



REPORT OF THE MANAGEMENT BOARD ON THE DRAFT RESOLUTIONS

I. Resolutions within the authority of the Ordinary Shareholders' Meeting

a. Approval of the Company financial statements and allocation of the net income

The **1st resolution** concerns the approval of Vallourec's financial statements for fiscal year 2008, which show a net income of € 730,835,634.50.

The **2nd resolution** concerns the approval of Vallourec's consolidated financial statements for fiscal year 2008, which show a consolidated net income of € 1,024,691,000.

The **3rd resolution** concerns the determination of the allocation of the net income. It is proposed to set the dividend for the fiscal year 2008 to € 6 per share. In accordance with Article 243 bis of the French Tax Code, it is specified that this dividend is eligible, when paid to shareholders who are individuals domiciled for tax purposes in France, for the 40% deduction resulting from the application of Article 158-3 of the same Code. In accordance with Article 117 quater of the French Tax Code, shareholders may, however, subject to conditions and instead of income tax at progressive tax rates, opt for deductible withholding tax at the flat rate of 18%; the dividend then no longer qualifies for the 40% deduction. Shareholders should note that, in both cases, under certain circumstances, the social security deductions in respect of these dividends are withheld by the Company.

For the record, the dividends granted for the preceding three financial years were as follows:

Financial year	Number of shares ⁽¹⁾	Dividend per shares In euros
2005	10,600,332	11.20
2006	53,011,870	6.00 ⁽²⁾
2007	53,038,720	11.00 ⁽³⁾

(1) It is recalled that the number of shares was multiplied by 5 on 18 July 2006.

(2) Including an interim dividend of € 2 per share paid on 20 October 2006.

(3) Including an interim dividend of € 4 per share paid on 4 July 2007.

b. Approval of the transactions covered by the Article L. 225-86 of the French Commercial Code

During the fiscal year 2008, the Company entered into only one so called "regulated related-party transaction" agreement, which is presented in details in the Auditors' special report. This agreement is an amendment to the supplementary pension plan of 15 September 2005 benefiting to senior executives of the Group and members of the Management Board. The amendment permits its beneficiaries access to the benefits of the supplementary pension plan if, after they reach 55 years of age, they are not able to find employment after leaving the Company at its request. These senior executives usually make much of their careers, or even their entire careers, within the Group and may experience great difficulty in finding a position outside the Group after 55.

The **4th resolution** concerns the option to receive the payment of the dividend either in cash or in shares in accordance with French law.

For this purpose, each shareholder may opt for the payment of the dividend in cash or in shares between 11 June 2009 and 26 June 2009. At the expiration of that period, the dividend will only be payable in cash.

For the shareholders who will elect for a payment in cash, the dividend will be paid on 7 July 2009; on the same date will intervene the delivery of the shares for those who elect for the payment of the dividend in shares. The shares will be issued with all rights attached as of 1 January 2009.

In accordance with Article L. 232-19 of the French Commercial Code, the new shares, in case the option for the payment of the dividend in shares is exercised, will be issued at a price equal to 90% of the average of the opening market prices of the Company's shares on Euronext Paris during the twenty consecutive trading days preceding the date of the Shareholders' Meeting, diminished by the net amount of the dividend and rounded upwards to the nearest Euro cent.

In the event that the dividend due pursuant to the share election does not result in a round number of shares, the shareholder may receive a number of shares rounded downwards to the nearest whole number of shares with a cash compensation.

The number of people affected by the amendment is 30 as of 31 December 2008. Members of the Management Board are meant to see this amendment applied to them without any particular advantage over other senior executives.

The supplemental pension of Vallourec is capped at 20% of the average base salary over the last three years, excluding any bonus, and limited to four annual social security thresholds.

The **5th resolution** concerns the approval of this agreement.

This agreement and the transactions concluded in prior years which have continued to produce effects during the fiscal year 2008 are detailed in the Auditors' special report.



c. Approval of regulated commitments referred to in Article L. 225-90-1 of the French Commercial Code concerning Mr. Philippe Crouzet

The **6th resolution** aims at submitting to your approval, pursuant to Article L. 225-90-1 of the French Commercial Code, commitments regarding elements of compensation, indemnities or other benefits owed or likely to be owed as a result of the termination of Mr. Philippe Crouzet's term of office as President of the Management Board.

The Supervisory Board authorized in its Meeting dated 13 May 2009, as a regulated related-party transaction, the agreement concerning the terms of office of Philippe Crouzet appointed President of the Management Board with effect from 1 April 2009. He does not hold any employment contract with the Group. He does not benefit from any specific advantage with respect to pensions. He will benefit from an end of term compensation in case of forced departure and in particular in case of a significant change in the share capital structure or in case of a business combination or in case of a change in the strategy at the initiative of the Supervisory Board or the shareholders of the Company. Pursuant to Article L. 225-90-1 of the French Commercial Code and to the AFEP-MEDEF Code on corporate governance for listed companies, the benefit of this compensation is subject to the satisfaction of performance conditions.

The end of term compensation is limited to two times the fixed component of compensation increased by a variable target component determined by the Supervisory Board at 80% of the fixed component of compensation ("the reference compensation").

The payment of the end of term compensation is subject to performance conditions based on three criteria: (i) EBITDA expressed as a percentage of revenue, (ii) a comparison between EBITDA of the financial year and targeted EBITDA, and (iii) the accomplishment of personalized objectives determined by the Supervisory Board for the financial year under review. Each of the criteria is expressed as a percentage of the fixed component of the compensation and is capped at 30.

The performance conditions are met if the aggregate of the three criteria which constitute the performance criterion "CP", is in average over the last three years, equal or superior to half of the variable target component, i.e. 40. If the CP is inferior to this threshold, no compensation is due. If the CP is equal to half of the variable target component, the compensation paid is equal to the reference compensation multiplied by 1.5; then, compensation varies in a linear way between CP values of 40 to 80.

Moreover, stock-options and performance shares granted vest at the end of term in the same circumstances, if the average of the CP over the last three years is equal or superior to 40.

d. Ratification of the appointments (*cooptations*) of members of the Supervisory Board

Following the resignation of the company Financière de Sainte-Marine, the Supervisory Board proceeded on 13 November 2008, to the appointment (*cooptation*) of the company Bolloré (permanently represented by Mr. Thierry Marraud) as a member of the Supervisory Board for the remaining term of office of the company Financière de Sainte-Marine, who resigned. Pursuant to Article L. 225-78 of the French Commercial Code, the **7th resolution** proposed at the Shareholders' Meeting aims to ratify this appointment (*cooptation*).

The companies Bolloré and Financière Sainte-Marine are both part of the Bolloré Group; this resignation/appointment results from a simplification of the structures within the Bolloré Group.

Moreover, following the resignation of Mr. Philippe Crouzet, the Supervisory Board proceeded on 13 May 2009, to the appointment (*cooptation*) of Mr. Jean-François Cirelli as a member of the Supervisory Board for the remaining term of office of Mr. Philippe Crouzet, who resigned. Pursuant to Article L. 225-78 of the French Commercial Code, the **8th resolution** proposed at the Shareholders' Meeting aims to ratify this appointment (*cooptation*).



e. Authorization to provide to the Management Board in order to trade on the Company's shares

The **9th resolution** seeks to renew the authorization given to the Management Board to purchase and sell the Company's securities granted by the Shareholders' Meeting on 4 June 2008 and expiring on 4 December 2009. Under this new authorization, the Management Board, in terms virtually identical to those of the previous authorization, may purchase a number of shares which cannot exceed 10% of the Company's share capital. This percentage will apply to the adjusted capital of the Company depending on the transactions that may affect it after the Shareholders' Meeting.

The objectives of share purchases will, among other things, include:

- ▶ the implementation of share purchase option plans of the Company;
- ▶ the allocation or the assignment of shares to employees for their participation in the benefits of the Company's expansion and of the implementation of any company savings plan, as provided by law;
- ▶ the allocation of shares:
- ▶ the market animation or the liquidity of the share, carried out by an investment services provider under a liquidity contract;
- ▶ carrying out purchases, sales or transfers of any means via an investment services provider, in particular in connection with off market transactions;

- ▶ the allotment of shares in the context of external growth operations;
- ▶ the allotment of shares upon the exercise of rights attached to securities giving access to the capital of the Company; and
- ▶ the cancellation of shares.

These interventions will be carried out by any means on the Stock Exchange or over-the-counter, in accordance with Article L. 225-209 of the French Commercial Code and the rules adopted by the *Autorité des Marchés Financiers*. These interventions could be executed at any time, in compliance with existing regulations, except in periods of public offering on the shares of the Company.

The maximum purchase price may not exceed € 145 which corresponds to the average share price of Vallourec weighted by volumes from the Shareholders' Meeting held on 4 June 2008 until 31 March 2009, plus 20%.

The maximum amount of funds earmarked for the implementation of this share buy-back program is set at € 800 million.

This authorization is granted for a period of eighteen months.



II. Resolutions within the authority of the Extraordinary Shareholders' Meeting

a. Financial authorizations (resolutions 10 to 15)

The financial authorizations granted by the Extraordinary Shareholders' Meeting of 6 June 2007 expire on 6 August 2009. It is therefore proposed to the Shareholders' Meeting convened on 4 June 2009, to replace them by a new set of authorizations (resolutions 10 to 15). Subject to the approval of the referred resolutions by the shareholders, the Management Board would, for a period of 26 months ending 3 August 2011, benefit from the following delegations:

- a delegation of authority to decide the issue, with preferred subscription rights, of ordinary shares and any securities giving access to the share capital of the Company or any company of which it owns directly or indirectly more than half of the share capital within the limit of a maximum nominal amount of a capital increase of € 105 million (**10th resolution**). The amount of € 105 million represents approximately 49% of the share capital of the Company. In addition, the maximum nominal amount of debt securities which may be issued under this delegation of authority is set at € 1 billion;
- a delegation of authority to decide the issue, without preferred subscription rights, of ordinary shares and any securities giving access to the share capital of the Company or any company of which it owns directly or indirectly more than half of the share capital within the limit of a maximum nominal amount of a capital increase of € 30 million. The amount of € 30 million represents approximately 14% of the share capital of the Company. In accordance with the law, the issues could be made through a public offering or a private placement and the issue price of the shares which may be issued under this delegation should be at least equal to the weighted average of Vallourec's share prices during the last three days prior to its determination; the Management Board having the possibility to deduct a maximum of 5% from the average so obtained (**11th resolution**). In addition, the maximum nominal amount of debt securities which may be issued under this delegation of authority is set at € 1 billion;
- a delegation of authority to decide the issue of shares or securities mentioned in the paragraphs above without preferred subscription rights for up to 10% of the share capital per period of 12 months, at the most favorable price giving market conditions at the time of the issue within the upper limit provided by the 11th resolution and

the global upper limit provided by the 10th resolution. It is proposed to the Shareholders' Meeting to set a price of issue which may not be lower, at the option of the Management Board, than either (i) the average price of the share weighted by the volumes in the session preceding the pricing of the issue or (ii) the average price of the share, weighted by the volumes, set during the trading session when the issue price is determined, in each case, potentially discounted by up to 5% (**12th resolution**);

- a delegation of authority to decide, in case of a capital increase with or without preferred subscription rights, to increase the number of securities to be issued in case of excessive demand. The maximum number of securities to be issued in case of excessive demand, within thirty days following the closing of the subscription and at the same price as the one of the initial issue is, in accordance with Articles L. 225-135-1 and R. 225-118 of the French Commercial Code, of 15% of the initial issue (**13th resolution**);
- a delegation of authority to decide the issue of ordinary shares or securities giving access to the share capital, without preferred subscription rights, in consideration of in kind contributions made to the Company which would consist of equity securities or securities giving access to share capital. The maximum nominal amount of share capital that may be issued under this resolution will be 10% of the share capital (**14th resolution**);
- a delegation of authority to decide the capital increase by incorporation of premiums, reserves and profits, within the limit of a maximum nominal amount of € 60 million. The capital increase could be achieved through an allocation of free shares or through the increase of the par value of existing shares or through the joint use of these two processes (**15th resolution**).

In addition to the upper limits specific to each of these delegations, the aggregate nominal amount of the capital increases which may be decided under these delegations may not exceed € 105 million. In addition, the overall nominal amount of capital increase without preferred subscription rights (11th, 12th, 13th and 14th resolutions) may not exceed an intermediary upper limit of € 30 million.



b. Issuance of securities giving right to the allocation of debt securities and which does not lead to a capital increase of the Company

In the **16th resolution**, the Management Board asks for a delegation of authority, for a period of 26 months, with the power to sub-delegate as permitted by the law, to issue securities giving right to the allocation of debt securities and which do not lead to a capital increase of

the Company, within the limit of € 1 billion. This delegation covers debt securities such as bonds with attached warrants exercisable in bonds.

c. Employees shareholding (17th, 18th, 19th and 20th resolutions)

You are asked to approve four resolutions aiming at enabling your Management Board to offer Vallourec Group employees in France and abroad (and assimilated beneficiaries) the opportunity to subscribe for or acquire shares or securities granting access to the Company's share capital on preferential terms (including free of charge), with a view to involving them more closely involved in the Company's development. For the purposes of this section, "the Vallourec Group" means Vallourec and the companies included in its consolidation perimeter in accordance with the provisions of Article L. 233-16 of the *Code de commerce* (French Commercial Code).

Each of these resolutions, which involve the cancellation of shareholders' preferential subscription rights, is the subject of a report by the Statutory Auditors.

These resolutions are almost identical in their wording to the corresponding resolutions that were adopted on 4 June 2008, and that they will replace.

The three first resolutions are intended to be used namely (but not exclusively) to implement one or several leveraged employee shareholding plans allowing beneficiaries to benefit, for each share financed by them and/or by the employer contribution, from a guarantee of the initial investment and of a percentage of the potential increase of ten shares. The 17th resolution also complies with the requirements of Article L. 225-129-6, paragraphs 1 and 2, of the *Code de commerce* (French Commercial Code).

The 18th, 19th and 20th resolutions are ancillary resolutions to the 17th resolution and may only be used for the purposes of an offer to employees (and assimilated beneficiaries) that would also result in the use of the 17th resolution.

The Management Board would have full authority to implement these delegations with the power to sub-delegate as permitted by law.

OBJECT AND TERMS

17TH resolution

You are asked to delegate to the Management Board the authority to conduct a capital increase through the issuance of shares or securities granting access to the capital, reserved for participants of one or several company savings plans implemented within a company or group of companies belonging to the Vallourec Group.

The issuance price of new shares or securities granting access to the capital shall be determined in accordance with the provisions of Articles L. 3332-18 to L. 3332-23 of the *Code du travail* (French

Labour Code) and will be equal to at least 80% of the Reference Price, which is equal to the average opening price of the Company's shares listed on the regulated market of Euronext Paris during the 20 trading sessions prior to the date of the decision setting the opening date of subscription for participants in a company savings plan. The Management Board can reduce or cancel the 20% discount, within the legal and regulatory limits, if it considers it to be advisable.

Within the framework of this delegation, the Management Board is also authorized (i) to grant, free of charge, to the participants of a savings plan, in addition to the shares or securities granting access to the capital to be subscribed for in cash, shares or securities granting access to the capital to be issued or already issued, as a substitute for all or part of the discount on the Reference Price and/or the employer contribution and/or (ii) to proceed with the sale of shares to participants in one of the Company's savings plans as provided for in Article L. 3332-24 of the *Code du travail* (French Labour Code).

In accordance with the law, this delegation, the aim of which is to facilitate the completion of capital increases reserved for participants in Company savings plans implemented within the Vallourec Group, entails the express waiver, by the shareholders, of their preferential right to subscribe for the shares to be issued in favour of the employees benefiting from the capital increase, the shareholders also waiving any right to shares or securities granting access to the capital which would be granted in accordance with the preceding paragraph.

18TH resolution

In accordance with the provisions of Article L. 225-138 of the *Code de commerce* (French Commercial Code), you are asked to delegate to the Management Board the authority to conduct a capital increase through the issuance of new shares or securities giving access to the share capital reserved for the category of persons comprising employees and assimilated beneficiaries under the definition of Article L. 3332-2 of the *Code du travail* (French Labour Code) of the companies of the Vallourec Group whose registered office is located outside France and the Company mutual funds through which they would invest.

The aim of this resolution is to enable the implementation of a capital increase reserved for foreign employees outside of a company savings plan (but with the same blocking period). This results in the cancellation of the shareholders' preferential subscription right in favour of the employees and Company mutual fund(s) (FCPE) benefiting from the capital increase.



The issuance price of the securities to be issued by virtue of the 18th resolution shall be equal to the Reference Price used for the purposes of the use of the delegation granted by the 17th resolution, reduced by a discount of 20%.

19TH resolution

In certain countries, legal or tax-related difficulties or uncertainties may compromise or undermine the implementation of employee share ownership schemes directly or through the intermediary of a mutual fund. The implementation, in favour of certain foreign employees, of alternatives (whether including a share ownership component or not) to the schemes offered to French residents who are participants in one of the Company savings plans implemented by one of the Vallourec Group companies may therefore be desirable. The implementation of such alternative schemes may make it necessary to conduct a capital increase in favour of a credit institution participating in the structuring of the operation with the same 20% discount as that granted to employees, justifying the cancellation of the shareholders' preferential subscription rights.

You are therefore asked, in accordance with the provisions of Article L. 225-138 of the *Code de commerce* (French Commercial Code), to delegate to the Management Board, with the authority to sub-delegate as permitted by applicable law, the authority to conduct a capital increase, in one or several transactions, through the issuance of new shares or securities giving access to the share capital reserved for the category of persons comprising (i) the credit institutions intervening at the Company's request for the purpose of offering to all or part of the foreign employees alternatives (whether including a share ownership component or not) to the structured share offering proposed to French residents participating in one of the savings plans set up by one of the Vallourec Group companies and (ii) any entities controlled by these institutions within the meaning of Article L. 233-3 of the *Code de commerce* (French Commercial Code).

The issuance price of the securities to be issued under the 19th resolution shall be equal to the Reference Price used for the purposes of the use of the delegation conferred by the 17th resolution, reduced by a discount of 20%.

This delegation of authority requires the cancellation of the shareholders' preferential subscription rights in favour of the above-mentioned category of beneficiaries. The cancellation of the preferential subscription right is justified by the reasons detailed in the first paragraph above.

20TH resolution

In accordance with the provisions of Articles L. 225-197-1 *et seq.* of the *Code de commerce* (French Commercial Code), it is proposed that the Management Board be authorized to grant, up to the limit of 0.3% of the share capital, existing or newly issued shares (excluding preferred shares) in favour of beneficiaries which are not French residents as of the date of the grant, whom it will choose from the employees of the Company or its related companies or groupings in accordance with the provisions of Article L. 225-197-2 of the above-mentioned Code and pursuant to the conditions set forth below.

This resolution aims at enabling the Management Board to grant shares to non French resident employees who would participate in an employee share offering, as a substitute to the employer contribution granted to French employees. The purpose thereof is to grant a benefit which is close to that offered to the French resident employees. In jurisdictions where this solution would be implemented, the intent is that shares be granted to all participants in the employee share offering (subject, as applicable, to a minimum investment requirement).

The granting of these shares to their beneficiaries will not become final until the end of a minimum acquisition period of four years (except in case of disability or of death), it being noted that the beneficiaries will thereafter not be subject to any mandatory holding period. In the event of the issuance of new shares, this authorization will entail, as and when such shares are finally granted, a capital increase by capitalization of reserves, profits or premiums in favour of the beneficiaries of such shares and the corresponding waiver by the shareholders, in favour of the beneficiaries of such shares, of their preferential subscription rights over such shares.

The 20th resolution may only be used for purposes of an offer to employees (and assimilated beneficiaries).

MAXIMUM LIMITS

Two limits would be applicable to the 17th, 18th and 19th resolutions:

- an individual limit of a maximum nominal amount of € 8,600,000, increased, where applicable, in the case of the 17th resolution, by the nominal amount of the shares that may be issued in addition, in the event of new financial transactions, in order to preserve the rights of holders of securities granting access to the Company's capital;
- a global limit of a maximum nominal amount of € 8,600,000, such that the total maximum nominal amount of capital increases that may be carried out immediately or in the future by virtue of the authority delegated under the terms of these three resolutions would be capped at € 8,600,000, i.e. nearly 4% of the share capital on the date of this report, increased, where applicable, by the nominal amount of shares that may be issued in addition, in the event of new financial transactions, in order to preserve the rights of holders of securities granting access to the Company's capital.

The existing shares or shares to be issued granted by virtue of the 20th resolution may not represent more than 0.3% of the share capital on the date of the Management Board's decision to grant the shares, increased by the number of shares granted in connection with the adjustments intended to preserve the beneficiaries' rights in the event of transactions relating to the Company's share capital.

The maximum nominal amount of the capital increases that may be conducted immediately or in the future pursuant to the 17th, 18th, 19th and 20th resolutions will be applied to the global maximum limit of 105 millions provided for in the 10th resolution of this Shareholders' Meeting, or, if applicable, to the global maximum limit provided for in a similar resolution that could eventually supersede said resolution during the period of validity of the resolutions.

DURATION

The duration of the authorities delegated by virtue of the 17th and 20th resolutions is 26 months as of the date of the Shareholders' Meeting. The duration of the authorities delegated by virtue of the 18th and 19th resolutions is 18 months as of the date of the Shareholders' Meeting.

The approval of the 17th, 18th, 19th and 20th resolutions would cancel, as of the date of the Shareholders' Meeting and up to their unused portion, if applicable, the previous delegations granted to the Management Board by the Combined General Shareholders' Meeting of 4 June 2008 under the terms of the 12th, 13th, 14th and 15th resolutions respectively.

The four resolutions may not be adopted independently from one another. In case of rejection of these draft resolutions, the delegations granted under the terms of the 12th, 13th, 14th and 15th resolutions of the Combined General Shareholders' Meeting of 4 June 2008 would remain in force for their unused portions.



d. Delegation of authority to the Management Board to grant subscription rights or stock options (21st resolution)

Pursuant to the Company's policy of employee and management participation to the Group's performance, it is proposed to the shareholders to delegate to the Management Board the authority to grant stock options exercisable in existing or newly issued shares for a period of 38 months. The number of shares to which the options might entitle may not exceed 3% of the share capital without being able to exceed 2% on a twelve months period, provided that the portion allocated to executive officers (*mandataires sociaux*) may not exceed 20% of the allocation under the stock option plan. The cap of 3% of the share capital provided for in this delegation will be reduced by any allotment of shares completed under the 16th resolution of the General Meeting dated 4 June 2008.

The amount of capital increases which would result from the exercise of the stock options will count against the € 105 million cap provided under the 10th resolution presented to this Shareholders' Meeting.

The maximum duration of the stock option plan will be ten years.

Any allocation of options will have to be accompanied by measures, adopted within the same fiscal year, ensuring compliance with the provisions of the French law in favor of labor income dated 3 December 2008, in particular a grant of performance shares to all the Group's

personnel during this financial year. Such a grant is possible pursuant to the authorization resulting from the 16th resolution of the General Meeting dated 4 June 2008.

The allocation of stock options will be subject to conditions of performance which should at least include the EBITDA/consolidated revenue ratio.

The subscription price or purchase price for the shares will have to be superior (i) for stock options exercisable in newly issued shares, to the average opening share prices of the Company on Euronext Paris during the twenty trading days preceding the day when the subscription options will be granted, and (ii) for options exercisable in existing shares to the price for the options exercisable in newly issued shares and to the average purchase price of the shares held by the Company under Articles L. 225-208 and L. 225-209 of the French Commercial Code.

The Management Board will have full powers to implement this delegation, including the determination of the issuance and subscription conditions, the establishment of the list of beneficiaries, the recording of the share capital increases that could result from it and the amendment of the bylaws.

e. Authorization to be granted to the Management Board to reduce the share capital through the cancellation of treasury shares (22nd resolution)

Finally, the 22nd resolution aims to enable the Management Board to reduce the capital of the Company, in periods of 24 months, by cancellation of all or part of the shares acquired under the share buy-back program of the Company under the limit of 10% of the share capital.