlling shareholders, at least one half of the members of the Board must be independent.

6.1.2.4 Balanced representation of women and men on the Supervisory Board

In accordance with a recommendation resulting from the assessment of the operation of the Supervisory Board in 2009, the proportion of women members on the Supervisory Board was increased during the financial year 2010 by the appointments of Mmes Vivienne Cox, Pascale Chargrasse and Alexandra Schaapveld.

At 31 December 2010, the Supervisory Board thus consisted of three women and nine men, resulting in the proportion of women members exceeding 27% of the total Board members. The Board therefore had a greater number of women members than that recommended by the AFEP-MEDEF corporate governance Code, which stipulates that the percentage of women on Boards should be at least 20% by April 2013, and a greater number than that stipulated under the provisions of Article 5 of Law no. 2011-13 of 27 January 2011 relating to balanced representation of women and men on Boards of Directors and Supervisory Boards and professional equality, which require that the proportion of Supervisory Board members of each gender may not be lower than 20% at the close of the first Shareholders' Meeting following 1 January 2014.

6.1.2.5 Committees set up within the Supervisory Board

The Supervisory Board has set up three Committees:

- the Finance and Audit Committee;
- the Appointments, Remuneration and Governance 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. A report of their meetings is prepared for the attention of Supervisory Board members.

The term of office of the members of each of the Committees is the same as their term of office as a member of the Supervisory Board. Members' terms of office as Committee members may be renewed at the same time as their terms of office as members 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.

In application of the statutory 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 the results of their audit of the financial statements for the financial year and of their limited review of the half-year financial statements;

  The Committee gives the Supervisory Board its opinion as to the relevance and consistency of the accounting methods used to prepare the statutory and consolidated financial statements;

- the independence of the Statutory Auditors.

  In this regard, the Committee oversees the procedure for selecting the Statutory Auditors, issues a recommendation prior to the proposal submitted to the Shareholders' Meeting, receives the Statutory Auditors' statement of independence and receives an annual summary of all the services provided to the Vallourec group by the Statutory 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 2010, the Finance and Audit Committee was composed of Mr Jean-Claude Verdière (Chairman), Mr Edward G. Krubasik, Mrs Vivienne Cox and Mrs Alexandra Schaapveld. All were independent members.

The Finance and Audit Committee met five times in 2010 with an effective attendance rate of 100%. One of its main duties was to review the financial statements for the year ended 31 December 2009, the half year ended 30 June 2010 and the quarters ended 31 March and 30 September 2010. The Committee also met on 21 February 2011 to review the financial statements for the year ended 31 December 2010.

The Statutory Auditors attended all Finance and Audit Committee meetings in respect of the financial year 2010. They submitted a report to the Supervisory Board on the work performed in the context of their assignment.

Among the important subjects examined in 2010, the Finance and Audit Committee in particular reviewed and issued opinions on:

- the 2010 forecast figures and outlook for 2011;
- the "Value 10" employee share ownership plan;
- the Group's financial communication policy;
- the quarterly cash situation and the medium and long-term financing plan;
- the process for drawing up and controlling the 2011 budget;
- the internal audit plan and progress thereon;
- the results of the "Cap Ten" costs savings plan;
- the implementation of a sponsored Level 1 American Depositary Receipt (ADR) programme;
- the quarterly cash situation and the medium and long-term financing plan; and
- significant acquisition and capital expenditure projects such as the planned acquisition of Serimax.

Appointments, Remuneration and Governance 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 its meeting on 28 July 2010, the Supervisory Board broadened the role of the Appointments and Remuneration Committee to include governance. Accordingly, this Committee was renamed the "Appointments, Remuneration and Governance Committee" and its internal regulations were amended.

At 31 December 2010, the Appointments, Remuneration and Governance Committee was composed of Messrs Jean-Paul Parayre (Chairman), Patrick Boissier, Michel de Fabiani and Jean-Claude Verdière, *i.e.* three independent members out of a total of four.

The regulations of the Appointments, Remuneration and Governance Committee were approved by the Supervisory Board during its meeting on 17 April 2003. They were updated on 3 May 2007 and 28 July 2010.

The duties of the Appointments, Remuneration and Governance 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 allocated 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.

Governance

- reviewing the operation of the management bodies, particularly as regards changes in French regulations concerning the governance of listed companies and in the light of the recommendations of the AFEP-MEDEF Code and, where applicable, making proposals to the Board concerning the updating of the Company's corporate governance rules,
- regularly reviewing the composition of the Board and its Committees and making recommendations on changes to its composition when a change appears appropriate,
- preparing the annual assessment of the Board and recommendations resulting from such assessment,
- reviewing and monitoring any conflicts of interest between a Board member and the Company, and
- reviewing the independence of Board members.

The Committee met five times in 2010 with an average effective attendance rate of 95%. In particular, it reviewed and drew up recommendations on the following subjects:

- the trend in the fixed and variable monetary remuneration of Management Board members;
- 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;
- the total annual budget allocated in respect of the payment of attendance fees to the members of the Supervisory Board, the members of the Committees and the *Censeurs* (non-voting Board members);
- the payment of attendance fees to Supervisory Board members, Committee members and *Censeurs*;
- the composition of the Supervisory Board and the search for new members, which resulted in the appointment, on 31 May 2010, of Mrs Vivienne Cox and Mrs Alexandra Schaapveld as members of the Supervisory Board and the provisional appointment, on 13 December 2010, of Mrs Pascale Chargrasse as the member of the Supervisory Board representing shareholding employees;
- the composition of the Supervisory Board's Committees, which resulted in the appointment, on 28 July 2010, of Mrs Alexandra Schaapveld as a member of the Finance and Audit Committee and of Mrs Vivienne Cox as a member of the Strategy Committee and, on 13 December 2010, of Mrs Vivienne Cox as a member of the Finance and Audit Committee and of Mr Jean-François Cirelli as a member of the Strategy Committee.

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 2010, the Committee was composed of Messrs Edward G. Krubasik (Chairman), Jean-François Cirelli and Jean-Claude Verdière, and Mrs Vivienne Cox, all of whom were independent members [(1)].

The Committee met four times in 2010 with an average effective attendance rate of 79%. In particular, it examined and issued an opinion on the following:

- the 2011-2015 strategic plan;
- Vallourec's European industrial plan;
- the Group's steel procurement plan;
- the Group's expansion in China;
- the diversification into the services sector (including the planned acquisition of Serimax);
- acquisitions or mergers at the review stage.

(1) Mr François Henrot was a member of the Strategy Committee until 13 December 2010.

6.1.2.6 *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.

At 31 December 2010, Mr Luiz-Olavo Baptista and Mr François Henrot acted as *Censeurs* [1].

6.1.3 SHAREHOLDINGS OF MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

As far as the Company is aware, the number of shares held by each of the members of the Management Board is as follows:

Members of the Management Board		Number of Vallourec shares held
Messrs	Philippe Crouzet	200
	Jean-Pierre Michel	3,260
	Olivier Mallet	960

As far as the Company is aware, the number of shares [2] held by each of the members of the Supervisory Board and by each of the *Censeurs* is as follows:

Members of the Supervisory Board		Number of Vallourec shares held
Messrs/ Mmes	Jean-Paul Parayre (Chairman)	237,982
	Patrick Boissier (Vice-Chairman)	592
	Pascale Chargrasse [1]	53
	Jean-François Cirelli	50
	Vivienne Cox	50
	Michel de Fabiani	500
	Denis Gautier-Sauvagnac	822
	Edward G. Krubasik	270
	Alexandra Shaapveld	700
	Jean-Claude Verdière	1,110
Company	Bolloré [2]	112
Messrs	Luiz-Olavo Baptista (Censeur)	510
	François Henrot [1] (Censeur)	512

(1) Mrs Pascale Chargrasse was provisionally appointed by the Supervisory Board at its meeting on 13 December 2010 as the member of the Supervisory Board representing shareholding employees, to replace Mr François Henrot who had resigned, for the remainder of her 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 2010. The Ordinary Shareholders' Meeting of 7 June 2011 will be asked to ratify this provisional appointment and renewal of term of office. Mr François Henrot has, in addition, been appointed Censeur of the Supervisory Board as from 13 December 2010 for a term expiring at the close of the Shareholders' Meeting of 7 June 2011.

(2) Mr Thierry Marraud, who was Bolloré's permanent representative until 31 December 2010 and Mr Cédric de Bailliencourt, who is Bolloré's permanent representative as from 1 January 2011, do not hold any Vallourec shares in their personal capacity.

(1) Mr Arnaud Leenhardt's term of office as Censeur expired at the close of the Shareholders' Meeting of 31 May 2010.

(2) Includes the 50 guarantee shares which they are required to own for the duration of their terms of office in accordance with the provisions of the Company's by-laws (Article 10).

6.1.4 DECLARATIONS CONCERNING 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 statutory and regulatory provisions, 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 statutory and regulatory provisions, the Shareholders' Meeting.

6.1.5 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.

6.1.6 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.

6.1.7 DECLARATION ON CORPORATE GOVERNANCE

The Supervisory Board decided, in 2008, to adopt the AFEP-MEDEF Corporate Governance Code for listed companies as amended for application to limited companies managed by a Supervisory Board and a Management Board, and to comply with the recommendations of said Code.

In view of the above, Vallourec believes that it complies with the corporate governance regulations currently in force in France.

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 Corporate Governance 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 Section 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 2010.

TABLE 1: TABLE SUMMARIZING THE COMPENSATION, OPTIONS AND SHARES ALLOCATED TO EACH EXECUTIVE CORPORATE OFFICER

The following table summarizes the compensation due in respect of the years ended 31 December 2009 and 31 December 2010 and the valuation of the share subscription options and performance shares allocated during the financial year.

In €	Year ended 31 December 2009	**Year ended 31 December 2010**
Philippe Crouzet, Chairman of the Management Board [1]		
Compensation due in respect of the financial year *(detailed in Table 2)*	987,255 [4]	1,384,344
Valuation of options allocated during the financial year *(detailed in Table 3)* [2]	752,620	793,650
Valuation of performance shares allocated during the financial year *(detailed in Table 5)* [3]	447,734	559,980
TOTAL	**2,187,609**	**2,737,974**
Jean-Pierre Michel, Chief Operating Officer		
Compensation due in respect of the financial year *(detailed in Table 2)*	698,890	718,894
Valuation of options allocated during the financial year *(detailed in Table 3)* [2]	342,100	360,750
Valuation of performance shares allocated during the financial year *(detailed in Table 5)* [3]	169,228	273,768
TOTAL	**1,210,218**	**1,353,412**
Olivier Mallet, Chief Financial Officer		
Compensation due in respect of the financial year *(detailed in Table 2)*	620,000	631,420
Valuation of options allocated during the financial year *(detailed in Table 3)* [2]	273,680	288,600
Valuation of performance shares allocated during the financial year *(detailed in Table 5)* [3]	127,045	223,992
TOTAL	**1,020,725**	**1,144,012**

(1) In 2009, pro rata *as from his appointment to the Management Board.*

(2) All of the share subscription options allocated to members of the Management Board in 2009 and 2010 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 €91.77 for the options allocated in 2008, €51.67 for those allocated in 2009 and €71.17 for those allocated in 2010.

(3) Note that the 2007 Plan performance shares were allocated 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. In 2008 the beneficiaries were allocated the last two tranches and in 2009 the last tranche. The acquisition of performance shares is subject to performance requirements.

(4) 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.

TABLE 2: TABLE SUMMARIZING THE COMPENSATION PAID TO EACH EXECUTIVE CORPORATE OFFICER

	Year ended 31/12/2009		**Year ended 31/12/2010**	
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 (1)	569,997 (1)	760,000	760,000
Variable compensation	410,000	190,585	620,000	219,415
Extraordinary compensation	–	–	–	–
Attendance fees	4,000 (2)	4,000 (2)		
Benefits in kind	3,258	3,258	4,344	4,344
TOTAL	**987,255**	**767,840**	**1,384,344**	**983,759**
Jean-Pierre Michel, Chief Operating Officer				
Fixed compensation	429,996	429,996	430,000	430,000
Variable compensation	265,000	226,266	285,000	157,007
Extraordinary compensation	–	–	–	–
Attendance fees	–	–	–	–
Benefits in kind	3,894	3,894	3,894	3,894
TOTAL	**698,890**	**660,156**	**718,894**	**590,901**
Olivier Mallet, Chief Financial Officer				
Fixed compensation	375,000	375,000	375,000	375,000
Variable compensation	245,000	148,918	250,000	145,257
Extraordinary compensation	–	–	–	–
Attendance fees	–	–	–	–
Benefits in kind	–	–	6,420	6,420
TOTAL	**620,000**	**523,918**	**631,420**	**526,677**

(1) In 2009, pro rata *as from his appointment to the Management Board.*
(2) Attendance fees received in his capacity as a member of the Supervisory Board in respect of the first quarter of 2009.

TABLE 3: SUBSCRIPTION OR PURCHASE OPTIONS ALLOCATED DURING THE FINANCIAL YEAR TO EACH EXECUTIVE CORPORATE OFFICER BY VALLOUREC AND EACH GROUP COMPANY

Name of Executive Corporate Officer	No. and date of Plan	Type of options (purchase or subscription)	Valuation [1] of options according to the method used for the consolidated financial statements (€)	Number of options allocated during the financial year	Exercise price (€)	Exercise period	Performance requirements [2]
Philippe Crouzet	2010 Plan 01/09/2010	Subscription options	793,650	33,000 [3]	71.17	01/09/2014 to 01/09/2020	Yes
Jean-Pierre Michel	2010 Plan 01/09/2010	Subscription options	360,750	15,000 [3]	71.17	01/09/2014 to 01/09/2020	Yes
Olivier Mallet	2010 Plan 01/09/2010	Subscription options	288,600	12,000 [3]	71.17	01/09/2014 to 01/09/2020	Yes
TOTAL			**1,433,000**	**60,000**			

(1) 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 €71.17 for the options allocated in 2010.
(2) Note that the allocating of share subscription options is in all cases subject to performance requirements based on the Group's consolidated EBITDA/sales ratios for the financial years 2010, 2011, 2012 and 2013.
(3) 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 2010.

TABLE 5: PERFORMANCE SHARES ALLOCATED 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	Maximum number of shares allocated 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	2010 Plan 15/03/2010	9,000	559,980	15/03/2012	15/03/2014	Yes (*)
Jean-Pierre Michel	2010 Plan 15/03/2010	4,400	273,768	15/03/2012	15/03/2014	Yes (*)
Olivier Mallet	2010 Plan 15/03/2010	3,600	223,992	15/03/2012	15/03/2014	Yes (*)
TOTAL		**17,000**	**1,057,740**			

(*) Note that the allocating of performance shares is, in all cases, subject to performance requirements based on the achievement of specified Group consolidated EBITDA/sales ratios in 2010 and 2011.

TABLE 6: PERFORMANCE SHARES THAT HAVE BECOME AVAILABLE DURING THE FINANCIAL YEAR FOR EACH EXECUTIVE CORPORATE OFFICER

Name of executive Corporate Officer	No. and date of plan	Number of shares that became available during the financial year	Vesting conditions (*)
Philippe Crouzet	–	–	–
Jean-Pierre Michel	2006 plan	6,410	1,603
Olivier Mallet	–	–	–
TOTAL		**6,410**	

(*) Management Board members are required to retain one quarter of the performance shares allocated to them under the terms of a plan until the expiry of their terms of office.

None of the performance shares allocated since the 2006 plan to each of the members of the Management Board became available during the year ended 31 December 2010.

TABLE 7: RECORD OF ALLOCATIONS OF SHARE SUBSCRIPTION AND SHARE PURCHASE OPTIONS

Information about share subscription and share purchase options	Plan no. 2	Plan no. 3	Plan no. 4	Plan no. 5
Date of authorization by Shareholders' Meeting	6 June 2007	6 June 2007	4 June 2009	4 June 2009
Date of Plan	3 September 2007	1 September 2008	1 September 2009	1 September 2010
Total number of shares that can be subscribed for or purchased, of which the number that can be subscribed for or purchased by:	294,600	143,600	578,800	512,400
Philippe Crouzet	–	–	44,000	33,000
Jean-Pierre Michel	22,000 (*)	24,000 (*)	20,000 (*)	15,000
Olivier Mallet	–	46,000 (*)	16,000 (*)	12,000
Date from which options may be exercised	3 September 2011	1 September 2012	1 September 2013	1 September 2014
Expiry date	3 September 2014	1 September 2015	1 September 2019	1 September 2020
Subscription or purchase price *(in €)*	95.30 (*)	91.77 (*)	51.67 (*)	71.17
Exercise procedures	–	–	–	–
Number of shares subscribed	–	–	–	–
Accumulated number of share subscription or purchase options that have been cancelled or become null and void	17,000	–	11,200	0
Shares subscription or purchase options remaining at the end of the financial year	277,600	143,600	567,600	512,400

(*) The figures have been restated to take into account the 2:1 stock split on 9 July 2010.

TABLE 8: SHARE SUBSCRIPTION AND SHARE PURCHASE OPTIONS ALLOCATED TO THE 10 EMPLOYEES WHO RECEIVED THE MOST OPTIONS AND ARE NOT CORPORATE OFFICERS, AND OPTIONS EXERCISED BY THEM

	Total number of options allocated/shares subscribed or purchased	Weighted average exercise price *(€)*	Share subscription or share purchase option plans
Options allocated during the year to the 10 Group employees to whom the largest number of options was allocated	51,800	71.17	1 September 2010 share subscription Plan
Options exercised during the year by the 10 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	Payments 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 (1)	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 (2) Date appointment ceases: 15 March 2012 (2)	Yes (4)	Yes (5)	None	None
Olivier Mallet Member of the Management Board Date of first appointment: 30 September 2008 (3) Date appointment ceases: 15 March 2012 (3)	Yes (4)	Yes (5)	None	None

(1) 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, i.e. until 15 March 2012.
(2) 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.
(3) 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.
(4) The employment contracts are suspended during their respective terms of office.
(5) 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 overall maximum annual attendance fees for allocation by the Supervisory Board to its members were increased to €520,000 by the Ordinary Shareholders' Meeting of 31 May 2010 *(Tenth resolution).*

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 corporate governance Code and to bring its practice into line with that of the majority of companies in the CAC 40 index, 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 system of compensation for Board members: the aforementioned €28,000 total, which was increased to €33,000 in 2010, is now divided into two equal parts, one of which will be paid in all circumstances 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 €33,000. The Chairman and members of the Supervisory Board were not allocated any share options, performance shares or termination payments of any kind.

Compensation of Committee members

Members of the Committees (Finance and Audit Committee, Appointments, Remuneration and Governance Committee and Strategy Committee), receive as part of the aforementioned €520,000 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, Remuneration and Governance Committee, who has waived his right to receive remuneration in his capacity as Chairman of said Committee.

Compensation of the Censeurs

Compensation of the *Censeurs*, the amount and terms of which are the same as those applicable to the compensation of Supervisory Board members, comes within the annual budget for attendance fees allocated to the Supervisory Board.

TABLE 10: ATTENDANCE FEES RECEIVED BY THE MEMBERS OF THE SUPERVISORY BOARD

In €

Members of the Supervisory Board		Amounts paid in 2009	**Amounts paid in 2010**
Messrs	Jean-Paul Parayre	28,000	33,000
	Patrick Boissier	40,500	43,200
	Philippe Crouzet [1]	4,000	-
	Jean-François Cirelli [2]	17,500	33,000
	Michel de Fabiani	40,500	43,000
	Denis Gautier-Sauvagnac	7,000	16,500
	François Henrot	25,833	31,000
	Edward G. Krubasik	52,166	59,500
	Jean-Claude Verdière	74,000	73,000
	Thierry Marraud (Bolloré)	43,000	45,500
	Vivienne Cox [3]	-	21,800
	Alexandra Shaapveld [3]	-	24,400
	Arnaud Leenhardt *(Censeur)*	28,000	16,500
	Luiz-Olavo Baptista *(Censeur)*	25,666	28,000
TOTAL		**386,165**	**468,400**

(1) Since the Supervisory Board, at its meeting on 25 February 2009, appointed Mr Philippe Crouzet as Chairman of the Management Board as from 1 April 2009, thereby succeeding Mr Pierre Verluca for the remainder of his term of office, Mr Philippe Crouzet resigned from his position as a member of the Supervisory Board with effect from 31 March 2009.

(2) 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 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.

(3) Mrs Vivienne Cox and Mrs Alexandra Schaapveld were appointed as members of the Supervisory Board by the Ordinary Shareholders' Meeting of 31 May 2010.

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 2010 by the Group's French and foreign companies in respect of all the Group's senior managers (*i.e.* the eight members of the Group's Executive Committee at 31 December 2010) amounted to €3,058,296. The variable portion represented 29.24% of the total.

The charge in respect of the share subscription options and performance shares allocated to the Group's senior management during the year and recognized in the income statement for the year ended 31 December 2010 was €2.5 million.

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 corporate governance Code for listed companies, the terms and conditions of which are described in the Chairman of the Supervisory Board's report (see Section 8.2 below). 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 20 of the notes to the consolidated financial statements in Section 5.1 of this Registration Document.

6.3 MANAGERS' INTERESTS AND EMPLOYEE PROFIT SHARING

At its meeting of 13 May 2009, the Supervisory Board approved the policy for strengthening employees' involvement in the Group's results as presented by the Management Board.

In 2010, this policy was implemented at the Supervisory Board's meetings of 23 February (plan to allocate performance shares to all employees and plan to allocate performance shares to 845 executives, excluding Management Board members), 12 May 2010 ("Value 10" employee share ownership plan) and 28 July 2010 (plan to allocate share subscription options to 346 beneficiaries). The Supervisory Board also determined, at its meetings on 23 February and 28 July 2010, the principles of compensation of Management Board members in the form of share subscription options and performance shares.

This information was published in accordance with the AFEP-MEDEF Corporate Governance Code *via* notices on the Company's website on 2 March and 30 July 2010 (*http://www.vallourec.com*), thereby supplementing the information relating to Executive Corporate Officers' compensation posted on the Company's website in 2009 (*http://www.vallourec.com*).

Vallourec thus aims to supplement the compensation paid to its employees with various schemes designed to involve them in the Group's performance over the long-term and 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 Group staff worldwide, subject to and in accordance with local legislation and regulations and budgetary constraints (relationship between the number of staff in a country and the cost of implementing the offer). In 2010 the Group therefore renewed:

- for the third consecutive year (see Section 6.3.3 "Employee shareholding" below), a "Value" employee share ownership plan, named "Value 10", for the benefit of employees and those with similar rights of the Group's entities in France, Germany, Brazil, the United States, the United Kingdom, Mexico, China and Canada;
- for the second consecutive year (see Section 6.3.3 "Employee shareholding" below), a performance share allocation plan, subject to performance and continuing employment conditions, for the benefit of most of the Group's employees based on enhanced coverage relative to 2009, *i.e.* the employees included in the scope of the "Value 10" offering (excluding members of the Management Board and of Group companies located in Brazil) and employees of the Group's entities located in India, the United Arab Emirates and the Netherlands.

Vallourec's second aim 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 are thus encouraged to make greater efforts to improve earnings and help the Group achieve its targets.

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 allocated to Management Board members as well as the conditions for allocating 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 allocation of share subscription or share purchase options and performance shares, including the identification of beneficiaries of such plans and, in the case of share subscription or share purchase options, the reference price. It is also responsible for ensuring the proper implementation of each plan and reports to the Supervisory Board, in the context of its control function.

6.3.1.1 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, the 5:1 stock split effective as from 18 July 2006 and the 2:1 stock split effective as from 9 July 2010).

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

(*) Average of the last twenty prices for the twenty trading sessions preceding the grant date.

The table above provides details of the 15 June 2003 share purchase option plan which expired on 10 June 2010.

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	294,600
• of which total number of options granted to members of the Management Board (as at 3 September 2007)	92,000
• number of senior managers concerned	4
Total number of options allocated to the 10 employees who are not Corporate Officers and to whom the largest number of options was allocated	64,000
Potential dilution	0.25% (**)
Exercise price (*)	€95.30
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)	17,000

(*) Average of the last twenty prices for the twenty trading sessions preceding the grant date.
(**) On the basis of the 117,944,082 shares making up the share capital at 31 December 2010.

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	143,600
• of which options granted to members of the Management Board (as at 1 September 2008)	98,000
• number of senior managers concerned	3
Total number of options allocated to the 10 Group employees who are not Corporate Officers and to whom the largest number of options was allocated	45,600
Potential dilution	0.12% (**)
Exercise price (*)	€91.77
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 20 prices for the 20 trading sessions preceding the grant date.
(**) On the basis of the 117,944,082 shares making up the share capital at 31 December 2010.

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	578,800
• of which options granted to members of the Management Board (as at 1 September 2009)	80,000
• number of senior managers concerned	3
Total number of options allocated to the 10 Group employees who are not Corporate Officers and to whom the largest number of options was allocated	48,000
Potential dilution	0.49% (**)
Exercise price (*)	€51.67
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)	11,200

(*) Average of the last 20 prices for the 20 trading sessions preceding the grant date.
(**) On the basis of the 117,944,082 shares making up the share capital at 31 December 2010.

Share subscription options: 1 September 2010 Plan

Date of Shareholders' Meeting	4 June 2009
Date of Management Board meeting	1 September 2010
Number of option holders when plan implemented	349
Total number of options granted	512,400
• of which options granted to members of the Management Board (as at 1 September 2010)	60,000
• number of senior managers concerned	3
Total number of options allocated to the 10 Group employees who are not Corporate Officers and to whom the largest number of options was allocated	51,800
Potential dilution	0.43% (**)
Exercise price (*)	€71.17
Date from which options may be exercised	1 September 2014
Expiry date of exercise period	1 September 2020
Number of options cancelled since their allocation (option holders who have left the Group)	–

(*) Average of the last 20 prices for the 20 trading sessions preceding the grant date.
(**) On the basis of the 117,944,082 shares making up the share capital at 31 December 2010.

6.3.1.2 Allocation of performance shares and free shares

(The figures in the following tables have been recalculated, where necessary, to take into account the rights offering in July 2005, the 5:1 stock split effective as from 18 July 2006 and the 2:1 stock split effective as from 9 July 2010).

6.3.1.2.1 Allocation of performance shares

	2007 plan	2008 plan	2009 plan	1-2-3 plan	2010 plan	2-4-6 plan
Date of Shareholders' Meeting	07/06/2005	04/06/2008	04/06/2008	04/06/2008	04/06/2008	04/06/2008
Date of allocation by the Management Board	03/05/2007	01/09/2008	31/07/2009	17/12/2009	15/03/2010 and 31/07/2010	03/12/2010
Number of beneficiaries when plan implemented	280	41	53	17,404	850	12,098
Maximum total number of performance shares	295,260	30,829	35,468	104,424	194,820	72,588
• of which maximum total number of performance shares allocated to members of the Management Board (when plan implemented)	12,768	0	19,939	0	17,000	0
• number of senior managers concerned	4	0	3	0	3	0
Maximum total number of performance shares allocated to the 10 Group employees who are not Corporate Officers and to whom the largest number of options was allocated	31,920	13,726	5,581	60	11,900	60
Potential dilution	0	0	0	0	0	0
Acquisition period	2, 3 or 4 years	2 or 3 years	2 or 4 years	2 or 4 years	2 or 4 years	2 or 4 years
Holding period	2 years	2 years	0 or 2 years	0 or 2 years	0 or 2 years	0 or 2 years
Number of performance shares cancelled since their allocation	20,922	1,225	266	378	0	0

6.3.1.2.2 Free share allocation

Free share allocation plans (without performance conditions) have been implemented only under the terms of the "Value" employee share ownership offerings (see Section 6.3.3 "Employee shareholding" below), implemented in 2008, 2009 and 2010, for the sole benefit of employees and those with similar rights who are non-French residents for tax purposes of certain Group companies instead of the contribution granted to employees and beneficiaries and those with similar rights of the Group's French companies.

	"Value 08" plan	"Value 09" plan	"Value 10" plan
Date of Shareholders' Meeting	04/06/2008	04/06/2009	04/06/2009
Date of allocation by the Management Board	16/12/2008	17/12/2009	03/12/2010
Number of beneficiaries when plan implemented	8,697	8,097	9,632
Total number of free shares	67,712	69,400	83,462
• of which total number of free shares allocated to members of the Management Board (when plan implemented)	0	0	0
• number of senior managers concerned	0	0	0
Total number of free shares allocated to the 10 Group employees who are not Corporate Officers and to whom the largest number of shares was allocated	174	120	120
Potential dilution	0	0	0
Acquisition period	4.5 years	4.6 years	4.6 years
Holding period	0	0	0
Number of free shares cancelled since their allocation	1,018	60	0

A description of the performance share allocation and free share allocation plans is included, in addition, in Notes 18 and 20 of the notes to the consolidated financial statements in Section 5.1 of this Registration 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	2006	2007	2008	2009	**2010**
	19.27	21.62	12.30	4.70	3.23

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	2006	2007	2008	2009	**2010**
	38.07	39.80	46.58	36.60	46.28

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'épargne 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:

	2006		2007		2008		2009		**2010**	
In € million	PEE	PERCO	PEE	PERCO	PEE	PERCO	PEE	PERCO	**PEE**	**PERCO**
	1.45	1.53	1.20	1.50	2.19 (1)	1.37 (1)	2.95 (2)	1.04 (2)	2.4 (3)	0.4 (3)

(1) Including €823,000 in respect of the "Value 08" employee share ownership scheme.
(2) Including €907,847 in respect of the "Value 09" employee share ownership scheme.
(3) Including €1,047,964 in respect of the "Value 10" 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, relating, in particular, to regulatory and tax problems and 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 which 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 in the eight main countries in which the Group operates benefitted from an employee share ownership plan known as "Value 08". On 16 December 2008, the Group carried out a capital increase on the NYSE Euronext Paris regulated market of 749,996 new shares (1) with a subscription price of €65.99 (2) 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 the eight countries concerned, *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.

Instead of the contribution granted to employees and those with similar rights of the Group's French companies participating in the "Value 08" plan, the Management Board at the same time implemented, under the terms of the "Value 08" offering, a free share allocation plan, in respect of the existing shares, involving 33,856 shares (3), *i.e.* 0.6% of the share capital, for the benefit of employees who are non-French residents for tax purposes of Group companies with registered offices located in Germany, Brazil, Canada, the United States, Mexico or the United Kingdom.

A new "Value" plan was implemented for the second year running in 2009 under the "Value 09" name. On 17 December 2009, the Group carried out a capital increase on the NYSE Euronext Paris regulated market of 708,589 new shares (4) with a subscription price of €91.74 (5) 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*). 11,146 employees in the eight countries concerned, *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.

Instead of the contribution granted to employees and those with similar rights of the Group's French companies participating in the "Value 09" plan, the Management Board at the same time implemented, under the terms of the "Value 09" offering, a free share allocation plan, in respect of the existing shares, involving 34,700 shares (6), *i.e.* 0.6% of the share capital, for the benefit of employees who are non-French residents for tax purposes of Group companies with registered offices located in Germany, Brazil, Canada, the United States, Mexico or the United Kingdom.

(1) i.e. 1,499,992 shares taking into account the 2:1 stock split effective as from 9 July 2010.
(2) i.e. €32.99 taking into account the 2:1 stock split effective as from 9 July 2010.
(3) i.e. 67,712, taking into account the 2:1 stock split effective as from 9 July 2010.
(4) i.e. 1,417,178, taking into account the 2:1 stock split effective as from 9 July 2010.
(5) i.e. €45.87 taking into account the 2:1 stock split effective as from 9 July 2010.
(6) i.e. 69,400 taking into account the 2:1 stock split effective as from 9 July 2010.

In 2010, the Group implemented a new "Value" plan for the third year running, known as "Value 10" and, under the terms of the plan, on 3 December 2010, carried out a capital increase on the NYSE Euronext Paris regulated market of 1,395,614 new shares with a subscription price of €61.14 per share (*i.e.* a total capital increase of €85 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*). More than 13,000 employees in the eight countries concerned, *i.e.* nearly 70% of the workforce concerned (the highest participation rate of the three "Value" plans), chose to subscribe to the proposed share offering. The shares owned as a result of the offering represented 3.41% of Vallourec's share capital at 31 December 2010 compared with 2.60% at 31 December 2009.

Instead of the contribution granted to employees and those with similar rights of the Group's French companies participating in the "Value 10" plan, the Management Board at the same time implemented, under the terms of the "Value 10" offering, a free share allocation plan, in respect of the existing shares, involving 83,462 shares, *i.e.* 0.07% of the share capital, for the benefit of employees who are non-French residents for tax purposes of Group companies with registered offices located in Germany, Brazil, Canada, the United States, Mexico or the United Kingdom. The "Value 08", "Value 09" and "Value 10" 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. Against this backdrop, on 13 December 2010, the Supervisory Board provisionally appointed Mrs Pascale Chargrasse as the member of the Supervisory Board representing shareholding employees. It will ask the Ordinary Shareholders' Meeting on 7 June 2011 to renew her term of office for a period of four years.

These plans 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", "Value 09" and "Value 10" arrangements are provided in Note 24 to the consolidated financial statements in Section 5.1 of this Registration Document.

At the same time as the "Value 09" and "Value 10" offerings, Vallourec's Management Board decided, in addition, to allocate performance shares for the benefit, in 2009, of employees of Vallourec companies included in the scope of the "Value 09" offering (excluding members of the Management Board) and, in 2010, of employees of Vallourec group companies included in the scope of the "Value 10" offering (excluding members of the Management Board and employees of Group companies with registered offices located in Brazil) and employees of Group companies with registered offices located in India, the United Arab Emirates and the Netherlands.

7 Information on recent developments and outlook

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The economic environment improved significantly in 2010, positively impacting most of the Group's businesses, which had operated below capacity in 2009.

The upturn in global industrial activity was driven mainly by a return to strong growth by economies in Asia (led by China and India), Brazil and the Middle East. Industrial output also recovered in the United States and then in Europe, especially in Germany and the Eastern European countries.

Following a period of volatility at the start of the year, raw material prices rose sharply towards the end of 2010.

7.1 OIL & GAS

The improvement in the economic environment led to a strong increase in demand for energy: demand for oil rose by 2.7 mbd compared with 2009, reaching 87.7 mbd in 2010 (+3%) [1], above the level forecast at the start of the year. This growth was largely driven by non-OECD countries such as China, which accounted for more than 30% of the increase. Global demand for gas and electricity also returned to growth in 2010 after a difficult year in 2009. Demand rose by +2% (World) and +3.5% (OECD region), respectively.

Buoyed by this demand, and in spite of a number of uncertainties relating to sovereign debts, for example, oil prices rose strongly from their 2009 level. The average price over the course of the year was USD 79 (WTI) per barrel, 29% higher than the previous year's average price of USD 62 [2]. The rise in oil prices – particularly pronounced at the end of 2010 after remaining relatively stable throughout the year – spurred greater activity in the oil & gas and petrochemicals markets. Gas prices in the United States increased only slightly, to an average of USD 4.5 per Mbtu compared with USD 4 per Mbtu in 2009 [3]. Worldwide expenditure on oil and gas exploration and production increased by 10% in 2010 [4], with particularly strong rises in the United States (+20%), Asia (+19%) and Latin America (+10%), where state-owned oil companies invested heavily.

In the United States, the number of drilling rigs in operation increased by 42% in 2010, on a year-on-year basis. As at 31 December 2010, there were almost 1,700 rigs in service, compared with 1,220 on 1 January [5]. This increase was largely due to growth in horizontal drilling in shale gas plays, despite a slowdown in offshore activity during the second half of the year in the aftermath of the accident in the Gulf of Mexico. Almost 60% of rigs in service engaged in horizontal drilling, compared with 25% at the end of 20075, reflecting the scale of growth in shale gas-related activities.

The recent introduction in the United States of new technologies enabling these deposits to be worked profitably is nothing less than revolutionary, given that the potential reserves of natural gas contained in shale plays are equivalent to almost a century's consumption. The recent discovery of oil and condensates in shale plays was another highlight of the year, sustaining the high level of drilling activity into 2011. Shale oil accounted for 36% of horizontal drilling at the start of 2011, compared with only 18% at the start of 2010 [6].

The oil & gas sector in the rest of the world was also dynamic. In 2010, expenditure on exploration and production outside North America increased by approximately 6% and the number of rigs in service rose by 9% to 1,118 at the end of December [5]. Offshore rigs accounted for 303 of the aforementioned total, with many additional rigs in the North Sea (United Kingdom), the Gulf of Guinea (Angola and Nigeria) and off the coasts of Brazil and Indonesia.

In Brazil, the state-owned oil company Petrobras revised its investment plan upwards to USD 120 billion for the period 2010-2014, including requirements relating to the operation of promising pre-salt fields [7].

Expenditure on exploration and production outside the United States is forecast to increase by around a further 12% in 2011, driven by increased investment by multi-national oil companies (+18%).

(1) Source: IEA.
(2) West Texas Intermediate, Source: Thomson.
(3) Source: EIA Banques.
(4) Source: Barclays Capital, Global E & P Survey, December 2010.
(5) Source: Baker Hugues.
(6) Source: Data Rigs.
(7) Source: Petrobas.

7.2 POWER GENERATION

Despite its sound long-term fundamentals, underpinned by growing demand from emerging economies (in particular China and India) and the need to replace obsolete power plants in OECD countries, the power generation market continued to experience contrasting trends.

In **conventional power generation**, there was surplus production capacity in Europe and the United States, and equipment requirements remained limited. Numerous projects for new thermal power plants remained suspended or were cancelled due to uncertainties surrounding environmental policy (lack of a clear direction set by authorities in terms of energy policy or issues such as carbon trading market mechanisms, renewable energy incentives or clean coal) or difficulties obtaining finance. The lengthy decision-making process required in order to reactivate new projects is another cause of sluggish activity. Furthermore, low gas prices in the United States have resulted in a competitive advantage in favour of building combined-cycle power plants rather than coal-fired facilities. In the course of 2010, at least 10 operators in this sector announced their intention to close more than 30 coal-fired power plants by 2019. Only a very small fraction of this capacity will be replaced by more efficient coal-fired plants; most of the rest will be replaced by gas-fired combined-cycle plants.

In Asia, where energy demand from booming economies is huge, projects to build thermal power plants are being revived, particularly in China and India, which now represent half of the global tubes market. China has resumed its policy of replacing small subcritical power plants with more productive, less polluting supercritical plants. The new facilities being built in this region will create 280 GW of additional capacity by 2015, equivalent to almost 50% of current capacity [(1)]. This revived project activity is taking place in an environment that is fiercely competitive for international players, however.

Unlike conventional power, the **nuclear sector** emerged from the crisis completely unscathed. The desire to reduce carbon dioxide emissions has prompted many countries to turn to this method of generating electricity. The nuclear revival has seen an increase in the number of nuclear power plant construction projects around the world, and in China in particular, where the authorities have revised upwards their nuclear programme on several occasions since 2009. The market currently consists of 439 plants in operation and 39 under construction, with a further 100 plants at the project stage.

In France, EDF is planning a major programme to replace steam generators over a three-year period. France is extending the service lives of its existing power plants (24 reactors will have been in service for 40 years by 2025) and may begin construction of a new EPR unit each year between 2020 and 2025.

Global nuclear power generating capacity is set to increase by more than 50% by 2030 [(2)]. Demand for special-purpose tubular products outstrips global supply, due to a combination of new power plant construction projects (250 new plants in 20 years, according to the Roussely report) and service life extensions at existing plants.

7.3 OTHER MARKETS

After a challenging year in 2009, during which consumption of petrochemical products fell, the European market suffered from over-capacity and refining margins declined, the petrochemicals market steadily improved over the course of 2010, supported by a resumption of investment and a bright outlook for 2011. The market in the Middle East was particularly dynamic, with heavy investment in the upline and downline oil sectors and in projects for desalination plants. Activity also recovered in North America, Europe and the Asia-Pacific region, generating many orders that will be delivered during 2011.

Industrial output increased strongly in 2010, rising by 8% after falling by 9% in 2009 [(2)]. In Europe, the automotive sector recovered strongly, the mechanical engineering market was busier than predicted as distributors hurried to rebuild stocks, and the manufacturing sectors in German and the Northern European countries seized opportunities to export goods to emerging nations. Industrial activity in Brazil picked up sharply, resulting in growth in the Group's automotive, construction and mechanical engineering businesses. These positive trends are set to continue in 2011.

(1) Source: IEA.
(2) Global insight.

7.4 OUTLOOK FOR 2011

Vallourec expects most of its markets to benefit from a favourable business climate in 2011. In the first half of 2011, the Group's activity will be broadly comparable to that of the second half of 2010, although pressure on margins is expected as a result of significant increases in raw material costs that can only be passed on to sales prices gradually, as well as costs associated with the start-up of the new plant in Brazil.

In the first quarter, the Group will feel the impact on its volumes of an order book and delivery schedule concentrated more on the second quarter. A strong upturn in volumes is forecast for the second quarter of 2011.

As well as bright prospects for the coming year, the Group benefits from a number of strengths and levers that will drive profitable growth over the longer term:

- Vallourec is pursuing the continuous improvement strategy introduced in 2007, with the launch in early 2011 of CAPTEN+, a new, more wide-ranging three-year programme aimed at improving operational efficiency and ensuring quality, good service and customer satisfaction. This programme also sets out to reduce the ecological footprint of the Group's industrial activities. From a 2010 baseline, CAPTEN+ is expected to deliver savings of €300 million (excluding inflation) by the end of 2013;
- Vallourec is successfully expanding its production capacities to keep pace with strong growth in its markets, in particular by ramping up production at the new integrated plant in Brazil, which is due to deliver its first orders in late 2011; a new plant in France is to begin manufacturing steam generator tubes for the nuclear power sector in 2011, and in the United States a new plant is scheduled to begin producing small-diameter tubes for the shale gas market in early 2012;
- Vallourec is in a sound financial position, with debt gearing of 9% at 31 December 2010; this will enable the Group to seize new growth opportunities for premium tubular solutions;
- The Group has consolidated its financial flexibility with the establishment in early 2011 of a five-year multi-currency revolving line of credit for an amount of €1 billion. This line of credit will be available for the Group's general financing requirements. It will be used to partially refinance existing lines of credit due to expire in March 2012 and April 2013, and will extend the maturity of Vallourec's resources.

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8.1 MANAGEMENT BOARD REPORTS

8.1.1 MANAGEMENT REPORT OF THE MANAGEMENT BOARD TO THE SHAREHOLDERS' MEETING OF 7 JUNE 2011

8.1.1.1 Results

The marked improvement in the industrial environment and the energy sector translated into a significant increase in deliveries from the second quarter of 2010. Production shipped of rolled tubes totalled 1,888 thousand tonnes in 2010, an increase of 25.6% compared to the previous year (1,503 thousand tonnes).

However, sales were more or less stable compared to the previous year at €4,491 million (+0.6% compared to 2009), due to unfavourable price and mix effects, and despite a positive impact from a change in the consolidation scope due to the inclusion of Serimax in the second quarter of 2010. The change in sales breaks down into a very positive volume effect (+25.6%), with positive effects from the change in the consolidation scope (+3.5%) and currencies (+5.4%), offset by an unfavourable price/mix effect (-26.6%).

The price increases implemented in the second and third quarters of 2010 were not sufficient to offset this latter effect, which resulted mainly from the impact, for the full year 2010, of price falls experienced in the markets in 2009.

Cost of sales and selling, general and administrative costs before depreciation and amortization represented 67.7% and 10.9% of sales respectively in 2010, compared with 67.2% and 10% in 2009.

EBITDA reached €925 million in 2010, a fall of 5.7% compared to 2009 (€981 million), which corresponds to an EBITDA/sales ratio of 20.6%, compared to 22% in 2009.

The Cap Ten cost reduction plan set up at the beginning of 2008 has enabled the Group to achieve recurring cost savings of €280 million before inflation within three years, which is above the original target of €200 million.

At €184 million, depreciation of industrial property and equipment was higher than in 2009 (€151 million), due mainly to a translation effect and the consolidation of newly acquired companies (DPAL, Protools and Serimax).

Other costs rose by 34.9% to €58 million in 2010, including €16 million related to asset disposals and restructuring, due to specialization measures taken by some plants in Europe.

The financial loss totalled €28 million compared with a loss of €5 million in 2009.

The effective tax rate was 30.5% in 2010, which was a slight improvement over 2009 (31.7%) due to the change in the geographical mix of the Group's activities.

Net profit reached €453 million in 2010, against €537 million in 2009. Net profit attributable to owners of the Company totalled €410 million, a fall of 21% year-on-year (€518 million in 2009).

Cash flow from operating activities reached €708 million in 2010 against €766 million in 2009, reflecting the year-on-year decline in Group EBITDA. The working capital requirement rose by €268 million in 2010 as a result of the recovery in activity from the second quarter. In 2009, it had been reduced by €845 million. In total, cash flow generated by the business reached €440 million in 2010 compared to €1,611 million in 2009.

Details are provided below of changes in the Group's industrial and financial investments.

The Group's cash position changed from a net cash position of €407 million at 31 December 2009 to net debt of €381 million at 31 December 2010, with equity reaching €4,824 million.

At 31 December 2010, Group cash was €433 million higher than overdrafts and other short-term borrowings. Out of total bank loans and other borrowings of €1,035 million, 48% had a maturity in excess of 2 years.

8.1.1.2 Industrial and financial investments

During the year, the Group's capital expenditure totalled €873 million, up 29% on 2009 (€677 million). Of this amount, €407 million related to the construction of the integrated site of Vallourec & Sumitomo Tubos do Brasil (VSB) as well as other strategic investments, notably in the United States and China and in the nuclear segment in France.

The Group also acquired financial investments costing €161 million, consisting mainly of the acquisition of Serimax for €145 million, which was finalized during the second quarter of 2010.

8.1.1.3 Highlights

In February 2010, the Group acquired Protools *via* its subsidiary VAM Drilling Dubai. Protools is the largest producer of drill stem components in the Middle East. Following on from the acquisition in 2009 of DPAL FZCO, a supplier of drill pipes based in Dubai in the United Arab Emirates, this transaction has enabled VAM Drilling to offer an integrated solution for the entire drill string.

On 15 February 2010, the Group announced its decision to build a new, state-of-the-art, small diameter tube mill in Youngstown (Ohio, United States) at a cost of USD 650 million. This decision was made on the basis of the development of unconventional gas production in the United States which is driving increased demand for small, premium quality, OCTG tubes. This new tube mill will initially produce 350,000 tonnes per year, and will also comprise heat treatment and threading lines. Construction began during the second quarter of 2010 and production at the plant is expected to begin early in 2012. This project will create around 350 new jobs.

On 8 June 2010, the Group finalized the acquisition of 100% of Serimax, a world leader in the provision of fully integrated welding solutions for offshore line pipes. This acquisition complements Vallourec's existing offshore line pipe operations, which currently account for around 10% of the Group's total Oil & Gas sales.

The 2009 dividend was paid on 30 June 2010. Payment of the dividend in shares resulted in the issuance of and admission to the NYSE Euronext regulated market in Paris of 993,445 new shares (representing 1.7% of the share capital), and the payment of €71.9 million in cash.

On 28 July 2010, the Group announced its decision to expand the capacity of its plant in China (V & M Changzhou) for the production of tubes for thermal power plants. Using a new proprietary technology, the plant will produce 60,000 tonnes of seamless pipes per year. The expansion of V & M Changzhou will enable it to produce locally large diameter premium seamless tubes to meet the needs of the new generation of supercritical and ultra-supercritical power plants. Capital expenditure associated with this project totalled €160 million and production is expected to start during the second half of 2012.

On 15 September 2010, the Group announced that it had entered into an agreement to acquire 19.5% of Tianda Oil Pipe Company (TOP), a Chinese seamless tube manufacturer listed on the Hong Kong stock exchange, through a reserved capital increase. The cost of the acquisition will total around USD 100 million. TOP has been manufacturing OCTG (oil country tubular goods) tubes for the oil and gas market since 1993 and, in January, 2010, commissioned a new PQF® seamless rolling mill with an annual capacity of 500,000 tonnes. By acquiring an interest in TOP, Vallourec will increase and strengthen its presence in the Chinese market, the second largest market in the world for OCTG tubes after the United States. Under the terms of the collaboration agreement with TOP, Vallourec, *via* its specialist subsidiary VAM Changzhou, will carry out locally the premium threading of tubes manufactured by TOP to serve the Chinese premium OCTG market.

On 29 September, the Group announced that its subsidiary, Valinox Nucléaire, is to build a facility to produce steam generator tubes in Nansha, Guangdong province in the South East of China. The aim of this new facility is to enable the Group to meet the needs of the fast-growing Chinese nuclear power programme, for which the installed capacity is expected to grow from 15 GW to over 100 GW in 2020. This project will complement the extension currently underway of Valinox Nucléaire's plant in Montbard, in France, where production capacity is set to triple in 2011. When production starts at the new plant in Nansha in the second half of 2012, Vallourec's total offer for steam generator tubing will increase from 5,000 km to close to 7,000 km per year. This plant, which represents an investment of €55 million, will employ 200 people.

On 4 October 2010, the Group announced that it had implemented a sponsored Level 1 American Depositary Receipt (ADR) programme in the United States. An ADR is a US dollar denominated security representing shares in a non-US company, which allows American investors to hold shares indirectly and to trade them on securities markets in the United States. The implementation of an ADR programme demonstrates the Group's intention to broaden its investor base by enabling a larger number of US-based investors to participate in its future expansion.

In December 2010, the Group successfully finalized its "Value 10" employee share ownership plan. More than 13,000 staff in eight countries, *i.e.* more than 70% of the workforce concerned, chose to subscribe to the Group's third worldwide employee share ownership offering. The capital increase totalled €85 million, premium included, and resulted in the issue of 1,395,614 new shares. This offering increased the total number of Vallourec shares in issue to 117,944,082 at 3 December 2010. Following the transaction, Group employees owned more than 3% of Vallourec's share capital.

At its meeting on 13 December 2010, the Supervisory Board provisionally appointed Mrs Pascale Chargrasse as the member of the Supervisory Board representing Vallourec's shareholding employees. Her appointment is subject to the ratification of the Ordinary Shareholders' Meeting on 7 June 2011.

First quarter 2011

On 11 February 2011, the Group announced that it had signed a €1 billion five-year multi-currency revolving credit facility. This facility is available for use for the Group's general financing requirements. It will partially refinance and will increase the existing credit lines maturing in March 2012 and April 2013, enabling the Group to increase its financial flexibility and extend the maturity of its resources.

On 1 April 2011, Vallourec announced that it had finalized the acquisition of 19.5% of the capital of Tianda Oil Pipe Company Limited. The deal, which was submitted for approval to Tianda Oil Pipe's shareholders and t the Chinese and Hong-Kong authorities, was carried out in the form of a reserved capital increase in accordance with the agreement announced on 15 September 2010.

8.1.1.4 Transactions with related parties

The only transactions with related parties in 2010 concerned purchases of steel billets totalling €406.1 million from HKM, which is 20%-owned by the Group. The billets are used as raw materials by the European rolling mills of V & M Deutschland and V & M France.

8.1.1.5 Vallourec (Holding company)

Vallourec posted a loss of €16.7 million compared with a loss of €13.8 million in 2009. This loss resulted from costs borne by the holding company (payroll costs, legal fees and communication expenses).

Net financial income (the difference between financial income and financial costs) was €514.5 million compared with €425.1 million in 2009, due mainly to the dividend of €524.4 million received from V & M Tubes.

Net exceptional income totalled €2.6 million compared with €4.5 million in 2009. It included income of €2.2 million associated with disposals of own shares under the terms of the liquidity contract.

The income tax charge was negative and represents a net credit of €15 million (€11.6 million in 2009) 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 up at €515.5 million compared with net profit of €427.4 million in 2009.

At 1 January 2010, Vallourec's issued capital totalled €229,123,156, divided into 57,280,789 shares with a nominal value of €4 each. On 30 June 2010, the option to pay the dividend in shares, at the price of €130.85, resulted in the creation of 993,445 new shares, representing a capital increase of €130 million (premium included). On 9 July 2010, a 2:1 stock split was carried out, giving shareholders the right to two new shares for each existing one, resulting in the creation of 58,274,234 shares. On 3 December 2010, the "Value 10" capital increase reserved for employees resulted in the creation of 1,395,614 new shares, *i.e.* an increase of €84.4 million (premium included). At 31 December 2010, Vallourec's issued capital therefore totalled €235,888,164, divided into 117,944,082 shares with a nominal value of €2 each.

Equity increased by €530.3 million to €2,063.2 million at 31 December 2010. This increase resulted from the net profit for the financial year 2010 of €515.5 million, the distribution of a dividend in cash of €3.50 per share on 30 June 2010, giving a total dividend of €69.6 million, and the €84.4 million capital increase (premium included) in respect of the "Value 10" employee share ownership plan. Financial liabilities were €18 million higher than in 2009, at €589.6 million.

To the best of the Company's knowledge, the financial year 2010 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 and 2010.

In € thousand

Due dates (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**
Accruals: invoices not yet received							288	288
Others								
TOTAL	**1,082**	**885**		**197**			**288**	**1,370**

In € thousand

Due dates (D = 31/12/2010)	Amounts due at 31/12/2010	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	-	1,921		184			-	2,105
Payables to suppliers of property, plant and equipment								
Total payables	**-**	**1,921**		**184**			**-**	**2,105**
Accruals: invoices not yet received							383	383
Others								
TOTAL	**-**	**1,921**		**184**			**383**	**2,488**

8.1.1.6 Other information

The following information is included in the 2010 Registration Document, which is an integral part of this management report.

- 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 "Information about recent developments and outlook";
- significant events occurring between the financial year end and the publication of the management report are disclosed in Section 3.1.1 "Changes in the Group's structure in recent years" and Section 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 2.2.3 "Authorized capital not yet issued".
- information about share buybacks during the year under review included in Section 2.2.4 "Share buybacks".

8.1.1.7 Trends in Vallourec group markets

In the **Oil & Gas market**, the Group reported sales of €2,355 million in 2010, an increase of 5% compared with 2009. Oil & Gas was Vallourec's largest market, accounting for 53% of the Group's consolidated sales.

Year-on-year Oil & Gas volumes increased very strongly in the United States, driven by the recovery in drilling activities following their slowdown in 2009, and by the increasing use of horizontal drilling in shale plays. In addition, the first orders for VAM SG, the new premium connection developed specifically for non-conventional shale drilling, were delivered at the end of the year.

The oil and gas markets in the rest of the world also remained dynamic. The Group's activity in 2010 was particularly strong in Europe, Africa, the Middle East and Brazil, with an upturn in tenders submitted by state-owned oil companies in the first half of the year, while in the second half, numerous undersea project line pipe contracts and the integration of Serimax had positive impacts.

Despite this favourable context, the drill pipe, seabed assemblies and other accessories business remained sluggish in 2010, due to continued destocking during the year, coupled with weaker demand for replacement equipment.

In the **Power Generation** market, the Group reported full-year sales of €780 million, down 32% on the 2009 figure. This decrease is attributable to a reduction in volumes shipped to customers in the thermal power plants sector as a result of the sharp decline in new orders in 2009. Sales were also affected by a refocussing of these businesses on projects in Asia, where market conditions remain fiercely competitive.

In contrast, growth in activity for the nuclear power industry accelerated significantly in late 2010, particularly in France and China. Nuclear applications accounted for almost 20% of Power Generation sales in 2010, compared with an average of 10% in previous years. Sales for nuclear applications are likely to increase strongly in 2011, as new production facilities for nuclear power plant tubes in France begin operating in the first quarter of the year.

In **Petrochemicals**, sales gradually recovered over the course of the year, ending 2010 down just 2% on the previous year. Business in the Middle East was particularly dynamic, driven by orders for major new petrochemicals projects. The trend in this market is currently positive, and several large projects are underway in the Middle East, the Asia-Pacific region and North America.

In the **Energy sector**, Vallourec achieved sales of €3,492 million in 2010, which represents 78% of total Group sales.

Full-year sales in the **Non-Energy** sector totalled €1 billion, up 42% compared with 2009. The global market for industrial facilities picked up strongly in 2010. All of the Group's Non-Energy businesses recovered at a very good pace compared with 2009: +28% for mechanical engineering applications, +61% for the automotive industry, and +45% for construction and other markets. In Europe, the German market proved particularly strong, followed by the Northern European countries; sales to the automotive and mechanical engineering sectors grew strongly. In Brazil, in 2010, sales to all segments of the non-energy sector increased.

8.1.1.8 Research and Development

- A combination of strong 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 development and production of 9% and 13% chromium steels using continuous-casting processes forms the basis of the Group's range of high-tech solutions.

  Extensive research has been conducted into these technologies. 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 premium steel procurement.

  Hot-process steel tube-making is a core technology for the Group and many innovations have been made in this area. For example, a new "Premium Forged Pipes" (PFP®) process has been developed to produce of large-diameter and very thick tubes, in particular for the mechanical engineering and power generation markets. This patented technological solution was deployed in 2010.

  A new rolling mill laboratory began operating in Riesa (Germany), with a mission to develop innovative proprietary technologies and accelerate Vallourec's advances in the area of hot production facilities and processes.

  Significant developments were made in the area of non-destructive examinations to ensure that the Group's products are extremely reliable. Such innovations are major differentiating factors.

  The rollout of process communities across the Group continued apace. These communities enable rapid, continuous progress to be made by sharing best practices relating to the Group's core processes, including threading, steel-making and continuous-casting, heat treatments and hot rolling.

- As oil & gas drilling conditions become more challenging, stronger, more resistant steels and new high-performance threaded connections must be developed that are suitable for applications such as deep-water operations, high-temperature, high-pressure deep reservoirs, shale gas production and the injection of steam to enhance crude oil recovery rates.

  Many projects are underway, particularly in the North Sea, Brazil (presalt reservoirs), the United States (shale gas), the Gulf of Mexico and Alaska, West Africa and Malaysia.

  Developing steel grades that are able to resist corrosion by hydrogen sulphide is an essential task, particularly for the oil and gas industry. This range of sour service grades has been extended with the introduction of the "VM125SS" grade. This grade, specially designed for deepwater applications, is proving to be a commercial success.

VAM® 21, the next-generation premium threaded connection, is now on sale. This innovative connection complies with the compressive strength requirements of ISO 13679 CAL IV, which is the 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. There is strong demand for environmentally-friendly products that facilitate the use of our tubes, particularly in the North Sea. This family of coatings is being extended to cover an increasingly wide spectrum of applications, and very cold conditions in particular.

To facilitate operations in new shale gas plays, a new threaded connection – VAM SG – has been developed in partnership with customers, in record time, in order to satisfy very specific performance criteria. Shale gas plays are worked *via* a well shaft featuring a long horizontal section, which generates high torque. The connection must be very strong in order to withstand this torque and the forces exerted by the high-pressure cracking process that is also used.

The VAM® HTF high-performance connection has been developed and successfully marketed as a solution for the most difficult applications, such as deviated shafts with long horizontal sections. This premium threaded connection features metal-to-metal sealing and self-locking variable threading, enabling it to withstand very high torque forces.

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.

The highly 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.

Since being set up four years ago, VAM Drilling has become a leader in terms of technological innovations and the development of drill pipes and accessories. Examples include:

- VAM® Express, VAM® EIS and VAM® CDS high-torque connections, which deliver a combination of high performance and outstanding operational reliability, resulting in very low repair rates,
- an unprecedented high-grade steel (165 ksi) for highly deviated drilling and a comprehensive range of steels for all applications, including wells in highly corrosive environments,
- high-pressure risers (used to connect the seabed equipment to the oil rig) that surpass the strictest requirements,
- the Hydroclean® range of well-cleaning products has been extended.
- 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 is a market leader.
- Vallourec's VM12 SHC 12% chromium steel alloy, designed for use at high temperatures, is now being used in highly efficient, ultra-supercritical power plants. 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 construction orders for bridges, stadiums, airports, etc. Highly innovative tubular solutions are being developed for industrial and commercial buildings, particularly in Germany and Brazil. The patented Preon large-span tubular roof frame system is now being used in numerous applications.
- Stainless steel and titanium welded tubes continue to grow in popularity in the energy and desalination markets. Valtimet is developing super-stainless steel alloys to extend the range of available solutions. Enhancing heat exchange processes is one major innovation area, resulting in the development of finned tubes for MSR and industrial process applications, for example. Lastly, in the umbilicals market, adopting premium welded stainless steel tubes will generate significant performance gains.

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.

These indicators comply with the requirements of decree no. 2002-221 of 20 February 2002.

I – Workforce

At 31 December 2010, Vallourec had 20,561 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. The table below provides details of the countries in which Vallourec has at least 100 employees.

1. Brazil	(7,346)	6. China	(444)
2. France	(5,015)	7. Mexico	(323)
3. Germany	(3,999)	8. United Kingdom	(448)
4. United States	(1,922)	9. Malaysia	(168)
5. Indonesia	(536)	10. India	(122)

The workforce is 10% larger than last year. One-third of this increase is due to the expansion of the Group (purchase of the Serimax Group which has 600 employees worldwide and the creation of new production units in the Middle East) and the remaining two-thirds is due to developments in Brazil (the upturn in the Group's business and the significant investment in the plant under construction by Vallourec & SumitomoTubos do Brasil (VSB).

CHANGE IN WORKFORCE BY GEOGRAPHICAL AREA

Workforce registered as at 31 December 2010 (permanent and fixed term contracts)	2009	**2010**	Change 10/09	2009 Breakdown	**2010 Breakdown**
Europe	9,195	9,488	+3%	50%	46%
Brazil	6,057	7,346	+21%	33%	36%
NAFTA (United States, Canada, Mexico)	2,151	2,299	+7%	11%	11%
Asia	1,149	1,302	+13%	6%	6%
Middle East	0	110	NS	0%	1%
Africa	15	16	NS	-	-
TOTAL	**18,567**	**20,561**	**10%**	**100%**	**100%**

Europe, where the workforce increased slightly as the result of the acquisition of Serimax, accounts for slightly less than half of the Group's workforce.

Brazil, whose workforce increased by 21%, now accounts for more than one-third of the Group's workforce.

Half of the increase in the workforce in the United States was due to the acquisition of the Serimax Group. The other half was due to increased activity.

The workforce in Asia increased following the integration in Malaysia of 168 employees from the local Serimax subsidiary.

Breakdown of workforce by socio-professional category

The permanent workforce, *i.e.* excluding employees under fixed-term contracts, breaks down as follows:

- workers, most of whom are experienced professionals: 68%;
- middle managers and technical, administrative and sales staff: 18%;
- senior managers and technical experts: 14%.

The increase in the proportion of senior managers and the corresponding decrease in the proportion of middle managers and technical experts as compared with last year (26% and 8% respectively) is the result of work undertaken to clarify and harmonize the levels of responsibility associated with the various positions within these functions, which was carried out based on an assessment method used throughout the Group. This analysis resulted in some employees being classified as "senior managers" who had previously been classified as "middle managers".

Breakdown of workforce by gender

Women account for 10% of the permanent workforce. They occupy one-third of the administrative and sales positions. Few women are employed as workers, other than in China.

The proportion of women in senior management positions remains modest. It is increasing in Brazil, which is also the country with the highest proportion of women in senior management positions.

% of women (permanent employees)	Europe		Brazil		NAFTA		Asia		Total	
	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**
Workers	1%	2%	4%	4%	2%	2%	23%	13%	3%	3%
Technical and supervisory staff	31%	31%	22%	25%	31%	34%	43%	23%	29%	29%
Managerial staff	17%	19%	7%	21%	15%	17%	21%	18%	16%	19%
TOTAL	**10%**	**10%**	**9%**	**9%**	**11%**	**11%**	**27%**	**17%**	**10%**	**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 nucleus of permanent staff so that it is able to handle its on-going workload and to use temporary staff (staff employed under fixed-term contracts and interim staff) to cope with unusually high activity levels.

The gradual increase in the activity level has resulted in an increase in the numbers of temporary staff, particularly in the United States, Europe and Asia.

	Total		Of which Brazil		Of which NAFTA		Of which Asia		Of which Europe	
At 31 December	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**
Permanent staff	18,003	19,873	6,018	7,279	2,151	2,299	1,112	1,172	8,707	9,000
Staff employed under fixed-term contracts	244	332	39	66	0	0	36	126	169	137
Temporary staff	272	1,176	16	8	23	158	94	241	93	700
% flexibility	3%	8%	1%	1%	1%	7%	12%	31%	3%	9%

Employees leaving the Group

In 2010, 1,447 employees under permanent contracts left the Group. They represented 7% of the permanent workforce, down 2% compared with 2009. In the United States, the integration of the local Serimax subsidiary masked this fall because the employment of staff on a project basis in this group results in a high number of leavers when the projects are completed. On a like-for-like basis, the proportion of employees leaving the Group in the United States was 11.5%.

	Brazil		USA		Europe		China	
	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**
% of permanent staff leaving the Group at 31/12/2010	11%	6%	24%	18%	4%	6%	10%	11%

Their reasons for leaving were as follows:

	Total	Brazil	USA	Europe	China
Retirement	19%	7%	2%	46%	2%
Resignation	26%	26%	20%	19%	83%
Redundancy	40%	65%	51%	13%	13%
Other reasons	15%	2%	26%	22%	2%

Retirement and resignation accounted for nearly half of leavers. Several factors explain the differences noted between the various countries: the age of the population, the regulations applicable to the termination of employment contracts as well as cultural factors. Thus, staff turnover in China is traditionally high, due to resignations.

The redundancy figure for the United States resulted mainly from Serimax's policy of employing staff on a project basis.

New employees

In 2010, Group companies recruited – excluding intra-Group transfers – 2,529 permanent employees, *i.e.* 13% of the permanent workforce.

More than half of these new employees were recruited in Brazil to cope with the expansion and start-up of production at the plant built by Vallourec & Sumitomo Tubos do Brasil (VSB).

Number of new permanent employees	Number	As a % of the permanent workforce
Europe	374	4%
Brazil	1,682	23%
NAFTA	363	16%
Asia	98	8%
Other countries	12	-
TOTAL	**2,529**	**13%**

The breakdown of new employees by professional category was as follows:

Breakdown of new employees and employees transferred by category	As a % of workers	As a % of technical and supervisory staff	As a % of managerial staff	**Total**
Europe	54	25	20	100
Brazil	84	9	7	100
NAFTA	62	21	17	100
Asia	42	29	9	100
TOTAL	**73**	**15**	**12**	**100**

The above movements comprise more than 330 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 in France and Germany;
- transfer expertise required for the construction of new sites, including, in particular, the new tube mill under construction by Vallourec & Sumitomo Tubos do Brasil (VSB) in Jeceaba in Brazil.

Women accounted for 12% of total new employees and 24% of new senior managers, particularly in Brazil where a third of senior managers recruited were women.

		Breakdown of new female employees by professional category (as %)			
% of women recruited	As % of total new employees (excluding transfers)	Workers	Technical and supervisory staff	Managerial staff	**Total**
Europe	27%	10	23	22	16
Brazil	10%	5	43	32	10
NAFTA	12%	3	33	19	12
Asia	27%	8	50	15	22
TOTAL	**14%**	**6**	**34**	**24**	**12**

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 production 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.

2. Working hours

The upturn in activity levels as compared with last year resulted in an increase in the number of hours worked, mainly in the United States and Europe.

In France and Germany, the Group has adopted short-time working at some sites. Loans of staff, on a volunteer basis, have, however, mitigated the effects of low capacity utilization.

	Number of hours worked in 2009	**Number of hours worked in 2010**	Of which average number of hours of overtime worked during the year	
			2009	**2010**
China	2,300	2,098	252	278
Mexico	2,473	2,336	126	88
Brazil	1,994	1,974	68	99
United States	1,871	2,225	183	328
United Kingdom	1,721	1,966	87	205
Germany	1,359	1,493	81	108
France	1,433	1,526	14	18

3. Individual and part-time working arrangements

In France, virtually all technical and supervisory staff benefit 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, 54 employees (seven workers, 31 technical and supervisory staff and 16 managerial staff) 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 comparable industries.

	Rate of absenteeism
Europe	5.3%
Brazil	4%
NAFTA	1%
Asia	1.4%
TOTAL	**3.8%**

III – Remuneration

1. Payroll costs

In 2010, the Group's payroll costs, excluding temporary staff, totalled €960 million:

- wages and salaries: €633 million;
- employee profit-sharing and incentives: €49 million;
- charges associated with share subscription and share purchase options and performance shares: €21 million;
- social security charges: €257 million.

The breakdown by country was as follows:

	2010	
	Breakdown of total payroll costs	Breakdown of average workforce
Germany	26%	21%
Brazil	22%	33%
United States	15%	10%
China	1%	2%
France	32%	26%
Mexico	1%	2%
United Kingdom	2%	2%
Other	1%	4%
TOTAL	**100%**	**100%**

All amounts are expressed in euros.

2. Average salaries

Vallourec's remuneration policy is based on the principles of employee motivation and fairness (whilst taking into account the conditions of the local employment market) including profit sharing arrangements.

The average salaries shown in the following table are expressed in euros. The average salary in France is based on all salaries, including those of the Group's senior management.

Average salaries including profit sharing and social security charges	2008	2009	**2010**	**% of 2010 social security charges**
Germany	€61,980	€57,160	€61,510	28%
Brazil	€25,180	€25,950	€34,070	66%
Canada	€55,550	€58,910	€71,850	19%
China	€8,660	€10,150	€1,274	16%
France	€62,180	€56,560	€62,340	49%
Mexico	€30,070	€24,510	€25,120	16%
United Kingdom	€61,310	€52,290	€53,780	21%
United States	€64,350	€61,270	€80,650	30%

3. Employee profit sharing

Profit-sharing schemes enable employees to become involved with the enterprise's performance

In 2010, profit-sharing and incentive payments were higher than in 2009, at €49 million.

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.

4. Employee share ownership

Almost all Group employees benefitted from the "2-4-6" performance share allocation plan which will enable them to obtain – depending on the Group's results for the period 1 January 2011 and 30 September 2012 – up to six Vallourec shares.

In addition, more than 13,000 employees in eight countries, *i.e.* nearly 70% of the workforce concerned, subscribed to the employee share ownership offering proposed by the Group for the third consecutive year. This participation rate, which exceeded that of the two arrangements implemented in 2008 and 2009, demonstrates the loyalty of Vallourec's employees to their company and their confidence in the Group's strategy and future.

As a result, the portion of the share capital owned by the Group's employees is now 3.41%.

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 Vallourec's senior management following publication of the Group's results. In addition, a smaller Executive Board composed of two German representatives, two French representatives and one UK 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 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 workforces, participates in the management of the mutual investment fund set up following the implementation of employee share ownership arrangements in France and Germany in 2006 and renewed each year from 2008 to 2010. A member of the Supervisory Board to represent shareholding employees was selected from amongst the members of this Board in December 2010.

- 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 senior management. It is provided with general information on the Group (review of financial statements, activity, capital expenditure, etc.). It is assisted by a chartered accountant. It is also involved with the management of provident and employee savings schemes

When negotiations take place at Group level, each of the five trade unions represented within the Group (CGT, CFDT, FO, CFE-CGCC and CFTC) appoints mandated representatives and a **negotiation committee** is formed. The agreements signed in this context, in particular the agreements on the Organization of Working Time, Lifelong Professional Training, and Healthcare and the Employment of Older Workers result in joint discussions being held *via* **monitoring committees**.

In 2010, negotiations focussed on salaries and job and skills management. Discussions also took place concerning the prevention of social and psychological risks.

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 negotiation that takes place each year concerning salaries, the organization of working time and equal opportunities for men and women.

Matters relating to health and safety and working conditions are dealt with by the Committees for health, safety and working conditions (*Comités d'hygiène, de sécurité et des conditions de travail* – CHSCT).

In 2010, a satisfaction survey was carried out amongst all Group employees to facilitate the drawing up of action plans to improve staff motivation and efficiency.

- 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 *Conselho Representativo dos Empregados* (CRE), 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, employees voted on the method of staff representation and chose to have no trade union involvement. Social dialogue takes the form of 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 *via ad hoc* bodies.

In 2010, a satisfaction survey was carried out amongst all Group employees to facilitate the drawing up of actions plans to improve staff motivation and efficiency.

2. Group internal communication

Vallourec's aim is to provide high-quality information about the Group's main priorities: each employee must be informed of the Group's strategy, objectives and results.

The role of the internal communication department is therefore to ensure that information is clear, instructive and tailored to the various internal target audiences and that it is disseminated regularly.

The Group's objective to communicate in a clear and informative manner to all staff is demonstrated by the development of various local and international communication tools and channels (factual, multi-media publications).

Communication media

- *Vallourec Info*, a magazine intended for the 20,000 Group employees worldwide and published in the Group's five languages (English, German, French, Portuguese and Chinese);
- *Vallourec info express*, an information bulletin (in five languages), used for quick dissemination of information on recent developments. It is displayed in all the Group's sites;
- *Executive Letter*, a bi-monthly information letter produced for the Group's 2,900 managers. It is published in French and English;
- *Executive Flash*, in electronic format, used for quick dissemination of information on recent developments and targeted at managers (in French and English);
- *Group profile,* in electronic format, sent to managers with the aim of circulating the information as widely as possible (in French and English).

Internal meetings

Each year, a *Managers' convention* is held at which the management team explains and comments on the Group's results for the year under review and presents to the 300 participants the Group's strategic directions, priorities and objectives.

Three other *annual Managers' conventions* are held in the United States, Europe and Brazil.

These meetings are supplemented by the annual information meetings held by the Group's business units.

Group communications are relayed locally by the communication departments of the various subsidiaries *via* their own communication media (newspapers, intranets and factsheets).

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 to be involved in the Group's performance;
- Continuous Improvement Teams (CITs), which 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 2010, 1,468 groups operated worldwide, including 274 dealing with health and safety matters.

V – Health and safety conditions

High priority is given to the health and safety conditions of the staff working at Vallourec's sites. The Group's approach to health and safety is based on risk analysis and on-going prevention.

It is essential that staff be trained in and familiarized with safety procedures on joining the Group. Further training is provided at regular intervals throughout their careers to ensure that their knowledge of such procedures is up-to-date. 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 on-going 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 CITs 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 has introduced a prevention and protection programme named the Cap Ten Safe programme to equip itself with the resources necessary to enable it to reduce industrial accidents. Implementation of the programme began in 2009.

The Group's results since 2009 have been markedly better than those of earlier years. The rate of industrial accidents causing lost time (the number of notifiable accidents per million hours worked) fell from 9.2 in 2008 to 5.3 in 2009 and 3.1 in 2010 for all staff (permanent and temporary).

VI – Professional training

The Group needs staff that are well-trained, motivated and able to adapt to changes in the Group's business and markets.

It endeavours to reconcile its changing requirements with the individual aspirations of its employees by ensuring that all employees benefit from proper career development.

In 2010, more than 650,000 hours were spent on professional training for employees, at a cost equivalent to 3% of total salaries (training costs + remuneration of staff attending training sessions).

Training requirements are determined by individual entities on the basis of strategic objectives and the plans drawn up on the basis of these objectives.

These requirements are the subject of annual and longer-term plans.

Most staff are offered technical training, language training and training to improve their efficiency and knowledge of their customers.

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.

In France in 2010, more than 400 employees had the opportunity to take part in a career meeting to review their skills and career aspirations. In this regard, 42 employees successfully undertook training which enabled them to gain professional qualifications (e.g. the certificate of joint qualification in metallurgy: *certificat de qualification paritaire de la métallurgie* – CQPM) to back up their experience.

Managerial staff are trained to manage their teams and, in particular, to conduct progress meetings.

The setting up in 2010 of the "Vallourec University" has improved the Group's ability to anticipate and coordinate the training needs of its managerial staff and promote intercultural communication and the sharing of resources.

Number of employees trained during the year

The proportion of employees trained during the year – *i.e.* receiving at least one complete day's training – was close to 70%.

% of employees receiving at least one day's training per year	Europe	Brazil	United States	Asia	**Total**
Workers	48%	65%	77%	40%	57%
Technical and supervisory staff	70%	84%	74%	92%	76%
Managerial staff	86%	94%	100%	81%	90%
TOTAL	**58%**	**71%**	**82%**	**58%**	**65%**

Type of training provided

	Europe	Brazil	United States	Asia	**Total**
Average number of hours of training per permanent employee	25 H	43 H	21 H	41 H	33 H
% of technical and professional training	45%	51%	25%	44%	46%
% of safety training	20%	34%	64%	23%	32%
% of other training (management, efficiency, personnel, IT, language)	35%	15%	11%	33%	22%

Youth training

In addition to continuing professional development, Vallourec is involved in training young people in the Company's business, and metallurgy in particular, by means of apprenticeships and the use of other forms of work-linked training. At 31 December 2010, Vallourec had 356 apprentices in total (277 in Germany and 50 in France).

Specialist network

The specialist network, which was set up in early 2010, has enabled staff to take on more challenging work and further their careers, due to the career development opportunities it offers them.

The Group currently has more than 250 experts throughout its Divisions and the countries in which it operates. Specialists in their respective areas of expertise, they help to strengthen Vallourec's technical excellence and culture of innovation in fields such as materials science, rolling, non-destructive testing or even product applications.

More generally, the development of the specialist network aims to strengthen the Group's competitive advantage in increasingly competitive markets.

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 143 employees who are registered as disabled. It also uses *centres d'aide par le travail* (workshops that provide employment for disabled people) to which it subcontracts work (upkeep of open spaces, catering, 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 depends on the regulations 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 Group companies.

IX – Levels of sub-contracting

As a result of the difficult economic climate that affected Vallourec in 2009, close attention was paid during 2010 to managing the panel of regional suppliers.

The main consequence of this was a volume of sub-contracting close to that of 2009 using a stable panel of suppliers.

8.1.1.10 Information relating to sustainable development

Vallourec's production policy aims to minimize the environmental impact of the Group's activities. This basic policy is embodied in the sustainable development charter published by the Group in 2004.

Environmental management

In accordance with the guidelines established at corporate level, the site manager is responsible for implementing an effective environmental management system, appropriate to local conditions and the type of business concerned. He must appoint an environment manager to be responsible for all environmental matters.

The Environment Department, which reports to the Sustainable Development department, is responsible for coordinating environmental initiatives. This department is supported by Environment Managers at each production site, who are responsible for implementing Vallourec policy at local level.

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 published annually, summarizes this data, measures the changes relative to previous 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.

The Vallourec Management System (VMS)

The Vallourec Management System (VMS) was introduced to provide a framework for implementing the Quality, Health and Safety and Environmental policies set out by Executive Management, with the underlying aim of enhancing the Group's performance in these areas.

This system ensures that initiatives are consistent with the strategic plan and deliver continuous progress. It also ensures that due consideration is given to management requirements in terms of Quality (ISO 9001, ISO/TS 16949, API and ASME standards), Health and Safety (OHSAS 18001) and the Environment (ISO 14001)

The Vallourec Management System is organized around three main pillars:

- Total Quality Management (TQM) action plans;
- steering committees;
- Continuous Improvement Teams (CITs).

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.

As at 31 December 2010, all of Vallourec's main sites, accounting for more than 98% of total output, are now certified ISO 14001, in accordance with the goals set 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 was set up in 2008.

Local HSE teams performed an inventory of all chemicals used and produced by the Group. 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 with numerous suppliers. Particular attention is paid to suppliers of the most environmentally-sensitive products.

The first stage of the process (pre-registration) was completed on schedule in December 2008.

The Group pursued the Reach compliance project in 2009 and 2010, registering its slag products and remaining in close contact with major suppliers, to ensure that its other products are successfully registered.

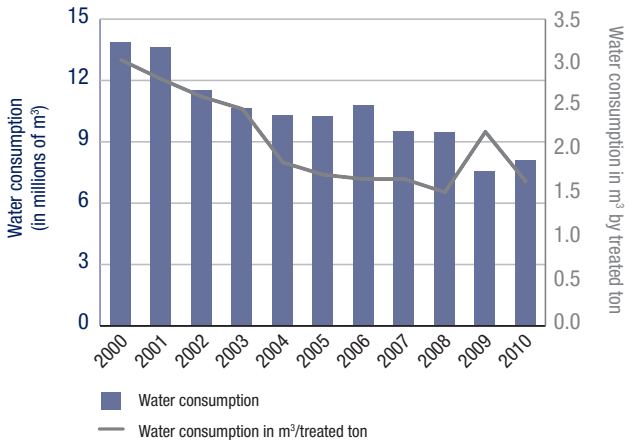
Environmental performance

In recent years, the Group has taken steps to improve the use of resources (water, power and raw materials), 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 shows the main indicators for 2007 to 2010, for the Group as a whole (excluding the V & M Mineração site).

	2007	2008	2009	**2010**
Water consumption *(m^3)*	9,554,272	9,444,031	7,326,310	8,078,804
Effluent discharge *(m^3)*	6,138,381	5,880,281	4,830,400	4,903,721
Electricity *(GWh)*	1,668	1,680	1,197	1,521
Gas *(GWh)*	3,693	3,687	2,652	3,238
Waste *(tons)*	721,320	682,370	512,793	628,518
Greenhouse gases (tonnes CO_2 equivalent) (*)	828,468	976,209	739,804	924,248

(*) With effect from 2007, calculations include emissions from internal transport and emissions linked to other energy sources (domestic fuel oil, propane, butane, etc.). Beginning in 2008, the results also include another greenhouse gas: methane, which is derived from the charcoal-making process used by V & M do Brasil. In CO_2 equivalent, methane accounts for between 25% and 35% of the Group's total emissions (although this remains an estimated value that the Group intends to further refine in coming years).

The Group is particularly vigilant regarding its use of **water**, an essential natural resource. As a result of 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), consumption fell from 2.7 m^3/tonne to 1.7 m^3/tonne over the period 2002-2010, as illustrated in the chart below. 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 at 2007 scope.

NB: Tonnes processed = Tonnes produced at each plant, whether as steel, hot-rolled tubes, cold-finished tubes, etc. Vallourec's total production is calculated by adding together each individual plant's output (number of units of production from each plant, calculated in equivalent tonnes).

Significant progress was also made in the area of **carbon dioxide (CO_2) emissions**, attributable largely 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 hectares 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 2010 (as in 2009 and 2008), with quotas of 106,037 tonnes of carbon dioxide. The 2010 emissions, which were verified by APAVE with no reservations, totalled 62,963 tonnes. The difference is the result of a slowdown 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 in recent 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.

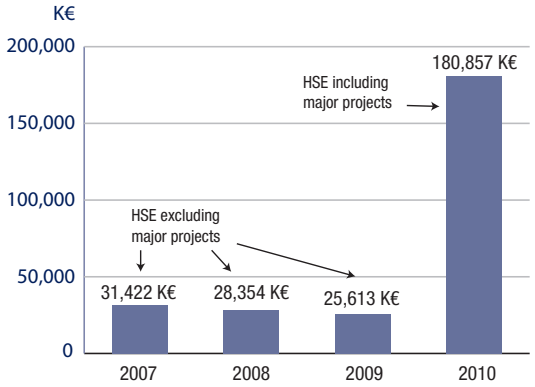
An in-depth study is currently being carried out at one site, to determine whether special treatment is required, and work is underway to identify appropriate forms of treatment at another site.

Investment in health, safety and the environment (HSE)

In 2010, the Group remained committed to health, safety and environmental protection (HSE), investing a total of €181 million in this area. This sum, which accounts for 20.7% of all industrial investment by Vallourec, was made up as follows:

- €16.5 million for dedicated HSE projects;
- €164.5 million on HSE aspects of major projects. This component was not included in the figures for previous years.

As the chart below shows, investment in environmental protection and safety was sustained at a high level throughout the period from 2000-2010.



In 2010, 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;
- energy efficiency improvements to smelting and heat treatment furnaces;
- 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 help to preserve the soil, air or water. Examples include:

- the VAM® threaded joint, the world leader as regards the safety of offshore oil wells;
- welded tubes for seawater desalination plants;
- various products made by the Group and used in the production of clean energy or to reduce chemical pollution;
- use of steel tubes as a means of lightening structures (in buildings, vehicles, transit systems, etc.);
- VM12, a new grade of steel used in the most environmentally friendly thermal power plants (notably the ultra-supercritical plant at Neurath, which is 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 2010, directly or indirectly, by Vallourec or by any Group company, were as follows:

A - Supervisory Board

The overall maximum annual attendance fees for allocation by the Supervisory Board to its members were increased to €520,000 by the Ordinary Shareholders' Meeting of 31 May 2010 (*Tenth resolution*).

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 corporate governance Code and to bring its practice into line with that of the majority of companies in the CAC 40 index, which allocate all or part of their attendance fees on the basis of members' attendance at meetings, the Company's Supervisory Board, in accordance with the recommendation made to it by the Appointments, Remuneration and Governance Committee, decided to adopt a new system of compensation for Board members: the aforementioned €28,000 total, which was increased to €33,000 in 2010, is now divided into two equal parts, one of which will be paid in all circumstances 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, Remuneration and Governance Committee, to €250,000 per year with effect from 1 January 2006. He also receives attendance fees of €33,000. The Chairman and members of the Supervisory Board were not allocated any share options, performance shares or termination payments of any kind.

Members of the Committees (Finance and Audit Committee, Appointments, Remuneration and Governance Committee and Strategy Committee), receive as part of the aforementioned €520,000 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, Remuneration and Governance Committee, who has waived his right to receive remuneration in his capacity as Chairman of said Committee.

Compensation of the *Censeurs*, which is the same as that applicable to Supervisory Board members with regard to amounts and terms and conditions, comes within the annual budget for attendance fees allocated to the Supervisory Board.

ATTENDANCE FEES RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD

In €

Members of the Supervisory Board	Amounts paid in 2009	**Amounts paid in 2010**
Messrs Jean-Paul Parayre	28,000	33,000
Patrick Boissier	40,500	43,200
Philippe Crouzet [1]	4,000	-
Jean-François Cirelli [2]	17,500	33,000
Michel de Fabiani	40,500	43,000
Denis Gautier-Sauvagnac	7,000	16,500
François Henrot	25,833	31,000
Edward G. Krubasik	52,166	59,500
Jean-Claude Verdière	74,000	73,000
Thierry Marraud (Bolloré)	43,000	45,500
Mrs Vivienne Cox [3]	-	21,800
Mrs Alexandra Shaapveld [3]	-	24,400
Mr Arnaud Leenhardt *(Censeur)*	28,000	16,500
Mr Luiz-Olavo Baptista *(Censeur)*	25,666	28,000
TOTAL	**386,165**	**468,400**

(1) Since the Supervisory Board, at its meeting on 25 February 2009, appointed Mr Philippe Crouzet as Chairman of the Management Board as from 1 April 2009, thereby succeeding Mr Pierre Verluca for the remainder of his term of office, Mr Philippe Crouzet resigned from his position as a member of the Supervisory Board with effect from 31 March 2009.

(2) 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.

(3) Mrs Vivienne Cox and Mrs Alexandra Schaapveld were appointed as members of the Supervisory Board by the Ordinary Shareholders' Meeting of 31 May 2010.

B - Management Board

TABLE SUMMARIZING THE REMUNERATION, OPTIONS AND SHARES ALLOCATED TO EACH EXECUTIVE CORPORATE OFFICER

In €	Year ended 31 December 2009	**Year ended 31 December 2010**
Philippe Crouzet, Chairman of the Management Board (1)		
Compensation due in respect of the financial year	987,255 (4)	1,384,344
Valuation of options allocated during the financial year (2)	752,620	793,650
Valuation of performance shares allocated during the financial year (3)	447,734	559,980
TOTAL	**2,187,609**	**2,737,974**
Jean-Pierre Michel, Chief Operating Officer		
Compensation due in respect of the financial year	698,890	718,894
Valuation of options allocated during the financial year (2)	342,100	360,750
Valuation of performance shares allocated during the financial year (3)	169,228	273,768
TOTAL	**1,210,218**	**1,353,412**
Olivier Mallet, Chief Financial Officer		
Compensation due in respect of the financial year	620,000	631,420
Valuation of options allocated during the financial year (2)	273,680	288,600
Valuation of performance shares allocated during the financial year (3)	127,045	223,992
TOTAL	**1,020,725**	**1,144,012**

(1) In 2009 pro rata *as from his appointment to the Management Board.*
(2) All of the share subscription options allocated to members of the Management Board in 2009 and 2010 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 €51.67 for those allocated in 2009 and €71.17 for those allocated in 2010.
(3) Note that the 2007 plan performance shares were allocated in three tranches. The performance shares allocated in 2008 and 2009 were allocated in respect of an additional allocation under the 2007 plan. In 2008, the beneficiaries were allocated the last two tranches and in 2009 the last tranche. The acquisition of performance shares is subject to performance requirements.
(4) 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.

The above table summarizes the remuneration due in respect of the year ended 31 December 2010 and the valuation of the share subscription options and performance shares allocated during the financial year.

The method used to calculate the variable portion is described in Section 8.2 (D – Principles and rules for determining the remuneration of Corporate Officers) of this Registration Document.

Details of the share purchase and share subscription options and performance shares allocated during the financial year by Vallourec to each Corporate Officer and Group company are provided in Section 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 plans are provided in the Special report of the Management Board on share subscription and share purchase options (Section 8.1.3) and in the Special report of the Management Board on allocations of shares free of charge and performance shares (Section 8.1.4).

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, 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 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 members of the Management Board, in particular relating to the position held and the compensation paid to them, is provided in Sections 6.1.1, 6.1.2, 6.2 and 8.2 of the Registration Document, which form an integral part of this management report.

8.1.1.12 Information on the breakdown of capital

Information of a general nature concerning the Company's capital and the breakdown of the share capital and voting rights is provided in Sections 2.2 and 2.3 of this Registration Document, which form an integral part of this management report.

8.1.1.13 Summary of individual declarations relating to transactions in Vallourec's shares by persons referred to in Article L. 621-18-2 of the French *Code monétaire et financier* during the financial year 2010

Person making the declaration	Financial instruments	Nature of the transaction	Date of the transaction	Date of receipt of declaration	Place of transaction	Unit price *(in €)*	Amount of the transaction *(in €)*
Compagnie de Cornouaille, a corporate body affiliated to Bolloré – a member of the Supervisory Board	Other financial instruments	Forward sale of 1,200,000 shares with option of delivery in cash at maturity on 18 July 2011 (Cancellation of the declared transaction)	26 January 2010	24 March 2010	Off market	130.1037	156,124,482.52
Jean-Pierre Michel, Chief Operating Officer and member of the Management Board	Shares	Disposal	22 January 2010	27 January 2010	Euronext Paris	126.355	499,986.735
Jean-Pierre Michel, Chief Operating Officer and member of the Management Board	Shares	Exercise of performance shares (6,410 free shares)	19 January 2010	24 February 2010	Euronext Paris	131.85	845,158.50
Etienne Bertrand, Investor Relations Director	Shares	Disposal	10 March 2010	16 March 2010	Euronext Paris	144.3725	144,372.50
Compagnie de Cornouaille, corporate body affiliated to Bolloré – a member of the Supervisory Board	Derivative products	Forward sale of 1,874,478 shares with option of delivery in cash at maturity on 5 May 2011	24 March 2010	24 March 2010	Off market	135.0471	253,142,831.30
Jean-Paul Parayre, Chairman of the Supervisory Board	Other financial instruments	Disposal	9 April 2010	16 April 2010	Euronext Paris	9.57	95,700
Jean-Paul Parayre, Chairman of the Supervisory Board	Other financial instruments	Disposal	9 April 2010	16 April 2010	Euronext Paris	8.63	86,300
Compagnie de Cornouaille, corporate body affiliated to Bolloré – a member of the Supervisory Board	Other financial instruments	Forward disposal of 88,308 shares with option of delivery in cash at maturity on 5 May 2011	9 April 2010	16 April 2010	Off market	156.5213	13,822,079.47
Jean-Paul Parayre, Chairman of the Supervisory Board	Other financial instruments	Disposal	14 May 2010	25 May 2010	Euronext Paris	8.9253	133,880

Person making the declaration	Financial instruments	Nature of the transaction	Date of the transaction	Date of receipt of declaration	Place of transaction	Unit price *(in €)*	Amount of the transaction *(in €)*
Compagnie de Cornouaille, corporate body affiliated to Bolloré – a member of the Supervisory Board	Other financial instruments	Forward sale of 48,000 shares with option of delivery in cash at maturity on 5 May 2011	13 May 2010	20 May 2010	Off market	161.5498	7,754,390.40
Jean-Paul Parayre, Chairman of the Supervisory Board	Other financial instruments	Disposal	2 July 2010	7 July 2010	Euronext Paris	7.55	22,688.06
Compagnie de Cornouaille, corporate body affiliated to Bolloré – a member of the Supervisory Board	Shares	Receipt of dividend in shares	30 June 2010	7 July 2010	Euronext Paris	130.85	10,466,953.20
Bolloré, a member of the Supervisory Board	Shares	Receipt of dividend in shares	30 June 2010	7 July 2010	Euronext Paris	130.85	261.70
Edward G. Krubasik, a member of the Supervisory Board	Shares	Acquisition	17 August 2010	31 August 2010	Frankfurt Stock Exchange	72	5,040
Edward G. Krubasik, a member of the Supervisory Board	Shares	Acquisition	25 August 2010	1 September 2010	Frankfurt Stock Exchange	68	10,200
Jean-Paul Parayre, Chairman of the Supervisory Board	Other financial instruments	Disposal	31 August 2010	6 September 2010	Euronext Paris	3.006	14,719.73
Jean-Paul Parayre, Chairman of the Supervisory Board	Other financial instruments	Acquisition	30 August 2010	6 September 2010	Euronext Paris	0.455	4,695.09
Jean-Paul Parayre, Chairman of the Supervisory Board	Other financial instruments	Disposal	20 December 2010	22 December 2010	Euronext Paris	2.6122	63,933.79
Jean-Paul Parayre, Chairman of the Supervisory Board	Other financial instruments	Acquisition	20 December 2010	22 December 2010	Euronext Paris	1.1528	29,508.93

8.1.2 REPORT OF THE MANAGEMENT BOARD ON THE DRAFT RESOLUTIONS TO BE SUBMITTED TO THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF 7 JUNE 2011

To the Shareholders,

The Management Board of Vallourec (hereinafter referred to as "Vallourec" or the "Company") has convened this Ordinary and Extraordinary Shareholders' Meeting to submit for your approval the draft resolutions, the purpose of which is:

- the approval of Vallourec's statutory and consolidated financial statements for the year ended 31 December 2010, the allocation of the net profit and the option to receive payment of the dividend in shares (*first* to *fourth resolutions*);
- the composition of the Supervisory Board *(fifth* to *tenth resolutions*);
- the renewal of the delegations of authority relating to the own share buyback programme and the cancellation of shares acquired under the terms of said programme (*eleventh* and *twenty-seventh resolutions*);
- the renewal of the delegations of authority given to the Management Board with a view to increasing the share capital (*twelfth* to *twentieth resolutions*);
- the renewal of the delegation of authority given to the Management Board with a view to the issuing of securities granting the right to be allocated debt securities and not resulting in an increase in the Company's share capital (*twenty-first resolution*);
- the renewal of the delegations of authority given to the Management Board with a view to implementing an employee share ownership offering *(twenty-second* to *twenty-fifth resolutions*);
- the renewal of the authorisation given to the Management Board with a view to allocating performance shares to the Group's employees and Corporate Officers (*twenty-sixth resolution*);
- amendments to the by-laws relating to the term of office of Supervisory Board members and the mandatory representation of employee shareholders on the Supervisory Board (*twenty-eighth* and *twenty-ninth resolutions*);
- powers for formalities (*thirtieth resolution*).

I – Resolutions within the remit of the Ordinary Shareholders' Meeting

a. Approval of Vallourec's statutory and consolidated financial statements for the 2010 financial year and allocation of net profit (first to fourth resolutions)

- The ***first resolution*** relates to the approval of Vallourec's statutory financial statements for the financial year ended 31 December 2010 showing profits of €515,485,565.85 compared with profits of €427,376,830.66 in respect of the preceding financial year.
- The ***second resolution*** relates to the approval of Vallourec's consolidated financial statements for the financial year ended 31 December 2010 showing net profit attributable to the owners of the Company of €452,835,000 compared with €536,478,000 in respect of the preceding financial year.
- The ***third resolution*** relates to the allocation of the net profit. It is proposed that the dividend for the financial year 2010 be set at €1.30 per share, representing a total dividend of €153,327,306.60.

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, for a 40% reduction provided for by Section 2 of Article 158-3 of the same Code. In accordance with Article 117 *quater* of the French *Code général des impôts*, shareholders may nevertheless, subject to certain conditions and instead of the progressive income tax rate scale, opt for a flat-rate withholding tax at the rate of 19%; the dividend is then no longer eligible for the 40% reduction. Shareholders are reminded that, in these two cases, under certain conditions, the social security contributions relating to these dividends are withheld at source.

In accordance with the provisions of Article 243 *bis* of the French *Code général des impôts*, details are provided in the following table of the amounts of the dividends paid, the income distributed that was eligible for the 40% reduction and the income distributed that was not eligible for said reduction during the three preceding financial years. The figures take into account the 2:1 stock split on 9 July 2010:

	Financial year 2007	Financial year 2008	Financial year 2009
Dividend per share	€5.50	€3	€1.75
Amount of income distributed eligible for 40% reduction	€5.50 (1)	€3 (2)	€1.75 (3)
Amount of income distributed not eligible for 40% reduction	0	0	0

(1) Including an interim dividend of €2 per share distributed on 4 July 2007.
(2) Shareholders are reminded that the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 granted each of the Company's shareholders the option to receive payment of the dividend either in cash or in shares, in accordance with the statutory and regulatory provisions.
(3) Shareholders are reminded that the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010 granted each of the Company's shareholders the option to receive payment of the dividend either in cash or in shares, in accordance with the statutory and regulatory provisions.

The ex-dividend date for the dividend will be 16 June 2011 and the payment date 7 July 2011.

- The ***fourth resolution*** relates to the granting of an option to all of the Company's shareholders to receive payment of the net dividend due to them in new shares, in accordance with the statutory and regulatory provisions.

To this end, each shareholder may opt for the payment of the dividend in shares between 16 June 2011 and 28 June 2011 inclusive by sending a request to the paying institutions. If the option is not exercised by the end of this time limit, the dividend may only be paid in cash.

The dividend will be paid in cash and, for those shareholders who opt for payment of the dividend in shares, the new shares will be delivered on 7 July 2011. The shares delivered in payment of the dividend will bear dividends as from 1 January 2011.

In the event of the exercise of the option for payment of the dividend in shares, the new shares will be issued at a price equal to 90% of the average opening price of the Company's shares listed on the regulated market of NYSE Euronext Paris during the 20 trading sessions prior to the date of the Shareholders' Meeting, reduced by the net amount of the dividend referred to in the *third resolution* and rounded up to the nearest cent.

If the amount of the dividends for which the option was exercised does not correspond to a whole number of shares, shareholders may:

- obtain the next higher whole number of shares by paying, on the date on which they exercise the option, the difference in cash; or
- receive the next lower whole number of shares plus the balance in cash.

b. Composition of the Supervisory Board (fifth to tenth resolutions)

The ***fifth*** **to** ***tenth resolutions*** relate to the composition of the Supervisory Board.

1. Ratification of the provisional appointment and renewal of the term of office of a member of the Supervisory Board (*fifth* and *sixth resolutions*)

At its meeting on 13 December 2010 the Supervisory Board provisionally appointed Mrs Pascale Chargrasse as a member of the Supervisory Board to represent the employee shareholders for the remainder of the term of office of Mr François Henrot, *i.e.* until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2010. In accordance with Article L.225-78 of the French Commercial Code (*Code de commerce*), the purpose of the ***fifth resolution*** is to seek your approval for the ratification of this provisional appointment.

By the ***sixth resolution***, you are asked, on the recommendation of the Supervisory Board, to renew, in accordance with Article 10 paragraph 1 of the by-laws, the term of office as a member of the Supervisory Board of Mrs Pascale Chargrasse for a period of four (4) years, *i.e.* until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2014.

Given the success of the "Value 10", the Group's most recent employee share ownership offering which was implemented on 3 December 2010 and resulted in the total holding of all Group employees in the Company's share capital exceeding the 3% threshold, the Company's Supervisory Board's intention, at its meeting on 13 December 2010, was, by means of this provisional appointment, to recognize fully the commitment and confidence of employees in the Group by involving them in the Board's work.

Mrs Pascale Chargrasse joined the Group in 1985. She is a member of the Supervisory Board of the Company investment fund "Vallourec Actions" and currently works as an International Business Development Manager at Valinox Nucléaire, a wholly-owned Vallourec subsidiary. She also speaks fluent English and is a union representative on the Group's Works Council. Given her significant commitment to the Group and her experience, Mrs Chargrasse has all the necessary credibility and skills to represent fully the employee shareholders on the Supervisory Board.

In view of the fact that she is an employee of the Group, Mrs Pascale Chargrasse cannot be classified as an independent member of the Supervisory Board under the criteria set by the AFEP-MEDEF Corporate Governance Code.

2. Renewal of the term of office of two members of the Supervisory Board (*seventh* and *eighth resolutions*)

The terms of office of Messrs Jean-Paul Parayre and Patrick Boissier as members of the Supervisory Board expire at the close of the Shareholders' Meeting of 7 June 2011.

The ***seventh resolution*** relates to the renewal, in accordance with Article 10 paragraph 1 of the by-laws, of the term of office as a member of the Supervisory Board of Mr Jean-Paul Parayre [(1)] for a period of two (2) years, *i.e.* until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2012.

Since he has been performing the duties of a Supervisory Board member for more than 12 years, Mr Jean-Paul Parayre will not be classified as an independent member of the Supervisory Board under the criteria set by the AFEP-MEDEF Corporate Governance Code.

The ***eighth resolution*** relates to the renewal, in accordance with Article 10 paragraph 1 of the by-laws, of the term of office as a member of the Supervisory Board of Mr Patrick Boissier for a period of four (4) years, *i.e.* until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2014.

Mr Patrick Boissier will be classified as an independent member of the Supervisory Board under the criteria set by the AFEP-MEDEF Corporate Governance Code.

(1) Having reached the age limit of 70 years as stipulated by the by-laws, Mr Jean-Paul Parayre may be re-elected once, for a maximum period of two years, in accordance with the provisions of Article 10 paragraph 1 of the by-laws.

3. Appointment of a new member of the Supervisory Board *(ninth resolution)*

The ***ninth resolution*** relates to the appointment, in accordance with Article 10 paragraph 1 of the by-laws, of Mrs Anne-Marie Idrac as a member of the Supervisory Board for a period of four (4) years, *i.e.* until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2014.

Mrs Anne-Marie Idrac will be classified as an independent member of the Supervisory Board under the criteria set by the AFEP-MEDEF Corporate Governance Code.

4. Appointment of a *Censeur* (non-voting member) to the Supervisory Board (*tenth resolution)*

The ***tenth resolution*** relates to the appointment, in accordance with Article 10 *bis* of the by-laws, of Mr François Henrot as *Censeur* (non-voting member) to the Supervisory Board for a period of four (4) years, *i.e.* until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2014.

c. Authorization to be given to the Management Board to trade in the Company's shares (eleventh resolution)

The ***eleventh resolution*** relates to the renewal of the authorization given to the Management Board by the Ordinary Shareholders' Meeting of 31 May 2010 to trade in the Company's shares, which will expire on 30 November 2011. Pursuant to this new authorization, the Management Board, under terms that are practically identical to those of the preceding authorization, may decide to acquire a number of the Company's shares that may not exceed 10% of the Company's share capital. This percentage will apply to the Company's capital as adjusted on the basis of transactions that may affect it after the date of this Shareholders' Meeting.

Shares may be purchased for the following purposes:

- to implement any share option plan of the Company;
- to allocate or sell the Company's shares to employees in accordance with employee profit-sharing arrangements and to implement any company or group corporate savings (or similar) scheme, under the conditions laid down by law;
- to allocate free shares or to allocate performance shares;
- to allocate shares to employees and Corporate Officers of the Group outside France;
- to stimulate the secondary market in or liquidity of Vallourec shares through an investment services provider under the terms of a liquidity contract;
- to hold and ultimately deliver shares (in payment, exchange or otherwise) in connection with corporate acquisitions;
- to deliver shares upon the exercise of rights attached to securities giving access to the Company's share capital; and
- to cancel shares.

These actions may be carried out on one or more occasions, by any means, on the regulated markets, by the use of multilateral trading facilities, systematic internalisers or the over-the-counter markets and, in particular, by means of the acquisition or sale of blocks of shares, the use of derivative financial instruments or warrants or, more generally, securities giving the holder the right to the Company's shares, at times that the Management Board or person to whom the Management Board has delegated authority considers appropriate, except during periods when the Company's shares are the subject of a takeover bid.

The maximum purchase price may not exceed €140.

The maximum theoretical amount that may be allocated to the share buyback programme will be set at €1.6 billion.

This authorization will be granted for a period of eighteen months.

II. Resolutions within the remit of the Extraordinary Shareholders' Meeting

a. Delegations of authority to the Management Board to increase the share capital (twelfth to twentieth resolutions)

In accordance with the regulatory provisions relating to capital increases, the Management Board has reported to you on the Group's performance during the financial year 2010 and since the beginning of the financial year 2011, in its management report, which is included in the 2010 Registration Document filed with the French securities regulator (*Autorité des Marchés Financiers* – AMF) and made available to you in accordance with the statutory and regulatory provisions, including on Vallourec's website (www.vallourec.com).

The financial authorizations granted by the Extraordinary Shareholders' Meeting of 4 June 2009 with the aim of enabling your Management Board to increase the Company's share capital will expire on 4 August 2011. The Shareholders' Meeting, to be convened on 7 June 2011, will therefore be asked to renew them (*twelfth* to *twentieth resolutions*) for a period of twenty-six months from the Shareholders' Meeting, *i.e.* until 7 August 2013.

The purpose of all these financial authorizations is to give the Company a degree of flexibility by enabling the Management Board, following the prior authorization of the Supervisory Board in accordance with Article 9, paragraph 3 of the by-laws, to choose, in particular with regard to market conditions, the most appropriate means to finance the Group's development. They will cancel and replace the unused amounts of any prior delegations of authority having the same purpose.

The maximum nominal amount of increases in share capital, now and/or in the future, that may be carried out pursuant to the *twelfth* to *twentieth resolutions*, which are described in more detail below, may not exceed the caps shown in the following table:

	Maximum nominal amounts of capital increases *(in €)*	Maximum nominal amounts of capital increases as a percentage of the share capital [1]
OVERALL MAXIMUM CAP ON CAPITAL INCREASES CARRIED OUT PURSUANT TO THE *TWELFTH* TO *TWENTIETH RESOLUTIONS*	**117 MILLION [2]**	**49.6% [3]**
Capital increases with preferential subscription rights *(twelfth resolution)*	117 million	49.6% [3]
Increase in the number of securities to be issued within the 15% limit on the amount of capital increases with preferential subscription rights carried out in accordance with the *twelfth resolution (sixteenth resolution)*	N/A	15% of the nominal amount of the initial issue [4]
Maximum cap on capital increases without preferential subscription rights *(thirteenth* to *nineteenth resolutions)*	35 million [5]	14.8% of the share capital [3] [5]
Capital increases without preferential subscription rights by means of a public offering or offerings *(thirteenth resolution)*	35 million [5] [6]	14.8% of the share capital [3] [5] [6]
Capital increases without preferential subscription rights by means of a private placement or placements *(fourteenth resolution)*	35 million [5] [6]	14.8% of the share capital [3] [5] [6]
Capital increases without preferential subscription rights, carried out in accordance with the *thirteenth* and *fourteenth resolutions,* at a price freely set by the Shareholders' Meeting *(fifteenth resolution)*	Around 23.5 million [3] [5] [6] per year, up to the limit of 35 million in 26 months	10% of the share capital per year, up to the limit of 14.8% [3] [5] [6] of the share capital in 26 months
Increases in the number of securities to be issued within the 15% limit on the amount of capital increases without preferential subscription rights carried out in accordance with the *thirteenth* to *fifteenth resolutions (sixteenth resolution)*	N/A	15% of the nominal amount of the initial issue [4]
Capital increases without preferential subscription rights in consideration of in-kind contributions, except in the case of a share exchange offer initiated by the Company *(seventeenth resolution)*	Around 23.5 million [3] [5] [6]	10% of the share capital [5] [6]
Capital increases without preferential subscription rights in consideration of securities contributed to a share exchange offer initiated by the Company *(eighteenth resolution)*	35 million [5] [6]	14.8% of the share capital [3] [5] [6]
Capital increases without preferential subscription rights, carried out as a result of the issue by the Company's subsidiaries of securities giving access to the Company's share capital *(nineteenth resolution)*	35 million [5] [6]	14.8% of the share capital [3] [5] [6]
Capital increases through the capitalization of reserves, profits or additional paid-in capital *(twentieth resolution)*	70 million [5]	29.7% of the share capital [3] [5]

(1) On the basis of the share capital at 31 December 2010, i.e. €235,888,164.
(2) The following transactions will also be deducted from this overall maximum cap: the capital increases and allocations of shares free of charge carried out under the terms of an employee share ownership offering, in accordance with the twenty-second to twenty-fifth resolutions submitted to the Shareholders' Meeting of 7 June 2011, and the allocations of performance shares carried out in accordance with the twenty-sixth resolution submitted to the Shareholders' Meeting of 7 June 2011, and the allocations of share subscription or share purchase options, carried out in accordance with the twenty-first resolution approved by the Shareholders' Meeting of 4 June 2009.
(3) By way of indication.
(4) This percentage is limited by the cap on the authorization in accordance with which the initial issue was carried out.
(5) This amount or percentage is deducted from the maximum cap on capital increases of €117 million.
(6) This amount or percentage is deducted from the maximum cap on capital increases without preferential subscription rights of €35 million.

The capital increase caps laid down in the resolutions do not take into account the nominal amount of the additional shares to be issued to protect, in accordance with the law and, where applicable, contractual provisions providing for other cases of adjustments, the rights of the holders of securities giving access to the Company's share capital.

Securities giving access to shares may consist of ordinary warrants or debt securities or be associated with the issue of such securities or facilitate their issue as intermediate securities. Such securities may also take the form of subordinated or unsubordinated securities, with a fixed term or an indefinite term.

The maximum nominal amount of debt securities which may be issued pursuant to the *twelfth* to *eighteenth resolutions* may not exceed €1.5 billion. The Management Board specifies that the maximum nominal amount of debt securities thus determined will be independent of the amount of the securities giving the holder the right to the allocation of debt securities which will be issued on the basis of the *twenty-first resolution* and the amount of the debt securities the issue of which will be decided or authorized by the Management Board in accordance with Article L.228-40 of the French *Code de commerce*.

Capital increases resulting from all resolutions may be subscribed for in cash or by offsetting against existing debt.

All financial authorizations whose implementation would result in the issue of securities giving access to the Company's capital will entail the waiver by the shareholders of their preferential subscription rights to the ordinary shares to which the securities issued may entitle them.

When the resolutions give the Management Board the right to sub-delegate, said power is given to the Chairman of the Management Board or, with his agreement, to one of the Board members.

Within the limits of the delegations of authority proposed to your Shareholders' Meeting, the Management Board will have the powers necessary to set the terms under which securities are issued, record the completion of capital increases and amend the by-laws accordingly.

When the Management Board uses your authorizations, it will draw up, where applicable and in accordance with the law, an additional report describing the final terms and conditions of the issue decided upon. This report and that of the Statutory Auditors will be made available to you at the Company's registered office and brought to your attention at the next Shareholders' Meeting.

In asking you to grant it these delegations of authority, the Management Board is required to make clear to you the full consequences of the resolutions submitted to you for approval:

- by ***the twelfth resolution***, the Management Board asks the Shareholders' Meeting to delegate to it the authority to decide to issue, with the retention of preferential subscription rights, ordinary shares of the Company 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 capital increases of €117 million;
- by ***the thirteenth resolution***, the Management Board asks the Shareholders' Meeting to delegate to it the authority to decide to issue, with the cancellation of preferential subscription rights, through a public offering or offerings, ordinary shares of the Company and any securities giving access to the share capital of the Company or of 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 capital increase of €35 million. In accordance with the law, the issue price of the shares which may be issued pursuant to this delegation of authority must be at least equal to the weighted average of Vallourec's share price 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 thus obtained;
- by the ***fourteenth resolution***, the Management Board asks the Shareholders' Meeting to delegate to it the authority to decide to issue, with the cancellation of preferential subscription rights, through a private placement or placements, ordinary shares of the Company and any securities giving access to the share capital of the Company or of 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 capital increase of €35 million and, in all circumstances, within the limits specified by the regulations applicable on the issue date (currently, 20% of the share capital per year). The purpose of this resolution is to comply with a recommendation of the French securities regulator (*Autorité des Marchés Financiers* – AMF) dated July 2009 under the terms of which the AMF invites issuers to present to the Shareholders' Meeting a separate resolution from that relating to the capital increase, by means of a public offering or offerings (purpose of the ***thirteenth resolution*** submitted to the Shareholders' Meeting), when the Management Board asks the Shareholders' Meeting to delegate to it the authority to increase the share capital by means of a private placement or placements. In line with the ***thirteenth resolution***, the issue price of the shares which may be issued pursuant to this delegation of authority must, in accordance with the law, be at least equal to the weighted average of Vallourec's share price 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 thus obtained;
- by ***the fifteenth resolution***, the Management Board asks the Shareholders' Meeting to authorize it to decide to issue shares and/or securities, with the cancellation of preferential subscription rights, as decided under the terms of the *thirteenth* and/or *fourteenth resolutions*, within the limit of 10% of the capital per year, at the most favourable price given market conditions at the time of the offering. The Shareholders' Meeting is asked to set an issue price that may not be lower than, at the Management Board's discretion, either, (i) the average price per share, weighted by volume, during the trading session preceding the pricing of the issue or (ii) the average price per share, weighted by volume, 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%;
- by the ***sixteenth resolution***, the Management Board asks the Shareholders' Meeting to delegate to it the authority to decide, in the event of a capital increase or increases with the retention or cancellation of preferential subscription rights, carried out pursuant to the *twelfth* to *fifteenth resolutions*, to increase the number of securities to be issued where the Management Board acknowledges excessive subscription demand, in particular with a view to granting an over-allocation option in accordance with market practices. The maximum number of securities that may be issued in the event of excessive demand, within 30 days following

the closing of the subscription and at the same price as that used for the initial issue, may not exceed, 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;

- by the ***seventeenth resolution***, the Management Board asks the Shareholders' Meeting to delegate to it the authority to decide to issue ordinary shares and/or securities giving access to the Company's share capital, with the cancellation of preferential subscription rights, in consideration of in-kind contributions made to the Company which consist of equity securities or securities giving access to the share capital of other companies. The maximum nominal amount of the share capital that may be issued pursuant to this resolution is 10% of the share capital;
- by the ***eighteenth resolution***, the Management Board asks the Shareholders' Meeting to delegate to it the authority to decide to issue ordinary shares and/or securities giving access to the Company's share capital, with the cancellation of preferential subscription rights, in consideration of securities contributed to a share exchange offer initiated by the Company, in France or abroad, on the securities of another company admitted for listing on one of the regulated markets covered by Article L.225-148 of the French *Code de commerce*. The maximum nominal amount of the share capital that may be issued pursuant to this resolution may not exceed €35 million;
- by the ***nineteenth resolution***, the Management Board asks the Shareholders' Meeting to delegate to it the authority to decide to issue ordinary shares of the Company subsequent to the issue, by the Company's subsidiaries, of securities giving access to the Company's ordinary shares, within the limit of a maximum nominal amount which may not exceed €35 million. The issue of such securities will be authorized by the Extraordinary Shareholders' Meeting of the subsidiary concerned and the issue of the Company's shares to which said securities will entitle their holders will be decided on at the same time by your Management Board on the basis of the *nineteenth resolution*;
- by the ***twentieth resolution***, the Management Board asks the Shareholders' Meeting to delegate to it the authority to decide to increase the share capital by capitalizing additional paid-in capital, reserves, profits or other amounts whose capitalization is admissible under the law or the Company's by-laws, within the limit of a maximum nominal amount of €70 million. The capital increase may be carried out either by the free allocation of the new equity securities or by raising the par value of the existing equity securities or by the joint use of both these procedures.

b. Issue of securities with rights to debt securities which do not increase the capital of the Company (twenty-first resolution)

By the ***twenty-first resolution***, the Management Board asks the Shareholders' Meeting to delegate to it the authority, for a period of twenty-six months, to decide to issue any securities which give the holder the right to the allocation of debt securities that do not increase the Company's capital, such as bonds with bond warrants, within the limit of a nominal amount of €1.5 billion.

c. Employee share ownership (twenty-second to twenty-fifth resolutions)

Four resolutions are submitted to you for approval, the purpose of which is to enable your Management Board to offer Group employees in France and abroad (and those with similar rights) the opportunity to subscribe for or acquire shares or securities giving access to the Company's share capital on preferential terms, to involve them more closely in the Company's development. For the purpose of this section, the "Group" means Vallourec and the companies included in its accounting consolidation scope in accordance with the provisions of Article L.233-16 of the French *Code de commerce*.

Each of these resolutions, which will entail the cancellation of shareholders' preferential subscription rights, is the subject of a special report by the Statutory Auditors.

These resolutions are very close in their formulation to the corresponding resolutions approved by the Shareholders' Meeting of 4 June 2009 which they will replace.

The *twenty-second* to *twenty-fourth resolutions* are intended to be used in particular (but not exclusively) for the implementation of one or more standard and/or leveraged employee share ownership plans enabling participants to benefit, for each share financed by them and/or by their employer's contribution, from a guarantee for the initial investment and a percentage of any increase that may offer up to ten shares. The *twenty-second resolution* also complies with the requirements of Article L.225-129-6 of the French *Code de commerce*.

The *twenty-third* to *twenty-fifth resolutions* are ancillary resolutions to the *twenty-second resolution* and may only be used for the requirements of an employee share ownership offering resulting, in addition, in the use of *the twenty-second resolution*.

The Management Board will have all powers, including the right to sub-delegate in accordance with the law, to implement these delegations of authority. However, in accordance with Article 9 of the Company's by-laws, issues of securities giving access, directly or indirectly, to the Company's share capital which may be carried out in the event of the use by the Management Board of the delegations of authority submitted to you for approval will be submitted to your Supervisory Board for its prior authorization.

1. *Twenty-second* to *twenty-fifth resolutions:* purpose and terms and conditions

By the ***twenty-second resolution***, you are asked to delegate to the Management Board your authority to increase the Company's share capital by the issue or issues of shares and/or securities giving access to the Company's share capital, reserved for members of one or more company savings schemes implemented within the Company or within a company or group of companies, in France or abroad, belonging to the Group.

The issue price of new shares or securities giving access to the Company's share capital will be determined in accordance with the provisions of Articles L.3332-19 to L.3332-23 of the French *Code du travail* and be equal to at least 80% of the Reference Price (*i.e.* discounted by a maximum of 20%), which is equal to the average of the opening prices of the Company's shares listed on the regulated market of NYSE Euronext Paris during the 20 trading sessions prior to the date of the Management Board's decision setting the opening date of the subscription period. The Management Board may reduce or cancel the 20% discount, within the statutory and regulatory limits, if it considers such action to be advisable.

Under the terms of this delegation of authority, the Management Board may also (i) allocate free of charge to the members of a company savings scheme, in addition to the shares or securities giving access

to the Company's share capital to be subscribed for in cash, shares or securities giving access to the Company's share capital, whether already existing or to be issued, by way of substitution for all or part of the discount on the Reference Price and/or the employer's contribution and/or (ii) sell shares to members of a company savings scheme as provided for by Article L.3332-24 of the French *Code du travail*.

In accordance with the law, this delegation of authority, the aim of which is to facilitate the carrying out of capital increases reserved for members of company savings schemes set up within the Group, will result in the waiver, by the shareholders, of their preferential subscription rights to shares and/or securities giving access to the Company's share capital to be issued to the members of company savings schemes that benefit from the capital increase, the shareholders waiving, in addition, all rights to shares and/or securities giving access to the Company's share capital, including the capitalized portion of the reserves, profits or additional paid-in capital, which will be allocated free of charge in accordance with the preceding paragraph. This delegation of authority will also entail the waiver by the shareholders of their preferential rights to subscribe to the Company's ordinary shares to which the securities issued may entitle them.

By the ***twenty-third resolution***, you are asked, under the terms of the provisions of Article L.225-138 of the French *Code de commerce*, to delegate to the Management Board the authority to increase the share capital, on one or more occasions, by the issue of ordinary shares and/or securities giving access to the Company's share capital reserved for the category of persons comprising employees and those with similar rights, within the meaning of Article L.3332-2 of the French *Code du travail*, of companies in the Group whose registered offices are located outside France and company mutual investment funds through which they will invest (the "Beneficiaries").

The aim of this resolution is to facilitate the implementation of a capital increase reserved for the Beneficiaries (as defined in the preceding paragraph) outside of a company savings scheme (but with an equivalent holding period). It will result in the cancellation of the shareholders' preferential subscription rights to the Company's shares and/or securities to be issued to the Beneficiaries (as defined in the preceding paragraph) of the capital increase and to the shares to which the securities issued may entitle them.

The issue price of the securities to be issued pursuant to the ***twenty-third resolution*** will be equal to the Reference Price adopted in the event of the use of the delegation of authority granted pursuant to the ***twenty-second resolution***, reduced by a maximum discount of 20%.

In some countries, tax or legal problems or uncertainties may complicate or make uncertain the implementation of employee share ownership arrangements carried out directly or through the intermediary of a mutual investment fund. The implementation for the benefit of certain employees outside France of alternative arrangements (whether or not comprising a shareholding component) to those offered to employees of the Group's French companies who are members of a company savings scheme, implemented by one of the Group companies, may prove to be desirable. The implementation of such alternative arrangements may necessitate the carrying out of a capital increase, with the cancellation of preferential subscription rights, for the benefit of a financial institution and/or entities, whether or not incorporated as a legal entity, whose sole object is to subscribe for, hold and sell the Company's shares or other financial instruments in connection with the implementation of the offering to all or some employees outside France, and which will participate in the structuring of the transaction with the same 20% discount as that granted to other employees.

By the ***twenty-fourth resolution***, you are asked, under the provisions of Article L.225-138 of the French *Code de commerce*, to delegate to the Management Board your authority to increase the share capital, on one or more occasions, by the issue of new shares or securities giving access to the Company's share capital reserved for the category of persons comprising (i) credit institutions involved at the Company's request in the offering to all or some of the foreign employees of alternative arrangements (whether or not comprising a shareholding component) to the share offering structured for French residents belonging to company savings schemes implemented by one of the Group companies, (ii) all entities controlled by said institutions within the meaning of Article L.233-3 of the French *Code de commerce*, and (iii) all entities, whether or not incorporated as a legal entity, whose sole object is to subscribe for, hold and sell the Company's shares or other financial instruments in connection with the implementation of the offering to all or some of the foreign employees.

The issue price of the securities to be issued pursuant to the *twenty-fourth resolution* will be equal to the Reference Price adopted in the event of the use of the delegation of authority granted pursuant to the *twenty-second resolution*, reduced by a maximum discount of 20%.

This delegation of authority will result in the cancellation of the shareholders' preferential subscription rights to the Company's shares and/or securities to be issued to the aforementioned category of beneficiaries. The cancellation of preferential subscription rights is justified by the reasons referred to in the first paragraph above.

By the ***twenty-fifth resolution***, it is proposed, under the terms of the provisions of Articles L.225-197-1 *et seq.* of the French *Code de commerce*, that the Management Board be authorized, within the limit of 0.3% of the share capital, to allocate shares, whether already existing or to be issued (excluding preference shares), to subscribers to an employee share ownership offering implemented, pursuant to the *twenty-second* and/or *twenty-third resolution(s)* detailed above, within companies or groupings that are associated with the Company under the terms specified by Article L.225-197-2 of said Code and whose registered offices are located outside France, or to certain categories of them, under the conditions defined below.

The aim of this resolution is to enable the Management Board to allocate shares to subscribers to an employee share ownership offering of Group companies whose registered offices are located outside France instead of the contribution granted to employees and those with similar rights of the Group's French companies. The desired objective is to give a benefit close to that allocated to employees and those with similar rights of the Group's French companies. In countries in which this solution is adopted, the aim will be for the shares to benefit all participants of the employee share ownership offering (subject, where applicable, to the requirement for a minimum level of investment).

The allocation of these shares to their beneficiaries will not become final until the end of a minimum acquisition period of four years (excluding disability and death) and beneficiaries will not be required to comply with any holding period. However, in order to take account of the tax and legal regulations applicable in certain countries, the Management Board may depart from this rule and decide that, in the case of one or more categories of beneficiaries, the acquisition period for the shares will be at least two years, except in the case of

beneficiaries suffering from a category 2 or 3 disability as specified in Article L.341-4 of the French *Code de la sécurité sociale*, in which case the allocation of shares will become final immediately, and the beneficiaries will be subject to an obligation to retain the shares for at least two years.

In the event of the allocation of new shares, the authorization will entail, as and when the allocation of said shares becomes final, a capital increase by capitalizing reserves, profits or additional paid-in capital in favour of the beneficiaries of said shares and the shareholders' consequential waiver in favour of the beneficiaries of said shares of their preferential subscription rights over said shares and of the portion of the reserves, profits or additional paid-in capital which will be capitalized in respect of this allocation.

The *twenty-fifth resolution* may only be used for the purpose of an employee share ownership offering, carried out pursuant to delegations of authority granted under the terms of the *twenty-second* and/or *twenty-third resolutions*.

2. Capital increase caps applicable to the *twenty-second* to *twenty-fifth resolutions*

A double cap will apply to the *twenty-second*, *twenty-third* and *twenty-fourth resolutions*:

- an individual cap of a maximum nominal amount of €9,400,000, to which, where applicable, in the event of the issue of securities giving access to the Company's share capital, will be added the nominal amount of the ordinary shares to be issued to protect, in accordance with the law and, where applicable, the contractual stipulations providing for other cases of adjustment, the rights of the holders of securities giving access to the Company's share capital;
- an overall cap of a maximum nominal amount of €9,400,000, such that the overall maximum nominal amount of capital increases that may be carried out, now or in the future, pursuant to the delegations of authority granted under the terms of these three resolutions will be capped at €9,400,000, *i.e.*, as an indication, approximately 4% of the statutory share capital at 31 December 2010, to which, where applicable, in the event of the issue of securities giving access to the Company's share capital, will be added the nominal amount of the ordinary shares to be issued to protect, in accordance with the law and, where applicable, the contractual stipulations providing for other cases of adjustment, the rights of the holders of securities giving access to the Company's share capital.

The shares, whether already existing or to be issued, that were allocated pursuant to the *twenty-fifth resolution* may not represent more than 0.3% of the share capital on the date the Management Board decided to make the allocation, increased, where applicable, by the number of shares allocated in respect of adjustments intended to protect the rights of the beneficiaries of the allocations of shares free of charge in the event of transactions involving the Company's capital or equity.

The nominal amount of capital increases that may be carried out now or in the future pursuant to the *twenty-second*, *twenty-third*, *twenty-fourth* and *twenty-fifth resolutions* will be deducted from the overall cap for capital increases of €117 million provided for by the *twelfth resolution* submitted to this Shareholders' Meeting, or, where applicable, the overall cap provided for by any resolution of a similar nature that may supersede said resolution during the period of validity of the resolutions.

3. Duration of delegations of authority granted in respect of the *twenty second* to *twenty-fifth resolutions*

The delegations of authority provided for by the *twenty-second* and *twenty-fifth resolutions* will be granted for a period of 26 months as from the date of the Shareholders' Meeting, *i.e.* until 7 August 2013 and those provided for by the *twenty-third* and *twenty-fourth resolutions* will be granted for a period of 18 months as from the date of the Shareholders' Meeting, *i.e.* until 7 December 2012.

The approval of the *twenty-second*, *twenty-third*, *twenty-fourth* and *twenty-fifth resolutions* will render null and void, as from the date of the Shareholders' Meeting, where applicable, the part not yet used of former delegations of authority granted to the Management Board by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 under the terms of the *seventeenth*, *eighteenth*, *nineteenth* and *twentieth resolutions* respectively.

None of the four resolutions may be adopted independently of the others.

d. Allocation of performance shares (twenty-sixth resolution)

With a view to pursuing its policy of increasing the loyalty and motivation of the Company's key staff, the Management Board asks the Shareholders' Meeting, by the ***twenty-sixth resolution***, to renew the authorization given by the Shareholders' Meeting of 4 June 2008 (*sixteenth resolution*) to carry out, under the terms of the provisions of Articles L.225-197-1 *et seq.* of the French *Code de commerce*, on one or more occasions, to allocate the Company's ordinary shares, whether already existing or to be issued, to beneficiaries that it will determine from amongst the employees, or certain categories of them, of the Company or of companies or groupings that are affiliated to it under the terms specified by Article L.225-197-2 of said Code as well as Corporate Officers, or certain categories of them, of the Company or of companies or groupings that are associated with it under the terms specified by Article L.225-197-1, II of said Code.

The existing shares or shares to be issued pursuant to this authorization may not represent more than 1% of the Company's share capital on the date of the Management Board's decision to make the allocation, *i.e.*, as an indication, 1,179,440 shares representing a nominal amount of €2,358,880 on the basis of the share capital at 31 December 2010, it being specified that this nominal amount may be increased by the number of shares allocated in respect of adjustments intended to protect the rights of beneficiaries of allocations of shares in the event of transactions involving the Company's capital or equity.

The shares allocated pursuant to the *twenty-sixth resolution* will be deducted from the share purchase or share subscription option cap provided for by the *twenty-first resolution* adopted by the Shareholders' Meeting of 4 June 2009 or, where applicable, the cap provided for by a resolution of a similar nature that may supersede said resolution during the period of validity of this delegation of authority. The nominal amount of capital increases that may be carried out, now or in the future, pursuant to this delegation of authority will be deducted from the overall cap provided for by paragraph 2. of the *twelfth resolution* submitted to the Shareholders' Meeting of 7 June 2011 or, where applicable, the cap provided for by a resolution of a similar nature that may supersede said resolution during the period of validity of this delegation of authority.

The beneficiaries shall not finally acquire their performance shares until the end of a minimum period of two years following the Management Board's decision to make the allocation, except in the event of the

beneficiary suffering from a category 2 or 3 disability as specified in Article L.341-4 of the French *Code de la sécurité sociale*, in which case the shares shall be acquired immediately. The period during which the beneficiaries will be obliged to retain the Company's shares will be a minimum of two years as from the acquisition of said shares, except in the case of the beneficiaries suffering from a type of disability corresponding to the aforementioned categories of the French *Code de la sécurité sociale*, in which case the shares may be sold immediately.

However, to take into account the legal and tax regulations applicable in certain countries, the Management Board may depart from this rule and decide (i) that the beneficiaries shall finally acquire their shares at the end of a minimum period of four years following the Management Board's decision to make the allocation, except in the case of the beneficiary suffering from a category 2 or 3 disability as specified in Article L.341-4 of the French *Code de la sécurité sociale*, in which case shares shall be acquired immediately, and (ii) the beneficiaries will not be required to comply with any holding period.

In addition, the Management Board may offer beneficiaries engaged in paid employment in more than one State during the first two years of the share acquisition period the opportunity of opting, before the end of a period of two years as from the allocation of the shares, (i) for an acquisition period of two years and an obligation to retain the shares for an additional two years or (ii) an acquisition period of four years with no obligation to retain the shares.

The vesting of the performance shares will be conditional upon the Group's performance assessed over two consecutive financial years and the requirement that beneficiaries continue to be employed within the Group for a minimum of two years as from the date the performance shares are allocated [1].

The existing shares or shares newly allocated pursuant to this authorization may be allocated to Management Board members under the following conditions:

- the vesting of the performance shares will be conditional on the member continuing to be employed within the Group for two years as from the allocation date and meeting the quantified performance criteria;
- performance will be assessed over two consecutive financial years and measured on the basis of the following three quantified criteria:
  - the growth rate of consolidated sales,
  - the consolidated EBITDA/sales ratio, and
  - an economic performance criterion, which may be financial (*e.g.* share price performance or cost reduction) or societal (*e.g.* concerning environment or safety matters), laid down by the Supervisory Board and measured by a relevant index;
- the meeting of the performance criteria will determine 100% of the number of performance shares allocated.

The Company will communicate the actual performance rates achieved for each Management Board member at the end of the assessment period.

Shareholders are reminded that the *sixteenth resolution* adopted by the Shareholders' Meeting of 4 June 2008 had authorized the Management Board to allocate performance shares to the Group's employees and Corporate Officers within the limit of 1% of the share capital on the date of the Management Board's decision to make the allocation.

The following table shows the performance shares allocated to each Management Board member, assuming that the maximum performance was achieved [2], as a percentage, on the one hand, of the share capital, and, on the other hand, of the total allocation of performance shares made to all Group employees during the last three financial years, on the basis of this authorization:

ALLOCATIONS OF PERFORMANCE SHARES TO MANAGEMENT BOARD MEMBERS ON THE BASIS OF THE *SIXTEENTH RESOLUTION* ADOPTED BY THE SHAREHOLDERS' MEETING OF 4 JUNE 2008

	2009		2010		**2011**		Total of 2009, 2010 and 2011 plans	
	% of allocation	% of capital	% of allocation	% of capital	% of allocation	% of capital	% of allocation	% of capital
Philippe Crouzet	8%	0.01%	4.6%	0.01%	4.4%	0.01%	5.3%	0.03%
Jean-Pierre Michel	3.751%	0.005%	2.258%	0.004%	2.154%	0.005%	2.573%	0.013%
Olivier Mallet	3.349%	0.004%	1.848%	0.003%	1.752%	0.004%	2.168%	0.011%
TOTAL	**15.14%**	**0.019%**	**8.73%**	**0.014%**	**8.29%**	**0.019%**	**10.08%**	**0.053%**

The members of the Management Board at 31 December 2010 benefitted from performance shares under the terms of the plans implemented in 2007, 2008 and 2009 whose performance assessment period has expired. In the case of all these plans, performance was measured by applying a performance criterion based on the consolidated EBITDA margin achieved by the Group over one or more years.

(1) As an indication, the criterion used for 2011 was the consolidated EBITDA/sales ratio.

(2) See below for actual rate achieved.

The following table shows, for these performance share plans, the maximum number of performance shares allocated to those employees who were members of the Management Board at 31 December 2010, and the number of performance shares acquired by them in accordance with the performance criteria.

	2007	2008	2009	Total
Maximum number of performance shares allocated to Management Board members	1,064	2,660	22,600	26,324
Number of performance shares accruing to Management Board members in accordance with the performance criteria	872	1,576	18,321	20,769
Percentage of performance shares acquired as a percentage of the maximum number of performance shares allocated	82%	59%	81%	79%

In accordance with statutory and regulatory provisions, the recommendations of the AFEP-MEDEF Code and the Supervisory Board decision of 31 July 2007, Management Board members will be required to retain until the expiry of their terms of office one-quarter of the performance shares acquired under a plan and will formally undertake not to use hedging instruments in respect of the sale of their performance shares.

In the event of the allocation of new shares, this authorization will entail, as and when the allocation of said shares is finalized, a capital increase by capitalizing reserves, profits or additional paid-in capital in favour of the beneficiaries of said shares and the shareholders' consequential waiver, in favour of the beneficiaries, of their preferential subscription rights over said shares and of the portion of the reserves, profits or additional paid-in capital which will be capitalized in respect of this allocation.

The purpose of this authorization is different from that of the authorization which is the subject of the *twenty-fifth resolution* submitted to this Shareholders' Meeting, in that the adoption of this resolution would have no effect on the *twenty-fifth resolution* submitted to this Shareholders' Meeting and, subject to their adoption, the *twenty-fifth* and *twenty-sixth resolutions* submitted to this Shareholders' Meeting will coexist, each being in force independently of the other until its expiry or replacement.

It will be granted for a period of 38 months as from the date of the Shareholders' Meeting, *i.e.* until 7 August 2014 and will render null and void, as from the date of the Shareholders' Meeting, where applicable, the unused portion of the authorization of the same nature granted to the Management Board by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008, under the terms of the *sixteenth resolution*.

e. Authorization for the Management Board to reduce the share capital by cancelling own shares (twenty-seventh resolution)

By the ***twenty-seventh resolution***, the Management Board asks your Shareholders' Meeting for an authorization, for a period of 26 months, to reduce the Company's share capital, by cancelling any quantity of shares which it will determine, acquired under the terms of any authorization given by the Ordinary Shareholders' Meeting in accordance with Article L.225-209 of the French *Code de commerce*, within the limit of 10% of the Company's share capital for each 24-month period.

f. Amendments to the by-laws relating to the term of office of Supervisory Board members and the mandatory representation of employee shareholders on the Supervisory Board (twenty-eighth and twenty-ninth resolutions)

By the ***twenty-eighth*** and ***twenty-ninth resolutions***, the Management Board asks your Shareholders' Meeting to make two amendments to Article 10 "Supervisory Board", paragraph 1, "Composition".

The purpose of the first amendment, proposed in connection with the *twenty-eighth resolution*, is to set a fixed term of office for Supervisory Board members instead of a maximum term. This fixed term will be four (4) years, in accordance with the AFEP-MEDEF Corporate Governance Code and, as an exception, in the case of Supervisory Board members who are over 70 years old, two (2) years.

The purpose of the second amendment to the by-laws, proposed in connection with the *twenty-ninth resolution*, will be to provide for the appointment of a Supervisory Board member to represent the Company's employee shareholders. The Supervisory Board member representing the employee shareholders may only be appointed, on the recommendation of the Supervisory Board, from among the members of the Supervisory Board or Boards of a company mutual investment fund or funds, governed by Article L.214-40 of the French *Code monétaire et financier*, representing the employees. The Supervisory Board member representing the employee shareholders will be subject to all the statutory and regulatory provisions applicable to Supervisory Board members. However, his term of office will expire automatically and the Supervisory Board member representing the employee shareholders will be deemed to have resigned in the event that he ceases to be (i) an employee of the Company or a company or economic interest group associated with it within the meaning of Article L.225-180 of the French *Code de commerce* or (ii) a member of the Supervisory Board of a company mutual investment fund, governed by Article L.214-40 of the French *Code monétaire et financier*, representing the employee shareholders or (iii) a holder of units in a company mutual investment fund governed by Article L.214-40 of the French *Code monétaire et financier*. Until the date of his replacement, the Supervisory Board may meet and deliberate validly.

As a result of the two amendments to the by-laws proposed above, Article 10 "Supervisory Board", paragraph 1 "Composition" will be amended as shown in the following table, which compares the existing Article 10 with Article 10 following the proposed amendments:

Article 10 Supervisory Board	Article 10 Supervisory Board
	AMENDMENT RESULTING FROM THE *TWENTY-EIGHTH RESOLUTION*
1. Composition The Supervisory Board shall consist of at least three and no more than 12 members. The term of office of members of the Supervisory Board may not exceed six years. They shall be eligible for re-election.	**1. Composition** The Supervisory Board shall consist of at least three and no more than 12 members. The term of office of members of the Supervisory Board is four years. They shall be eligible for re-election.
	AMENDMENT RESULTING FROM THE *TWENTY-NINTH RESOLUTION*
	The members of the Supervisory Board shall be appointed, and their terms of office renewed, by the Ordinary Shareholders' Meeting. One of the members of the Supervisory Board shall be appointed, on the recommendation of the Supervisory Board, from among the members of the Supervisory Board or Boards of a company mutual investment fund or funds, governed by Article L.214-40 of the French *Code monétaire et financier,* representing the employee shareholders. The said member shall be subject to all statutory and regulatory provisions applicable to the members of the Supervisory Board. However, his term of office shall expire automatically and the member of the Supervisory Board representing the employee shareholders shall be deemed to have resigned in the event that he ceases to be (i) an employee of the Company or a company or economic interest group associated with it within the meaning of Article L.225-180 of the French *Code de commerce* or (ii) a member of the Supervisory Board of a company mutual investment fund, governed by Article L.214-40 of the French *Code monétaire et financier,* representing the employee shareholders or (iii) a holder of units in a company mutual investment fund governed by Article L.214-40 of the French *Code monétaire et financier.* Until the date of his replacement, the Supervisory Board shall be able to meet and deliberate validly.
Each member of the Supervisory Board must hold at least 50 registered shares. Throughout a Supervisory Board member's term of office, these shares shall be registered in a pure registered shares account or an administered shares account.	[Paragraph unchanged]
	AMENDMENT RESULTING FROM THE *TWENTY-EIGHTH RESOLUTION*
When a member of the Supervisory Board passes the age of 70, he shall remain a member of the Board until the normal expiry of his term of office. He may then be re-elected once, for a maximum term of two years. The application of these provisions may not however result in the number of members of the Supervisory Board aged over 70 exceeding one-third of the total members of the Supervisory Board (individuals or representatives of corporate bodies).	When a member of the Supervisory Board passes the age of 70, he shall remain a member of the Board until the normal expiry of his term of office. He may then be re-elected once, for a term of two years. The application of these provisions may not however result in the number of members of the Supervisory Board aged over 70 exceeding one-third of the total members of the Supervisory Board (individuals or representatives of corporate bodies).
If the aforementioned one-third quota is exceeded, failing the voluntary resignation of a member of the Supervisory Board who is aged over 70, the oldest member of the Supervisory Board shall be automatically deemed to have resigned.	[Paragraph unchanged]

g. Powers for formalities (thirtieth resolution)

By the ***thirtieth resolution***, your Management Board asks you to grant it all powers to enable it to complete all the publication and filing formalities required following this meeting.

The Management Board

8.1.3 SPECIAL REPORT OF THE MANAGEMENT BOARD ON SHARE SUBSCRIPTION AND SHARE PURCHASE OPTIONS

This report has been drawn up in accordance with the provisions of Article L.225-184 of the French *Code de commerce*. It provides details of the share subscription and share purchase options allocated by the Company during the financial year 2010. Information in respect of allocations made under stock option plans in previous financial years is provided in Section 6.3.1.1 of the 2010 Reference Document.

Companies related to Vallourec pursuant to the conditions set out in Article L.225-180 of the French *Code de commerce* have not allocated any share subscription or share purchase options.

I – Options allocated to Corporate Officers during the financial year 2010

The following table shows the number, expiry dates and prices of the share subscription and share purchase options allocated by Vallourec to its Corporate Officers during the financial year 2010.

Name of Executive Corporate Officer	Plan number and date	Type of options (purchase or subscription)	Valuation [1] of options according to the method used for the consolidated financial statements *(in €)*	Number of options allocated during the year	Exercise price *(in €)*	Exercise period	Performance requirements [2]
Philippe Crouzet	2010 plan 01/09/2010	Subscription options	793,650	33,000 [3]	71.17	01/09/2014 to 01/09/2020	Yes
Jean-Pierre Michel	2010 plan 01/09/2010	Subscription options	360,750	15,000 [3]	71.17	01/09/2014 to 01/09/2020	Yes
Olivier Mallet	2010 plan 01/09/2010	Subscription options	288,600	12,000 [3]	71.17	01/09/2014 to 01/09/2020	Yes
TOTAL			**1,443,000**	**60,000 [3]**			

(1) 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 €71.17 for the options allocated in 2010.
(2) Note that the allocation of all share subscription options is subject to performance requirements based on the Group's consolidated EBITDA/sales ratios for the financial years 2010, 2011, 2012 and 2013.
(3) Subject in their entirety to performance requirements.

None of the Corporate Officers exercised any options in the financial year 2010.

II – Options allocated to the 10 employees who received the most options in the financial year 2010 and are not Corporate Officers of the Company

The following table shows the number, expiry dates and prices of the share subscription and share purchase options allocated to the 10 employees who are not Corporate Officers of Vallourec receiving the highest number of option allocations in the financial year 2010.

	Plan number and date	Type of options purchase or subscription)	Valuation [1] of options according to the method used for the consolidated financial statements *(in €)*	Number of options allocated during the year	Exercise price *(in €)*	Exercise period	Performance requirements [2]
Allocations to the 10 employees who received the most options and are not Corporate Officers of Vallourec	2010 plan 01/09/2010	Subscription options	1,245,790	51,800 [3]	71.17	01/09/2014 to 01/09/2020	Yes

(1) 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 €71.17 for the options allocated in 2010.
(2) Note that the allocation of all share subscription options is subject to performance requirements based on the Group's consolidated EBITDA/sales ratios for the financial years 2010, 2011, 2012 and 2013.
(3) Subject in their entirety to performance requirements.

III – Options allocated to employees in the financial year 2010

The following table shows the number, expiry dates and prices of the share subscription and share purchase options allocated to Group employees in the financial year 2010.

	Plan number and date	Type of options purchase or subscription)	Valuation [1] of options according to the method used for the consolidated financial statements *(in €)*	Number of options allocated during the year	Number of beneficiaries	Exercise price *(in €)*	Exercise period	Performance requirements [2]
Allocations to Group employees	2010 plan 01/09/2010	Subscription options	12,323,220	512,400 [3]	349	71.17	01/09/2014 to 01/09/2020	Yes

(1) 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 €71.17 for the options allocated in 2010.
(2) Note that the allocation of all share subscription options is subject to performance requirements based on the Group's consolidated EBITDA/sales ratios for the financial years 2010, 2011, 2012 and 2013.
(3) Subject in their entirety to performance requirements.

8.1.4 SPECIAL REPORT OF THE MANAGEMENT BOARD ON ALLOCATIONS OF SHARES FREE OF CHARGE AND OF PERFORMANCE SHARES

This report has been drawn up in accordance with the provisions of Article L.225-197-4 of the French *Code de commerce*. It provides details of allocations of shares free of charge and of performance shares by the Company in the financial year 2010. Information in respect of allocations of shares free of charge or performance shares made under plans in previous financial years is provided in Section 6.3.1.2 of the 2010 Reference Document.

Companies related to Vallourec pursuant to the conditions set out in Article L.225-197-2 of the French *Code de commerce* have not allocated any free shares or performance shares.

I – Allocations to Corporate Officers in the financial year 2010

The following table shows the number and value of performance shares allocated by Vallourec to its Corporate Officers in the financial year 2010.

Name of Executive Corporate Officer	Plan number and date	Theoretical number of shares allocated	Valuation of shares according to the method used for the consolidated financial statements *(in €)*	Vesting date	Available date	Performance conditions
Philippe Crouzet	2010 plan 15/03/2010	9,000	559,980	15/03/2012	16/03/2014	Yes (*)
Jean-Pierre Michel	2010 plan 15/03/2010	4,400	273,768	15/03/2012	16/03/2014	Yes (*)
Olivier Mallet	2010 plan 15/03/2010	3,600	223,992	15/03/2012	16/03/2014	Yes (*)
TOTAL		**17,000**	**1,057,740**			

(*) The definitive allocation of shares, in their entirety, is conditional upon continuing employment within the Group and the Group's performance based on achievement of a given ratio of EBITDA to consolidated sales for the years 2010 and 2011.

II – Allocations to the 10 employees who received the most shares in the financial year 2010 and are not Corporate Officers of the Company

The following table shows the number and value of shares allocated to the 10 employees who received the most shares in the financial year 2010 and are not Corporate Officers of the Company.

	Plan number and date	Theoretical number of shares allocated	Valuation of shares according to the method used for the consolidated financial statements *(in €)*	Vesting date	Available date	Performance conditions
Allocations to the 10 employees who received the most shares and are not Corporate Officers of the Company	2010 plan 15/03/2010 and 31/07/10	12,980	827,817	15/03/2012 or 15/03/2014 30/07/2012 or 30/07/2014	16/03/2014 or 01/08/2014	Yes (*)
	2-4-6 plan 03/12/2010	60	3,926	04/12/2012 or 04/12/2014	04/12/2014	Yes (*)

(*) The definitive allocation of shares, in their entirety, is conditional upon continuing employment within the Group and the Group's performance based on achievement of a given ratio of EBITDA to consolidated sales for the years 2010 and 2011 in the case of the 2010 plan and the additional 2010 plan and for the years 2011 and 2012 in the case of the 2-4-6 plan.

III – Allocations to employees in the financial year 2010

The following table shows the number and value of shares allocated to Group employees in the financial year 2010.

	Plan number and date	Theoretical number of shares allocated	Number of beneficiaries	Valuation of shares according to the method used for the consolidated financial statements *(in €)*	Vesting date	Available date	Performance conditions
Allocations to Group employees	2010 plan 15/03/2010	194,820	850	12,141,902	15/03/2012 or 15/03/2014 30/07/2012 or 30/07/2014	16/03/2014 or 01/08/2014	Yes (1)
	Value 10 plan 03/12/2010	83,462	9,632	5,215,540	01/07/2015	01/07/2015	No (2)
	2-4-6 plan 03/12/2010	72,588	12,098	4,750,159	04/12/2012 or 04/12/2014	04/12/2014	Yes (1)

(1) The definitive allocation of shares, in their entirety, is conditional upon continuing employment within the Group and the Group's performance based on achievement of a given ratio of EBITDA to consolidated sales for the years 2010 and 2011 in the case of the 2010 plan and the additional 2010 plan and for the years 2011 and 2012 in the case of the 2-4-6 plan.

(2) The allocation of shares free of charge under the Value 10 plan involved only subscribers to the "Value 10" employee share ownership scheme who were non-resident in France for tax purposes and were employed by Group companies with registered offices located in Germany, Brazil, Canada, the United States (except for employees of VAM USA LLC), Mexico and the United Kingdom, and this in replacement for the employer's contribution allocated to employees and those with similar rights of French companies within the Group.

8.1.5 ADDITIONAL REPORTS OF THE MANAGEMENT BOARD ON THE USE OF THE *SEVENTEENTH, EIGHTEENTH* AND *NINETEENTH RESOLUTIONS* OF VALLOUREC'S ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF 4 JUNE 2009 IN CONNECTION WITH THE IMPLEMENTATION OF THE "VALUE 10" INTERNATIONAL EMPLOYEE SHARE OWNERSHIP SCHEME

A – Additional report of the Management Board dated 10 November 2010 relating to the use of the *seventeenth, eighteenth* and *nineteenth resolutions* of Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 in connection with the implementation of the "Value 10" international employee share ownership scheme

This additional report has been drawn up pursuant to application of Article R.225-116 of the French *Code de commerce* in connection with the use of the *seventeenth, eighteenth* and *nineteenth resolutions* of Vallourec's Ordinary and Extraordinary Shareholders' Meeting in connection with the implementation of the "Value 10" international employee share ownership scheme.

I. Presentation of the Value 10 international employee share ownership scheme

In a bid to give its employees greater involvement in the Group's business and results, Vallourec sought to offer its staff the opportunity to invest in Vallourec shares.

Pursuant to the *seventeenth, eighteenth, nineteenth* and *twentieth resolutions* passed by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009, after obtaining authorization from the Supervisory Board, on 7 July 2010 Vallourec's Management Board agreed in principle to put in place a share subscription offering ("Value 10") reserved for employees (and those with similar rights) of Vallourec and of companies in which Vallourec holds, directly or indirectly, the majority of the share capital, under the conditions set out below.

Implementation of this operation is based on the use of:

- the delegations of authority conferred by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 under the terms of the *seventeenth, eighteenth* and *nineteenth resolutions* with a view to issuing shares at a 20% discount, subject to an overall maximum nominal amount of €5,765,644 (being 2,882,822 shares); and
- the authorization conferred by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 under the terms of the *twentieth resolution*, with a view to the allocation of existing shares free of charge up to a limit of 270,000 free shares (this limit being increased by the number of shares likely to be allocated in respect of adjustments aimed at preserving beneficiaries' rights in the event of operations affecting the Company's capital).

The main features of the Value 10 offering can be summarized as follows:

Beneficiaries of the offering

The Value 10 offering was opened to employees and those with similar rights of Vallourec and of companies in which Vallourec holds, directly or indirectly, the majority of the share capital and whose registered offices are located in one of the following countries: France, Germany, Brazil, the United States, the United Kingdom, Mexico, China and Canada.

More precisely, the following were eligible for the Value 10 offering:

- employees (also Corporate Officers as defined in Article L.3332-2 of the French *Code du Travail*) of companies belonging to the Group savings scheme or the Group international savings scheme with at least three months' service in the Group at the end of the subscription/retraction period;
- retirees and early retirees of French and German companies belonging to the Group savings scheme (PEV) or the Group international savings scheme (PEVI) who still have assets in plans on the day of their payment to the offering;
- employees of companies whose registered offices are located in Brazil, Mexico, the United States and China, other than those belonging to the Group international savings scheme and in which Vallourec owns, directly or indirectly, the majority of the share capital, with at least three months' service in the Group at the end of the subscription/retraction period.

Subscription arrangements

The Value 10 offering comprises two sets of arrangements:

- a leveraged offering open to all employees and those with similar rights eligible for the Value 10 offering, the aim of which is to guarantee the employee his initial investment (subject to exchange rate movements, taxation and deductions for social security charges and possible termination of the exchange transaction) and enable him to benefit from a multiple of the protected average increase in the share price compared with the reference price between the effective date of the capital increase and 1 July 2015;
- a traditional offering open to employees and those with similar rights eligible for the Value 10 offering, allowing them to subscribe for shares at a 20% discount together with an employer's contribution through the Vallourec Value Relais 10 company mutual fund (*fonds commun de placement d'entreprise*), which is to be merged with the Vallourec Actions company mutual fund (*fonds commun de placement d'entreprise*).

Except in cases of early withdrawal, the employee's investment will be subject to a mandatory holding period until 1 July 2015.

The leveraged arrangements have been put in place by groups of countries in order to comply with local regulations or to take advantage of specific taxation measures that are more favourable for subscriptions by employees, while at the same time ensuring that all employees eligible to participate in the offering receive a comparable economic benefit (notably in the form of a leveraged dedicated company mutual fund, *fonds commun de placement d'entreprise*, or a direct subscription for shares – or a cash deposit by the employee – along with the allocation of stock appreciation rights by the employer).

In France, it is accompanied by a contribution from the employer and elsewhere by the allocation of shares free of charge or, in certain cases, a deferred contribution.

The structure used for each country is as follows:

- **France:**
  - traditional offering: subscription to units in the Vallourec Value Relais 10 company mutual fund (*fonds commun de placement d'entreprise*) and a cash contribution from the employer *via* the Vallourec savings plan (PEV) for the amounts invested excluding arbitrage. The company mutual fund will subscribe to Vallourec shares at a 20% discount,
  - leveraged offering: subscription to units in the Vallourec Value France 10 compartment of the Vallourec Value France Germany company mutual fund (*fonds commun de placement d'entreprise*) and a cash contribution from the employer *via* the Group savings plan (PEV) for the amounts invested excluding arbitrage. The company mutual fund compartment will subscribe to Vallourec shares at a 20% discount and will benefit from a banking top-up equal to nine times the unitholders' investment (including the net employer's contribution), enabling the compartment to subscribe to 10 times more shares than would have been possible using only the individual's contribution and the net employer's contribution;
- **Germany:** subscription to units in the Vallourec Value Germany 10 compartment of the Vallourec Value France Germany company mutual fund (*fonds commun de placement d'entreprise*). The company mutual fund compartment will subscribe to Vallourec shares at a 20% discount and will benefit from a banking top-up equal to nine times the unitholders' investment, enabling the compartment to subscribe to 10 times more shares than would have been possible using only the individual's contribution. The subscription is accompanied by the allocation of shares free of charge by Vallourec;
- **Mexico and Brazil:** subscription to units in the Vallourec Value Brasil Mexico 10 compartment of the Vallourec Value Brasil Mexico company mutual fund (*fonds commun de placement d'entreprise*) offered to those not in any savings scheme, accompanied by the allocation of shares free of charge by Vallourec. The company mutual fund compartment will subscribe to Vallourec shares at a 20% discount and will benefit from a banking top-up equal to nine times the unitholders' investment, enabling the compartment to subscribe to 10 times more shares than would have been possible using only the individual's contribution;
- **United Kingdom, United States (for all subsidiaries except one) and Canada:** direct subscription for the company's shares at a discounted price, accompanied by the allocation of stock appreciation rights by the employer and the allocation of shares free of charge by Vallourec. Introduction of these arrangements is accompanied by the subscription by a vehicle controlled by the financial institution participating in the structuring of the operation to a number of shares equal to nine times the number of shares subscribed by the employees and those with similar rights;
- **China and the United States (for one subsidiary):** cash deposit by the employee accompanied by the allocation of stock appreciation rights by the employer and a deferred bonus. Introduction of these arrangements is accompanied by the subscription by a vehicle controlled by the financial institution participating in the structuring of the operation to a number of shares equal to nine times the number of stock appreciation rights actually allocated under the "cash + stock appreciation rights" arrangements, rounded down to the nearest whole number.

Method of holding shares

Share subscriptions are made *via* a temporary (*relais*) company mutual fund (*fonds commun de placement d'entreprise*) and a company mutual fund (*fonds commun de placement d'entreprise*) with compartments offered in connection with the Group savings scheme (PEV) or the Group international savings scheme (PEVI), a company mutual fund (*fonds commun de placement d'entreprise*) with compartments offered to those not in any company savings scheme and, in certain countries, by direct shareholder investment. In addition, some of the shares (corresponding to nine times the employees' subscription in the arrangements excluding company mutual funds) will be subscribed by a vehicle controlled by the financial institution participating in the structuring of the operation.

Voting rights relating to securities held in the company mutual funds (*fonds commun de placement d'entreprise*) will be exercised by the company mutual fund's Supervisory Board. The financial institution shall ensure that the voting rights relating to shares held by the vehicle that it controls are exercised in the same manner as the Supervisory Board of the leveraged company mutual fund (*fonds commun de placement d'entreprise*) open to French and German employees.

Individual subscription limit

- Offering under the Group savings scheme (PEV):

  Pursuant to Article L.3332-10 of the French *Code du travail*, the amount of the annual payments (including profit sharing) made by an employee to the savings schemes in which he participates cannot exceed one quarter of his gross annual remuneration or his retirement pension received in respect of 2010. For the purposes of calculating this limit, the banking top-up from which the leveraged company mutual fund (*fonds commun de placement d'entreprise*) benefits is taken into account;
- Offering under the Group international savings scheme (PEVI) and the arrangements involving a cash deposit accompanied by the allocation of stock appreciation rights:

  Given the limit stipulated in Article L.3332-10 of the French *Code du travail* and the leverage mechanism, subscription to the offering is capped at 2.5% of the gross annual remuneration for 2010 (by assimilation this concerns the arrangements involving a cash deposit and the allocation of stock appreciation rights);
- Offering under a company mutual fund outside of the scheme:

  Subscription is capped at 7.5% of the gross annual remuneration for 2010.

Country-specific subscription and payment procedures

Country-specific subscription and payment procedures were brought to employees' attention in the subscription documentation provided to them. A minimum subscription, which varies by country, has also been set. The stricter limits that apply in the event of subscription during the subscription/retraction period were brought to employees' attention in the subscription documentation provided to them.

Staging of the capital increase – reduction procedures

The capital shall be increased by the number of shares subscribed by the *Vallourec Value Brasil Mexico 10* compartment of the *Vallourec Value Brasil Mexico* company mutual fund, the *Vallourec Value France 10* and *Vallourec Value Germany 10* compartments of the *Vallourec Value France Germany* company mutual fund, the *Vallourec Value Relais 10* company mutual fund, the vehicle controlled by the financial institution and directly by the subscribing employees in the

United Kingdom, the United States and Canada. However, if the payment commitments are such that there is a breach of the maximum amount of the capital increase authorized by the Management Board at its meeting of 7 July 2010, being 2,882,822 shares, said commitments shall be reduced as follows:

Throughout this description of the reduction procedures, the number of shares requested and/or delivered includes the net employer's contribution and leverage where applicable (regardless of the form it takes) and is based on use of the exchange rates set in the decisions taken by the Management Board at its meeting of 10 November 2010.

The shares available shall initially be allocated to the various countries included in the scope of the offering in proportion to the number of shares requested by the employees in each country. As such, each country shall represent the same proportion of the total number of shares distributed as it did in the unreduced initial overall request.

Then, in each country:

- the total number of shares allocated to the country shall be divided by the number of subscribers in this country in order to obtain the "average number of shares" or the "reduction threshold";
- no reduction shall be made to the subscription request for all arrangements combined for requests not exceeding this average number of shares, although the reduction cannot under any circumstances result in the employee's personal contribution being reduced to below the minimum subscription required;
- besides this individual country threshold, a reduction shall be made in proportion to the fraction of the surplus demand;
- in countries in which subscriptions must be made for a whole number of shares, the new number of shares allocated to each employee shall be rounded down to the nearest whole number of shares and any fractional shares shall be allocated to countries using company mutual fund arrangements;
- where a combination of arrangements is used (France only), the reduction shall be allocated to each set of arrangements in proportion to the number of shares requested by the employee for each set of arrangements.

This reduction mechanism shall result in a corresponding automatic adjustment to the number of shares subscribed by the vehicle controlled by the financial institution participating in the structuring of the operation and by each company mutual fund.

The number of free shares allocated shall not exceed 270,000 shares.

Mandatory holding period

The shares subscribed directly, together with the units in the aforementioned company mutual funds or the deposit made by employees, shall be blocked for a period ending on 1 July 2015, except in the case of early release.

Timetable

12 May 2010	Supervisory Board authorizes the Management Board to use the resolutions.
7 July 2010	Management Board makes decision on the principle and procedures of the offering.
From 20 September to 8 October 2010 (inclusive)	Reservation period.
10 November 2010	Setting of dates and subscription price.
From 12 November to 16 November 2010 (inclusive)	Subscription/retraction period open to those eligible for the Value 10 offering.
3 December 2010	Recognition of completion of the capital increase.

II. Context of capital increases carried out for the purpose of implementing the Value 10 employee share offer

(a) Decisions of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009

The Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 adopted a group of resolutions enabling the Management Board to offer employees of the Vallourec group, in France and abroad, the opportunity to subscribe for or acquire shares or securities giving access to the capital of the Company on preferential terms (including free of charge) in order to associate them more closely with the development of the Company. Each of these resolutions included the cancellation of shareholders' preferential subscription rights.

Seventeenth resolution: general resolution authorizing a **capital increase reserved for members of a company savings scheme** established in the Vallourec group (where applicable, through an FCPE company mutual fund) or the sale of securities, in both cases at a discount of up to 20% (as the counterpart to a mandatory holding period of five years).

Eighteenth resolution: general resolution authorizing a **capital increase reserved for employees of the Vallourec group's foreign companies and those with similar rights (or members of an FCPE company mutual fund) not members of a company savings scheme** at a discount of 20% (as the counterpart to a mandatory holding period equivalent to that applicable to employee members of a company savings scheme). The purpose of this resolution is to avoid the application outside France of the subscription ceiling set at 25% of gross annual remuneration resulting from the French legislation applicable to company savings schemes.

Nineteenth resolution: resolution authorizing a **capital increase reserved for a financial institution at a discount of 20%**. This capital increase enables the implementation of a leveraged arrangement in countries in which extension of the structured offer that would be made to French employees raises legal or tax difficulties or uncertainties.

Twentieth resolution: resolution authorizing the grant of **shares free of charge to non-resident employees** (and those with similar rights) in substitution for the contributions paid by the employer in respect of employees in France, within the limit of 0.3% of the share capital. The intended objective is to provide a benefit similar to that granted to employees in France while deferring the point at which tax and social security contributions are levied to the date on which employees may dispose of their shares. In the countries in which this solution would be applied, the free shares would be intended to benefit all participants in the offer reserved for employees (subject, if applicable, to any minimum investment requirement).

A double ceiling is applicable to the *seventeenth, eighteenth* and *nineteenth resolutions:*

- an individual ceiling of €8,600,000, to which, if applicable, would be added in respect of the *seventeenth resolution* the nominal amount of any additional shares to be issued in the case of new financial transactions, in order to protect the rights of the holders of securities giving access to the capital;
- an overall ceiling of €8,600,000, such that the maximum nominal amount of capital increases that may be carried out now or in the future by virtue of the delegations granted under the terms of these three resolutions would be limited to €8,600,000, to which, if applicable, would be added in respect of the *seventeenth resolution* the nominal amount of any additional shares to be issued in the case of new financial transactions, in order to protect the rights of the holders of securities giving access to the capital.

The nominal amount of capital increases that may be carried out now or in the future by virtue of these resolutions shall moreover be allocated against the overall ceiling amount provided for in paragraph 3 of the *tenth resolution* adopted by the Extraordinary Shareholders' Meeting of 4 June 2009 (*i.e.* €105 million excluding issues intended to protect the rights of the holders of securities giving access to the capital) or, where applicable, against the overall cap amount provided for in a resolution of a similar nature that may succeed the aforementioned resolution during the term of the validity of resolutions.

These delegations were used for up to the maximum nominal amount (all resolutions combined) of €2,834,356 in the context of implementing the Value 09 transaction.

The term of the delegations granted by virtue of the *seventeenth* and *twentieth resolutions* is 26 months from the date of the meeting. The term of the delegations granted by virtue of the *eighteenth* and *nineteenth resolutions* is 18 months from the date of the meeting.

(b) Decisions of the Supervisory Board of 12 May 2010

The Supervisory Board, in its meeting of 12 May 2010, authorized the Management Board to use:

- the delegations of authority granted by the Ordinary and Extraordinary Shareholders' Meeting of Vallourec of 4 June 2009 under the terms of the *seventeenth, eighteenth* and *nineteenth resolutions* with a view to the issue of shares at a discount of 20%, within the limit of a maximum nominal amount of €5,765,644; and
- the authorization granted by the Ordinary and Extraordinary Shareholders' Meeting of Vallourec of 4 June 2009 under the terms of the *twentieth resolution,* with a view to the grant of existing shares free of charge within the limit of 270,000 shares (this limit, however, being increased by the number of shares that may be granted in respect of adjustments intended to protect the rights of beneficiaries in the event of transactions in the Company's capital).

(c) Decisions of the Management Board of 7 July 2010

The Management Board, in its meeting of 7 July 2010, approved in principle the implementation of the Value 10 international employee share ownership scheme, the main characteristics of which were presented in Section I above and, to that effect, authorized in principle the use of the delegations granted by the *seventeenth, eighteenth, nineteenth* and *twentieth resolutions* of the Shareholders' Meeting of 4 June 2009:

- with a view to the issue of new shares at a 20% discount, within the limit of a maximum nominal amount of €5,765,644, in respect of the *seventeenth, eighteenth* and *nineteenth resolutions*;
- with a view to the allocation of existing shares free of charge within the limit of 270,000 shares in respect of the *twentieth resolution* (this limit, however, being increased by the number of shares that may be allocated in respect of adjustments intended to protect the rights of beneficiaries in the event of transactions in the Company's capital).

(d) Decisions of the Management Board of 10 November 2010

The Management Board, in its meeting of 10 November 2010, approved the definitive terms and conditions of the Value 10 offer, the main characteristics of which were presented in Section I above.

The Management Board, in order to implement the Value 10 offer, decided to use the delegations granted by the *seventeenth, eighteenth, nineteenth* and *twentieth resolutions* of the Shareholders' Meeting of 4 June 2009:

- with a view to the issue of new shares at a 20% discount, within the limit of a maximum nominal amount of €5,765,644, in respect of the seventeenth, *eighteenth* and *nineteenth resolutions*;
- with a view to the allocation of existing shares free of charge within the limit of 270,000 shares in respect of the *twentieth resolution* (this limit, however, being increased by the number of shares that may be allocated in respect of adjustments intended to protect the rights of beneficiaries in the event of transactions in the Company's capital).

The Management Board also set the dates of the subscription/retraction period for employees and those with similar rights (from 12 November to 16 November 2010, inclusive) and the subscription price for the new shares required to be issued in the context of using the *seventeenth, eighteenth* and *nineteenth resolutions*.

III. Conditions for using the seventeenth, eighteenth and nineteenth resolutions

III.1 Conditions for using the *seventeenth resolution*

Beneficiaries of the capital increase realized by virtue of the seventeenth resolution

The issue realized by virtue of the *seventeenth resolution* is reserved for employees (and Corporate Officers treated as employees by virtue of Article L.3332-2 of the French *Code du travail*) of Group companies who are members of the Group savings plan (PEV) or of the Group international savings plan (PEVI) on the date the reservation period opens, provided such employees and Corporate Officers meet the three-month length of service condition provided for in such plans, as well as for retirees and former retirees of those companies who have retained their assets in such plans. In France, subscriptions shall be made through the Vallourec Value Relais 10 company mutual fund for the traditional formula and through the Vallourec Value France 10 compartment of the Vallourec Value France Germany company mutual fund for the leverage-based formula. Outside France, only the leveraged arrangement is offered. In Germany, subscriptions shall be made through the Vallourec Value Germany 10, a compartment of

the Vallourec Value France Germany company mutual fund. In other countries, within the PEVI subscriptions shall take the form of a direct offer of shares within the framework of the "shares + SAR" formulae.

Purpose

The purpose of this capital increase is to implement the Value 10 offer described in Section I above in France, Germany, the United Kingdom, Canada and the United States (for all subsidiaries except one).

Amount of the issue

The maximum nominal amount of the capital increase realized by virtue of the *seventeenth resolution* is €5,765,644 (*i.e.* a maximum of 2,882,822 new shares), it being specified however that the combined use of the *seventeenth, eighteenth* and *nineteenth resolutions* for the purpose of implementing the Value 10 offer is subject to an overall cap of €5,765,644 (nominal amount).

The number of shares effectively issued in the context of use of the *seventeenth resolution* shall be equal to the sum of:

- the number of shares equal to the whole number immediately below the number resulting from the quotient of (i) the sum of the subscriptions through personal contributions made by the beneficiaries to whom the Vallourec Value Relais 10 company mutual fund is open (after any reduction made in accordance with the terms and conditions described below) and the related net employer's contribution, and (ii) the Discounted Subscription Price. The definitive number of shares reserved for the Vallourec Value Relais 10 company mutual fund shall be set following the subscription/retraction period in the light of the beneficiaries' actual subscriptions, after any reduction;
- the number of shares equal to the whole number immediately below the number resulting from the quotient of (i) ten times the sum of (x) the subscriptions through personal contributions made by the beneficiaries to whom the Vallourec Value France 10 compartment of the Vallourec Value France Germany company mutual fund is open (after any reduction made in accordance with the terms and conditions described below) and (y) the related net employer's contribution, and (ii) the Discounted Subscription Price. The definitive number of shares reserved for the Vallourec Value France 10 compartment of the Vallourec Value France Germany company mutual fund shall be set following the subscription/retraction period in the light of the beneficiaries' actual subscriptions, after any reduction;
- the number of shares equal to the whole number immediately below the number resulting from the quotient of (i) 10 times the sum of the subscriptions through personal contributions made by the beneficiaries to whom the Vallourec Value Germany 10 compartment of the Vallourec Value France Germany company mutual fund is open (after any reduction made in accordance with the terms and conditions described below), and (ii) the Discounted Subscription Price. The definitive number of shares reserved for the Vallourec Value Germany 10 compartment of the Vallourec Value France Germany company mutual fund shall be set following the subscription/retraction period in the light of the beneficiaries' actual subscriptions, after any reduction;
- the number of shares actually subscribed (after any reduction made in accordance with the terms and conditions described below) by the beneficiaries eligible for the "shares + SAR" formulae.

Subscription price

The unit subscription price of the shares is equal to the average opening price of the Vallourec share recorded on the 20 stock-market trading days immediately prior to the date of the decision to open the subscription period, 10 November 2010, less a 20% discount and rounded up to the nearest euro cent (the "**Discounted Subscription Price**").

The reference period for the purpose of calculating the Discounted Subscription Price was from 13 October 2010 to 9 November 2010, both dates inclusive. The average opening price of the Vallourec share recorded during this period was €76.42 and the Discounted Subscription Price was €61.14.

Subscription terms and conditions

The subscription/retraction period for employees and those with similar rights was from 12 to 16 November 2010 (inclusive). The Vallourec Value Relais 10 company mutual fund and the Vallourec Value France 10 and Vallourec Value Germany 10 compartments of the Vallourec Value France Germany company mutual fund will subscribe on 3 December 2010.

The subscription terms and conditions were approved in principle on 7 July 2010 by the Management Board, which ratified them on 10 November 2010. The broad principles are described in Section I above.

Limitation on the amount of the capital increase – Reduction rules

See Section III.4 below.

Other terms and conditions

The new shares shall be paid up in cash on issue and shall immediately carry dividend rights; they shall be fully assimilated with the existing shares.

The difference between the share subscription price and their nominal value shall be recognised as additional paid-in capital. The costs of the capital increase shall be set off against the related additional paid-in capital. If applicable, the sum required to increase the statutory reserve to one-tenth of the revised capital following the capital increase may be charged against additional paid-in capital.

III.2 Conditions for using the *eighteenth resolution*

Beneficiaries of the capital increase realized by virtue of the eighteenth resolution

The issue realized by virtue of the *eighteenth resolution* is reserved for the Vallourec Value Brasil-Mexico 10 compartment of the Vallourec Value Brasil-Mexico company mutual fund, open to employees of the Brazilian and Mexican companies in which Vallourec directly or indirectly holds the majority of the share capital, provided such employees have completed at least three months' service with the Group at the end of the subscription/retraction period.

Purpose

The purpose of this capital increase is to implement the Value 10 offer described in Section I above in Brazil and Mexico.

Amount of the issue

The maximum nominal amount of the capital increase realized by virtue of the *eighteenth resolution* is €5,765,644 (*i.e.* a maximum of 2,882,822 new shares), it being specified however that the combined use of the *seventeenth, eighteenth* and *nineteenth resolutions* for the purpose of implementing the Value 10 offer is subject to an overall cap of €5,765,644 (nominal amount).

The number of shares effectively issued in the context of use of the *eighteenth resolution* shall be equal to the sum of the whole number of shares immediately below the number resulting from the quotient of (i) 10 times the sum of the subscriptions made by the employees to whom the Vallourec Value Brasil Mexico 10 compartment of the Vallourec Value Brasil Mexico company mutual fund is open (translated into euros using the exchange rate set on 10 November 2010 and after any reduction made in accordance with the terms and conditions described below), and (ii) the Discounted Subscription Price. The definitive number of shares reserved for the Vallourec Value Brasil Mexico 10 compartment of the Vallourec Value Brasil Mexico company mutual fund shall be set following the subscription/retraction period in the light of the employees' actual subscriptions, after any reduction.

Subscription price

The unit subscription price of the shares is equal to the Discounted Subscription Price, *i.e.* €61.14.

Subscription terms and conditions

The subscription/retraction period for employees and those with similar rights was from 12 to 16 November 2010 (inclusive). The Vallourec Value Brasil Mexico 10 compartment of the Vallourec Value Brasil Mexico company mutual fund will subscribe on 3 December 2010.

The subscription terms and conditions were approved in principle on 7 July 2010 by the Management Board, which ratified them on 10 November 2010. The broad principles are described in Section I above.

Limitation on the amount of the capital increase – Reduction rules

See Section III.4 below.

Other terms and conditions

The new shares shall be paid up in cash on issue and shall immediately carry dividend rights; they shall be fully assimilated with the existing shares.

The difference between the subscription price of the shares and their nominal value shall be recognised as additional paid-in capital. The costs of the capital increase shall be set off against the related additional paid-in capital. If applicable, the sum required to increase the statutory reserve to one-tenth of the revised capital following the capital increase may be charged against additional paid-in capital.

III.3 Conditions for using the *nineteenth resolution*

Beneficiaries of the capital increase realized by virtue of the nineteenth resolution

The issue realized by virtue of the *nineteenth resolution* is reserved for Value Plan International Employees, a French simplified limited company (*société par actions simplifiée*), having its registered office at 9 quai du Président Paul Doumer, 92920 La Défense Cedex, registered on the Nanterre Trade and Companies Registry under no. 422.551.093 and controlled by Crédit Agricole CIB (the "Crédit Agricole CIB Vehicle").

Purpose

The purpose of this capital increase is to implement the "shares + SAR" and "deposit + SAR" formulae of the Value 10 offer described in Section I above.

The structure of these formulae is based on the subscription by a vehicle controlled by the financial institution participating in structuring the transaction, at the Discounted Subscription Price, of a number of shares equal to:

- nine times the number of shares subscribed by the participants to the "shares + SAR" formulae; and
- nine times the number of shares that could have been subscribed for using the overall deposit made by participants in the "deposit + SAR" formulae.

As a counterpart, Crédit Agricole CIB provides coverage of the commitments taken by Group companies participating in the Value 10 plan arising from the allocation of SAR (excluding social security contributions, tax deductions and foreign exchange effects).

Amount of the issue

The maximum nominal amount of the capital increase realized by virtue of the *nineteenth resolution* is €5,765,644 (*i.e.* a maximum of 2,882,822 new shares), it being specified however that the combined use of the *seventeenth, eighteenth* and *nineteenth resolutions* for the purpose of implementing the Value 10 offer is subject to an overall cap of €5,765,644.

The number of shares reserved for the Crédit Agricole CIB Vehicle shall be equal to the whole number of shares immediately below the number equal to nine times the sum (after any reduction made in accordance with the terms and conditions described below of (i) the number of shares actually subscribed by eligible beneficiaries under the "shares + SAR" formulae, and (ii) the number of SAR actually allocated under the "deposit + SAR" formulae (after any reduction made in accordance with the terms and conditions described below). The definitive number of shares reserved for the Crédit Agricole CIB Vehicle shall be set following the subscription/retraction period in the light of the employees' (and those with similar rights) actual subscriptions, after any reduction.

Subscription price

The unit subscription price of the shares is equal to the Discounted Subscription Price, *i.e.* €61.14.

Subscription terms and conditions

The Crédit Agricole CIB Vehicle will subscribe to the capital increase on 3 December 2010.

Limitation on the amount of the capital increase – Reduction rules

See Section III.4 below.

Other terms and conditions

The new shares shall be paid up in cash on issue and shall immediately carry dividend rights; they shall be fully assimilated with the existing shares.

The difference between the share subscription price and their nominal value shall be recognised as additional paid-in capital. The costs of the capital increase shall be set off against the related additional paid-in capital. If applicable, the sum required to increase the statutory reserve to one-tenth of the revised capital following the capital increase may be charged against additional paid-in capital.

III.4 Overall cap

The use of each of the above three resolutions is subject to an individual cap of €5,765,644 (nominal amount), *i.e.* 2,882,822 shares. Moreover, the cumulative use of the three resolutions shall also not exceed the overall cap of €5,765,644, *i.e.* 2,882,822 shares.

In other terms, the "Value 10" offer shall have a cap such that the sum of (the "Total Number"):

- the number of shares actually subscribed by the Vallourec Value Relais 10 company mutual fund;
- the number of shares actually subscribed by the Vallourec Value France 10 and Vallourec Value Germany 10 compartments of the Vallourec Value France Germany company mutual fund;
- the number of shares actually subscribed by the Vallourec Value Brasil Mexico 10 compartment of the Vallourec Value Brasil Mexico company mutual fund;
- ten times the number of shares actually subscribed by the beneficiaries participating in the "shares + SAR" formulae; and
- the number of shares equal to the whole number of shares immediately below the number equal to nine times the number of SAR actually allocated in the context of the "deposit + SAR" formulae [(1)].

does not exceed 2,882,822 shares.

If, following the subscription/retraction period, in the light of the subscription forms collected in all the countries included in the scope, it is noted that the Total Number would exceed 2,882,822, the subscriptions by beneficiaries of the "Value 10" offer will be reduced in accordance with the principles set out in Section I above.

IV. Reason for the issues and the cancellation of shareholders' preferential subscription rights

The capital increases described in this report were decided upon for the purposes of implementing the Value 10 international employee share ownership scheme, implementation of which was approved in principle by the Management Board of 7 July 2010. The broad outlines of this scheme are set out in Section I above.

More precisely:

- the capital increase realized by virtue of the *seventeenth resolution* of the Ordinary and Extraordinary Shareholders' Meeting is intended, in the context of group savings scheme, to enable the implementation of a traditional formula in France through a temporary company mutual fund having the purpose of merging with a company mutual fund invested in the company's securities and of a leveraged arrangement through a leveraged company mutual fund (in France, through the Vallourec Value France 10 compartment of the Vallourec Value France Germany company mutual fund and, in Germany, through the Vallourec Value Germany 10 compartment of the Vallourec Value France Germany company mutual fund) or in the form of "shares + SAR" formulae in the United Kingdom, Canada and the United States (for all subsidiaries except one);
- the capital increase realized by virtue of the *eighteenth resolution* of the Ordinary and Extraordinary Shareholders' Meeting is intended to enable the implementation of a leveraged arrangement outside a group savings scheme within the framework of a compartment of a leveraged company mutual fund in Brazil and Mexico;
- the purpose of the capital increase reserved for the Crédit Agricole CIB Vehicle by virtue of the *nineteenth resolution* of the Ordinary and Extraordinary Shareholders' Meeting is the structuring of the "shares + SAR" formulae (implemented in the United Kingdom, Canada and the United States for all subsidiaries except one) or the "deposit + SAR" formulae (implemented in China and in the United States for one company), which are described in Section I above. As a counterpart, Crédit Agricole CIB provides coverage of the commitments (excluding social security contributions, tax deductions and foreign exchange effects) taken by Vallourec companies participating in the Value 10 scheme arising from the allocation of SAR.

V. Terms and conditions for determination of the issue price and justification

The Discounted Subscription Price of the shares offered to beneficiaries of the Value 10 offer (directly or through a company mutual fund) and to the Crédit Agricole CIB Vehicle was determined in accordance with the provisions of the *seventeenth*, *eighteenth* and *nineteenth resolutions* of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009.

It is equal to the average opening price of the Vallourec share recorded on the 20 stock-market trading days immediately prior to the date of the decision by the Management Board to open the subscription period for the capital increase realized by virtue of the *seventeenth resolution*, 10 November 2010, less a 20% discount and rounded up to the nearest euro cent.

The reference period for the purpose of calculating the Discounted Subscription Price was from 13 October 2010 to 9 November 2010, both dates inclusive. The average opening price of the Vallourec share recorded during this period was €76.42 and the Discounted Subscription Price was €61.14.

VI. Theoretical impact on the position of shareholders of the capital increases resulting from the use of the seventeenth, eighteenth and nineteenth resolutions

As at the date of this report, the number of shares to be issued in the context of the use of each of the resolutions is unknown.

By way of indication, and assuming that overall all of the 2,882,822 shares offered jointly in the context of the capital increases realized by virtue of the *seventeenth, eighteenth* and *nineteenth resolutions* are subscribed, the impact of the proposed capital increases on the interest in the capital of a shareholder holding 1% of the capital of the Company prior to the capital increases (to which the shareholder does not subscribe), calculated on the basis of the

(1) The number of SAR granted to each participant under a "deposit + SAR" formula will be equal to the number (rounded down to two decimal places) obtained from the quotient of the participant's deposit (translated into euros using the exchange rate determined by the Management Board) and the Discounted Subscription Price.

number of shares comprising the capital as at the date of this report (*i.e.* 116,548,468 shares) would be as follows:

(1) Impact of the issue of 2,882,822 new shares at the Discounted Subscription Price on the interest in the capital of a shareholder holding 1% of the capital of the Company prior to the capital increases (to which the shareholder does not subscribe), calculated on the basis of the number of shares comprising the capital as at the date of this report):

	Shareholder's interest as a percentage of the share capital
Before the capital increase	1.00%
After the issue of 2,882,822 shares	0.976%

(2) Impact of the issue of 2,882,822 new shares at the Discounted Subscription Price on the interest in the consolidated equity for the holder of one Company share not subscribing to the above issues (based on the consolidated equity at 30 June 2010):

	Interest in the consolidated equity based on the consolidated equity at 30 June 2010 (*)
Before the capital increase	€36.65
After the issue of 2,882,822 shares	€37.24

(*) Excluding non-controlling interests

VII. Theoretical impact on the current stock-market price of the Vallourec share of the capital increases resulting from the use of the seventeenth, eighteenth and nineteenth resolutions

As at the date of this report, the number of shares to be issued in the context of the use of each of the resolutions is unknown.

By way of indication, and assuming that overall all of the 2,882,822 shares offered jointly in the context of the capital increases realized by virtue of the *seventeenth, eighteenth* and *nineteenth resolutions* are subscribed, the theoretical impact of the above capital increases on the current stock-market price of the Vallourec share, as indicated by the average price during the 20 trading sessions preceding the setting of the Discounted Subscription Price would be as follows:

- number of shares comprising the share capital: 116,548,468 shares;
- average opening price during the 20 trading sessions preceding the setting of the Discounted Subscription Price: €76.42;
- based on this average:

  The theoretical price of the Vallourec share following the issue of 2,882,822 shares reserved for the Beneficiary Employees and for the Crédit Agricole CIB vehicle, based on the share capital on 30 June 2010 would be €76.05 (1).

There are no other securities giving access to the capital.

This report will be completed when the number of shares actually subscribed following the realization of the capital increases resulting from the use of the *seventeenth, eighteenth* and *nineteenth resolutions* is actually known.

This report, as well as the additional report by the Company's Statutory Auditors, will be available to shareholders at the Company's registered office and will be brought to the their attention during the next Shareholders' Meeting.

The Management Board

B – Supplement dated 3 December 2010 to the additional report of the Management Board dated 10 November 2010 relating to the use of the *seventeenth, eighteenth* and *nineteenth resolutions* of the Ordinary and Extraordinary Vallourec Shareholders' Meeting of 4 June 2009 in the context of implementing the "Value 10" international employee share ownership scheme

This report completes the additional report prepared in application of Article R.225-116 of the French *Code de commerce* in the context of the use of the *seventeenth*, *eighteenth* and *nineteenth resolutions* of the Ordinary and Extraordinary Vallourec Shareholders' Meeting approved on 10 November 2010 by the Management Board within the framework of implementing the "Value 10" international employee share ownership scheme.

At its meeting of 3 December 2010, the Management Board:

- set the number of shares to be issued in the context of the use of the *seventeenth, eighteenth* and *nineteenth resolutions:*
  - issue of 733,312 new shares at a unit price of €61.14 in the context of the *seventeenth resolution*, of which 15,015 shares subscribed by the Vallourec Value Relais 10 company mutual fund, 347,153 shares subscribed by the Vallourec Value France 10 compartment of the Vallourec Value France Germany company mutual fund, 357,047 shares subscribed by the Vallourec Value Germany 10 compartment of the Vallourec Value France Germany company mutual fund, and 14,097 shares subscribed by the employees and those with similar rights who participated in the "shares + SAR" formula,
  - issue of 509,088 new shares at a unit price of €61.14 in the context of the *eighteenth resolution,* subscribed by the Vallourec Value Brasil Mexico 10 compartment of the Vallourec Value Brasil Mexico company mutual fund,

(1) The theoretical price is equal to $\frac{116{,}548{,}468 \times 76.42 + 2{,}882{,}822 \times 61.14}{116{,}548{,}468 + 2{,}882{,}822}$

- issue of 153,214 new shares at a unit price of €61.14 in the context of the *nineteenth resolution,* subscribed by Value Plan International Employees, a French simplified limited company *(société par actions simplifiée),* having its registered office at 9 quai du Président Paul Doumer, 92400 Courbevoie, registered on the Nanterre Trade and Companies Registry under no. 422.551.093 (the "Crédit Agricole CIB Vehicle").

- noted the definitive realization of the following capital increases and amended the by-laws accordingly:

- the definitive realization, in the context of the *seventeenth resolution* of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009, of a capital increase by the issue of 733,312 new shares at a unit price of €61.14, of which 15,015 shares subscribed by the Vallourec Value Relais 10 company mutual fund, 347,153 shares subscribed by the Vallourec Value France 10 compartment of the Vallourec Value France Germany company mutual fund, 357,047 shares subscribed by the Vallourec Value Germany 10 compartment of the Vallourec Value France Germany company mutual fund on behalf of their respective unit-holders, and 14,097 shares subscribed directly by the beneficiaries of the "shares + SAR" formulae who participated in the Value 10 offer under the PEVI.

  The issue of the 733,312 new shares resulted in an increase in the nominal amount of the share capital of €1,466,624 and the recognition of additional paid-in capital of €43,368,071.68,

- the definitive realization, in the context of the *eighteenth resolution* of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009, of a capital increase by the issue of 509,088 new shares at a unit price of €61.14, subscribed by the Vallourec Value Brasil Mexico 10 compartment of the Vallourec Value Brasil Mexico company mutual fund.

  The issue of the 509,088 new shares resulted in an increase in the nominal amount of the share capital of €1,018,176 and the recognition of additional paid-in capital of €30,107,464.32, representing the difference between the total amount subscribed and the total nominal amount of the capital increase.

- the definitive realization, in the context of the *nineteenth resolution* of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009, of a capital increase by the issue of 153,214 new shares at a unit price of €61.14, subscribed by Value Plan International SAS.

  The issue of the 153,214 new shares resulted in an increase in the nominal amount of the share capital of €306,428 and the recognition of additional paid-in capital of €9,061,075.96, representing the difference between the total amount subscribed and the total nominal amount of the capital increase.

  The new shares thus issued immediately carry dividend rights; they are fully assimilated with the existing shares. The Management Board decided to charge against the additional paid-in capital the cost of the capital increase and the amount necessary to increase the statutory reserve to 10% of the nominal amount of the share capital following the capital increase.

As the realization of the above capital increases resulted in the issue of 1,395,614 shares, it is appropriate to update the impact of the capital increases shown in the report dated 10 November 2010, in that such report showed the theoretical impact based on the issue of 2,882,822 new shares.

Theoretical impact on the position of shareholders of the capital increases resulting from the use of the seventeenth, eighteenth and nineteenth resolutions

Given the combined subscription corresponding to 1,395,614 new shares in the context of the capital increases realized by virtue of the *seventeenth, eighteenth* and *nineteenth resolutions,* the impact of the proposed capital increases on the interest in the capital of a shareholder holding 1% of the capital of the Company prior to the capital increases (to which the shareholder does not subscribe), calculated on the basis of the number of shares comprising the capital as at the date of this report) (*i.e.* 116,548,468 shares) would be as follows:

(1) Impact of the issue of 1,395,614 new shares at the Discounted Subscription Price on the interest in the capital of a shareholder holding 1% of the capital of the Company prior to the capital increases (to which the shareholder does not subscribe), calculated on the basis of the number of shares comprising the capital as at the date of this report):

	Shareholder's interest as a percentage of the share capital
Before the capital increase	1.00%
After the issue of 1,395,614 shares	0.988%

(2) Impact of the issue of 1,395,614 new shares at the Discounted Subscription Price on the interest in the consolidated equity for the holder of one Company share not subscribing to the above issues (based on the consolidated equity at 30 June 2010):

	Interest in the consolidated equity per share based on the consolidated equity at 30 June 2010 (*)
Before the capital increase	€36.65
After the issue of 1,395,614 shares	€36.94

(*) Excluding non-controlling interests.
Based on a number of shares prior to the capital increase of 116,548,468.

Theoretical impact on the current stock-market price of the Vallourec share of the capital increases resulting from the use of the seventeenth, eighteenth and nineteenth resolutions

Given the combined subscription corresponding to 1,395,614 new shares in the context of the capital increases realized by virtue of the *seventeenth, eighteenth* and *nineteenth resolutions,* the theoretical impact of the above capital increases on the current stock-market price of the Vallourec share, as indicated by the average price during the 20 trading sessions preceding the setting of the Discounted Subscription Price would be as follows:

- number of shares comprising the share capital (before the capital increase): 116,548,468 shares;
- average opening price during the 20 trading sessions preceding the setting of the Discounted Subscription Price: €76.42;
- based on this average:

The theoretical price of the Vallourec share following the issue of 1,395,614 shares on the above terms would be €76.24 (1).

There are no other securities giving access to the capital.

The Management Board

(1) The theoretical price is equal to $\frac{116{,}548{,}468 \times 76.42 + 1{,}395{,}614 \times 61.14}{116{,}548{,}468 + 1{,}395{,}614}$

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 the Supervisory Board of Vallourec (hereinafter referred to as "Vallourec" or the "Company") presents this report to the shareholders, detailing:

- the conditions governing the preparation and organization of the Supervisory Board's work (A);
- the procedures governing shareholder participation in the Company's Shareholders' Meetings (B);
- the internal control and risk management procedures implemented by the Company (C);
- the principles and rules laid down by the Supervisory Board for determining the benefits and compensation of all types allocated to Corporate Officers (D); and
- the Corporate Governance Code with which the Company complies (E).

In accordance with the recommendation dated 22 July 2010 of the French securities regulator (*Autorité des Marchés Financiers* – AMF), it is stipulated that Vallourec has based this report on the working group's report on the Audit Committee.

This report was approved by the Supervisory Board at its meeting on 28 March 2011.

A – Conditions governing the preparation and organization of the Supervisory Board's work

The composition of the Supervisory Board and of its Committees and their respective internal regulations are detailed in Section 6 of the Registration Document for the year ended 31 December 2010 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 2010. 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 2010 was prepared at the Board meeting held on 30 September 2009. The meetings timetable for 2011, a preliminary version of which was presented to the Board at its meeting on 12 May 2010, was adopted by the Board at its meeting on 13 December 2010.

The effective attendance rate of Board members at meetings was higher than 80% on average for all the meetings held in 2010.

Dates of Board meetings (Financial year 2010)	Attendance rate
2 February	7/9 (78%)
23 February	8/9 (89%)
13 April	6/9 (67%)
12 May	8/9 (89%)
28 July	10/11 (91%)
9 November	10/11 (91%)
13 December	8/11 (73%)

Members who were unable to attend were, however, represented at all meetings, whether regular or exceptional. The members of the Management Board attended all Supervisory Board meetings.

The arrangements for the meetings are confirmed on average a week in advance by means of a notice of the meeting to which are 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 2010, 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, 2008 and 2009, a further self-assessment was carried out in 2010 based on an updated version of the same questionnaire, which comprised six assessment topics. An analysis of Board members' responses, which was sent to Board members and discussed at a Board Meeting, shows a high level of satisfaction among all members who observed ongoing improvement in its governance and a climate of constructive dialogue with the Management Board. The efforts made during 2010 to broaden and diversify the Board's composition, in accordance with a recommendation resulting from the assessment carried out in 2009, were judged satisfactory and the number of members sufficient. The Board was in favour of the increased proportion of women and international members, characterized by the appointment of three women (Vivienne Cox, Alexandra Schaapveld and Pascale Chargrasse). The appointment to the Board of a representative of the employee shareholders, to ensure that their interests are considered, was also judged to be very satisfactory. The length of Board meetings, which had increased during 2009 as compared with 2008, in accordance with the recommendation resulting from the assessment carried out in 2008, to allow matters to be discussed in greater depth, and the number of meetings, appear to be appropriate overall. 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. Such visits are to include the Company's non-European sites in future.

For the purpose of assessing the Group's performance, in 2010 the Supervisory Board focussed mainly on reviewing the annual and first-half financial statements, the Group's activity, changes in the levels of safety at the Group's industrial sites, the reorganization of the Divisions, the implementation of a sponsored Level 1 American Depositary Receipt programme in the United States, the financing policy, the 2011 budget, the strategic issues facing the Group and the projects and negotiations currently in progress, particularly those regarding corporate acquisitions.

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 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 resulting from the exercise of options and of the performance shares allocated;
- the payment of attendance fees to Supervisory Board members, Committee members and the *Censeurs*;
- the adoption by the Strategy Committee of Internal Regulations;
- the strengthening of the role of the Appointments and Remuneration Committee as regards governance, which resulted in the amendment of this Committee's Internal Regulations and name: it is now the "Appointments, Remuneration and Governance Committee";
- the broadening and diversification of the Supervisory Board's composition with the aim, in particular, of increasing the proportion of women and international members and taking into account the interests of the Company's employee shareholders; and
- the composition of the Committees.

B – Shareholder participation in the Company's Shareholders' Meetings

Any shareholder is entitled to participate in the Company's Shareholders' Meetings in accordance with the statutory and regulatory provisions and regardless of the number of shares held. Article 12 of the by-laws – which are available on the Company's website [1] and at the registered office – relating to Shareholders' Meetings does not stipulate any specific procedures for participation at meetings. However, double voting rights are granted to shares registered in the name of the same shareholder for at least four years.

(1) http://www.vallourec.com/en/finance/shareholder-corner/general-meetings/global-information//Vallourec's_By-laws_as_of_03.12.2010.pdf

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 31 May 2010 shows that 1,688 shareholders were present, represented or voted by correspondence; they owned 31,145,967 voting shares out of a total of 57,036,705 (54.61% of the voting shares) and 31,191,201 voting rights out of a total of 57,095,445 (54.63%), resulting in a quorum of 54.61%, which was 5.4% higher than the quorum at the preceding Annual Shareholders' Meeting held in 2009 and more than 10% higher than that at the 2008 Meeting. The attendees included the Bolloré Group, which owned 2,990,588 shares representing the same number of voting rights, *i.e.* 5.24% of the capital and 5.23% of the voting rights and the Caisse des Dépôts et Consignations (CDC) and the Fonds Souverain d'Investissement (FSI), which owned a total of 2,875,809 shares representing the same number of voting rights, *i.e.* 5.04% of the capital and 5.03% of the voting rights.

The information relating to the factors likely to have an impact in the event of a takeover bid are detailed in Section 2 of the 2010 Registration 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, Vallourec has 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.

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 [1] 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;

(1) http://www.vallourec.com/en/group/sustainable-development/Documents/Code_of_ethics_VA.pdf

- 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; and
- 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 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 statutory and regulatory provisions.

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 under the best possible 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 and the prevention of insider trading

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 Vallourec's management and control bodies, but also all its senior managers and employees and those of all its subsidiaries. It is sent to all employees who have access to privileged information, of whom the Company 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.

In order to take into account AMF recommendation no. 2010-07 of 3 November 2010 relating to the prevention of insider dealing by executives of listed companies, this Code was amended in January 2011 notably to increase the length of the so-called "closed periods" and to introduce within Vallourec the position of Head of Ethics, a position assumed by the Group's Legal Director, whose main responsibility is to ensure compliance with the Code of good practice, it being stipulated that ultimate responsibility for compliance with the applicable regulations lies with each employee who has access to privileged information.

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

Vallourec has drawn 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 statutory and regulatory provisions.

Annual and half-year financial reports and quarterly financial information are thus the subject of an internal approval process prior to their release and filing with the French securities regulator (*Autorité des Marchés Financiers* – AMF).

3. DESCRIPTION OF INTERNAL CONTROL PROCEDURES

3.1 Internal control procedures adapted to the specific characteristics of the Vallourec group

Responsibility for implementing appropriate internal control procedures governing risk management, financial control and compliance with legislation is delegated to the managers of each Vallourec group company.

To ensure the consistency of Vallourec 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 Vallourec 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 Statutory Auditors carry out an audit of the annual financial statements and a limited review of the half-year financial statements; quarterly data is neither audited nor reviewed.

3.2.3 Cash position and financing

Responsibility for cash management is delegated to individual Group 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.

The internal control questionnaire developed by Vallourec, which 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, was updated in 2010 and includes supplementary questions.

The questionnaire covers the following financial and accounting cycles: capital expenditure, purchasing, inventories, sales, cash, provisions, staff, taxes and reporting processes. Newly acquired companies carried out a self-assessment review of their accounting and financial procedures on the basis of this questionnaire and were the subject of an on-site review by the Internal Audit department in 2010.

All fully consolidated companies were the subject of an internal control review carried out by the Internal Audit department on the basis of this questionnaire and the results were communicated to the senior management of the companies and Divisions concerned, the Management Board, the Finance and Audit Committee and the Statutory Auditors. Discussions were held with the Statutory Auditors concerning the plan to implement the main recommendations in the case of these companies.

In-depth internal audits were carried out in accordance with the annual audit plan on specific matters identified on the basis of reviews of internal control, the Group's risk matrix and requests from the Management Board and Division heads.

3.2.5 Internal audit

The Internal Audit and Financial Control Department reports to the Vallourec 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 its head office, Vallourec has an auditor based at V & M Deutschland and a team based at V & M do Brasil. The teams' 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 Executive Committee reviews the position regarding the Group's investments, as presented by the Investment department, six times a year. It examines budgets, investment authorizations and actual and forecast expenses. The agenda comprises, in particular, 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 described in paragraph C, Section 2, of this report entitled "Components of internal control".

A posteriori controls are carried out on expenses, expected objectives and the profitability of capital expenditure projects. Such controls are performed by the Investments department or the Management Control Department on projects that are deemed 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.

3.3.2 Organization of Sustainable Development – Quality – Safety – Environment

Within the Vallourec group, sustainable development is managed by a member of the Executive Committee.

The Sustainable Development department, which was set up in 2010 at Group level and reports to the Executive Committee, is responsible for:

- identifying issues to be addressed, constraints and risks;
- promoting awareness of sustainable development issues among employees;
- coordinating the Sustainable Development Committee; and
- monitoring and communicating results.

The senior management of each Group company is responsible for implementing the Group's sustainable development policy.

Each Director is responsible for setting up effective sustainable development procedures, adapting them to the local environment and type of activity while ensuring compliance with the Vallourec Management System (VMS), described below.

The Sustainable Development department is also responsible for the environment: it oversees and coordinates the actions of the local environmental managers, who are responsible for ensuring that the Group's activities comply with the applicable regulations and are in line with environmental protection principles, in accordance with the Vallourec group's Sustainable Development Charter drawn up in 2004.

It carries out audits and establishes environmental performance indicators that enable the main parameters to be periodically monitored.

A "Sustainable Development" report, published annually, describes the Group's commitments and actions in this area and the progress made in all Vallourec group entities.

The Vallourec group'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 2011.

The aim of the GreenHouse project, which was launched in 2009 and continued to be implemented in 2010, 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 thus reduce greenhouse gas emissions. The Sustainable Development department is responsible for coordinating these initiatives.

Finally, the Vallourec group has continued to make significant investment in the field of environmental protection and safety.

The QSMS (Quality, Safety and Management System) department defines the systems, methods and tools used in the Vallourec 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 (CITs), 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 QSMS department is responsible for the continuous auditing of the VMS in all Vallourec 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 QSMS 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.

The Cap Ten Safe project has enabled the Group to achieve significantly improved safety performance: the rate of industrial accidents causing lost time, which was 9.2 in 2008 (per million hours worked), was reduced to 5.3 in 2009 and 3.1 in 2010.

3.3.3 Research and Development

The Research and Development Department, which has since 1 January 2010 been grouped with the Technology department within the Technology, R&D and Innovation department, has drawn up

procedures at Vallourec 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 QSMS (Quality, Safety and Management System) department in accordance with the Vallourec Management System (VMS).

3.3.4 *Purchasing*

During 2010, the Group's various Purchasing Departments were able to maintain a high level of economic contribution, due, in particular, to:

- detailed analyses of the breakdowns of the full acquisition cost of products and services purchased;
- the increased use of standard contracts where such contracts can be suitable for several Group entities.

At the same time, audits were carried out of most of the Group's Purchasing Departments in order to identify:

- the risk areas (supplier risk, governance risk, process risk, etc.) and put forward tailored action plans; and
- best practice in the purchasing field and make all the Group's purchasing staff aware of such practices.

In 2010, the Group launched several projects aimed at implementing a structure within which the "procurement" and "purchasing" processes are distinguished in order to improve efficiency and control. This structure, which is already in place in Brazil and the United States, is in the process of being introduced in Europe. In addition to these changes, the reporting lines were amended: purchasing officers at the Group's sites now report to the Purchasing Director of the Division and no longer to the Director of the subsidiary concerned.

Finally, the Purchasing Department's responsibilities were expanded in 2010 to include, in particular, the purchase of pre-material (bars and tubes which have to be purchased from non-Group suppliers).

3.3.5 *Information systems*

In 2010, the Group continued to implement the programme of IT security audits initiated in 2009. As a result, corrective action has been identified for new areas (United States, United Kingdom and China). The transfer to a third party of the housing of both the Saint-Saulve IT centre in France, comprising the French application servers and certain services at Vallourec group level, and certain servers located in Germany, was finalized during 2010.

Several initiatives were also implemented in 2010 to improve the Group's IT security:

- the project for the segregation of access rights to IT applications (GRC project) was extended to cover smaller entities;
- the SAP software was brought into use by VAM USA. Its deployment is continuing so as to include the new Youngstown plant and V & M Star's system is in the process of being upgraded;
- a global contract was signed with two anti-virus software providers for the use of one single system throughout the Vallourec group with the aim of strengthening protection at the level of mail gateways and controlling employees' access to the internet; and
- an audit supplemented by an action plan was carried out to strengthen the security of the local computer networks at the Group's plants.

3.3.6 *Human Resources*

In 2010, the Human Resources Department continued to implement the internal control process which audits all its operations: the performance of its duties, training and skills management, the working environment, compliance with the Vallourec group's internal regulations and the prevailing statutory and regulatory provisions, compensation management and the protection of privacy and information regarding the Company and its employees.

In this regard, 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 one-off or regular audits and monitors plans for corrective action or improvements.

In 2010, the main countries in which the Vallourec group operates, *i.e.* Brazil, France, Germany, the United States, China, the United Kingdom, Mexico and the United Arab Emirates, implemented action plans resulting from the self-evaluations and audits carried out in 2009 and 2010.

The tools developed for the Human Resources internal control system were also used in 2010 during the acquisition and integration of new Group companies.

This approach also enables best practice to be identified and implemented on a Group-wide basis.

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 (limits in respect of credit and delegation of authority, and credit insurance) and drawn up general sales terms to be applied by all Vallourec 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 Group's 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 resulting costs and 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 of risks, and insurance), will simply be monitored. 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 the ongoing application of said controls;
- updating of the self-assessment of priority risks.

Therefore, control over the priority risks has been steadily increased to the level of the industry's best practice since the establishment of the risk mappings in 2007. Risk Management is being integrated into the Vallourec Management System (VMS) *via* the systematic practice of Committee meetings and management indicators. The aim of the risk management function is to supplement 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" of the 2010 Registration Document, which is an integral part of this report.

D – Principles and rules for determining the remuneration of Corporate Officers

1. REMUNERATION OF MANAGEMENT BOARD MEMBERS

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 Mr 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, 2 March 2010, 30 July 2010 and 4 April 2011 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 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, Remuneration and Governance 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 2010 Registration 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.

In respect of the 2010 financial year, the Board decided that the variable portion of Management Board members' remuneration in respect of 2010 may not exceed 90% of the fixed portion in the case of the Chairman of the Management Board and 75% in the case of the other two Management Board members and will 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 relating to cost reduction and the performance of the Group's strategic investments. The basis for calculating the first two thirds will be verified by the Statutory Auditors.

On these bases, at its meeting on 23 February 2011 the Supervisory Board set the variable portion of remuneration in respect of the 2010 financial year at €620,000 for Mr Philippe Crouzet (*i.e.* 81% of the fixed portion), €285,000 for Mr Jean-Pierre Michel (66% of the fixed portion) and €250,000 for Mr Olivier Mallet (66% of the fixed portion).

For the 2011 financial year, the Supervisory Board meeting on 28 March 2011 decided to leave the fixed portion of Management Board members' monetary remuneration unchanged. On the Appointments, Remuneration and Governance Committee's proposal, it modified the calculation of the variable portions of monetary remuneration of Management Board members by making a distinction between the target variable portion set at 90% of the fixed portion for Mr Philippe Crouzet and at 75% of the fixed portion for Messrs. Jean-Pierre Michel and Olivier Mallet and the maximum variable portion set at 120% of the fixed portion for Mr Philippe Crouzet and at 100% of the fixed portion for Messrs. Jean-Pierre Michel and Olivier Mallet. In 2011, the maximum variable portion of Mr Philippe Crouzet's remuneration will depend for 30% on net profit, for 45% on EBITDA and for 45% on the achievement of objectives set by the Board in the areas of cost cutting, strategic investments and the Group's international expansion. These percentages have been set at, respectively, 25%, 37.5% and 37.5% for Messrs. Jean-Pierre Michel and Olivier Mallet.

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, Remuneration and Governance 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 options 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 allocated 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. 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: $C = 0.25 \times (B/P) - 1$ [(1)].

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 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%.

2. REMUNERATION OF SUPERVISORY BOARD MEMBERS

The overall maximum annual attendance fees for allocation by the Supervisory Board to its members were increased to €520,000 by the Ordinary Shareholders' Meeting of 31 May 2010 *(Tenth resolution*).

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,

(1) C = annual rights capped at 2%; B = annual base salary; P = annual social security ceiling.

which allocate all or part of their attendance fees on the basis of members' attendance at meetings, the Company's 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, increased to €33,000 in 2010, 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 €33,000. The Chairman and members of the Supervisory Board were not allocated 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, Remuneration and Governance Committee and Strategy Committee) receive, as part of the aforementioned €520,000 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, Remuneration and Governance 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*, which is calculated on the same basis as the remuneration of the Supervisory Board members, comes within the annual budget for attendance fees allocated to the Supervisory Board.

E – Corporate governance

Having for several years pursued an active corporate governance strategy, in 2008, the Supervisory Board decided to adopt the AFEP/MEDEF Code of corporate governance for listed companies, as amended for application to limited companies managed by a Supervisory Board and a Management Board and to comply with the recommendations detailed therein. The main circumstances in which the Company applies these recommendations are detailed in Section 6 of the 2010 Registration Document covering corporate governance, which is an integral part of this report.

The AFEP-MEDEF Code 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 Corporate Officers of listed companies and their April 2010 recommendation on increasing the proportion of women members on Boards is available on the MEDEF website (www.medef.com).

8.3 SUPERVISORY BOARD REPORT TO THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF 7 JUNE 2011

In 2010, Vallourec's activity levels recovered significantly from one of the worst economic crises in recent history. Shipped production of rolled tubes increased to 1,888,000 tonnes, up 26% compared with the previous year. Sales remained practically unchanged, however, at €4,491 million, due to lower prices for orders taken during the crisis, and a deterioration in Power Generation market conditions. The Group achieved an EBITDA of €925 million in 2010, 6% lower than in 2009, although the EBITDA margin remained above 20%. Allowing for higher financial charges due to significant expansion in production capacities, net profit attributable to owners of the Company declined by 21% year on year to €410 million.

Maintenance of this good level of profitability reflects the Group's flexibility and continuously improving productivity. Operating costs remained stable in 2010, although volumes were significantly higher. Furthermore, the Cap Ten savings plan introduced in early 2008 achieved a recurrent saving of €280 million (excluding inflation) after three years, exceeding the original target of €200 million.

The Group's activities generated cash flow of €440 million in 2010, compared with €1,611 million in 2009; this decrease was due to the increased cash flow requirement associated with the recovery in volumes and the ongoing implementation of a series of major strategic investments (totalling €900 million). Vallourec chose to maintain investment at a high level following the crisis in order to meet customers' requirements and increase operating efficiency. In 2010, the main capital investments related to the construction of the Vallourec & Sumitomo Tubos do Brasil (VSB) integrated plant, the start of construction work for the new rolling mill in the United States, the expansion in production capacity for nuclear applications in France, and increased tube finishing capacities in China.

Even with the Group's major strategic projects, well underway Vallourec remains in a strong financial situation: debt gearing was a modest 9% and the Group's cash position was strengthened by the recent renewal of lines of credit totalling €1 billion.

The Supervisory Board wishes to thank the Management Board and all Vallourec employees for their hard work and for the results achieved in 2010.

The Supervisory Board, which met seven times in 2010, ensured that it was regularly informed of the performance and activities of the Company and the Group, in accordance with statutory requirements and the Company's internal regulations. 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. It received the reports of the Chairmen of the Board's Committees (Finance and Audit Committee, Appointments, Remuneration and Governance Committee, and Strategy Committee) on all matters dealt with by these Committees.

The Supervisory Board has examined the Management Board's management report and the statutory and consolidated financial statements for the year ended 31 December 2010 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 discussed and approved by the Supervisory Board.

As regards the ordinary resolutions:

- As regards the composition of the Supervisory Board, you are asked to approve the provisional appointment to the Board, on 13 December 2010, of Mrs Pascale Chargrasse, who will represent the interests of employee shareholders, and to renew for a period of four years her term of office, which will expire at the Shareholders' Meeting scheduled on 7 June 2011. You are asked to renew the terms of office as Supervisory Board members of Mr Jean-Paul Parayre and Mr Patrick Boissier, for a period of two years and four years, respectively.

  You are also asked to appoint Mrs Anne-Marie Idrac to the Board for a four-year term.

  Mrs Pascale Chargrasse, a Vallourec group employee, and Mr Jean-Paul Parayre, who has been a member of the Supervisory Board for more than 12 years, are not considered to be independent on the basis of the criteria defined in the AFEP-MEDEF Corporate Governance Code.

  Mr Patrick Boissier and Mrs Anne-Marie Idrac, on the other hand, are considered to be independent on the basis of the AFEP-MEDEF criteria.

  To enable the Supervisory Board to continue to benefit from the expertise and experience of Mr François Henrot who was a Supervisory Board member from 1999 to 2010, you are asked to appoint Mr Henrot as a *Censeur* (non-voting member) of the Supervisory Board for a period of four years.
- In addition, the dividend for the year ended 31 December 2010 has been set at €1.30 per share; each Company shareholder may choose to receive payment of the dividend in cash or in shares, in accordance with the statutory and regulatory provisions. This dividend corresponds to a payout ratio of 37.3% of consolidated net profit attributable to owners of the Company in 2010. The average payout ratio for the last five years is 33.8%.

  Note that a 2:1 stock split was carried out in accordance with resolution 12, as approved at the Shareholders' Meeting of 31 May 2010.
- Finally, you are also asked to renew the authorization granted to the Management Board to buy Vallourec shares in the context of a share buyback programme, on similar terms and conditions to those in 2010. It is stipulated, however, that this authorization shall not apply in the event that the Company is subject to a takeover bid.

As regards the extraordinary resolutions, which can only be applied with the agreement of the Supervisory Board:

- You are asked, in *resolutions 12* to *21*, to authorize the Management Board to increase the Group's share capital, with or without preferential subscription rights, or to issue debt securities. Together, the aforementioned financial authorizations would give the Management Board the necessary flexibility and responsiveness to proceed with any issues that may be necessary in order to implement the Group's projects and to select the most appropriate financing solutions in the light of prevailing market conditions.
- The purpose of *resolutions 22* to *26* is to enable the Management Board to pursue the policy of sharing the Group's earnings with employees. *Resolutions 22* to *25* would authorize the Management Board to make an employee shareholder offer at Group level, in France and other countries, similar to those already carried out in 2008, 2009 and 2010. Such an offer would enable employees, if they so choose, to take a greater interest in the Group's growth. As part of this policy, you are also asked, *via resolution 26*, to authorize the distribution of performance shares to Group employees and Corporate Officers, as an incentive to employees and to encourage loyalty.
- You are also asked to modify the Company's by-laws in order to introduce a fixed term of four years for the mandates of Supervisory Board members, as well as a duty to appoint a Supervisory Board member to represent the interests of employee shareholders.

We invite you to approve all the resolutions proposed to you.

The Supervisory Board, represented by its Chairman,
Mr Jean-Paul Parayre

8.4 DRAFT RESOLUTIONS FOR THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF 7 JUNE 2011

Agenda

WITHIN THE REMIT OF THE ORDINARY SHAREHOLDERS' MEETING:

- the Management Board's report on the draft resolutions;
- the Management Board's management report;
- the Supervisory Board's report;
- the Statutory Auditors' report on the annual financial statements for the financial year ending 31 December 2010;
- the Statutory Auditors' report on the consolidated financial statements for the financial year ending 31 December 2010;
- the Statutory Auditors' special report on regulated agreements and commitments;
- approval of the statutory financial statements for the 2010 financial year (*first resolution*);
- approval of the consolidated financial statements for the 2010 financial year (*second resolution*);
- allocation of the net profit for the 2010 financial year and setting of the dividend at €1.30 per share (*third resolution*);
- option to receive payment of the dividend in shares (*fourth resolution*);
- ratification of the provisional appointment of Mrs Pascale Chargrasse as the member of the Supervisory Board representing employee shareholders (*fifth resolution*);
- renewal of the term of office of Mrs Pascale Chargrasse as the member of the Supervisory Board representing employee shareholders (*sixth resolution*);
- renewal of the term of office of Mr Jean-Paul Parayre as a member of the Supervisory Board (*seventh resolution*);
- renewal of the term of office of Mr Patrick Boissier as a member of the Supervisory Board (*eighth resolution*);
- appointment of Mrs Anne-Marie Idrac as a member of the Supervisory Board (*ninth resolution*);
- appointment of Mr François Henrot as a *Censeur* (non-voting member) to the Supervisory Board (*tenth resolution*);
- authorization for the Management Board to trade in the Company's own shares (*eleventh resolution*).

WITHIN THE REMIT OF THE EXTRAORDINARY SHAREHOLDERS' MEETING:

- the Management Board's report on the draft resolutions;
- the Statutory Auditors' special reports on the *twelfth* to *nineteenth* and *twenty-first* to *twenty-seventh resolutions*;
- delegation of authority to the Management Board to issue, with preferential subscription rights, shares in the Company and/or securities giving access to the capital of the Company or its subsidiaries (*twelfth resolution*);
- delegation of authority to the Management Board to issue, with the cancellation of preferential subscription rights, *via* public share offering(s), shares in the Company and/or securities giving access to the capital of the Company or its Subsidiaries (*thirteenth resolution*);
- delegation of authority to the Management Board to issue, with the cancellation of preferential subscription rights, *via* private placement(s), shares in the Company and/or securities giving access to the capital of the Company or its subsidiaries (*fourteenth resolution*);
- authorization for the Management Board to set the issue price for shares issued in the Company with the cancellation of preferential subscription rights, and/or securities giving access to the share capital of the Company or its subsidiaries, realized pursuant to the *thirteenth* and/or *fourteenth resolutions* proposed at the current Shareholders' Meeting, in accordance with terms determined by the Shareholders' Meeting, within a limit of 10% of the capital per year (*fifteenth resolution*);
- delegation of authority to the Management Board to increase the number of securities to be issued, with or without the cancellation of preferential subscription rights, in a capital increase realized pursuant to the *twelfth* to *fifteenth resolutions* proposed at the current Shareholders' Meeting (*sixteenth resolution*);
- delegation of authority to the Management Board to issue, with the cancellation of preferential subscription rights, shares and/or securities giving access to the capital of the Company in consideration of in-kind contributions consisting of equity securities or securities giving access to the capital of other companies, except for share exchange offers initiated by the Company *(seventeenth resolution*);
- delegation of authority to the Management Board to issue, with the cancellation of preferential subscription rights, shares in the Company and/or securities giving access to the capital of the Company, in the event of a share exchange offer initiated by the Company (*eighteenth resolution*);
- delegation of authority to the Management Board to issue shares in the Company, subsequent to the issue of securities giving access to the Company's shares by the Company's subsidiaries (*nineteenth resolution*);
- delegation of authority to the Management Board to increase the share capital by capitalizing additional paid-in capital, reserves or profits (*twentieth resolution*);
- delegation of authority to the Management Board to issue securities with rights to debt securities which do not increase the capital of the Company (*twenty-first resolution*);
- delegation of authority to the Management Board to issue shares and/or securities giving access to the capital of the Company,

reserved for members of savings schemes, with the cancellation of preferential subscription rights in their favour (*twenty-second resolution*);

- delegation of authority to the Management Board to issue shares and/or securities giving access to the capital of the Company, reserved for employees of Vallourec companies outside France (and those with similar rights in accordance with Article L.3332 2 of French *Code du travail* (Labour Code)) excluding company savings schemes, with the cancellation of preferential subscription rights in their favour (*twenty-third resolution*);
- delegation of authority to the Management Board to issue shares and/or securities giving access to the capital of the Company, reserved for credit institutions or any entity, whether or not incorporated as a legal entity, whose sole object is to subscribe for, hold, and sell the Company's shares or other financial instruments within the scope of an operation reserved for employees, with the cancellation of preferential subscription rights (*twenty-fourth resolution*);
- authorization for the Management Board to allocate existing shares free of charge, or to issue new shares to subscribers to an employee share ownership offering implemented within Group companies located outside France, or to some of them, pursuant to the *twenty-second* and/or *twenty-third resolution(s)* (*twenty-fifth resolution*);
- authorization for the Management Board to allocate existing performance shares, or to issue new shares to eligible employees and Corporate Officers of the Group, or to some of them (*twenty-sixth resolution*);
- authorization for the Management Board to decrease the share capital by cancelling own shares (*twenty-seventh resolution*);
- amendment of by-laws regarding the length of the term of office for Supervisory Board members (*twenty-eighth resolution*);
- amendment of by-laws relating to the representation of employee shareholders on the Supervisory Board (*twenty-ninth resolution*);
- powers for formalities (*thirtieth resolution*).

DRAFT RESOLUTIONS WITHIN THE REMIT OF THE ORDINARY SHAREHOLDERS' MEETING

First resolution

(Approval of the statutory financial statements for the 2010 financial 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 financial year ended 31 December 2010, the Management Board's reports, the Supervisory Board's report on the Management Board's management report and the statutory financial statements, and the Statutory Auditors' report on the statutory financial statements, approves the financial statements for the financial year ended 31 December 2010, as well as all transactions reflected in the financial statements or summarized in these reports, showing profits of €515,485,565.85 for such financial year.

Second resolution

(Approval of the consolidated financial statements for the 2010 financial 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 financial year ended 31 December 2010, the Management Board's reports, the Supervisory Board's report on the Management Board's report and the consolidated financial statements, and the Statutory Auditors' report on the consolidated financial statements, approves the consolidated financial statements for the financial year ended 31 December 2010, as well as all transactions reflected in the financial statements or summarized in these reports, showing profits of €452,835,000 for such financial year.

Third resolution

(Allocation of the net profit for the 2010 financial year and setting of the dividend at €1.30 per share)

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 net profit proposed by the Management Board as follows:

Profits for the financial year	€515,485,565.85
Allocation to the statutory reserve	€-676,500.80
Retained earnings carried forward	€656,416,043
Distributable profit	€1,171,225,108.05
Payment to the shareholders of a dividend of €1.30 corresponding to a total dividend of	€153,327,306.60
Balance allocated entirely to the retained earnings carried forward account	€1,017,897,801.45

The dividend for the financial year 2010 is therefore set at €1.30 for each of the 117,944,082 shares comprising the share capital as at 31 December 2010 and will bear rights as of 1 January 2010.

The Shareholders' Meeting specifies that the Company will not receive a dividend for its own shares that it holds on the payment date. If, when the dividend is paid, the Company owns some of its own shares, the sums corresponding to unpaid dividends for these shares will be allocated to the "Retained earnings" account. The Shareholders' Meeting therefore authorizes the Management Board to adjust, where applicable, the final amount actually paid and the final amount of the retained earnings.

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 domiciled in France for tax purposes, for a 40% reduction provided for by application of Article 158-3-2 of the same Code. In accordance with Article 117 *quater* of the French *Code général des impôts*, the shareholders may nevertheless, subject to certain conditions and instead of the progressive income tax rate scale, opt for a flat-rate withholding tax at the rate of 19%; the dividend is then no longer eligible for the 40% reduction. Shareholders are reminded that, in these two cases, under certain conditions, social security contributions relating to these dividends are withheld at source.

The Shareholders' Meeting acknowledges that, taking into account the 2:1 stock split on 9 July 2010, the amount of dividends paid, the income distributed that was eligible for the 40% reduction and the income distributed that was not eligible for this reduction in the three financial years prior to the financial year 2010, were as follows:

	Financial year 2007	Financial year 2008	Financial year 2009
Dividend per share	€5.50	€3	€1.75
Amount of income distributed eligible for 40% reduction	€5.50 (1)	€3 (2)	€1.75 (3)
Amount of income distributed not eligible for 40% reduction	0	0	0

(1) Including an interim dividend of €2 per share distributed on 4 July 2007.
(2) Shareholders are reminded that the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009 granted each of the Company's shareholders the option to receive payment of the dividend either in cash or in shares, in accordance with the statutory and regulatory provisions.
(3) Shareholders are reminded that the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010 granted each of the Company's shareholders the option to receive payment of the dividend either in cash or in shares, in accordance with the statutory and regulatory provisions.

The ex-dividend date for the dividend will be 16 June 2011 and the payment date 7 July 2011.

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 shareholder 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.

In the event this option is exercised, the new shares will be issued at a price equal to 90% of the average opening price of the Company's shares listed on the regulated market of NYSE Euronext Paris during the 20 trading sessions preceding this Shareholder's Meeting, reduced by the net amount of the dividend referred to in the *third resolution* and rounded up to the nearest cent.

If the amount of the dividends for which the option is exercised does not correspond to a whole number of shares, shareholders may:

- obtain the next higher whole number of shares by paying the difference in cash on the date that they exercise the option; or
- receive the next lower whole number of shares plus the balance in cash.

The shares delivered as dividend payments will bear rights as of 1 January 2011. The option for payment of the dividend in shares must be exercised between 16 June 2011 and 28 June 2011 inclusive by sending a request to the paying institutions. After this period, the dividend may only be paid in cash.

Shareholders who have chosen to receive payment of the dividend in shares will receive their shares on the same date as the date dividends are paid in cash, *i.e.* on 7 July 2011.

The Shareholders' Meeting grants all powers to the Management Board, with the option to sub-delegate under the conditions laid down by law, for the purposes of taking all the 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 amend the Company's by-laws accordingly and, more generally, to do anything that is appropriate or required.

Fifth resolution

(Ratification of the provisional appointment of Mrs Pascale Chargrasse as the member of the Supervisory Board representing employee shareholders)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholders' Meetings, having examined the Management Board's report, decides to ratify the provisional appointment of Mrs Pascale Chargrasse as a member of the Supervisory Board representing employee shareholders decided by the Board at its meeting on 13 December 2010, for the remainder of the term of office of Mr François Henrot, *i.e.* until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ending 31 December 2010.

Sixth resolution

(Renewal of the term of office of Mrs Pascale Chargrasse as the member of the Supervisory Board representing employee shareholders)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholders' Meetings, having examined the Management Board's report, decides to renew the term of office of Mrs Pascale Chargrasse as a member of the Supervisory Board representing employee shareholders for a period of four (4) years, *i.e.* until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ending 31 December 2014.

Seventh resolution

(Renewal of the term of office of Mr Jean-Paul Parayre as a member of the Supervisory Board)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholders' Meetings, having examined the Management Board's report, decides to renew the term of office of Mr Jean-Paul Parayre as a member of the Supervisory Board for a period of two (2) years, *i.e.* until the end of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ending 31 December 2012.

Eighth resolution

(Renewal of the term of office of Mr Patrick Boissier as a member of the Supervisory Board)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholders' Meetings, having examined the Management Board's report, decides to renew the term of office of Mr Patrick Boissier as a member of the Supervisory Board for a period of four (4) years, *i.e.* until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ending 31 December 2014.

Ninth resolution

(Appointment of Mrs Anne-Marie Idrac as a member of the Supervisory Board)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholders' Meetings, having examined the Management Board's report, decides to appoint Mrs Anne-Marie Idrac as a member of the Supervisory Board for a period of four (4) years, *i.e.* until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ending 31 December 2014.

Tenth resolution

(Appointment of Mr François Henrot as a Censeur (non-voting member) to the Supervisory Board)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholders' Meetings, having examined the Management Board's report, decides to appoint Mr François Henrot as a *Censeur* (non-voting member) to the Supervisory Board for a period of four (4) years, *i.e.* until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ending 31 December 2014.

Eleventh resolution

(Authorization for the Management Board to trade in the Company's own 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, authorizes the Management Board, with the power to sub-delegate as provided by law, in accordance with Articles L.225-209 *et seq.* of the French *Code de commerce* and with the conditions defined in Articles 241-1 to 241-6 of the General Regulations of the French securities regulator (*Autorité des Marchés Financiers* – AMF) and EU Regulation no. 2273/2003 of 22 December 2003 implementing EU Directive no. 2003/6/EC of 28 January 2003, to purchase the Company's shares, or arrange to have them purchased, for the following purposes:

i. to implement any share option plan of the Company in accordance with the provisions of Articles L.225-177 *et seq.* of the French *Code de commerce*;

ii. to allocate or sell shares to employees to enable them to participate in the Company's expansion and in connection with any group or company savings scheme (or similar scheme) as established under applicable law, in particular Articles L.3332-1 *et seq.* of the French *Code du travail*;

iii. to allocate shares free of charge or to allocate performance shares in accordance with the provisions of Articles L.225-197-1 *et seq.* of the French *Code de commerce*;

iv. to allocate the Company's shares to Group employees and Corporate Officers outside France;

v. to stimulate the secondary market or increase the liquidity of Vallourec shares through an investment services provider, under the terms of a liquidity contract that complies with the Code of Conduct (*Charte de déontologie*) issued by the French *Association des marchés financiers*, approved by the AMF, in accordance with the market practices permitted by the AMF;

vi. to hold and subsequently deliver shares (in payment, exchange or otherwise) in connection with any transactions involving acquisitions, and, in particular, mergers, split-offs or contributions, in accordance with the market practices permitted by the AMF;

vii. to deliver shares upon the exercise of rights attached to securities giving access to share capital by means of redemption, conversion, exchange, exercise of a warrant or in any other manner; or

viii. to cancel all or some of the shares thus bought back, provided the Management Board has been authorized to do so by a Shareholders' Meeting held as an Extraordinary Meeting, and that such authorization is valid, enabling it to reduce the share capital by cancelling the shares acquired within the scope of a share buyback programme.

This programme is also intended to allow the Company to trade in its own shares for any other purpose that has been or will be authorized under existing laws and regulations, including any market practice that may be permitted by the AMF after this Shareholders' Meeting. In this case, the Company will inform its shareholders by means of a press release.

The number of the Company's shares that it may buy back may not at any time exceed 10% of the total number of shares comprising the Company's capital. This percentage shall apply to a capital as adjusted, where applicable, for any transactions affecting the share capital that may occur after this Shareholders' Meeting, provided that (i) the number of shares acquired for holding and subsequent delivery as payment or exchange in the case of mergers, split-offs or contributions shall not exceed 5% of the share capital, (ii) where shares are bought back to increase the liquidity of Vallourec's shares under the conditions defined in the AMF's General Regulations, the number of shares used to calculate the aforementioned 10% limit corresponds to the number of shares purchased minus the number of shares re-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.

Shares may be purchased, sold, exchanged or transferred on one or more occasions, by any means, on the regulated markets, by the use of multilateral trading facilities, systematic internalisers or over-the-counter markets, and, in particular, by buying or selling blocks of shares (without limiting the part of the buyback programme that may be carried out in this way), by using derivative financial instruments or warrants or, more generally, securities giving the holder the right to the Company's shares, at the times the Management Board or the person to whom the Management Board has delegated authority considers appropriate, except during periods when the Company's shares are the subject of a takeover bid.

The maximum purchase price per share is set at €140 (or the equivalent of this amount in any other currency on the same date).

The Shareholders' Meeting delegates to the Management Board, including the right to sub-delegate under the conditions laid down by law, in the event of a change in the par value of the shares, the power to increase the share capital by means of capitalizing reserves, the allocation of shares free of charge, stock split or reverse stock split, the distribution of reserves or of any other assets, the redemption of share capital or any other transaction involving the equity, the authority to adjust the maximum purchase price set above in order to take into account the effect of these transactions on the value of the share.

As an indication, the maximum theoretical amount that may be allocated to this buyback programme is set at €1.6 billion, corresponding to 11,794,408 shares purchased at the maximum purchase price of €140 set above, on the basis of the share capital as at 31 March 2011.

The Shareholders' Meeting grants all powers to the Management Board, including the right to sub-delegate under the conditions laid down by law, to decide to implement this authorization, to specify the terms thereof, if necessary, and to decide upon the conditions for carrying out the share buyback programme and, in particular, to make any stock exchange order, to enter into any agreement, in particular for keeping share purchase and sale registers, allocate or reallocate shares bought back to objectives pursued in compliance with applicable laws and regulations, make all declarations to the AMF and any other authority, carry out all formalities and, generally, take all necessary action.

The Management Board is expressly authorized to sub-delegate to its Chairman, including the right to sub-delegate to the person of his choice, its power to execute the decisions made by the Management Board further to this authorization.

This authorization is granted for a period of eighteen (18) months as from this Shareholders' Meeting.

The Shareholders' Meeting decides that, as of the date hereof, this authorization cancels and replaces any previous authorization of a similar nature as regards amounts so far unused.

DRAFT RESOLUTIONS WITHIN THE REMIT OF THE EXTRAORDINARY SHAREHOLDERS' MEETING

Twelfth resolution

(Delegation of authority to the Management Board to issue, with the retention of preferential subscription rights, shares in the Company and/or securities giving access to the capital of the Company or of its Subsidiaries)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report, acting in accordance with the provisions of Articles L.225-129 *et seq.* of the French *Code de commerce*, in particular Article L.225-129-2 and Articles L.228-91 *et seq.* of the French *Code de commerce*:

1. delegates to the Management Board, with the power to sub-delegate subject to applicable law, its authority to decide to increase the share capital, on one or more occasions, in France or abroad, in the proportions and at the times it shall consider appropriate, subject to the provisions of Article L.233-32 of the French *Code de commerce*, by issuing, with the retention of the shareholders' preferential subscription rights, either in euros, in any other currency or in monetary units created with reference to several currencies, (i) the Company's shares (excluding preference shares), (ii) securities giving access, either now or in the future, to the Company's capital (whether these are new or existing shares), issued for valuable consideration or free of charge, or (iii) securities giving access, either now or in the future, to the capital (whether these are new or existing shares) of a company in which the Company owns directly or indirectly more than half of the share capital (the "Subsidiaries"), it being specified that shares and other securities may be subscribed for either in cash or by offsetting against existing debt;
2. decides to set the caps on the amounts of increases in capital authorized in the event the Management Board uses this delegation of authority as follows:

- the maximum nominal amount of the increases in capital that may be made, either now or in the future, pursuant to this delegation is set at €117 million, it being specified that the overall maximum nominal amount of the increases in capital that may be made pursuant to this delegation, as well as the *thirteenth* to the *twentieth resolutions* and the *twenty-second* to the *twenty-sixth resolutions* submitted to this Shareholders' Meeting, shall be deducted from this cap of €117 million,
- the par value of shares to be issued in order to protect the rights of holders of securities giving access to the capital, in accordance with the law and, where applicable, with contractual stipulations providing for other cases of adjustment, shall be added to this cap, where applicable;

3. decides that the securities giving access to the Company's capital or to that of a Subsidiary issued pursuant to this resolution may, in particular, consist of debt securities, be associated with the issue of such securities, or allow the issue thereof as intermediate securities. They may in particular take the form of subordinated or unsubordinated securities, with a fixed or an indefinite term, and may be issued either in euros, in any other currency or in monetary units created with reference to several currencies;

4. decides to set the maximum nominal amount of debt securities on the Company issued pursuant to this resolution at €1.5 billion or the equivalent on the date of the decision to issue said securities, it being specified that this cap applies to all debt securities that may be issued pursuant to this resolution and under the terms of the *thirteenth* to the *eighteenth resolutions* submitted to this Shareholders' Meeting. However, it is independent of the amount of securities granting the right to be allocated debt securities that may be issued on the basis of the *twenty-first resolution* submitted to this Shareholders' Meeting and the amount of the debt securities whose issue may be decided on or authorized by the Management Board in accordance with Article L.228-40 of the French *Code de commerce*;

5. in the event the Management Board uses this delegation:

- decides that the shareholders shall have a preferential subscription right to the shares and securities issued pursuant to this resolution in proportion to the amount of their shares,
- acknowledges the fact that the Management Board has the power to introduce, in favour of shareholders, a right to subscribe to the excess shares or securities issued that will be exercised in proportion to their subscription rights and, in any event, within the limit of their requests,
- acknowledges the fact that this delegation of authority automatically entails the waiver by the shareholders of their preferential subscription rights to the shares to which these securities will entitle them, either now or in the future, in favour of the holders of securities issued giving access to the Company's capital,
- acknowledges the fact that, in accordance with Article L.225-134 of the French *Code de commerce*, if subscriptions by way of right and, where applicable, for excess shares, have not taken up the whole of the capital increase, the Management Board may, under the conditions laid down by law and in the order it shall decide, use one and/or another of the following possibilities:
  - to limit the capital increase to the amount of the subscriptions received, provided that this amounts to at least three-quarters of the increase decided on,
  - to allocate, without restriction, all or some of the shares or, depending on the circumstances, the securities giving access to the capital that have not been subscribed,
  - to offer to the public all or some of the shares or, depending on the circumstances, the securities giving access to the capital that have not been subscribed, on the French market or on foreign markets,
- decides that warrants for the Company's shares may be issued by means of a subscription offering, but also by the allocation free of charge to the owners of existing shares, it being specified that the Management Board shall have the power to decide that the allocation rights to fractional shares are not tradable and that the corresponding securities will be sold;

6. decides that the Management Board shall have all powers, with the power to sub-delegate under the conditions laid down by law, to implement this delegation of authority, for the purpose, in particular, of:

- deciding to increase the capital and, where applicable, postponing any such increase,
- deciding on the amount of the capital increase, the issue price and the amount of the additional paid-in capital which may, where applicable, be requested at the time of the issue,
- determining the dates and terms and conditions of the issues,
- determining the nature, number and the characteristics of the securities to be created, deciding, in the case of bonds or other debt securities, whether they are subordinated or unsubordinated securities (and their subordination ranking, where applicable), their interest rate, their term (fixed or indefinite) and providing, where applicable, for cases in which interest can or must be suspended or not paid, the possibility of reducing or increasing the par value of the shares and the other terms and conditions of issue (including the fact of granting them guaranties or sureties) and redemption (including repayment by providing Company assets); where applicable, these securities may be accompanied by warrants giving the right to the allocation, acquisition or subscription to bonds or other debt securities, or providing for the right for the Company to issue debt securities (comparable or not) in the payment of interest where payment has been suspended by the Company, or take the form of complex bonds within the meaning understood by the stock market authorities (for example, due to the terms and conditions of repayment or remuneration or other rights such as indexation, the possibility of options); changing, during the life of the securities involved, the terms and conditions thereof, in accordance with the applicable formalities,
- determining the method of paying up the shares or the securities giving access to the capital to be issued either now or in the future,
- setting, if applicable, the terms and conditions for exercising the rights (where applicable, rights to conversion, exchange and redemption, including by the provision of the Company's assets such as its own shares held or securities already issued by the Company) attached to shares or securities giving access to the capital to be issued and, in particular, deciding on the date, which may even be a retrospective date, as from which the new shares will bear rights, as well as all other terms and conditions and procedures for carrying out the capital increase,
- setting the terms and conditions under which the Company will, where applicable, have the possibility of purchasing or exchanging the securities issued, or to be issued either now or in the future, on the stock exchange, at any time or during given periods, with a view to cancelling them or not, taking statutory provisions into account,
- providing for the possibility of suspending the exercise of the rights attached to these securities in accordance with the statutory and regulatory provisions,
- determining and making any adjustments designed to take into account the effect of transactions involving the Company's capital, in particular in the event of a change in the par value of the share, a capital increase by capitalizing reserves, the allocation of shares free of charge, stock split or reverse stock split, the distribution of

dividends, reserves or additional paid-in capital or any other assets, the redemption of capital, or any other transaction involving the equity or the capital (including in the event of a takeover bid and/or a change in control), and setting all other terms and conditions making it possible, where applicable, to protect the rights of holders of securities giving access to the capital (including by means of adjustments in cash),

- recording the completion of each capital increase and making the corresponding amendments to the by-laws,
- deducting, at its sole discretion, the costs of the capital increase from the amount of the related additional paid-in capital and, if it considers it appropriate, drawing the sums required for the legal reserve from this amount,
- generally, to enter into all agreements, taking all steps and carrying out all formalities required for the issuing, listing and servicing of the shares issued pursuant to this delegation and the exercise of the attached rights;

7. decides that this delegation, which cancels and replaces any previous authorization as regards amounts so far unused, will be valid for twenty-six (26) months as from this Shareholders' Meeting;

8. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting, in accordance with the law and with the regulations, on the use made of the authorizations granted in this resolution.

Thirteenth resolution

(Delegation of authority to the Management Board to issue, with the cancellation of preferential subscription rights, via public share offering(s), shares in the Company and/or securities giving access to the capital of the Company or of its Subsidiaries)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report, and acting in accordance with the provisions of Articles L.225-129 *et seq.* of the French *Code de commerce*, in particular Articles L.225-129-2, L.225-135 and L.225-136, and the provisions of Articles L.228-91 *et seq.* of said Code:

1. delegates to the Management Board, with the power to sub-delegate under the conditions laid down by law, its authority to decide to increase the share capital, on one or more occasions, in France or abroad, in the proportions and at the times it shall consider appropriate, subject to the provisions of Article L.233-32 of the French *Code de commerce*, by issuing, with the cancellation of the shareholders' preferential subscription rights, either in euros, in any other currency or in monetary units created with reference to several currencies, by means of a public offering or offerings (i) the Company's shares (excluding preference shares), (ii) securities giving access, either now or in the future, to the Company's capital (whether these are new or existing shares), issued for valuable consideration or free of charge, or (iii) securities giving access, either now or in the future, to the capital (whether these are new or existing shares) of a company in which the Company owns directly or indirectly more than half of the share capital (the "Subsidiaries"), it being specified that shares and other securities may be subscribed for either in cash or by offsetting against existing debt;

2. decides to set the limits on the amounts of increases in capital authorized in the event the Management Board uses this delegation of authority as follows:

- the maximum nominal amount of the increase in capital that may be made, either now or in the future, pursuant to this delegation is set at €35 million, it being specified this amount shall be deducted from the overall cap on capital increases provided for in paragraph 2. of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of an overall cap that may be provided for in a resolution of a similar nature that may supersede said resolution while the delegation is still valid,
- the par value of shares to be issued in order to protect the rights of holders of securities giving access to the capital, in accordance with the law and, where applicable, with contractual stipulations providing for other cases of adjustment, shall be added to this cap, where applicable;

3. decides that the securities giving access to the Company's capital or to that of a Subsidiary issued pursuant to this resolution may, in particular, consist of debt securities, be associated with the issue of such securities, or allow the issue thereof as intermediate securities. They may in particular take the form of subordinated or unsubordinated securities, with a fixed or an indefinite term, and may be issued either in euros, in any other currency or in monetary units created with reference to several currencies;

4. decides to set the maximum nominal amount of debt securities on the Company issued pursuant to this resolution at €1.5 billion or the equivalent on the date of the decision to issue said securities, it being specified that the amount shall be deducted from the amount of the overall cap on debt securities provided for in paragraph 4 of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of an overall cap on debt securities that may be provided for in a resolution of a similar nature that may supersede said resolution while the delegation is still valid;

5. decides that the public offering or offerings decided on pursuant to this resolution may be associated, within the scope of the same issue or several issues carried out simultaneously, with an offering or offerings referred to in Section II of Article L.411-2 of the French *Code monétaire et financier*, decided on pursuant to the *fourteenth resolution* submitted to this Shareholders' Meeting;

6. decides to cancel shareholders' preferential subscription rights to the securities that are the subject of this resolution and to offer them within the scope of a public offering or offerings, however leaving the Management Board, pursuant to Article L.225-135, second paragraph, the possibility of granting to the shareholders, within a period and in accordance with the terms and conditions it shall set in accordance with the statutory and regulatory provisions applicable, and for all or some of an issue made, a priority subscription period not resulting in the creation of tradable rights which shall be exercised in proportion to the number of shares owned by each shareholder and which may be supplemented by a subscription for excess shares, it being specified that shares not subscribed to pursuant to this right may be subject to public placement in France or abroad;

7. acknowledges the fact that, if the subscriptions, including, where applicable, those of the shareholders, have not taken up the whole of the capital increase, the Management Board may, in the order it shall decide, use one and/or another of the following possibilities:

- to limit the capital increase to the amount of the subscriptions received, provided that this amounts to at least three-quarters of the increase decided on,
- to allocate, without restriction, all or some of the shares or the securities giving access to the capital that have not been subscribed,
- to offer to the public all or some of the shares or the securities giving access to the capital that have not been subscribed, on the French market or on foreign markets;

8. acknowledges the fact that this delegation of authority automatically entails the express waiver by the shareholders of their preferential subscription rights to the shares to which these securities will entitle them, in favour of the holders of securities issued giving access to the Company's capital;

9. acknowledges the fact that, in accordance with Article L.225-136, 1, first paragraph of the French *Code de commerce*:

- the issue price of the shares shall be at least equal to the minimum provided for in the regulatory provisions applicable on the date of issue (as of the date hereof, the weighted average share price during the three trading sessions preceding the setting of the subscription price of the capital increase less a maximum discount of 5%), after correction, if applicable, of this amount to take into account the difference in dividend entitlement date,
- the issue price of the securities giving access to the capital and the number of shares to which the conversion, redemption or, more generally, the transformation of each security giving access to the capital may entitle the holder shall be such that the amount immediately received by the Company, plus, where applicable, the amount to be received subsequently by it, *i.e.* for each Company share issued as a result of the issuing of these securities, shall be at least equal to the minimum issue price defined in the foregoing paragraph, after correction, if applicable, of the amount to take into account the difference in the dividend entitlement date;

10. decides that the Management Board shall have all powers, with the power to sub-delegate under the conditions laid down by law, to implement this delegation of authority, for the purpose, in particular, of:

- deciding to increase the capital and, where applicable, postponing any such increase,
- deciding on the amount of the capital increase, the issue price and the amount of the additional paid-in capital which may, where applicable, be requested at the time of the issue,
- determining the dates and terms and conditions of the issues,
- determining the nature, number and the characteristics of the securities to be created, deciding, in the case of bonds or other debt securities, whether they are subordinated or unsubordinated securities (and, where applicable, their subordination ranking), their interest rate, their term (fixed or indefinite) and providing, where applicable, for cases in which interest can or must be suspended or not paid, the possibility of reducing or increasing the par value of the securities and the other terms and conditions of issue (including the fact of granting them guaranties or sureties) and redemption (including repayment by providing Company assets); where applicable, these securities may be accompanied by warrants giving the right to the allocation, acquisition or subscription to bonds or other debt securities, or providing for the Company's right to issue debt securities (comparable or not) in the payment of interest where payment has been suspended by the Company, or take the form of complex bonds within the meaning understood by the stock market authorities (for example, due to the terms and conditions of repayment or remuneration or other rights such as indexation or the possibility of options); changing, during the life of the securities involved, their terms and conditions, in accordance with the applicable formalities,
- determining the method of paying up the shares or the securities giving access to the capital to be issued either now or in the future,
- setting, if applicable, the terms and conditions for exercising the rights (where applicable, rights to conversion, exchange and redemption, including by the provision of the Company's assets such as its own shares held or securities already issued by the Company) attached to shares or securities giving access to the capital to be issued and, in particular, deciding on the date, which may even be a retrospective date, as from which the new shares will bear rights, as well as all other terms and conditions of the capital increase,
- setting the terms and conditions under which the Company will, where applicable, have the possibility of purchasing or exchanging the securities issued, or to be issued, either now or in the future, on the stock exchange, at any time or during given periods, whether or not with view to cancelling, taking statutory provisions into account,
- providing for the possibility of suspending the exercise of the rights attached to these securities in accordance with the statutory and regulatory provisions,
- determining and making any adjustments designed to take into account the effect of transactions involving the Company's capital, in particular in the event of a change in the par value of the share, a capital increase by capitalizing reserves, the allocation of shares free of charge, stock split or reverse stock split, the distribution of dividends, reserves or additional paid-in capital or any other assets, the redemption of capital, or any other transaction involving the equity or the capital (including in the event of a takeover bid and/or a change in control), and setting all other terms and conditions making it possible, where applicable, to protect the rights of holders of securities giving access to the capital (including by means of adjustments in cash),
- recording the completion of each capital increase and making the corresponding amendments to the by-laws,
- deducting, at its sole discretion, the costs of the capital increases from the amount of the related additional paid-in capital and, if it considers it appropriate, drawing the sums required for the legal reserve from this amount,

- generally, to enter into all agreements, taking all steps and carrying out all formalities required for the issuing, listing and servicing of the shares issued pursuant to this delegation and the exercise of the attached rights;

11. decides that this delegation, which cancels and replaces any previous authorization of a similar nature as regards amounts so far unused, will be valid for twenty-six (26) months as from this Shareholders' Meeting;

12. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting, in accordance with the law and with the regulations, on the use made of the authorizations granted in this resolution.

Fourteenth resolution

(Delegation of authority to the Management Board to issue, with the cancellation of preferential subscription rights, via private placement(s), shares in the Company and/or securities giving access to the capital of the Company or of its Subsidiaries)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report, and acting in accordance with the provisions of Articles L.225-129 *et seq.* of the French *Code de commerce*, in particular Articles L.225-129-2, L.225-135 and L.225-136, and the provisions of Articles L.228-91 *et seq.* of said Code:

1. delegates to the Management Board, with the power to sub-delegate under the conditions laid down by law, its authority to decide to increase the share capital, on one or more occasions, in France or abroad, in the proportions and at the times it shall consider appropriate, subject to the provisions of Article L.233-32 of the French *Code de commerce*, by issuing, by means of the offering or offerings referred to in Section II of Article L.411-2 of the French *Code monétaire et financier*, with the cancellation of preferential subscription rights, either in euros, in any other currency or in monetary units created with reference to several currencies, (i) the Company's shares (excluding preference shares), (ii) securities giving access, either now or in the future, to the Company's capital (whether these are new or existing shares), issued for valuable consideration or free of charge, or (iii) securities giving access, either now or in the future, to the capital (whether these are new or existing shares) of a company in which the Company owns directly or indirectly more than half of the share capital (the "Subsidiaries"), it being specified that shares and other securities may be subscribed for either in cash or by offsetting against existing debt;

2. decides to set the limits on the amounts of increases in capital authorized in the event the Management Board uses this delegation of authority as follows:

- the maximum nominal amount of the increases in capital that may be made, either now or in the future, pursuant to this delegation is set at €35 million, it being specified that this amount shall be deducted from the amount of the cap on capital increases provided for in paragraph 2. of the *thirteenth resolution* and from the amount of the cap on capital increases provided for in paragraph 2. of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of overall caps that may be provided for in resolutions of a similar nature that may supersede said resolutions while the delegation is still valid,
- in any event, the issues of equity securities carried out pursuant to this delegation may not exceed the limits provided for under the regulations applicable on the date of the issue (as of the date hereof, 20% of the share capital per year), and
- the par value of shares to be issued in order to protect the rights of holders of securities giving access to the capital, in accordance with the law and, where applicable, with contractual stipulations providing for other cases of adjustment, shall be added to these caps, where applicable;

3. decides that the securities giving access to the Company's capital or to that of a Subsidiary issued pursuant to this resolution may, in particular, consist of debt securities, be associated with the issue of such securities, or allow the issue thereof as intermediate securities. They may, in particular, have the form of subordinated or unsubordinated securities, with a fixed or an indefinite term, and may be issued either in euros, in any other currency or in monetary units created with reference to several currencies;

4. decides to set the maximum nominal amount of debt securities on the Company issued pursuant to this resolution at €1.5 billion or the equivalent on the date of the decision to issue said securities, it being specified that the amount shall be deducted from the amount of the overall cap on debt securities provided for in paragraph 4 of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of an overall cap for debt securities that may be provided for in a resolution of a similar nature that may supersede said resolution while delegation is still valid;

5. decides that the offering or offerings referred to in Section II of Article L.411-2 of the French *Code monétaire et financier*, decided on pursuant to this resolution, may be associated, within the scope of the same issue or several issues carried out simultaneously, with a public offering or offerings, decided on pursuant to the *thirteenth resolution* submitted to this Shareholders' Meeting;

6. decides to cancel shareholders' preferential subscription rights to the securities that are the subject of this resolution and to offer them within the scope of the offering or offerings referred to in Section II of Article L.411-2 of the French *Code monétaire et financier*;

7. acknowledges the fact that, if the subscriptions, including, where applicable, those of the shareholders, have not taken up the whole of the capital increase, the Management Board may, in the order it shall decide, use one and/or another of the following possibilities:

- to limit the capital increase to the amount of the subscriptions received, provided that this amounts to at least three-quarters of the increase decided on,
- to allocate, without restriction, all or some of the shares or the securities, giving access to the capital, that have not been subscribed,
- to offer to the public all or some of the shares or the securities giving access to the capital that have not been subscribed, on the French or on foreign markets;

8. acknowledges the fact that this delegation of authority automatically entails the express waiver by the shareholders of their preferential subscription rights to the shares to which these securities will entitle them in favour of the holders of securities issued giving access to the Company's capital;

9. acknowledges the fact that, in accordance with Article L.225-136, 1, first paragraph of the French *Code de commerce*:

- the issue price of the shares shall be at least equal to the minimum provided for in the regulatory provisions applicable on the date of issue (as of the date hereof, the weighted average share price during the three trading sessions preceding the setting of the subscription price of the capital increase less a maximum discount of 5%), after correction, if applicable, of this amount to take into account the dividend entitlement date,
- the issue price of the securities giving access to the capital and the number of shares to which the conversion, redemption or, more generally, the transformation of each security giving access to the capital may entitle the holder, shall be such that the amount immediately received by the Company, plus, where applicable, the amount to be received subsequently by it, shall be, for each Company share issued as a result of the issuing of these securities, at least equal to the minimum issue price defined in the foregoing paragraph, after correction, if applicable, of the amount to take into account the difference in dividend entitlement date;

10. decides that the Management Board shall have all powers, with the power to sub-delegate under the conditions laid down by law, to implement this delegation of authority, for the purpose, in particular, of:

- deciding to increase the capital and, where applicable, postponing any such increase,
- deciding on the amount of the capital increase, the issue price and the amount of the additional paid-in capital which may, where applicable, be requested at the time of the issue,
- determining the dates and terms and conditions of the issues,
- determining the nature, number and the characteristics of the securities to be created, deciding, in the case of bonds or other debt securities, whether they are subordinated or unsubordinated securities (and, where applicable, their subordination ranking), their interest rate, their term (fixed or indefinite) and providing, where applicable, for cases in which interest can or must be suspended or not paid, the possibility of reducing or increasing the par value of the securities and the other terms and conditions of issue (including the fact of granting them guaranties or sureties) and redemption (including repayment by providing Company assets); where applicable, these securities may be accompanied by warrants giving the right to the allocation, acquisition or subscription to bonds or other debt securities, or providing for the right for the Company to issue debt securities (comparable or not) in the payment of interest where payment has been suspended by the Company, or take the form of complex bonds within the meaning understood by the stock market authorities (for example, due to the terms and conditions of repayment or remuneration or other rights such as indexation or the possibility of options); changing, during the life of the securities involved, their terms and conditions, in accordance with the applicable formalities,
- determining the method of paying up the shares or the securities giving access to the capital to be issued either now or in the future,
- setting, if applicable, the terms and conditions for exercising the rights (where applicable, rights to conversion, exchange, redemption, including by the provision of the Company's assets such as its own shares held or securities already issued by the Company) attached to shares or securities giving access to the capital to be issued and, in particular, deciding on the date, which may even be a retrospective date, as from which the new shares will bear rights, as well as all other terms and conditions and procedures for carrying out the capital increase,
- setting the terms and conditions under which the Company will, where applicable, have the possibility of purchasing or exchanging the securities issued, or to be issued either now or in the future, on the stock exchange, at any time or during given periods, whether or not with a view to cancelling them, taking statutory provisions into account,
- providing for the possibility of suspending the exercise of the rights attached to these shares in accordance with the statutory and regulatory provisions,
- determining and making any adjustments designed to take into account the effect of transactions involving the Company's capital, in particular in the event of a change in the par value of the share, a capital increase by capitalizing reserves, the allocation of shares free of charge, stock split or reverse stock split, the distribution of dividends, reserves or additional paid-in capital or any other assets, the redemption of capital, or any other transaction involving the equity or the capital (including in the event of a takeover bid and/or a change in control), and setting all other terms and conditions making it possible, where applicable, to protect the rights of holders of securities giving access to the capital (including by means of adjustments in cash),
- recording the completion of each capital increase and making the corresponding amendments to the by-laws,
- deducting, at its sole discretion, the costs of the capital increases from the amount of the related additional paid-in capital and, if it considers it appropriate, drawing the sums required for the legal reserve from this amount,
- generally, entering into all agreements, taking all steps and carrying out all formalities required for the issuing, listing and servicing of the shares issued pursuant to this delegation and the exercising of the attached rights;

11. records that, as this delegation is not a general delegation of authority relating to an increase in capital with the cancellation of preferential subscription rights, but a delegation of authority relating to an increase in share capital with the cancellation of preferential subscription rights by means of the offering or offerings referred to in Section II of Article L.411-2 of the French *Code monétaire et financier*, it does not have the same purpose as the *thirteenth resolution* submitted to this Shareholders' Meeting and, therefore, acknowledges the fact that this delegation does not render null and void the *thirteenth resolution* submitted to this Shareholders' Meeting, the validity and term of which are not affected by this delegation;

12. decides that this delegation, which cancels and replaces any previous authorization of a similar nature as regards amounts so far unused, *i.e.* any delegation of authority relating to the increase in capital with the cancellation of preferential subscription rights by means of the offering or offerings referred to in Section II of Article L.411-2 of the French *Code monétaire et financier*, will be valid for twenty-six (26) months as from this Shareholders' Meeting;

13. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting, in accordance with the law and with the regulations, on the use made of the authorizations granted in this resolution.

Fifteenth resolution

(Authorization for the Management Board, in the event of the issue of the Company's shares and/or of securities giving access, either now or in the future, to the capital of the Company or of its Subsidiaries, with the cancellation of preferential subscription rights, carried out pursuant to the thirteenth and/or the fourteenth resolutions submitted to this Shareholders' Meeting, to set the issue price in accordance with the terms and conditions determined by the Shareholders' Meeting, within a limit of 10% of the capital per year)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report, and acting in accordance with the provisions of Article L.225-136-1 of the French *Code de commerce*:

1. authorizes the Management Board, with the power to sub-delegate under the conditions laid down by law, subject to the provisions of Article L.233-32 of the French *Code de commerce*, to set the price of an increase in share capital, decided on within the scope of the foregoing *thirteenth* and/or *fourteenth resolutions*, by issuing the Company's shares (excluding preference shares) and/or securities giving access, either now or in the future, to the capital (whether these are new or existing shares) of the Company or of a company of which it owns directly or indirectly more than half of the share capital (the "Subsidiaries"), with the cancellation of preferential subscription rights, by means of a public offering or offerings and/or, depending on the circumstances, by means of the offering or offerings referred to in Section II of Article L.411-2 of the French *Code monétaire et financier*, departing from the pricing conditions provided for in the aforementioned *thirteenth* and *fourteenth resolutions* under the following conditions:

- the issue price may not be lower, at the discretion of the Management Board, than either (i) the average price of the share on the regulated market of NYSE Euronext Paris, weighted by volume during the trading session preceding the pricing of the issue or (ii) the average price of the Vallourec share on the regulated market of NYSE Euronext Paris, weighted by volume, set during the trading session when the issue price was determined, in each case, potentially reduced by a maximum discount of 5%;

2. decides that the maximum nominal amount of the increases in capital that may be made, either now or in the future, pursuant to this authorization, may not exceed 10% of the Company's capital per year (it being specified that this limit of 10% shall be assessed at any time whatsoever in relation to share capital as adjusted for any transactions that may affect it after this Shareholders' Meeting), within the limit of the cap on capital increases provided for in the *thirteenth resolution* or, depending on the circumstances, in the *fourteenth resolution* and the overall cap on capital increases provided for in paragraph 2. of the *twelfth resolution* from which it shall be deducted, or, where applicable, within the limit of the caps provided for in resolutions of a similar nature that may supersede said resolutions during the period of validity of this delegation;

3. decides, under the conditions provided for in paragraph 10 of the *thirteenth resolution* or, depending on the circumstances, of the *fourteenth resolution*, that the Management Board shall have all powers to implement this authorization;

4. decides that this authorization, which cancels and replaces any previous authorization of a similar nature as regards amounts so far unused, shall be valid for a term of twenty-six (26) months as from this Shareholders' Meeting;

5. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting, in accordance with the law and with the regulations, on the use made of the authorizations granted in this resolution.

Sixteenth resolution

(Delegation of authority to the Management Board to increase the number of securities to be issued in the event of a capital increase, with or without preferential subscription rights, realized pursuant to the twelfth to the fifteenth resolutions proposed at the current Shareholders' Meeting)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report, and acting in accordance with the provisions of Article L.225-135-1 of the French *Code de commerce*:

1. delegates to the Management Board, with the power to sub-delegate under the conditions laid down by law, subject to the provisions of Article L.233-32 of the French *Code de commerce*, its authority to decide to increase the number of securities to be issued in the event of an increase in the Company's capital, with or without preferential subscription rights, decided pursuant to the *twelfth* to the *fifteenth resolutions* submitted to this Shareholders' Meeting, at the same price as that used for the initial issue, within the times and limits provided for in the regulations that apply on the date of the issue (as of the date hereof, within 30 days following the closing of the subscription and within the limit of 15% of the initial issue), in particular with a view to granting an over-allocation option in accordance with market practices;

2. the maximum nominal amount of the increases in capital that may be made pursuant to this delegation shall be deducted from the caps on capital increases provided for in the *twelfth* to the *fifteenth resolutions* respectively and from the overall cap on capital increases provided for in paragraph 2. of the *twelfth resolution*, or, where applicable, from the amount of the caps provided for in resolutions of the same kind that may supersede said resolutions during the period of validity of this delegation;

3. decides that this delegation, which cancels and replaces any previous authorization of a similar nature as regards amounts so far unused, shall be valid for a term of twenty-six (26) months as from this Shareholders' Meeting;

4. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting, in accordance with the law and with the regulations, on the use made of the authorizations granted in this resolution.

Seventeenth resolution

(Delegation of authority to the Management Board to issue, with the cancellation of preferential subscription rights, shares and/or securities giving access to the capital of the Company, in consideration of in-kind contributions consisting of equity securities or securities giving access to the capital of other companies, except for share exchange offers initiated by the Company)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report, and acting in accordance with the provisions of Articles L.225-129 *et seq.* of the French *Code de commerce*, and, in particular, Articles L.225-129-2 and L.225-147 paragraph 6 of said Code:

1. delegates to the Management Board, with the power to sub-delegate under the conditions laid down by law, subject to the provisions of Article L.233-32 of the French *Code de commerce*, its authority to decide, on the basis of a report by the capital contributions appraiser, on a capital increase, within the limit of 10% of the Company's capital (it being specified that this limit of 10% shall be assessed at any time whatsoever in relation to share capital as adjusted for any transactions that may affect it after this Shareholders' Meeting), in consideration for in-kind contributions made to the Company and consisting of equity securities or securities giving access to the capital of other companies, where the provisions of Article L.225-148 of the French *Code de commerce* do not apply, by issuing, on one or more occasions, shares (excluding preference shares) and/or securities giving access, either now or in the future, to the Company's capital;
2. decides that the nominal amount of the increases in capital that may be made, either now or in the future, pursuant to this delegation (i) shall be deducted from the amount of the cap on capital increases provided for in the *thirteenth resolution* and from the overall cap on capital increases provided for in paragraph 2. of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of the caps provided for in resolutions of a similar nature that may supersede said resolutions during the period of validity of this delegation and (ii) shall not take into account the par value of shares to be issued to protect the rights of the holders of securities giving access to the capital, in accordance with the law and, where applicable, with any contractual stipulations providing for other cases of adjustment;
3. decides that the maximum nominal amount of debt securities on the Company issued pursuant to this resolution may not exceed €1.5 billion or the equivalent of this amount on the date the issue is decided on, it being specified that this amount shall be deducted from the amount of the overall cap on debt securities provided for in paragraph 4 of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of the overall cap on debt securities that may be provided for in a resolution of a similar nature that may supersede said resolution during the period of validity of this delegation;
4. decides that the Management Board shall have all powers, with the power to sub-delegate under the conditions laid down by law, to implement this resolution, for the purpose, in particular, of:

- deciding to increase the capital in consideration of the contributions and, where applicable, postponing any such increase,
- drawing up a list of the securities contributed, approving the valuation of the contributions, setting the conditions for the issuing of securities in consideration of the contributions, as well as, where applicable, the amount of the balance to be paid, approving the granting of special benefits and, if the contributors agree, reducing the valuation of the contributions or the consideration of special benefits,
- determining the nature, number and the characteristics of the securities to be issued in consideration for the contributions,
- determining and making any adjustments designed to take into account the impact of the transactions on the Company's capital, in particular in the event of a change in the par value of the share, a capital increase by capitalizing reserves, the allocation of shares free of charge, stock split or reverse stock split, the distribution of dividends, reserves or additional paid-in capital or any other assets, the redemption of capital, or any other transaction involving the equity or the capital (including in the event of a takeover bid and/or a change in control), and setting all other terms and conditions making it possible, where applicable, to protect the rights of holders of securities giving access to the capital (including by means of adjustments in cash),
- recording the completion of each capital increase and making the corresponding amendments to the by-laws,
- voluntarily deducting the costs of capital increases from the amount of the related additional paid-in capital and, if it considers it appropriate, drawing the sums required for the legal reserve from this amount,
- generally, entering into all agreements, taking all steps and carrying out all formalities required for the issuing, listing and servicing of the shares issued pursuant to this delegation and the exercise of the attached rights;

5. decides that this delegation, which cancels and replaces any previous authorization of a similar nature as regards amounts so far unused, shall be valid for a term of twenty-six (26) months as from this Shareholders' Meeting;
6. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting, in accordance with the law and with the regulations, on the use made of the authorizations granted in this resolution.

Eighteenth resolution

(Delegation of authority to the Management Board to issue, with the cancellation of preferential subscription rights, shares in the Company and/or securities giving access to the capital of the Company, in the event of a share exchange offer initiated by the Company)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report, and acting in accordance with the provisions of Articles L.225-129 *et seq.* of the French *Code de commerce*, and in particular Articles L.225-129-2 and L.225-148 of said Code:

1. delegates to the Management Board, with the power to sub-delegate under the conditions laid down by law, subject to the provisions of Article L.233-32 of the French *Code de commerce*, its authority to decide to issue shares (excluding preference shares) and/or securities giving access, either now or in the future, to the Company's capital (whether these are new or existing shares), in consideration of securities contributed to a share exchange offer initiated by the Company, in France or abroad, in accordance with local rules, for the shares of another company listed on one of the regulated markets referred to in Article L.225-148 of the French *Code de commerce*, and decides to cancel, in favour of the holders of these securities, the preferential subscription rights of shareholders to these shares and/or securities to be issued;
2. decides that the nominal amount of increases in capital that may be made, either now or in the future, pursuant to this delegation may not exceed €35 million, it being specified that it shall be deducted from the amount of the cap on capital increases provided for in the *thirteenth resolution* and from the overall cap on capital increases provided for in paragraph 2. of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of the caps provided for in resolutions of a similar nature which may supersede said resolutions during the period of validity of this delegation. The par value of shares to be issued to protect the rights of the holders of securities giving access to the capital, in accordance with the law and, where applicable, with contractual stipulations providing for other cases of adjustment, shall be added to this cap where applicable;
3. decides that the maximum nominal amount of debt securities on the Company issued pursuant to this resolution may not exceed €1.5 billion or the equivalent of this amount on the date the issue is decided on, it being specified that this amount shall be deducted from the amount of the overall cap on debt securities provided for in paragraph 4 of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of the overall cap on debt securities that may be provided for in a resolution of a similar nature that may supersede said resolution during the period of validity of this delegation;
4. acknowledges that this delegation entails the waiver by the shareholders of their preferential subscription rights to ordinary shares to which the securities that shall be issued on the basis of this delegation, could grant entitlement;
5. decides that the Management Board shall have all powers, with the power to sub-delegate under the conditions laid down by law, to implement this resolution and in particular:
   - to set the exchange ratio and, where applicable, the amount of the balance to be paid in cash,
   - to draw up a list of the securities contributed to the exchange,
   - to set the dates and conditions of the issue, in particular the price and the dividend entitlement date, possibly a retrospective date, of the new shares, and/or, where applicable, the securities giving access, either now or in the future, to the Company's capital,
   - to determine and make any adjustments designed to take into account the impact of the transactions on the Company's capital, in particular in the event of a change in the par value of the share, a capital increase by capitalizing reserves, the allocation of shares free of charge, stock split or reverse stock split, the distribution of dividends, reserves or additional paid-in capital or any other assets, the redemption of capital, or any other transaction involving the equity or the capital (including in the event of a takeover bid and/or a change in control), and setting all other terms and conditions making it possible, where applicable, to protect the rights of holders of securities giving access to the capital (including by means of adjustments in cash),
   - to deduct, at its sole discretion, the costs of the capital increases from the amount of the related additional paid-in capital and, if it considers it appropriate, drawing the sums required for the legal reserve from this amount,
   - generally, to take all appropriate steps and enter into all agreements to complete the transaction authorized, record the resulting increase(s) in capital and amend the by-laws accordingly;
6. decides that this delegation, which cancels and replaces any previous authorization of a similar nature as regards amounts so far unused, shall be valid for a term of twenty-six (26) months as from this Shareholders' Meeting;
7. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting, in accordance with the law and with the regulations, on the use made of the authorizations granted in this resolution.

Nineteenth resolution

(Delegation of authority to the Management Board to issue shares in the Company subsequent to the issue of securities giving access to the Company's shares by the Company's Subsidiaries)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report, and acting in accordance with the provisions of Articles L.225-129 *et seq.* of the French *Code de commerce*, and in particular Articles L.225-129-2 and L.228-93 of said Code:

1. delegates to the Management Board, with the power to sub-delegate under the conditions laid down by law, subject to the provisions of Article L.233-32 of the French *Code de commerce*, its authority to decide to issue the Company's shares to which the securities issued by a company or companies in which the Company owns directly or indirectly more than half of the share capital (the "Subsidiaries") shall grant entitlement;
2. acknowledges that these securities may only be issued by the Subsidiaries with the agreement of the Management Board of the Company and may, in accordance with Article L.228-93 of the French *Code de commerce*, give access, either now or in the future, to the Company's shares and be issued on one or more occasions, in France, on foreign markets and/or on the international market, either in euros, in any other currency or in monetary units created with reference to several currencies;
3. decides that the nominal amount of increases in capital that may be made pursuant to this delegation may not exceed €35 million, it being specified that it shall be deducted from the amount of the cap on capital increases provided for in the *thirteenth resolution* and the overall cap on capital increases provided for in paragraph 2. of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of the caps provided for in resolutions of a similar nature which may replace said resolutions during the period of validity of this delegation, it being specified that the par value of ordinary shares to be issued to protect the rights of the holders of securities giving access to the capital, in accordance with the law and, where applicable, with contractual stipulations providing for other cases of adjustment, shall be added to this cap, where applicable;
4. decides that the sum paid as from the issue or that may subsequently be paid to the Company shall, for each ordinary share issued as a result of the issuing of the securities referred to in paragraph 1 above, be at least equal to the minimum provided for in the regulatory provisions applicable on the date of the issue (as of the date hereof, the weighted average share price during the three trading days preceding the setting of the subscription price of the securities referred to in paragraph 1. above, less a maximum discount of 5%), after correction, if applicable, of this amount to take the different dividend entitlement date into account;
5. acknowledges that the shareholders of the Company shall not have preferential subscription rights either to the securities referred to in paragraph 1. above issued by the Subsidiaries or to the ordinary shares in the Company to which these securities may grant entitlement;
6. decides that the Management Board shall have all powers, with the power to sub-delegate under the conditions laid down by law, to implement this resolution, in agreement with the Boards of Directors, Management Boards or other relevant management or administrative bodies of the Subsidiaries issuing the securities referred to in this resolution and in particular:
   - to set the amounts to be issued,
   - to determine the terms and conditions of issue and the class of securities to be issued,
   - to set the dividend entitlement date, which may even be a retrospective date, of the securities to be created,
   - to determine and make any adjustments designed to take into account the impact of the transactions on the Company's capital, in particular in the event of a change in the par value of the share, a capital increase by capitalizing reserves, the allocation of shares free of charge, stock split or reverse stock split, the distribution of dividends, reserves or additional paid-in capital or any other assets, the redemption of capital, or any other transaction involving the equity or the capital (including in the event of a takeover bid and/or a change in control), and setting all other terms and conditions making it possible, where applicable, to protect the rights of holders of securities giving access to the capital (including by means of adjustments in cash),
   - to take all appropriate steps and enter into all agreements and contracts to complete the planned issues, within the scope of applicable French and, where applicable, foreign laws and regulations, to record the resulting increase(s) in capital and amend the by-laws accordingly;
7. decides that this delegation shall be valid for a term of twenty-six (26) months as from this Shareholders' Meeting;
8. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting, in accordance with the law and with the regulations, on the use made of the authorizations granted in this resolution.

Twentieth resolution

(Delegation of authority to the Management Board to increase the share capital by capitalizing additional paid-in capital, reserves or profits)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report, and acting in accordance with the provisions of Articles L.225-129-2 and L.225-130 of the French *Code de commerce*:

1. delegates to the Management Board, with the power to sub-delegate under the conditions laid down by law, subject to the provisions of Article L.233-32 of the French *Code de commerce*, its authority to decide to increase the share capital, on one or more occasions, in the proportions and at the times it shall consider appropriate, by capitalizing additional paid-in capital, reserves, profits or any other sums which may be capitalized under the law or the by-laws, to be carried out by issuing and allocating new equity securities free of charge or increasing the par value of existing equity securities or by using both these methods. The maximum nominal amount of increases in capital that

may be made pursuant to this delegation may not exceed €70 million, it being specified that this amount shall be deducted from the amount of the overall cap on capital increases provided for in paragraph 2. of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of any overall cap that may be provided for in a resolution of a similar nature which may supersede said resolution during the period of validity of this delegation;

2. decides that the Management Board shall have all powers, with the power to sub-delegate under the conditions laid down by law, to implement this delegation, for the purpose, in particular, of:

- setting the amount and the nature of the sums to be capitalized, setting the number of equity securities to be issued and/or the amount by which the par value of existing equity securities shall be increased, setting the date, which may even be a retrospective date, as from which the new equity securities shall bear rights or the date on which the increase in the par value of the equity securities shall come into effect,
- deciding, in the event of the allocation of equity securities free of charge:
  - that allocation rights to fractional shares shall neither be tradable nor transferable and that the corresponding equity securities shall be sold, with the sums from this sale being allocated to the holders of rights under the conditions provided for in the applicable regulations,
  - that the shares that shall be allocated pursuant to this delegation on the basis of existing shares having double voting rights shall have this right as from the issue of said shares,
  - to make any adjustments designed to take into account the impact of the transactions on the Company's capital, in particular in the event of a change in the par value of the share, a capital increase by capitalizing reserves, the allocation of shares free of charge or equity securities, stock split or reverse stock split, the distribution of reserves or any other assets, the redemption of capital, or any other transaction involving the equity or the capital (including in the event of a takeover bid and/or a change in control), and setting the terms and conditions making it possible, where applicable, to protect the rights of holders of securities giving access to the capital,
  - to record the completion of each capital increase and amend the by-laws accordingly,
  - to charge, at its sole discretion, the costs of the increases in capital to one or more available reserve line items and, if it considers it appropriate, draw the sums required for the legal reserve from this amount,
- generally, to enter into all agreements, taking all steps and carrying out all formalities required for the issuing, listing and servicing of the shares issued pursuant to this delegation and the exercising of the attached rights;

3. decides that this delegation, which cancels and replaces any previous authorization of a similar nature as regards amounts so far unused, shall be valid for a term of twenty-six (26) months as from this Shareholders' Meeting;

4. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting, in accordance with the law and with the regulations, on the use made of the authorizations granted in this resolution.

Twenty-first resolution

(Delegation of authority to the Management Board to issue securities with rights to debt securities which do not increase the capital of the Company)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report and in accordance with the provisions of Articles L.225-129 to L.225-129-6, L.228-91 *et seq.* of the French *Code de commerce*:

1. delegates to the Management Board, with the power to sub-delegate under the conditions laid down by law, its authority to decide to issue, on one or more occasions, in France and/or abroad, in euros, in any other currency or in monetary units created with reference to several currencies, all securities granting the right to be allocated, now and/or in the future, debt securities governed by Articles L.228-91 *et seq.* of the French *Code de commerce*, such as bonds, similar securities, subordinated securities with fixed or indefinite terms or any other securities granting, in the same issue, the same right of claim on the Company;

2. decides to set the maximum nominal amount of debt securities on the Company that may be issued within the scope of this delegation at €1.5 billion, the equivalent of this amount in foreign currencies or in all monetary units created with reference to several currencies, it being specified (i) that the amount of the issues of securities granting the right to be allocated debt securities whereby the primary security is an equity security shall be deducted from the amount of the overall cap provided for in paragraph 2. of the *twelfth resolution* of this Shareholders' Meeting or, where applicable, from the amount of any overall cap that may be provided for in a resolution of a similar nature which may supersede said resolution during the period of validity of this delegation, (ii) that the maximum nominal amount of debt securities that may be issued pursuant to this resolution is independent of the maximum authorized amount of debt securities which may be issued pursuant to the *twelfth* to the *eighteenth resolutions* submitted to this Shareholders' Meeting or, where applicable, from the amount of the caps provided for in resolutions of a similar nature which may supersede said resolutions during the period of validity of this delegation and (iii) that it shall be increased by any redemption premium above par;

3. decides that the Management Board shall have all powers, with the power to sub-delegate under the conditions laid down by law, to:

- make said issues within the limit set above, determine the date, nature, amounts and currency of the issue,
- determine the characteristics of the securities to be issued and of the debt securities to which the securities shall grant the right to allocation, and in particular:
  - set their nominal value, dividend entitlement date, issue price and the amount of the premium which may, where applicable, be requested upon issue,
  - decide, where applicable, whether they are subordinated or not and their subordination ranking, in accordance with the provisions of Article L.228-97 of the French *Code de commerce*,

- set the interest rate thereof (in particular fixed and/or variable rate interest and zero coupon or indexed) or, for securities with a variable rate, the terms and conditions for the determination of said rate, the date of payment of said interest and the conditions under which interest may be capitalized,
- set their term (fixed or indefinite) and the other terms and conditions of issue (including the fact of granting them guaranties or sureties), redemption and/or early repayment (including repayment by providing Company assets), where applicable with a fixed or variable premium, or redemption by the Company,
- change, during the life of the securities involved and during the life of the debt securities to which they shall give the right to allocation, the characteristics referred to above, in accordance with the applicable formalities,

- generally, to enter into all agreements, in particular to complete the planned issues, taking all steps and carrying out all formalities required for the issuing, listing and servicing of the shares issued pursuant to this delegation and the exercise of the attached rights;

4. decides that this delegation, which cancels and replaces any previous authorization of a similar nature as regards amounts so far unused, shall be valid for a term of twenty-six (26) months as from this Shareholders' Meeting;
5. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting, in accordance with the law and with the regulations, on the use made of the authorizations granted in this resolution.

Twenty-second resolution

(Delegation of authority to the Management Board to issue shares and/or securities giving access to the capital of the Company, reserved for members of savings schemes, with the cancellation of preferential subscription rights in their favour)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report, and acting in accordance with (i) the provisions of Articles L.225-129-2, L.225-129-6, L.225-138 I and II, L.225-138-1, L.228-91 and L.228-92 of the French *Code de commerce*, and (ii) the provisions of Articles L.3332-18 to L.3332-24 of the French *Code du travail*, subject to the condition precedent of the adoption of the *twenty-third*, the *twenty-fourth* and the *twenty-fifth resolutions* submitted to this Shareholders' Meeting:

1. delegates to the Management Board, with the power to sub-delegate under the conditions laid down by law, its authority to decide to increase the share capital, on one or more occasions, by issuing shares and/or securities giving access to the Company's capital reserved for members of one or more company savings schemes (or any other savings scheme for whose members a capital increase may be reserved under similar conditions, pursuant to Articles L.3332-18 to L.3332-24 of the French *Code du travail*) set up, pursuant to Article L.3344-1 of the French *Code du travail*, within the Company or a company or a group of companies, in France or abroad, within the consolidation scope of the Company, within the meaning of Article L.233-16 of the French *Code de commerce* ("the Beneficiaries"), it being specified that this resolution may be used for the purpose of implementing leveraged arrangements;
2. decides that the maximum nominal amount of increases in capital that may be made, either now or in the future, pursuant to this delegation, may not exceed €9,400,000, it being specified that this amount (i) shall be deducted from the amount of the overall cap provided for in paragraph 2. of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of the overall cap provided for in a resolution of a similar nature which may supersede said resolution during the period of validity of this delegation, (ii) is set not taking into account the par value of shares to be issued to protect the rights of holders of securities giving access to the capital, in accordance with the law and, where applicable, with contractual stipulations providing for other cases of adjustment, and (iii) is an overall cap for all increases in capital that may be made pursuant to the *twenty-second*, *twenty-third* and *twenty-fourth resolutions* submitted to this Shareholders' Meeting;
3. decides that the issue price of the shares or the securities giving access to the Company's capital to be issued pursuant to this resolution shall be determined under the conditions provided for in Articles L.3332-19 to L.3332-23 of the French *Code du travail* and shall be at least equal to 80% of the Reference Price (as this expression is defined below), *i.e.* with a maximum discount of 20%; however, the Shareholders' Meeting expressly authorizes the Management Board to reduce or cancel the aforementioned discount (within statutory and regulatory limits), if it considers it appropriate, in particular in order to take into account, *inter alia*, the legal, accounting, tax and employment-related regulations applicable locally; for the purposes of this paragraph, the Reference Price refers to the average opening price of the Company shares listed on the regulated market of NYSE Euronext Paris during the 20 trading sessions preceding the decision by the Management Board setting the date of the start of the subscription period;
4. authorizes the Management Board to allocate, free of charge, to the Beneficiaries, in addition to the shares or securities giving access to the Company's capital that may be subscribed for in cash, shares or securities, whether already existing or to be issued, giving access to the Company's capital of a similar nature or not as those to be subscribed for in cash, to replace all or some of the discount as compared to the Reference Price and/or contributions paid by the employer, it being understood that the benefit resulting from this allocation free of charge may not exceed the statutory or regulatory limits that apply pursuant to Articles L.3332-21 and L.3332-11 of the French *Code du travail*, it being specified that the maximum nominal amount of the increases in capital that may be made, either now or in the future, due to the allocation of shares free of charge or securities giving access to capital to be issued, shall be deducted from the amount of the caps referred to in paragraph 2. above;
5. decides to cancel, in favour of the Beneficiaries, the preferential subscription rights of the shareholders to the shares and or securities giving access to the Company's capital that may be issued pursuant to this delegation, said shareholders furthermore waiving, in the event of the allocation to the Beneficiaries of shares and/or securities giving access to the Company's capital, any right

to said shares and/or securities giving access to the Company's capital, including the portion of the reserves, profits or additional paid-in capital that have been capitalized, in respect of the allocation of said securities made on the basis of this resolution which entails the shareholders' waiver of their preferential rights to subscribe to the ordinary shares of the Company to which the securities issued on the basis of this delegation may grant entitlement;

6. authorizes the Management Board, under the conditions of this delegation, to sell the Company's shares to the Beneficiaries as provided for in Article L.3332-24 of the French *Code du travail*, it being specified that sales of the Company's shares at a discount to the Beneficiaries shall be deducted, in the nominal amount of the Company's shares thus sold, from the nominal amount of the caps referred to in paragraph 2. above;

7. decides that the Management Board shall have all powers, with the power to sub-delegate under the conditions laid down by law, to implement this delegation, within the limits and under the conditions specified above, for the purpose, in particular, of:

- setting the amounts of the issues that shall be made pursuant to this resolution and in particular of setting the issue price, dates, time limits, procedures and conditions of subscription, paying up, delivery and ownership of the shares (even retrospectively), the rules for reductions applicable to cases of oversubscription as well as the other procedures and terms and conditions of issues, within the statutory or regulatory limits in force,
- drawing up, subject to applicable law, a list of the companies in which the Beneficiaries may subscribe for shares or securities giving access to the Company's capital thus issued and benefit, where applicable, from the shares or securities giving access to the Company's capital allocated free of charge,
- deciding that subscription may be made directly by the Beneficiaries, members of a company savings scheme, or through the intermediary of company mutual investment funds or other structures or entities allowed by the applicable statutory or regulatory provisions,
- determining the conditions, in particular length of service, which the Beneficiaries of the increases in capital must fulfil,
- setting the dates for the start and the end of subscription periods,
- in the event of the allocation of shares free of charge or securities giving access to the Company's capital, setting the nature, the characteristics and the number of shares or securities giving access to the Company's capital to be issued, the number to be allocated to each Beneficiary, and setting the dates, time limits, procedures and conditions of allocation of these shares or securities giving access to the Company's capital within the statutory and regulatory limits in force and, in particular, choosing either to replace, in whole or in part, the allocation free of charge of these shares or securities giving access to the capital with a discount as compared to the Reference Price provided for above or to deduct the equivalent of these shares or securities of the Company from the total amount of the contribution paid by the employer, or to combine these two possibilities,
- in the event of the issue of new Company shares, deducting, where applicable, from the reserves, profits or additional paid-in capital, the sums required to pay up said shares, recording the completion of the reserved increases in capital pursuant to this delegation, amending the by-laws accordingly and, generally, taking all necessary action and carrying out all necessary formalities,
- recording the completion of the increases in capital by the amount of the shares or the securities giving access to the Company's capital which are actually subscribed for,
- where applicable, deducting, at its sole discretion, the costs of the capital increase from the amount of the related additional paid-in capital and, if it considers it appropriate, drawing the sums required to bring the legal reserve to one-tenth of the new capital resulting from these increases in capital from this amount,
- entering into all agreements, carrying out, directly or indirectly through a representative, all transactions and formalities, including carrying out the formalities required after increases in capital and amending the by-laws accordingly,
- generally, to enter into all agreements in particular to complete the planned issues, taking all steps and decisions and carrying out all formalities required for the issuing, listing and servicing of the securities issued pursuant to this delegation and the exercise of the rights that are attached to or follow the increases in capital carried out;

8. decides that this delegation, which cancels and replaces any previous authorization of a similar nature as regards amounts so far unused, shall be valid for a term of twenty-six (26) months as from this Shareholders' Meeting;

9. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting, in accordance with the law and with the regulations, on the use made of the authorizations granted in this resolution.

Twenty-third resolution

(Delegation of authority to the Management Board to issue shares and/or securities giving access to the capital of the Company, reserved for employees of Vallourec companies outside France (and those with similar rights in accordance with Article L.3332-2 of the French Code du travail) excluding company savings schemes, with the cancellation of preferential subscription rights in their favour)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report, and acting in accordance with the provisions of Articles L.225-129 *et seq.* of the French *Code de commerce* and, in particular, Articles L.225-129-2, L.225-138, L.228-91 and L.228-92 of the French *Code de commerce*, under the condition precedent of the adoption of the *twenty-second*, the *twenty-fourth* and the *twenty-fifth resolutions* submitted to this Shareholders' Meeting:

1. delegates to the Management Board, with the power to sub-delegate under the conditions laid down by law, its authority to decide to increase the share capital, on one or more occasions, by issuing shares and/or marketable securities giving access to the Company's capital, reserved for the category of individuals consisting of employees and those with similar rights within the meaning of Article L.3332-2 of the French *Code du travail*, of

Group companies having their registered office located outside France and company mutual investment funds through which they invest, with the Group consisting of the Company and companies in France or abroad within the consolidation scope of the Company, within the meaning of Article L.233-16 of the French *Code de commerce* (the "Beneficiaries"), it being specified that this resolution may be used for the purpose of implementing leveraged arrangements;

2. decides that the maximum nominal amount of the increases in capital that may be made, either now or in the future, pursuant to this delegation, may not exceed €9,400,000, it being specified that this amount (i) shall be deducted from the amount of the overall cap provided for in paragraph 2. of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of the overall cap provided for in any resolution of a similar nature that may supersede said resolution during the period of validity of this delegation, (ii) has been set not taking into account the par value of the shares to be issued to protect the rights of holders of securities giving access to the capital, in accordance with the law and, where applicable, with contractual stipulations providing for other cases of adjustment, and (iii) is an overall cap for all increases in capital that may be made pursuant to the *twenty-second*, *twenty-third* and *twenty-fourth resolutions* submitted to this Shareholders' Meeting;

3. decides that this delegation of authority may only be used for the purposes of an employee share ownership offering that, furthermore, also results in the use of the delegation granted pursuant to the *twenty-second resolution* submitted to this Shareholders' Meeting and provided (i) that the Beneficiaries who benefit, directly or through the intermediary of a company mutual investment fund, from a capital increase carried out pursuant to this resolution are subject to a mandatory holding period of a length that is at least the equivalent of that that is applicable within the scope of the capital increase and/or of the sale of shares carried out within the scope of the *twenty-second resolution* and (ii) that the subscription of the Beneficiaries (including any leverage effect) is limited to a maximum amount of 100%;

4. decides that the issue price of the shares or marketable securities giving access to the Company's capital to be issued pursuant to this delegation shall be set by the Management Board on the basis of the price of the Company's share on the regulated market of NYSE Euronext Paris; this price shall be equal to the average opening price of the Company's shares listed on the regulated market of NYSE Euronext Paris during the 20 trading sessions preceding the decision by the Management Board setting the opening date of subscription to the corresponding capital increase and/or share offering carried out pursuant to the *twenty-second resolution* submitted to this Shareholders' Meeting, reduced by a maximum discount of 20%. The Shareholders' Meeting expressly authorizes the Management Board to reduce or cancel the aforementioned discount (within the statutory and regulatory limits), if it considers it appropriate, in particular in order to take into account, *inter alia*, the legal, accounting, tax and employment-related regulations applicable locally;

5. decides to cancel, in favour of the category of Beneficiaries, the preferential subscription rights of the shareholders to the shares and securities giving access to the Company's capital that may be issued pursuant to this resolution, which entails the shareholders' waiver of their preferential subscription rights to ordinary Company shares to which the securities issued on the basis of this delegation may grant entitlement;

6. decides that the Management Board shall have all powers, with the power to sub-delegate under the conditions laid down by law, to implement this delegation, within the limits and under the conditions specified above, for the purpose, in particular, of:

- setting the amounts of the issues that will be carried out pursuant to this delegation and, in particular, setting the issue price, dates, time limits, procedures and conditions of subscription, of paying up, delivery and entitlement to dividends in respect of the shares (even retrospectively), as well as the other procedures and conditions of the issues, within the statutory and regulatory limits in force,
- drawing up the list of the beneficiary or beneficiaries of the cancellation of the preferential subscription rights among the Beneficiaries, as well as the number of shares or securities giving access to the Company's capital to be subscribed by each of them,
- determining the conditions, in particular the length of service, that the Beneficiaries of the increases in capital will have to meet, and setting the maximum percentage of the gross annual remuneration that the beneficiaries will be authorized to subscribe within the limits authorized by this Shareholders' Meeting,
- setting the opening and closing dates of the subscription periods,
- recording the completion of the capital increase, amending the by-laws accordingly, carrying out, directly or through a representative, all transactions and formalities related to the increases in share capital,
- entering into all agreements, carrying out, directly or indirectly through a representative, all transactions and formalities, including carrying out the formalities required after increases in capital and amending the by-laws accordingly,
- where applicable, deducting, at its sole discretion, the costs of the capital increase from the amount of the related additional paid-in capital and, if it considers it appropriate, drawing the sums required to bring the legal reserve to one-tenth of the new amount of capital resulting from these increases in capital from this amount,
- generally, entering into all agreements in particular to complete the planned issues, taking all steps and decisions and carrying out all formalities required for the issuing, listing and servicing of the securities issued pursuant to this delegation and the exercise of the rights that are attached to or follow the increases in capital carried out;

7. decides that this delegation, which cancels and replaces any previous authorization of a similar nature as regards amounts so far unused, shall be valid for a term of eighteen (18) months as from this Shareholders' Meeting;

8. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting, in accordance with the law and with the regulations, on the use made of the authorizations granted in this resolution.

Twenty-fourth resolution

(Delegation of authority to the Management Board to issue shares and/or securities giving access to the capital of the Company, reserved for credit institutions or any entity, whether or not incorporated as a legal entity, whose sole object is to subscribe for, hold and sell the Company's shares or other financial instruments within the scope of an operation reserved for employees, with the cancellation of preferential subscription rights)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report and acting in accordance with the provisions of Articles L.225-129 *et seq.* of the French *Code de commerce* and in particular Articles L.225-129-2, L.225-138, L.228-91 and L.228-92 of the French *Code de commerce*, under the condition precedent of the adoption of the *twenty-second*, the *twenty-third* and the *twenty-fifth resolutions* submitted to this Shareholders' Meeting:

1. acknowledges the fact that, in some countries, legal or tax-related problems or uncertainties may complicate or make uncertain the implementation of employee share ownership schemes carried out directly or through the intermediary of a mutual investment fund (with the eligible beneficiaries of Group companies having their registered offices located in one of these countries being referred to hereinafter as "Employees outside France", with the Group consisting of the Company and companies in France or abroad within the consolidation scope of the Company within the meaning of Article L.233-16 of the French *Code de commerce*) and that the implementation in favour of some Employees outside France of alternative arrangements to those offered to employees of French Group companies who are members of a company savings scheme may prove desirable;
2. delegates to the Management Board, with the power to sub-delegate under the conditions laid down by law, its authority to decide to increase the share capital, on one or more occasions, by issuing shares and/or securities giving access to the Company's capital, reserved for the category of legal entities consisting of credit institutions, acting at the Company's request, in order to offer all or some of the Employees outside France, arrangements (whether or not comprising a shareholding component) that are an alternative to the structured offering of shares or securities giving access to the Company's capital offered to the employees of French Group companies who are members of a company savings scheme, all the entities controlled by said institutions within the meaning of Article L.233-3 of the French *Code de commerce* and any entity, whether or not incorporated as a legal entity whose sole object is to subscribing for, hold and sell the Company's shares or other financial instruments within the scope of the implementation of the offer to all or some Employees outside France, it being specified that this resolution may be used for the purpose of implementing leveraged arrangements;
3. decides that the maximum nominal amount of the increases in capital that may be made, either now or in the future, pursuant to this delegation, may not exceed €9,400,000, it being specified that this amount (i) shall be deducted from the amount of the overall cap provided for in paragraph 2. of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of the overall cap provided for in any resolution of a similar nature that may supersede said resolution during the period of validity of this delegation, (ii) has been set not taking into account the par value of the shares to be issued to protect the rights of holders of securities giving access to the capital, in accordance with the law and, where applicable, with contractual stipulations providing for other cases of adjustment, and (iii) is an overall cap for all increases in capital that may be made pursuant to the *twenty-second*, *twenty-third* and *twenty-fourth resolutions* submitted to this Shareholders' Meeting;
4. decides that this delegation of authority may only be used for the purposes of an employee share ownership offering that, furthermore, also results in the use of the delegation granted pursuant to the *twenty-second resolution* and/or the *twenty-third resolution* submitted to this Shareholders' Meeting and solely for the purpose of meeting the objective set out in paragraph 1 of this resolution;
5. decides that the issue price of the shares or securities giving access to the Company's capital to be issued pursuant to this delegation shall be set by the Management Board on the basis of the price of the Company's share on the regulated market of NYSE Euronext Paris; this price shall be equal to the average opening price of the Company's shares listed on the regulated market of NYSE Euronext Paris during the 20 trading sessions preceding the decision by the Management Board setting the opening date of the period of subscription to the corresponding capital increase and/or to the corresponding share offering carried out pursuant to the *twenty-second resolution* submitted to this Shareholders' Meeting, reduced by a maximum discount of 20%. The Shareholders' Meeting expressly authorizes the Management Board to reduce or cancel the aforementioned discount (within the statutory and regulatory limits), if it considers it appropriate, in particular in order to take into account, *inter alia*, the legal, accounting, tax and employment-related regulations applicable locally;
6. decides to cancel, in favour of the aforementioned category of Beneficiaries, the preferential subscription rights of the shareholders to the shares and securities giving access to the Company's capital that may be issued pursuant to this resolution, which entails the shareholders' waiver of their preferential subscription rights for ordinary Company shares to which the securities issued on the basis of this delegation may grant entitlement;
7. decides that the Management Board shall have all powers, with the power to sub-delegate under the conditions laid down by law, to implement this delegation, within the limits and under the conditions specified above, for the purpose, in particular, of:

- setting the amounts of the issues that will be carried out pursuant to this delegation and, in particular, setting the issue price, dates, time limits, procedures and conditions of subscription, paying up, delivery and entitlement to dividends in respect of shares (even retrospectively), as well as the other procedures and conditions of the issues, within the statutory and regulatory limits in force,
- drawing up the list of the beneficiary or beneficiaries of the cancellation of the preferential subscription rights within the aforementioned category, as well as the number of shares or securities giving access to the Company's capital to be subscribed by each of them,
- setting the opening and closing dates of the subscription periods,

- recording the completion of the capital increase, amending the by-laws accordingly, carrying out, directly or through a representative, all transactions and formalities related to the increases in share capital,
- entering into all agreements, carrying out, directly or indirectly through a representative, all transactions and formalities, including carrying out the formalities required after increases in capital and amending the by-laws accordingly,
- where applicable, voluntarily deducting the costs of the capital increase from the amount of the related additional paid-in capital and, if it considers it appropriate, drawing the sums required to bring the legal reserve to one-tenth of the new capital resulting from these increases in capital from this amount,
- generally, entering into all agreements in particular to complete the planned issues, taking all steps and decisions and carrying out all formalities required for the issuing, listing and servicing of the securities issued pursuant to this delegation and the exercise of the rights that are attached to or follow the increases in capital carried out;

8. decides that this delegation, which cancels and replaces any previous authorization of a similar nature as regards amounts so far unused, shall be valid for a term of eighteen (18) months as from this Shareholders' Meeting;

9. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting, in accordance with the law and with the regulations, on the use made of the authorizations granted in this resolution.

Twenty-fifth resolution

(Authorization for the Management Board to allocate existing shares free of charge or to issue new shares to subscribers to an employee share ownership offering implemented within Group companies located outside France, or to some of them, pursuant to the twenty-second resolution and/or the twenty-third resolution)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report, and acting in accordance with the provisions of Articles L.225-197-1 *et seq.* of the French *Code de commerce*, under the condition precedent of the adoption of the *twenty-second*, the *twenty-third* and the *twenty-fourth resolutions* submitted to this Shareholders' Meeting:

1. authorizes the Management Board, within the scope of the provisions of Articles L.225-197-1 *et seq.* of the French *Code de commerce*, subject to prior authorization by the Supervisory Board, to allocate, on one or more occasions, free shares, whether already existing or to be issued (excluding preference shares), to the subscribers to an employee share ownership offering implemented pursuant to the *twenty-second resolution* and/or the *twenty-third resolution* of this Shareholders' Meeting within companies or groupings that are affiliated with the Company under the conditions provided for in Article L.225-197-2 of said Code, whose registered offices are located outside France, or some categories thereof, under the conditions set forth below;

2. decides that the shares, whether already existing or to be issued, allocated pursuant to this authorization may not represent more than 0.3% of the Company's share capital on the date the Management Board decided to make the allocation, increased by the number of shares allocated in respect of adjustments intended to protect the rights of beneficiaries of allocations of shares free of charge in the event of transactions involving the Company's capital or equity. It is specified that the maximum nominal amount of increases in capital that may be made, either now or in the future, pursuant to this delegation shall be deducted from the amount of the overall cap provided for in paragraph 2. of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of the overall cap provided for in any resolution of a similar nature that may supersede said resolution during the period of validity of this delegation;

3. decides that (i) the beneficiaries shall not finally acquire said shares until the end of a minimum period of four years following the Management Board Board's decision to make the allocation, except in the case of beneficiaries suffering from a category 2 or 3 disability as specified in Article L.341-4 of the French *Code de la sécurité sociale*, in which case the shares shall be acquired immediately, and (ii) in this case, the beneficiaries shall not be required to comply with any holding period. However, in order to take into account the legal and tax regulations applicable in some countries, the Management Board may depart from this rule and decide that, for one or more categories of beneficiaries, the acquisition period for the shares shall be at least two years, except in the case of beneficiaries suffering from a category 2 or 3 disability as specified in Article L.341-4 of the French *Code de la sécurité sociale*, in which case the shares shall be acquired immediately, and the beneficiaries shall be required to hold the shares for at least two years;

4. decides that this delegation of authority may only be used for the purposes of an employee share ownership offering carried out pursuant to the *twenty-second resolution* and/or the *twenty-third resolution* submitted to this Shareholders' Meeting with a view to the allocation of Company shares free of charge to the individuals who took part in this operation;

5. grants all powers to the Management Board for the purpose of implementing this authorization and for the purpose, in particular, of:

- determining whether the shares allocated free of charge shall be existing shares or shares to be issued,
- determining the identity of the beneficiaries, or of the category or categories of beneficiaries, of the allocations of shares who will be subscribers to an employee share ownership offering implemented pursuant to the *twenty-second resolution* and/or the *twenty-third resolution* of this Shareholders' Meeting within companies or groupings affiliated to the Company within the terms of Article L.225-197-2 of the French *Code de commerce* and whose registered offices are located outside France, and the number of shares allocated to each of them,
- setting the conditions and, where applicable, the criteria for the allocation of shares, in particular the minimum acquisition period of each beneficiary and, where applicable, the minimum period for holding the shares, under the conditions provided for above, it being specified that, as regards shares allocated free of charge to

Corporate Officers, the Supervisory Board shall either (a) decide that the shares allocated free of charge may not be sold prior to the termination of their duties, or (b) set the quantity of shares allocated free of charge that they are required to hold as registered shares until the termination of their duties,

- providing for the possibility of provisionally suspending allocation rights,
- recording the dates shares are acquired and the dates as from which the shares may be freely sold, taking legal restrictions in particular into account,
- registering the shares allocated free of charge on an account in the name of their holders, including, the mandatory holding period and the length of this period, and cancellation of the mandatory holding period in any circumstances in which the applicable regulations allow such cancellation,
- where applicable, making any adjustments to the number of shares allocated free of charge required to protect the rights of the beneficiaries of allocations of shares free of charge that have not yet been definitively determined, in relation to transactions involving the Company's capital or equity, in particular in the event of a change in the par value of the share, a capital increase by capitalizing the reserves, the allocation of shares, the issuing of new equity securities with preferential subscription rights, stock split or reverse stock split, the distribution of reserves, additional paid-in capital or any other assets, the redemption of capital, any change in the allocation of profits by creating preference shares or any other transaction involving the equity. It is specified that the shares allocated pursuant to these adjustments shall be deemed to have been allocated on the same date as the shares initially allocated,
- in the event new shares are issued, deducting, where applicable, from the reserves, profits or additional paid-in capital, the sums required to pay up said shares, recording the completion of the increases in capital carried out pursuant to this resolution, amending the by-laws accordingly and, generally, taking all action and carrying out all formalities required for the listing and servicing of the securities issued pursuant to this delegation;

6. records that, in the event new shares are allocated, this authorization shall entail, as and when the shares are finally acquired a capital increase by capitalizing reserves, profits or additional paid-in capital in favour of the beneficiaries of said shares and the corresponding waiver by the shareholders, in favour of the beneficiaries of said shares, of their preferential subscription rights to said shares and to the part of the reserves, profits or additional paid-in capital that will be capitalized pursuant to this allocation;

7. acknowledges that the subject of this authorization is different from the authorization that is the subject of the *twenty-sixth resolution* submitted to this Shareholders' Meeting, such that the adoption of the *twenty-sixth resolution* that follows shall have no effect on this resolution and that, subject to the adoption thereof, the *twenty-fifth* and *twenty-sixth resolutions* submitted to this Shareholders' Meeting shall both exist, each being in force independently of the other until it expires or is replaced;

8. decides that this delegation, which cancels and replaces any previous authorization of a similar nature as regards amounts so far unused, shall be valid for a term of twenty-six (26) months as from this Shareholders' Meeting;

9. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting on the operations carried out pursuant to the provisions provided for in Articles L.225-197-1 to L.225-197-3 of the French *Code de commerce*, under the conditions provided for in Article L.225-197-4 of said Code.

Twenty-sixth resolution

(Authorization for the Management Board to allocate existing performance shares, or to issue new shares to eligible Group employees and Corporate Officers, or to some of them)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report, and acting in accordance with Articles L.225-197-1 *et seq.* of the French *Code de commerce*:

1. authorizes the Management Board, under the terms of the provisions of Articles L.225-197-1 *et seq.* of the French *Code de commerce*, subject to the prior authorization of the Supervisory Board, to allocate, on one or more occasions, ordinary Company shares, whether already existing or to be issued, to the beneficiaries that it shall determine among the employees, or some categories of employees, of the Company, companies or groupings affiliated with the Company under the conditions defined in Article L.225-197-2 of said Code, as well as Corporate Officers, or some categories of Corporate Officers, of the Company, companies or groupings affiliated with the Company and who meet the conditions referred to in Article L.225-197-1, II of said Code, under the following conditions;

2. decides that the shares, whether already existing or to be issued pursuant to this authorization, may not represent more than 1% of the Company's share capital on the date of the Management Board's decision to make the allocation, increased by the number of shares allocated in respect of adjustments intended to protect the rights of beneficiaries of allocations of shares in the event of transactions involving the Company's capital or equity. It is specified that (i) the shares allocated pursuant to this resolution shall be deducted from the share subscription or share purchase option cap provided for in the *twenty-first resolution* adopted by the Shareholders' Meeting of 4 June 2009 or, where applicable, from the cap provided for by a resolution of a similar nature that may supersede said resolution during the period of validity of this delegation and (ii) the nominal amount of increases in capital that may be made, either now or in the future, pursuant to this delegation of authority shall be deducted from the amount of the overall cap provided for by paragraph 2. of the *twelfth resolution* submitted to this Shareholders' Meeting or, where applicable, from the amount of the cap provided for by a resolution of a similar nature that may supersede said resolution during the period of validity of this delegation of authority;

3. decides that (i) the beneficiaries shall not acquire said shares until the end of a minimum period of two years following the Management Board's decision to make the allocation, except in the case of beneficiaries suffering from a category 2 or 3 disability as specified in Article L.341-4 of the French *Code de la sécurité sociale*, in which case the shares shall be acquired immediately, and (ii) the period during which the beneficiaries will be obliged to retain the Company's shares shall be a minimum of two years as from the acquisition of said shares, unless the beneficiary is disabled and this disability falls within the aforementioned categories of the French *Code de la sécurité sociale*, in which case the shares may be sold immediately;

4. decides that, as an exception to the principle laid down in point 3 above:

4.1 the Management Board may, to take into account the legal and tax regulations applicable in some countries, decide that (i) the beneficiaries, employees or Corporate Officers of Group companies whose registered offices are located outside France shall not finally acquire their shares until the end of a period of four years following the Management Board's decision to allocate the shares, except in the case of beneficiaries suffering from a category 2 or 3 disability as specified in Article L.341-4 of the French *Code de la sécurité sociale*, in which case the shares shall be acquired immediately, and (ii) the beneficiaries who are employees or Corporate Officers of Group companies whose registered offices are located outside France shall not then be subject to any obligation to hold the Company's shares for a certain period of time and the shares may be freely sold as from their final allocation,

4.2 the Management Board may offer beneficiaries engaged in paid employment in several States during the first two years of the share acquisition period, the opportunity of opting, before the end of a period of two years as from the allocation of the shares, either (i) an acquisition period of two years and an obligation to retain the shares for an additional two years or (ii) an acquisition period of four years without any obligation to retain the shares,

4.3 as regards performance shares allocated to members of the Management Board, the Supervisory Board shall either (i) decide that the performance shares allocated may not be sold by the individuals involved prior to the termination of their duties, or (ii) set the quantity of performance shares allocated that they are required to keep as registered shares until the termination of their duties;

5. decides that the final acquisition of performance shares shall be subject to conditions of performance of the Group assessed over two consecutive financial years and to the condition that the beneficiaries continue to be employed within the Group for a minimum of two years as from the date on which the performance shares are allocated;

6. decides that existing shares or shares newly allocated pursuant to this authorization maybe allocated to Management Board members under the following conditions:

- the vesting of the performance shares will be conditional on the member continuing to be employed within the Group for two years as from the allocation date and meeting the quantified performance criteria,
- performance will be assessed over two consecutive financial years and measured on the basis of the following three quantified criteria:
  - the growth rate of consolidated sales,
  - the consolidated EBITDA/sales ratio, and
  - a performance criterion, which may be financial (e.g. share price performance or cost reduction) or societal (e.g. concerning environment or safety matters), laid down by the Supervisory Board and measured by a relevant index,
- the meeting of the performance criteria will determine 100% of the number of performance shares allocated;

7. grants all powers to the Management Board for the purpose of implementing this authorization and for the purpose, in particular, of:

- determining whether the shares allocated shall be existing shares or shares to be issued,
- determining the identity of the beneficiaries, or of the category or categories of beneficiaries, the allocations of shares among the employees and Corporate Officers of the Company or the aforementioned companies or groupings and the number of shares allocated to each of them,
- setting the conditions and, where applicable, the criteria for the allocation of shares, in particular the minimum acquisition period of each beneficiary and, under the conditions provided for above, the performance conditions, it being specified that, as regards shares allocated to Corporate Officers, the Supervisory Board shall either (a) decide that the shares allocated may not be sold by the individuals involved prior to the termination of their duties, or (b) set the quantity of shares allocated that they are required to keep as registered shares until the termination of their duties,
- providing for the possibility of provisionally suspending allocation rights,
- recording the dates of final acquisition and the dates as from which the shares may be freely sold, taking legal restrictions into account,
- registering the shares allocated free of charge on an account in the name of their holders, including, where applicable, the mandatory holding period and the length of this period, and cancellation of the mandatory holding period in any circumstances in which the applicable regulations allow such cancellation,
- where applicable, making any adjustments to the number of shares allocated required to protect the rights of the beneficiaries of allocations of shares that have not yet been definitively determined, in relation to any transactions involving the Company's capital or equity, in particular in the event of a change in the par value of the share, a capital increase by capitalizing the reserves, the allocation of shares free of charge, the issuing of new equity securities with preferential subscription rights, stock split or reverse stock split, the distribution of reserves, additional paid-in capital or any other assets, the redemption of capital, any change in the allocation of profits by creating preference shares or any other transaction involving the equity. It is specified that the shares allocated pursuant to these adjustments shall be deemed to have been allocated on the same date as the shares initially allocated,

- in the event new shares are issued, deducting, where applicable, from the reserves, profits or additional paid-in capital, the sums required to pay up said shares, recording the completion of the increases in capital carried out pursuant to this resolution, amending the by-laws accordingly and, generally, taking all action and carrying out all formalities required for the listing and servicing of the securities issued pursuant to this delegation;

8. records that, in the event new shares are acquired, this authorization shall entail, as and when the allocation of said shares becomes final, a capital increase by capitalizing reserves, profits or additional paid-in capital in favour of the beneficiaries of said shares and the corresponding waiver by the shareholders, in favour of the beneficiaries of said shares, of their preferential subscription rights to said shares and to the part of the reserves, profits or additional paid-in capital that will be capitalized pursuant to this allocation;

9. acknowledges that the subject of this authorization is different from the authorization that is the subject of the *twenty-fifth resolution* submitted to this Shareholders' Meeting, such that the adoption of this resolution shall have no effect on the *twenty-fifth resolution* submitted to this Shareholders' Meeting and that, subject to the adoption thereof, the *twenty-fifth* and *twenty-sixth resolutions* submitted to this Shareholders' Meeting shall both exist, each being in force independently of the other until it expires or is replaced;

10. decides that this delegation, which cancels and replaces any previous authorization of a similar nature as regards amounts so far unused, shall be valid for a term of thirty-eight (38) months as from this Shareholders' Meeting;

11. acknowledges the fact that, if the Management Board uses this delegation of authority, the Management Board shall report to the next Ordinary Shareholders' Meeting on the operations carried out pursuant to the provisions provided for in Articles L.225-197-1 to L.225-197-3 of the French *Code de commerce*, under the conditions provided for in Article L.225-197-4 of said Code.

Twenty-seventh resolution

(Authorization for the Management Board to decrease the share capital by cancelling own shares)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report and the Statutory Auditors' special report, and acting in accordance with Article L.225-209 of the French *Code de commerce*:

1. authorizes the Management Board to reduce the share capital, on one or more occasions, in the proportions and at the times it shall consider appropriate, by cancelling any quantity of shares it shall decide, acquired under the terms of any authorization given by the Ordinary Shareholders' Meeting in accordance with Article L.225-209 of the French *Code de commerce*, within the limits authorized by law, in accordance with the provisions of Articles L.225-209 *et seq.* and L.225-213 of the French *Code de commerce*;

2. decides that the maximum number of shares that may be cancelled by the Company pursuant to this delegation, during a period of 24 months, shall be 10% of the shares comprising the Company's capital at any time whatsoever. This limit shall apply to an amount of the Company's capital that, where applicable, shall be adjusted to take into account operations affecting the share capital after this Shareholders' Meeting;

3. grants all powers to the Management Board, with the power to sub-delegate under the conditions laid down by law, to carry out the operation(s) involving cancelling and reducing the capital that may be carried out pursuant to this authorization, to deduct the difference between the book value of the cancelled ordinary shares and their par value from any reserve line items and available additional paid-in capital, amend the by-laws accordingly, carry out all formalities, take all steps and lodge all declarations to all bodies and, generally, do whatever may be necessary;

4. decides that this delegation, which cancels and replaces any previous authorization of a similar nature as regards amounts so far unused, shall be valid for a term of twenty-six (26) months as from this Shareholders' Meeting.

Twenty-eighth resolution

(Amendment of by-laws regarding the length of the term of office for Supervisory Board members)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report,

- decides to set, in the Company by-laws, the term of office of members of Supervisory Board at four (4) years and, as an exception, where a member of the Supervisory Board is over the age of 70, at two (2) years; and
- decides, therefore, to amend:
  - Article 10 "Supervisory Board", paragraph 1, "Composition", subparagraph 1, as follows:

    "The Supervisory Board shall consist of at least three and no more than 12 members. The term of office of members of the Supervisory Board is four years. They shall be eligible for re-election. The members of the Supervisory Board shall be appointed, and their terms of office renewed, by the Ordinary Shareholders' Meeting."
  - Article 10 "Supervisory Board", paragraph 1, "Composition", subparagraph 3 as follows:

    "Where a member of the Supervisory Board passes the age of 70, he shall remain a member of the Board until the normal expiry of his term of office. He may then be re-elected once, for a term of two years. The application of these provisions may not however result in the number of members of the Supervisory Board aged over 70 exceeding one-third of the total members of the Supervisory Board (individuals or representatives of corporate bodies)."
- acknowledges, subject to the adoption of the *twenty-ninth resolution* below, that the other subparagraph 2 and 4 of Article 10 "Supervisory Board", paragraph 1, "Composition" shall remain unchanged;
- grants all powers to the Management Board, including the power to delegate under the conditions laid down by law, to carry out all acts and formalities and make all declarations, any filings and, more generally, take all appropriate measures with a view to implementing the aforementioned amendments to the by-laws.

Twenty-ninth resolution

(Amendment of by-laws relating to the representation of employee shareholders on the Supervisory Board)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Extraordinary Shareholders' Meetings, having examined the Management Board's report,

- decides to introduce the mandatory representation of employee shareholders on the Supervisory Board into the Company's by-laws;
- decides, therefore, to amend Article 10 "Supervisory Board", paragraph 1, "Composition", adding, after subparagraph 1, a new subparagraph reading as follows:

  "The members of the Supervisory Board are appointed by the Ordinary Shareholders' Meeting and their terms of office are renewed by it. One of the members of the Supervisory Board shall be appointed, on the recommendation of the Supervisory Board, from among the members of the Supervisory Board(s) or of a company saving fund or funds, governed by Article L.214-40 of the French Code monétaire et financier, representing the employee shareholders. He shall be subject to all the statutory and regulatory provisions applicable to the members of the Supervisory Board. However, his term of office shall expire automatically and the member of the Supervisory Board representing the employee shareholders shall be deemed to have resigned in the event he ceases to be (i) an employee of the Company, a company or economic interest group affiliated with the Company within the meaning of Article L.225-180 of the French Code de commerce or (ii) a member of the Supervisory Board of a company mutual investment fund governed by Article L.214-40 of the French Code monétaire et financier, representing the employee shareholders or (iii) a holder of units in a company mutual investment fund, governed by Article L.214-40 of the French Code monétaire et financier. Until the date of his replacement, the Supervisory Board shall be able to meet and deliberate validly."
- acknowledges, subject to the adoption of the *twenty-eighth resolution* above, that the other subparagraph of Article 10, "Supervisory Board", paragraph 1, "Composition", shall remain unchanged;
- grants all powers to the Management Board, including the power to delegate as provided by law, to carry out all acts and formalities and make all declarations, any filings and, more generally, take all appropriate measures with a view to implementing the aforementioned amendments to the by-laws.

Thirtieth resolution

(Powers for formalities)

The Shareholders' Meeting, acting in accordance with the quorum and majority criteria required for Ordinary Shareholders' Meetings, grants all powers to the bearer of an original, a copy or an excerpt from the minutes of this Shareholders' Meeting to carry out all publication and filing formalities, and generally do whatever may be necessary.

8.5 STATUTORY AUDITORS' REPORTS

8.5.1 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF THE FISCAL YEAR ENDED 31 DECEMBER 2010

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 2010

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 2010, 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 2010 and of the results of its operations for the year then ended in accordance with French accounting principles.

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 II "Accounting principles" 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 made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed 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 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 the 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 have verified that the information concerning the controlling interests and the identity of the Shareholders and holders of the voting rights has been properly disclosed in the management report.

Paris La Défense and Neuilly-sur-Seine, 15 April, 2011

The Statutory Auditors

KPMG Audit		**Deloitte & Associés**	
A division of KPMG SA			
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Jean-Marc Lumet

8.5.2 STATUTORY AUDITORS' REPORT ON REGULATED AGREEMENTS AND COMMITMENTS

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Annual General Meeting for the approval of the financial statements for the year ended 31 December 2010

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 required to report to Shareholders, based on the information provided, about the main terms and conditions of agreements and commitments that have been disclosed to us or which we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of Article R.225-58 of the French *Code de commerce*, it is the responsibility of Shareholders to determine whether the agreements and commitments are appropriate and should be approved.

We are also required, where applicable, to inform Shareholders of the provisions of Article R.225-31 of the French *Code de commerce* in relation to continuing agreements and commitments during the year and previously approved by the Annual General Meeting.

We performed the procedures we considered necessary in accordance with professional standards issued by the French National Institute of Statutory Auditors ("Compagnie nationale des commissaires aux comptes"). Our work consisted in verifying that the information provided to us is in agreement with the underlying documentation from which it was extracted.

Agreements and commitments to be submitted for the approval of the Annual General Meeting

We were not informed of any agreement or commitment to be submitted for approval at the Annual General Meeting pursuant to the provisions of Article L.225-86 of the French *Code de commerce*.

Continuing agreements and commitments previously approved by an Annual General Meeting

a) which had continuing effect during the year

Pursuant to Article R.225-57 of the French *Code de commerce*, we were informed that the following agreements and commitments approved in prior years by the Annual General Meeting, have had continuing effect during the year.

Additional pension scheme attributed to executive officers

Members of the Management Board concerned: Mr. Philippe Crouzet (Chairman of the Management Board), Mr. Jean-Pierre Michel (member of the Management Board) and Mr. Olivier Mallet (member of the Management Board)

Additional pension scheme attributed to executive officers dated 15 September 2005

On 14 September 2005 your Supervisory Board approved the implementation of an additional pension scheme attributed to executive officers 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.

b) which had no effect during the year

Furthermore, we were informed that the following agreements and commitments, already approved by an Annual General Meeting in prior years, remained in force but had no effect during the year.

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 *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.

Paris La Défense and Neuilly-sur-Seine, 15 April, 2011

The Statutory Auditors

KPMG Audit		**Deloitte & Associés**	
A division of KPMG SA			
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Jean-Marc Lumet

8.5.3 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE FISCAL YEAR ENDED 31 DECEMBER 2010

This is a free translation into English of the Statutory Auditors' 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 for 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 2010

To the Shareholders,

In accordance with our appointment as Statutory Auditors by your Shareholders' Meeting, we hereby report to you for the year ended December 31, 2010 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 matter set out in Note A-1 "Framework for the preparation and presentation of financial statements" of the consolidated financial statements regarding the change in the presentation of the consolidated income statement.

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, especially in the current economic situation. In the context of our audit of the consolidated financial statements for the year ended 31 December 2010, 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;

- 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, 15 April, 2011

The Statutory Auditors

KPMG Audit		**Deloitte & Associés**	
A division of KPMG SA			
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Jean-Marc Lumet

8.5.4 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

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 2010

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 with Article L.225-68 of French *Code de commerce* for the year ended 31 December 2010.

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, 15 April, 2011

The Statutory Auditors

KPMG Audit		**Deloitte & Associés**	
A division of KPMG SA			
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Jean-Marc Lumet

8.5.5 STATUTORY AUDITORS' REPORT RELATING TO TRANSACTIONS ON SHARE CAPITAL AS SET FORTH IN THE RESOLUTIONS SUBMITTED TO THE EXTRAORDINARY SHAREHOLDERS' MEETING OF 7 JUNE 2011

(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.)

To the Shareholders,

In accordance with our appointment as Statutory Auditors of your Company and pursuant to the procedures set forth in the French *Code de commerce*, we hereby report to you on the capital measures on which you are asked to decide.

I – Issue of shares and/or securities conferring entitlement to the share capital of the Company with retention and/or waiver of preferential subscription rights (*12th*, *13th*, *14th*, *15th*, *16th*, *17th*, *18th* and *19th resolutions*)

In accordance with the procedures set forth in the French Commercial Code (*Code de commerce*) and in particular Articles L.225-135, L.225-136 and L.228-92 *et seq.* of this Code, we hereby report to you on the proposed delegations of authority to the Management Board to issue shares and/or securities, transactions on which you are being asked to vote.

Based on its report, your Management Board proposes that:

- you confer on it, with the option to sub-delegate such authority, for a period of 26 months, the authority to decide on the following transactions and to set the final terms and conditions of these issues and proposes that, if necessary, you waive your preferential subscription rights:
  - issue, on one or more occasions, of shares and/or securities conferring entitlement to the share capital of the Company or to the share capital of a company in which the Company owns, directly or indirectly, more than half of the share capital and/or conferring entitlement to the grant of debt securities, with retention of preferential subscription rights (*12th resolution*),
  - issue, on one or more occasions, of shares and/or securities conferring entitlement to the share capital of the Company or to the share capital of a company in which the Company owns, directly or indirectly, more than half of the share capital and/or conferring entitlement to the grant of debt securities, through a public offering (*13th resolution*) or through an offering referred to in paragraph II of Article L.411-2 of the French Monetary and Financial Code (*Code monétaire et financier*) (*14th resolution*),
  - issue of shares (excluding preferred shares) and/or securities conferring entitlement to the share capital of the Company and/or conferring entitlement to the grant of debt securities, in connection with a public exchange offering initiated by your Company (*18th resolution*),
  - issue of shares as a result of the issue by one of the companies in which the Company owns, directly or indirectly, more than half of the share capital, of securities conferring entitlement to the shares of the Company (*19th resolution*).
- you authorize it, pursuant to the *15th resolution* for a period of 26 months and as part of the implementation of the delegations referred to in the *13th* and/or the *14th resolution*, to set the issue price up to the annual maximum limit of 10% of the share capital;
- you delegate to it, pursuant to the *17th resolution*, for a period of 26 months, the authority to carry out issues of shares and/or marketable securities conferring entitlement to the share capital of the Company and/or conferring entitlement to the grant of debt securities, in consideration of the in-kind contributions granted to the Company and comprised of equity securities or marketable securities conferring entitlement to the share capital of other companies, for up to a maximum of 10% of the share capital of the Company.

The nominal amount of capital increases likely to be carried out immediately or in the future may not exceed:

- €117 million pursuant to the *12th* to *20th resolutions* and the *22nd* to *26th resolutions*;
- €35 million pursuant to the *13th* to *19th resolutions*;
- 20% of share capital per year pursuant to the *14th resolution*;
- 10% of share capital per year pursuant to the *15th* and *17th resolutions*.
- The maximum nominal amount of marketable securities representative of debt securities of the Company likely to be issued may not exceed €1.5 billion pursuant to the *12th* to *18th resolutions*.
- These ceilings include the additional number of marketable securities to be created in connection with the implementation of the delegations referred to in the *12th* to *15th resolutions*, under the conditions set forth in Article L.225-235-1 of the French Commercial Code, should you adopt the *16th resolution*.

It is the Management Board's responsibility to prepare a report in accordance with Articles R.225-113, R.225-114 and R.225-117 of the French Commercial Code. Our role is to express an opinion on the fairness of the quantified data extracted from the financial statements, on the proposed cancellation of preferential subscription rights and on certain other information pertaining to these transactions, as presented in this report.

We performed the procedures that we considered necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) applicable to this engagement. Such procedures consisted in verifying

the contents of the Management Board's report as it relates to these transactions and the conditions in which the issue price of the equity securities to be issued was determined.

Subject to the subsequent review of the terms and conditions of the issues that may be decided, we have no comments on the conditions, as given in the Management Board's report, under which the issue price of the equity securities to be issued was determined pursuant to the *13th*, *14th*, *15th* and *19th resolutions*.

In addition, as this report does not contain the conditions in which the issue price of the equity securities to be issued in connection with the implementation of the *12th*, *17th* and *18th resolutions* was determined, we cannot express an opinion on the items selected for the issue price.

As the issue price of the equity securities to be issued has not been determined, we express no opinion on the final terms and conditions under which the shares shall be issued and, consequently, on the proposed cancellation of preferential subscription rights on which you are asked to decide under the *13th*, *14th*, *15th* and *19th resolutions*.

In accordance with Article R.225-116 of the French Commercial Code, we shall issue a supplementary report, where necessary, when these delegations are utilized by your Management Board, should it issue shares with cancellation of preferential subscription rights and marketable securities conferring entitlement to shares in the Company and/or debt securities.

II – Issue of marketable securities conferring entitlement to the grant of debt securities (*21st resolution*)

In accordance with the procedure set forth in Article L.228-92 of the French Commercial Code (*Code de commerce*), we hereby report to you on the proposed delegation of authority to the Management Board to decide on the issue of marketable securities conferring entitlement to the grant of debt instruments, a transaction on which you are being asked to vote.

The maximum nominal amount of marketable securities representative of debt securities on the Company that may be issued in connection with this delegation amounts to €1.5 billion, it being specified:

- that the amount of marketable securities conferring entitlement to the grant of debt securities of which the primary security is equity will be deducted from the overall ceiling of €117 million set forth in paragraph 2. of the *12th resolution;*
- that this maximum nominal amount is independent from the authorized maximum of debt securities that would be issued pursuant to the *12th* to *18th resolutions;*
- that this amount will be increased by any possible redemption premium above par.

Your Management Board recommends that, based on its report, you confer on it, for a period of 26 months, the authority to decide on this transaction. When necessary, the Management Board will set the final terms and conditions of the debt securities issue.

It is the responsibility of the Management Board to prepare a report in accordance with Articles R.225-113, R.225-114 and R.225-117 of the French Commercial Code. 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 issue, contained in this report.

We performed the procedures that we considered necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) applicable to this engagement. Such procedures consisted in verifying the contents of the Management Board's report relating to this transaction.

As the final terms and conditions of this issue have not been set, we do not express an opinion on the final terms and conditions under which the issue will be performed.

In accordance with Article R.225-116 of the French Commercial Code, we will issue an additional report, if necessary, when your Management Board uses this authorization.

III – Issue of shares and/or marketable securities conferring entitlement to the share capital of the Company reserved for members of a company savings plan (*22nd resolution*)

In accordance with the procedures set forth in Articles L.225-135 *et seq.* and L.228-92 of the French Commercial Code (*Code de commerce*), we hereby report to you on the proposed delegation of authority to the Management Board to decide on, with the option to sub-delegate such authority, capital increases, on one or more occasions, with waiver of your preferential subscription rights, of shares and/or marketable securities conferring entitlement to the share capital of the Company, reserved for members of one or more company savings plans (or another plan for members to which Articles L.3332-18 to L.3332-24 of the French Labor Code (*Code du travail*) would allow a capital increase to be performed under equivalent conditions) set up in the Company or a group of French or foreign companies, falling within the consolidation scope of the Company's accounts within the meaning of Article L.233-16 of the French Commercial Code, a transaction on which you are being asked to vote.

The maximum nominal amount of capital increases likely to be carried out immediately or in the future may not exceed €9,400,000, it being specified that:

- this amount will de deducted from the overall ceiling of €117 million set forth in paragraph 2. of the *12th resolution*;
- this amount is an overall ceiling for all capital increases likely to be carried out pursuant to the *22nd*, *23rd* and *24th resolutions*.

This issue is subject to your approval pursuant to the provisions of Articles L.225-129-6 of the French Commercial Code and L.3332-18 *et seq.* of the French Labor Code, subject to the condition precedent of adoption of the *23rd*, *24th* and *25th resolutions* submitted to this Shareholders' Meeting.

Your Management Board recommends that, having considered its report, you confer on it, for a period of 26 months, the authority to decide one or more issues and waive your preferential subscription rights. If applicable, it shall be responsible for determining the final issuance terms and conditions of this transaction.

It is the Management Board's responsibility to prepare a report in accordance with Articles R.225-113, R.225-114 and R.225-117 of the French Commercial Code. Our role is to express an opinion on the fairness of the quantified data extracted from the financial statements, on the proposed cancellation of preferential subscription rights and on certain other information pertaining to the issuance as presented in this report.

We performed the procedures that we considered necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) applicable to this engagement. Such procedures consisted in verifying the contents of the Management Board's report as it relates to this transaction and the conditions in which the issue price of the equity securities to be issued was determined.

Subject to our review in due course of the terms and conditions of the proposed issue, we have no comments on the procedures for determining the share issue price of the equity securities to be issued presented in the Management Board's report.

As the issue price of the equity securities to be issued has not been determined, we express no opinion on the final terms and conditions under which the shares shall be issued and, consequently, on the proposed cancellation of preferential subscription rights on which you are asked to vote.

In accordance with Article R.225-116 of the French Commercial Code, we shall issue a supplementary report, where necessary, when this delegation is utilized by your Management Board.

IV – Issue of shares and/or marketable securities conferring entitlement to the share capital of the Company reserved for foreign companies of the Vallourec group excluding the company savings plan (*23rd resolution*)

In accordance with the procedures set forth in Articles L.225-135 *et seq.* and L.228-92 of the French Commercial Code (*Code de commerce*), we hereby report to you on the proposed delegation of authority to the Management Board to decide on, with the option to sub-delegate, capital increases, on one or more occasions, by the issue, with waiver of your preferential subscription rights, of shares and/or marketable securities conferring entitlement to the capital of the Company reserved for employees and those with similar rights, within the meaning of Article L.3332-2 of the French Labor Code, of companies of the Vallourec group whose headquarters are located outside of France and company mutual funds through which they would invest, a transaction on which you are being asked to vote.

The maximum nominal amount of capital increases likely to be carried out, immediately or in the future, may not exceed €9,400,000, it being specified that:

- this amount will be deducted from the overall ceiling of €117 million set forth in paragraph 2. of the *12th resolution*;
- this amount is an overall ceiling for all capital increases likely to be carried out pursuant to the *22nd*, *23rd* and *24th resolutions*. This issue is subject to your approval subject to the condition precedent of adoption of the *22nd*, *24th* and *25th resolutions* submitted to this Shareholders' Meeting.

Your Management Board recommends that, having considered its report, you confer on it, for a period of 18 months, the authority to decide one or more capital increases and that you waive your preferential subscription rights to equity securities. If applicable, it will be responsible for determining the final issuance terms and conditions of this transaction.

It is the Management Board's responsibility to prepare a report in accordance with Articles R.225-113, R.225-114 and R.225-117 of the French Commercial Code. Our role is to express an opinion on the fairness of the quantified data extracted from the financial statements, on the proposed cancellation of preferential subscription rights and on certain other information pertaining to the issuance as presented in this report.

We performed the procedures that we considered necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) applicable to this engagement. Such procedures consisted in verifying the contents of the Management Board's report as it relates to this transaction and the conditions in which the issue price of the equity securities to be issued was determined.

Subject to our review in due course of the terms and conditions of the proposed issue, we have no comments on the procedures for determining the share issue price of the equity securities to be issued presented in the Management Board's report.

As the issue price of the equity securities to be issued has not been determined, we express no opinion on the final terms and conditions under which the shares shall be issued and, consequently, on the proposed cancellation of preferential subscription rights on which you are asked to vote.

In accordance with Article R.225-116 of the French Commercial Code, we shall issue a supplementary report, where necessary, when this delegation is utilized by your Management Board.

V – Issue of shares and/or marketable securities conferring entitlement to the share capital of the Company reserved for credit establishments as part of a transaction reserved for employees (*24th resolution*)

In accordance with the procedures set forth in Articles L.225-135, L.225-138 and L.228-92 of the French Commercial Code (*Code de commerce*), we hereby report to you on the proposed delegation of authority to the Management Board to decide on, with the option to sub-delegate, capital increases, on one or more occasions, by the issue, with waiver of your preferential subscription rights, of shares and/or marketable securities conferring entitlement to the capital of the Company, reserved for credit establishments acting on behalf of the Company to offer, to all or some employees outside of France, alternatives (regardless of whether or not they include a shareholders' component) to the structured offering of shares or marketable securities conferring entitlement to the share capital of the Company, proposed to employees of French companies of the Vallourec group which are members of a company savings plan, all entities controlled by these credit establishments within the meaning of Article L.233-3 of the French Commercial Code and all entities, with or without a legal personality, whose exclusive purpose is to subscribe, hold or sell shares of the Company or other financial instruments as part of the implementation of an offering to all or some of the employees outside of France, a transaction on which you are being asked to vote.

The maximum nominal amount of capital increases likely to be to be carried out, immediately or in the future, may not exceed €9,400,000, it being specified that:

- this amount will be deducted from the overall ceiling of €117 million set forth in paragraph 2. of the *12th resolution*;
- this amount is the overall ceiling for all capital increases likely to be carried out pursuant to the *22nd*, *23rd* and *24th resolutions*.

This issue is subject to your approval subject to the condition precedent of adoption of the *22nd*, *23th* and *25th resolutions* submitted to this Shareholders' Meeting and may only be used for the requirements of an employee shareholders' offering carried out pursuant to the *22nd* and/or *23rd resolutions*.

Your Management Board recommends that, having considered its report, you confer on it, for a period of 18 months, the authority to decide one or more issues and waive your preferential subscription rights to the equity securities to be issued. If applicable, it shall be responsible for determining the final issuance terms and conditions of these transactions.

It is the Management Board's responsibility to prepare a report in accordance with Articles R.225-113, R.225-114 and R.225-117 of the French Commercial Code. Our role is to express an opinion on the fairness of the quantified data extracted from the financial statements, on the proposed cancellation of preferential subscription rights and on certain other information pertaining to the issuance as presented in this report.

We performed the procedures that we considered necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) applicable to this engagement. Such procedures consisted in verifying the contents of the Management Board's report as it relates to this transaction and the conditions in which the issue price of the equity securities to be issued was determined.

Subject to our review in due course of the terms and conditions of the proposed issue, we have no comments on the procedures for determining the share issue price of the equity securities to be issued presented in the Management Board's report.

As the issue price of the equity securities to be issued has not been determined, we express no opinion on the final terms and conditions under which the shares shall be issued and, consequently, on the proposed cancellation of preferential subscription rights on which you are asked to vote.

In accordance with Article R.225-116 of the French Commercial Code, we shall issue a supplementary report, where necessary, when this delegation is utilized by your Management Board.

VI – Free grant of existing shares or shares to be issued to salaried employees and Corporate Officers, of companies of the Vallourec group, located outside France, or certain categories of them (*25th resolution*)

In accordance with the procedures set forth in Article L.225-197-1 of the French Commercial Code (*Code de commerce*), we hereby report to you on the proposed grant, on one or more occasions, of existing shares or shares to be issued (excluding preferred shares) to beneficiaries that the Management Board will determine from among employees and Corporate Officers, or certain categories of them, of affiliated companies or groupings of the Company under the conditions set forth in Article L.225-197-2 of this Code and whose headquarters are located outside of France.

The number of existing shares or shares to be issued pursuant to this authorization may not represent more than 0.3% of the share capital of the Company as of the date on which the decision is made by the Management Board, as increased by the number of shares allocated as adjustments in order to preserve the rights of the beneficiaries of the free grants of shares in the event of transactions on the share capital or shareholders' equity of the Company, it being specified that the maximum nominal amount of capital increases likely to be carried out immediately or in the future, pursuant to this delegation will be deducted from the overall ceiling of €117 million set forth in paragraph 2. of the *12th resolution*.

This issue is subject to your approval subject to the condition precedent of adoption of the *22nd*, *23rd* and *24th resolutions* submitted to this Shareholders' Meeting and may only be used for the requirements of an employee shareholders' offering carried out pursuant to the *22nd* and/or *23rd resolutions*.

The Management Board recommends that you confer on it, for a period of 26 months, the authority to grant free shares, whether existing or to be issued, on one or more occasions. It is responsible for preparing a report on the transaction that it wishes to carry out. Our role is to inform you of our comments, if any, on the information thus given to you on the proposed transaction.

We performed the procedures that we considered necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) applicable to this engagement. Our work consisted in verifying more specifically that the proposed procedures and data presented in the Management Board's report comply with the legal provisions.

We have no comments to make on the information given in the Management Board's report in connection with the proposed grant of free shares.

VII – Free grant of existing performance shares or shares to be issued to salaried employees and Corporate Officers of companies of the Vallourec group, or certain categories of them (*26th resolution*)

In accordance with the procedures set forth in Article L.225-197-1 of the French Commercial Code (*Code de commerce*), we hereby report to you on the proposed issue, on one or more occasions, of existing shares or shares to be issued to beneficiaries that the Management Board will determine from among employees and corporate officers, or certain categories of them, of the Company or of affiliated companies or groupings under the conditions set forth in Article L.225-197-2 of this Code as well as Corporate Officers, or certain categories of them, of the Company or of affiliated companies or groupings that meet the conditions referred to in Article L.225-197-1, II of this Code.

The number of shares allocated pursuant to this authorization may not represent more than 1% of the share capital of the Company, as of the date on which the decision is made by the Management Board, as increased by the number of shares allocated as adjustments in order to preserve the rights of the beneficiaries of the free grants of shares in the event of transactions on the share capital or shareholders' equity of the Company, it being specified that:

- the shares allocated pursuant to this resolution will de deducted from the share subscription and purchase option ceiling set forth in the *21st resolution* adopted by the Shareholders' Meeting of June 4, 2009;
- the maximum nominal amount of share capital increases likely to be performed, immediately or in the future, pursuant to this delegation, will be deducted from the overall ceiling of €117 million set forth in paragraph 2. of the *12th resolution*.

The final grant of shares will be subject to performance conditions of the Vallourec group assessed during the vesting period and to a condition of presence in the Group for the beneficiaries.

The Management Board recommends that you confer on it, for a period of 38 months, the authority to grant free shares, whether existing or to be issued, on one or more occasions. It is responsible for preparing a report on the transaction that it wishes to carry out. Our role is to inform you of our comments, if any, on the information thus given to you on the proposed transaction.

We performed the procedures that we considered necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) applicable to this engagement. Our work consisted in verifying more specifically that the proposed procedures and data presented in the Management Board's report comply with the legal provisions.

We have no comments to make on the information given in the Management Board's report in connection with the proposed grant of free shares.

VIII – Capital decrease through the cancellation of own shares (*27th resolution*)

In accordance with the procedures set forth in Article L.225-209 of the French Commercial Code (*Code de commerce*) in the event of a capital decrease through cancellation of shares purchased, we hereby report to you on our assessment of the reasons for and terms and conditions of the proposed capital decrease.

Your Management Board recommends that you confer on it, for a period of 26 months, the authority to cancel, on one or more occasions, up to a maximum of 10% of its share capital, by 24 month periods, the shares purchased by the Company pursuant to the authorization to purchase its own shares as part of the provisions of the aforementioned Article.

We performed the procedures that we considered necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (Compagnie Nationale des Commissaires aux Comptes) applicable to this engagement. Our procedures consisted, in particular, in verifying the fairness of the reasons for and the terms and conditions of the proposed decrease in share capital, and ensuring that it does not interfere with the equal treatment of shareholders.

We have no comments on the reasons for and the terms and conditions of the proposed decrease in share capital.

Paris La Défense and Neuilly-sur-Seine, 15 April, 2011

The Statutory Auditors

KPMG Audit		**Deloitte & Associés**	
A division of KPMG SA			
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Jean-Marc Lumet

8.5.6 SUPPLEMENTARY STATUTORY AUDITORS' REPORT TO THE REPORT DATED 28 APRIL 2009 ON CAPITAL INCREASES WITH CANCELLATION OF PREFERENTIAL SUBSCRIPTION RIGHTS AUTHORIZED BY THE EXTRAORDINARY GENERAL MEETING OF JUNE 4, 2009 IN THE *SEVENTEENTH, EIGHTEENTH* AND *NINETEENTH RESOLUTIONS*

Decision of the Management Board of 10 November 2010

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 10 November 2010, to proceed with capital increases for a maximum nominal global amount of €.5,765,644 by issuing a maximum of 2,882,822 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 Value Plan International SAS, controlled by Credit Agricole CIB, 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 June 30, 2010 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, 15 April, 2011

The Statutory Auditors

KPMG Audit		**Deloitte & Associés**	
A division of KPMG SA			
Jean-Paul Vellutini	Philippe Grandclerc	Jean-Paul Picard	Jean-Marc Lumet

8.6 SUBSIDIARIES AND DIRECTLY-HELD PARTICIPATING INTERESTS AT 31 DECEMBER 2010

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 securities 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. €2,358 THOUSAND)		-	-	-	-	-	-	-	-	-
I. Subsidiaries (at least 50%-owned)	-	-	-	-	-	-	-	-	-	-
French companies	-	-	-	-	-	-	-	-	-	-
Vallourec & Mannesmann Tubes 27, avenue du Général-Leclerc 92100 Boulogne-Billancourt	492,584	1,443,194	100,00	1,056,403	1,056,403	1,522,945	-	38,394	606,840	524,438
B) SUBSIDIARIES AND PARTICIPATING INTERESTS WITH A CARRYING AMOUNT OF LESS THAN 1% OF VALLOUREC'S CAPITAL (I.E. €2,358 THOUSAND)	-	-	-	-	-	-	-	-	-	-
I. Subsidiaries (at least 50%-owned)	-	-	-	-	-	-	-	-	-	-
a) French companies	-	-	-	-	-	-	-	-	-	-
Valsept 27, avenue du Général-Leclerc 92100 Boulogne-Billancourt	37	23	100.00	46	23	-	-	0	(2)	0
Assurval 27, avenue du Général-Leclerc 92100 Boulogne-Billancourt	10	261	99.00	8	8	-	-	588	107	117
b) Foreign companies										
Vallourec Tubes Canada	750	1,982	100	604	604	-	-	48,469	895	1,184
II. Participating interests (10%- to 50%-owned)										
a) French companies	-	-	-	-	-	-	-	-	-	-
b) Foreign companies	-	-	-	-	-	-	-	-	-	-
C) SECURITIES										
a) French companies	-	-	-	-	-	-	-	-	-	-
b) Foreign companies	-	-	-	-	-	-	-	-	-	-
Sumitomo Metal Industries	-	-	0.98	81,947	81,947	-	-	-	-	1,963

8.7 FIVE-YEAR FINANCIAL SUMMARY

In €	2006	2007	2008	2009	**2010**
CAPITAL					
Share capital	**212,047,480**	**212,154,880**	**215,154,864**	**229,123,156**	**235,888,164**
Number of ordinary shares in issue	53,011,870	53,038,720	53,788,716	57,280,789	117,944,082
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	30,660	147,308	212,100	500,000	1,511,800
• by bond redemptions	-	-	-	-	-
OPERATIONS AND RESULTS FOR THE FINANCIAL YEAR					
Sales excluding taxes	-	-	4,093,551	108,188	3,938,925
Profit (loss) before tax, employee profit sharing, depreciation and amortization, and provisions	158,527,985	533,143,895	715,270,552	413,810,495	505,369,693
Income tax	-13,234,248	-21,998,166	-15,892,775	-11,559,643	-15,030,740
Employee profit sharing for the financial year	-	-	-	-	-
Profit (loss) after tax, employee profit sharing, depreciation and amortization, and provisions	172,068,021	553,894,374	730,835,635	427,376,831	515,485,566
Dividends distributed	**318,071,220**	**583,425,920**	**322,732,296**	**200,482,762**	**153,327,307**
PER SHARE DATA					
Profit (loss) after tax and employee profit sharing, but before depreciation and amortization, and provisions	3.24	10.47	13.59	7.43	4.41
Profit (loss) after tax, employee profit sharing, depreciation and amortization, and provisions	3.25	10.44	13.59	7.46	4.37
Dividend allotted to each share (*)	**6.00**	**11.00**	**6.00**	**3.50**	**1.30**
Adjusted dividend per share (*)	**3.00**	**5.50**	**3.00**	**1.75**	**1.30**
EMPLOYEES					
Average number of employees during the financial year	5	4	7	7	6
Payroll during the financial year	732,844	353,485	1,633,803	2,566,640	3,220,974
Payroll-related costs (social security, employee benefits, etc.)	258,138	85,419	903,538	929,471	1,746,856

(*) The adjustment is intended to take account of the 2:1 stock split on 9 July 2010.

8.8 ANNUAL INFORMATION DOCUMENT (INFORMATION PUBLISHED OR MADE PUBLIC BY THE COMPANY DURING THE LAST 12 MONTHS)

In accordance with the provisions of Article 222-7 of the General Regulations of the French securities regulator (l'*Autorité des Marchés Financiers* – AMF), the annual information document contains all the information that the Company has published or made public during the last 12 months, in one or more States that are parties to the Agreement on the European Economic Area or in one or more non-member States, in order to satisfy its legislative or regulatory obligations with regard to financial instruments, issuers of financial instruments and financial securities markets.

PUBLICATIONS IN THE BALO

Notice of Shareholders' Meeting of 31 May 2010	http://www.journal-officiel.gouv.fr	16/04/2010	Bulletin 46	Item 1001250
Information on the number of shares and voting rights on the date of the Shareholders' Meeting of 31 May 2010	http://www.journal-officiel.gouv.fr	11/06/2010	Bulletin 70	Item 1003375
Approval of the Company and consolidated financial statements for the year ended 31 December 2009 and the Statutory Auditors' report	http://www.journal-officiel.gouv.fr	02/08/2010	Bulletin 92	Item 1004730

DEEDS FILED WITH THE REGISTRY OF THE COMMERCIAL COURT OF NANTERRE

Extracts of the minutes of the Extraordinary Shareholders' Meeting of 4 June 2009 and minutes of the Management Board meeting of 17 December 2009 relating to the "Value 09" employee share ownership offering	http://www.infogreffe.fr
By-laws updated on 17 December 2009	http://www.infogreffe.fr
Filing of 2009 financial statements	http://www.infogreffe.fr
Extracts of the minutes of the Management Board meeting of 2 July 2010 relating to the payment of the dividend in shares	http://www.infogreffe.fr
Extracts of the minutes of the Supervisory Board meeting of 13 May 2009 relating to the provisional appointment of a member of the Supervisory Board	http://www.infogreffe.fr
Extracts of the minutes of the Ordinary Shareholders' Meeting of 31 May 2010 relating to the appointment of two members of the Supervisory Board	http://www.infogreffe.fr
Extracts of the minutes of the Management Board meeting of 2 July 2010 relating to the capital increase resulting from the payment of the dividend in shares	http://www.infogreffe.fr
Extracts of the minutes of the Extraordinary Shareholders' Meeting of 31 May 2010 and of the Management Board meeting of 9 July 2010 relating to the 2:1 stock split	http://www.infogreffe.fr
By-laws updated on 9 July 2010	http://www.infogreffe.fr
Extracts of the minutes of the Extraordinary Shareholders' Meeting of 4 June 2009 and minutes of the Management Board meeting of 10 November and 3 December 2010 relating to the "Value 10" employee share ownership offering	http://www.infogreffe.fr
By-laws updated on 3 December 2010	
Letter from a corporate body that is a Supervisory Board member relating to the appointment of a new permanent representative	http://www.infogreffe.fr
Extract from the minutes of the Supervisory Board meeting of 13 December 2010 relating to the provisional appointment of a Supervisory Board member	http://www.infogreffe.fr

PUBLICATIONS IN THE JOURNALS OF LEGAL NOTICES

Capital increase following the "Value 09" employee share ownership offering	Petites affiches no. 41 of 7 April 2010
Capital increase following the payment of the dividend in shares	Petites affiches no. 188 of 21 September 2010
Appointment of two Supervisory Board members	Petites affiches no. 188 of 21 September 2010
Change of permanent representative of a corporate body that is a Supervisory Board member	Petites affiches no. 10 of 14 January 2011
Appointment of a Supervisory Board member	Petites affiches March 2011

REGISTRATION DOCUMENT AND PERIODIC FINANCIAL INFORMATION

The quarterly information, half-year financial report and Registration Document which includes the annual financial report are available on Vallourec's website (www.vallourec.com – Headings: "Finance", then "Regulated information"). The Registration Document is also available on the AMF's website (www.amf-france.org).

DECLARATIONS OF SENIOR MANAGEMENT'S TRANSACTIONS IN VALLOUREC'S SHARES

The individual declarations relating to transactions in Vallourec's shares carried out by the persons referred to in Article L.621-18-2 of the French *Code monétaire et financier* are available on the AMF's website (www.amf-france.org) and detailed in the Management Board's management report to the Shareholders' Meeting of 7 June 2011 (see Section 8.1.1. above).

MONTHLY DECLARATION OF NUMBER OF SHARES AND VOTING RIGHTS

The declarations relating to the total number of shares and voting rights have been published each month on Vallourec's website (www.vallourec.com – Headings: "Finance" then "Regulated information").

DECLARATIONS OF CROSSING THRESHOLDS

The declarations of crossing thresholds are available on the AMF's website (www.amf-france.org).

SHARE BUYBACKS

A description of the share buyback programme as well as the declarations and half-yearly summaries are published on Vallourec's website (www.vallourec.com – Headings: "Finance" then "Regulated information").

PRESS RELEASES AND FINANCIAL NOTICES

PRESS RELEASES

Financial Agenda 2010	http://www.vallourec.com	
FSI	http://www.vallourec.com	11/02/2010
Investment in the US	http://www.vallourec.com	15/02/2010
Supervisory Board	http://www.vallourec.com	23/02/2010
2009 Full Year Results	http://www.vallourec.com	23/02/2010
Vallourec acquires Serimax	http://www.vallourec.com	21/04/2010
2010 First Quarter Results	http://www.vallourec.com	12/05/2010
Vallourec welcomes the visit of Barack Obama	http://www.vallourec.com	18/05/2010
Shareholders' Meeting of 31 May 2010	http://www.vallourec.com	31/05/2010
Dividend payment in respect of the financial year 2009	http://www.vallourec.com	01/07/2010
Value 10	http://www.vallourec.com	09/07/2010
Vallourec reinforces its local offer in China for the power generation business	http://www.vallourec.com	28/07/2010

PRESS RELEASES

Vallourec reports Q2 and Half Year 2010 results	http://www.vallourec.com	28/07/2010
Vallourec hosts visit from the French President	http://www.vallourec.com	03/09/2010
Vallourec reinforces its presence on the Chinese oil & gas market	http://www.vallourec.com	15/09/2010
Vallourec invests in China on the nuclear energy market	http://www.vallourec.com	29/09/2010
New sponsored ADR programme in the US	http://www.vallourec.com	04/10/2010
Vallourec reports Q3 2010 results	http://www.vallourec.com	09/11/2010
Value 10 employee share offering	http://www.vallourec.com	10/11/2010
Success of Value 10	http://www.vallourec.com	03/12/2010
Supervisory Board changes	http://www.vallourec.com	13/12/2010

FINANCIAL NOTICES

Financial notice: 2009 full-year sales and results	http://www.vallourec.com	23/02/2010
	http://www.euronext.com	23/02/2010
	And circulation as required by law by Hugin	23/02/2010
	Les Échos	25/02/2010
	Le Figaro économie	25/02/2010
	Investir Hebdo	27/02/2010
	Le journal des finances	27/02/2010
	Le Revenu Hebdo	26/02/2010
Invitation to Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010	Les Échos	07/05/2010
	Le Revenu Hebdo	07/05/2010
	Le journal des finances	07/05/2010
	Investir Hebdo	07/05/2010
Financial notice: 2010 second quarter and first half results	http://www.vallourec.com	28/07/2010
	http://www.euronext.com	28/07/2010
	And circulation as required by law by Hugin	28/07/2010
	Les Échos	30/07/2010
	Investir Hebdo	31/07/2010
Financial notices: 2010 full-year sales and results	http://www.vallourec.com	23/02/2011
	http://www.euronext.com	23/02/2011
	And circulation as required by law by Hugin	23/02/2011
	Les Échos	25/02/2011
	Le Figaro économie	25/02/2011
	Investir Le journal des finances	26/02/2011
	Le Revenu Hebdo	04/03/2011

8.9 CONCORDANCE TABLES AND INFORMATION INCLUDED FOR REFERENCE

8.9.1 CONCORDANCE TABLE OF THE VALLOUREC REGISTRATION DOCUMENT FACILITATING THE IDENTIFICATION OF THE INFORMATION STIPULATED IN APPENDIX I OF EC REGULATION NO. 809/2004 OF 29 APRIL 2004

Appendix I of the European prospectus regulations		Vallourec Registration Document	
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Appendix I of the European prospectus regulations		Vallourec Registration Document	
		Section	Page
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16.2	Information about members of the supervisory and management bodies' service contracts with the Group	6.1.6	184
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8.9.2 CONCORDANCE TABLE BETWEEN THE REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT

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4	Statutory Auditors' report on the consolidated financial statements	8.5.3	288
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8	Report of the Chairman of the Supervisory Board on the conditions governing the preparation and organization of the Board's work and on the internal control and risk management procedures implemented by Vallourec (Article 222-9 of the AMF's general regulations)	8.2	249
9	Statutory Auditors' report on the report of the Chairman of the Supervisory Board (Article 222-9 of the AMF's general regulations)	8.5.4	290
10	Information published or made public by Vallourec during the last 12 months (Article 222-7 of the AMF's general regulations)	8.8	299

8.9.3 INFORMATION INCLUDED FOR REFERENCE

In accordance with Article 28 of European Commission Regulation no. 809/2004 of 29 April 2004, this Registration Document includes the following information for reference:

- the statutory and consolidated financial statements for the financial year ended 31 December 2009, the related Statutory Auditors' reports and the management report presented, respectively, in Section 5.2 (pages 145 to 157), Section 5.1 (pages 58 to 144), Sections 8.6.1 to 8.6.4 (pages 238 to 243) and Section 8.1.1 (pages 198 to 215) of the 2009 Registration Document, filed with the French securities regulator (*Autorité des Marchés Financiers*) on 19 April 2010 under number D.10-0285;
- the statutory and consolidated financial statements for the financial year ended 31 December 2008, the related Statutory Auditors' reports and the management report presented, respectively, in Section 5.2 (pages 133 to 145), Section 5.1 (pages 52 to 132), Sections 8.3.1 to 8.3.4 (pages 212 to 216) and Section 8.1.1 (pages 168 to 201) of the 2008 Registration Document, filed with the French securities regulator (*Autorité des Marchés Financiers*) on 30 April 2009 under number D.09-0364.

8.10 OTHER PERIODIC INFORMATION REQUIRED UNDER THE TERMS OF THE GENERAL REGULATIONS OF THE FRENCH SECURITIES REGULATOR (*AUTORITÉ DES MARCHÉS FINANCIERS* – AMF)

The Registration Document includes certain of the periodic information required under the terms of the AMF's general regulations. The following table provides details of the pages on which this information appears.

	Registration Document	
	Sections	Pages
Information published or made public by Vallourec during the last 12 months (Article 222-7 of the AMF's general regulations)	8.6	299
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 (Article 222-9 of the AMF's general regulations)	8.2	249
Statutory Auditors' report on the report prepared by the Chairman of the Supervisory Board of Vallourec (Article 222-9 of the AMF's general regulations)	8.5.4	290
Auditors' remuneration (Article 222-8 of the AMF's general regulations)	5.1 (Note 26)	133
Description of share buyback programme (Article 241-2 of the AMF's general regulations)	2.2.4.2	15

GLOSSARY

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 tube used to drill oil or gas wells. Drill pipes 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 metal or 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 subsequently 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.

ERRATUM

We draw your attention on a typo in page 288 of the English version of the 2010 Registration Document and annual financial report (*chapter 8.5.3 – Statutory Auditors' report on the consolidated financial statements of the fiscal year ended 31 December 2010 - Section I - Opinion on the consolidated financial statements*).

The second paragraph drafted as follows:

"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."

Shall be replaced by the following paragraph:

"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 2010 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".

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A French limited liability company *(société anonyme)* with Management and Supervisory Boards and issued capital of €235,888,164