

“ The Group’s excellent performance in 2005 owes nothing to chance. We are now reaping the fruits of our past efforts. Vallourec chose the opportune time to make what now prove to be winning decisions, and which should continue as such. ”

Jean-Paul Parayre

Vallourec in brief:

- **World leader** in the production of seamless steel tubes and specific tubular products for industrial applications
- **30** industrial companies organized in **6** divisions by product or by market
- **45** production units in **10** countries
- Nearly **18,000** staff

Dear Shareholder,

Vallourec’s excellent stock market performance over more than the past 18 months has been accompanied by a sharp rise in the number of shareholders, which we welcome. Quite naturally, therefore, the number of shareholders attending the General Meeting held on 1 June was higher than usual. An overview of the proceedings is provided on page 2.

The stock markets have been turbulent since May. Expectations of a rise in interest rates in response to concerns over inflation increased nervousness and volatility on all major financial markets. The Vallourec share was the object of substantial profit taking and, like its peers and in similar proportions, was affected by these movements. This observation must, however, be put into context. Vallourec’s share posted the best performance in the SRD section over the 12 months to 15 June, rising by around 300%.

More particularly, the exceptionally buoyant environment that helped drive Vallourec’s excellent performance in 2005 is continuing. The cycle is at its peak, demand in the oil & gas, power generation, petrochemicals and mechanical engineering sectors is still strong and prices remain firm. The Group’s production facilities continue to operate at full capacity and capital expenditure has been stepped up to increase the proportion of high value-added products.

From the supply of tubes for the world’s largest lignite power plant at Neurath in Germany to those for the steam generators for the future EPR nuclear power plant at Flamanville, and from the delivery of tubes and premium joints for oil wells in India and Saudi Arabia to tubes for refineries in the United States or Iran, Vallourec’s commercial triumphs are a testament to the performance of its products, its technological lead and the quality of its services.

In this context, having reached a record level in 2005, Vallourec achieved further sales growth in the first quarter of 2006 and our forecasts of the Group’s operating profitability, the EBITDA / sales ratio, are equally very satisfactory (see the section headed “Outlook for 2006” on page 2).

Adding to this the fact that the Group will benefit in 2006 from the contributions of OMSCO and of SMFI, both of which are recent acquisitions specialized in drill pipes and accessories and, at the level of net income, Group share, from the full year effect of the minority buyout at V & M TUBES, our confidence is well founded.

More fundamentally, this confidence is based on the well-balanced Group profile in terms of both its activities and geographic spread, and on the Group’s strong presence in the oil & gas and power generation markets, whose growth is being sustained by the structural increase in demand for energy. Please refer to page 3 for a description of how Vallourec has successfully and profoundly evolved while remaining focused on its core businesses.

You may rest assured that all members of staff are committed to ensuring that the Group benefits to the full from the exceptionally favourable environment for its activities and amply demonstrates its potential to grow and to create value.

Jean-Paul Parayre
Chairman of the Supervisory Board



Pierre Verluca
Chairman of the Management Board



Annual General Meeting of 1 June 2006

Vallourec's General Meeting of shareholders was held on 1 June 2006 under the chairmanship of Mr. Jean-Paul Parayre, Chairman of the Supervisory Board.

2005 key figures

- **CONSOLIDATED SALES**
€ 4,307.4 million
+41.8%
- **EBITDA**
€ 1,060.6 million
24.6% of sales
- **TOTAL CONSOLIDATED NET INCOME**
€ 632.4 million
14.7% of sales
- **NET INCOME, GROUP SHARE**
€ 473.0 million
- **GEARING**
13.6%

Changes in consolidation scope during 2005

The consolidation scope changed as follows during the year:

- > the disposal with effect from 1 January 2005 of the automotive components activities in Brazil and Argentina, which posted sales of € 71 million in 2004;
- > the integration on 1 October 2005 of the assets of OMSCO, which generated sales of € 28 million in the fourth quarter of 2005.

Financial year 2005

2005 was remarkable for the very strong 41.8% increase in sales, due essentially to a 35.7% mix, price and currency effect. With the benefit of a buoyant environment, Vallourec was able to push through further price rises in 2005 and to progressively improve its product mix. EBITDA reached a record level of 24.6% of sales (15.0% in 2004).

The strongest growth during the year 2005 was seen in energy-related markets, which accounted for 59.3% of sales. Sales in the oil & gas sector rose by 65.4% under the combined impact of strong demand and sharp increases in selling prices. Similarly, sales in the power generation sector rose by 55.0%, reflecting the continuing dynamism of this market.

Outlook for 2006

The demand for tubes for the oil & gas sector is being driven by higher expenditure on exploration and production by the oil companies and by the increasingly difficult conditions under which wells are operated. The prices of products for these markets should therefore remain high, or even rise further in the case of higher value-added products. Moreover, buoyant demand for products for the power generation sector reflects the significant expenditure on power station construction and renewal programmes.

During the General Meeting, Vallourec confirmed that, compared with the first half of 2005, sales for the first half of the current year are expected to grow at a rate close to the 41.8% growth achieved for 2005 as a

whole, and that second-half sales should be maintained at the high level expected for the first half of 2006. The Group has increased slightly its forecast EBITDA / sales ratio for the first half of 2006, which is expected to be slightly higher than the 26.2% achieved during the second half of 2005.

Questions / answers

In response to a question on the Group's exposure to the dollar, Pierre Verluca explained that, in addition to the pure translation effect, Vallourec's EBITDA is sensitive to movements in the dollar on around 30% of sales, being the proportion of sales produced in Europe but invoiced in dollars. He added, however, that the impact on profitability is difficult to quantify because movements in the dollar also influence certain costs, such as raw materials.

Questioned on the Group's new production site at Changzhou in China to supply the power generation sector, Pierre Verluca indicated that there was no risk of a technology transfer because the plant is wholly owned by Vallourec. He mentioned that the new site will become operational in July 2006 and will enable the Group to increase its finishing capacity, which is saturated in Europe.

Asked about the use of the Group's cash resources, Pierre Verluca indicated that Vallourec is undertaking a major capital expenditure programme in 2006. At around € 300 million, this programme is some 50% larger than in 2005. He also stressed that the Group's main priority is to

continue to increase the proportion of high value-added products.

Jean-Paul Parayre added that Vallourec intends to continue its growth strategy based on organic development thanks to capital expenditure and on the targeted purchase of assets or companies according to opportunities.

Lastly, in response to a question as to whether Vallourec's current market capitalization is sufficiently high to discourage any potential predator, Jean-Paul Parayre replied that, while Vallourec's policy is not to comment on its share price, the best defence lies in the Group's performance and in the creation of value for shareholders through implementation of a growth strategy.

All the resolutions proposed to the Ordinary and Extraordinary General Meeting were adopted by a very large majority. Nearly 50% of the voting rights were represented in person or by proxy. In particular, the shareholders approved:

- > the Company and consolidated financial statements for the year ended 31 December 2005,
- > the payment of a total dividend in respect of 2005 of € 11.2 per share,
- > the division by five of the nominal value of each share,
- > the renewal of the expiring terms of office of the following members of the Supervisory Board: Messrs. Jean-Paul Parayre, Patrick Boissier, Wolfgang Eging, Heinz Jörg Fuhrmann and Denis Gautier-Sauvagnac,
- > the authorization of a share buy-back programme,
- > the authorization to grant share purchase options,
- > a change to the age limit for Supervisory Board members.

The full text of the resolutions is available on www.vallourec.com or on request.

A Group whose profile has changed markedly

Vallourec's profile has changed fundamentally in recent years. The Group underwent a profound transformation in five years, between 2000 and 2005, to become the world leader that it is today.

	2000	2005
Stake in V & M TUBES	55%	100%
Part of steel production outside Europe	0%	43%
Sales outside the European Union	42%	61%
Sales in the energy sector*	35%	59%

* Oil & gas and Power generation

V & M TUBES is at the heart of Vallourec's developments. Created in 1997, this subsidiary was originally held 55% by Vallourec and 45% by Mannesmannröhren-Werke (MRW). In 2004, it alone accounted for 81% of consolidated sales and 86% of Group EBITDA. It has been the driving force behind Vallourec's external growth, with the purchase of V & M do BRASIL in 2000, V & M STAR in 2002, and OMSCO in 2005. By acquiring MRW's holding in V & M TUBES in 2005, Vallourec took a major step forward as it now has full control over both its industrial assets and its strategy.

The geographic spread of the Group's steel production capabilities has also been improved. Whereas in 2000 Vallourec produced steel

solely in Europe, production is now balanced between Europe on the one hand (France and Germany) and the United States and Brazil on the other hand.

Vallourec's rate of growth also accelerated considerably between 2000 and 2005. Sales have virtually doubled in five years. In parallel with this, the Group's presence in the energy sector has been strengthened, rising from 34.6% of consolidated sales in 2000 to 59.3% in 2005. The Group has also significantly expanded its international dimension in five years, with sales outside the European Union rising from 41.6% of total sales in 2000 to 61.3% in 2005.

Lastly, as a result of the marked improvement in the Group's financial

performance, the stock market profile has also changed profoundly. The market capitalization has increased more than 20-fold since the beginning of 2000. Already a component of the SBF120, the Vallourec share has successively formed part of major indices such as the CAC Mid 100, Euronext 100 and, more recently, the MSCI World Index⁽¹⁾. The share ownership structure is becoming increasingly large and diverse: the Group now has over 54,000 shareholders compared with less than 20,000 in 2000, including an increasing proportion of foreign investors.

⁽¹⁾ The MSCI World Index is a world benchmark index made up of the main stocks in 23 developed countries. It comprises the stocks of 1,786 listed companies, including 61 French companies.

News

In 2006, Vallourec has continued implementation of its consistent strategy to strengthen the Group and make it more readily understandable. Following a number of acquisitions and disposals in 2005, the momentum has been maintained in early 2006 with transactions aimed at strengthening the Group's positions in its core activities.

In March 2006, Vallourec acquired SMFI, a company based in France specialized in the manufacture of heavy-weight drill pipes and high-tech products for oil & gas drilling. This acquisition is a perfect complement to that of OMSCO and strengthens Vallourec's position as the world's number two player in the drilling sector. SMFI posted sales of € 46 million in 2005.

In April 2006, Vallourec established a presence in India with the acquisition of 75% of CST Ltd, an Indian company specialized in tubes for power plant condensers and feedwater-heaters. CST has estimated full-year sales of € 15 million.

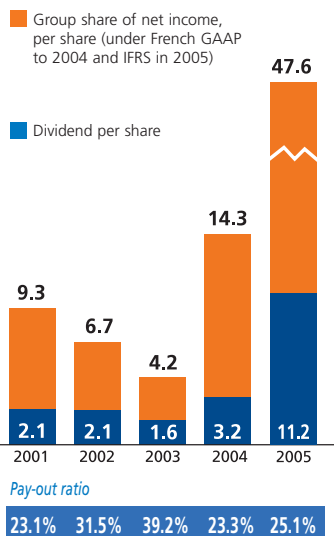
In May 2006, Vallourec sold Spécitubes, the only subsidiary in the Group operating in the aerospace sector. Spécitubes posted sales of € 27 million in 2005.

Management Board

Since 1 April 2006, Vallourec's Management Board has comprised five members.

On that date, three new members joined the Chairman Pierre Verluca and François Fabre: Bertrand Cantegrit, Marco Antônio Castello Branco and Jean-Pierre Michel.

Earnings per share and dividend (in euros)



> VALLOUREC SHARE

- Listed on the Euronext Paris Eurolist (section A)
- Part of the deferred settlement section (SRD)
- ISIN code: FR0000120354
- Indices: Euronext 100, SBF 120, CAC Mid 100 and MSCI World Index
- FTSE classification: engineering and machinery
- Market capitalization: € 9.4 billion on 15 June 2006

> FINANCIAL CALENDAR

- 27 July 2006:** release of 2006 Q2 sales figures
- 13 September 2006:** release of 2006 first-half results
- 25 October 2006:** release of 2006 Q3 sales figures
- 1 February 2007:** release of 2006 Q4 sales figures

> SHAREHOLDER AND INVESTOR CONTACT

- Henri Redig :
Tel.: +33 (0)1 49 09 38 28
Fax: +33 (0)1 49 09 36 94

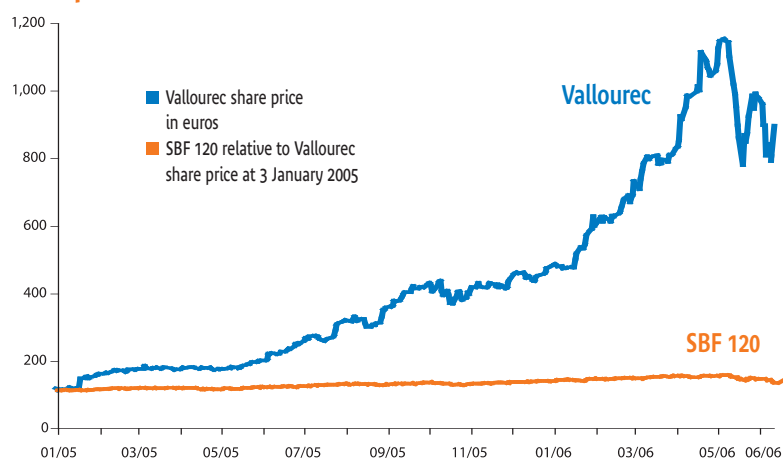
Email: henri.redig@vallourec.fr
www.vallourec.com

Shareholder information

Dividend

As recommended by the Management Board, the Supervisory Board proposed to the General Meeting of 1 June 2006 that a dividend of € 11.2 per share be paid in respect of 2005. The proposal, which was approved by a very large majority of the shareholders, represented a multiple of 3.5 times the dividend paid in respect of 2004 (€ 3.2 per share). After taking into account the interim dividend of € 4 per share already paid on 12 October 2005, the balance remaining to be paid is € 7.2 per share and will be paid on 5 July 2006.

Share price (at 15 June 2006)



At 3 January 2005

Vallourec : € 108.9
SBF 120 : 2,738.08

At 15 June 2006

Vallourec : € 883.5
SBF 120 : 3,426.12

Change

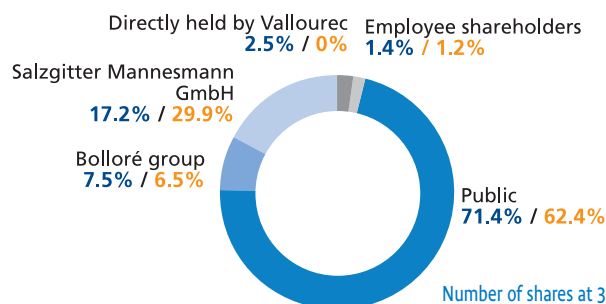
+ 711.3%
+ 25.1%

Vallourec's share posted the largest increase in the SRD section in 2005. The share price was multiplied by a factor of more than four during the year and the market capitalization increased from € 1.1 billion to € 5.0 billion. Over the same period, the SBF 120 index rose by 24%. Since the start of 2006, the share price has continued to rise and stood at € 883.5 on 15 June 2006.

Division of the nominal value per share

During the Extraordinary General Meeting of 1 June 2006, the shareholders approved the division of the nominal value of each share by five, effective on 18 July 2006. In practical terms, at this date, each shareholder will receive five new Vallourec shares with a nominal value of € 4 each in exchange for one existing share with a nominal value of € 20.

Capital breakdown



- As a % of capital
- As % of voting rights

Number of shares at 31 December 2005: 10,600,332
Number of voting rights published in BALO on 25 January 2006: 12,162,388

Sources: identified bearer shares and registered shares at 13 January 2006, adjusted for the crossing of a share ownership threshold by Bolloré group on 2 February 2006.