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Financial statements

	Page		Page
5.1 CONSOLIDATED FINANCIAL STATEMENTS	52		
A - CONSOLIDATION PRINCIPLES	59		
1. Framework for the preparation and presentation of financial statements	59	Note 24 Payroll costs and average number of employees in consolidated companies	121
2. Accounting principles	59	Note 25 Other operating costs	124
3. Segment reporting	68	Note 26 Statutory Auditors' fees	125
B - CONSOLIDATION SCOPE	69	Note 27 Charges to provisions net of reversals	126
C - NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	72	Note 28 Charges to depreciation and amortization	126
Note 1 Intangible assets and goodwill	72	Note 29 Asset disposals and restructuring costs	126
Note 2 Property, plant and equipment	74	Note 30 Financial income (loss)	127
Note 3 Investments in equity affiliates	76	Note 31 Reconciliation of theoretical and actual tax charge	128
Note 4 Other non-current assets	77	Note 32 Segment information	129
Note 5 Deferred taxation	78	Note 33 Post-balance-sheet events	132
Note 6 Inventories and work-in-progress	82		
Note 7 Trade and other receivables	83	5.2 COMPANY FINANCIAL STATEMENTS OF VALLOUREC SA	133
Note 8 Financial instruments	83	A - SIGNIFICANT EVENTS, MEASUREMENT METHODS AND COMPARABILITY OF FINANCIAL STATEMENTS	135
Note 9 Other current assets	94	B - ACCOUNTING PRINCIPLES	135
Note 10 Cash and cash equivalents	94	C - NOTES TO THE BALANCE SHEET	137
Note 11 Business combinations	95	1. Movements in non-current assets	137
Note 12 Shareholders' equity	96	2. Marketable securities	138
Note 13 Earnings per share	97	3. Receivables and payables	138
Note 14 Minority interests	98	4. Translation differences on foreign currency denominated receivables and payables	139
Note 15 Bank loans and other borrowings	98	5. Shareholders' equity	140
Note 16 Provisions	102	6. Provisions for liabilities and charges	143
Note 17 Employee benefits	104	7. Bank loans and other borrowings	143
Note 18 Other current liabilities	116	D - NOTES TO THE INCOME STATEMENT	144
Note 19 Information on related parties	117	E - OTHER INFORMATION	144
Note 20 Off-balance-sheet commitments	119		
Note 21 Sales	120		
Note 22 Other operating revenues	121		
Note 23 Taxes and duties	121		

5.1 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET *(in € thousand)*

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

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

CONSOLIDATED INCOME STATEMENT *(in € thousand)*

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

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

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

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

STATEMENT OF CHANGES IN MINORITY INTERESTS (in € thousand)

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

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

CONSOLIDATED CASH FLOW STATEMENT (in € thousand)

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

In thousands of euros (€ thousand) unless stated otherwise.

A - Consolidation principles

1. FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

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

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

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

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

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

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

- IFRS 8 "Operating Segments", which is applicable as from 1 January 2009: Vallourec has continued to report as at 31 December 2008 in accordance with IAS 14 "Segment Reporting" as described in Section 3. The segments presented already comply with the requirements of IFRS 8 and the Group would not need to make any material changes to its segment information;
- the amendments to IAS 23 "Borrowing Costs", which require borrowing costs to be capitalized as part of the cost of qualifying assets (i.e. assets which take a substantial period of time to get ready for commissioning or manufacture). This amendment is to be applied prospectively, which will result in an improvement in the Group's financial income and net income in 2009 followed by a deterioration in the Group's income during the years in which this capitalized financial component is amortized. The Group does not expect the impact of this amendment to be material in 2009;

- revised IAS 1 "Presentation of Financial Statements": this standard requires the presentation of a company's comprehensive income either in the form of a single statement or in the form of two separate statements. The Group has opted to retain in 2008 the current headings in its financial statements and to present the statement of comprehensive income in two sections, while retaining its current income statement format;
- IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

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

The other legislation adopted by the European Union ⁽¹⁾ does not affect Vallourec.

2. ACCOUNTING PRINCIPLES

2.1 General measurement principles

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

2.2 Use of estimates

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

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

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

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

2.3 Consolidation of subsidiaries controlled by Vallourec

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

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

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

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

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

2.4 Consolidation of joint venture companies

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

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

2.5 Investments in equity affiliates

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

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

2.6 Foreign currency translation

2.6.1 Translation of subsidiaries' foreign-currency denominated financial statements

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

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

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

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

2.6.2 Translation of foreign-currency denominated transactions

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

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

2.7 Property, plant and equipment

2.7.1 Measurement at cost net of depreciation and impairment losses

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

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

2.7.2 Component approach

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

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

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

2.7.3 Maintenance and repair costs

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

2.7.4 Depreciation

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

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

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

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

2.7.6 Impairment

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

2.8 Leases

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

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

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

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

2.9 Goodwill

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

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

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

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

2.10 Intangible assets

2.10.1 Research and Development costs

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

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

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

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

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

2.10.2 Other intangible assets

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

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

2.10.3 Impairment

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

2.11 Impairment of property, plant and equipment and intangible assets

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

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

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

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

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

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

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

2.12 Inventories and work-in-progress

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

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

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

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

2.13 Assets held for sale and discontinued operations

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

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

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

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

2.14 Provisions

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

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

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

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

2.15 Retirement and similar commitments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.16 Share-based payment

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

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

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

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

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

The Group retrospectively measured, on the grant date, the only share purchase option plan that fell within the scope of IFRS 2 as at 1 January 2005.

- ▶ Certain Group officers and employees benefit from performance share allocation plans under which the vesting of rights is linked to the Group's performance (measured by the growth in consolidated EBITDA). These plans are measured using a binomial model to project share price.
- ▶ Vallourec offers its employees the opportunity of investing in employee share ownership plans, which are measured using a binomial model to project share price.

2.17 Own shares

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

2.18 Financial instruments

Financial instruments comprise financial assets and liabilities and derivatives.

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

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

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

2.18.1 Financial assets

Financial assets comprise:

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

Initial measurement

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

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

Classification and measurement on the balance sheet date

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

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

Financial assets at fair value through profit or loss

This category of assets comprises:

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

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

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

Held-to-maturity investments

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

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

Loans and receivables

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

In the Vallourec Group, this category includes:

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

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

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

Available-for-sale financial assets

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

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

Impairment testing of financial assets

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

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

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

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

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

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

2.18.2 Cash and cash equivalents

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

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

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

2.18.3 Financial liabilities

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

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

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

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

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

2.18.4 Derivatives and hedge accounting

Group’s exposure to exchange rate risks on commercial transactions

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

The Group manages its exposure to exchange rate risk by implementing hedges on the basis of regularly updated forecasts of customer orders. Operating receivables and revenues that will be

generated by the orders are thus hedged by financial instruments, mainly forward sales of currencies.

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

Measurement and presentation of derivatives

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

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

Hedge accounting

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

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

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

Hedge accounting within the Group is as follows.

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

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

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

If the hedging instrument is not effective (a rare occurrence given the procedures introduced by the Group), the change in the intrinsic value of the derivative is recognized in financial income or loss;

- ▶ the change in the time value (premium/discount). This change is systematically recognized in financial income or loss, since this component is not included in the hedging relationship.

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

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

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

2.19 Tax

Income tax comprises current and deferred tax.

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

The main types of deferred tax recognized are:

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

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

Deferred tax balances are never discounted.

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

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

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

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

2.20 Sales

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

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

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

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

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

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

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

2.21 Determination of operating income (loss)

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

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

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

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

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

2.22 Earnings per share

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

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

3. SEGMENT REPORTING

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

- the "Seamless tubes" reporting format segment, which covers all the entities with production and marketing facilities dedicated to the Group's main activity, i.e. the production of hot-rolled seamless carbon and alloy steel tubes, both smooth and threaded, for the oil and gas industry. This activity is characterized by a highly-integrated manufacturing process, from the production of the steel and the hot-rolling right through to the final stages, facilitating the manufacture of products that are suitable for a variety of markets (oil & gas, power generation, chemicals and petrochemicals, automotive and mechanical engineering, etc.);

- the "Automotive and Speciality Products" reporting segment. This segment incorporates a number of activities whose characteristics are very different from those described above but which are not presented separately due to their relative immateriality. Such treatment is authorized by IAS 14. It includes the production of stainless steel and titanium tubes as well as specific forming and machining activities.

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

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

Business segments

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

Geographical segments

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

B - Consolidation scope

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

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

The Group does not control any special purpose entities.

2008

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

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

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

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

2007

Salzgitter and Vallourec signed the definitive agreement regarding the sale of Vallourec Précision Étirage (VPE) and the hot-rolling tube mill in Zeithain (Saxony) which had been announced on 13 December 2006. The sale was effective on 2 July 2007. VPE, which specializes in the manufacture of cold drawn precision tubes, achieved sales of €124.2 million in the first six months of 2007. VPE and the Zeithain plant employed 1,561 staff. The assets and liabilities concerned were shown as assets held for sale at the end of 2006 (Note 11).

On 19 July 2007, Vallourec and Sumitomo Metals signed a joint venture agreement defining the ownership structure of the entity that will build and operate a new, state-of-the-art, integrated pipe mill in Brazil.

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

Vallourec & Sumitomo Tubos do Brasil is proportionately consolidated into the Group's financial statements.

On 19 November 2007, Vallourec opened the share capital of its Chinese plant for threading seamless tubing (VAM Changzhou Oil & Gas Premium Equipments) to Sumitomo by selling to it 49% of VAM Holding Hong Kong, the holding company which owns 100% of the Chinese-based company.

VAM Holding Hong Kong and VAM Changzhou Oil & Gas Premium Equipments are proportionately consolidated into the Group's financial statements.

On 11 December 2007 Vallourec sold Vallourec Précision Soudage (VPS) and Vallourec Composants Automobiles Vitry (VCAV) to ArcelorMittal.

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

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

2006

The acquisition by V & M Tubes of VAM Drilling France (formerly SMFI), which is located in Cosne-sur-Loire, in France, supplemented the Group's drilling products activity.

The acquisition by Valtimet of 75% of CST Valinox Ltd (formerly CST Ltd). This Indian company, which is located in Hyderabad, specializes in the production of tubes for power plant condensers for the Indian market.

The sales of Spécitubes, the European leader in tubes for the aerospace industry, to the German company Pfalz-Flugzeugwerke GmbH, of Escofier Technologie to the company's management and of Cerec, the French leader in the pressing and forming of steel ends, to Eureka Metal Srl, a subsidiary of the Italian family-owned group Calvi Holding Srl.

The formation of VAM Changzhou Oil & Gas Premium Equipments, a wholly-owned subsidiary of V & M Tubes, which operates a plant for threading seamless steel tubing and casing for oil & gas drilling.

The acquisition on 28 December 2006 of the 43.7% interest in Valtimet held by Timet (a US group) for USD 75 million. Valtimet is a joint venture formed in 1997 in which Vallourec has a 51.3% controlling interest. Vallourec's stake in Valtimet thus increased to 95%, the remaining 5% being owned by Vallourec's long-standing partners Sumitomo Corp. and Sumitomo Metal Industries. The goodwill generated by the acquisition (€29 million) has been deducted from shareholders' equity (Section 2.9).

On 31 December 2006 the internal restructuring of the Vallourec Group was completed. The aim of the restructuring was to rationalize the Group's internal organization and structure following the transactions detailed below, which resulted in Vallourec owning 100% of the share capital of V & M Tubes:

- the transfer by Setval of its activities carried on at the Vallourec Research Centre (*Centre d'Etudes de Vallourec – CEV*), located at Aulnoye-Aymeries (Nord) and at the Vallourec Information Technology Centre (*Centre de Traitement Informatique de Vallourec – CTIV*) located at Saint-Saulve (Nord) to V & M France with retroactive effect to 1 January 2006;

- the merger of Setval and ValTubes with V & M Tubes with retroactive effect to 1 January 2006.

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

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

Note 1 Intangible assets and goodwill

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

Intangible assets

- ▶ In 2006, the €8,443 thousand changes in consolidation scope correspond mainly to the acquisition of the assets of VAM Drilling France.
- ▶ In 2007, the impairment loss corresponds to a fall in value of the Omsco brand acquired in 2005 by VAM Drilling USA.
- ▶ In 2008, the changes relate mainly to the intangible assets of V & M Atlas Bradford, V & M Tube Alloy and V & M TCA which were identified and measured by an independent expert as at their

acquisition date (see Note 11). The intangible assets acquired in 2008 and their amortization periods are as follows:

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

Goodwill

ANALYSIS OF NET VALUES

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

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

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

The main components of goodwill relate to the V & M North America CGU. At 31 December 2008, their carrying amount was compared with their value in use, defined as the present value of future cash flows, taken from the latest five-year forecasts. These forecasts have

been prepared taking into account cyclical variations that affect selling prices, volumes and raw material costs. The extrapolation of the forecasts for the last year, projected to infinity, was determined by applying a growth rate of 1%, which is the same as that used for the previous year's tests. Cash flows were discounted at a rate corresponding to the weighted average cost of the Group's capital, incorporating a market risk premium and a risk premium specific to the sector. A rate of 9% was used in 2008 (9% in 2007 and 2006).

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

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

Note 2 Property, plant and equipment

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

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

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

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

2008

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

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

Biological assets

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

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

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

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

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

Leases

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

Note 3 Investments in equity affiliates

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

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

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

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

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

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

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

Note 4 Other non-current assets

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

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

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

MATURITIES OF OTHER NON-CURRENT ASSETS

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

Note 5 Deferred taxation

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

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

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

- long-term deferred tax assets (provisions for retirement commitments — French companies), deferred tax assets for recurring items (provisions for paid holidays, etc.) which are likely to be recovered in the foreseeable future;
- deferred tax liabilities;

- deferred tax liabilities resulting from timing differences in the treatment of provisions for impairment of securities between the tax groups and the consolidated financial statements;

- losses carried forward are recognized only for companies and tax groups in which recovery in the foreseeable future is reasonably certain.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 6 Inventories and work-in-progress

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

Note 7 Trade and other receivables

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

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

The increase in trade receivables is linked to the increase in sales in the last quarter of 2008. The provision reversals relate mainly to

receivables that have become irrecoverable during the year and the remeasurement of provisions.

Note 8 Financial instruments

Financial assets and liabilities

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

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

As explained in Section 2.18 of the accounting principles, the main impact of IAS 32 and IAS 39 relates to the accounting treatment of hedging contracts entered into by the Group in respect of its commercial purchase and sale transactions in foreign currencies. The

Group has also swapped to a fixed rate part of its variable-rate debt. The other effects of the transition to IAS 32 and IAS 39 have had little impact on the financial statements (measurement of housing loans granted to staff in accordance with the effective interest rate method and measurement at fair value of marketable securities).

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

The position regarding hedging instruments changed from net assets of €130 million at 31 December 2007 to net liabilities of €87 million at 31 December 2008. This change is due mainly to the hedging of commercial transactions entered into by the European subsidiaries in US dollars. The depreciation of the euro against the US dollar in 2008 mainly explains the €153 million reduction in hedges in respect of currency purchase and sale forecasts and the €68.6 million reduction in hedges backed by receivables and payables.

In view of the effectiveness of the hedges in accordance with the criteria of IAS 39, the impact to be recognized in the income statement concerns mainly the premium/discount, which is in fact a gain of €14.8 million in respect of the financial year 2008 (Note 30).

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

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

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

(**) Amounts not material in relation to sales.

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

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

(**) Amounts not material in relation to sales.

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

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

(**) Amounts not material in relation to sales.

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

During 2008, in view of the due dates of the orders recorded in the Group's order book at the end of 2007, around 93% of the positive change in fair value allocated to the order book at the end of 2007 was transferred from shareholders' equity to the income statement, within the Group's foreign exchange gain or loss. This amount represents the impact of the changes in value of the exchange rate hedges in respect of the order book and commercial tenders at 31 December 2007, which have been fully or partially unwound or converted into receivables during the year ended 31 December 2008.

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

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

Market risks are composed of interest rate, exchange rate, credit and share price risks. Liquidity risk is dealt with in Note 15.

Interest rate risks

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

TOTAL DEBT

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

TOTAL DEBT

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

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

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

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

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

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

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

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

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

Exchange rate risk

Translation risks

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

If the euro rises (or falls) against another currency, the value in euros of the various assets, liabilities, revenues and costs initially recognized

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

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

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

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

Transaction risk

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

The main foreign currency used is the US dollar: a significant proportion of Vallourec's transactions is invoiced by the Group's European companies in this currency (28% of sales in 2008).

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

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

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

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

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

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

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

At 31 December 2008, the following amounts were outstanding under forward foreign exchange contracts to hedge foreign-currency denominated purchases and sales:

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

CONTRACT MATURITIES AT 31 DECEMBER 2008

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

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

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

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

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

Credit risks

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

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

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

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

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

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

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

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

The total amount of trade receivables that were more than 90 days overdue and against which no provision had been made represented around 4.1% of total trade receivables at 31 December 2008. Vallourec considers that the risk is limited given its existing customer risk management procedures, which include:

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

Share price risks

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

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

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

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

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

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

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

Classification and measurement of financial assets and liabilities

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

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

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

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

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

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

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

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

(*) A - FVTPL Financial assets measured at fair value through profit or loss

HTM Held-to-maturity investments

L & R Loans and receivables

AVS Available-for-sale financial assets

CFH Cash flow hedge

L - FVTPL Financial liabilities measured at fair value through profit or loss

AC Amortized cost

AC - EIR Amortized cost according to the effective interest rate method

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

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

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

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

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

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

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

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

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

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

Note 9 Other current assets

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

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

Note 10 Cash and cash equivalents

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

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

Note 11 Business combinations

2008

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

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

- ▶ brands and patents: over periods of between 7 and 15 years;
- ▶ order book: over periods of between 5 and 9 months;

- ▶ technology and know how: over periods of between 5 and 25 years;
- ▶ customer relations: over periods of between 6 and 14 years.

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

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

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

Customer relations constitute the main component of intangible assets.

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

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

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

2007

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

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

Note 12 Shareholders' equity

Capital

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

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

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

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

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

Reserves, financial instruments

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

- ▶ effective currency hedges in respect of the order book and commercial tenders. Changes in the intrinsic values at the period end are recognized in shareholders' equity;
- ▶ variable-rate borrowings in respect of which interest rate swaps (to a fixed rate) have been entered into. They are accounted for in accordance with the cash flow hedge method. Changes in the fair value of the swap contracts, linked to interest rate movements, are recognized in shareholders' equity.

Translation reserve

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

	USD	GBP	Brazilian Real	Mexican Peso	Others	Total
At 31/12/2006	-26,847	897	30,795	-2,668	-1,543	634
Movements	-45,725	-5,174	31,003	-3,338	-1,438	-24,672
At 31/12/2007	-72,572	-4,277	61,798	-6,006	-2,981	-24,038
Movements	44,887	-12,203	-136,173	-7,240	3,686	-107,043
At 31/12/2008	-27,685	-16,480	-74,375	-13,246	705	-131,081

Main exchange rates used (Euro/Currency): translation of balance sheet items (closing rate) and income statement items (average rate).

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

Note 13 Earnings per share

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

Diluted earnings per share are calculated by dividing the net income for the financial year attributable to the ordinary shareholders by the weighted average number of ordinary shares in issue during the financial year (adjusted for the effects of dilutive options).

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

Earnings per share	2006	2007	2008
Net income attributable to the ordinary shareholders for basic earnings per share	917,005	986,204	967,191
Weighted average number of ordinary shares for basic earnings per share	53,005,890	53,034,478	53,069,970
Weighted average number of own shares for basic earnings per share	-1,348,745	-825,444	-143,317
Weighted average number of shares for basic earnings per share	51,657,145	52,209,034	52,926,653
Earnings per share	17.8	18.9	18.3
Dilution effect - share purchase and share subscription options and performance shares	1,132,572	332,131	159,497
Adjusted weighted average number of ordinary shares for diluted earnings per share	52,789,717	52,541,165	53,086,150
Diluted earnings per share	17.4	18.8	18.2
Dividends paid during the year	2006	2007	2008
In respect of the previous period	1.44	4.00	7.00
Interim dividend in respect of the current period	2.00	4.00	-

Note 14 Minority interests

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

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

Note 15 Bank loans and other borrowings

Liquidity risks

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

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

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

As at 31 December 2008, a tranche of €260 million (included in non-current liabilities) and a tranche of USD 150 million had been drawn down.

In addition, the capital expenditure of V & M do Brasil required this subsidiary to put in place several medium-term financing lines in 2006, 2007 and 2008, denominated in Brazilian reals. The total amount of these lines (317 million reals or €98 million) was spread among several banks (mainly BNDES and BDMG).

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

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

At 31 December 2008, Vallourec was using the USD 300 million (€215.6 million) term loan, which was included in non-current liabilities.

Finally, Vallourec took out a six-year €100 million loan in November 2008 with the Crédit Agricole Group (maturity end October 2014). This loan was drawn down at the end of January 2009. The loan documentation contains commitments of the same type as those entered into under the terms of the €460 million facility described above.

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

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

Financial liabilities - Non-current liabilities

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

Financial liabilities - current liabilities

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

Indebtedness by currency

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

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

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

Breakdown by maturity of current bank loans and other borrowings

	< 3 months	> 3 months and < 1 year	Total
Bank loans	15,189	52,601	67,791
Other borrowings	12	9,038	9,050
Accrued interest on borrowings	2,913	45	2,958
Bank overdrafts (financial liabilities)	4,170	19,831	24,001
Bank overdrafts (other liabilities)	403	120,229	120,632
At 31/12/2008	22,687	201,744	224,432

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

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

Indebtedness by interest rate

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

	Rate < 3%	Rate 3% to 6%	Rate 6% to 10%	Rate > 10%	Total
At 31/12/2006	Rate < 3%	Rate 3% to 6%	Rate 6% to 10%	Rate > 10%	Total
Fixed rates	2,588	411,280	19,779	10,086	443,733
Variable rates	3,618	7,814	32,448	13,287	57,167
TOTAL	6,206	419,094	52,227	23,373	500,900
At 31/12/2007	Rate < 3%	Rate 3% to 6%	Rate 6% to 10%	Rate > 10%	Total
Fixed rates	1,845	435,959	42,301	788	480,893
Variable rates		6,727	44,713	21,986	73,426
TOTAL	1,845	442,686	87,014	22,774	554,319
At 31/12/2008	Rate < 3%	Rate 3% to 6%	Rate 6% to 10%	Rate > 10%	Total
Fixed rates	10,362	509,327	45,629	783	566,101
Variable rates	117,121	78,891	81,891	30,653	308,556
TOTAL	127,483	588,218	127,520	31,436	874,658

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

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

Note 16 Provisions

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

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

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

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

Reorganization measures

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

Provision for tax risks

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

The Brazilian tax authorities have challenged a judgment which resulted in the Group obtaining, in 2006, the reimbursement of 137 million reais of IPI taxes. This judgment was the final judgment of the Court of Appeal. Since the Group believed that a favourable outcome of this case was more probable than improbable, no provision was booked in respect of it.

Other current provisions

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

Note 17 Employee benefits

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

The main actuarial assumptions used to measure the commitments of post-employment benefit schemes, given the duration of the schemes, are as follows:

Main actuarial assumptions	Germany	France	United Kingdom	Other
At 31/12/2006				
Discount rate	4.50%	4.25%	5.25%	between 4.00% and 8.12%
Long-term return on plan assets	n/a	4.50%	6.50%	between 5.00% and 8.12%
Rate of salary increase	2.75%	2.75%	4.25%	between 3.22% and 5.10%
At 31/12/2007				
Discount rate	5.36%	5.15%	5.75%	between 4.00% and 8.12%
Long-term return on plan assets	5.70%	4.90%	6.50%	between 5.00% and 8.12%
Rate of salary increase	2.75%	3.00%	4.50%	between 3.22% and 3.50%
At 31/12/2008				
Discount rate	6.20%	6.20%	6.25%	between 6.21% and 10.24%
Long-term return on plan assets	5.70%	4.00%	6.50%	between 8.50% and 10.24%
Rate of salary increase	2.75%	2.75%	4.25%	between 3.50% and 5.25%

The Vallourec Group participates in the financing of additional retirement schemes or other long-term benefits for its employees, in accordance with custom or legal requirements.

Some of these schemes are defined benefit schemes and the Group has thereby entered into a long-term commitment towards its employees.

In 2003, an exhaustive review was carried out of the defined benefit schemes in respect of all companies within the consolidation scope. No significant amendments have been made to these schemes during subsequent periods.

The commitments not recognized in the balance sheet (mainly actuarial surpluses and deficits) correspond to changes in or the non-crystallization of assumptions, the effect of which is amortized over time using the "corridor" method. However, when preparing the opening IFRS balance sheet as at 1 January 2004, the Vallourec Group decided to recognize all actuarial gains and losses on that date as a reduction in shareholders' equity. Material unrecognized actuarial surpluses and deficits are amortized over the employees' expected remaining period of service in accordance with the corridor method as described in IAS 19 (Germany: 13 years, France: 14 years, United Kingdom: 18 years). The amortization begins in the financial year following the year in which the surpluses and deficits are ascertained.

For 2006, 2007 and 2008:

- the value of payments into the plans was €10,761 thousand in 2006, €40,053 thousand in 2007 and €27,708 thousand in 2008;
- the return on plan investments was €7,190 thousand in 2006, €6,210 thousand in 2007 and € -11,419 thousand in 2008.

The commitments are measured by actuaries independent of the Group. The assumptions used take account of the specific characteristics of the schemes and companies concerned.

The experience variances generated during 2008 for the Group totalled €17.6 million (€3.5 million in 2007 and €10.2 million in 2006).

The Group envisages paying in 2009 an amount of €30.9 million in respect of defined benefit schemes, including €18.9 million in respect of German schemes, €5.2 million in respect of UK schemes and €0.4 million in respect of Brazilian schemes.

Those schemes which are fully or partially outsourced represented a total commitment of €218,884 thousand at 31 December 2008 for assets of €112,574 thousand.

In 2008, a general increase in the discount rates resulted in an overall reduction in commitments generating material actuarial gains. Only the United States used a discount rate lower than that used for 2007 due to very significant downward movements at the end of the year. The plan assets have suffered major losses (around €19 thousand).

France

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

At 31 December 2008 a sensitivity test was carried out on the retirement gratuities and long-service awards: a 1% change in the discount rate would result in a change of about €2.1 million in these commitments.

On 14 September 2005, an additional retirement scheme with its own plan assets was set up for senior management. At the end of 2006 a contribution of €407 thousand was made to outsource the scheme to an insurance company. Since this is a defined benefit scheme, it is measured on an actuarial basis and recognized in accordance with IAS 19 in the case of active employees. As a result of the amortization of past service costs, this scheme has generated a surplus of around €160 thousand (€406 thousand in 2007), which is recognized in the balance sheet since it represents an actual future saving for the Group. The past service cost not recognized amounted to €2,798 thousand at 31 December 2008, €2,875 thousand at 31 December 2007 and €3,136 thousand at 31 December 2006.

Germany

The Group's employees in Germany benefit from a variety of schemes (retirement, deferred compensation, long-service awards and early retirement) which constitute long-term commitments for the Group.

A sensitivity test was carried out on the main German pension plans: a 1% change in the discount rate would result in a change of about €14.4 million in these commitments.

In 2007, one of the schemes was amended, which resulted in a €7,866 thousand increase in the Group's commitments. Most of these commitments correspond to vested rights, of which €7,575 thousand was recognized immediately. The balance will be recognized over the rights vesting period.

In 2007, a €30 million exceptional contribution was paid to a financial institution to cover the Group's commitments in Germany. The Group continued the outsourcing process in 2008 with an additional contribution of €20 million paid to a financial institution.

A new scheme was introduced in 2008, which involves a deferred salary with a supplementary contribution by the employer and a guaranteed rate of return. Past service is not relevant in the case of this scheme.

United Kingdom

The Group participates in the financing of a defined benefit pension scheme for Group employees. The commitments are carried off-balance sheet and managed by leading institutions in the financial markets.

Following the payment of a significant capital sum to finance the scheme, the Group recognized an asset in its financial statements (€1.9 thousand) even though the commitment continued to exceed the plan assets. Local actuaries confirmed that the criteria required for an asset to be recognized have been met.

A sensitivity test was carried out on this plan: a 1% change in the discount rate would result in a change of about €13 million in these commitments.

In respect of the financial year 2008, the actuarial loss totalled €15,993 thousand and corresponded to the variance between the expected return (€4,684 thousand) and the actual return (€ -11,309 thousand). The actuarial loss was not recognized in the balance sheet but was included within the actuarial gains and losses being amortized.

Brazil

In Brazil, the employer participates in the financing of retirement gratuities and long-service awards. The retirement gratuities are partially carried off balance sheet in a pension fund with total assets of €501 thousand at 31 December 2006, €802 thousand at 31 December 2007 and €685 thousand at 31 December 2008. The amounts paid into the fund totalled €712 thousand in 2006, €521 thousand in 2007 and €461 thousand in 2008.

No events occurred during 2008 which would have a material impact on the Group's commitments.

Mexico

Mexico was not one of the countries included in the review as at 31 December 2004 since local standards were considered to be similar to IFRS and any restatement deemed not material. In 2005, measurements in accordance with IAS 19 were carried out. The Group's commitments in Mexico, which amounted to €519 thousand in 2008, €513 thousand in 2007 and €483 thousand in 2006, correspond mainly to retirement gratuities, which are partially financed.

No events occurred during 2008 which would have a material impact on the Group's commitments.

United States

There is a retirement scheme under which benefits are not linked to salary.

As regards the assumption concerning the increase in medical benefits, the rate used will reduce successively from 2005 to 2012 and then be fixed beyond 2012, i.e. from 10.4% to 5.9% for active employees and from 12.2% to 6.5% for retired employees.

The charge for retirement commitments was amended, taking into account the assumption concerning medical benefits that the rate used will reduce successively from 2006 to 2013 and then remain stable beyond 2013, i.e. from 9% to 5% for active employees and from 10.5% to 5.5% for retired employees.

The mortality tables were amended at the end of 2006, resulting in an increase in commitments of around €1 million.

No significant events occurred during 2007 or 2008 which would have a material impact on the Group's commitments.

Other countries

Provisions are made in respect of commitments in other countries in accordance with local standards. They are judged to be not material at Group level.

The charges recognized during the year comprise additional rights acquired in respect of an additional year's service, the change in rights existing at the beginning of the year due to discounting, the past service cost recognized during the period, the expected return on plan assets, the impact of reductions in or liquidations of plans and the amortization of actuarial gains and losses. The portion relating to the discounting of rights is now recognized within financial income or loss and the return on plan assets is recognized within financial income.

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

Charge for the year:	Germany	France	United Kingdom	Other	Total
At 31/12/2006					
Cost of services rendered	5,158	1,786	2,319	2,088	11,351
Interest charges on the commitment	7,013	1,488	4,040	1,254	13,795
Expected return on plan assets	-	-57	-3,939	-398	-4,394
Net actuarial gains/losses recognized during the period	-523	984	408	615	1,484
Past service costs	-	149	-	2	151
Impact of any reduction or liquidation	-	-	-	-	-
Net charge recognized	11,648	4,350	2,828	3,561	22,387
Actual return on plan assets	-	108	6,533	549	7,190
At 31/12/2007					
Cost of services rendered	3,400	1,616	2,664	1,880	9,560
Interest charges on the commitment	7,101	1,583	4,666	1,283	14,633
Expected return on plan assets	-	-77	-4,755	-582	-5,414
Net actuarial gains/losses recognized during the period	960	-2	212	1,118	2,288
Past service costs	7,575	-	-	-	7,575
Impact of any reduction or liquidation	-	-9	-	-	-9
Net charge recognized	19,036	3,111	2,787	3,699	28,633
Actual return on plan assets	-	81	5,646	483	6,210
At 31/12/2008					
Cost of services rendered	4,839	1,326	2,003	1,774	9,942
Interest charges on the commitment	8,190	1,590	4,488	1,484	15,752
Expected return on plan assets	-1,710	-102	-4,684	-705	-7,201
Net actuarial gains/losses recognized during the period	858	-235	-	324	947
Past service costs	88	458	-	114	660
Impact of any reduction or liquidation	-	-3	-	-	-3
Net charge recognized	12,265	3,034	1,807	2,991	20,097
Actual return on plan assets	1,314	19	-11,308	-1,967	-11,942

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

	Germany	France	United Kingdom	Other	Total
Commitments not recognized at 31/12/2005 - Losses/(Gains)	20,433	4,324	15,875	5,877	46,509
Commitments not recognized at 31/12/2006 - Losses/(Gains)	15,110	5,802	13,086	6,027	40,025
Change	-5,323	1,478	-2,789	150	-6,484
Amortization of commitments not recognized during the year (Losses)/Gains	-523	984	408	615	1,484
Commitments not recognized generated during the year - experience adjustments	615	-2,244	-7,461	-1,106	-10,196
Commitments not recognized generated during the year - changes in assumptions	5,233	-122	10,122	-200	15,033
Exchange gains or losses and other	-2	-96	-280	541	163
	5,323	-1,478	2,789	-150	6,484

	Germany	France	United Kingdom	Other	Total
Commitments not recognized at 31/12/2006 - Losses/(Gains)	15,110	5,802	13,086	6,027	40,025
Commitments not recognized at 31/12/2007 - Losses/(Gains)	5,496	4,325	7,902	4,931	22,654
Change	-9,614	-1,477	-5,184	-1,096	-17,371
Amortization of commitments not recognized during the year (Losses)/Gains	960	-2	212	1,118	2,288
Commitments not recognized generated during the year - experience adjustments	-3,435	-661	76	477	-3,543
Commitments not recognized generated during the year - changes in assumptions	11,447	2,124	4,084		17,655
Exchange gains or losses and other	642	16	812	-499	971
	9,614	1,477	5,184	1,096	17,371

	Germany	France	United Kingdom	Other	Total
Commitments not recognized at 31/12/2007 - Losses/(Gains)	5,496	4,325	7,902	4,931	22,654
Commitments not recognized at 31/12/2008 - Losses/(Gains)	427	2,278	11,102	7,338	21,145
Change	-5,069	-2,047	3,200	2,407	-1,509
Amortization of commitments not recognized during the year (Losses)/Gains		-235		324	89
Commitments not recognized generated during the year - experience adjustments	72	-826	-14,767	-2,486	-18,007
Commitments not recognized generated during the year - changes in assumptions	4,634	2,413	8,709	-1,061	14,695
Exchange gains or losses and other	363	695	2,858	816	4,732
	5,069	2,047	-3,200	-2,407	1,509

Actuarial losses linked to experience adjustments in the UK result mainly from losses arising on plan assets.

The changes in assets associated with these benefits are as follows:

Changes in associated assets	Germany	France	United Kingdom	Other	Total
Value of the assets	n/a	900	59,969	4,045	64,914
Return on assets	n/a	108	6,533	549	7,190
Additional benefits	n/a	407	6,547	3,807	10,761
Benefits paid	n/a	-88	-2,611	-912	-3,611
Acquisitions, disposals, liquidations	n/a	469	-	-	469
Impact of changes in exchange rates	n/a	-	1,392	-533	859
At 31/12/2006	n/a	1,796	71,830	6,956	80,582
Value of the assets	-	1,796	71,830	6,956	80,582
Return on assets	-	81	5,646	483	6,210
Additional benefits	30,000	466	7,824	1,763	40,053
Benefits paid	-	-294	-2,874	-243	-3,411
Acquisitions, disposals, liquidations	-	29	-	-	29
Impact of changes in exchange rates	-	-	-6,766	-1,053	-7,819
At 31/12/2007	30,000	2,078	75,660	7,906	115,644
Value of the assets	30,000	2,078	75,660	7,906	115,644
Return on assets	1,314	19	-11,308	-1,967	-11,942
Additional benefits	20,000	460	7,020	788	28,268
Benefits paid	-	-	-2,731	-532	-3,263
Acquisitions, disposals, liquidations	-	-	-	-	-
Impact of changes in exchange rates	-	-	-16,256	123	-16,133
At 31/12/2008	51,314	2,557	52,385	6,318	112,574

Changes in the commitment	Germany	France	United Kingdom	Other	Total
At 31/12/2005	171,728	42,665	85,834	21,173	321,400
Cost of services rendered	5,158	1,786	2,319	2,088	11,351
Interest charges on the commitment	7,013	1,488	4,040	1,254	13,795
Employee contributions	-	-	556	-	556
Actuarial gains and losses generated during the year	-5,847	2,415	-66	1,456	-2,042
Acquisitions/disposals	-	-219	-	-	-219
Payment of benefits	-7,896	-5,065	-2,611	-1,031	-16,603
Exchange rate differences	-	-	1,828	-1,692	136
Other	-	-765	-	-140	-905
At 31/12/2006	170,156	42,305	91,900	23,108	327,469

Changes in the commitment	Germany	France	United Kingdom	Other	Total
At 31/12/2006	170,156	42,305	91,900	23,108	327,469
Cost of services rendered	3,400	1,616	2,664	1,880	9,560
Interest charges on the commitment	7,101	1,583	4,666	1,283	14,633
Employee contributions	-	-	633	-	633
Actuarial gains and losses generated during the year	-8,012	-1,473	-3,269	-895	-13,649
Acquisitions/disposals	-4,784	-9,941	-	-	-14,725
Payment of benefits	-10,060	-2,756	-2,874	-545	-16,235
Scheme amendments	7,866	-4	-	-	7,862
Exchange rate differences	-	-	-7,873	-617	-8,490
Other	-561	-298	-	-206	-1,065
At 31/12/2007	165,106	31,032	85,847	24,008	305,993

Changes in the commitment	Germany	France	United Kingdom	Other	Total
At 31/12/2007	165,106	31,032	85,847	24,008	305,993
Cost of services rendered	4,839	1,326	2,003	1,774	9,942
Interest charges on the commitment	8,190	1,590	4,488	1,484	15,752
Employee contributions	-	-	779	-	779
Actuarial gains and losses generated during the year	-5,101	-1,670	-9,934	1,033	-15,672
Acquisitions/disposals	-	-	-	-	-
Payment of benefits	-10,300	-2,295	-2,731	-653	-15,979
Scheme amendments	-	216	-	-	216
Exchange rate differences	-	-	-18,868	-1,771	-20,639
Other	-	-	-	-106	-106
At 31/12/2008	162,734	30,199	61,584	25,769	280,286

The movements during the year in the net liabilities recognized in the balance sheet were as follows:

Change in the provision:	Germany	France	United Kingdom	Other	Total
Provision at 31/12/2005	151,295	36,702	9,990	11,763	209,750
Total charge for the period	11,648	4,350	2,828	3,561	22,387
Benefits or contributions to the funds	-7,897	-5,052	-5,991	-3,929	-22,869
Impact of changes in exchange rates	-	-	157	-758	-601
Transfer to liabilities held for sale (Note 11)	-4,964	-6,658	-	-	-11,622
Change in consolidation scope and other	-	-1,293	-	-511	-1,804
Provision at 31/12/2006	150,082	28,049	6,984	10,126	195,241
Total charge for the period	19,036	3,111	2,787	3,699	28,633
Benefits or contributions to the funds	-40,060	-3,225	-7,191	-2,058	-52,534
Impact of changes in exchange rates	-	-	-295	14	-281
Change in consolidation scope and other	-30	-2,759	-	-27	-2,816
Provision at 31/12/2007	129,028	25,176	2,285	11,754	168,243
Total charge for the period	12,265	3,034	1,807	2,991	20,097
Benefits or contributions to the funds	-30,300	-2,892	-6,186	-974	-40,352
Impact of changes in exchange rates	-	-	193	-1,614	-1,421
Change in consolidation scope and other	-	-	-	-	-
Provision/(Asset) at 31/12/2008	110,993	25,318	-1,901	12,157	146,567

The following table provides a breakdown of the plan assets:

United Kingdom	31/12/2008		31/12/2007		31/12/2006	
	Proportion	Rate of return	Proportion	Rate of return	Proportion	Rate of return
Equities (UK and Overseas)	60%	7.75%	63%	7.75%	63%	7.75%
Bonds	15%	5.30%	12%	4.87%	12%	5.25%
Property	0%	0.00%	0%	0.00%	0%	0.00%
Other (Cash & Index Linked Gilts)	25%	4.20%	25%	4.22%	25%	4.25%

United States	31/12/2008		31/12/2007		31/12/2006	
	Proportion	Rate of return	Proportion	Rate of return	Proportion	Rate of return
Equities	42%	9.00%	50%	9.00%	55%	10.00%
Bonds	50%	5.00%	40%	5.00%	34%	6.00%
Property	8%	9.00%	10%	9.00%	11%	10.00%
Other	0%	0.00%	0%	0.00%	0%	0.00%

France	31/12/2008		31/12/2007		31/12/2006	
	Proportion	Rate of return	Proportion	Rate of return	Proportion	Rate of return
Equities	0%	0.00%	0%	0.00%	0%	0.00%
Bonds	0%	0.00%	0%	0.00%	0%	0.00%
Property	0%	0.00%	0%	0.00%	0%	0.00%
Other	100%	4.00%	100%	4.50%	100%	4.00%

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

Amounts written off as expenses in respect of defined contribution plans	Manual workers	Management and supervisory staff	Total
At 31/12/2006			
Employer's share of retirement contributions	7,652	11,077	18,729
Life insurance paid by the employer	928	1,385	2,313
Other retirement contributions	462	4	466
TOTAL	9,042	12,466	21,508
At 31/12/2007			
Employer's share of retirement contributions	6,993	10,202	17,195
Life insurance paid by the employer	802	1,206	2,008
Other retirement contributions	478	745	1,223
TOTAL	8,273	12,153	20,426
At 31/12/2008			
Employer's share of retirement contributions	5,019	10,010	15,029
Life insurance paid by the employer	1,008	1,339	2,347
Other retirement contributions	508	71	579
TOTAL	6,535	11,420	17,955

Other employee benefits (options and performance shares)

Share option plans

Characteristics of the plans

Vallourec's Management Board authorized the setting up of a share purchase option plan in 2003 and share subscription plans in 2000, 2007 and 2008 for the benefit of certain managers and corporate officers of the Vallourec Group.

The characteristics of these plans are as follows (the figures for the 2000 and 2003 plans have been recalculated to take into account the division by five of the nominal value of Vallourec's shares on 18 July 2006 and the resulting multiplication by five of the number of shares):

	2000 Plan	2003 Plan	2007 Plan	2008 Plan
Date of Management Board decision	15/06/2000	15/06/2003	03/09/2007	01/09/2008
Maturity date	15/06/2004	11/06/2007	03/09/2011	01/09/2012
Expiry date	14/06/2007	10/06/2010	03/09/2014	01/09/2015
Number of beneficiaries at outset	144	148	65	9
Exercise price in euros	7.60	10.73	190.60	183.54
Exercise price in euros adjusted following rights offering on 13 July 2005	7.49	10.57	N/A	N/A
Number of options granted	892,500	965,000	147,300	71,800
Adjustment to the number of options following rights offering on 13 July 2005	13,392	14,480	N/A	N/A

Change in number of unexpired options

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

<i>In number of options</i>	2006	2007	2008
Total at start of year	1,006,600	996,390	184,414
Options distributed	-	147,300	71,800
Options exercised	(10,210)	(955,466)	(12,697)
Options not exercised at expiry date	-	(3,810)	-
Options cancelled (*)	-	-	(7,000)
Total at end of year	996,390	184,414	236,517
Of which options remaining to be exercised	30,660	37,114	24,417

(*) *Beneficiaries who have left the Group.*

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

	2006	2007	2008
2000 plan	30,660	-	-
2003 plan	965,730	37,114	24,417
2007 plan	-	147,300	140,300
2008 plan	-	-	71,800

Measurement of plans ^(*)

<i>In € thousand</i>	2000 Plan ^(**)	2003 Plan	2007 Plan	2008 Plan
Charge for financial year 2006	-	912	-	-
Charge for financial year 2007	-	406	705	-
Charge for financial year 2008	-	-	2,912	711
Accumulated charge as at 31 December 2008	-	1,318	3,617	711
Assumptions				
Share price on grant date	-	€58.75	€198.00	€190.84
Volatility	-	41.75%	35.00%	35.00%
Risk-free rate	-	3.00%	4.20%	4.40%
Exercise price	-	€53.65	€190.60	€183.54
Dividend rate	-	2.72%	3.75%	3.50%
Fair value of the option	-	€18.69	€58.20	€63.57

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

(**) In accordance with the transitional provisions specifically laid down by IFRS 1 and IFRS 2, the Group has opted not to recognize the IFRS 2 charge relating to the 2000 share subscription plan.

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

As at 31 December:		2000 Plan	2003 Plan	2007 Plan	2008 Plan
2006	Number of options granted	100,965	195,000	-	-
	Adjustment to number of options following rights offering	1,535	2,965	-	-
	Number of senior managers involved	7	7	-	-
2007	Number of options exercised	102,500	-	-	-
	Number of options granted	81,265	175,000	60,000	-
	Adjustment to number of options following rights offering	1,235	2,660	-	-
2008	Number of senior managers involved	6	6	8	-
	Number of options exercised	82,500	177,660	-	-
	Number of options granted	-	118,745	38,000	68,000
	Adjustment to number of options following rights offering	-	1,805	-	-
	Number of senior managers involved	-	4	6	8
	Number of options exercised	-	120,550	-	-

*Performance share allocation plans***Characteristics of the plans**

Vallourec's Management Board authorized the setting up of performance share allocation plans for the benefit of certain employees and corporate officers of the Vallourec Group in 2006, 2007 and 2008.

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

	2006 Plan (*)	2007 Plan (*)	2008 Plan (***)	"Value 08" Plan
Date of Management Board decision	16/01/2006	03/05/2007	01/09/2008	16/12/2008
Acquisition period	2 years	2, 3 and 4 years	2 and 3 years	4.5 years
Holding period	2 years	2 years	2 years	-
Number of beneficiaries at outset	199	280	41	8,697
Theoretical number of shares allocated	148,000	111,000	11,590	33,856

(*) The definitive allocation, in terms of numbers of shares, was based on the Vallourec Group's performance in terms of consolidated EBITDA in 2006 and 2007. It was calculated by applying a performance factor calculated for each of the years concerned to the theoretical number of shares allocated. The factor can range from 0 to 1.33.

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

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

Change in number of shares

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

	2006 Plan	2007 Plan	2008 Plan	"Value 08" Plan
Initial theoretical number of shares allocated	148,000	111,000	11,590	33,856
Number of shares cancelled	(700)	(2,200)	-	-
Number of shares acquired or being acquired if K=1	147,300	108,800	11,590	33,856
Number of shares delivered	188,853	-	-	-

Measurement of plans (*)

In € thousand	2006 Plan	2007 Plan	2008 Plan	"Value 08" Plan
Charge for financial year 2006	8,251	-	-	-
Charge for financial year 2007	7,202	5,429	-	-
Charge for financial year 2008	380	7,099	264	17
Accumulated charge as at 31 December 2008	15,833	12,528	264	17

Assumptions

Share price on allocation date	€93.30	€198.50	€190.84	€82.15
Volatility	40%	40%	35%	40%
Risk-free rate	5%	4.40%	4.20%	3.03%
Dividend rate	2%	3%	3.5%	7.30%
Fair value of the share: tranche 1	€83.84	€180.77	€171.22	€56.23
Fair value of the share: tranche 2	-	€175.17	€165.00	-
Fair value of the share: tranche 3	-	€169.77	-	-

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

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

		2006 Plan	2007 Plan	2008 Plan	"Value 08" Plan
2006	Theoretical number of shares allocated	32,500	-	-	-
	Number of senior managers involved	7	-	-	-
	Number of shares acquired	-	-	-	-
2007	Theoretical number of shares allocated	30,000	8,400	-	-
	Number of senior managers involved	6	7	-	-
	Number of shares acquired	-	-	-	-
2008	Theoretical number of shares allocated	22,500	6,000	3,200	5
	Number of senior managers involved	5	5	3	1
	Number of shares acquired	28,845	-	-	-

Note 18 Other current liabilities

	Social security liabilities	Tax liabilities	Payables relating to the acquisition of non-current assets	Deferred income	Other current liabilities	Total
At 31/12/2005	186,053	77,021	9,881	5,558	20,744	299,257
Impact of changes in exchange rates	-3,590	-449	-18	-2	-733	-4,792
Transfer to liabilities held for sale (Note 11)	-15,145	-1,050	-1,281	-68	-507	-18,051
Other movements	9,789	-41,274	3,709	8,096	6,667	-13,013
At 31/12/2006	177,107	34,248	12,291	13,584	26,171	263,401
Impact of changes in exchange rates	248	116	-23	-56	-833	-548
Other movements	15,455	5,451	1,795	-5,452	12,660	29,909
At 31/12/2007	192,810	39,815	14,063	8,076	37,998	292,762
Impact of changes in exchange rates	-6,036	-3,134	-2,831	231	228	-11,542
Other movements	16,763	19,803	39,250	-1,293	33,885	108,408
At 31/12/2008	203,537	56,484	50,482	7,014	72,111	389,628

The movements in other current liabilities relate mainly to liabilities in respect of capital expenditure, dividends payable to minority shareholders and the reclassification of provisions as liabilities.

Note 19 Information on related parties

The following transactions were entered into with related parties:

	Sales to related parties	Purchases from related parties	Receivables due from related parties	Payables due to related parties
At 31/12/2006				
HKM	396	413,512	29	44,057
Rothschild & Cie	-	360	-	398
Timet Group	7,333	55,562	856	15,608
At 31/12/2007				
HKM	501	441,190	30	22,897
Rothschild & Cie	-	258	-	-
At 31/12/2008				
HKM	688	596,013	114	44,773
Rothschild & Cie	-	3,891	-	263

Purchases concern mainly the purchase of steel rounds from HKM, which is 30%-owned by the Salzgitter AG Group. These products are used as raw materials in the manufacturing processes of the European rolling mills of V & M Deutschland and V & M France.

The transactions carried out in 2006, 2007 and 2008 with Rothschild & Cie relate to the consultancy agreement to assist the Management Board.

In 2006, the transactions with the Timet Group represented mainly purchases of titanium coils used in the manufacture of welded tubes by Valtimet and its subsidiaries.

As regards Vallourec & Sumitomo Tubos do Brasil, which is proportionately consolidated, it has total assets of €139.2 million and the Group did not carry out any significant transactions with this company in 2008 other than a capital investment of €120.5 million.

Supervisory Board and Management Board remuneration

The total attendance fees paid to those employees who were members of the Supervisory Board at 31 December of the year concerned were €395 thousand in 2008, €394 thousand in 2007 and €335 thousand in 2006.

The total remuneration paid to the Executive Committee (8 people in 2008, 7 people in 2007 and 9 people in 2006) and the retirement commitments and the year end were as follows:

	2006	2007	2008
Remuneration and benefits in kind	3,410	2,647	3,156
Share-based payments (*)			800
Retirement commitments	547	504	738
Supplementary pension commitments	1,806	2,988	4,054

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

Share purchase or share subscription options (Note 17) granted to employees who were members of the Executive Committee as at 31 December of the year concerned

	2006	2007	2008
Subscription options granted on 15 June 2000 and exercisable between 15 June 2004 and 14 June 2007	102,500	82,500	-
Options exercised as at 31 December (1 option = 1 share) by the members of the Executive Committee	102,500	82,500	-
Number of shares subscribed during the year (1 option = 1 share) by the members of the Executive Committee	-	-	-
Number of options that could be exercised at 31 December	-	-	-
Purchase options granted on 15 June 2003 and exercisable between 11 June 2007 and 10 June 2010	197,965	177,660	120,550
Options exercised as at 31 December (1 option = 1 share) by the members of the Executive Committee	-	177,660	120,550
Number of shares subscribed during the year (1 option = 1 share) by the members of the Executive Committee	-	177,660	-
Number of options that could be exercised at 31 December	-	-	-
Subscription options granted on 3 September 2007 and exercisable between 3 September 2011 and 3 September 2014	-	60,000	38,000
Options exercised as at 31 December (1 option = 1 share) by the members of the Executive Committee	-	-	-
Number of shares subscribed during the year (1 option = 1 share) by the members of the Executive Committee	-	-	-
Number of options that could be exercised at 31 December	-	60,000	38,000
Subscription options granted on 1 September 2008 and exercisable between 1 September 2012 and 1 September 2015	-	-	68,000
Options exercised as at 31 December (1 option = 1 share) by the members of the Executive Committee	-	-	-
Number of shares subscribed during the year (1 option = 1 share) by the members of the Executive Committee	-	-	-
Number of options that could be exercised at 31 December	-	-	68,000

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

	2006	2007	2008
16 January 2006 Plan			
Theoretical number of shares allocated	32,500	30,000	22,500
Number of shares acquired during the year			28,845
3 May 2007 Plan			
Theoretical number of shares allocated	-	8,400	6,000
1 September 2008 Plan			
Theoretical number of shares allocated	-	-	3,200
16 December 2008 "Value 08" Plan			
Theoretical number of shares allocated	-	-	5

As regards retirement benefits granted to senior management, there is no specific scheme and they benefit from the Vallourec Group's supplementary pension scheme (Article 39 type) introduced in 2005 (see Note 17).

As at 31 December 2008, no loans or guarantees had been granted to senior management by the parent company Vallourec or its subsidiaries.

Note 20 Off-balance-sheet commitments

Due to the nature of its business, V & M France was granted a greenhouse gas emission allowance for 2008. The allowances due in respect of the four-year period from 2009 to 2012 amount to 106,000 tonnes per year.

Commitments received

	2006	2007	2008
Firm non-current asset orders	N/A	N/A	457,846
Guarantees and commitments received	63,352	43,869	125,998
HKM supply contract	47,492	37,775	28,535
Other commitments received	56,474	92,302	70,526
TOTAL	167,318	173,946	682,905
Commitments given (excluding financial instruments)	398,471	410,214	858,037

Commitments given by maturity

	2006	One year or less	Over one year	Over five years
BALANCE SHEET				
Long-term borrowings	500,250	33,473	186,702	280,075
OFF-BALANCE SHEET				
Market guarantees and letters of credit given	99,571	67,333	30,546	1,692
Other security, mortgages and pledges given	136,033	19,956	23,576	92,501
Long-term leasing contract	37,846	6,406	18,704	12,736
HKM supply contract	47,492	17,270	30,222	-
Pensions and retirement gratuities (actuarial gains and losses)	39,697	N/A	N/A	39,697
Other commitments	37,832	33,019	292	4,521
TOTAL	398,471	143,984	103,340	151,147

	2007	One year or less	Over one year	Over five years
BALANCE SHEET				
Long-term borrowings	553,666	217,072	323,401	13,193
OFF-BALANCE SHEET				
Market guarantees and letters of credit given	130,383	96,140	34,028	215
Other security, mortgages and pledges given	35,859	4,748	8,493	22,618
Long-term leasing contract	34,322	5,393	20,176	8,753
HKM supply contract	37,775	21,586	16,189	-
Pensions and retirement gratuities (actuarial gains and losses)	23,062	N/A	N/A	23,062
Other commitments	148,813	58,755	899	89,159
TOTAL	410,214	186,622	79,785	143,807

	2008	One year or less	Over one year	Over five years
BALANCE SHEET				
Long-term borrowings	726,415	76,841	639,417	10,157
OFF-BALANCE SHEET				
Market guarantees and letters of credit given	120,609	80,029	40,303	277
Other security, mortgages and pledges given	25,027	3,469	10,526	11,032
Long-term leasing contract	39,095	7,977	25,547	5,571
HKM supply contract	28,535	28,535	-	-
Pensions and retirement gratuities (actuarial gains and losses)	21,197	-	11,233	9,964
Firm non-current asset orders given	457,846	420,901	36,945	
Other commitments	165,728	39,858	73,847	52,023
TOTAL	858,037	580,769	198,401	78,867

V & M Tubes and its subsidiaries benefit from a contract to purchase tube rounds from the HKM (affiliated company) steel mill. In this connection, commitments to collect the agreed tonnage throughout the contract period are shown as an off-balance-sheet item. As a counterpart, HKM's commitment to deliver the tube rounds to the V & M Tubes Group is shown under commitments received.

The firm non-current asset orders relate mainly to Vallourec & Sumitomo Tubos do Brasil – the new state-of-the-art integrated pipe mill. The joint venture agreement signed by the two shareholders, Vallourec and Sumitomo, provides that each will benefit from an option to

purchase the interest of the other shareholder in the event of a change of control of said other shareholder. The total investment is estimated at around USD 1.6 billion, with Vallourec's 56% interest totalling USD 890 million.

The main exchange rates used for income statement items are set out in Note 12.

(Income statement items are translated at the average rate).

Note 21 Sales

	2006	2007	2008
France	414,049	444,099	361,003
Germany	763,385	1,101,205	1,143,218
Other EU Member States	811,413	882,720	700,029
North America (NAFTA)	1,445,062	1,144,166	1,525,869
South America	598,798	786,034	935,910
Asia	1,174,443	1,284,169	1,318,921
Rest of the world	334,651	498,128	452,064
TOTAL	5,541,801	6,140,521	6,437,014

For the full year 2008, sales increased by 4.8% to €6,437 million (+ 6.3% on a comparable basis after adjusting 2007 sales to make them comparable with 2008 sales, the main adjustment relating to the sale of the precision tubes business to Salzgitter early in July 2007).

The contribution of V & M Atlas Bradford, V & M Tube Alloy and V & M TCA since their acquisition on 16 May 2008 amounted to €147.5 million.

Note 22 Other operating revenues

	2006	2007	2008
Fees for concessions and patents	17,069	19,939	19,661
Operating subsidies and other revenues	12,124	15,276	19,464
TOTAL	29,193	35,215	39,125

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

Note 23 Taxes and duties

	2006	2007	2008
Taxes on remuneration	-9,495	-9,061	-10,014
Business use tax	-27,470	-26,411	-18,943
Property tax	-5,975	-6,394	-7,817
Other taxes and duties	-15,820	-14,384	-14,829
TOTAL	-58,760	-56,250	-51,603

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

	2006	2007	2008
PAYROLL COSTS			
Wages and salaries	-539,959	-543,787	-568,715
Employee profit sharing	-57,344	-61,420	-58,885
Charge in respect of share options and performance shares	-9,163	-12,522	-17,027
<i>15 June 2003 share purchase option plan</i>	-912	-406	0
<i>16 January 2006 performance share allocation plan</i>	-8,251	-7,048	-380
<i>3 May 2007 performance share allocation plan</i>	-	-4,363	-7,099
<i>3 September 2007 share subscription option plan</i>	-	-705	-2,912
<i>1 September 2008 share subscription option plan</i>	-	-	-711
<i>1 September 2008 performance share allocation plan</i>	-	-	264
<i>8 December 2008 “Value 08” employee share ownership plan including</i>	-	-	-5,661
<i>16 December 2008 performance share allocation plan</i>	-	-	-
Social security contributions	-206,228	-209,311	-211,985
TOTAL	-812,694	-827,040	-856,612

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

2008

A leveraged plan was offered to employees. A bank, Calyon in this case, subscribes nine times the employee's amount such that the amount invested in total (employees and the bank) is invested in Vallourec shares issued at a price discounted by 20%. The investment is blocked until 1 July 2013. In order to comply with the legal and tax requirements of each country, different formulas have been proposed:

- Company mutual fund (FCPE - *Fonds commun de placement entreprise*): employees subscribe, by means of a company mutual fund, for a number of discounted Vallourec shares enabling them to benefit, on expiry of the period during which their holdings are locked up, from a multiple of the performance of the Vallourec shares and protection for their initial investment, excluding foreign exchange rate effects. The multiple of the increase is obtained as a result of the transfer of the discount, dividends and other financial rights linked to the holding of the shares to the bank by means of a swap contract;
- Shares and Stock Appreciation Rights (SAR): employees, by means of the acquisition of a share at a discounted price, benefit from a SAR (protection of their initial investment, excluding foreign exchange rate effects, and multiple of performance of

the share) which will be paid by the employer, in cash, on expiry of the lock-up period. The resulting liability (SAR) is covered by warrants provided to the employer by the bank that completed the employee's investment. The issue of the warrants was obtained as consideration for the issue of shares, reserved for the bank, at the discounted price;

- Cash and Stock Appreciation Rights (SAR): employees, by means of an investment in an interest-bearing bank account, benefit from SARs (multiple of performance on this investment) which will be paid to the employee by the employer, in cash, on expiry of the lock-up period. The resulting liability (SAR) is covered by warrants provided to the employer by the bank that completed the employee's investment. The issue of the warrants was obtained as consideration for the issue of shares, reserved for the bank, at the discounted price.

The IFRS 2 charge resulting from the benefit granted to the employee under the terms of the employee share ownership plan is measured on the grant date by reference to the fair value corresponding to the expected present value of the amounts ultimately paid to the employee. For the "Share and SAR" formula, the discount on the share held by the employee and the value of the option protecting his initial investment are added.

Characteristics of the "Value 08" plan**2008**

Grant date	16 December 2008
Maturity date of plans	1 July 2013
Reference price	€82.48
Subscription price	€65.99
Discount	20%
Total amount subscribed	49,492
Total number of shares subscribed	749,996
Total discount	12,372
Multiple per share	
Company mutual fund formula	7.3
Share + SAR formula	5.1
Cash + SAR formula	6.1

Measurement assumptions

Volatility ^(*)	40%
Risk-free rate ^(**)	3.03%
Annual dividend rate ^(***)	7.30%
Total IFRS 2 charge ^(****)	6,435

(*) Historical volatility.

(**) Risk-free interest rate over term of plan.

(***) Based on Group's dividend policy.

(****) Calculated using the binomial model to project share price.

This benefit resulted in the recognition of payroll costs of €6.4 million in 2008.

The IFRS 2 charge resulting from the Stock Appreciation Rights (SAR) is remeasured at each quarter end by reference to the fair value corresponding to the expected present value of the amounts ultimately paid to the employee.

Parameters for measuring fair value of SARs	2008
Measurement date	31 December 2008
Maturity date	1 July 2013
Share price on measurement date	€81.00
Multiple per share	
Share and SAR formula	5.1
Cash and SAR formula	6.1
Measurement assumptions	
Volatility (*)	40%
Risk-free rate (**)	3.03%
Annual dividend rate (***)	7.30%
IFRS 2 charge (****)	2,047

(*) Historical volatility.

(**) Risk-free interest rate over term of plan.

(***) Based on Group's dividend policy.

(****) Calculated using the binomial model to project share price.

The liability to employees resulting from the SARs resulted in payroll costs of €2 million in 2008.

The income resulting from the warrants is remeasured at each quarter end by reference to the fair value of the derivative determined in accordance with IAS 39.

Parameters for measuring fair value of warrants	2008
Measurement date	31 December 2008
Maturity date	1 July 2013
Share price on measurement date	€81.00
Multiple per share	
Share and SAR formula	5.1
Cash and SAR formula	6.1
Measurement assumptions (*)	
Implied volatility	56%
Interest rate	
2009	2.62%
2010	2.68%
2011	2.96%
2012	3.12%
2013	3.24%
Annual dividend (in euros)	7.00
IAS 39 income (in € thousand)	2,839

(*) Calyon assumptions for measuring warrants.

The income corresponding to the warrants paid to the employer by the bank that completed the employees' investment was recognized in payroll costs in an amount of €2.8 million since it is intended to cover the charge associated with the SARs (see above).

Average number of employees in consolidated companies ^(*)	2006	2007	2008
Executives	1,273	1,310	1,342
Supervisory, clerical and technical staff	3,652	3,710	3,872
Production staff	13,081	12,751	12,496
TOTAL	18,006	17,771	17,710

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

The Group's workforce totalled 18,344 at 31 December 2008 compared with 16,835 at 31 December 2007.

Note 25 Other operating costs

	2006	2007	2008
Purchases of materials and supplies not for stock, sub-contracting	-330,178	-426,985	-359,120
Energy	-205,161	-211,930	-246,088
Maintenance	-174,098	-184,716	-191,754
Agents' commission, transportation costs	-307,909	-329,941	-323,836
Services, professional fees and other	-203,133	-186,203	-321,692
TOTAL	-1,220,479	-1,339,775	-1,442,490

Note 26 Statutory Auditors' fees

	KPMG		Deloitte		Others	
	Amount (excl. tax)					
	2008	2007	2008	2007	2008	2007
AUDIT						
Statutory Audit, certification, examination of company and consolidated financial statements						
Issuer	215	171	215	171	-	-
%	26%	17%	14%	13%	0%	0%
Fully consolidated companies	579	540	1,271	1,033	70	73
%	69%	53%	85%	77%	76%	59%
Other services directly associated with the statutory audit						
Issuer	48	59	17	38	-	-
%	6%	6%	1%	3%	0%	0%
Fully consolidated companies	-	244	-	99	-	-
%	0%	24%	0%	7%	0%	0%
Sub-total	842	1,014	1,503	1,341	70	73
%	100%	100%	100%	100%	76%	59%
OTHER SERVICES PROVIDED BY AUDIT NETWORK TO FULLY CONSOLIDATED COMPANIES						
Legal, tax, employment	-	-	-	-	22	50
%	0%	0%	0%	0%	24%	41%
Other (details to be provided if > 10% of audit fees)	-	-	-	-	-	-
%	0%	0%	0%	0%	0%	0%
Sub-total	-	-	-	-	22	50
%	0%	0%	0%	0%	24%	41%
TOTAL	842	1,014	1,503	1,341	92	123

Note 27 Charges to provisions net of reversals

	2006	2007	2008
Provisions for operating liabilities and charges	-45,646	-57,925	-72,117
Provisions against current assets	-25,568	-41,313	-29,960
Reversals of provisions for operating liabilities and charges	49,552	48,650	56,803
Reversals of provisions against current assets	18,480	16,585	32,201
TOTAL	-3,182	-34,003	-13,073

Note 28 Charges to depreciation and amortization

	2006	2007	2008
Charges to amortization of intangible assets (see Note 1)	-11,774	-7,351	-39,955
Charges to depreciation of property, plant and equipment (see Note 2)	-102,555	-110,622	-125,977
Reversals of depreciation and provisions on property, plant and equipment	-	-	347
TOTAL	-114,329	-117,973	-165,585

Note 29 Asset disposals and restructuring costs

	2006	2007	2008
Reorganization measures (net of expenses and provisions)	-632	-133	-93
Gains and losses on disposals of non-current assets	-4,138	11,066	-4,984
TOTAL	-4,770	10,933	-5,077

In 2007, the gains and losses on disposals of non-current assets corresponded mainly to the disposal of consolidated participating interests (VPE) and the receipt of additional insurance compensation as a result of losses suffered at VPE in 2006. The disposals of VPS and VCAV generated neither a profit nor a loss since an impairment

loss was recognized in respect of the assets of the two companies as at 30 June 2007.

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

Impairment of assets and goodwill

	2006	2007	2008
Impairment of assets and goodwill	-1,499	-21,169	-1,386

On 30 June 2007, an additional impairment loss of €20,058 thousand was recognized in respect of the assets held for sale of VPS and VCAV.

Note 30 Financial income (loss)

	2006	2007	2008
FINANCIAL INCOME			
Income from marketable securities	21,972	17,348	25,470
Income from disposals of marketable securities	12,158	18,956	9,486
TOTAL	34,130	36,304	34,956
INTEREST COSTS			
	-36,747	-40,619	-51,463
OTHER FINANCIAL INCOME AND CHARGES			
Income from securities	1,900	1,825	2,728
Income from loans and receivables	2,236	1,082	5,612
Exchange losses (-) and gains (+) and changes in premiums/discounts	-27,819	-18,138	-7,894
Charges to provisions, net of reversals	-1,981	2,189	2,120
Interest received in respect of the tax dispute in Brazil ^(*)	39,584	-	-
Financial subsidy granted to HKM	-7,000	-	-
Other financial income and charges	-626	-1,894	4,127
TOTAL	6,294	-14,936	6,693
OTHER DISCOUNTING COSTS			
Financial charges: discounting of retirement commitments (see Note 17)	-15,245	-16,144	-16,392
Financial income: discounting of certain assets and liabilities	74	769	-170
Financial income from retirement plan assets (see Note 17)	4,875	5,618	7,522
TOTAL	-10,296	-9,757	-9,040
FINANCIAL INCOME (LOSS)	-6,619	-29,008	-18,854

(*) In 2006, following the favourable resolution of the dispute with the Brazilian tax authorities, V & M do Brasil recognized, in financial income (loss), interest received on amounts paid from 1991 to 2001.

Note 31 Reconciliation of theoretical and actual tax charge

Breakdown of the tax charge	2006	2007	2008
Current tax charge	-539,846	-557,052	-450,558
Deferred taxes (see Note 5)	-4,943	-18,292	-30,133
Net charge	-544,789	-575,344	-480,691
Net income (loss) of consolidated companies	993,428	1,018,222	1,022,258
Tax charge	-544,789	-575,344	-480,691
Net income (loss) of consolidated companies, before tax	1,538,217	1,593,566	1,502,949
Statutory tax rate of consolidating company (see Note 5)	34.43%	34.43%	34.43%
Theoretical tax charge	-529,608	-548,665	-517,465
Impact of main losses carried forward	1,000	116	-1,939
Impact of long-term capital gains and losses	-344	-	-
Impact of permanent differences	17,127	-2,703	19,184
Other effects	-22	-121	-
Impact of differences in tax rates	-32,942	-23,971	19,530
	-544,789	-575,344	-480,690
ACTUAL TAX RATE	35.42%	36.10%	31.98%

The permanent differences consist mainly of the net income of the minority interests, withholding taxes and the share of the costs and charges in respect of the dividend distributions, including those in respect of future dividends.

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

The 2008 actual tax rate was 31.98%. The 2007 actual tax rate adjusted for non-recurring items was 35.5%.

Note 32 Segment information

Business segments

The following tables provide, for each business segment, information on the revenues and results as well as certain information on the assets, liabilities and capital expenditure for the financial years 2006, 2007 and 2008.

Primary segment reporting format: by business segment

2008	Seamless tubes	Automotive & Speciality products	Holding companies & other ^(*)	Inter-segment transactions	Total
INCOME STATEMENT					
Sales					
Sales to external customers	5,908,517	479,765	48,732	-	6,437,014
Inter-segment sales	143,219	10,207	31,878	-185,304	-
TOTAL	6,051,736	489,972	80,610	-185,304	6,437,014
Charges to amortization and depreciation	-154,894	-9,046	-2,125	480	-165,585
Operating income (loss)	1,505,047	54,446	-37,256	-434	1,521,803
BALANCE SHEET					
Non-current assets	2,238,690	90,269	1,636,157	-1,602,487	2,362,629
Current assets	2,698,257	198,774	267,428	-290,398	2,874,061
Cash and cash equivalents	548,731	35,934	752,467	-808,986	528,146
TOTAL ASSETS	5,485,678	324,977	2,656,052	-2,701,871	5,764,836
Shareholders' equity	2,419,021	142,141	1,729,496	-1,157,899	3,132,759
Minority interests	88,608	10,596	-	-33	99,171
Non-current liabilities	734,477	16,163	578,459	-440,595	888,504
Current liabilities	2,243,572	156,077	348,097	-1,103,344	1,644,402
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	5,485,678	324,977	2,656,052	-2,701,871	5,764,836
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	538,318	24,271	5,827	-	568,416
Other information					
Average number of employees	16,152	1,392	166	-	17,710
Payroll costs	755,661	54,527	47,014	-590	856,612

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

2007	Seamless tubes	Automotive & Speciality products	Holding companies & other ^(*)	Inter-segment transactions	Total
INCOME STATEMENT					
Sales					
Sales to external customers	5,405,111	659,934	75,476	-	6,140,521
Inter-segment sales	171,146	27,692	31,907	-230,745	-
TOTAL	5,576,257	687,626	107,383	-230,745	6,140,521
Charges to amortization and depreciation	-106,737	-9,234	-2,194	192	-117,973
Operating income (loss)	1,588,060	45,865	2,883	-14,235	1,622,573
BALANCE SHEET					
Non-current assets	1,402,591	72,581	908,060	-891,060	1,492,172
Current assets	2,296,558	222,717	291,978	-292,976	2,518,277
Cash and cash equivalents	626,312	32,952	821,632	-568,418	912,478
TOTAL ASSETS	4,325,461	328,250	2,021,670	-1,752,454	4,922,927
Shareholders' equity	2,091,390	140,019	1,356,647	-880,287	2,707,769
Minority interests	70,732	11,187	-	-27	81,892
Non-current liabilities	342,839	11,860	264,320	-4,404	614,615
Current liabilities	1,820,500	165,184	400,703	-867,736	1,518,651
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,325,461	328,250	2,021,670	-1,752,454	4,922,927
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	410,370	26,091	8,338	-	444,799
Other information					
Average number of employees	15,206	2,426	139	-	17,771
Payroll costs	692,930	98,767	35,343	-	827,040

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

2006	Seamless tubes	Automotive & Speciality products	Holding companies & other (*)	Inter-segment transactions	Total
INCOME STATEMENT					
Sales					
Sales to external customers	4,770,765	675,630	95,406	-	5,541,801
Inter-segment sales	217,461	36,105	28,009	-281,575	-
TOTAL	4,988,226	711,735	123,415	-281,575	5,541,801
Charges to amortization and depreciation	-96,293	-17,267	-1,241	472	-114,329
Operating income (loss)	1,499,449	69,364	-17,360	-6,618	1,544,835
BALANCE SHEET					
Non-current assets	1,106,439	98,893	946,074	-933,159	1,218,247
Current assets	2,030,914	204,872	277,453	-268,265	2,244,974
Cash and cash equivalents	691,802	43,973	153,548	-	889,323
Assets held for sale	34,672	140,906	-	-	175,578
TOTAL ASSETS	3,863,827	488,644	1,377,075	-1,201,424	4,528,122
Shareholders' equity	1,934,685	221,056	846,010	-871,349	2,130,402
Minority interests	81,319	11,549	-	-49	92,819
Non-current liabilities	350,551	26,342	413,772	-49,362	741,303
Current liabilities	1,490,552	158,535	117,293	-280,664	1,485,716
Liabilities held for sale	6,720	71,162	-	-	77,882
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3,863,827	488,644	1,377,075	-1,201,424	4,528,122
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	263,400	21,357	411	-	285,168
Other information					
Average number of employees	14,651	3,227	128	-	18,006
Payroll costs	651,479	129,072	32,143	-	812,694

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

Geographical segments

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

Secondary segment reporting format: by geographical area

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

2007	Europe	North America and Mexico	South America	Asia	Rest of the world	Total
Sales						
Sales to external customers	2,428,024	1,144,166	786,034	1,284,169	498,128	6,140,521
Balance sheet						
Property, plant and equipment and intangible assets (net)	628,243	258,103	354,003	47,275	53	1,287,677
Cash flows						
Capital expenditure: property, plant and equipment and intangible assets	278,536	57,147	93,665	15,398	53	444,799
Other information						
Average number of employees	10,314	1,675	5,304	478	-	17,771
Payroll costs	596,012	102,588	125,230	3,201	9	827,040

2006	Europe	North America and Mexico	South America	Asia	Rest of the world	Total
Sales						
Sales to external customers	1,988,847	1,445,062	598,798	1,174,443	334,651	5,541,801
Balance sheet						
Property, plant and equipment and intangible assets (net)	468,080	250,697	262,346	36,085	-	1,017,208
Cash flows						
Capital expenditure: property, plant and equipment and intangible assets ^(*)	156,956	42,676	59,192	26,344	-	285,168
Other information						
Average number of employees	10,846	1,561	5,268	331	-	18,006
Payroll costs	589,398	109,117	112,258	1,921	-	812,694

(*) Cash flows in respect of the "North America and Mexico" segment comprise the acquisition of the assets of VAM Drilling USA which, in the cash flow statement, are shown as a change in consolidation scope.

Note 33 Post-balance-sheet events

No events have occurred between 31 December 2008 and 24 February 2009, the date on which the financial statements were approved by the Management Board, that are likely to have a material

impact on the economic decisions taken on the basis of these financial statements.

5.2 COMPANY FINANCIAL STATEMENTS OF VALLOUREC SA

BALANCE SHEET *(in € thousand)*

ASSETS

	31/12/2006	31/12/2007	31/12/2008
NON-CURRENT ASSETS			
Intangible assets	79	79	79
Property, plant and equipment	131	131	131
Participating interests	1,057,383	1,057,383	1,057,496
Own shares	14,194	16,700	12,502
Receivables, loans and other investments	-	1	327,212
Total I	1,071,787	1,074,294	1,397,420
CURRENT ASSETS			
Trade receivables	1,346	616	855
Other receivables	44,729	117,821	406,679
Marketable securities	8,061	9,110	8,922
Cash and cash equivalents	79	40	295
Prepayments	-	-	45
Translation differences	-	-	31,876
Total II	54,215	127,587	448,672
TOTAL ASSETS (I+II)	1,126,002	1,201,881	1,846,092

LIABILITIES AND SHAREHOLDERS' EQUITY

	31/12/2006	31/12/2007	31/12/2008
SHAREHOLDERS' EQUITY			
Capital	212,047	212,155	215,155
Additional paid-in capital	210,258	64,345	109,128
Revaluation reserve	634	634	634
Reserves	79,950	79,954	79,964
Retained earnings	44,344	47,116	20,372
Interim dividend	-103,319	-210,292	-
Net income for the financial year	172,068	553,894	730,836
Total I	615,982	747,806	1,156,089
Provisions for liabilities and charges	1,067	2,314	817
Bank loans and other borrowings	470,718	410,762	587,019
Trade payables	4,180	4,112	5,312
Other payables	34,055	36,887	64,979
Translation differences	-	-	31,876
Total II	510,020	454,075	690,003
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (I+II)	1,126,002	1,201,881	1,846,092

INCOME STATEMENT *(in € thousand)*

	2006	2007	2008
Sales			4,094
Provision reversals and charges transferred	1,097	9	4,214
Other revenues	2,015	1,434	1,427
External services	-7,998	-10,068	-18,134
Taxes, duties and similar payments	-103	-70	-351
Payroll costs	-991	-419	-2,537
Other operating costs	-585	-643	-645
Amortization, depreciation and provisions	-1,066	-1,257	-767
Operating income (loss)	-7,631	-11,014	-12,699
Financial income	184,138	559,825	760,652
Participating interests	181,490	554,407	748,771
Other long-term securities and receivables	13		17
Other interest and similar income	850	1,841	11,176
Provision reversals and financial charges transferred			119
Exchange gains	890		91
Net income on disposal of marketable securities	895	3,577	478
Financial charges	-18,094	-17,929	-24,155
Financial depreciation and provisions			-1,944
Interest and similar charges	-16,618	-17,924	-22,039
Exchange losses	-1,476	-5	-172
Net charges on disposal of marketable securities			
Net financial income	166,044	541,896	736,497
Operating income (loss) before tax	158,413	530,882	723,798
Exceptional income	423	2,443	4,816
Exceptional charges	-2	-1,429	-13,671
Net exceptional income (charges)	421	1,014	-8,855
Income tax credit (charge)	13,234	21,998	15,893
NET INCOME	172,068	553,894	730,836

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

In thousands of euros (€ thousand) unless stated otherwise.

Notes to the balance sheet (before allocation) for the year ended 31 December 2008, which totals €1,846.1 million, and to the income statement, which shows net income of €730.8 million.

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

Vallourec prepares consolidated financial statements.

A - Significant events, measurement methods and comparability of financial statements

On 16 May 2008, Vallourec indirectly acquired Grant Prideco's three tubular businesses, Atlas Bradford® (which was renamed V & M Atlas Bradford), TCA (which was renamed V & M TCA) and Tube-Alloy (which was renamed V & M Tube-Alloy).

On 16 December 2008, under the terms of the "Value 08" employee share ownership plan, 749,996 new shares were subscribed for at a price of €65.99 resulting in a capital increase of €47,783 thousand, including issue premium net of expenses.

The presentation and measurement methods used in the preparation of the financial statements for the year under review have remained the same as those used the previous year.

B - Accounting principles

The annual financial statements are prepared in accordance with current French accounting regulations (regulation no. 99-3 of the French Accounting Regulation Committee (*Comité de la réglementation comptable - CRC*)) and the fundamental accounting concepts (true and fair view, comparability, going concern, accuracy, reliability, prudence and consistency of accounting methods).

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at their acquisition cost. Property, plant and equipment acquired before 31 December 1976 were legally revalued in 1977 and 1978.

Buildings are depreciated using the straight-line method over a 40-year period for all buildings allocated to non-operating activities.

PARTICIPATING INTERESTS

The gross value of participating interests comprises their purchase cost excluding associated expenses and the amount of any associated capital increases.

Securities acquired in foreign currencies are recorded at their acquisition price translated into euros at the rate applicable on the date of the transaction.

Provisions for impairment of participating interests are calculated with reference to their value to the Group, which takes account of various criteria such as their consolidated net worth, profitability, share price and the Company's growth prospects.

OWN SHARES

The own shares included within intangible assets on the balance sheet comprise:

- the shares acquired on 5 July 2001 and allocated to the Group's various employee share ownership plans;
- the shares held under the terms of the liquidity contract.

In accordance with regulation no. 2008-15 of the French Accounting Regulation Committee (*Comité de la réglementation comptable - CRC*) dated 4 December 2008 on the accounting treatment of employee share purchase and share subscription plans and performance share allocation plans, no provisions for impairment are made in respect of the shares set aside for allocation under such plans on the basis of their market value due to the allocation commitment to employees and the provision recognized as a liability on the balance sheet – please refer to the paragraph below on provisions for liabilities and charges.

As regards the own shares held under the terms of the liquidity contract, their carrying amount is the lower of their acquisition cost and their market value (defined as the average price over the previous month).

RECEIVABLES AND PAYABLES

Receivables and payables are measured at their nominal value.

Provisions may be made against receivables to take account of specific collection difficulties. Such provisions are assessed on a case-by-case basis.

MARKETABLE SECURITIES

Investment securities are measured at acquisition cost increased by accrued income for the period, or at market value if lower.

The own shares acquired in 2008 and available to be allocated to employees have been classified as marketable securities. A provision for impairment is booked in respect of them if their carrying amount exceeds their market value (average price over the previous month).

TRANSLATION OF FOREIGN CURRENCY DENOMINATED TRANSACTIONS AND FINANCIAL INSTRUMENTS

Revenues and costs denominated in foreign currencies are recorded using the exchange rate applicable on the transaction date. Foreign currency denominated receivables, cash and cash equivalents and payables at the balance sheet date are translated using the exchange rate applicable at that date.

Unrealized losses resulting from the translation into euros are shown, net of any associated foreign exchange cover, as a provision for exchange risk.

The Company uses various financial instruments to reduce its exchange rate and interest rate risk. All positions are taken by means of instruments traded either on organized markets or on over-the-counter markets and are measured at their market value and recognized as off-balance-sheet items at each balance sheet date.

PROVISIONS FOR LIABILITIES AND CHARGES

Retirement pensions

Pensions are paid by an external organization and the Company therefore has no commitment in this respect.

Retirement gratuities

Commitments in respect of gratuities paid to retiring employees are measured based on an actuarial calculation and provided for as a liability in the balance sheet.

They are based on the assumption that all employees leaving the Group will do so on a voluntary basis.

The actuarial assumptions used vary depending on the specific requirements of the applicable retirement plans and collective agreements.

The following assumptions have been used:

- discount rate of 6.20% (including inflation);
- inflation rate of 2%;

- staff turnover rate variable in accordance with age and category;
- INSEE 2000/2002 mortality table.

Commitments in respect of retirement gratuities are measured on the basis of an actuarial calculation and provided for as a liability in the balance sheet. At 31 December 2008, the discount rate was based on the iBoxx index (eurozone, AA-rated corporate bonds with a maturity of more than ten years). This index uses a basket of bonds composed of financial and non-financial stocks.

At 31 December 2008, to take account of the exceptional economic situation, the Company used a discount rate of 6.20% for the eurozone even though, on the basis of the same composition of the basket of reference bonds, the Company would have used a discount rate of 6.90%.

Actuarial differences arising are amortized using the "corridor" rule over the average residual period of service for employees.

Provision against shares allocated to employee share ownership plans

In accordance with regulation no. 2008-15 of the French Accounting Regulation Committee (*Comité de la réglementation comptable - CRC*) dated 4 December 2008 on the accounting treatment of employee share purchase and share subscription plans and performance share allocation plans, as soon as an outflow of resources becomes probable, a liability is recognized by the Company. Said provision is measured on the basis of the product of:

- the acquisition cost of the shares or their carrying amount (when they were already owned) on the date they were allocated to the employee share ownership plan less the price likely to be paid by the beneficiaries;
- the number of shares that are expected to be allocated to the employee share ownership plan given the provisions of said plan (satisfaction of conditions regarding continuing employment and performance) as assessed on the balance sheet date.

A provision for liabilities and charges has been recognized at each period end since these plans were put in place, on a pro rata basis, equal to the costs relating to the allocations of performance shares to employees, managers and corporate officers of Vallourec and its subsidiaries.

Other provisions

All disputes (technical, tax audit, etc.) and risks have been provided against to the extent of the likely cost to be incurred estimated at the year end.

EXCEPTIONAL INCOME AND CHARGES

In general, exceptional income and charges comprise those amounts of an exceptional nature, i.e. those that fall outside the scope of the Company's ordinary activities.

C - Notes to the balance sheet

1. MOVEMENTS IN NON-CURRENT ASSETS

Movements in the value of non-current assets

	31/12/2007	Additions Charge	Disposals Reversals	31/12/2008	Of which revaluation reserve	Of which affiliated companies
Intangible assets	79			79		
Trademarks	79			79		
Property, plant and equipment	131			131	23	
Land	131			131	23	
Buildings	172			172		
Depreciation of buildings	-172			-172		
Investments	1,057,383	-6	119	1,057,496	611	1,057,496
Participating interests	1,057,794			1,057,794	611	1,057,794
Provisions on participating interests	-411	-6	119	-298		-298
Own shares	16,700		-4,198	12,502		
Receivables, loans, other investments	1	327,211		327,212		327,212
Other investments	1	327,211		327,212		327,212
TOTAL	1,074,294	327,205	-4,079	1,397,420	634	1,384,708

Own shares classified as non-current assets

- Allocations to Group employees, managers and corporate officers (see Section C.5)

The own shares acquired on 5 July 2001 in connection with the financial transactions associated with the capital increase reserved for employees have been allocated to the following share option and allocation schemes set up for certain Group employees, managers and corporate officers:

- 15 June 2003 share purchase option plan;
- 3 May 2007 performance share allocation plan;
- 1 September 2008 performance share allocation plan;
- 16 December 2008 "Value 08" share allocation plan.

In 2008, Vallourec made a final allocation of 188,853 shares (€2 million) under the terms of the 16 January 2006 performance share allocation plan at the end of the two-year acquisition period and sold 12,697 shares for €0.1 million, which corresponds to

the exercise of 12,697 share purchase options under the share purchase option plan dated 15 June 2003.

- Liquidity contract

In 2007, Vallourec signed a liquidity contract with Crédit Agricole Cheuvreux. To implement this contract, €20 million was allocated to the liquidity account. At 31 December 2008, Vallourec held 131,840 shares with a value of €10.7 million.

Receivables, loans, other investments

- On 16 May 2008, Vallourec acquired, indirectly via its subsidiary V & M Tubes, Grant Prideco's three tubular businesses, Atlas Bradford® (V & M Atlas Bradford), TCA® (which was renamed V & M TCA) and Tube-Alloy™ (which was renamed V & M Tube-Alloy). To finance this acquisition, Vallourec took out a USD 450 million loan (€323.3 million) on behalf of V & M Tubes.

2. MARKETABLE SECURITIES

	31/12/2007	31/12/2008	Measurement 31/12/2008	Loss provided for	Unrealized gain
Mutual and investment funds	9,110	4,893	4,909	-	16
Own shares	-	5,968	-	1,938	-
TOTAL	9,110	10,861	4,909	1,938	16

During 2007, the Group centralized the euro and US dollar cash management for its main European companies and the currency hedging operations in respect of its US dollar sales within V & M Tubes. Vallourec has become a member of this centralized cash management system.

Cash is invested in risk-free money market funds. Vallourec only enters into financial transactions with first-rate financial institutions.

In addition, in 2008, Vallourec acquired 50,000 of its own shares valued on 31 December at €4 million. These own shares are classified as marketable securities: the intention is that they will be allocated to the Group's employees, managers and corporate officers under the terms of future employee share ownership plans.

	31/12/2007	Acquisition Charge	Disposal Reversal	31/12/2008
Own shares	-	5,968	-	5,968
Provision for depreciation of own shares	-	-1,938	-	-1,938
TOTAL	-	4,030	-	4,030

3. RECEIVABLES AND PAYABLES

Assets at 31/12/2008	Gross value	Of which accrued receivables	Of which affiliated companies	Gross value -1 year	Gross value +1 year
Receivables, loans and other investments	327,212	3,866	327,212	3,866	323,346
Trade receivables	855			855	
Accounts receivable					
Other trade receivables	855			855	
Other receivables	406,679		379,711	406,679	
Intra-Group cash advance	374,018		374,018	374,018	
Sundry receivables	32,661		5,693	32,661	
TOTAL	734,746	3,866	706,923	411,400	323,346

Loans granted during the year: €323,346 thousand.

Loans repaid during the year: €0.

Receivables represented by commercial paper: none.

Liabilities at 31/12/2008	Gross value	Of which accrued payables	Of which affiliated companies	- 1 year	+ 1 year	+ 5 years
Bank loans and other borrowings	587,019	2,886	643	3,629	583,378	12
Bank borrowings	586,320	2,886		2,975	583,345	
Other borrowings	56			11	33	12
Intra-Group cash advance	643		643	643		
Trade payables	5,312	1,597	1,307	5,312		
Accounts payable	4,052	798	1,307	4,052		
Tax and social security liabilities	1,260	799		1,260		
Other liabilities	64,978	127	58,730	64,978		
Tax liabilities (income tax)						
Sundry liabilities	64,978	127	58,730	64,978		
TOTAL	657,309	4,610	60,680	73,919	583,378	12

Loans drawn down during the year: €323,346 thousand.

Loans repaid during the year: €150,012 thousand (see Section C.7).

Liabilities represented by commercial paper: none.

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

4. TRANSLATION DIFFERENCES ON FOREIGN CURRENCY DENOMINATED RECEIVABLES AND PAYABLES

At 31/12/2008	Amount	Of which offset by foreign currency hedges	Provisions for foreign exchange losses
Translation differences – unrealized losses	-	-	-
Reduction in receivables	-	-	-
Increase in liabilities	31,876	31,876	-
Translation differences – unrealized gains	-	-	-
Increase in receivables	31,876	31,876	-
Reduction in liabilities	-	-	-

The translation of the USD 450 million debt taken out in May 2008 (Section C.7) at the rate of €1.54/USD and the rate at 31 December 2008 of €1.39/USD generated an unrealized translation loss of €31.9 million. The USD 450 million loan granted to the subsidiary V & M

Tubes (Section C.1) as a hedge of this debt produced the opposite effect, i.e. an unrealized translation gain of the same amount.

No provision for foreign exchange losses was recognized in respect of the unrealized translation loss as at 31 December 2008.

5. SHAREHOLDERS' EQUITY

The changes in shareholders' equity are shown below:

	Number of shares	Capital	Net income (loss) for the financial year	Additional paid-in capital and reserves	Shareholders' equity
As at 31/12/2006	53,011,870	212,047	172,068	231,867	615,982
Allocation of net income for 2006			-172,068	172,068	
Share subscription options	26,850	108		94	202
Revaluation reserve					
Dividend paid				-211,980	-211,980
Interim dividend				-210,292	-210,292
Net income for 2007			553,894		553,894
Change	26,850	108	381,826	-250,110	131,824
As at 31/12/2007	53,038,720	212,155	553,894	-18,243	747,806
Allocation of net income for 2007			-553,894	553,894	
Capital increase	749,996	3,000		44,783	47,783
Revaluation reserve					
Dividend paid				-370,336	-370,336
Interim dividend					
Net income for 2008			730,836		730,836
Change	749,996	3,000	176,942	228,341	408,283
As at 31/12/2008	53,788,716	215,155	730,836	210,098	1,156,089

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

The reserve account to which is posted the corresponding credit to the debit in respect of the carrying amount of the own shares (400,419 shares) had a balance of €16,532 thousand.

In accordance with the Group's employee share ownership policy, in 2008 Vallourec offered to its employees in eight countries the opportunity to subscribe to a reserved capital increase at a price discounted by 20% in relation to the average of the 20 opening prices of the Vallourec share preceding 17 November 2008, i.e. €65.99.

The capital increase reserved for employees and the bank guaranteeing the leverage effect of the share ownership plan resulted in the issue of 749,996 new shares, giving a capital increase of €47,783 thousand, including issue premium net of expenses.

Employee share ownership

A leveraged plan was offered to employees in 2008. A bank, Calyon in this case, invests nine times the employee's amount such that the total amount subscribed (employees and bank) is invested in Vallourec shares issued at a price discounted by 20%. The investment is blocked until 1 July 2013. In order to comply with the legal and tax requirements of each country, different formulas have been proposed:

- Company mutual fund (FCPE – *Fonds commun de placement d'entreprise*): employees subscribe, by means of a company

mutual fund, for a number of discounted Vallourec shares enabling them to benefit, on expiry of the period during which their holdings are locked up, from a multiple of the performance of the Vallourec shares and protection for their initial investment, excluding foreign exchange rate effects. The multiple of the increase is obtained as a result of the transfer of the discount, dividends and other financial rights linked to the holding of the shares to the bank by means of a swap contract;

- Share and Stock Appreciation Rights (SAR): employees, by means of the acquisition of a share at a discounted price, benefit from an SAR (protection of their initial investment, excluding foreign exchange rate effects and multiple of performance of the share) which will be paid by the employer, in cash, on expiry of the lock-up period. The resulting liability (SAR) is covered by warrants provided to the employer by the bank that carried out the employee's investment. The issue of the warrants was obtained as consideration for the issue of shares, reserved for the bank, at the discounted price;
- Cash and Stock Appreciation Rights (SAR): employees, by means of an investment in an interest-bearing bank account, benefit from SARs (multiple of performance on this investment) which will be paid to the employee by the employer, in cash, on expiry of the lock-up period. The resulting liability (SAR) is covered by warrants provided to the employer by the bank that carried out the employee's investment. The issue of warrants was obtained as consideration for the issue of shares, reserved for the bank, at the discounted price.

Share option plans

Characteristics of the plans

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

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

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

Change in number of unexpired options

The following table shows the change in the number of unexpired options for all plans put in place between 2000 and 2008:

In number of options	2006	2007	2008
Total at start of year	1,006,600	996,390	184,414
Options distributed	-	147,300	71,800
Options exercised	(10,210)	(955,466)	(12,697)
Options not exercised at expiry date	-	(3,810)	-
Options cancelled (*)	-	-	(7,000)
TOTAL AT END OF YEAR	996,390	184,414	236,517
<i>Of which options remaining to be exercised</i>	<i>30,660</i>	<i>37,114</i>	<i>24,417</i>

(*) Beneficiaries who have left the Group.

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

	2006	2007	2008
2000 Plan	30,660	-	-
2003 Plan	965,730	37,114	24,417
2007 Plan	-	147,300	140,300
2008 Plan	-	-	71,800

Performance share allocation plans

Characteristics of the plans

Vallourec's Management Board authorized the setting up of performance share allocation plans for the benefit of certain employees and corporate officers of the Vallourec Group in 2006, 2007 and 2008.

	2006 Plan (*)	2007 Plan (**)	2008 Plan (***)	"Value 08" Plan
Date of Management Board decision	16/01/2006	03/05/2007	01/09/2008	16/12/2008
Acquisition period	2 years	2, 3 and 4 years	2 and 3 years	4.5 years
Holding period	2 years	2 years	2 years	-
Number of beneficiaries at outset	199	280	41	8,697
Theoretical number of shares allocated	148,000	111,000	11,590	33,856

(*) The definitive allocation in terms of numbers of shares was based on the Vallourec Group's performance in terms of consolidated EBITDA in 2006 and 2007. It was calculated by applying a performance factor calculated for each of the years concerned to the theoretical number of shares allocated. The factor can range from 0 to 1.33.

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

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

Change in number of shares

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

	2006 Plan	2007 Plan	2008 Plan	"Value 08" Plan
Initial theoretical number of shares allocated	148,000	111,000	11,590	33,856
Number of shares cancelled	(700)	(2,200)	-	-
Number of shares acquired or being acquired	147,300	108,800	11,590	33,856
Number of shares delivered	188,853	-	-	-

The amounts of the provisions for charges in respect of these plans recognized in the statutory financial statements for the financial year were as follows:

• 3 May 2007 performance share allocation plan: the provision recognized in respect of this plan was €742 thousand for the year ended 31 December 2008 (compared with €325 thousand for the year ended 31 December 2007) (see Section C.3.6);

• 1 September 2008 performance share allocation plan: the provision recognized in respect of this plan was €17 thousand for the year ended 31 December 2008 (see Section C.3.6).

6. PROVISIONS FOR LIABILITIES AND CHARGES

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

	31/12/2007	Charge	Reversals used	Reversals of provisions no longer needed	31/12/2008
Provisions for liabilities and charges	-	-	-	-	-
Provisions for retirement commitments	50	6	-	-	56
Provisions for long-service awards	-	-	-	-	-
Provisions for allocations of performance shares	2,264	-	-1,940	-324	-
Provisions for charges re employee share ownership plans	-	761	-	-	761
TOTAL	2,314	767	-1,940	-324	817

Disputes are provided for to the extent of the likely cost to be incurred estimated at the year end, in application of CRC regulation no. 2000-06 on liabilities.

A provision totalling €761 thousand has been booked for 2008 in respect of the allocation of performance shares (2006, 2007 and 2008 plans, see Section C3.5).

Retirement provisions

The total commitment in respect of retirement plans as at 31 December 2008 is €38 thousand.

The provision recognized in the balance sheet amounted to €56 thousand. The actuarial gains not recognized therefore totalled €18 thousand. The commitments not recognized in the balance sheet correspond to changes in or the non-crystallization of assumptions, the effect of which is amortized over time using the "corridor" principle.

The main changes in relation to the measurements used in the previous year's financial statements concern the base salary used in the calculation of retirement benefits and the discount rate.

7. BANK LOANS AND OTHER BORROWINGS

• In 2003, the Company entered into a five-year €150 million credit facility with the Crédit Agricole group maturing in September 2008. This loan was repaid in full on maturity in September 2008.

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

This facility requires the Group to maintain its ratio of consolidated net debt to consolidated shareholders' equity at less than or equal to 75% calculated on 31 December each year and for the first time

on 31 December 2005. A change of control of Vallourec could result in the repayment of the loan if so decided by a two-thirds majority of the participating banks. It is also provided that the loan would become immediately repayable if the Group failed to make a repayment in respect of one of its other borrowings ("cross default"), or if a significant event occurred affecting the Group's business or financial situation and ability to repay its borrowing.

On 31 December 2008, a tranche of €260 million and another tranche of USD 150 million had been drawn down.

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

The Company used the USD 300 million term loan in May 2008.

• In November 2008, the Company took out a six-year €100 million loan with the Crédit Agricole Group (which matures on 27 October 2014). This loan was drawn down on 27 January 2009. The loan documentation contains commitments of the same type as those entered into under the terms of the €460 million facility described above.

Information on interest rate risk

Vallourec used hedging instruments (swaps) to hedge its variable-rate borrowing at a fixed interest rate.

The fair value of interest rate hedges (swaps and caps) on the bank loans and other borrowings of €260 million and USD 300 million was a negative amount of €26.6 million at 31 December 2008.

D - Notes to the income statement

OPERATING REVENUES

- Sales: in 2008, Vallourec recharged the costs incurred in connection with the acquisition of V & M Atlas Bradford, V & M TCA and V & M Tube-Alloy, as well as the acquisition cost of the shares granted under the terms of the employee share ownership plans described above (paragraph C.5).
- Other operating revenues: Vallourec invoiced fees totalling €1,100 thousand for the use of its brand name.

FINANCIAL CHARGES AND INCOME CONCERNING AFFILIATED COMPANIES

Financial charges: €5 thousand.

Financial income: €759,945 thousand.

NET EXCEPTIONAL CHARGES

Net exceptional charges for the year amounted to €8,855 thousand.

This figure includes the gains and losses resulting from the sales of own shares carried out under the terms of the liquidity contract totalling a net loss of €6,861 thousand and the charge of €1,987 thousand associated with the exercise of the 2006 performance share allocation plan (see Section C.1).

E - Other information

AVERAGE NUMBER OF EMPLOYEES

The Company's staff comprises seven employees: three corporate officers (who are members of the Management Board) and their assistants.

TAX

Tax Group

Since 1 January 1988 the Company has been a member of a tax Group constituted under the provisions of Article 223A of the French Code général des impôts (CGI). This agreement has been renewed automatically for five-year periods since 1999. In 2008, the tax Group comprised Vallourec, Assurval, Interfit, Starval, Vallourec Composants Automobiles Hautmont, Valti, Valtimet, Valsept, Sopreneuf, Valinox Nucléaire, V & M Tubes, VAM Drilling France, V & M France, V & M Oil & Gas France, V & M One and V & M Services.

The tax Group agreement requires subsidiaries of the tax Group to record a tax charge equivalent to the amount they would have borne in the absence of the tax Group.

The saving resulting from the allocation to the combined income of losses generated by subsidiaries, i.e. companies that pay their tax

to Vallourec, is not recognized in the income statement but as other liabilities.

Any profits resulting from the tax Group that are recorded by Vallourec correspond mainly to the allocation to the combined income of losses generated by Vallourec itself and tax losses carried forward definitively belonging to Vallourec.

In respect of 2008:

The net tax credit in the income statement amounted to: €15,893 thousand

It can be broken down as follows:

- Tax charge relating to Vallourec €-3,733 thousand
- Tax credit relating to the tax Group €19,626 thousand

At 31 December 2008, the saving recognized by Vallourec against tax due, which may become payable by the Group if the companies in question return to profitability before their deficits are fully utilized, amounted to €6,122 thousand.

The Vallourec tax Group is now in a profit-making situation and had no losses available for carry forward at the end of 2008.

Increase and reduction in future tax liabilities

Nature of temporary differences	Amount at 31/12/2008 (base)
Increase	-
Reductions	-
Provision for retirement commitments	56
Provision for employee share ownership arrangements	366
Provision for paid holidays	19
Solidarity social security contribution provision	6
Unrealized gains on UCITS	16

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

	Income before tax	Tax due	Net income
Operating income (loss)	723,798	-	723,798
Exceptional income (loss)	-8,855	-	-8,855
Sub-total	714,943	-	714,943
Charge specific to Vallourec	-	-3,733	-3,733
Income relating to the tax Group	-	19,626	19,626
TOTAL VALLOUREC	714,943	15,893	730,836

REMUNERATION OF MEMBERS OF ADMINISTRATIVE AND MANAGEMENT BODIES

Administrative bodies

Board attendance fees paid during the year amounted to €395 thousand.

Management bodies

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

OFF-BALANCE-SHEET COMMITMENTS

Off-balance-sheet commitments are as follows:

Retirement gratuities: €18 thousand (actuarial surplus).

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

POST BALANCE SHEET EVENTS

No events occurred between 31 December 2008 and 24 February 2009, the date on which the financial statements were approved by the Management Board, that are likely to have a material impact on the accuracy and reliability of the financial statements.

8.5 SUBSIDIARIES AND PARTICIPATING INTERESTS AT 31 DECEMBER 2008

In € thousand

Companies	Capital	Other shareholders' equity before allocation of income (loss)	Share of capital held (%)	Carrying amount of securities held		Loans and advances granted by Vallourec and not yet repaid	Total security and guarantees given by Vallourec	Sales excluding taxes for the last financial year	Income (loss) for the last financial year	Dividends received by Vallourec during the financial year
				Gross	Net					
A) SUBSIDIARIES AND PARTICIPATING INTERESTS WITH A CARRYING AMOUNT IN EXCESS OF 1% OF VALLOUREC'S CAPITAL (I.E. €2,120 THOUSAND)										
I. Subsidiaries (at least 50%-owned)										
French companies										
Vallourec & Mannesmann Tubes 27, avenue du Général-Leclerc 92100 Boulogne-Billancourt 411 373 525 RCS Nanterre	492,584	1,141,952	100.00	1,056,403	1,056,403	-	-	32,818	725,711	738,877
B) OVERALL INFORMATION ON OTHER SUBSIDIARIES AND PARTICIPATING INTERESTS										
I. Subsidiaries (at least 50%-owned)										
a) French companies	-	-	-	54	34	-	-	-	-	160
b) Foreign companies	-	-	-	1,338	1,060	-	-	-	-	1,421
II. Participating interests (10%- to 50%-owned)										
a) French companies	-	-	-	-	-	-	-	-	-	-
b) Foreign companies	-	-	-	-	-	-	-	-	-	17

8.8 FIVE-YEAR FINANCIAL SUMMARY

<i>In euros</i>	2004	2005	2006	2007	2008
CAPITAL					
Share capital	197,399,120	212,006,640	212,047,480	212,154,880	215,154,864
Number of ordinary shares in issue	9,869,956	10,600,332	53,011,870	53,038,720	53,788,716
Number of preference dividend shares (without voting rights) in issue	–	–	–	–	–
Maximum number of new shares to be issued:					
• by conversion of bonds	–	–	–	–	–
• by exercise of subscription rights	32,020	8,174	30,660	147,308	212,100
• by redemption of bonds	–	–	–	–	–
OPERATIONS AND RESULTS FOR THE YEAR					
Sales excluding taxes	–	–	–	–	4,093,551
Income (loss) before tax, employee profit sharing, amortization, depreciation and provisions	-58,687,367	-11,515,957	158,527,985	533,143,895	715,270,552
Income tax	-5,827,453	-10,031,246	-13,234,248	-21,998,166	-15,892,775
Employee profit sharing for the year	–	–	–	–	–
Income (loss) after tax, employee profit sharing, amortization, depreciation and provisions	30,064,061	14,144,934	172,068,021	553,894,374	730,835,635
Dividends distributed	31,583,859	118,723,718	318,071,220	583,425,920	322,732,296
PER SHARE DATA					
Income (loss) after tax and employee profit sharing, but before amortization, depreciation and provisions	-5.36	-0.14	3.24	10.47	13.59
Income (loss) after tax, employee profit sharing, amortization, depreciation and provisions	3.05	1.33	3.25	10.44	13.59
Dividend allotted to each share	3.20	11.20	6.00	11.00	6
EMPLOYEES					
Average number of employees during the financial year	5	5	5	4	7
Payroll during the financial year	594,460	573,987	732,844	353,485	1,633,803
Payroll-related costs (social security, employee benefits, etc.)	188,462	214,024	258,138	85,419	903,538



French limited liability company
(société anonyme)
with Management and
Supervisory Boards
and issued capital of €215,154,864

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