

Section VIII

Specific documents for the Ordinary and Extraordinary General Meeting on 7 June 2005

8.1	EXECUTIVE BOARD REPORTS	145
8.1.1	Management report of the Executive Board to the Ordinary and Extraordinary General Meeting on 7 June 2005	145
8.1.2	Special report on options	174
8.2	REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD on the conditions governing the preparation and organization of the Supervisory Board's work and on the internal control procedures	175
8.3	STATUTORY AUDITORS' REPORTS	180
8.3.1	Statutory Auditors' general report on the annual statutory accounts	180
8.3.2	Statutory Auditors' special report on certain related party transactions	182
8.3.3	Statutory Auditors' report on the consolidated financial statements	184
8.3.4	Statutory Auditors' report on the report of the Chairman of the Supervisory Board on internal control procedures	186
8.3.5	Statutory Auditors' special report on the consolidated financial statements for the year ended 31 December 2004 restated in accordance with IFRS	187
8.3.6	Statutory Auditors' special report on the allocation of bonus shares, which must be existing shares	188
8.4	SUPERVISORY BOARD REPORT	189
8.5	RESOLUTIONS PROPOSED BY THE EXECUTIVE BOARD	190
8.6	SUBSIDIARIES AND PARTICIPATING INTERESTS AS AT 31 DECEMBER 2004	193
8.7	COMPANIES CONTROLLED DIRECTLY OR INDIRECTLY AS AT 31 DECEMBER 2004	194
8.8	EVALUATION OF SECURITIES PORTFOLIO AS AT 31 DECEMBER 2004	195
8.9	FIVE-YEAR FINANCIAL SUMMARY	196

8.1 Executive Board reports

8.1.1 Management report of the Executive Board to the Ordinary and Extraordinary General Meeting of 7 June 2005

In contrast to 2003, which was rather a mixed year for Vallourec with widely differing performances in the various sectors of activity and geographic regions – mediocre in Europe, disappointing in the United States, good in Asia and excellent in South America – 2004 was the year that broke all records.

Consolidated sales totalled € 3,037.8 million, exceeding for the first time the symbolic € 3 billion threshold and 27.9% up on 2003 sales of € 2,375.5 million. There were no significant differences in the consolidation scope between the two years.

This increase mainly reflects the growth in the level of activity and results from a combination of a volume effect of +14.6% and a mix, price and currency effect of +11.6%.

Growth gathered momentum throughout the year: the global increase in sales in the first half-year compared with the same period the previous year was 15%, whilst in the second half-year the increase was 41%. The volume effect underlies most of the growth in the first half-year (volume effect of +12.7% and a mix, price and currency effect of +2%) whilst the second half-year, in addition to a continuing increase in volumes, also benefited from price increases agreed during the first half-year (volume effect of +16.6% and mix, price and currency effect of +21.2%).

Sales increased across all markets. The Group's growth in 2004 was driven by the worldwide rise in demand for tubes, particularly for oil & gas drilling in the United States and for power generation plants in China.

In the oil & gas market, performance was fairly representative of the Group as a whole: sales were 27.9% higher than in 2003, despite the fall in the dollar, due to the combined effect of the increase in volumes and the gradual increase in selling prices. Sales of OCTG tubes for oil & gas drilling recovered strongly in the United States due to an increase in investment expenditure. In the rest of the world, demand increased more modestly, reflecting the cautious attitude of the major oil companies towards investment expenditure, despite the high oil price.

Sales in the power generation sector increased by 66.2% compared with 2003. This strong growth was mainly due to China's investment in power generation plants. In the rest of the world, demand increased as a result mainly of revamping and maintenance programmes.

As regards tubes and components for the automotive market, sales were up by 10.8%, due mainly to a high level of deliveries of seamless tubes in Brazil.

The improvement in the economic climate in Europe had a direct impact on activity in the mechanical engineering market, with sales increasing by 30.5% compared with 2003. In the chemicals and petrochemicals market, sales increased by 22.3% due to buoyant demand from distributors in Europe, Brazil and the United States.

The global character of the Group's activity is becoming more apparent each year. In terms of geographical breakdown, France's share was less than 13% and sales outside the enlarged, 25-member European Union, represented 57% of Group sales, due, in particular, to increases in Asia and North America. It is important to remember that ten years ago, in 1996, before V & M TUBES was set up, sales in France accounted for 42% of Group sales and those outside the European Union accounted for 27%.

Operating costs increased by 24.5%. This increase was due, on the one hand, to a 48.2% rise in purchases of raw materials, which is much greater than the increase in volumes (+14.6%) as a result of the increased cost of these raw materials, and, on the other hand, to the controlled rise in all other operating costs (up 10.2%), which nevertheless increased due to the effect of the rise in transportation and energy costs.

Overall, Vallourec succeeded in offsetting the impact of higher raw material prices and the fall in the dollar on EBITDA in 2004 by increasing its selling prices. The increase in volumes and, to a lesser extent, the improved mix, were the main factors in the 93.2% rise in EBITDA to € 424.7 million compared with € 219.8 million in 2003. EBITDA represented 14% of sales in 2004 compared with 9.3% the previous year, with the EBITDA/sales ratio improving during the year from 11.3% in the first half to 16.2% in the second half, above the target for the peak of the cycle (15%).

After taking into account net financial income of € 8.6 million (€ 5.1 million in 2003), an extraordinary loss of € 11.5 million (€ 19.2 million in 2003) and income tax of € 69.6 million (€ 22.8 million in 2003), consolidated net income for 2004 totalled € 251.8 million, i.e. 8.3% of sales, compared with consolidated net income of € 77.0 million, i.e. 3.2% of sales, in 2003.

Net income, Group share, stood at € 135.7 million (€ 14.2 per share) compared with € 39.7 million (€ 4.2 per share) a year earlier. The ratio of net income, Group share, to consolidated net income also rose, increasing from 52% to 54%, reflecting the net upturn in non-V & M TUBES activity.

Against this backdrop, the Group's financial position once again improved considerably, despite the repayment in July 2004 of the bond loan of € 76.2 million (FRF 500 million) subscribed in June-July 1996. The Group's debt position improved from net debt of € 73.2 million at 31 December 2003 to a net cash position of € 54.6 million at 31 December 2004.

It should be remembered that the maintaining of a solid financial structure is one of the key elements of Vallourec's strategy. In businesses that are essentially cyclical, the Group's financial strength guarantees its ability in any circumstances to carry out its strategy independently and, in particular, to seize opportunities for growth, which very often arise during a cyclical downturn.

As regards capital expenditure, 2004 began with a restricted programme, as was the case in 2003. This programme was gradually adjusted to meet the strong rise in customer demand. Total capital expenditure for the year amounted to € 94.1 million compared with € 73.0 million in 2003 – a particularly low year – and the depreciation charge in respect of fixed assets for 2004 amounted to € 94.8 million. However, it is important to note that several programmes that were started in 2004 will continue in 2005, which will, as a result, be a year of high capital expenditure – around € 150 million. The main items of capital expenditure in 2004 included expenditure to increase capacity, in Germany, for the production of boiler tubes intended mainly for the Chinese market and, in Brazil, to increase the capacity of the continuous process rolling mills following expenditure in 2004 on a new furnace for heating billets and the increase in capacity for the production of OCTG tubes.

Details of the main items of capital expenditure incurred during 2004 and the two preceding financial years are given in section IV,

paragraph 4.4.1, of the 2004 Reference Document of which this report forms an integral part.

The only financial investment during the year (€ 2 million) was in connection with the formation of a joint venture (50/50) in South Korea with Poongsan, named Poongsan Valinox to manufacture locally, using technology developed by Valtimet, welded stainless steel and titanium tubes designed mainly for the power generation and seawater desalination markets. Poongsan Valinox was formed as the final element in Valtimet's development plan in Asia where Changzhou Valinox Great Wall that year tripled its production capacity in China, thereby strengthening its position as leader in the Chinese market for tubes for cooling secondary circuits of power generation plants, demand for which is constantly increasing.

As regards cold-drawn seamless precision tubes, in Europe, due to the structural changes in the market, Vallourec Précision Etirage had to streamline its production capacity by closing its Laigneville (Oise) facilities.

Valtimet Inc. took the decision to group all of its production of stainless steel condenser tubes on its site in Morristown (Tennessee), and to close its site in Claremore (Oklahoma).

At the beginning of 2005, Vallourec sold its assembly and automotive components activities in the Mercosur region. Vallourec do Brasil Autopeças (sales of Brazilian reais 203 million / € 55.9 million), which specializes in the assembly of rear axle units for Renault do Brasil and Peugeot-Citroën do Brasil, was sold to the German group Benteler. Vallourec Argentina (sales of Argentinian pesos 62 million / € 17.1 million in 2004), which specializes in the machining of automotive parts and the assembly of rear axle units for Renault Argentina, was sold to the local management.

These assembly activities were not part of the Group's core business, were not likely to achieve the required critical size in a reasonable timescale and did not present any real strategic interest. The Group has, however, retained a significant presence in the automotive products market in the Mercosur region via V & M TUBES, whose sales to this sector have increased strongly and offer good prospects, both for the Brazilian domestic market and the export market.

However, the major event of the financial year 2005 will without doubt be the acquisition by Vallourec of full control of its subsidiary V & M TUBES by the purchase of the 45% participating interest currently held in it by Mannesmannröhren-Werke (Salzgitter).

This transaction was the subject of a memorandum of understanding signed on 20 January 2005. The final agreement is due to be signed in April. The transaction was subject to certain conditions, in particular a favourable decision on the part of the competent competition authorities and provision of the required financing.

Vallourec is to pay a total of € 545 million for this acquisition. The acquisition will be financed through available cash, long-term debt, which is expected to combine a term loan and a revolving credit facility, as well as a rights issue of € 125 million. This planned combination of financing methods should enable Vallourec to maintain a gearing ratio of about 40%.

The Extraordinary General Meeting of Vallourec's shareholders on 25 February 2005 has already delegated to the Executive Board the powers required to increase (in conjunction with the Supervisory Board) the share capital (by way of a rights issue) whilst retaining shareholders' preferential subscription rights. The rights issue is expected to be finalized during the second quarter of 2005. The Salzgitter/MRW group has already indicated its intention to subscribe to the rights issue pro rata to its shareholding in Vallourec, and to remain a significant shareholder. The Bolloré group has also indicated that it will subscribe to the rights issue pro rata to its shareholding.

As a consequence of the transaction, the joint venture agreement signed by Vallourec and MRW in 1997, and in particular the reserved matters and the change of control clause, will be terminated and Vallourec will have:

- full control over the implementation of V & M TUBES's strategy (acquisitions, capital expenditure, etc.)
- a clearer, more coherent Group structure
- full access to V & M TUBES's earnings and cash-flow.

The transaction should therefore be beneficial from both an operational and a financial point of view.

● Oil & gas

Sales in the oil & gas market amounted to € 1,106 million in 2004 compared with € 865 million in 2003, i.e. an increase of 27.9%, exactly in line with that of the Group's total consolidated sales. The contribution of oil & gas to total sales therefore remained unchanged at 36.4%. Oil & gas remains the first market of the Group.

The tubes designed by Vallourec for the oil & gas industry are largely threaded tubes designed for so-called "vertical" uses. They are used in wells, either during drilling operations or for equipping and operating the wells. These products are referred to as Oil Country Tubular Goods, abbreviated to OCTG. Vallourec also supplies line pipes for collecting and transporting petroleum products.

In the oil & gas sector, 2004 will remain the year of the return to a high oil price, with the average oil price being around 35% higher than in 2003. This substantial rise resulted from an increase in world consumption driven by China and the United States at a rate (+3.4%) that had not been seen for some years, whilst production capacities worked at a level approaching saturation. The market reacted in a highly speculative manner to the risk of the supply being insufficient to meet demand for the slightest reason. These anxieties were also fuelled and amplified by the many geopolitical tensions in Iraq, Venezuela, Nigeria, Saudi Arabia, Iran and Russia, to name only the most significant.

In this context, the number of rigs in operation, which is a major indicator for Vallourec of the demand for its OCTG products, significantly increased in 2004.

This increase was particularly marked in the United States where the number of rigs in operation was on average 15% higher than in 2003 and almost 50% higher than the low point reached in the spring of 2002. This activity was mainly concentrated on gas drilling, which represented more than 80% of the drilling in this region. It was driven by a historically high gas price, on average higher than USD 6 per M/btu in 2004 compared with an average price of USD 5.5 in 2003, USD 3.4 in 2002 and USD 2/2.5 in the period 1990 to 2000. The American Senate has, moreover, just authorized exploration in the north of Alaska, which has until now been prohibited for environmental protection reasons.

In Mexico, private drilling companies, which have recently appeared in the market and which participate in significant oil & gas development programmes under the terms of partnership contracts and contracts for the supply of services, have boosted demand. In Brazil, production has begun on a certain number of new projects, particularly off-shore, with the aim of becoming self-sufficient in 2005.

In contrast, the EAME region (Europe, Africa, the Middle East and the Far East) only achieved modest growth (3.6%) in drilling in 2004. In the Middle East and Africa, the slow pace of this recovery is the result of both geopolitical factors and the inertia due to the timescale for implementing the required finance. The North Sea market, on the other hand, showed very encouraging signs of an upturn in the fourth quarter due to the arrival of independent firms that are gradually taking over the places left by the majors. This trend is likely to continue in 2005.

In total, worldwide activity (excluding China and the former USSR) was on average 10% higher in 2004 than in 2003.

It is clear, however, that there is still significant scope for improvement: the creation of additional production capacity and the stepping up of exploration programmes are vital after years of chronic underinvestment on the part of oil companies. The key is to know at what pace such investment will be made. That will depend mainly on the level of confidence of those involved, particularly as regards the maintenance of a high oil price, which will ensure the profitability of additional investment.

Most observers consider that there is no reason to suggest that the current high prices will change in the short term and that the oil price will remain high, at least in 2005 and very probably beyond. All the problems and tension affecting the market remain present: the high level of demand, forecasts of which for 2005 were recently (beginning of March 2005) revised upwards by the International Energy Agency to 2%, geopolitical problems and refining bottlenecks.

Against this backdrop, OPEC (which, with around 40% of world production, plays a key role in the market), declared that it was abandoning its target price range of between USD 22 and USD 28 that it had adopted over the previous few years, underlining that this target had become unrealistic given actual market trends. OPEC is now prepared to defend a floor of around USD 35 (brent crude), arguing that this increase (which has been borne out by events since, at the time this report is being drafted, in March 2005, the oil price was hitting record highs of above USD 50) would not jeopardize world growth. Observers are unanimous in noting that the rise in the oil price has not dampened growth in world demand and that, moreover, the weakness of the dollar cushions some of the effects. Under these circumstances, there is no reason to fear, in the short term, a downturn in drilling activity which, on the contrary, has every reason to continue to increase, especially since market pressure for production capacity to be increased is very strong.

● Power generation

The products manufactured by the Group in this sector include carbon steel tubes, alloy and stainless steel or titanium tubes. These products, designed for the primary and secondary circuits of power generation plants, include specialties for which there are few competitors, such as tubes for nuclear steam generators and header pipes for classic power generation plants, the diameter of which may reach 1.5 m and the thickness 30 cm. All these tubes have highly sophisticated technical features and must, in particular, be capable of withstanding the extreme temperatures and pressure that are found in all power generation plants.

In the field of electric power generation, whether conventional (fossil fuel) or nuclear, the average construction period is several years and our products are used in the second phase of the construction. This explains why the consequences of changes in market trends are lagged. It is also for this reason that, whilst the world market for the construction of power generation plants is once again performing well, with excellent prospects for the years to come, paradoxically 2003 was a very poor year in this sector, which is still suffering from the repercussions of the Asian monetary crisis in 1997, which called to a halt all projects in this region. The Enron affair also halted construction work on new combined-cycle power generation plants in the United States.

The reversal of the trend, which began in 2003 but was too late to affect Vallourec's results, was confirmed in 2004 at levels that exceeded the Group's forecasts. Whilst sales in the power generation sector had fallen by 16.8% in the previous year, with its relative contribution to Group consolidated sales dropping to 11% compared with 13.3% in 2002, sales in this sector of activity rose by 66% in 2004 to € 467 million compared with € 281 million in 2003. The rate of growth increased throughout the year, with sales in the second half-year up 36% over those of the first half-year. The contribution of this sector to consolidated Group sales increased as a result to 15.4%.

It is clear that this growth was driven mainly by the needs of the Chinese market, but the rest of Asia (Taiwan, South Korea, India, etc.) also performed well. The strong growth (over 10% per year) in the Chinese economy led to a huge demand for electricity. The authorities have decided to increase installed electrical capacity threefold, from 380 GW in 2003 to 1100 GW in 2030. The power generation plant construction programme should therefore increase to more than 35 GW/year for several years. In fact, more than 45 GW was launched in 2004 and 2005 has begun at the same level, with

programmes being boosted by the prospects of the Olympic Games in 2008. Most of the power plants are currently coal-fired but there are likely to be gradually more and more oil- and natural-gas-powered plants. In addition, the Chinese nuclear programme is to be given a strong boost with plans for four power plants in the short term, which constitutes the first stage of a programme that is expected to comprise 36 plants between now and 2020, at the rate of 2 GW nuclear per year until 2015 and 4 GW thereafter.

Vallourec is well placed to take advantage of this surge in demand, on the one hand thanks to the special products (boiler pipes in special alloys, header pipes and U-bent feedwater heaters) in which the Group is the world number one with a significant lead over its immediate competitors, and, on the other hand, thanks to its local industrial presence.

From its plant near Shanghai, Changzhou Valinox Great Wall supplies the majority of the Chinese market's requirements for secondary circuits for power plants. The capacity of this plant was substantially increased in 2004, resulting in the quadrupling of production in 18 months. In order to strengthen its presence in Asia, in 2004 Valtimet set up a joint venture (50/50) with the Korean company Poongsan to manufacture, in South Korea, stainless steel and titanium tubes designed mainly for the power generation markets. The new company, named Poongsan Valinox, was operational as from the end of 2004 and will give priority to supplying the requirements of South Korea and the rest of Asia. It will be particularly well placed to satisfy South Korea's future requirements for tubes for power generation plants.

This strong demand in Asia, which is expected to continue at a high level in the coming years (with India taking over from China) could be accompanied by a gradual recovery in the European and US markets.

In Europe, after some improvements in 2003, a modest recovery was experienced in 2004. The increase in energy requirements linked to an upturn in the economy, the rise in oil & gas prices and the ecological preoccupations linked to the Kyoto protocol, resulted in a revival of the nuclear industry. Against this backdrop, Valtimet supplied the condensers for the Olkiluoto power generation plant in Finland, the first new nuclear power plant to be built in Europe for a long time. Other proposals to build new power plants are being considered, some are underway (like the European Pressurized Reactor (EPR) in France), while existing power plants are undergoing significant maintenance and improvement.

As regards the US market, the bursting of the speculative bubble linked to the Enron affair led to a very weak market in 2003. The year 2004 undoubtedly marked the start of a recovery, with plans to improve thermal and nuclear power plants. Having, in 2004, supplied the steam generator tubes for the nuclear power plant at Watts Bar, in 2005, Valinox Nucléaire will supply those for the Commanche Peak power plant. The supplying of tubes for the Watts Bar order, the technical specifications for which were the most stringent ever seen, was an acknowledged success and enabled the Group to strengthen its image (although it is debatable whether there was any need) in this field, in which there are now only three operators at world level.

● Automotive

The Vallourec group's products for the automotive industry are manufactured in Europe and the Mercosur region and supplied almost exclusively to these two markets: 70% to Europe and 30% to the Mercosur region in 2004. About three quarters of the products consist of precision tubes (drawn or welded) used by car-makers or their parts manufacturers and the remaining quarter consists of components or sub-assemblies.

The Group's sales in the automotive sector in 2004 totalled € 501 million, compared with € 452 million in 2003, i.e. an increase of 10.8%. This was a good performance which brought Group sales back to the better levels experienced in 2000 (€ 503 million), even though, since that date, the Group had divested itself of the company Jacot (engine system tubes and parts for power steering assemblies) in 2001 and, in 2003/2004, closed Vallourec Composants Automobiles Hautmont (manufacture of structural parts). However, the contribution from the automotive activity to the Group's consolidated sales fell from 19% to 16.5%: this is the quid pro quo for the fact that this sector of activity is not affected by cyclical variations to any great extent.

The overall increase in sales of 10.8% should be compared with the modest increase in new car registrations in Europe – only 2.1% in 2004 and only 1.7% in the enlarged European Union. The Group's performance was better than this, due to a noticeable increase in activity in the Mercosur region and the Group's involvement in Europe in models that have been very successful with customers, such as the Renault Mégane II and Peugeot 407.

In the case of drawn precision tubes, the Group continued to expand and broaden its range of high-quality products such as tubes for camshafts, high pressure injection and airbags. However, output growth in this area is insufficient to take up the slack from the

products now being phased out. Certain simple products such as struts or casings for shock absorbers are increasingly being produced by manufacturers located in countries with low labour costs, and European Union enlargement has done nothing to slow this phenomenon. This global reduction in activity, which can only continue, led the Group to consider and then to decide on the closure of a plant (Laigneville / Oise) so that it could better concentrate the remaining production on other drawing sites.

The welded precision tubes activity continued its recovery after a difficult 2002 characterized by problems starting a new welding line. The end of the year was marked by intense discussions with suppliers of steel coil and with customers about higher steel prices. The conclusions of these discussions should not compromise the 2005 results.

The use of stainless steel tubes continues to grow. The increase in engine-running temperatures, lower gas emissions and recycling standards are all factors that favour the use of stainless steel. The volumes manufactured by Valtimet for the automotive sector are, as a result, increasing steadily.

As regards bearing tubes, the main market for which is automotive construction, buoyant demand has offset the loss of market share vis-à-vis certain important customers, in particular Timken Europe, which decided to procure all of its requirements internally.

In the case of automotive components in Europe, 2004 was a good year for Vallourec Composants Automobiles Vitry, which benefited from the success of the Peugeot 407 and Citroën C4 models for which the Group manufactures engine add-ons. These engine add-ons are innovative tubular components that offer smart crash behaviour through programmed deformation absorbing energy in the event of violent front impact. In addition, the announcement that the Peugeot 206 model will co-exist with the future 207 model for a certain time is good news for the Group, which is involved with both.

For V & M do BRASIL, 2004 was a record year in terms of production for the main markets in the automotive sector in Brazil (cars, lorries and buses, semi-trailers, agricultural machinery and site vehicles). These records were achieved thanks to the confirmed upturn in the domestic market and, above all, to the spectacular expansion of exports which represented, on average, 30% of customers' production.

In the case of Vallourec do Brasil Autopeças Ltda, 2004 was a year of significant recovery in activity levels for Peugeot and more buoyant activity levels for Renault, facilitating growth in the assembly

activity of nearly 30% compared with 2003. This increase in activity was certainly reflected in improved results. Vallourec Argentina also saw a slight improvement in the levels of its assembly activities (rear axle units for Renault).

Nevertheless, these assembly activities remained – as mentioned above – far removed from the main activity of the Group, and the two companies, Vallourec do Brasil Autopeças Ltda and Vallourec Argentina, were accordingly sold at the beginning of 2005.

If the sales achieved by these two companies were excluded, sales in the automotive sector would be reduced to € 430 million. i.e. 14.5% of Group consolidated sales, of which 82% in Europe and 18% in Brazil. The contribution of components would be 12%, but made up only of high-value-added parts.

● Mechanical engineering

This is Vallourec's business that is the most closely linked to the general economic trend, and has a very strong European dimension.

Sales are mainly associated, on the one hand, with the automotive industry (requirements of sub-contractors manufacturing mechanical components) and, on the other hand, with industrial investment in general for all products incorporating tubular parts subject to resistance and/or pressure: equipment (machine tools, agricultural machinery and lifting equipment), hydraulic circuit tubes, axles, cylinders, etc.

After four consecutive years of falling sales, finally, in 2004, Vallourec's sales in the mechanical engineering market recovered significantly, increasing by 30.5% from € 328 million in 2003 to € 428 million in 2004 and returning to a level well above the highest level in 2000, € 379 million. The increase in sales continued during the year, and sales for the second half of 2004 were 25% higher than those for the first half. Overall, the contribution made by sales in the mechanical engineering market to Group consolidated sales rose slightly, from 13.8% in 2003 to 14.1% this year. Volumes sold by the Group in this sector were appreciably higher than in 2003. Wherever possible, increases in raw material prices were passed on to selling prices. This approach has been implemented gradually and the process of closing the gap which still exists will continue in 2005.

In the case of tubes for mechanical engineering, manufacturing and other general uses, a significant proportion of the Group's customers are small and medium-sized companies that obtain their supplies through wholesalers. This method of distribution results in

the accentuation of market trends, by means of changes in stock levels in accordance with wholesalers' expectations. In view of the rather mediocre state of the sector since 2001, after initially running stocks down, distributors had since 2002 been maintaining their stocks at the lowest possible levels, favouring a wait-and-see policy and only placing orders to replenish existing stocks. After the upturn in demand in Asia and the United States in 2003, the recovery in the European market in 2004, driven in particular by German wholesalers for the export requirements in the machine tool sector, completely altered the behaviour of end-customers.

Orders were boosted by intermediaries and end users who feared, on the one hand that, they would be faced with a shortage of products, as was the case in the iron and steel industry, and, on the other hand, that there would be a continuation of the surge in prices that has caused the cost of replenishing their stocks to continue rising. Against this backdrop, there was an increase in demand, which was not satisfied in full since care was taken to fill the orders of existing customers first. Order fulfillment lead-times lengthened and a selective approach had to be adopted. As a result, even though some replenishing of stocks took place in 2004, the speculative portion probably remained limited. Demand showed no signs of decreasing at the beginning of 2005.

Demand for specialist products – drilling rods for mining and hollows for gas cylinders – remained buoyant. Drilling rods for mining benefited in particular from the strong expansion in mining activities linked to the currently enormous requirements for raw materials.

● Chemicals and petrochemicals

In this sector, the Vallourec group is developing a wide range of products in carbon steel, alloys or stainless steel and titanium that meet the specific requirements for each type of use: low or high temperatures, corrosive atmospheric conditions and particular constraints. The most popular products are line pipes, smooth, riffled or finned heat exchanger tubes, furnace tubes, ends and fittings that are used in oil refineries and chemical and petrochemical production plants, whether as new equipment or for maintenance.

The petrochemicals market is Vallourec's main market. It is also a world market. Sales in the North and South American continent, where the Group has two subsidiaries V & M STAR and V & M do BRASIL, constitute about half of total sales, whilst sales in all other regions (Europe, the Middle East, the Far East, North Africa and Southern Africa) constitute the other half.

In 2004, the Group's sales in the chemicals and petrochemicals sector totalled € 334 million compared with € 273 million in 2003, i.e. an increase of 22.3%. The increase was greater in the second half-year than at the beginning of the year. As in the other sectors, 2004 volumes were greater than those in 2003 and selling prices have been gradually increased to offset rises in raw material costs. The relative contribution to Group consolidated sales has nevertheless fallen slightly, to 11% compared with 11.5% in the previous year.

Demand in the petrochemicals sector was mainly fuelled by the requirements of maintenance operations or small capital expenditure projects that can be completed within a short timescale, and, in particular, by the requirements of the refining industry, which, since there has been great demand for its services this year in line with the growth in consumption of oil products, operated at full capacity.

Our products are mostly sold through the wholesale channel, except in the case of major projects of which there are currently very few. As is the case in the mechanical engineering sector, wholesalers, who have striven for several years to keep their stock levels as low as possible, were faced with a stronger than expected upturn in demand, boosted by the fear of a possible shortage of products and further price increases. Given the limits of its global production capacity, the Group was forced to be selective and to focus on its most profitable products and most loyal customers. Market conditions therefore appeared favourable at the beginning of 2005.

Turning now to the future, in addition to the short-term requirements linked mainly to the maintenance and upgrading of existing installations, and in view, in particular, of the increasingly stringent

standards in this type of activity, it is vital for significant additional, latest-generation production capacity to be created in the refining sector. Numerous projects have been planned in all parts of the world, which we have referred to over several years. These projects have been properly identified and correspond to actual needs: we must remember that world refining capacity is currently barely above the level at the end of the 1980s. In the United States, in particular, where refining bottlenecks disrupted production in 2004, no significant additional capacity has been created since 1976. The problem is to ascertain the timescale within which these projects can be expected to come to fruition. The maintaining of a high oil price, and its effects on margins at all stages of the chain, can only be a positive factor.

The traditional chemicals sector experienced something of an upturn in 2004, after several gloomy years during which there was only a very limited amount of investment. However, it has become clear that the seawater desalination market is expanding rapidly and is expected to experience significant growth in the coming years, not only in the Middle East but worldwide.

● Others

This heading comprises mainly the construction and aerospace markets. Their respective contributions to Vallourec's consolidated sales decreased from 7.5% in 2003 to 6.6% in 2004.

In the case of construction, the Group provides a complete range of very high quality structural tubes and sectioned shapes for large construction projects. Such projects have become more numerous in recent years and have led to buoyant demand for these types of products.

Steel is being used increasingly in modern architecture, either on its own or in conjunction with other materials, especially glass. The significant technological progress achieved as regards the strength of steel now enables building projects to combine boldness and aesthetics in a way that would previously have been impossible. The Group's products are being used in more and more impressive projects: Bangkok airport, the new central station in Berlin, Wembley stadium in London, the Bernabeu stadium in Madrid, covered football stadiums in Düsseldorf and Gelsenkirchen, Swiss Ré's head office in London, etc. The Olympic Games in Beijing in 2008 and the international exhibition in Shanghai in 2010 offer extensive opportunities on which the Group has already begun work.

The products manufactured by Vallourec for the aerospace market mainly comprise stainless steel and titanium circuit tubes and piping for air conditioning systems. The market returned to growth in 2004, particularly in Europe with the success achieved by Airbus, which had a favourable impact on volumes. Unfortunately, although some contracts in the European market are now denominated in euros, the weak level of the dollar intensified competition.

This upturn justified Spécitubes's investment, in 2003, in a new cold rolling mill – the most efficient in Europe, although the difficulties in obtaining supplies of titanium prevented the company from deriving the expected benefit this year. The company nevertheless reported improved results.

RESEARCH AND DEVELOPMENT

- **V & M do BRASIL** is continuing the R&D work begun several years ago concerning the development of competitive basic raw materials. This work involves the selection of trees, forest nutrition and the process of carbonizing charcoal (which is establishing itself as an excellent economic substitute for coke as a fuel for blast furnaces).

- The vacuum degazing and forging equipment at **V & M FRANCE's** Saint-Saulve steel mill is fully operational, producing in particular 9% and 13% chromium steel. Digital simulation is used to improve the production process.

- In the **oil & gas** sector, **V & M TUBES** strengthened its leading position in the supply of steel grades and "premium" joints for wells involving the latest exploitation technologies: deep sea wells, deep drilling and highly corrosive environment. Major projects have been completed in Brazil, the United States, Africa and Indonesia.

The VAM TOP product line experienced continuing growth and confirmed its position as the new standard, replacing NEW VAM.

VAM RISER, designed for deep sea exploitation, continued its development and was used successfully, particularly in the United States. These products, which are submitted to fatigue cycles, require cutting edge technology and specific testing procedures.

The VAM ET threaded joint remains gas tight after the diameter of the column of tubes is expanded inside the well, substantially increasing production. This is the reason why the Shell group continued to use it, particularly for its 13% chromium products for Malaysia.

Environmental protection is at the heart of our product development. In this regard, CLEANWELL, a non-polluting lubricating film for threaded connections, has been developed to allow the assembly of VAM threads without using grease. Furthermore CLEANWELL protects the joint against oxidation and facilitates installation. Several customers have expressed their intention of making this product their new standard.

It has taken three years to design, validate and manufacture the VAM HTF joint, which, using less space, performs well under combined loads and is exceptionally resistant to torque. First returns from the market are promising.

- In the **automotive** sector, the Group is developing a significant number of tubular solutions for use in a variety of parts especially for chassis and car body structure. The Group has made use of trade fairs and exhibitions to demonstrate the potential for steel and tubes in new automotive applications, particularly in the field of safety.

A full range of products has resulted from the development of tubular components with smart crash behaviour (programmed deformation absorbing energy in the event of a violent front impact). These tubular safety components are very innovative and competitive, as can be seen from their use in a large number of vehicles.

The Group has experienced continuing growth in the use of welded stainless steel for tank filler pipes and hydroformed applications such as exhaust gas recirculation systems.

Vallourec Précision Soudage is now using its new welding line and its extensive technical capabilities for the development of automotive safety products requiring exceptional deformability capacity, mainly for hydroforming. Furthermore, its geometric range has been broadened to include rectangular sections used in car body structures.

- In the **power generation** sector, 2004 saw strong demand in China for the construction of thermal power generation plants that need significant quantities of tubes in a large variety of diameters and grades. The Group is the world leader in these products.

The development, for this sector, of a new grade (12% chromium) for use in power generation plants operating at higher temperatures is continuing with long-term testing. This grade has attracted the attention of our customers, largely due to its hot steam oxidation resistance.

- In the **construction** sector, the Group is winning an increasing number of contracts throughout the world. Innovative solutions applied to major public buildings in Düsseldorf, Munich, Bangkok, etc., are also being developed for the industrial construction market, particularly in Brazil.

Process communities are being set up within the Group. These groups enable rapid progress by sharing best practices for the main processes, in particular for joint threading, for which impressive results have been achieved.

INFORMATION PROVIDED IN ACCORDANCE WITH ARTICLE L. 225-102, SECTION 4, OF THE FRENCH CODE DE COMMERCE

● INFORMATION ON THE SOCIAL IMPLICATIONS OF THE GROUP'S ACTIVITIES

Social data is difficult to consolidate, since situations are greatly affected by the social legislation of each country.

In France, companies with more than 300 employees prepare a social report that includes a certain number of homogeneous social indicators.

Companies with fewer than 300 employees generally produce a simplified report that includes some of the indicators of the social report.

In other countries, the content of social reports varies depending on the country and company concerned.

The social indicators detailed below have been prepared on the basis of the companies fully consolidated and 100%-controlled by the Vallourec group.

These indicators are in accordance with the provisions of Decree no. 2002-221 of 20 February 2002.

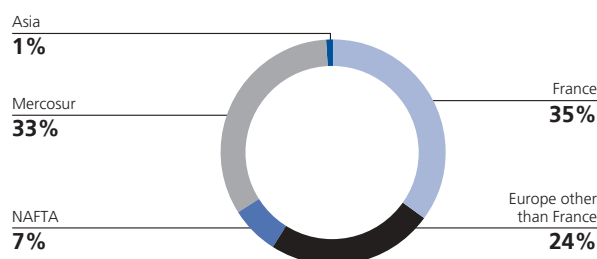
I. WORKFORCE

At 31 December 2004, Vallourec had 17,484 permanent employees worldwide. The Group also employed 829 temporary staff.

The production sites and sales premises are located in ten countries throughout the world:

EUROPE		MERCOSUR		NAFTA		ASIA	
France	(6,226)	Brazil	(5,532)	Mexico	(308)	China	(165)
Germany	(3,941)	Argentina	(182)	US	(857)	Singapore	(10)
United Kingdom	(233)			Canada	(30)		

Breakdown of workforce registered at 31/12/04 by geographical area



Change in workforce by geographical area

The workforce was stable overall compared with last year but there were some variations in certain geographical areas.

Workforce registered as at 31 December	2002	2003	2004	Change 2004/2003
France	6,662	6,443	6,226	-3.4%
Rest of Europe	4,119	4,033	4,174	+3.5%
Mercosur	5,483	5,697	5,714	+0.3%
NAFTA	1,062	1,216	1,195	-1.7%
Asia	93	118	175	+48.3%
Total	17,419	17,507	17,484	-0.1%

Breakdown of workforce by socio-professional category

With 73% of its workforce being workers, Vallourec clearly comes within the labour-intensive industrial category.

Managerial staff represent less than 7% of the workforce.

The level of temporary staff is reasonable given the high level of activity: temporary staff represent around 5% of the registered workforce.

Workforce registered as at 31 December	2002	2003	2004	%
Workers	12,887	12,910	12,863	73.6
Technical and supervisory staff	3,348	3,417	3,464	19.8
Managerial staff	1,184	1,180	1,157	6.6
Total	17,419	17,507	17,484	100
Temporary staff	516	444	829	

Breakdown of the workforce by sex

Women represent only 8% of the Group's workforce, but their numbers are rising due to a recruitment rate that is higher than the average proportion (14.6% of new employees are women).

Women mostly occupy administrative positions and are beginning to occupy positions of responsibility in all areas.

Workforce registered as at 31 December	% of women in 2003	% of women in 2004	% of women hired in 2004
Workers	2.6	2.1	5.0
Technical and supervisory staff	25.0	25.4	56.0
Managerial staff	13.4	14.3	20.0
Total	8.0	8.0	14.6

In decreasing order, the areas with the largest proportion of female employees are as follows:

	% of women in 2004	% of women hired in 2004
Asia	38	59
France	10	18
NAFTA	9	6.6
Rest of Europe	7	11
Mercosur	5	12
Total	8	14.6

Breakdown of the workforce by type of contract

More than 92% of the contracts are permanent contracts, i.e. contracts corresponding to a French *Contrat à Durée Indéterminée*. More than half of the fixed-term contracts are training contracts.

Workforce registered as at 31 December	Men	Women	Total
Permanent contracts	15,473	1,335	16,808
Fixed-term contracts	605	71	676
of which day-release courses	328	38	369

New employees

The Group hired 1,303 new employees, i.e. about 7% of the current workforce. In Europe, 572 new employees were hired. No particular hiring problems were noted.

New employees by type of contract and geographic region:

	Total new employees		% of permanent contracts	Turnover rate %
	NB	%		
France	238	18	70	4
Europe other than France	334	26	53	8
Mercosur	543	42	70	9
NAFTA	122	9	95	10
Asia	66	5	58	38
Total	1,303	100	68	7

In hiring managerial staff, priority is given to applicants who are willing to develop and change their role, both at geographic level (national and international) and in terms of business line and sector of activity, and who are willing to take responsibility and to progress within the Group. In this regard, in 2004, more than 7% of French managerial staff were transferred from one location to another within the Group.

Employees leaving the Group

In 2004, 1,326 employees left the Group, i.e. a number almost equal to the number of new employees.

Their reasons for leaving break down as follows:

	Retired	Resigned	Dismissed	End of contract	Other	Total
France	146	51	51	63	145	456
Europe other than France	9	12	34	83	55	193
Mercosur	11	37	321	105	52	526
NAFTA	16	52	27	6	42	143
Asia	1	6	0	1	0	8
Total	183	158	433	258	294	1,326

The breakdown by socio-professional category is as follows:

	Workers	Technical and supervisory staff	Managerial staff	Total
France	303	88	65	456
Europe other than France	101	75	17	193
Mercosur	420	87	19	526
NAFTA	113	19	11	143
Asia	3	3	2	8
Total	940	272	114	1,326

II. ORGANIZATION OF WORKING TIME

1. Work patterns – Specific arrangements

The policy for planning working time is designed to give the maximum flexibility, so that it can be quickly adapted to suit the demands of customers, whilst optimizing the profitability of the facilities.

The Group endeavours to reduce the strenuousness associated with employees' working time arrangements. The solutions adopted may vary from country to country, since the notion of strenuousness is governed by cultural as well as physiological factors.

This policy must be considered in the context of national legislation and local conditions regarding dialogue between employers and employees.

Although the organization of working time is not constant over time, as it depends on prevailing economic conditions, the breakdown of the current workforce is as follows:

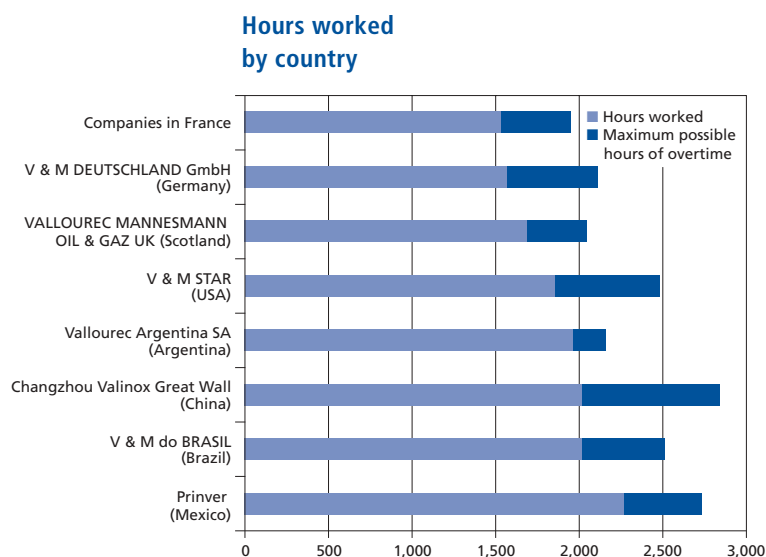
	% of staff working 3 shifts	% of staff working only during the day	Other
France	33.2%	36.4%	30.4%
Rest of Europe	34.0%	51.6%	14.4%
Mercosur	67.3%	29.5%	3.2%
NAFTA	28.4%	43.9%	27.7%
Asia	74.3%	25.7%	0.0%
Total	44.6%	38.2%	17.2%

- The pattern of three shifts per day, which enables production facilities to be operated without a break during the week, applies to the majority of staff. Under this pattern, the length of each shift is generally eight hours.
- As regards those staff who work only during the day, the length of the shift is between seven and ten hours, depending on the country concerned.
- Other patterns (two shifts, four shifts, weekend shifts, etc.) are used regularly or occasionally depending on technical, commercial and organizational constraints.

2. Annual working hours – Production staff

Working hours vary according to the level of activity and the legislation of the country concerned.

The schedules most commonly used by the Group's main companies, and the maximum hours that may be worked if overtime opportunities are exploited, result in very different working hours from one company to another.



3. Part-time in France

As at 31 December 2004, in France, 69 employees worked part-time for personal or health reasons. The main patterns of part-time working are half time or four-fifths time (with Wednesday as a day off).

Due to the differences in working methods, this information cannot be consolidated for the Group as a whole: the concept of part-time is typically French and has not been developed to any great extent elsewhere in the world.

4. ABSENTEEISM

The rate of absenteeism comprises all paid leave for illness, maternity and accidents at work or while travelling to and from work.

	Hours worked	Hours of absence	Rate of absenteeism
France	10,529,802	450,678	4.3%
Europe other than France	7,296,782	393,391	5.4%
Mercosur	9,777,272	32,920	0.3%
NAFTA	856,368	16,834	2.0%
Asia	272,160	1,200	0.4%
Total	28,732,384	895,023	3.1%

III. REMUNERATION

1. Payroll costs

In 2004, the Group's payroll costs, excluding temporary staff, amounted to € 615 million including:

- Salaries: € 441.2 million, i.e. an increase of 4.5% compared with 2003
- Profit-sharing: € 15.8 million, which is three times higher than in 2003
- Social security charges: € 158 million, i.e. an increase of 3.6%.

Total payroll costs can be broken down by country as follows:

	2004	
	Breakdown of total payroll costs	Breakdown of the workforce
Argentina	0.5%	1.0%
Brazil	10.0%	31.7%
Canada	0.3%	0.2%
China	0.1%	0.8%
France	41.2%	36.1%
Germany	35.5%	22.1%
Mexico	0.9%	1.7%
Singapore	0.1%	0.1%
United Kingdom	1.9%	1.2%
United States	9.6%	5.0%
Total	100%	100%

2. Average salaries

	2004	
	Average salaries including social security charges	Of which, social security charges
Argentina	€ 12,000	73.3%
Brazil	€ 13,400	55.4%
Canada	€ 45,900	16.3%
China	€ 3,200	17.9%
France	€ 41,300	42.0%
Germany	€ 51,100	26.1%
Mexico	€ 16,900	22.4%
United Kingdom	€ 47,600	19.1%
United States	€ 72,200	32.0%

3. Employee profit sharing

In 2004, profit sharing amounted to € 18.78 million and was paid to 8,758 employees (half of the workforce) in France, England, Brazil, Mexico and the United States.

This amount represented 3% of Group payroll costs and 7.8% of the total payroll costs of the recipients.

IV. INDUSTRIAL RELATIONS – INTERNAL COMMUNICATION

● Industrial relations

Vallourec endeavours to engage in active, transparent and on-going dialogue between employers and employees at all levels of the Group. To this end, each company has its own representative bodies.

In France, at central level, the Group Committee is the representative body for all staff. It has 26 representatives.

At the joint European level, 30 representatives sit on the European Committee. These are the French, German and Scottish representatives from V & M TUBES. The European Committee meets in full once a year; its executive board meets five times a year.

In 2003, 88 agreements were signed by Group companies, including 34 in France.

● Internal communication

Vallourec communicates on an on-going basis with its staff in order to keep them informed of recent events concerning the Company, its financial position and its targets in all areas: products, financial performance, staff changes, etc.

The magazine "Vallourec Info", of which 21,000 copies are published in four languages, is sent to all employees. The magazine is published twice a year.

An additional newsletter, "Bulletin des cadres", is published, in three languages, specifically for managerial staff. Ten issues of this newsletter are published each year.

In addition, a briefing is held once a year for managerial staff, at which members of senior management present details of the Group's results and strategy.

V. HEALTH AND SAFETY CONDITIONS

Each year, a safety trophy is awarded to the Group entity with the best record in this area. In 2004, it was awarded to VAM PTS (United States), which has not suffered any accidents for three years.

The 2004 consolidated accident frequency rate (which corresponds to the number of notifiable accidents multiplied by 1,000,000 and divided by the number of hours worked) across all Group companies was 7.96 – a slightly worse position than in 2003 (7.88).

The 2004 consolidated accident severity rate (number of non-working days due to accidents multiplied by 1,000 and divided by the number of hours worked) has stayed at the same level as last year (0.43 in 2003 and 0.42 in 2004).

A project carried out in conjunction with the safety managers of V & M FRANCE and V & M DEUTSCHLAND facilitated the implementation of a training programme using NICT (“new information and communication technologies”) based on the model used within V & M STAR. Initial reactions from staff to this new form of safety initiative are positive.

VI. TRAINING

As far as training is concerned, the Group endeavours to reconcile its changing requirements with the individual aspirations of its employees.

The on-going training of all of the Group’s staff is the responsibility of the individual companies and entities since these are most able to assess their changing needs. Each company prepares an annual training plan that may be amended during the year if additional requirements arise.

In the case of workers, priority is given to safety and vocational training. Training on technical issues is provided where relevant (quality, non-destructive testing, etc.).

Technical and supervisory staff are trained in the basic techniques (vocational adjustment) and in any new techniques implemented at the sites. Supervisory staff are given training to manage their teams.

Staff in the administrative departments (sales, planning, etc.) receive technical training tailored to their specific tasks, and often receive language training in view of the Group’s international dimension.

Three types of training are offered to managerial staff:

- During their first year, new recruits receive training to introduce them to the Group (introductory seminars on strategic aspects of policy - financial, employment matters, etc. - run by senior management, visits to plants, introductions to the Group’s manufacturing processes and presentations on the markets for the Group’s various businesses).
- Training to enable staff to perform the tasks of their specific position is offered throughout their career.
- Specific training (management, communication, etc.) aimed at improving individual performance and/or facilitating the acquisition of additional skills enabling staff to be promoted to other positions within the Group.

Number of hours spent on training by category in 2004

	Workers	Technical and supervisory staff	Managerial staff	Total
Number of hours spent on training	223,213	90,338	38,586	352,137
Average hours of training	17	26	33	20
Hours spent on safety training (%)	29%	14%	5%	23%

The average number of hours of training provided by geographical area was as follows:

(In hours)	Workers	Technical and supervisory staff	Managerial staff	Average
France	18	21	27	20
Rest of Europe	15	28	2	17
Mercosur ^(*)	19	32	140	24
NAFTA	11	19	10	13
Asia	2	8	9	3

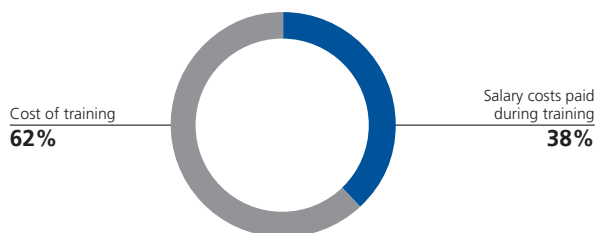
(*) The exceptionally high training time for Brazilian managerial staff is due to the fact that they can undertake postgraduate study, which is financed by V & M do BRASIL.

Amounts spent on training in 2004

The amounts spent on training totalled € 9.4 million, and break down as follows:

- € 3,590,183 represented the salary costs paid while employees are receiving training,
- € 5,806,315 represented the cost of the training courses.

Breakdown of training costs



VII. EMPLOYMENT AND INTEGRATION OF DISABLED EMPLOYEES

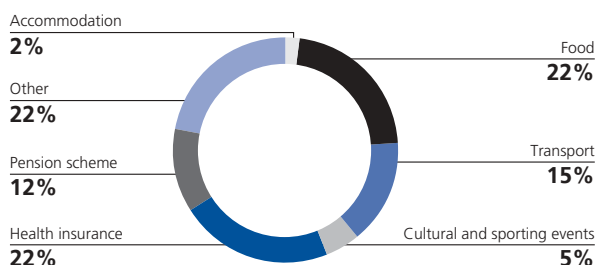
Throughout the world, the Group directly employs 738 employees who are registered as disabled under the provisions of their national regulations, of which:

- 334 are in France,
- 221 are in the rest of Europe,
- 180 are in the Mercosur region,
- 3 are in the NAFTA region.

VIII. WELFARE

In 2004, the Group's welfare expenditure totalled € 21 million, which breaks down as follows:

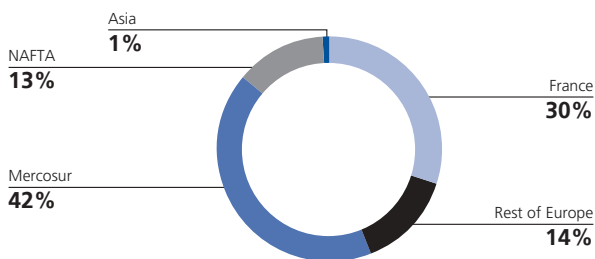
Breakdown of welfare expenditure



Welfare expenditure relates to the following:

- Housing: amount spent on accommodation (either in subsidies or mandatory contributions).
- Food: amount spent on meals for employees (company restaurant).
- Transport: collecting employees and bringing them to work by buses subsidized by the company.
- Cultural and sporting events: sponsorship undertaken by the Group.
- Health insurance: amount spent in the form of subsidies or contributions to welfare plans, whether mandatory or voluntary.
- Pension scheme: amount spent on contributions or other systems implemented by the employer.

Breakdown of welfare expenditure by geographical region



In France, € 6.54 million was spent on welfare in 2004, i.e. about € 1,050 per employee. Part of the welfare budget is managed by Works Councils.

IX. LEVELS OF SUB-CONTRACTING

Group companies use nearly 2,000 suppliers and the total budget stands at € 155 million.

Each company is responsible for ensuring that it complies with international conventions and national regulations and the safety standards that apply within the company.

● INFORMATION ON THE ENVIRONMENTAL CONSEQUENCES OF THE GROUP'S ACTIVITIES

Environmental management

Pursuant to the management regulations applied to all aspects of the Vallourec group's organization, each company's environmental policy is the responsibility of its management. The site manager is responsible for implementing an effective environmental management system, in accordance with local conditions and the nature of the business. He must appoint an environment manager to be responsible for all environmental matters.

In France, the Environment department, attached to the R&D and Technology department and based at the Group's Research Centre in Aulnoye (Nord), is responsible for coordinating the Group's environmental policy. It relies on the environment managers at each production site to communicate the Group's policy and to ensure that improvements continue to be made at the Group's offices and workshops.

Identical structures exist in Germany, Brazil and the United States: thus, for the Group as a whole, more than 50 people at production sites in each country specialize in environmental matters.

Communication between the various countries is improving, and facilitates progress throughout the Group by means of the comparison of the respective performances and solutions adopted by each.

Audits and certifications

Environmental audits are organized regularly in each country, in order to assess compliance with regulations, environmental performance and environmental risks.

By the end of 2004, 12 of the Vallourec group's sites had obtained ISO 14001 certification: Vallourec Composants Automobiles Vitry (France), Vallourec Précision Etirage Vitry (France), V & M DEUTSCHLAND in respect of its Mülheim, Rath, Reisholz and Zeithain plants (Germany), V & M do BRASIL in respect of all of its facilities and activities (mining, forestry, steel mills and pipe mills), V & M STAR in respect of its two plants (Youngstown and Houston) and VALLOUREC MANNESMANN OIL & GAS UK.

A certification programme covering the main French plants has been implemented for the period 2005-2007, as a result of which 75% of Vallourec's plants will have ISO 14001 certification by 2007.

Environmental performance

The Group has been making sustained efforts over the past few years to improve the use of resources (water, power and raw materials), to optimize consumption, reduce the discharge of pollutants and the

volume of waste and ensure their systematic reprocessing and recovery. In order to facilitate the measurement of progress, indicators have been introduced at the various sites. The table below summarizes the main indicators for 2002 and 2003 for the Group as a whole.

Indicator	2002	2003
Water consumption	11,241,180 m ³	10,092,418 m ³
Effluent discharges	4,640,640 m ³	4,140,190 m ³
Electricity	1,456 GWh	1,462 GWh
Gas	2,971 GWh	2,815 GWh
Waste	308,142 tonnes	305,211 tonnes

NB: These indicators were not yet available for 2004 on the date on which this report was prepared.

The significant progress made in the area of carbon monoxide (CO₂) emissions is associated with the steel-making process implemented by V & M do BRASIL SA: charcoal is used instead of coke in its blast furnaces. In order to produce the charcoal needed for this process, V & M do BRASIL SA currently cultivates 130,000 hectares of eucalyptus forests which, while growing, consume carbon dioxide (CO₂) and produce oxygen, which contributes directly to reducing greenhouse gases.

As regards the implementation of the European Directive on managing CO₂ emissions quotas, this will only affect the Saint-Saulve steel mill as from 1 January 2005. The quotas granted, which are in the order of 93,000 tonnes per year, representing a relative emission of 140 kg CO₂ per tonne of steel, and substantially lower than the average for the business line, were calculated taking into account changes in the process and targets for improvement.

All measurements of discharges of pollutants into the environment are below the current statutory levels, and, generally, have improved steadily over the past three years.

As far as the French sites are concerned, the soil is the subject of risk characterization studies in two main circumstances: if the plant has been involved in metallurgical processes, even if such involvement took place before it became part of the Group, or if it possesses equipment that may cause pollution. No sites have been identified as requiring decontamination.

The Group decided to book a provision for environmental risks amounting to USD 479,000 in respect of VAM PTS. This provision relates to an environmental problem resulting from the storage of sewage effluent contaminated with lead, which was sub-contracted to an external service provider between 1992 and 1996. The service provider has been declared bankrupt and serious soil pollution due to failures on its part has since come to light. The State is taking action

against companies that used the sub-contractor to store their effluent during the above-mentioned period.

No environmental accidents occurred during 2004.

Investment related to environmental protection

In 2004, capital expenditure by the Group directly related to environmental protection amounted to € 12.3 million, i.e. 12.5% of total consolidated capital expenditure. This expenditure related mainly to the following:

- Bringing equipment up to standard (filters, oil separation systems, retention basins, etc.) and costs related to the revision of operating licenses
- Provision of effluent separation systems
- Modernization of water treatment plants
- Closed circuits for water used in ultrasonic non-destructive testing
- Filtration systems for atmospheric emissions
- Programmes aimed at reducing emissions of Volatile Organic Compounds (VOC): new facilities for varnishing, aspiration and dichloromethane degreasing, etc.
- Site clearance and rehabilitation
- Optimization of performance of heat-treatment furnaces (new burners, regulation, etc.)
- Improvements to storage facilities, shavings recovery, waste sorting area, waste disposal, etc.

CONSOLIDATED FINANCIAL STATEMENTS

The Vallourec group's consolidated sales amounted to € 3,037.8 million in 2004 compared with € 2,375.5 million in 2003, representing an increase of 27.9%. There was no significant change in the consolidation scope from one year to the next.

Operating costs before amortization and depreciation amounted to € 2,770.9 million, up 24.5% compared with € 2,225.0 million in 2003.

This resulted in operating income of € 329.9 million after amortization and depreciation of € 94.8 million, up by an impressive 178% compared with operating income of € 118.6 million after amortization and depreciation of € 101.2 million recorded in 2003.

The Group recorded net financial income of € 8.6 million compared with € 5.1 million in 2003. Interest income and charges were almost equal. The net financial income was mainly due to foreign exchange gains of € 6.5 million (€ 16.9 million in 2003) resulting mainly from the mechanism used to hedge V & M do BRASIL's export sales and the translation difference on the balance of the dollar

loan taken out by V & M TUBES in 2002 when V & M STAR was acquired.

Concerning extraordinary items, the Group recorded a net loss of € 11.5 million (€ 19.2 million in 2003), which resulted mainly from:

- an extraordinary loss of € 19.6 million resulting mainly from the costs and provisions associated with the closure, in France, of Vallourec Précision Etirage's Laingneville (Oise) facilities and, in the United States, of Valtimet Inc.'s Claremore (Oklahoma) facilities, and the write-down of the Group's shareholding in Vallourec Argentina prior to the sale of this subsidiary at the beginning of 2005.
- extraordinary income of € 9.8 million resulting mainly from the capital gains realized by VALLOUREC MANNESMANN OIL & GAS UK on the sale of an industrial site no longer in use and by V & M FLORESTAL on the sale of sections of forest in Brazil.

The employees' profit share rose from € 1.9 million in 2003 to € 3.0 million in 2004. Including the discretionary employee profit-share included in payroll costs, the total allocated for 2004 would amount to € 18.8 million, a substantial increase over the 2003 amount of € 7.3 million.

The income tax charge rose in absolute terms from € 22.8 million in 2003 to € 69.7 million in 2004, in line with the growth in income, but the average tax rate of 21.5% was slightly lower than the rate of 22.2% in 2003 and considerably lower than the normal theoretical rate of around 35% (including the German business tax currently included in operating costs) due to the recognition of deferred tax assets, particularly in the Mercosur region.

To sum up, consolidated net income was a profit of € 251.8 million compared with a profit of € 77.0 million in 2003. Consolidated net income, Group share, amounted to € 135.7 million compared with € 39.7 million in 2003.

In the consolidated balance sheet, the operating working capital requirement rose sharply in absolute terms (€ 715.1 million at 31 December 2004 compared with € 593.2 million at 31 December 2003) but represents only 19.9% of sales for the fourth quarter of 2004 compared with 24.8% for the same period in 2003. This exceptionally good performance was due to the low level of inventories at the end of 2004 given the level of activity, which in turn was due to procurement problems in the case of inventories of raw materials and consumables, and to the strong demand from customers which did not fall at the end of the year in the case of finished goods.

TRANSITION TO IFRS

In accordance with European Commission regulation 1606/2002 adopted on 19 July 2002 for all listed companies in the European Union, with effect from the year commencing 1 January 2005, Vallourec will publish its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission.

As early as the second quarter of 2003, the Vallourec group implemented a structure devoted to the management of the transition to IFRS and was thus able to complete the internal preparation work necessary before the end of the financial year 2004. This work involved, in particular:

- preparing an accounting and consolidation procedures manual to be used under the IFRS framework, which has been circulated to all of the Group's accounting and finance managers,
- adapting existing information systems (consolidation software, fixed asset management software programmes, tools for documenting and monitoring hedging operations, etc.),
- training staff in the Accounting and Finance departments at head office and in the subsidiaries and providing them with information on the new IFRS rules and the full implications of their implementation within the Group.

When it published its 2004 results, including the consolidated financial statements for the financial year 2004, which were prepared, as required and for the last time, in accordance with French GAAP, the Vallourec group wished to disclose the information required by the market authorities (CESR - Committee of European Exchange Securities Regulators - and AMF) on the impact of the transition to IFRS.

Said impact is described in the memorandum "Consequences for the Vallourec group of the transition to IFRS" included in section 5.3 of the 2005 Reference Document of which this management report forms an integral part.

The main aim of this memorandum is to describe the new recognition and measurement procedures applicable under the IFRS framework as compared with French GAAP, to detail the options authorized by IFRS 1 "First-time adoption of IFRS" and used by the Vallourec group for the first-time adoption of IFRS and to disclose the quantitative impact of the new framework on:

- the opening IFRS consolidated balance sheet as at 1 January 2004,
- the consolidated balance sheet as at 31 December 2004 and the consolidated income statement for the period from 1 January to 31 December 2004.

Detailed notes and reconciliations are provided to enable the information prepared under French GAAP to be reconciled with the figures and balances obtained under IFRS.

The IFRS information thus presented in respect of 2004 has been prepared on the basis of all IFRS applicable at 1 January 2005 and endorsed by the European Commission, with the exception of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" (see below). However, the Vallourec group reserves the right, when it publishes the final and definitive version of its first financial statements prepared in accordance with IFRS, to amend certain accounting policies and principles used in the IFRS memorandum, giving full details of any such amendments.

The Vallourec group has chosen to adopt the exemption permitting first-time adopters not to restate, in accordance with IAS 32 and IAS 39, the balances and transactions included in the 2004 financial statements. As the IFRS memorandum explains, the mandatory application of IAS 32 and IAS 39 as from 1 January 2005 will, for the Vallourec group, mainly affect the implementation of hedge accounting and new procedures for accounting for hedging transactions, in particular the recognition in the balance sheet of changes in the fair value of the derivatives linked to the contracts for forward purchase or sale of foreign currencies entered into by the subsidiaries to hedge the foreign exchange risks associated with their commercial commitments and transactions in foreign currencies.

VALLOUREC (HOLDING COMPANY)

The holding company, Vallourec, posted an operating loss of € 8.0 million compared with a loss of € 2.8 million in 2003. The Company's operating loss is not meaningful in that many of the individual elements that constitute the loss are not comparable from one year to the next.

Net financial income (the difference between financial income and financial costs) was € 31.9 million compared with € 55.6 million in 2003. It comprises mainly dividends received from subsidiaries (€ 28.3 million) and changes in provisions for diminution in value of participating interests (net income of € 3.7 million).

Net extraordinary income amounted to € 0.2 million, which was slightly lower than that recorded in 2003 (€ 0.8 million).

The income tax charge was negative once again this year and represents a net credit of € 5.8 million (€ 3.2 million in 2003) as a result of the transfer of tax losses in consolidated companies after a five-year period to Vallourec, the company heading the tax group.

Net income for the year was € 30.1 million compared with net income of € 56.8 million in 2003.

On the liabilities side of the balance sheet, share capital increased from € 194.6 million to € 197.4 million as a result of a capital increase of € 2.8 million recognized on 31 December 2004, resulting from the exercise, between 15 June 2004 and 31 December 2004, of 139,730 subscription options granted on 15 June 2000 (see section III, paragraphs 3.2.4.1 and 3.2.5 of the 2004 Reference Document). This capital increase was accompanied by an issue premium of € 2.5 million.

The 7.30% bond loan of € 76.2 million, issued in June 1996, was repaid as stipulated on 12 July 2004 and therefore no longer appears in the balance sheet as at 31 December 2004. This debt was refinanced in 2003 by means of a new five-year € 150 million credit facility maturing in September 2008.

Other changes in the balance sheet between 31 December 2003 and 31 December 2004 do not call for particular comment.

REMUNERATION OF COMPANY OFFICERS

In accordance with the requirements of Article L. 225-102-1 of the French Code de Commerce, we inform you that the total remuneration and any benefits in kind paid to each Company officer during the financial year, directly or indirectly, by Vallourec or by any company in the Group, was as follows:

• Supervisory Board

In 2004, each member of the Supervisory Board received attendance fees of € 15,000 with the exception of Mr Léopold Jeorger, whose appointment came to an end on 10 June 2004, and of Messrs Vincent Bolloré, Michel de Fabiani and Thierry Marraud, who are new members appointed by the General Meeting held on 10 June 2004, and who each received an amount of € 7,500, calculated on a pro rata basis.

In respect of their membership of the Finance Committee, Messrs Kunibert Martin and Jean-Claude Verdière each received additional attendance fees of € 4,000 and Messrs Léopold Jeorger, Michel de Fabiani and Thierry Marraud each received additional attendance fees of € 2,000, calculated on a pro rata basis.

Mr Parayre also received a gross annual payment of € 85,000 as Chairman of the Supervisory Board.

• Executive Board

The gross amounts of the remuneration and any benefits in kind paid to members of the Executive Board during 2004 were as shown in the table below. It should be remembered that Mr Cabre, Chairman of the Executive Board until 10 June 2004, retired on 30 June 2004:

	In € thousand			
	Fixed portion	First instalment of 2004 variable portion	Balance of 2003 variable portion	Total paid in 2004
Mr Verluca	355.5	88.8	32.1	476.4
Mr Fabre	308.3	77.0	32.0	417.3
Mr Cabre	299.1	99.7	51.2	450.0

The balance of the 2004 variable portion paid in 2005 amounted to € 88.9 thousand in the case of Mr Verluca, € 77.2 thousand in the case of Mr Fabre and € 49.9 thousand in the case of Mr Cabre.

The variable remuneration is calculated on the basis of the consolidated net income, Group share, as adjusted in respect of extraordinary items. The calculation is checked by the Auditors.

The members of the Executive Board also each had a Company car.

As regards pension provision, there is no specific pension scheme for Company officers who are, instead, covered by the Vallourec group's supplementary pension scheme (a defined benefits plan known as an "Article 39 plan"). This scheme has been managed externally since 1996-97.

INFORMATION ON THE BREAKDOWN OF CAPITAL

At 31 December 2004 the shareholders and their respective shareholdings were as follows:

	Shares	%	Voting rights	%
Mannesmannröhren-Werke	2,235,666	22.65	3,556,156	32.53
Bolloré group	2,482,527	25.15	2,482,527	22.71
Free float	4,716,849	47.80	4,728,747	43.25
Group employees	165,165	1.67	165,165	1.51
Held in treasury	269,749	2.73	-	-
Total	9,869,956	100.00	10,932,595	100.00

As far as Vallourec is aware, the only two shareholders known and declared to hold directly or indirectly more than 5% of the capital and voting rights at this date were the German company Mannesmannröhren-Werke, a wholly-owned subsidiary of the German company Salzgitter AG, and the Bolloré group.

At 31 December 2004:

- The number of shares shown as held by Mannesmannröhren-Werke and the Bolloré group was notified to us by the two companies.
- 1,332,388 shares registered for over four years, including 1,320,490 shares belonging to Mannesmannröhren-Werke, are entitled to double voting rights in accordance with the provisions of Article 12 of Vallourec's By-laws.
- The only securities likely to give future access to Vallourec's capital that were in existence at 31 December 2004 were 32,020 subscription options granted in accordance with the conditions described in paragraphs 3.2.4 and 6.3.2 of the Reference Document for the financial year 2004, of which this management report forms an integral part.

An analysis of identifiable bearer shares was carried out on 14 January 2005. The results are detailed in paragraph 3.3.1 of the Reference Document.

REGULATED AGREEMENTS

The Executive Board's management report and the Auditors' special report on the financial statements for the year ended 31 December 2003 referred to the existence of a regulated agreement in respect of Rothschild & Cie's appointment to assist Vallourec's Executive Board in an analysis of the shareholder structure of the Company and its subsidiaries and in the study of possible changes to the current structure with the aim of protecting the interests of the Company and all of its current shareholders.

This agreement was still in force in 2004. During 2004, Rothschild & Cie invoiced fees under the agreement totalling € 400,000, excluding taxes.

On 20 January 2005, Vallourec's Supervisory Board approved an extension of the agreement until the finalization of the acquisition of the 45% interest in V & M TUBES held by Mannesmannröhren-Werke, in return for the payment of an additional flat-rate commission of € 1.5 million, excluding taxes, half of which related to services provided by Rothschild & Cie during the second half of 2004.

ALLOCATION OF NET INCOME

The Executive Board proposes the payment of a dividend of € 3.20 per share, which represents a doubling of the dividend paid in respect of the financial year 2003 (€ 1.60 per share).

This dividend corresponds to a distribution rate of 23.3% of net income, Group share. It is in accordance with the Group's target, which is, over the long term, to distribute on average 33% of net income, Group share, and to return to the distribution rates practiced during earlier periods at the peak of the cycle.

We therefore propose to appropriate from the net income for the financial year:

- € 279,460 to the legal reserve in order to bring this reserve to the level required after the capital increase of € 2,794,600 in 2004 as a result of the exercise of share subscription options,
- the balance of € 29,784,600.93, increased by an amount of € 1,799,258.27 deducted from retained earnings to give a total of € 31,583,859.20, by way of dividend.

This dividend will be paid on 6 July 2005. Recipients may be entitled to be taxed on the basis of half the amount received.

In addition, when the financial statements for the first half of 2005 are approved, Vallourec will consider the possibility of paying, during the second half of 2005, an interim dividend for the financial year 2005.

We would like to remind you, in accordance with the provisions of Article 47 of the law of 12 July 1965, that a total dividend of € 3.15 or € 2.42 was paid in respect of financial year 2001, € 2.10 of which paid directly to each share plus a tax credit of € 1.05 (i.e. 50%) or € 0.32 (i.e. 15%) in accordance with the provisions of the Loi de Finances for the year 2002; and that a total dividend of € 3.15 or € 2.31 was paid in respect of financial year 2002, € 2.10 of which paid directly to each share plus a tax credit of € 1.05 (i.e. 50%) or € 0.21 (i.e. 10%) in accordance with the provisions of the Loi de Finances for the year 2003; and that a total dividend of € 2.40 or € 1.76 was paid in respect of financial year 2003, € 1.60 of which paid directly to each share plus a tax credit of € 0.80 (i.e. 50%) or € 0.16 in accordance with the provisions of the Loi de Finances for the year 2004.

In addition, in accordance with the provisions of Article 39 of 2004 Amending Finance Law no. 2004-1485, all amounts included in the special long-term capital gains reserves in the balance sheet as at 31 December 2004, i.e. an amount of € 56,405,731.99, could be transferred to general reserves, which would increase, as a result, from € 7,633,052.97 to € 64,038,784.96.

Accordingly, it was necessary to deduct from this reserve the amount of € 1,397,643.30 corresponding to the exceptional tax of 2.5% provided for under the aforementioned Article 39, a corresponding amount being credited to retained earnings.

SUPERVISORY BOARD

We ask you to:

- renew the appointment of Mr François Henrot, which expires at the close of this General Meeting, for a period of six years ending at the close of the General Meeting called to approve the financial statements for the financial year 2010,
 - ratify the provisional appointment of Mr Wolfgang Eging, approved by the Supervisory Board at its meeting on 8 March 2005, to replace Mr Helmut Koch. The appointment of Mr Wolfgang Eging will come to an end like that of his predecessor at the close of the General Meeting called to approve the financial statements for the financial year 2005.
- Mr Wolfgang Eging spent his entire career within the Mannesmann group. He has been Chairman of the Executive Board of Mannesmannröhren-Werke since 1 January 2004.

SHARE BUY-BACK PROGRAMME

The previous General Meeting held on 10 June 2004 invested all powers in the Executive Board to enable Vallourec, if need be, to buy back its own shares under the terms and conditions specified by law.

This authorization expires today. We believe it desirable to extend it for a further period ending at the close of the next General Meeting. The procedures for this renewal take into account the amendments made by the new regulation that came into force on 13 October 2004 concerning share buy-back programmes and, in particular, the fact that any direct intervention by an issuer with the aim of promoting its shares is henceforth prohibited and must be governed by the provisions applicable to liquidity agreements in accordance with a code of conduct approved by the AMF.

The maximum purchase price is set at € 200 per share and the minimum selling price at € 125 per share.

Vallourec would be authorized to acquire a maximum of 10% of its capital, i.e. 986,995 shares as at today's date. Given that 269,749 shares (2.73%) are already held (see section III, paragraph 3.3.1.1 of the 2004 Reference Document) the buy-back would cover a maximum number of 717,246 shares (7.27%).

The maximum cost of carrying out this programme is € 40 million.

We would also like to remind you that, in accordance with the new regulations on share buy-back programmes, the Supervisory Board approved the recommendation of the Executive Board to allocate the 269,749 shares held by the Company in the following manner:

- 190,750 shares to cover share purchase options granted under the option plan dated 11 June 2003.
- 78,999 shares to cover future allocations to certain Group employees, managers or Company officers, in accordance with the procedures to be defined jointly by the Executive Board and the Supervisory Board.

ALLOCATION OF BONUS SHARES WHICH MUST BE EXISTING SHARES

As part of the measures to encourage employee share ownership, Article 83 of the 2005 Loi de Finances introduced new arrangements for the allocation of bonus shares to employees or company officers, as codified in Articles L. 225-197-1 to L. 225-197-5 of the French Code de Commerce.

It is proposed that you delegate the necessary authorizations to the Executive Board to enable it, where applicable, to allocate such shares on one or more occasions and for the benefit of employees or officers of the Company or of related companies as defined in accordance with Article L. 225-197-2 of the French Code de Commerce who meet the conditions set out by law.

This authorization relates only to the allocation of existing shares and therefore, if used, will not have a dilutive effect. It will be valid for 38 months. The total number of such bonus shares shall not exceed 5% of the share capital as of today's date. The allocation of shares to the beneficiaries shall become definitive only at the end of an acquisition period of not less than two years, and the minimum period for which beneficiaries shall be required to hold such shares has been set at two years.

This authorization is the subject of the ninth resolution. To be approved, it requires the Shareholders to rule under the conditions of quorum and majority required for an Extraordinary General Meeting. It is specified that any use of this authorization will be made by the Executive Board in conjunction with the Supervisory Board.

APPENDIX TO THE EXECUTIVE BOARD'S MANAGEMENT REPORT - FINANCIAL YEAR 2004

List of other positions held by Vallourec Board members

Supervisory Board	Company	Position held
Jean-Paul Parayre	Peugeot SA ^(F)	Member of the Supervisory Board
	Bolloré Investissement ^(F)	Director
	ValTubes ^(F)	Vallourec permanent representative
	Snef ^(F)	Director
	Stena International ^(E)	Director
	V & M do BRASIL SA ^(E)	Member of the Advisory Board
	Stena Line AB ^(E)	Director
	SDV Cameroun ^(E)	Director
	Stena Maritime France SAS ^(F)	Chairman of the Supervisory Board
Helmut Koch	Mannesmannröhren-Werke AG ^(E)	Member of the Supervisory Board
	Arbeitgeberverband Stahl ^(E)	Chairman of the Executive Board
	Salzgitter Stahl GmbH ^(E)	Member of the Supervisory Board
Luiz-Olavo Baptista	V & M do BRASIL SA ^(E)	Member of the Advisory Board
	De La Ronce S/A ^(E)	Director
	Oxon Participações S/A ^(E)	Chairman of the Board of Directors
	Sofrel do Brasil Ltda ^(E)	Manager
	VDM Trading Limited (Groupe Ometto) ^(E)	Member of the Executive Board
	Guala Cosures do Brasil S/A ^(E)	Director
	Vale do Mogi S.A. ^(E)	Director
	Opacco Holding S/A ^(E)	Member of the Executive Board
	Tote Investments Holding S.A. ^(E)	Member of the Executive Board
	Bedford Investors C/V ^(E)	Member of the Executive Board
	Taro S/A ^(E)	Member of the Executive Board
	Phipe Holding S/A ^(E)	Member of the Executive Board
	Finaciere Titânia S/A ^(E)	Member of the Executive Board
Salorix Holding S/A ^(E)	Member of the Executive Board	
Patrick Boissier	Chantiers de l'Atlantique ^(F)	Chairman and CEO
	Alstom Leroux Naval ^(F)	Chairman and CEO
	Ateliers de Montoir ^(F)	Chairman and CEO
	Société Nationale de Sauvetage en Mer ^(F)	Director
	Groupe Stéria SCA ^(F)	Director
	Ecole des Mines de Nantes ^(F)	Director
	Institut Français de la Mer ^(F)	Director
	Chambre Syndicale des Constructeurs de Navires ^(F)	Chairman

^(F) French company

^(E) Foreign company

Supervisory Board	Company	Position held
Vincent Bolloré	Bolloré ^(F)	Chairman and CEO
	Bolloré Participations ^(F)	Chairman and CEO
	Bolloré Production (SAS) ^(F)	Chairman
	Bolloré Investissements ^(F)	Chairman of the Board of Directors
	Financière de l'Odet ^(F)	Chairman of the Board of Directors
	Bolloré Média ^(F)	Chairman of the Board of Directors
	Sofibol ^(F)	COO
	Omnium Bolloré ^(F)	COO
	Financière V ^(F)	COO
	Batscap ^(F)	Director
	Compagnie des Glénans ^(F)	Director
	Financière Moncey ^(F)	Director
	Natexis Banques Populaires ^(F)	Director
	Generali France ^(F)	Director
	Cie des Tramways de Rouen ^(F)	Bolloré Participations permanent representative
	Safa ^(F)	Bolloré Participations permanent representative
	Sté des Chemins de Fer et Tramways du Var et du Gard ^(F)	Bolloré Participations permanent representative
	Sté Industrielle et Financière de l'Artois ^(F)	Bolloré Participations permanent representative
	Sté Bordelaise Africaine ^(F)	Bolloré Participations permanent representative
	Afrique Initiatives ^(F)	Bolloré permanent representative
	IER ^(F)	Bolloré Participations permanent representative
	Compagnie du Cambodge ^(F)	Bolloré Participations permanent representative
	Plantations des Terres Rouges ^(E)	Chairman
	Sté des Caoutchoucs de Grand Bereby – SOGB ^(E)	Vice-President
	Bereby Finances ^(E)	Vice-President
	Nord Sumatra Investissements ^(E)	Vice-President
	BB Groupe SA ^(E)	Director
	Centrages ^(E)	Director
	Cie Internationale de Cultures ^(E)	Director
	Financière Privée ^(E)	Director
	Liberian Agricultural Company (LAC) ^(E)	Director
	Médiobianca ^(E)	Director
	Plantations Nord Sumatra Limited ^(E)	Director
	Red Land Roses ^(E)	Director
	SDV Gabon ^(E)	Director
	SDV Senegal	Director
	SOCFIN (Sté Financière des Caoutchoucs) ^(E)	Director
	SOCFINAF CY Ltd ^(E)	Director
	SOCFINAL (Sté Financière Luxembourgeoise) ^(E)	Director
	SOCFINASIA ^(E)	Director
	SOCFINCO (Socfin Consultant Services) ^(E)	Director
	SOCFINDO (PT Socfin Indonesia Ord) ^(E)	Director
	SOCFININTER (Socfin International) ^(E)	Director
	Socfin Plantations Sendirian Berhardt ^(E)	Director
	SOGESCOL (Sté de Gestion pour le Caoutchouc et les Oléagineux) ^(E)	Director
	SDV Cameroun ^(E)	Bolloré Participations permanent representative
	SDV Congo ^(E)	Bolloré Participations permanent representative
	SDV Côte d'Ivoire ^(E)	Bolloré Participations permanent representative
	Immobilière de la Pépinière ^(E)	Bolloré Participations permanent representative
	Sté Financière HR ^(E)	Cie du Cambodge permanent representative

^(F) French company

^(E) Foreign company

Supervisory Board	Company	Position held
Wolfgang Eging	V & M TUBES ^(F)	Member of the Board of Directors
	D.M.V. Stainless SAS ^(F)	Chairman of the Supervisory Board
	Mannesmannröhren-Werke GmbH ^(E)	Chairman of the Executive Board
	Salzgitter AG ^(E)	Member of the Executive Board
	Hüttenwerke Krupp Mannesmann GmbH ^(E)	Vice-President of the Supervisory Board
	MHP Mannesmann Präzisrohr GmbH ^(E)	Chairman of the Supervisory Board
	Mannesmann Line Pipe GmbH ^(E)	Chairman of the Advisory Board
	EUROPIPE GmbH ^(E)	Member of the Supervisory Board
	Mannesmannröhren Mülheim GmbH ^(E)	Chairman of the Supervisory Board
	Borusan Mannesmann Boru Yatirim Holding A.S. ^(E)	Vice-President of the Board of Directors
	Salzgitter Mannesmann Forschung GmbH ^(E)	Member of the Steering Committee
	Salzgitter Mannesmann Handel GmbH ^(E)	Member of the Supervisory Board
D.M.V. Stainless B.V. ^(E)	Chairman of the Supervisory Board	
Michel de Fabiani	BP France ^(F)	Director
	Institut Français du Pétrole ^(F)	Director
	Rhodia ^(F)	Director
	Star Oil Mali ^(E)	Director
Denis Gautier-Sauvagnac	UNEDIC ^(F)	Chairman of the Board of Directors
	Capitole Europe SA ^(F)	Chairman and CEO
	France Conventions SA ^(F)	Member of the Supervisory Board
	MEDEF ^(F)	Member of the Executive Board
	MEDEF ^(F)	Chairman GPA Relations du Travail
François Henrot	Rothschild & Cie Banque ^(F)	Managing Partner
	Rothschild & Cie ^(F)	Managing Partner
	Carrefour ^(F)	Director
	Eramet ^(F)	Director
	Cogedim ^(F)	Member of the Supervisory Board
	Pinault-Printemps-Redoute ^(F)	Member of the Supervisory Board
Wolfgang Leese	Salzgitter AG Stahl und Technologie ^(E)	Chairman of the Executive Board
	Mannesmannröhren-Werke GmbH ^(E)	Chairman of the Supervisory Board
	MAN Nutzfahrzeuge AG ^(E)	Member of the Supervisory Board
	Salzgitter Stahl GmbH ^(E)	Chairman of the Supervisory Board
	Norddeutsche Landesbank ^(E)	Member of the Advisory Board
	VDEh / Wirtschaftsvereinigung Stahl ^(E)	Member of the Executive Board
	Dresdner Bank AG ^(E)	Member of the Advisory Board
	Peiner Träger GmbH ^(E)	Chairman of the Supervisory Board

^(F) French company

^(E) Foreign company

Supervisory Board	Company	Position held
Thierry Marraud	Financière de Sainte-Marine ^(F)	Chairman
	Sté Française de Production ^(F)	Financière de l'Odet permanent representative
	SAGA ^(F)	Financière de l'Odet permanent representative
	Emin-Leydier ^(F)	Member of the Supervisory Board
	IER ^(F)	Cie du Cambodge permanent representative
Kunibert Martin	V & M TUBES ^(F)	Director
	V & M FRANCE ^(F)	Member of the Supervisory Board
	D.M.V. Stainless SAS ^(F)	Member of the Supervisory Board
	V & M DEUTSCHLAND GmbH ^(E)	Member of the Supervisory Board
	Mannesmannröhren-Werke GmbH ^(E)	Member of the Executive Board
	Hüttenwerke Krupp Mannesmann GmbH ^(E)	Member of the Supervisory Board
	D.M.V. Stainless B.V. ^(E)	Member of the Supervisory Board
	Europipe GmbH ^(E)	Member of the Supervisory Board
	V & M TUBES CORPORATION ^(E)	Director
	MHP Mannesmann Präzisrohr GmbH ^(E)	Member of the Supervisory Board
	Borusan Mannesmann Boru Yatirim ^(E)	Director
	V & M do BRASIL SA ^(E)	Member of the Advisory Board
	Mannesmann Altersversorgung Service GmbH ^(E)	Chairman of the Advisory Board
Mannesmann Line Pipe GmbH ^(E)	Member of the Advisory Board	
Mannesmannröhren Mülheim GmbH ^(E)	Member of the Supervisory Board	
Jean-Claude Verdière	ValTubes ^(F)	Director

(F) French company

(E) Foreign company

Supervisory Board	Company	Position held
Pierre Verluca	ValTubes ^(F)	Chairman
	V & M TUBES ^(F)	Chairman and CEO
	VALLOUREC MANNESMANN OIL & GAS FRANCE ^(F)	Director
	V & M FRANCE ^(F)	Chairman of the Supervisory Board
	Valtimet ^(F)	Director
	VALLOUREC MANNESMANN OIL & GAS UK ^(E)	Director
	V & M DEUTSCHLAND GmbH ^(E)	Chairman of the Supervisory Board
	V & M do BRASIL SA ^(E)	Chairman of the Advisory Board
	V & M do BRASIL SA ^(E)	Member of the Board of Directors
	V & M STAR ^(E)	Member of the Executive Committee
	Vallourec Tubes Canada ^(E)	Director
	Vallourec & Mannesmann Holdings Inc. ^(E)	Chairman
	Vallourec Industries Inc. ^(E)	Director
Vallourec Inc. ^(E)	Vice-President	
Finalourec S.A.H. ^(E)	Director	
François Fabre	ValTubes ^(F)	COO, Director
	V & M TUBES	Director
	VALLOUREC MANNESMANN OIL & GAS FRANCE ^(F)	Director
	V & M FRANCE ^(F)	Member of the Supervisory Board
	V & M SERVICES ^(F)	Chairman and CEO
	Escofier ^(F)	Director
	Interfit ^(F)	Chairman
	Valti ^(F)	Director
	Vallourec Composants Automobiles Hautmont ^(F)	Director
	Vallourec Composants Automobiles Vitry ^(F)	Director
	Vallourec Précision Etirage ^(F)	Director
	Vallourec Précision Soudage ^(F)	Director
	V & M DEUTSCHLAND GmbH ^(E)	Member of the Supervisory Board
	V & M do BRASIL SA ^(E)	Member of the Board of Directors
	Vallourec & Mannesmann Holdings Inc. ^(E)	Director
	Vallourec Industries Inc. ^(E)	Director
	Vallourec Inc. ^(E)	Director
Finalourec S.A.H. ^(E)	Director	

^(F) French company

^(E) Foreign company

8.1.2 Special report of the Executive Board on options - Financial year 2004

In accordance with the requirements of Article L. 225-184 of the French Code de Commerce, we inform you that no share purchase or share subscription options were granted during the financial year 2004.

We remind you that the Extraordinary General Meeting held on 15 June 2000 authorized the Executive Board to grant share subscription options (first resolution) and/or share purchase options (second resolution), up to the respective limits of 4% and 10% of Vallourec's share capital, to managers and/or employees of Group companies, for a period of five years that expires on 14 June 2005.

Under this authorization:

- 178,500 share subscription options, each giving the right to subscribe for one Vallourec share, were granted on 15 June 2000 to 144 beneficiaries at a price of € 38 per share, corresponding to 95% of the average of the last 20 prices quoted before the date the options were granted.

After a holding period of four years, these subscription options may be exercised during a period of three years from 15 June 2004 to 14 June 2007 inclusive. After taking into account the options cancelled (6,750) since the date they were granted (the holders having left the Group) and the options exercised between 15 June and 31 December 2004, i.e. 139,730 options, 12,000 of which were exercised by the two members of the Executive Board, the number of subscription options outstanding at 31 December 2004 amounted to 32,020, i.e. 0.3% of the share capital at that date.

- 193,000 share purchase options, each giving the right to purchase one Vallourec share, were granted on 11 June 2003 to 148 beneficiaries at a price of € 53.65 per share, corresponding to the average of the last 20 prices quoted during the 20 trading sessions preceding the date the options were granted, not discounted.

These options, which cannot be exercised until after the end of a holding period of four years, may be exercised during a period of three years from 11 June 2007 to 10 June 2010 inclusive. After taking into account the options cancelled (2,250) since the date they were granted (the holders having left the Group), the number of purchase options outstanding at 31 December 2004 amounted to 190,750, i.e. 1.93% of the share capital at that date.

8.2 Report of the Chairman of the Supervisory Board on the conditions governing the preparation and organization of the Supervisory Board's work and the internal control procedures implemented by Vallourec

In accordance with the provisions of Article L. 225-68 of the French Code de Commerce, introduced by law no. 2003-706 of 1 August 2003 on financial security, the Chairman of Vallourec's Supervisory Board presents this report to the shareholders, detailing the conditions governing the preparation and organization of the Supervisory Board's work and the internal control procedures implemented by the Company.

A. CONDITIONS GOVERNING THE PREPARATION AND ORGANIZATION OF THE SUPERVISORY BOARD'S WORK

The internal regulations of the Supervisory Board, the situation of the Board members as regards the criteria of the Bouton report, the composition and operation of the two Committees (Finance Committee and Appointments and Remuneration Committee) set up within the Supervisory Board and the remuneration principles are detailed in section VI of the Reference Document for the year ended 31 December 2004 dealing with Corporate Governance, of which this report forms an integral part.

Four meetings of the Supervisory Board were held in 2004.

In order to ensure that Board members are able to attend meeting, the meetings timetable is prepared as far in advance as possible. For this reason, a provisional meeting timetable for the following year is drawn up in June and finally agreed at the Board meeting held in September to approve the half-year financial statements. As a result of the above procedures, the effective attendance rate of Board members at meetings is very high. Out of all the meetings held in 2004, only two absences were noted and, in each case, members who were unable to attend a meeting appointed a proxy to represent them. All members of the Executive Board attended all of the meetings.

The arrangements for the meetings are confirmed about a fortnight in advance by means of a notice of the meeting to which is attached a list of the items on the agenda and the draft minutes of the

previous meeting, prepared by the secretary to the Board. Board members are invited to submit any comments they have in advance of the Board meeting.

In order to take into account comments and suggestions made by a certain number of Board members in their replies to the questionnaire evaluating the operation of the Board in February 2004 (see below), the Executive Board has endeavoured, wherever possible, to circulate a certain number of documents, particularly those relating to finance, in advance in the days leading up to Board meetings.

Vallourec's Auditors attended two Supervisory Board meetings (meetings concerning the approval of the annual and half-year financial statements) in 2004.

Since Vallourec is purely a holding company with a workforce of fewer than ten people, there are no Works Council representatives.

Meetings are conducted in French with a simultaneous translation being provided for German members.

A complete file incorporating all supporting documentation in respect of the items on the agenda is given to each participant. This file also contains the Executive Board's quarterly report to the Supervisory Board on the Company's performance, prepared in accordance with the provisions of Article L. 225-68, section 4, of the French Code de Commerce. Where necessary, the Board relies on preliminary work carried out by the Finance Committee or the Appointments and Remuneration Committee.

Meetings are chaired by the Supervisory Board Chairman who ensures, in particular, that each member expresses his opinion on the most important matters. In the unusual case of a Board member having a personal interest in one of the matters under consideration as specified in Article L. 225-86 of the French Code de Commerce, he will be required to leave the meeting while the matter concerned is being discussed.

In order to assess the operation of the Supervisory Board, a questionnaire covering a certain number of matters relating to the

preparation, organization and conduct of meetings was sent to Board members at the beginning of February 2004. The replies to this questionnaire were analyzed by the Appointments and Remuneration Committee and a summary presented to the Board at its meeting on 2 March 2004.

A further evaluation of the operation of the Supervisory Board is due to be carried out in 2005. Given the appointment of three new members by the General Meeting held on 10 June 2004, who did not attend their first Board meeting until 14 September 2004, it seemed appropriate to carry out this evaluation during the second part of 2005, to give the new members time to assess the situation.

B. INTERNAL CONTROL PROCEDURES

1. Objectives of internal control

The aim of internal control is to provide reasonable assurance, by means of a system of processes and procedures implemented by the Vallourec group's staff, that the following three objectives may be achieved:

- Optimization of operational efficiency.
- Accuracy of financial information.
- Compliance with the laws and regulations currently in force.

As is the case with any control system, the Group's internal control system cannot guarantee that all risk of error or fraud is fully eliminated or controlled.

2. Description of internal control procedures

2.1 Internal control procedures adapted to the specific characteristics of the Vallourec group

The organization of the Vallourec group has for many years been based on the principle of decentralization. This approach is particularly well suited to the Group's international dimension, which was boosted in 1997 by the formation of VALLOUREC & MANNESMANN TUBES.

Consequently, responsibility for the implementation of appropriate internal control procedures governing risk management, financial control and compliance with legislation is delegated to the managers of each of the Group's subsidiaries.

To ensure the consistency of Group procedures worldwide, senior management relies on the functional departments to draw up the procedures necessary for the proper operation of controls, issue instructions regarding their implementation and ensure compliance with the said instructions.

The key operations and the internal control procedures applicable to them are as follows.

2.2 Internal control procedures in respect of financial and accounting information

2.2.1 Financial and accounting reporting

Financial and accounting information is prepared centrally on the basis of the subsidiaries' financial statements, adjusted to comply with Group standards. The necessary data is collated and processed by the new version of MAGNITUDE, which was installed in July 2004. MAGNITUDE is a reporting and consolidation software application that is used by all consolidated subsidiaries and is compatible with the new IFRS accounting standards that Vallourec has adopted as from 1 January 2005.

Reports are produced monthly, and prepared in the month following the month to which they relate, whereas full accounting consolidations are produced quarterly and prepared in the two months following the end of the quarter to which they relate. The preparation of the annual and half-yearly consolidations is the responsibility of senior management under the control of the Finance Committee and the Group's Auditors.

The monitoring of off-balance-sheet commitments is an integral part of the quarterly consolidation process.

2.2.2 External financial information

Financial communications to third parties consist, on a quarterly basis, of the Group's consolidated sales and, on a half-yearly basis, of the financial statements prepared by the Executive Board, submitted to the Supervisory Board and reviewed by the Auditors.

2.2.3 Cash position and financing

Responsibility for cash management is delegated to the subsidiaries, by means of well defined procedures and delegation. Any departure from the general rules requires the prior authorization of the Group Finance department.

The Group Finance department is also responsible for borrowings and investments with a term of more than one year. Responsibility for borrowings and investments with a term of less than one year is delegated to the subsidiaries, which are required to comply with specific Group procedures: quality of the banks involved, risk-free investment and monitoring of financial guarantees given.

Transactions in foreign currencies and foreign exchange hedging are also governed by rules issued by the Group Finance department.

Borrowings, investments and foreign exchange transactions are monitored on a monthly basis by means of a report produced by the Group treasurer and submitted to senior management.

2.2.4 Procedures and instructions

With the objective of producing high-quality financial and accounting information, Vallourec has produced procedures and instructions tailored to the French and foreign subsidiaries. These procedures are grouped by topic and deal mainly with accounting, treasury and reporting issues and, since 2004, with the IFRS framework.

Details of the procedures are available on an intranet site that can be consulted by all of the Group's finance staff.

A self-assessment procedure to review accounting and financial procedures was introduced at the end of 2003, using a questionnaire based on the report of the COSO (Committee Of Sponsoring Organizations of the Treadway Commission), the accepted framework in the field of internal control. The enquiry carried out by the Group's Internal Audit department focused on the fully-consolidated companies. All of the accounting cycles were analyzed: purchases – trade payables, sales – trade receivables, inventories, cash and bank balances, pay and tangible fixed assets.

Self-assessment procedures to review accounting controls were carried out separately in respect of each subsidiary. Each received a summary of the points for improvement and prepared an action plan for each weakness identified and for which the risk of occurrence is considered to be significant. The managers of the companies concerned have been kept informed of these assessments and the action plans drawn up at entity level.

Although the action points, the implementation of which began as early as 2004, vary from one entity to the other, the most frequent relate to the organization of a fixed assets inventory, the setting of additional parameters regarding access to computer files (SAP) and the description of internal control procedures in respect of accounting information.

2.2.5 Internal audit

The Internal Audit and Financial Control department is attached to the Group Finance department. It audits the subsidiaries in accordance with an audit plan, particularly in order to assess and improve the accuracy and reliability of the accounting and financial information.

Vallourec also has a team based at V & M do BRASIL. The team's audit plan is validated by the Internal Audit department. Its responsibilities relate mainly to internal control procedures.

External experts may be consulted in the case of one-off assignments.

The Internal Audit department also coordinates relations with the external Auditors, who are mainly affiliated to international audit firms.

2.3 Other key processes analyzed

2.3.1 Industrial investment

The Group's Investments department reports to senior management. It examines the content of investment projects proposed by the sites as part of the divisions' industrial and marketing plans. After validation, the decisions are taken and authorizations to proceed with a project are granted by the Board of the subsidiary concerned.

In 2004, a posteriori controls of expenses and the profitability of acquisitions were performed. The results of such tests and the performance measurement of acquisitions were brought to the attention of the division Chairmen.

Group procedures define the methods applicable to the preparation of capital expenditure proposals and the selection of projects, requests for authorization, and the controls necessary to ensure compliance with the budget, timetable and objectives.

2.3.2 Quality

Vallourec has a Group Quality department, which has developed quality management systems, described in the manuals, which comply with the ISO 9000 standard. These systems are implemented at all the production sites.

Compliance with quality procedures is checked by the Group's Quality Audit unit and by independent external bodies. The findings of these audits are analyzed and the appropriate corrective action taken.

2.3.3 Environment

Within the context of sustainable development, an Environment department was formed in 2002, with responsibility for coordinating and directing environmental matters. The department relies on local environment managers to ensure compliance with regulations.

The Environment department carries out audits and establishes key indicators that enable the main parameters to be periodically monitored.

A sustainable development charter and internal report on the environment were published in 2004.

At the end of 2004, twelve sites had received certification under ISO 14001: four in Germany, three in Brazil, two in the United States, two in France and one in the United Kingdom.

In order to improve environmental management, the Group's policy is to obtain certification under ISO 14001 for as many sites as possible between now and 2007, concentrating initially on France.

2.3.4 Research and development

The Research and Development department has drawn up Group procedures concerning the management of programmes for developing new products and industrial processes. The processes thus defined are applied in a consistent manner by the entities concerned.

In 2004, these procedures were supplemented by the inclusion of aspects concerning industrial property and a greater formalization of procedures in respect of design and commercial production.

Each year, audits are carried out by the Group Quality department.

2.3.5 Purchasing

The role of the Group Purchasing department is to coordinate the activities of those responsible for purchasing at the Group's sites and to develop and communicate best practice.

Negotiations regarding raw materials and power are generally the direct responsibility of the Manager of each company.

The position of internal auditor – Group purchasing was created in 2004 in order to strengthen controls in this area.

2.3.6 Information systems

The Information Systems department is responsible for integrating and ensuring the consistency of the software used.

In a significant number of subsidiaries, most data processing is carried out by means of integrated software packages (SAP).

The information systems of all the French subsidiaries are managed by means of a single entity: the Vallourec Information Technology Centre (Centre des Techniques d'Information Vallourec - CTIV). In 2004, CTIV developed a contingency plan to increase the security of information systems.

2.3.7 Human resources

The Group Human Resources department organizes career and skills development for those positions requiring a high level of responsibility or technical skills. In 2004 it carried out comparative studies with market practices in a certain number of sectors.

The department checks compliance with labour regulations and the information relating to the workforce and to safety. It also ensures that information for management reports is obtained and circulated.

In each country, the human resources managers are responsible for ensuring compliance with specific national regulations.

In Germany, most of the workforce is governed by the law on joint management in the steel industry and mines of 21 May 1951.

2.3.8 Customer relations

With the aim of specifying and formalizing certain practices regarding contractual relations with its customers, Vallourec has developed a procedure for managing customer risk: limits in respect of credit and the delegation of authority, and credit insurance.

The Legal department has analyzed the legal provisions applicable to sales contracts entered into between the subsidiaries and their customers. These subsidiaries have standard documents defining the conditions with which their sales contracts should comply in order to reduce the level of risk. These standard documents are regularly reviewed by the Legal department.

2.3.9 Insurance

Industrial risks are covered by two types of Group insurance: general insurance (direct material damage to the Group's property, subject to specific exclusions, as well as any costs and consequential losses) and third-party liability insurance (liability arising as a result of injury or loss caused to third parties either resulting from the Group's operations or after delivery of goods or services).

3. Procedures to ensure continuous improvement

Beginning with the last quarter of 2003, Vallourec decided to carry out a self-assessment procedure to review internal control procedures in respect of accounting and financial information, human resources, the environment, purchasing, research and development, information systems and the terms and conditions applicable to sales contracts entered into between the subsidiaries and their customers.

These self-assessment procedures enabled action points to be drawn up. Subsidiaries began to take action in respect of these points in 2004, under the supervision of the functional departments.

This gradual process of improving internal control procedures will continue into 2005 and beyond.

8.3 Statutory Auditors' reports

8.3.1 Statutory Auditors' general report on the annual statutory accounts

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report, together with the Statutory Auditors' report addressing financial and accounting information in the Chairman's report on internal control, should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Vallourec shareholders,

In accordance with the assignment entrusted to us by the shareholders in General Meeting, we hereby report to you for the year ended 31 December 2004 on the following:

- the audit of Vallourec's annual financial statements, as attached to this report,
- the justification of our assessments,
- the specific verifications and information required by law.

The annual financial statements were prepared by the Executive Board. It is our responsibility, on the basis of our audit, to express an opinion on those financial statements.

I. Opinion on the annual financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual financial statements are free of material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made in the preparation of the financial statements, as well as evaluating the overall financial statements' presentation. We believe that our audit provides a reasonable basis for the opinion expressed below.

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities as of 31 December 2004 and of the results of its operations for the year then ended, in accordance with the accounting rules and principles applicable in France.

Without calling into question our opinion as expressed above, we draw your attention to the matters discussed in notes I and II of the notes to the annual financial statements relating to the change in the method of accounting for actuarial gains and losses, in accordance with the notification dated 22 July 2004 of the French National Accounting Board (*Conseil National de la Comptabilité*).

II. Justification of our assessments

In accordance with the requirements of Article L. 225-235 of the French Code de Commerce relating to the justification of our assessments, we draw to your attention the following matters:

Vallourec's management is required to make estimates and formulate assumptions that affect the amounts stated in the financial statements and accompanying notes. These assumptions are, by nature, subject to uncertainties, and actual results could differ from these estimates. In the context of our audit of the financial statements for the year ended 31 December 2004, we considered that, of those items that involved making significant accounting estimates, a justification of our assessments was required in the case of participating interests and provisions for contingencies and losses:

- The principles adopted in respect of the valuation and calculation of the diminution in value of participating interests are described in notes I and II of the notes to the annual financial statements. We have assessed the information and assumptions on which the estimates used by management were based and have reviewed the calculations made by the Company.
- The principles adopted in respect of the raising of provisions for contingencies and losses are described in notes I and II of the notes to the annual financial statements. We have assessed the bases on which such provisions were made and the information concerning any major risks of which the Group was aware at the year-end, and reviewed the appropriateness of the information disclosed in note II of the notes to the annual financial statements.

On the basis of the above, we assessed whether these estimates were reasonable.

These assessments form part of our audit of the annual financial statements as a whole and therefore contributed to the unqualified audit opinion expressed in the first section of this report.

III. Specific verifications and information

We have also performed the specific verifications required by law in accordance with professional standards applicable in France.

We have no matters to report regarding the fair presentation and the conformity with the financial statements of the information given in the management report of the Executive Board, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

In accordance with the law, we have ensured that information relating to the identity of holders of the share capital and voting rights has been provided to you in the management report.

Neuilly-sur-Seine, 19 April 2005

The Statutory Auditors

CALAN RAMOLINO ET ASSOCIES

BARBIER FRINAULT & AUTRES
ERNST & YOUNG

Bertrand de Florival

Bernard Scheidecker

Alain Gouverneyre

8.3.2 Statutory Auditors' special report on certain related party transactions

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

To the Vallourec shareholders,

In our capacity as Statutory Auditors of your Company, we are required to report on certain contractual agreements with certain related parties of which we have been advised.

We are not required to ascertain whether any other contractual agreements exist but to inform you, on the basis of the information provided to us, of the terms and conditions of agreements indicated to us. It is not our role to comment as to whether they are beneficial or appropriate. It is your responsibility, under the terms of article 117 of the 23 March 1967 Decree, to evaluate the benefits resulting from these agreements prior to their approval.

Agreements authorized during the year

We have not been informed of any agreements entered into during the year that fall within the scope of Article L. 225-86 of the French Code de Commerce.

Agreements approved in prior years that continue to apply in the current year

In addition, in accordance with the decree of 23 March 1967, we have been informed that the following agreement, approved during prior years, applied during the financial year under review.

With Rothschild & Cie

Person concerned: Mr François Henrot, member of your Company's Supervisory Board and Managing Partner of Rothschild & Cie.

Your Company was authorized by your Supervisory Board on 4 March 2003 to appoint Rothschild & Cie to assist the Executive Board in an analysis of the shareholder structure of your Company and its subsidiaries, and in the study of possible changes to the current structure with the aim of protecting the interests of the Company and all its current shareholders.

This agreement, which was signed on 10 March 2003, was still in force in 2004. During 2004, Rothschild & Cie invoiced fees under the agreement totalling € 400,000, excluding taxes.

On 20 January 2005, Vallourec's Supervisory Board approved an extension of the agreement until the finalization of the acquisition of the 45% interest in V & M TUBES held by Mannesmannröhren-Werke, in return for the payment of an additional flat-rate commission of € 1,500,000, excluding taxes, half of which related to the services provided by Rothschild & Cie during the second half of 2004.

The fees borne by your Company in respect of the year ended 31 December 2004 thus totalled € 1,150,000, excluding taxes.

We have conducted our work in accordance with professional standards applicable in France. Those standards require that we perform the necessary procedures to verify that the information provided to us is consistent with the documentation from which it has been extracted.

Neuilly-sur-Seine, 19 April 2005

The Statutory Auditors

CALAN RAMOLINO ET ASSOCIES

BARBIER FRINAULT & AUTRES
ERNST & YOUNG

Bertrand de Florival

Bernard Scheidecker

Alain Gouverneyre

8.3.3 Statutory Auditors' report on the consolidated financial statements

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the consolidated financial statements. This information includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report together with the Statutory Auditors' report addressing financial and accounting information in the Chairman's report on internal control, should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Vallourec shareholders,

In accordance with the assignment entrusted to us by the shareholders in General Meeting, we have audited Vallourec's consolidated financial statements for the year ended 31 December 2004, as attached to this report.

The consolidated financial statements have been approved by the Executive Board. Our responsibility is to express an opinion on these consolidated financial statements, based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made in the preparation of the financial statements, as well as evaluating the overall financial statements' presentation. We believe that our audit provides a reasonable basis for the opinion expressed below.

In our opinion, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and results of the consolidated group of companies in accordance with the accounting rules and principles applicable in France.

II. Justification of our assessments

In accordance with the requirements of Article L. 225-235 of the French Code de Commerce relating to the justification of our assessments, we draw to your attention the following matters:

As specified in paragraph B-3 of the notes to the consolidated financial statements, Vallourec's management is required to make estimates and formulate assumptions that affect the amounts stated in the Group's financial statements and accompanying notes. These assumptions are, by nature, subject to uncertainties, and actual results could differ from these estimates. In the context of our audit of the consolidated financial statements for the year ended 31 December 2004, we considered that, of those items that involved making significant accounting estimates, a justification of our assessments was required in the case of long-term tangible and intangible fixed assets, deferred taxation and provisions for contingencies and losses:

- The methods adopted in respect of the valuation of the main long-term tangible and intangible fixed assets are described in paragraphs C-2, C-3 and C-5 of the notes to the consolidated financial statements. We have assessed the information and assumptions on which the estimates used by management were based and have reviewed the calculations made by the Company, in particular those relating to the goodwill in respect of V & M STAR, as explained in note 2 of the notes to the consolidated financial statements.
- The principles adopted in respect of providing for deferred taxation are described in paragraph C-11 of the notes to the consolidated financial statements. We have assessed the information and assumptions on which the estimates used by management were based and have reviewed the calculations made by the Company, in particular those relating to the expected recoverability of deferred tax assets, and have reviewed the appropriateness of the information disclosed in note 24 of the notes to the consolidated financial statements.
- The principles adopted in respect of the raising of provisions for contingencies and losses are described in paragraph C-10 of the notes to the consolidated financial statements. We have assessed the bases on which such provisions were made and the information concerning any major risks of which the Group was aware at the year end, and have reviewed the appropriateness of the information disclosed in note 13 of the notes to the consolidated financial statements.

On the basis of the above, we assessed whether these estimates were reasonable.

These assessments form part of our audit of the consolidated financial statements as a whole and therefore contributed to the unqualified audit opinion expressed in the first section of this report.

III. Specific verification

We have also verified the information provided in the Group management report, in accordance with professional standards applicable in France.

We have no matters to report regarding its fair presentation and its conformity with the consolidated financial statements.

Neuilly-sur-Seine, 30 March 2005

The Statutory Auditors

CALAN RAMOLINO ET ASSOCIES

BARBIER FRINAULT & AUTRES
ERNST & YOUNG

Bertrand de Florival

Bernard Scheidecker

Alain Gouverneyre

8.3.4 Statutory Auditors' report on the report of the Chairman of the Supervisory Board on internal control procedures

STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH THE FINAL PARAGRAPH OF ARTICLE L. 225-235 OF THE FRENCH CODE DE COMMERCE, ON THE REPORT OF THE CHAIRMAN OF VALLOUREC'S SUPERVISORY BOARD ON INTERNAL CONTROL PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION.

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

To the Vallourec shareholders,

In our capacity as Statutory Auditors of Vallourec and in accordance with the final paragraph of Article L. 225-235 of the French Code de Commerce, we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-68 of the French Code de Commerce for the year ended 31 December 2004.

It is the responsibility of the Chairman of the Supervisory Board to give an account, in his report, notably of the conditions under which the work of the Supervisory Board is prepared and organized and the internal control procedures implemented within the Company.

It is our responsibility to report to you our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of accounting and financial information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of accounting and financial information. These procedures notably consist of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the Chairman's report;
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information given on the Company's internal control procedures relating to the preparation and processing of accounting and financial information contained in the report of the Chairman of the Supervisory Board, prepared in accordance with the final paragraph of Article L. 225-68 of the French Code de Commerce.

Neuilly-sur-Seine, 19 April 2005

The Statutory Auditors

CALAN RAMOLINO ET ASSOCIES

BARBIER FRINAULT & AUTRES
ERNST & YOUNG

Bertrand de Florival

Bernard Scheidecker

Alain Gouverneyre

8.3.5 Statutory Auditors' special report on the consolidated financial statements for the year ended 31 December 2004 restated in accordance with IFRS

This is a free translation into English of the original Statutory Auditors' report on the restated consolidated accounts signed and issued in the French language and is provided solely for the convenience of English speaking readers.

To the Vallourec shareholders,

Following the request made to us and in our capacity as Statutory Auditors of Vallourec, we have audited the accompanying consolidated financial statements for the year ended 31 December 2004, which were restated ("restated consolidated financial statements") in accordance with International Financial Reporting Standards ("IFRS"), as adopted in the European Union.

The Executive Board was responsible for the preparation of the restated consolidated financial statements, within the context of the transition to the IFRS framework as adopted in the European Union for the preparation of consolidated financial statements for the financial year 2005, based on the consolidated financial statements for the year ended 31 December 2004 prepared in accordance with French accounting rules and principles (the "consolidated financial statements"), which were audited by ourselves in accordance with professional standards applicable in France. Based on our audit, we issued an unqualified opinion on such consolidated accounts. Our responsibility is, to express an opinion on these restated consolidated accounts based on our audit.

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the restated consolidated financial statements are free of material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the restated consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made in the preparation of the financial statements, as well as evaluating the overall restated consolidated financial statements' presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the restated consolidated financial statements have, in all material respects, been prepared in accordance with the preparation rules described in the notes to the financial statements, which specify how IFRS 1 and the other International Accounting Standards as adopted in the European Union have been applied, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted for the preparation of the first complete set of consolidated financial statements in accordance with IFRS as adopted in the European Union.

Without qualifying our opinion, we draw your attention to the introductory note that sets out the reasons why there is a possibility that the accompanying restated consolidated accounts may require adjustment before their inclusion as comparative information in the consolidated financial statements for the year to 31 December 2005 consolidated financial statements, when the Company prepares its first set of consolidated financial statements in accordance with IFRS as adopted in the European Union.

Moreover, because the restated consolidated accounts have been prepared as part of the Company's conversion to IFRS as adopted by the European Union in respect of the preparation of the 2005 consolidated financial statements, they do not include comparative information relating to 2003, nor all the explanatory notes required by IFRS as adopted in the European Union, which would be necessary to give, in accordance with this standards, a true and fair view of the assets, liabilities, financial position and results of the consolidated group of companies.

Neuilly-sur-Seine, 30 March 2005

The Statutory Auditors

CALAN RAMOLINO ET ASSOCIES

BARBIER FRINAULT & AUTRES
ERNST & YOUNG

Bertrand de Florival

Bernard Scheidecker

Alain Gouverneyre

8.3.6 Statutory Auditors' special report on the allocation of bonus shares, which may be existing shares or shares to be issued, to employees or officers of the Company

Free translation of the French original.

To the Vallourec shareholders,

In our capacity as Statutory Auditors of your Company and in compliance with Article L. 225-197-1 of the French Code de Commerce, we have prepared this report on the proposed allocation of bonus shares, which may be existing shares or shares to be issued, to employees and officers of Vallourec and of related companies as defined in accordance with Article L. 225-197-2 of the French Code de Commerce.

Your Executive Board proposes that you authorize it to allocate bonus shares, which may be existing shares or shares to be issued. It is the responsibility of the Executive Board to prepare a report on the proposed transaction. It is our responsibility to inform you of any observations we may have on the information provided to you regarding the proposed transaction.

In the absence of any professional standard applicable to this transaction, which is based on legislation enacted on 30 December 2004, we have performed the procedures we considered necessary in order to verify that the terms of the proposed transaction, as detailed in the Executive Board's report, are in accordance with the provisions prescribed by law.

We have no matters to report regarding the information given in the Executive Board's report on the proposed allocation of bonus shares.

Neuilly-sur-Seine, 19 April 2005

The Statutory Auditors

CALAN RAMOLINO ET ASSOCIES

BARBIER FRINAULT & AUTRES
ERNST & YOUNG

Bertrand de Florival

Bernard Scheidecker

Alain Gouverneyre

8.4 Supervisory Board report

After 2003, a year that was both disappointing and adversely affected by the wait-and-see attitude that pervaded the market, 2004 fully lived up to the expectations we placed in it when we indicated to you, in our last report, that the Group was particularly well prepared to take advantage of the recovery, whilst maintaining control over the risks associated, in particular, with the strong increase in raw material prices.

In all respects, 2004 was an exceptional year for Vallourec, with consolidated sales that exceeded the € 3 billion threshold for the first time, up by nearly 28% on the previous year, and income figures that were significantly higher at all levels (EBITDA up by 93%, operating income up by 178% and net income up by 227%). As regards the EBITDA/sales ratio, the 14% achieved over the year came close to the target for the peak of the cycle (15%).

The Supervisory Board considers these results to be exceptional in all respects and wishes to congratulate the Executive Board and, via the Executive Board, all Group employees, on your behalf.

The Supervisory Board has examined the Executive Board's management report and the financial statements for the year ended 31 December 2004 as well as the various documents attached thereto. The Supervisory Board considers that they accurately reflect the position of the Company and of the Group and that no special remarks are called for.

The Board has also reviewed the report of the Chairman of the Supervisory Board on the conditions governing the preparation and organization of the Supervisory Board's work and the internal control procedures implemented by the Company.

The excellent results for the year ended 31 December 2004 enable the Executive Board to propose to you the payment of a dividend that is double that of last year, i.e. € 3.20 per share. In addition, the Supervisory Board has asked the Executive Board to consider, when the financial statements for the first half of 2005 are approved, the possibility of paying, during the second half of 2005, an interim dividend for the financial year 2005.

2005 has begun favourably, in a similar vein to the end of 2004. The year will see the achievement of an important stage in the Group's development, with the acquisition of the 45% interest held by MRW in our jointly-owned subsidiary V & M TUBES, the outcome of a process begun more than two years ago on the initiative of the Supervisory Board. As a result of this acquisition, Vallourec will have full control over the implementation of the strategy of its

main subsidiary, which contributed more than 80% of consolidated sales and more than 90% of net income, Group share, in 2004. The Group's structure will thus undergo a major change, making it both more coherent and easy to understand.

The agreement entered into with Banque Rothschild, by which Banque Rothschild assisted the Executive Board in its negotiations, was still in force in 2004 and has been extended until finalization of the acquisition.

The appointment of Mr François Henrot as a member of the Supervisory Board expires at the close of this General Meeting. The Board proposes that you renew the appointment for a further period of six years expiring at the close of the General Meeting called to approve the financial statements for the financial year 2010.

In addition, you are asked to ratify the provisional appointment of Mr Wolfgang Eging by the Supervisory Board to replace Mr Helmut Koch at its meeting on 8 March 2005. Mr Wolfgang Eging's appointment will expire, like that of his predecessor, at the close of the General Meeting called to approve the financial statements for the financial year 2005. Mr Wolfgang Eging spent his entire career within the Mannesmann group. He has been Chairman of the Executive Board of Mannesmannröhren-Werke since 1 January 2004, the date on which he succeeded Mr Helmut Koch in that position.

Mr Helmut Koch, who retired on 31 December 2003, had been a member of Vallourec's Supervisory Board since September 1999. As a member of MRW's Executive Board, he played an important role in the considerations and negotiations that resulted in the formation of V & M TUBES in 1997. The Board would like to thank him for the quality of his contribution to its work.

Finally, you are asked to renew the annual share buy-back authorization. This authorization is supplemented by a resolution, to be adopted under rules governing Extraordinary General meetings, which will enable, where appropriate, the Executive Board to allocate bonus shares to certain employees, managers or officers of the Group in accordance with the new legislation. The Supervisory Board is in favour of this resolution, which relates solely to existing shares, and is designed to encourage employee share ownership. It is specified that any use of this authorization will be made by the Executive Board in conjunction with the Supervisory Board.

The other resolutions you are asked to approve do not call for particular comment and we invite you to approve them.

8.5 Ordinary and Extraordinary General Meeting of 7 June 2005 - Resolutions

FIRST RESOLUTION

The General Meeting, ruling under the conditions of quorum and majority required for an Ordinary General Meeting, having heard the special report of the Auditors in respect of the agreements subject to Article L. 225-86 of the French Code de Commerce, approves the operations stated in that report.

SECOND RESOLUTION

The General Meeting, ruling under the conditions of quorum and majority required for an Ordinary General Meeting, having heard the management report of the Executive Board, the report of the Supervisory Board and the general report of the Auditors for the financial year ended 31 December 2004, hereby approves the management report of the Executive Board and the annual financial statements for the financial year 2004, which show net income of € 30,064,060.93.

THIRD RESOLUTION

The General Meeting, ruling under the conditions of quorum and majority required for an Ordinary General Meeting, having heard the report of the Auditors on the consolidated financial statements for the financial year ended 31 December 2004 and having taken note of the consolidated financial statements as prepared by the Company at the request of the Executive Board, notes that they have been presented to the Meeting and hereby approves them.

FOURTH RESOLUTION

The General Meeting, ruling under the conditions of quorum and majority required for an Ordinary General Meeting, hereby approves the allocation of net income recommended by the Executive Board.

In so doing, it resolves to appropriate from the net income for the financial year an amount of € 279,460 to the legal reserve and to appropriate the balance of € 29,784,600.93, increased by an amount of € 1,799,258.27 deducted from retained earnings to give a total of € 31,583,859.20, by way of dividend.

Accordingly, a dividend of € 3.20 shall be paid to each of the 9,869,956 shares representing the share capital as at 31 December 2004.

The dividend will be paid on 6 July 2005. The dividend may carry the right to a 50% reduction in the tax base.

Pursuant to the provisions of Article 47 of the law of 12 July 1965, the General Meeting notes, that a total dividend of € 3.15 or € 2.42 was paid in respect of financial year 2001, € 2.10 of which was paid directly to each share plus a tax credit of € 1.05 (i.e. 50%) or € 0.32 (i.e. 15%) in accordance with the provisions of the Loi de Finances for the year 2002; that a total dividend of € 3.15 or € 2.31 was paid in respect of financial year 2002, € 2.10 of which was paid directly to each share plus a tax credit of € 1.05 (i.e. 50%) or € 0.21 (i.e. 10%) in accordance with the provisions of the Loi de Finances for the year 2003; and that a total dividend of € 2.40 or € 1.76 was paid in respect of financial year 2003, € 1.60 of which was paid directly to each share plus a tax credit of € 0.80 (i.e. 50%) or € 0.16 (i.e. 10%) in accordance with the provisions of the Loi de Finances for the year 2004.

FIFTH RESOLUTION

In application of the provisions of Article 39 of the amended Loi de Finances no. 2004-1485 for 2004, the General Meeting, ruling under the conditions of quorum and majority required for an Ordinary General Meeting, resolves that all amounts included in the special reserve for long-term capital gains on the balance sheet as at 31 December 2004, i.e. an amount of € 56,405,731.99, shall be transferred to the general reserve, the amount of which increases therefore from € 7,633,052.97 to € 64,038,784.96.

Correlatively, the General Meeting resolves to deduct from this reserve the amount of € 1,397,643.30 corresponding to the exceptional tax of 2.5% provided for in the aforementioned Article 39, with a corresponding credit to retained earnings.

SIXTH RESOLUTION

The General Meeting, ruling under the conditions of quorum and majority required for an Ordinary General Meeting, resolves to renew the appointment as a Member of the Supervisory Board of Mr François Henrot for a term of six years expiring at the end of the General Meeting called to approve the financial statements for the financial year 2010.

SEVENTH RESOLUTION

The General Meeting, ruling under the conditions of quorum and majority required for an Ordinary General Meeting, resolves to ratify the appointment of Mr Wolfgang Eging as a replacement for Mr Helmut Koch as a Member of the Supervisory Board as decided by the Board meeting held on 8 March 2005.

The term of office of Mr Wolfgang Eging shall expire on the original expiry date of his predecessor's term of office, i.e. at the end of the General Meeting called to approve the financial statements for the financial year 2005.

EIGHTH RESOLUTION

The General Meeting, ruling under the conditions of quorum and majority required for an Ordinary General Meeting, takes note that the authorization given to the Executive Board under the terms of the ninth resolution of the Ordinary and Extraordinary General Meeting held on 10 June 2004 to purchase Company shares on the stock exchange expires today.

The General Meeting, having heard the report of the Executive Board and having noted the information contained in the Information Memorandum authorized by the Autorité des Marchés Financiers, authorizes the Executive Board, in accordance with Articles L. 225-209 et seq. of the French Code de Commerce, to purchase Company shares with a view to:

- their attribution or sale (i) in accordance with the provisions of Articles L. 225-177 et seq. of the French Code de Commerce, or (ii) within the context of a share ownership plan or company savings plan, or (iii) in accordance with the provisions of Articles L. 225-197-1 et seq. of the French Code de Commerce, or
- an investment services provider stimulating the market for or liquidity of the shares by means of a liquidity contract in accordance with the code of business ethics recognized by the Autorité des Marchés Financiers, or
- their subsequent use by way of exchange, payment or other use in connection with an acquisition transaction, or
- their use in connection with the exercise of rights attached to transferable securities giving the right via the redemption, conversion, exchange, presentation of a warrant or in any other way to the attribution of shares in the Company,

- their cancellation, subject to a further authorization being given by an Extraordinary General Meeting called and held subsequent to this day.

Purchases of Company shares shall be restricted to a number of shares such that the number of shares held by the Company subsequent to such purchases shall not exceed 10% of the Company's share capital, such percentage applying to the share capital as adjusted for any transactions that may affect the share capital subsequent to this General Meeting.

The purchase, disposal, exchange or transfer of shares may be made by any means on the stock exchange or over-the-counter and notably through any intervention on or off the market, public purchase or exchange offer, or the purchase of blocks of shares, including through the use of financial derivatives. The full amount of the repurchase programme may be acquired, ceded, exchanged or transferred by means of blocks of shares. Purchase, disposal, exchange or transfer transactions may take place during the period of a public offering subject to the limits authorized by the prevailing legal and regulatory requirements.

This authorization shall apply under the following conditions:

- the maximum purchase price is set at € 200 per share excluding costs, it being specified that the maximum amount of funds that may be allocated to this programme is set at € 40 million;
- the minimum selling price is set at € 125 per share excluding costs.

The General Meeting invests all power in the Executive Board to adjust the aforementioned purchase price and selling price in order to take account of the impact of any financial transactions on the value of the shares. In particular, in the event of a capital increase by means of the capitalization of reserves and the attribution of bonus shares, the aforementioned prices shall be multiplied by a coefficient equal to the ratio between the number of shares comprising the share capital before the transaction and the number after the transaction.

This authorization shall expire with the annual Ordinary General Meeting called to approve the financial statements for the financial year 2005 and, in any event, no later than 18 months from the date of this Meeting, i.e. by 7 December 2006.

The General Meeting invests all power in the Executive Board to decide and effect implementation of this authorization and in particular to place any stock exchange orders, conclude any agreements, notably concerning the keeping of registers of purchases or sales of shares, make any declarations to the Autorité des Marchés Financiers or any other body, effect the adjustment provided for under Articles 174-1 A and 174-9 A of the Decree dated 23 March 1967 in the event of the purchase of shares at a price higher than the stock exchange price, and, in general, to do whatever is necessary.

The Executive Board is expressly authorized to delegate to its Chairman, with the latter having the option to sub-delegate to a person of his choice, the execution of decisions taken by the Executive Board in connection with this authorization.

In its report to the annual Ordinary General Meeting, the Executive Board shall inform the Meeting of any transactions realized in application of this authorization.

NINTH RESOLUTION

The General Meeting, ruling under the conditions of quorum and majority required for an Extraordinary General Meeting, having heard the report of the Executive Board and the special report of the Auditors, in accordance with Articles L. 225-197-1 et seq. of the French Code de Commerce:

- invests full power in the Executive Board to allocate, on one or more occasions and for the benefit of employees or officers of the Company or of related companies as defined in accordance with Article L. 225-197-2 of the French Code de Commerce who meet the conditions set out by law, bonus shares, such shares to be existing shares;
- decides that the total number of such bonus shares shall not exceed 5% of the share capital as of the date of this Meeting, that the allocation of such shares to the beneficiaries shall become definitive at the end of an acquisition period of not less than two years, and that the minimum period for which beneficiaries shall be required to hold such shares shall be set at two years;
- notes that the Executive Board is authorized to modify the number of shares allocated, within the limit of the aforesaid maximum number, in respect of transactions in the Company's capital authorized by an Extraordinary General Meeting;

- authorizes the Executive Board, where applicable during the acquisition period, to adjust the number of shares related to any transactions in the Company's capital in order to preserve the beneficiaries' rights;

- sets the validity period of this authorization at thirty-eight (38) months as from the date of this Meeting.

The General Meeting invests all power in the Executive Board, with the latter having the option to sub-delegate within the limits set by law, to implement this authorization, including:

- to draw up the list of beneficiaries of the bonus shares,
- to set the conditions and, where applicable, the criteria for the allocation of shares,
- to set the date from which the shares will bear dividends and voting rights

and, more generally, to do all that is necessary.

8.6 Subsidiaries and participating interests as at 31 December 2004 in € thousand

Companies	Capital	Other shareholders' equity before allocation of income (loss)	Share of capital held (%)	Book value 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 book values in excess of 1% of Vallourec's capital (i.e. € 1,974 thousand)									
Subsidiaries (at least 50%-owned)									
French companies									
Setval 130, rue de Silly 92100 Boulogne-Billancourt 322 593 104 RCS Nanterre	6,000	25	100.00	6,098	6,098	-	39,710	249	260
ValTubes 130, rue de Silly 92100 Boulogne-Billancourt 682 001 771 RCS Nanterre	100,323	40,539	100.00	216,323	200,323	-	47	21,299	-
VALLOUREC & MANNESMANN TUBES 130, rue de Silly 92100 Boulogne-Billancourt 411 373 525 RCS Nanterre	473,991	221,151	55.00	296,168	296,168	38,112	-	78,994	27,500
B) Overall information on other subsidiaries and participating interests									
I. Subsidiaries (at least 50%-owned)									
a) French companies				54	43				163
b) Foreign companies				1,338	1,073				379
II. Participating interests (10% to 50%-owned)									
a) French companies				-	-				-
b) Foreign companies				-	-				11

8.7 Companies controlled directly or indirectly as at 31 December 2004 (Law L. 233-3 of the Code de Commerce)

I - Direct controlling interest

Name	% held	Name	% held
● ASSURVAL	99.00	● FINALOUREC (Luxembourg)	99.99
● SETVAL	100.00	● VALLOUREC Inc. (USA)	100.00
● VALSEPT	100.00	● VALLOUREC TUBES CANADA (Canada)	100.00
● VALLOUREC & MANNESMANN TUBES	55.00		
● ValTubes	100.00		

II - Indirect controlling interest, through:

Name	% held	Name	% held
ValTubes		VALLOUREC & MANNESMANN TUBES	
● CEREC	100.00	● PEISA (Mexico)	100.00
● ESCOFIER TECHNOLOGIE	100.00	● PRINVER (Mexico)	100.00
● INTERFIT	100.00	● VALLOUREC INDUSTRIES Inc. (USA)	
● METALS PROCESS SYSTEMS	99.70	(via VALLOUREC & MANNESMANN HOLDING Inc.)	100.00
● SIDRO ROHRBOGEN GmbH (Germany)	100.00	● VALLOUREC ITALIANA Srl	50.00
● SOPRENEUF	100.00	(other subsidiaries hold the remainder)	
● SPECITUBES	100.00	● VALLOUREC MANNESMANN OIL & GAS FRANCE	99.36
● VALINOX NUCLEAIRE	100.00	● VALLOUREC MANNESMANN OIL & GAS GERMANY GmbH	
● VALINOX WELDED	100.00	(Germany) (via V & M DEUTSCHLAND GmbH)	100.00
● VALLOUREC ARGENTINA SA	100.00	● VALLOUREC MANNESMANN OIL & GAS UK Ltd (GB)	99.37
● VALLOUREC BENELUX (Belgium)	100.00	● VALLOUREC & MANNESMANN HOLDING Inc. (USA)	100.00
● VALLOUREC GmbH (Germany)	100.00	● VALLOUREC & MANNESMANN TUBES CORP. (USA)	
● VALLOUREC NORDEN (Sweden)	100.00	(via VALLOUREC & MANNESMANN HOLDING Inc.)	66.67
● VALLOUREC COMPOSANTS AUTOMOBILES HAUTMONT	100.00	● V & M do BRASIL SA (Brazil)	99.40
● VALLOUREC COMPOSANTS AUTOMOBILES VITRY	100.00	● V & M FRANCE	99.00
● VALLOUREC do BRASIL AUTOPEÇAS Ltda (Brazil)	100.00	● V & M DEUTSCHLAND GmbH (Germany)	99.00
● VALLOUREC PRECISION ETIRAGE	100.00	● V & M SERVICES	100.00
● VALLOUREC PRECISION SOUDAGE	100.00	● V & M ONE Sarl (via V & M SERVICES)	100.00
● VALLOUREC UK Limited (GB)	100.00	● V & M STAR (via V & M ONE)	80.53
● VALTI	100.00	● VAM FAR EAST Pte Ltd (Singapore)	51.00
		● VAM PREMIUM CONNECTIONS Inc. (Canada)	100.00
		● VAM PTS (USA) (via Vallourec Industries Inc.)	51.00
VALINOX NUCLEAIRE			
● VALINOX NUCLEAR (USA)	100.00		
VALINOX WELDED		V & M do BRASIL SA	
● VALINOX ASIA (via VALTIMET)	65.83	● V & M FLORESTAL Ltda	100.00
● VALTIMET Inc. (USA) (via VALTIMET)	100.00	● V & M MINERAÇÃO Ltda	100.00
● VALTIMET	51.30		
VALINOX ASIA			
● CHANGZHOU VALINOX GREAT WALL (China)	100.00		
VALTI			
● VALTI GmbH (Germany)	100.00		

NONE OF THE ABOVE COMPANIES DIRECTLY HELD ANY OF ITS OWN SHARES AT 31 DECEMBER 2004

8.8 Evaluation of securities portfolio as at 31 December 2004 in € thousand

Name of Company	Number of securities and nominal value	Book value
I - SHARES AND UNITS		
a) French participating interests		
SETVAL	399,998 units of € 15	6,098
ValTubes	6,688,181 shares of € 15	200,323
VALSEPT	2,500 shares of € 15	35
VALLOUREC & MANNESMANN TUBES	17,379,668 shares of € 15	296,168
b) Foreign participating interests		
FINALOUREC	47,995 shares of € 4.58	39
VALLOUREC TUBES CANADA	100,000 shares of no-par-value	604
VALLOUREC Inc.	1,000 shares of USD 50	430
c) Other participating interests		
ASSURVAL	495 units of € 20	8
ALBERTO ROCA DEU SL	40 shares of € 6.01	-
II - BONDS AND SIMILAR SECURITIES		none
Total		503,705

8.9 Five-year financial summary in euros

	2000	2001	2002	2003	2004
CAPITAL					
Share capital	141,290,222	194,604,520	194,604,520	194,604,520	197,399,120
Number of ordinary shares in issue	9,268,031	9,730,226	9,730,226	9,730,226	9,869,956
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	178,500	178,500	172,250	171,750	32,020
- by redemption of bonds					
OPERATIONS AND RESULTS FOR THE YEAR					
Sales excluding tax	-	-	-	-	-
Income (loss) before tax, employee profit sharing, amortization, depreciation and provisions	15,980,435	29,404,736	25,555,607	71,129,582	-58,687,367
Income tax	-1,017,771	-2,026,370	-12,983,543	-3,192,803	-5,827,453
Employee profit sharing in respect of the year					
Income (loss) after tax, employee profit sharing, amortization, depreciation and provisions	32,006,456	39,457,204	19,058,711	56,780,396	30,064,061
Dividends distributed	12,048,440	20,433,473	20,433,475	15,568,362	31,583,859
PER SHARE DATA					
Income (loss) after tax and employee profit sharing, but before amortization, depreciation and provisions	1.83	3.23	3.96	7.64	-5.36
Income (loss) after tax, employee profit sharing, amortization, depreciation and provisions	3.45	4.06	1.96	5.84	3.05
Dividend allotted to each share	1.30	2.10	2.10	1.60	3.20
EMPLOYEES					
Average number of employees during the financial year	4	4	6	5	5
Payroll for the financial year	320,653	452,178	422,011	530,257	594,460
Payroll-related costs (social security, employee benefits, etc.)	125,665	149,523	155,074	217,987	188,462