

VALLOUREC

French limited liability company (*société anonyme*) with a Management Board
and a Supervisory Board with share capital of € 212,154,880
Registered office: 27 avenue du Général Leclerc, 92100 Boulogne-Billancourt, France
Registered on the Nanterre Trade and Companies Register under no. 552 142 200

A. – Company financial statements

I. – Balance sheet as at 31 December 2007

(in € thousand)

Assets	31/12/2005	31/12/2006	31/12/2007
Non-current assets			
Intangible assets	79	79	79
Property, plant and equipment	142	131	131
Participating interests	1,057,383	1,057,383	1,057,383
Own shares	14,194	14,194	16,700
Receivables, loans and other investments	21,192		1
Total I	1,092,990	1,071,787	1,074,294
Current assets			
Trade receivables	229	1,346	616
Other receivables	6,211	44,729	117,821
Marketable securities	6,105	8,061	9,110
Cash and cash equivalents	344	79	40
Translation differences	412		
Total II	13,301	54,215	127,587
Total assets (I + II)	1,106,291	1,126,002	1,201,881
Liabilities and shareholders' equity	31/12/2005	31/12/2006	31/12/2007
Shareholders' equity			
Capital	212,007	212,047	212,155
Additional paid-in capital	210,223	210,258	64,345
Revaluation reserve	636	634	634
Reserves	82,612	79,950	79,954
Retained earnings	143,238	44,344	47,116
Interim dividend	-41,322	-103,319	-210,292
Net income for the financial year	14,145	172,068	553,894
Total I	621,539	615,982	747,806
Provisions for liabilities and charges	319	1,067	2,314
Bank loans and other borrowings	462,394	470,718	410,762
Trade payables	2,055	4,180	4,112
Other payables	19,572	34,055	36,887
Translation differences	412		
Total II	484,752	510,020	454,075
Total liabilities and shareholders' equity (I + II)	1,106,291	1,126,002	1,201,881

II. – Income statement of Vallourec SA

(in € thousand)

	2005	2006	2007
Sales			1
Provision reversals and charges transferred	402	1,097	9
Other revenues	1,512	2,015	1,433
External services	-9,283	-7,998	-10,068
Taxes, duties and similar payments	-93	-103	-70

Payroll costs	-788	-991	-419
Other operating costs	-390	-585	-643
Amortization, depreciation and provisions	-27	-1,066	-1,257
Operating income (loss)	-8,667	-7,631	-11,014
Financial income	22,357	184,138	559,825
Participating interests	4,830	181,490	554,407
Other long-term securities and receivables	13	13	
Other interest and similar income	256	850	1,841
Provision reversals and charges transferred	15,389		
Exchange gains	4	890	
Net income on disposal of marketable securities	1,865	895	3,577
Financial charges	-10,158	-18,094	-17,929
Financial depreciation and provisions	-136		
Interest and similar charges	-10,012	-16,618	-17,924
Exchange losses	-10	-1,476	-5
Net charges on disposal of marketable securities			
Net financial income	12,199	166,044	541,896
Operating income (loss) before tax	3,532	158,413	530,882
Exceptional income	754	423	2,443
Exceptional charges	-172	-2	-1,429
Net exceptional income	582	421	1,014
Income tax credit (charge)	10,031	13,234	21,998
Net income	14,145	172,068	553,894

III. – Proposed allocation of net income to be submitted for approval to Ordinary General Meeting of 4 June 2008

Sources		
Transfer from additional paid-in capital		€ 29,542,285.86
Net income of the period		€ 553,894,374.14
		€ 583,436,660.00
Allocations		
Dividends		€ 583,425,920.00
Legal reserve		€ 10,740.00
		€ 583,436,660.00

IV. – Notes to the company financial statements for the year ended 31 December 2007

in thousands of euros (€ thousand) unless stated otherwise

Notes to the balance sheet (before allocation) for the year ended 31 December 2007, which totals € 1,201.9 million, and to the income statement, which shows net income of € 553.9 million.

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

Vallourec prepares consolidated financial statements.

1. – Significant events, measurement methods and comparability of financial statements

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

2. – Accounting principles

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

Property, plant and equipment

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

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

Participating interests

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

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

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

Own shares

Own shares are measured at the lower of acquisition cost and market value (defined as the average price over the previous month). They are subject to the same measurement and presentation rules as investments.

Receivables and payables

Receivables and payables are measured at their nominal value.

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

Marketable securities

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

Translation of foreign currency denominated transactions and financial instruments

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

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

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

Provisions for liabilities and charges

Retirement pensions

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

Retirement gratuities

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

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

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

The following assumptions have been used:

- Discount rate of 5.15% (including inflation),
- Inflation rate of 2%,
- Staff turnover rate variable in accordance with age and category,
- INSEE 2000/2002 mortality table.

Actuarial differences arising as from the financial year 2004 are amortized using the "corridor" rule over the average residual period of service for employees.

Other provisions

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

Share options

The options to subscribe for Vallourec shares (originally authorized by the Extraordinary Shareholders' Meeting held on 15 June 2000) that were exercised in 2007 resulted in an increase in Vallourec's share capital and additional paid-in capital as a result of the funds paid up by the subscribers.

Exceptional income and charges

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

3. – Notes to the balance sheet

3.1. – Movements in non-current assets

Movements in the values of non-current assets

	31/12/2006	Additions Charge	Disposals Reversals	31/12/2007	Of which revaluation reserve	Of which affiliated companies
Intangible assets	79			79		
Trademarks	79			79		
Property, plant and equipment	131			131	23	
Land	131			131	23	
Buildings	172			172		
Depreciation of buildings	-172			-172		
Investments	1,057,383			1,057,383	611	1,057,383
Participating interests	1,057,794			1,057,794	611	1,057,794
Provisions on participating interests	-411			-411		-411
Own shares	14,194	12,278	-9,772	16,700		
Receivables, loans, other Receivables and other Loans						
Total	1,071,787	12,278	-9,772	1,074,293	634	1,057,383

Own shares

Allocations to Group employees, managers and corporate officers (see paragraph 3.5)

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

- 11 June 2003 share purchase option plan,
- 16 January 2006 bonus share allocation plan (*Plan d'attribution d'actions gratuites - PAGA*),
- 3 May 2007 bonus share allocation plan (*Plan d'attribution d'actions gratuites - PAGA*).

Own shares totalled € 14,194 thousand at 31 December 2006.

In 2007, Vallourec sold 928,616 shares for € 9,772 thousand, which corresponds to the exercise of 928,616 share purchase options under the share purchase option plan dated 11 June 2003, which could be exercised as from 11 June 2007.

Liquidity contract

In January 2007, Vallourec signed a liquidity contract with Crédit Agricole Cheuvreux, under the terms of the general annual share buy-back authorization granted by the Annual General Meeting of the shareholders on 1 June 2006. To implement this contract, € 45 million may be transferred to the liquidity account, including a first tranche of € 20 million.

At 31 December, € 12,278 thousand was invested in own shares.

3.2. – Marketable securities

	31/12/2006	31/12/2007	Measurement 31/12/07	Unrealized gain
Mutual and investment funds	8,061	9,110	9,178	68
Total	8,061	9,110	9,178	68

During 2007, the Group centralized the euro and US dollar cash management for its main European companies and the currency hedging operations in respect of its US dollar sales within

Vallourec & Mannesmann Tubes (V & M Tubes). Vallourec has become a member of this centralized cash management system.

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

3.3. – Receivables and payables

Assets at 31/12/2007	Gross value	Of which accrued receivables	Of which affiliated companies	Gross value < 1 an	Gross value > 1 an
Receivables, loans and other financial investments					
Trade receivables	616			616	
Accounts receivable					
Other trade receivables	616			616	
Other receivables	117,821		117,821	117,821	
Intra-Group cash advance	70,177		70,177	70,177	
Sundry receivables	47,644		47,644	47,644	
Total	118,437		117,821	118,437	

Loans granted during the year: € 0

Loans repaid during the year: € 0

Receivables represented by commercial paper: nil

Liabilities at 31/12/2007	Gross value	Of which accrued payables	Of which affiliated companies	< 1 year	> 1 year	> 5 years
Bank loans and other borrowings	410,762	696		150,707	37	260,018
Bank borrowings	410,695	695		150,695		260,000
Other borrowings	67	1		12	37	18
Trade payables	4,112	2,633	933	4,112		
Accounts payable	3,912	2,506	933	3,912		
Tax and social liabilities	200	127		200		
Other liabilities	36,887	4	7,683	36,887		
Tax liabilities (income tax)	21,649			21,649		
Sundry liabilities	15,238	4	7,683	15,238		
Total	451,761	3,333	8,616	191,706	37	260,018

Loans drawn down during the year: € 0

Loans repaid during the year: € 13 thousand.

Liabilities represented by commercial paper: nil

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

3.4. – Translation differences on foreign currency denominated receivables and payables: nil

3.5. – Shareholders' equity

The changes in shareholders' equity are shown below:

	Number of shares	Capital	Profit (loss) for the financial year	Additional paid-in capital and reserves	Shareholders' equity
As at 31/12/2005	10,600,332	212,007	14,145	395,387	621,539
Allocation of net income for 2005			-14,145	14,145	
Division by 5 of nominal value	42,401,328				
Share subscription options	10,210	40		36	76
Revaluation reserve				-2	-2
Dividend paid				-74,380	-74,380
Interim dividend				-103,319	-103,319
Net income for 2006			172,068		172,068

Change	42,411,538	40	157,923	-163,520	-5,557
As at 31/12/2006	53,011,870	212,047	172,068	231,867	615,982
Allocation of net income for 2006			-172,068	172,068	
Share subscription options	26,850	108		94	202
Revaluation reserve					
Dividend paid				-211,980	-211,980
Interim dividend				-210,292	-210,292
Net income for 2007			553,894		553,894
Change	26,850	108	381,826	-250,110	131,824
As at 31/12/2007	53,038,720	212,155	553,894	-18,243	747,806

Vallourec's share capital comprised 53,038,720 ordinary shares with a nominal value of € 4 per share fully paid-up as at 31 December 2007 compared with 53,011,870 shares with a nominal value of € 4 per share fully paid-up as at 31 December 2006.

The reserve account to which is posted the corresponding credit to the debit in respect of the carrying amount of the own shares (483,529 shares) had a balance of € 16,700 thousand.

The change totalling 26,850 in the number of shares was due to the exercise of share subscription options in 2007 which resulted in the issue of 26,850 new shares (compared with 10,210 shares in 2006), giving a € 202 thousand increase, including additional paid-in capital.

In 2006, the division by 5 of the nominal value on 18 July 2006 resulted in the issue of 42,401,328 additional shares.

Employee shareholders

Share subscription options – granted on 15 June 2000

The Extraordinary Shareholders' Meeting held on 15 June 2000 (first resolution) authorized the Management Board to grant subscription options to managers and/or employees of the Group's companies, for a period of five years and up to a limit of 4% of Vallourec's share capital.

A first tranche of options was granted under this authorization on 15 June 2000. The main characteristics of these options are shown in the table below.

All figures have been recalculated to take into account the division by five of the nominal value of Vallourec's shares on 18 July 2006 and the resulting multiplication by five of the number of shares.

	Plan
Date of General Meeting	15 June 2000
Date of Management Board meeting	15 June 2000
Total number of options granted	892,500
Adjustment to the number of options following the rights offering on 13 July 2005	1,090
Date from which options may be exercised	15 June 2004
Expiry date	14 June 2007

	2006	2007
Of which number of options granted to those employees who were members of the Executive Committee as at 31 December	102,500	82,500
Number of senior managers involved	7	6
Exercise price (*)	€ 7.60	€ 7.60
Exercise price adjusted for rights offering on 13 July 2005	€ 7.49	€ 7.49
Number of options cancelled after being granted (**)	33,750	33,750
Number of options not exercised		3,810
Number of shares subscribed as at 31 December (1 option = 1 share)	829,180	856,030
(of which number of shares subscribed by members of the Executive Committee)	102,500	82,500
Number of options that could be exercised at 31 December	30,660	
(of which number of options that could be exercised by members of the Executive Committee)	0	0

(*) average price for the 20 trading sessions preceding the grant date, not discounted

(**) option holders who have left the Group

Share purchase options – granted on 15 June 2003

The second resolution of the Extraordinary Shareholders' Meeting held on 15 June 2000 also authorized the Management Board, during a five-year period and up to a limit of 10% of the share capital, to grant purchase options concerning existing shares that would first have to be bought on the stock exchange in accordance with the share repurchase authorizations given by the General Meeting.

A first tranche of options was granted under this authorization on 11 June 2003, on the basis of one share for each option (see paragraph 3.1).

The main characteristics of these options are shown in the table below.

	Plan
Date of General Meeting	15 June 2000
Date of Management Board Meeting	15 June 2003
Total number of shares employees may purchase	965,000
Adjustment to the number of options following the rights offering on 13 July 2005	14,480
Date from which options may be exercised	11 June 2007
Expiry date	10 June 2010

	2006	2007
Of which number of options granted to those employees who were members of the Executive Committee as at 31 December	195,000	175,000
Adjustment to the number of options following the rights offering	2,965	2,660
Number of senior managers involved	7	6
Exercise price (*)	€ 10.73	€ 10.73
Exercise price adjusted for rights offering on 13 July 2005	€ 10.57	€ 10.57
Number of options cancelled after being granted (**)	13,750	13,750
Number of options exercised since date granted		928,616
Number of shares that employees may purchase at 31 December	965,730	37,114

(*) average price for the 20 trading sessions preceding the grant date, not discounted.

(**) option holders who have left the Group.

Bonus Share Allocation Plan (PAGA): 16 January 2006 plan

At its meeting on 16 January 2006, Vallourec's Management Board implemented a Bonus Share Allocation Plan (*Plan d'Attribution Gratuite d'Actions - PAGA*) approved by the Supervisory Board.

A theoretical number of Vallourec bonus shares was allocated by the Management Board on 16 January 2006 (148,000 after multiplication by 5 of the number of shares on 18 July 2006). The definitive allocation (number of shares) will be based on the Vallourec Group's performance in terms of consolidated EBITDA in 2006 and 2007. It will be calculated by applying a multiplying factor K, representing this performance, to the theoretical number of shares allocated by the Management Board on 16 January 2006. K can range from 0 to 1.33.

Factor K is calculated for each of the two years 2006 and 2007 and is applied to one half of the initial theoretical allocation in respect of each year. The amount resulting from the application of each of the coefficients for 2006 and 2007 will constitute the definitive number of shares allocated to the beneficiary on 16 January 2008. The value of K was 1.33 in 2006 and 1.23 in 2007.

The share price on 16 January 2006 was € 93.3 euros (after division by 5 of the nominal value of Vallourec's shares – see above).

	2006	2007
Initial theoretical number of shares allocated, if K=1	148,000	148,000
Number of shares cancelled after being allocated (**)	350	350
Theoretical number of shares allocated on 31 December, if K=1	147,650	147,650
Of which theoretical number of shares allocated to those employees who were members of the Executive Committee (as at 31 December) if K=1	36,000	32,500
Number of senior managers involved	7	7

(**) beneficiaries who have left the Group.

The provision recognized in respect of this plan was € 1,939.8 thousand as at 31 December 2007 (compared with € 1,035.8 thousand as at 31 December 2006 (see paragraph 3.6)).

Bonus Share Allocation Plan (PAGA): 3 May 2007 plan

At its meeting on 3 May 2007, Vallourec's Management Board implemented a Bonus Share Allocation Plan (*Plan d'Attribution Gratuite d'Actions - PAGA*) approved by the Supervisory Board.

A theoretical number of Vallourec bonus shares was allocated by the Management Board on 3 May 2007 (111,000 shares). The definitive allocation (number of shares) will be allocated in thirds in 2009, 2010 and 2011 and each third will be based on the Vallourec Group's performance in terms of consolidated EBITDA in 2008, 2009 and 2010. It will be calculated by applying a multiplying factor K, representing this performance, to the theoretical number of shares allocated by the Management Board on 3 May 2007. K can range from 0 to 1.33.

Factor K is calculated for each of the years concerned and is applied to one third of the initial theoretical allocation in respect of each year. The amount resulting from the application of each of the coefficients for 2008, 2009 and 2010 will constitute the definitive number of shares allocated to the beneficiary.

The share price on 3 May 2007 was € 198.5.

	2007
Initial theoretical number of shares allocated, if K=1	111,000
Number of shares cancelled (**)	600
Theoretical number of shares allocated on 31 December, if K=1	110,400
Of which theoretical number of shares allocated to those employees who were members of the Executive Committee (as at 31 December) if K=1	8,400
Number of senior managers involved	7
(**) beneficiaries who have left the Group.	

The provision recognized in respect of this plan as at 31 December 2007 was € 324.6 thousand (see paragraph 3.6).

Share subscription options – granted on 3 September 2007

The Extraordinary Shareholders' meeting held on 6 June 2007 (7th resolution) authorized the Management Board to grant share subscription options.

Options were granted under this authorization on 3 September 2007. The main characteristics of these options are shown in the table below.

	Plan
Date of General Meeting	6 June 2007
Date of Management Board meeting	3 September 2007
Total number of options granted	147,300
Date from which options may be exercised	3 September 2011
Expiry date	3 September 2014

	2007
Of which number of options allocated to those employees who were members of the Executive Committee (as at 31 December)	56,500
Number of senior managers involved	7
Exercise price (*)	190.6
Number of options cancelled after being granted (**)	-
Number of shares subscribed as at 31 December (1 option = 1 share)	-
(of which number of shares subscribed by members of the Executive Committee)	-
Number of options that could be exercised at 31 December	0
(of which number of options that could be exercised by members of the Executive Committee)	56,500

(*) 95% of the average for the 20 trading sessions preceding the grant date.

(**) option holders who have left the Group.

3.6. – Provisions for liabilities and charges

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

	31/12/2006	Charge	Reversals used	Reversals of provisions no longer needed	31/12/2007
Provisions for liabilities and charges					0
Provisions for retirement commitments	22	28			50
Provisions for long-service awards	9			-9	0
Provisions for allocations of bonus shares	1,036	1,228			2,264
Other provisions for charges					0
Total	1,067	1,256	0	-9	2,314

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

A provision totalling € 1,228 thousand has been booked for 2007 in respect of the allocation of bonus shares (2006 and 2007 plans, see paragraph 3.5).

Retirement provisions

The total commitment in respect of retirement plans as at 31 December 2007 is € 64 thousand.

The provision recognized in the balance sheet amounted to € 50 thousand. The actuarial deficit not recognized therefore totalled € 14 thousand. The commitments not recognized in the balance sheet correspond to changes in or the non-crystallization of assumptions, the effect of which is amortized over time using the "corridor" principle.

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

3.7. – Bank loans and other borrowings

In 2003, the Company entered into a five-year € 150 million credit facility with the Crédit Agricole group maturing in September 2008. In order to convert this variable-rate borrowing into a fixed-rate borrowing, Vallourec has used hedging instruments (swaps). The loan agreement requires the Group to maintain its ratio of consolidated net debt to consolidated shareholders' equity at less than 75%.

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

This facility requires the Group to maintain its ratio of consolidated net debt to consolidated shareholders' equity at less than or equal to 75% calculated on 31 December each year and for the first time on 31 December 2005. A change of control of Vallourec could result in the repayment of the loan if so decided by a two-thirds majority of the participating banks. It is also provided that the loan would become immediately repayable if the Group failed to make a repayment in respect of one of its other borrowings ("cross default"), or if a significant event occurred affecting the Group's business or financial situation and ability to repay its borrowing.

On 31 December 2005, a tranche of € 260 million was drawn down for seven years.

Information on interest rate risk

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

The fair value of interest rate hedges (swaps and caps) on the bank loans and other borrowings of € 410 million amounted to € 9.3 million at 31 December 2007.

4. – Notes to the income statement

Operating revenues

The Company invoices fees for the use of its brand name. This revenue is included under "Other operating revenues" and amounted to € 1,393 thousand.

Financial charges and income concerning affiliated companies

Financial charges: € 1,546 thousand

Financial income: € 556,128 thousand

Net exceptional income

Net exceptional income for the year amounted to € 1,014 thousand.

This figure includes the gains and losses resulting from the sales of own shares carried out under the terms of the liquidity contract totalling € 971 thousand and from the exercise of share purchase options under the terms of the 2003 share purchase option plan totalling € 43 thousand (see paragraph 3.5).

5. – Other information

Average number of employees

The Company employs four corporate officers, who are members of the Management Board.

Tax

Tax group

Since 1 January 1988 the Company has been a member of a tax group constituted under the provisions of article 223A of the CGI (*Code Général des Impôts* – General tax code). This agreement has been renewed automatically for five-year periods since 1999.

In 2007, the tax group comprised Vallourec, Assurval, Interfit, Starval, MPS, Vallourec Composants Automobiles Hautmont, Valti, Valtimet, Valsept, Sopreneuf, Valinox Nucléaire, Vallourec & Mannesmann Tubes, VAM Drilling France, V & M France, V & M Oil & Gas France, V & M One and V & M Services.

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

The saving resulting from the allocation to the combined income of losses generated by subsidiaries, i.e. companies that pay their tax to Vallourec, is not recognized in the income statement but as other liabilities.

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

In respect of 2007:

The net credit in the income statement amounted to:	€ 21,998 thousand
It can be broken down as follows:	
Tax charge relating to Vallourec	€ -2,035 thousand
Tax credit relating to the tax group	€ 24,033 thousand

At 31 December 2007, the saving recognized by Vallourec against tax due, which may become payable by the Group if the companies in question return to profitability before their deficits are fully utilized, amounted to € 6,840 thousand.

The Vallourec tax group is now in a profit-making situation and had no losses available for carry forward at the end of 2007.

Vallourec itself has tax losses of € 30,801 thousand available for carry forward against the combined income of the tax group.

Increase and reduction in future tax liabilities

Nature of temporary differences	Amount 31/12/2007 (base)
Increase	0
Reductions	
Provision for retirement commitments	50
Provision for paid holidays	28
Solidarity social security contribution provision	2
Unrealized gains on UCITS	68

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

	Income before tax	Tax due	Net income
Operating income (loss)	530,881		530,881
Exceptional income (loss)	1,015		1,015
Sub-total	531,896	0	531,896
Income relating to the tax group		21,998	21,998

Total Vallourec	531,896	21,998	553,894
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The income relating to the tax group corresponds mainly to the loss generated by Vallourec, the head of the tax group, which constitutes a tax saving realized for the financial year.

Remuneration of members of the administrative and management bodies

Administrative bodies

Board attendance fees paid during the year amounted to € 394 thousand.

Management bodies

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

Off-balance-sheet commitments

Off-balance-sheet commitments are as follows:

Retirement gratuities: € 14 thousand (actuarial deficit)

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

V. – Subsidiaries and participating interests at 31 December 2007

(in € thousand)

Companies	Capital	Other shareholders' equity before allocation of income (loss)	Share of capital held (%)	Carrying amount of securities held		Loans and advances granted by Vallourec and not yet repaid	Total security and guarantees given by Vallourec	Sales excluding taxes for the last financial year	Income (loss) for the last financial year	Dividends received by Vallourec during the financial year
				Gross	Net					
A) Subsidiaries and participating interests with a carrying amount in excess of 1% of Vallourec's capital (i.e. € 2,120 thousand)										
Subsidiaries (at least 50%-owned)										
French companies										
Vallourec & Mannesmann Tubes	492,584	1,155,119	100.00	1,056,403	1,056,403	-		35	923,631	552,680
130, rue de Silly 92100 Boulogne-Billancourt 411 373 525 RCS Nanterre										
B) Overall information on other subsidiaries and participating interests										
I. Subsidiaries (at least 50%-owned)										
a) French companies				54	40					224
b) Foreign companies				1,338	941					1,486
II. Participating interests (10% to 50%-owned)										
a) French companies				-	-					-
b) Foreign companies				-	-					17

VI. – Five-year financial summary

(in euros)	2003	2004	2005	2006	2007
Capital					
Share capital	194,604,520	197,399,120	212,006,640	212,047,480	212,154,880
Number of ordinary shares in issue	9,730,226	9,869,956	10,600,332	53,011,870	53,038,720
Number of preference dividend shares (without voting rights) in issue					
Maximum number of shares to be issued:					
By conversion of bonds					
By exercise of subscription rights	171,750	32,020	8,174	30,660	147,300
By redemption of bonds					
Operations and results for the year					
Sales excluding tax					
Income (loss) before tax, employee profit sharing, amortization, depreciation and provisions	71,129,582	-58,687,367	-11,515,957	158,527,985	533,353,776
Income tax	-3,192,803	-5,827,453	-10,031,246	-13,234,248	-21,788,285
Employee profit sharing in respect of the year					

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Income (loss) after tax, employee profit sharing, amortization, depreciation and provisions	56,780,396	30,064,061	14,144,934	172,068,021	553,894,374
Dividends distributed	15,568,362	31,583,859	118,723,718	318,071,220	583,425,920
Per share data					
Income (loss) after tax and employee profit sharing, but before amortization, depreciation and provisions	7.64	-5.36	-0.14	3.24	10.47
Income (loss) after tax, employee profit sharing, amortization, depreciation and provisions	5.84	3.05	1.33	3.25	10.44
Dividend allotted to each share	1.60	3.20	11.20	6.00	11.00
Employees					
Average number of employees during the financial year	5	5	5	5	
Payroll for the financial year	530,257	594,460	573,987	732,844	353,485
Payroll-related costs (social security, employee benefits, etc.)	217,987	188,462	214,024	258,138	65,419

VII. – Remuneration of auditors and members of their networks

	Deloitte			
	Total (excl. VAT)		%	
	2007	2006	2007	2006
Audit				
Statutory Auditors, certification, audit of company and consolidated financial statements				
Issuer	171	100	13%	14%
Fully-consolidated subsidiaries	1,033	608	77%	86%
Other reviews and services directly related to the statutory audit engagement				
Issuer	38		3%	0%
Fully-consolidated subsidiaries	99		7%	0%
Sub-total	1,341	708	100%	100%
Other services provided by the networks to fully-consolidated subsidiaries				
Legal, tax and corporate			0%	0%
Other (details to be provided if > 10% of auditors' remuneration)			0%	0%
Sub-total	-	-	0%	0%
Total	1,341	708	100%	100%

	KPMG			
	Total (excl. VAT)		%	
	2007	2006	2007	2006
Audit				
Statutory Auditors, certification, audit of company and consolidated financial statements				
Issuer	171	100	17%	0%
Fully-consolidated subsidiaries	540	339	53%	89%
Other reviews and services directly related to the statutory audit engagement				
Issuer	59		6%	0%
Fully-consolidated subsidiaries	244	7	24%	9%
Sub-total	1,014	446	100%	98%
Other services provided by the networks to fully-consolidated subsidiaries				
Legal, tax and corporate	-	46	0%	0%
Other (details to be provided if > 10% of auditors' remuneration)			0%	2%
Sub-total	-	46	0%	2%
Total	1,014	493	100%	100%

	Others			
	Total (excl. VAT)		%	
	2007	2006	2007	2006
Audit				
Statutory Auditors, certification, audit of company and consolidated financial statements				
Issuer			0%	0%
Fully-consolidated subsidiaries	73	394	59%	72%
Other reviews and services directly related to the statutory audit engagement				
Issuer			0%	0%
Fully-consolidated subsidiaries		31	0%	6%
Sub-total	73	425	59%	78%
Other services provided by the networks to fully-consolidated subsidiaries				
Legal, tax and corporate	50	121	41%	22%
Other (details to be provided if > 10% of auditors' remuneration)			0%	0%
Sub-total	50	121	41%	22%
Total	123	546	100%	100%

B. – Consolidated financial statements of the Vallourec Group

I. – Consolidated balance sheet as at 31 December 2007

(in € thousand)

Assets		31/12/2005	31/12/2006	31/12/2007
Non-current assets				
Intangible assets, net	Note 1	21,201	20,486	21,714
Goodwill	Note 1	91,018	87,312	79,900
Gross property, plant and equipment	Note 2	1,669,871	1,686,614	2,002,421
less: accumulated depreciation	Note 2	-749,953	-689,892	-736,458
Property, plant and equipment, net	Note 2	919,918	996,722	1,265,963
Investments in equity affiliates	Note 3	48,191	54,998	55,044
Other non-current assets	Note 4	31,494	39,469	43,006
Deferred tax assets	Note 5	45,094	19,260	26,545
Total		1,156,916	1,218,247	1,492,172
Current assets				
Inventories and work-in-progress	Note 6	861,171	1,039,275	1,168,754
Trade and other receivables	Note 7	906,178	1,002,728	1,048,622
Derivatives - assets	Note 8	1,846	91,043	158,148
Other current assets	Note 9	116,885	111,928	142,753
Cash and cash equivalents	Note 10	541,278	889,323	912,478
Total		2,427,358	3,134,297	3,430,755
Assets held for sale	Note 11		175,578	0
Total assets		3,584,274	4,528,122	4,922,927

Liabilities and shareholders' equity		31/12/2005	31/12/2006	31/12/2007
Shareholders' equity	Note 12			
Capital		212,007	212,047	212,155
Additional paid-in capital		206,533	206,568	60,655
Consolidated reserves		492,743	764,937	1,418,786
Reserves, financial instruments		-42,883	42,725	70,026
Translation reserve		63,072	634	-24,038
Income (loss) for the financial year		472,985	917,005	986,205
Own shares		-13,514	-13,514	-16,020
Shareholders' equity – Group share		1,390,943	2,130,402	2,707,769
Minority interests	Note 14	112,153	92,819	81,892
Total shareholders' equity		1,503,096	2,223,221	2,789,661
Non-current liabilities				
Bank loans and other borrowings	Note 15	469,627	467,428	337,247
Employee benefits	Note 17	209,750	195,241	168,243
Other provisions	Note 16	4,307	3,577	6,882
Deferred tax liabilities	Note 5	53,245	75,057	101,802
Other long-term liabilities		736	0	441
Total		737,665	741,303	614,615
Current liabilities				
Provisions for liabilities and charges	Note 16	66,484	77,520	80,105
Overdrafts and other short-term bank borrowings	Note 15	276,337	380,461	332,841
Trade payables		496,605	602,344	671,900
Derivatives - liabilities	Note 8	102,301	26,147	28,110
Tax liabilities		102,529	135,843	112,933
Other current liabilities	Note 18	299,257	263,401	292,762
Total		1,343,513	1,485,716	1,518,651
Liabilities held for sale	Note 11		77,882	0
Total liabilities and shareholders' equity		3,584,274	4,528,122	4,922,927

II. – Consolidated income statement

(in € thousand)

		2005	2006	2007
Sales	Note 21	4,307,405	5,541,801	6,140,521
Production taken into inventory		147,778	190,499	97,721
Other operating revenues	Note 22	24,046	29,193	35,215
Purchases consumed		-1,699,321	-2,000,945	-2,265,607
Taxes and duties	Note 23	-52,965	-58,760	-56,250
Payroll costs	Note 24	-716,424	-812,694	-827,040
Other operating costs	Note 25	-948,460	-1,220,479	-1,339,775
Net provisions	Note 26	-1,496	-3,182	-34,003
EBITDA		1,060,563	1,665,433	1,750,782
Depreciation and amortization	Note 27	-99,195	-114,329	-117,973
Impairment of assets and goodwill	Note 28	173	-1,499	-21,169
Asset disposals and restructuring costs	Note 28	3,725	-4,770	10,933
Operating income		965,266	1,544,835	1,622,573
Financial income		19,327	34,130	36,304
Interest costs		-23,637	-36,747	-40,619
Net financial costs		-4,310	-2,617	-4,315
Other financial income and charges		-13,433	6,294	-14,936
Other discounting costs		-8,846	-10,296	-9,757
Financial income (loss)	Note 29	-26,589	-6,619	-29,008
Income before tax		938,677	1,538,216	1,593,565
Income tax	Note 30	-307,450	-544,789	-575,344
Net income of equity affiliates	Note 3	1,162	5,868	6,242
Net income from continuing operations		632,389	999,295	1,024,463
Income (loss) from discontinued operations		0	0	0
Consolidated net income		632,389	999,295	1,024,463
Minority interests		159,404	82,290	38,258
Group share (a)		472,985	917,005	986,205
Group share:				
Earnings per share (b)	Note 13	9.5	17.8	18.9
Diluted earnings per share	Note 13	9.4	17.4	18.8

a) In 2005, the acquisition of the minority interests in V & M Tubes and its subsidiaries was recognized by Vallourec on the date of the legal transfer of the shares. Due to the proximity of this date to 30 June, the minority interests purchased have been consolidated into the Vallourec Group's income as from 1 July 2005 (see B - Consolidation scope).

If the acquisition of the 45% minority interest in V & M Tubes had been effective as from 1 January 2005, the Vallourec Group's net income - Group share for 2005 would have totalled € 576.7 million. Consolidated net income would, however, have remained virtually unchanged. b) Earnings per share take into account the multiplication by 5 of the number of shares on 18 July 2006 (see note 12).

Statement of changes in shareholders' equity, Group share

	Capital	Additional paid-in capital	Consolidated reserves	Translation reserve	Reserves – changes in fair value of hedging instruments – net of tax	Own shares	Income (loss) for the financial year
As at 31 December 2004	197,399	97,428	399,889	-13,195		-13,686	145,024
Impact of first-time adoption of IAS 32/39			-409		21,939		
Variance between minority interests to be acquired and liabilities (put option)			30				
Shareholders' equity as at 1 January 2005	197,399	97,428	399,510	-13,195	21,939	-13,686	145,024
Change in translation reserve			17	75,962	-17		
Financial instruments					-47,954		
Impact of purchase of 45% stake in V & M Tubes			1,947				-3,506
Revenues and costs recognized directly in shareholders' equity			1,964	75,962	-47,971		-3,506
2005 net income before changes in consolidation scope							477,708
Total revenues and costs recognized for the period			1,964	75,962	-47,971		474,202
2004 net income			145,024				-145,024
Dividends paid			-30,721				
Interim dividend paid by Vallourec			-41,322				
Capital increase and additional paid-in capital	14,608	109,105					
Change in own shares			525			172	
Financial instruments purchased from the minority shareholders in V & M Tubes			16,851		-16,851		
Share-based payments			912				-912
Other changes in consolidation scope				305			-305
Other changes							
As at 31 December 2005	212,007	20,533	492,743	63,072	-42,883	-13,514	472,985
Change in translation reserve				-62,438			
Financial instruments					85,672		
Revenues and costs recognized directly in shareholders' equity				-62,438	85,672		
2006 net income							925,196
Total revenues and costs recognized for the period				-62,438	85,672		925,196
2005 net income			472,985				-472,985
Capital increase and additional paid-in capital	40	35					
Dividends paid			-74,380				
Interim dividend paid by Vallourec			-103,318				
Share-based payments			8,127				-8,127
Impact of purchase of minority interests (1)			-31,392				
Changes in consolidation scope and other			172		-64		-64
As at 31 December 2006	212,047	206,568	764,937	634	42,725	-13,514	917,005
Change in translation reserve				-24,672			
Financial instruments					27,301		
Revenues and costs recognized directly in shareholders' equity				-24,672	27,301		
2007 net income							998,717
Total revenues and costs recognized for the period				-24,672	27,301		998,717
2006 net income			917,005				-917,005
Change in share capital and additional paid-in capital	108	94					
Change in own shares			664			-2,506	
Dividends paid		-146,007	-65,973				
Interim dividend paid by Vallourec			-210,292				
Share-based payments			12,512				-12,512
Impact of purchase of minority interests							
Changes in consolidation scope and other			-67				
As at 31 December 2007	212,155	60,655	1,418,786	-24,038	70,026	-16,020	986,205

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

Statement of changes in minority interests

(in € thousand)

	Consolidated reserves	Translation reserve	Reserves – changes in fair value of hedging instruments – net of tax	Income (loss) for the financial year	Minority interests
As at 31 December 2004	395,566	-16,104		120,219	499,681
2004 net income	120,219			-120,219	
Impact of first-time adoption of IAS 32/39	655		17,439		18,094
Reclassification of minority interests as liabilities in accordance with IAS 32	-426,233	10,374	-15,421		-431,280
Shareholders' equity restated as at 1 January 2005	90,207	-5,730	2,018		86,495
Change in translation reserve		56,642			56,642
Financial instruments			-34,431		-34,431
Revenues and costs recognized directly in shareholders' equity		56,642	-34,431		22,211
2005 net income				159,404	159,404
Total revenues and costs recognized for the period		56,642	-34,431	159,404	181,615
Dividends paid	-42,620				-42,620
Reclassification of minority interests as liabilities in accordance with IAS 32 - movements	-101,783	-43,820	32,273		-113,330
Other changes	-7				-7
As at 31 December 2005	-54,203	7,092	-140	159,404	112,153
Change in translation reserve		-10,849			-10,849
Financial instruments			117		117
Revenues and costs recognized directly in shareholders' equity		-10,849	117		-10,732
2006 net income				82,290	82,290
Total revenues and costs recognized for the period		-10,849	117	82,290	71,558
2005 net income	159,404			-159,404	
Dividends paid	-61,095				-61,095
Changes in consolidation scope and other (1)	-29,797				-29,797
As at 31 December 2006	14,309	-3,757	-23	82,290	92,819
Change in translation reserve		-7,119			-7,119
Financial instruments			94		94
Revenues and costs recognized directly in shareholders' equity		-7,119	94		-7,025
2007 net income				38,258	38,258
Total revenues and costs recognized for the period		-7,119	94	38,258	31,233
2006 net income	82,290			-82,290	
Dividends paid	-42,148				-42,148
Changes in consolidation scope and other	-12				-12
As at 31 December 2007	54,439	-10,876	71	38,258	81,892

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

Consolidated cash flow statement

(in € thousand)

		2005	2006	2007
Consolidated net income (including minority interests)		632,389	999,295	1,024,465
Net charges to amortization, depreciation and provisions		99,762	138,403	181,409
Unrealized gains and losses linked to changes in fair value		6,156	1,329	5,076
Income and charges linked to share options and equivalent		912	8,127	12,513
Capital gains and losses on disposals		-2,636	892	-7,834
Share of income (loss) of equity affiliates		-1,162	-5,868	-6,242
Dividends (non-consolidated companies)		-938	-1,900	-1,825
Cash flow from operating activities after cost of net debt and tax		734,483	1,140,278	1,207,562
Cost of net debt		4,310	2,617	4,315
Tax charge (including deferred taxes)		307,450	544,789	575,344
Cash flow from operating activities before cost of net debt and tax		1,046,243	1,687,684	1,787,221
Interest paid		-22,884	-36,799	-41,089
Tax paid		-237,609	-565,926	-586,123
Interest received		19,515	34,128	36,304
Cash flow from operating activities		805,265	1,119,087	1,196,313
Change in operating working capital requirement		-279,200	-282,754	-214,367
Net cash flow from operating activities (1)		526,065	836,333	981,946
Cash outflows for acquisitions of property, plant and equipment and intangible assets		-188,561	-281,517	-437,713
Cash inflows from disposals of property, plant and equipment and intangible assets		6,665	8,377	11,757
Impact of acquisitions (changes in consolidation scope)	Note 1	-651,245	-110,324	-3,618
Cash of subsidiaries acquired (changes in consolidation scope)			16,023	-250
Impact of disposals (changes in consolidation scope)		41,228	16,508	133,066
Cash of subsidiaries sold (changes in consolidation scope)		-6,062	1,525	8,472
Other cash flows from investing activities		1,169	4,007	5,944
Net cash flow from investing activities (2)		-796,806	-345,401	-282,342
Increase and decrease in shareholders' equity		122,802	173	0
Amounts received on exercise of share options		911	75	201
Dividends paid during the year				
Dividends paid to shareholders in the parent company		-72,043	-177,698	-422,272
Dividends paid to minority shareholders in consolidated companies		-41,610	-61,399	-42,849
Movements in own shares		0	0	-1,841
Cash drawn down re new loans		461,921	49,034	92,728
Repayments of borrowings		-170,323	-64,161	-41,250
Other cash flows from financing activities		-1,249	669	-23,867
Cash flow from financing activities (3)		300,409	-253,307	-439,150
Impact of changes in exchange rates (4)		11,696	-12,007	-6,591
Impact of assets and liabilities classified in the balance sheet as held for sale (5)			12,132	0
Change in cash (1 + 2 + 3 + 4 + 5)		41,364	237,750	253,863
Opening net cash		264,472	305,836	543,586
Closing net cash		305,836	543,586	797,450
Change		41,364	237,750	253,864

Statement of changes in net debt financial year 2007		31/12/2006	Change	31/12/2007
Gross cash (1)	Note 10	890,368	22,110	912,478
Bank current accounts in debit and overdrafts (2)	Note 15	358,914	-243,886	115,028
Impact of short-term assets and liabilities classified in the balance sheet as held for sale (3)	Note 15	12,132	-12,132	0
Cash (4) = (1) - (2) + (3)		543,586	253,864	797,450
Gross debt (5)	Note 15	502,202	52,858	555,060
Impact of medium- and long-term assets and liabilities classified in the balance sheet as held for sale (6)	Note 15	-49	49	0
Net debt = (5) + (6) - (4)		-41,433	-200,957	-242,390

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

Statement of changes in net debt financial year 2005	31/12/2004	Change	31/12/2005
Gross cash (1)	484,969	56,309	541,278
Bank current accounts in debit and overdrafts (2)	220,497	14,945	235,442
Cash (3) = (1) - (2)	264,472	41,364	305,836
Gross debt (4)	209,932	300,589	510,521
Net debt (4) -(3)	-54,540	259,225	204,685

III. – Notes to the consolidated financial statements for the year ended 31 December 2007

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

A. – Consolidation principles

1. – Framework for the preparation and presentation of financial statements

The consolidated financial statements for the year ended 31 December 2007, including the related notes to the consolidated financial statements, were approved by the Vallourec Management Board on 3 March 2008.

Pursuant to European Commission regulation 1606/2002 adopted on 19 July 2002 for all listed companies in the European Union, the consolidated financial statements of the Vallourec Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The versions of the standards and interpretations used are those applicable as at 31 December 2007 and are available on the Company's website (www.vallourec.com).

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

In accordance with the transitional provisions of IFRS 1, IAS 32 and IAS 39, the Vallourec Group has chosen to apply IAS 32 and IAS 39 only as from 1 January 2005.

The new IFRS that are applicable as from 1 January 2007 have not resulted in the Group being required to amend its accounting and measurement methods. These new standards relate solely to the type of information to be provided:

- IFRS 7 “Financial Instruments: Disclosures”. This standard requires the publication of information enabling users of financial statements to evaluate the significance of financial instruments within the Group's financial statements and the nature and extent of the risks that could arise from the use of financial instruments. A significant portion of this information was already provided as at 31 December 2006 (table summarizing information on the Group's financial instruments, information on the impact on net income or shareholders' equity, risk management), but additional information has been disclosed as at 31 December 2007 to comply with the requirements of the standard.
- IAS 1 – the amendment to the standard on capital disclosures. This information is provided in note 12 on capital.

The following IFRIC interpretations, which are applicable as from 1 January 2007:

- IFRIC 7 – Applying the Restatement Approach under IAS 29,
 - IFRIC 8 – Scope of IFRS 2,
 - IFRIC 9 – Reassessment of embedded derivatives
 - IFRIC 10 – Interim financial reporting and impairment,
- do not have a material impact on the Group's financial statements.

The Group has not applied early any of the standards or interpretations adopted by the European Union whose application is not mandatory until 2008 or 2009, in particular IFRS 8 "Operating Segments", which is applicable as from 1 January 2009: the Group has continued to report as at 31 December 2007 in accordance with IAS 14 "Segment Reporting", as detailed in section 3.

2. – Accounting principles

2.1. – General measurement principles

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

2.2. – Use of estimates

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

Because of their uncertain nature, the outcome of such assumptions may differ from the amounts shown in the financial statements. The Group regularly reviews its estimates and assessments to enable it to take into account past experience and prevailing economic conditions.

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

2.3. – Consolidation of subsidiaries controlled by Vallourec

The consolidated financial statements of the Vallourec Group comprise the financial statements of Vallourec and of its subsidiaries covering the period from 1 January 2007 to 31 December 2007.

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

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

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

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

2.4. – Consolidation of interests in joint ventures

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

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

2.5. – Investments in equity affiliates

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

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

2.6. – Foreign currency translation

2.6.1. – Translation of subsidiaries' foreign-currency denominated financial statements

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

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

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

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

2.6.2. – Translation of foreign-currency denominated transactions

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

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

2.7. – Property, plant and equipment

2.7.1. – Measurement at cost net of depreciation and impairment losses

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

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

2.7.2. – Component approach

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

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

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

2.7.3. – Maintenance and repair costs

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

2.7.4. – Depreciation

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

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

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

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

2.7.6. – Impairment

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

2.8. – Leases

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

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

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

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

2.9. – Goodwill

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

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

In accordance with the transitional measures authorized by IFRS 1 "First-time adoption of IFRS", acquisitions and business combinations recognized before 1 January 2004 have not been restated and

goodwill recognized as at that date has been stated in the opening balance sheet as at 1 January 2004 at its amount net of amortization. This amount has become the new carrying amount under IFRS. Since IFRS 3 does not contain specific provisions on this matter, the Group has opted to recognize in shareholders' equity the difference between the price paid and the share of the minority shareholders repurchased in companies previously controlled.

2.10. – Intangible assets

2.10.1. – Research and development costs

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

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

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

As a result of this review, no major projects were identified as being in their development phase during 2007, as was the case in 2006 and 2005. The Group's development efforts, mainly in its activities associated with oil, the automotive industry and power generation, the aim of which is to improve product design and develop new or improved manufacturing processes, fulfil the criteria for classification as assets under IAS 38 only at a very late stage. It is very difficult to prove the existence of additional, long-term future economic benefits that can be clearly distinguished from the normal expenditure to maintain and enhance production facilities and products with a view to preserving the Group's technological and competitive advantages.

The Group therefore considered that it would be inappropriate to capitalize any development costs in the financial statements for the year ended 31 December 2007. The same treatment was adopted in the financial statements for the years ended 31 December 2006 and 31 December 2005.

2.10.2. – Other intangible assets

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

Intangible assets acquired as part of the acquisition of an activity are recorded separately from the goodwill if their fair value may be measured reliably at the time the assets and liabilities are initially recognized. Intangible assets with finite useful lives are amortized over the period during which they will be used by the entity. Intangible assets with indefinite useful lives are not amortized.

2.10.3. – Impairment

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

2.11. – Impairment of property, plant and equipment and intangible assets

Under IAS 36 “Impairment of Assets”, the value in use of property, plant and equipment and intangible assets is tested as soon as there is any evidence of impairment, such evidence being reviewed at each balance sheet date. These tests are performed at least once a year in the case of assets with an indefinite useful life, i.e. mainly goodwill in the case of the Vallourec Group.

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

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

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

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

2.12. – Inventories and work-in-progress

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

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

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

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

2.13. – Assets held for sale and discontinued operations

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

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

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

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

2.14. – Provisions

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

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

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

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

2.15. – Retirement and similar commitments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.16. – Share-based payment

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

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

- Certain Group officers and employees benefit from share purchase or share subscription options that give them the right to buy an existing share or subscribe for a capital increase at an agreed price. Options must be measured on the date they are granted, in accordance with the Black & Scholes model.

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

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

- Certain Group officers and employees benefit from bonus share allocation plans (plans d'attributions d'actions gratuites - PAGA) under which the vesting of rights is linked to the Group's performance (measured by the growth in consolidated EBITDA). These plans have been measured using a binomial model to project share price.

2.17. – Own shares

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

2.18. – Financial instruments

Financial instruments comprise financial assets and liabilities and derivatives.

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

In accordance with the interim provisions contained in IFRS 1, IAS 32 and IAS 39, the Vallourec Group has chosen to apply IAS 32 and IAS 39 only as from 1 January 2005.

The main consequences as from 1 January 2005 have related mainly to the treatment in accordance with IAS 39 of hedging contracts entered into by the Group in respect of its commercial purchase and sale transactions in foreign currencies. Changes in the fair value of derivatives are systematically recognized in the financial statements. Changes in the fair value of hedged instruments are also recognized at each period end (see paragraph 2.18.4 below: Derivatives and hedge accounting).

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

2.18.1. – Financial assets

Financial assets comprise:

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

Initial measurement

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

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

Classification and measurement on the balance sheet date

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

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

Financial assets at fair value through profit or loss

This category of assets comprises:

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

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

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

Held-to-maturity investments

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

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

Loans and receivables

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

In the Vallourec Group, this category includes:

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

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

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

Available-for-sale financial assets

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

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

Impairment testing of financial assets

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

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

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

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

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

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

2.18.2. – Cash and cash equivalents

This item consists of bank current account balances and units in short-term cash UCITS.

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

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

2.18.3. – Financial liabilities

The Group's financial liabilities comprise interest-bearing bank borrowings and derivative instruments. Borrowings are broken down into current liabilities, which are those amounts that must be repaid within 12 months after the balance sheet date, and non-current liabilities, which are those amounts that mature more than 12 months after the balance sheet date.

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

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

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

2.18.4. – Derivatives and hedge accounting

Group's exposure to exchange rate risks on commercial transactions

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

The Group manages its exposure to exchange rate risk by implementing hedges on the basis of regularly updated forecasts of customer orders. Operating receivables and revenues that will be generated by the orders are thus hedged by financial instruments, mainly forward sales of currencies.

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

Measurement and presentation of derivatives

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

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

Hedge accounting

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

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

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

Hedge accounting within the Group is as follows:

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

- the change in the intrinsic value of the hedging instrument (difference between the spot rate on the date of implementation of the hedge and the spot rate on the valuation date, i.e. the balance sheet date);
- if the hedge is effective and as long as the sale (or purchase) hedged is not recognized, changes in the intrinsic value are recognized in shareholders' equity, in accordance with the principles of cash-flow hedge accounting;
- if the hedging instrument is not effective (a rare occurrence given the procedures introduced by the Group), the change in the intrinsic value of the derivative is recognized in financial income or loss;
- the change in the time value (premium/discount). This change is systematically recognized in financial income or loss, since this component is not included in the hedging relationship.

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

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

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

2.19. – Tax

Income tax comprises current and deferred tax.

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

The main types of deferred tax recognized are:

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

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

Deferred tax balances are never discounted.

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

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

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

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

2.20. – Sales

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

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

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

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

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

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

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

2.21. – Determination of operating income (loss)

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

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

Employee profit sharing is included in payroll costs.

German tax (“*Gewerbesteuer*”) is recognized in income tax.

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

- impairment provisions relating to goodwill, other intangible assets or property, plant and equipment and identified during impairment tests carried out in accordance with IAS 36 (see paragraph 2.11),
- material restructuring costs or costs associated with staff retraining relating to events or decisions of major importance,
- capital gains or losses on disposals,
- revenues and costs that would result from major litigation or significant roll-out or capital operations (e.g. costs of integrating a new activity).

2.22. – Earnings per share

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

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

3. – Segment reporting

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

- the “Seamless tubes” reporting format segment, which brings together all the entities with production and marketing facilities dedicated to the Group’s main activity, i.e. the production of hot-rolled seamless carbon and alloy steel tubes, both smooth and threaded, for the oil and gas industry. This activity is characterized by a highly-integrated manufacturing process, from the production of the steel and the hot-rolling right through to the final stages, facilitating the manufacture of products that are suitable for a variety of markets (oil & gas, power generation, chemicals and petrochemicals, automotive and mechanical engineering, etc.);
- the “Automotive and Speciality Products” reporting segment. This segment incorporates primarily the specific forming and machining activities (in particular, the production of precision tubes and automotive components), that exhibit certain similarities in terms of risks and performance due to their business cycles. This segment also incorporates a number of other activities, such as the production of stainless steel tubes and forged products, whose characteristics are very different from those described above, but which are not presented separately due to their relative immateriality. Such treatment is authorized by IAS 14.

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

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

Business segments

Note 31 shows, for each business segment, information on the revenues and results as well as certain information on the assets, liabilities and capital expenditure for the financial years 2005, 2006 and 2007.

Geographical segments

Note 31 shows, by geographical segment, information on sales (by geographical zone in which customers are located), capital expenditure and certain information on the assets (by zone in which they are located) for the financial years 2005, 2006 and 2007.

B – Consolidation scope

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	% interest	% interest	% interest	% control
	31/12/2005	31/12/2006	31/12/2007	31/12/2007
Fully consolidated companies				
Cerec	100.0	-	-	-
Changzhou Valinox Great Wall – China	33.8	62.5	62.5	100.0
CST Valinox Ltd – India	-	71.3	85.6	90.1
Changzhou Carex Valinox Components – China	-	70.7	70.7	100.0
Escofier Technologie	100.0	-	-	-
Interfit	100.0	100.0	100.0	100.0
VAM Drilling USA (formerly Omsco Inc.) – United States	100.0	100.0	100.0	100.0
Setval (merged on 1 January 2006 with V & M Tubes)	100.0	-	-	-
VAM Drilling France (formerly SMFI)	-	100.0	100.0	100.0
Spécitubes	100.0	-	-	-
Valinox Asia	33.8	62.5	62.5	65.8
Valinox Nucléaire	100.0	100.0	100.0	100.0
Vallourec	100.0	100.0	100.0	100.0
Vallourec Composants Automobiles Hautmont	100.0	100.0	100.0	100.0
Vallourec Composants Automobiles Vitry	100.0	100.0	-	-
Vallourec & Mannesmann Holdings Inc. – United States	100.0	100.0	100.0	100.0
Vallourec Inc. – United States	100.0	100.0	100.0	100.0
Vallourec Industries Inc. – United States	100.0	100.0	100.0	100.0
V & M Beijing – China	-	-	100.0	100.0
Vallourec & Mannesmann Changzhou Co. Ltd – China	100.0	100.0	100.0	100.0
V & M Deutschland GmbH – Germany	100.0	100.0	100.0	100.0
V & M France	100.0	100.0	100.0	100.0
V & M do Brasil – Brazil	99.4	99.4	99.4	99.4
V & M Florestal Ltda – Brazil	99.4	99.4	99.4	100.0
V & M Mineração Ltda – Brazil	99.4	99.4	99.4	100.0
V & M One	100.0	100.0	100.0	100.0
Vallourec & Mannesmann RUS – Russia	-	-	100.0	100.0
V & M Services	100.0	100.0	100.0	100.0
V & M Star – United States	80.5	80.5	80.5	80.5
Vallourec & Mannesmann Tubes	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Tubes Corporation – United States	100.0	100.0	100.0	100.0
Vallourec Mannesmann Oil & Gas France	100.0	100.0	100.0	100.0
Vallourec Mannesmann Oil & Gas Nederland – Netherlands	-	-	100.0	100.0
VMOG Nigéria Ltd – Nigeria	-	-	100.0	100.0
VMOG Freezone Nigéria Ltd – Nigeria	-	-	100.0	100.0
Vallourec Mannesmann Oil & Gas UK – United Kingdom	100.0	100.0	100.0	100.0
Vallourec Mannesmann Oil & Gas Germany – Germany				
(merged on 1 January 2007 with V & M Deutschland GmbH)	100.0	100.0	-	-
Vallourec Précision Etirage	100.0	100.0	-	-
Vallourec Précision Soudage	100.0	100.0	-	-
Vallourec Tubes Canada Inc – Canada	100.0	100.0	100.0	100.0
Valti	100.0	100.0	100.0	100.0
Valti GmbH – Germany	100.0	100.0	100.0	100.0
Valtimet SAS	51.3	95.0	95.0	95.0
Valtimet Inc. – United States	51.3	95.0	95.0	100.0
ValTubes (merged on 1 January 2006 with V & M Tubes)	100.0	-	-	-
VAM Canada (formerly VAM PC) – Canada	100.0	100.0	100.0	100.0
VAM Far East – Singapore	51.0	51.0	51.0	51.0

VAM Field Services Angola – Angola	-	-	100.0	100.0
VAM Field Services Beijing – China	-	51.0	51.0	51.0
VAM Mexico (formerly Prinver Peisa) – Mexico	100.0	100.0	100.0	100.0
VAM USA (formerly VAM PTS) – United States	51.0	51.0	51.0	51.0
Proportionately consolidated companies				
VAM Changzhou Oil & Gas Premium Equipments Co. Ltd – China	-	100.0	51.0	50.0
VAM Holding Hong Kong Limited – Hong Kong	-	100.0	51.0	50.0
Vallourec & Sumitomo Tubos do Brasil Ltda – Brazil	-	-	56.0	50.0
Equity affiliates				
HKM – Germany	20.0	20.0	20.0	20.0
Pacific Tubular Limited – Jersey	24.8	24.8	24.8	24.8
Poongsan Valinox – South Korea	25.6	47.5	47.5	50.0
P.T. Citra Tubindo – Indonesia	25.0	25.0	25.0	25.0
Tubos Soldados Atlantico – Brazil	20.6	24.6	24.6	24.7
Xian Baotimet Valinox Tubes – China	-	37.1	37.1	49.0

The Group does not control any special purpose vehicles.

2007

- Salzgitter and Vallourec signed the definitive agreement regarding the sale of Vallourec Précision Etirage (VPE) and the hot-rolling tube mill in Zeithain (Saxony) which had been announced on 13 December 2006. The sale was effective on 2 July 2007. VPE, which specializes in the manufacture of cold drawn precision tubes, achieved sales of € 124.2 million in the first six months of 2007. VPE and the Zeithain plant employed 1,561 staff. The assets and liabilities concerned were shown as assets held for sale at the end of 2006 (Note 11).
- On 19 July 2007, Vallourec and Sumitomo Metals signed a joint venture agreement defining the ownership structure of the entity that will build and operate a new, state-of-the-art, integrated pipe mill in Brazil.
- Vallourec has a 56% interest in the joint venture company, Vallourec & Sumitomo Tubos do Brasil Ltda, and Sumitomo Metals owns the remaining 44%. The two shareholders have the same number of representatives on the Executive Committee. The total investment is estimated at around USD 1.6 billion, with Vallourec's share totalling USD 890 million.
- Vallourec & Sumitomo Tubos do Brasil Ltda is proportionately consolidated into the Group's financial statements.
- On 19 November 2007, Vallourec opened the share capital of its Chinese plant for threading seamless tubing (VAM Changzhou Oil & Gas Premium Equipments Co. Ltd) to Sumitomo by selling to it 49% of VAM Holding Hong Kong, the holding company which owns 100% of the Chinese-based company.
- VAM Holding Hong Kong and VAM Changzhou Oil & Gas Premium Equipments Co. are proportionately consolidated into the Group's financial statements.
- On 11 December 2007 Vallourec sold Vallourec Précision Soudage (VPS) and Vallourec Composants Automobiles Vitry (VCAV) to ArcelorMittal.

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

These changes in consolidation scope did not have a material impact on the Group's consolidated data. On 30 October 2007 Vallourec announced that it had entered into an agreement with Grant Prideco concerning the acquisition of Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™ for USD 800 million.

This agreement, which will enable Vallourec to strengthen its position in the North American premium OCTG (Oil Country Tubular Goods) market, is subject to customary regulatory provisions.

2006

- The acquisition by V & M Tubes of VAM Drilling France (formerly SMFI), which is located in Cosnesur-Loire, in France, supplemented the Group's drilling products activity.
- The acquisition by Valtimet of 75% of CST Valinox Ltd (formerly CST Ltd). This Indian company, which is located in Hyderabad, specializes in the production of tubes for power plant condensers for the Indian market.

- The sales of Spécitubes, the European leader in tubes for the aerospace industry, to the German company Pfalz-Flugzeugwerke GmbH, of Escofier Technologie to the company's management and of Cerec, the French leader in the pressing and forming of steel ends, to Eureka Metal Srl, a subsidiary of the Italian family-owned group Calvi Holding Srl.
 - The formation of VAM Changzhou Oil & Gas Premium Equipments Co. Ltd, a wholly-owned subsidiary of V & M Tubes, which operates a plant for threading seamless steel tubing and casing for oil & gas drilling.
 - The acquisition on 28 December 2006 of the 43.7% interest in Valtimet held by Timet (a US group) for USD 75 million. Valtimet is a joint venture formed in 1997 in which Vallourec has a 51.3% controlling interest. Vallourec's stake in Valtimet increased to 95%, the remaining 5% being owned by Vallourec's long-standing partners Sumitomo Corp. and Sumitomo Metal Industries. The goodwill generated by the acquisition (€ 29 million) has been deducted from shareholders' equity (paragraph 2.9).
 - On 31 December 2006 the internal restructuring of the Vallourec Group was completed. The aim of the restructuring was to rationalize the Group's internal organization and structure following the transactions detailed below, which resulted in Vallourec owning 100% of the share capital of V & M Tubes:
 - The transfer by Setval of its activities carried on at the Vallourec Research Centre (Centre d'Etudes de Vallourec – CEV), located at Aulnoye-Aymeries (Nord) and at the Vallourec Information Technology Centre (Centre de Traitement Informatique de Vallourec - CTIV) located at Saint-Saulve (Nord) to V & M France with retroactive effect to 1 January 2006;
 - The merger of Setval and ValTubes with V & M Tubes with retroactive effect to 1 January 2006.
- These changes in consolidation scope did not have a material impact on the Group's consolidated data. On 13 December 2006, Vallourec announced that it had reached a preliminary agreement regarding the sale to Salzgitter of its subsidiary VPE and the hot-rolling tube mill in Zeithain (Saxony).

2005

- Early in 2005, Vallourec sold to Benteler Automotive its subsidiary Vallourec do Brasil Autopeças Ltda, which specializes in the assembly of car rear axle units, and its subsidiary Vallourec Argentina to a member of its senior management.
- On 23 June 2005, Vallourec acquired all of the shareholdings in V & M Tubes¹ held by Mannesmannröhren-Werke GmbH, a 100% subsidiary of Salzgitter AG. The acquisition price fixed for this transaction was € 545 million.

Following this transaction, Vallourec controlled directly 100% of V & M Tubes and indirectly 100% of V & M Deutschland GmbH and V & M Tubes Corporation.

In addition, Vallourec sold 10% of the shares in the HKM steel mill (Germany) for € 22 million to Mannesmannröhren-Werke GmbH. Following this sale, V & M Tubes retained a 20% stake in HKM, which continues to be accounted for as an equity affiliate.

Accounting impact

The acquisition of the minority interests in V & M Tubes and its subsidiaries was deemed to have been completed on the date of the legal transfer of the shares, i.e. 23 June 2005. Due to the proximity of this date to 30 June, the minority interests purchased were consolidated into the Vallourec Group's income as from 1 July 2005. If the acquisition had been effective as at 1 January 2005, the net income, Group share, of the Vallourec Group would have totalled € 576.7 million in 2005 instead of € 473.0 million with virtually no change in the net income.

- V & M Changzhou Co. Ltd., a subsidiary of V & M Tubes, was created to invest in the construction of a new plant in China, specializing in the cold finishing of large-diameter seamless alloy steel tubes for power generation plants produced in Germany.
- VAM Drilling USA (formerly Omsco Inc. – United States) was formed to acquire the Omsco division of ShawCor Ltd (Canada), which is based in Houston and specializes in the manufacture of steel drill pipes adapted to the needs of the oil & gas industry, including drill pipes, heavy weight drill pipes and drill collars and other drilling equipment.

¹ The acquisition by Vallourec of the 45% stake in V & M Tubes terminated the joint venture agreement signed between Vallourec and Mannesmannröhren-Werke GmbH in 1997, and in particular the change of control clause (see Note 33 of Section 5 of the 2004 annual report).

C. – Notes to the consolidated financial statements

(in € thousand)

Note 1. – Intangible assets and goodwill

	Concessions, patents, licences and other rights	Other intangible assets	Total intangible assets	Goodwill
Gross values				
At 31/12/2004	26,631	12,288	38,919	47,336
Acquisitions	1,486	2,808	4,294	
Acquisitions by VAM Drilling USA (formerly Omsco Inc.)	1,014	8,809	9,823	38,064
Disposals	-566	-17	-583	
Impact of changes in exchange rates	1,672	853	2,525	5,735
Other movements	416	167	583	-117
At 31/12/2005	30,653	24,908	55,561	91,018
Acquisitions	1,630	1,138	2,768	
Disposals		-18	-18	
Impact of changes in exchange rates	-579	-1,656	-2,235	-8,306
Changes in consolidation scope	2,788	5,655	8,443	4,967
Other movements	511	-725	-214	-367
At 31/12/2006	35,003	29,302	64,305	87,312
Acquisitions	5,232	3,887	9,119	
Disposals	-833	-1,344	-2,177	
Impact of changes in exchange rates	230	-1,426	-1,196	-7,412
Changes in consolidation scope	-617	-397	-1,014	
Other movements	1,996	-30	1,966	
At 31/12/2007	41,011	29,992	71,003	79,900
Amortization and impairment				
At 31/12/2004	-18,737	-9,333	-28,070	
Net amortization charges for the year	-2,765	-2,312	-5,077	
Impairment losses (charges net of reversals)	21		21	
Disposals	566	17	583	
Impact of changes in exchange rates	-1,229	-654	-1,883	
Other movements	101	-35	66	
At 31/12/2005	-22,043	-12,317	-34,360	
Net amortization charges for the year	-3,050	-8,724	-11,774	
Impairment losses (charges net of reversals)	21		21	
Disposals				
Impact of changes in exchange rates	355	711	1,066	
Changes in consolidation scope	103	383	486	
Other movements	184	558	742	
At 31/12/2006	-24,430	-19,389	-43,819	
Net amortization charges for the year	-4,123	-3,228	-7,351	
Impairment losses (charges net of reversals)	-29	-1,162	-1,191	
Disposals	126	1,363	1,489	
Impact of changes in exchange rates	-250	821	571	
Changes in consolidation scope	615	427	1,042	
Other movements	-30		-30	
At 31/12/2007	-28,121	-21,168	-49,289	
Net values				
At 31/12/2005	8,610	12,591	21,201	91,018
At 31/12/2006	10,573	9,913	20,486	87,312
At 31/12/2007	12,890	8,824	21,714	79,900

Intangible assets: intangible assets comprise mainly:

- V & M Tubes's right to benefit from the contract to purchase tube rounds produced by HKM. This right was capitalized in 1997 in an amount of € 12,381 thousand and is being amortized over the period of

- the contract (12 years). As at 31 December 2007, the residual value amounted to € 1,804 thousand (€ 2,836 thousand at 31 December 2006 and € 3,868 thousand at 31 December 2005).
- At the time of the asset acquisition by VAM Drilling USA (formerly Omsco Inc.) on 1 October 2005, the intangible assets were independently valued at € 9,823 thousand. They are being amortized over a maximum period of 10 years.
 - In 2006, the € 8,443 thousand changes in consolidation scope correspond mainly to the acquisition of the assets of VAM Drilling France (formerly SMFI) on 21 March 2006.
 - In 2007, the impairment loss corresponds to a fall in value of the Omsco brand acquired in 2005.
- Goodwill: Analysis of net values

Cash generating unit (CGU) (see § 2.11 of Consolidation principles section) Entities Acquisition date	V & M do Brasil V & M do Brasil 2000	V & M North America		
		V & M Star 2002	VAM Drilling USA (formerly Omsco Inc.) 2005	V & M Tubes Corporation
At 31/12/2005	2,918	39,555	38,350	1,067
At 31/12/2006	2,918	35,430	34,002	956
At 31/12/2007	2,918	31,698	30,419	855

Cash generating unit (CGU) (see § 2.11 of Consolidation principles section) Entities Acquisition date	Speciality products CST 2006	V & M Europe		
		V & M Deutschland GmbH 1997	VAM Drilling France (formerly SMFI) 2006	Total
At 31/12/2005	n/a	9,128	n/a	91,018
At 31/12/2006	1,666	9,128	3,212	87,312
At 31/12/2007	1,670	9,128	3,212	79,900

The full amount of the acquisition prices were paid in cash in 2005 and 2006.

The goodwill of VAM Drilling France (formerly SMFI) and CST represents the difference between the acquisition price and the fair value at the acquisition date of the identifiable assets and liabilities. The revision, made within a period of one year after the acquisition, of the estimated provision for environmental risks of VAM Drilling France (formerly SMFI) reduced the goodwill recognized at the outset. Goodwill is tested at the level of the CGUs (cash generating units) as defined in the Group's current organizational structure. Impairment testing of the CGUs is carried out and their value in use determined in accordance with the discounted cash flow method (see paragraph 2.11 of the accounting principles section).

The main components of goodwill (V & M Star and VAM Drilling USA – formerly Omsco Inc.) are included within the intangible assets of the US companies. The changes in the euro value of these components of goodwill are due to changes in the EUR/USD exchange rate. At 31 December 2007, their carrying amount was compared with their value in use, defined as the present value of future cash flows, taken from the latest five-year forecasts. These forecasts have been prepared taking into account cyclical variations that affect selling prices, volumes and raw material costs. The extrapolation of the forecasts for the last year, projected to infinity, was determined by applying a growth rate of 1%, which is the same as that used for the previous year's tests. Cash flows were discounted at a rate corresponding to the weighted average cost of the Group's capital, incorporating a market risk premium and a risk premium specific to the sector. A rate of 9% was used in 2007 (9% in 2006 and 8.6% in 2005).

The comparison of the carrying amounts of the CGU's assets with the corresponding discounted cash flows, calculated using these assumptions, did not result in the requirement to make provisions for impairment losses in respect of goodwill as at 31 December 2007.

Note 2. – Property, plant and equipment

	Land	Buildings	Technical installations, equipment and industrial tools	Property, plant and equipment in progress	Other property, plant and equipment	Total
Gross values						
At 31/12/2004	48,223	190,400	1,003,845	38,791	85,235	1,366,494
Acquisitions	6,101	6,611	90,593	64,328	20,491	188,124
Acquisitions by VAM Drilling USA (formerly Omsco Inc.)	241	2,572	16,574	179	305	19,872
Disposals	-180	-4,096	-16,808		-5,035	-26,119
Impact of changes in exchange rates	7,868	10,400	67,882	9,473	11,719	107,342
Changes in consolidation scope	-632	-2,787	-9,420	-35	-632	-13,506
Other movements	-91	4,145	70,057	-43,997	-2,450	27,664
At 31/12/2005	61,530	207,245	1,222,723	68,739	109,633	1,669,871
Acquisitions	2,512	8,512	91,476	140,121	39,779	282,400
Disposals	-220	-193	-18,308	-10	-1,138	-19,869
Impact of changes in exchange rates	-1,638	-5,523	-33,574	-2,800	-3,389	-46,924
Changes in consolidation scope	-107	-4,550	-22,468	483	-1,405	-28,047
Transfer to assets held for sale (note 11)	-3,987	-23,185	-131,826	-2,599	-8,576	-170,173
Other movements	203	26,862	82,140	-103,090	-6,759	-644
At 31/12/2006	58,293	209,168	1,190,163	100,844	128,145	1,686,614
Acquisitions	3,269	29,312	114,068	245,098	44,008	435,755
Disposals	-12	-1,051	-17,512	-63	-1,786	-20,424
Impact of changes in exchange rates	1,705	-1,920	-10,296	-1,801	1,445	-10,867
Changes in consolidation scope	-816	-11,240	-59,014	-5,855	-6,398	-83,323
Other movements	1,854	16,351	100,178	-128,355	4,638	-5,334
At 31/12/2007	64,293	240,620	1,317,587	209,868	170,052	2,002,421
Depreciation and impairment						
At 31/12/2004	-8,307	-86,338	-495,725	-40	-42,574	-632,984
Net depreciation charge for the year	-2,217	-8,449	-75,477		-7,999	-94,142
Impairment losses			-765			-765
Reversals of impairment losses			865	48		913
Disposals		1,935	12,475		1,529	15,939
Impact of changes in exchange rates	-2,177	-3,095	-21,292	-3	-2,457	-29,024
Net depreciation charge for the year		465	4,136		424	5,025
Other movements	124	-832	-17,978	-97	3,868	-14,915
At 31/12/2005	-12,577	-96,314	-593,761	-92	-47,209	-749,953
Net depreciation charge for the year	-2,321	-9,188	-82,046		-9,000	-102,555
Impairment losses			-1,529	9		-1,520
Reversals of impairment losses						
Disposals		136	11,094		887	12,117
Impact of changes in exchange rates	486	1,402	9,338	2	908	12,136
Changes in consolidation scope	32	4,240	18,217		1,337	23,826
Transfer to assets held for sale (note 11)	193	15,941	93,804		6,303	116,241
Other movements	1		-164		-21	-184
At 31/12/2006	-14,186	-83,783	-545,047	-81	-46,795	-689,892
Net depreciation charge for the year	-2,389	-9,701	-89,534		-8,998	-110,622
Impairment losses		-1,519	-13,559	-4,690	-290	-20,058
Reversals of impairment losses			11	70		81
Disposals	1	671	13,202		1,459	15,333
Impact of changes in exchange rates	-687	593	2,840	-4	-2	2,740
Changes in consolidation scope	18	6,037	61,311	4,706	2,658	74,730
Other movements (1)	1	-6	-8,738	-1	-26	-8,770
At 31/12/2007	-17,242	-87,708	-579,514		-51,994	-736,458

Net values						
At 31/12/2005	48,953	110,931	628,962	68,647	62,424	919,918
At 31/12/2006	44,107	125,385	645,116	100,763	81,350	996,722
At 31/12/2007	47,051	152,912	738,073	209,868	118,058	1,265,963

(1) The assets of V.P.S. and V.C.A.V. were measured at the end of 2006 at their likely realizable value. At the end of 2006, a provision for liabilities and charges of € 8,679 thousand was booked. At 30 June 2007, an additional impairment loss of € 20,058 thousand was booked in respect of the assets held for sale of VPS and VCAV since the provision booked in 2006 had been reclassified as an impairment loss in respect of property, plant and equipment. The changes in consolidation scope relate mainly to the disposal of these two companies in December 2007.

In 2006, the changes in consolidation scope related to the disposal of Escofier Technologie, Spécitubes and Cerec and the acquisition of participating interests in VAM Drilling France (formerly SMFI) and CST Valinox Ltd (India).

Capital expenditure

Industrial investments (property, plant and equipment and intangible assets)	2005	2006	2007
Europe	96,946	156,956	278,536
North America and Mexico	44,777	42,676	57,147
South America	73,867	59,192	93,665
Asia	6,523	26,344	15,398
Other			53
Total	222,113	285,168	444,799

2005

In V & M Tubes's sector of activity, capital expenditure was incurred in 2005 to increase production capacity in Brazil: the Group continued with the modifications, begun the previous year, to existing rolling and finishing plants.

The Group also allocated significant resources to its plants that finish tubes for the power generation and oil sectors. Demand from the Chinese market for tubes for boilers has resulted in the Group deciding to install a plant in Eastern China equipped with facilities for the finishing of these products. This capital expenditure was carried out as part of the continuing expansion of V & M Deutschland's facilities. Civil engineering work began in December 2005.

In the stainless steel sector, boiler tube production capacity in China was increased.

The Group continued to invest in the maintenance and updating of its production facilities with the aim of ensuring sufficient capacity in periods of high activity.

2006

The most significant capital expenditure projects in 2006 involved increasing the capacity of the Group's heat treatment equipment and increasing the production capacity in respect of threaded products for the energy market.

In France, V & M France undertook a major project to modernize the continuous caster, thereby increasing the continuous production capacity.

Heat treatment facilities are currently being installed in Germany, which are to be used for the oil & gas industry and, in particular, for casing and line pipes.

Significant resources have been allocated to the United States where V & M Star has installed heat treatment furnaces and a hydrotester.

The Group began work on the project to build a plant for threading and finishing tubes for oil & gas drilling in Changzhou, in China. Construction of the buildings is underway and the equipment is on order. Production at the plant is scheduled to start in mid-2007.

As regards cold drawn tubes, the Automotive and Industry division has put in place additional resources to enable it to meet market demand and produce air bag and add-on parts for a French car manufacturer. In addition, it should be noted that the Group has continued to replace old machinery that is no longer able to satisfy the new standards required by customers and whose maintenance and operating costs are high. A significant proportion of the expenditure has therefore related to the modernization of manufacturing facilities and the improvement of productivity in general.

2007

The main aim of the significant capital expenditure incurred in 2007 was to increase the production capacity of the Group's rolling, machining, threading and heat treatment plants.

In Europe, the design, planning and construction of the new continuous caster at the Saint-Saulve electric steel mill were completed in December when the first casting was carried out. Commissioning of the caster is ongoing.

In Brazil, V & M do Brasil has built and brought into use a pilot charcoal production plant in Pareopeba. The aim was to improve the efficiency of the technology and to provide the Group with the resources to comply with environmental regulations.

Vallourec & Sumitomo Tubos do Brasil Ltda, a joint venture with Sumitomo, began expenditure on the construction of a new state-of-the-art pipe mill, integrating a steel mill, a rolling mill and threading lines. It is located in the state of Minas Gerais in Brazil.

In Houston, in the United States, construction has begun of a new threaded tubes plant. The new equipment will be installed in 2008.

In the field of drilling products, the division continued to increase its drill pipe capacity, and, in particular, its capacity for heavy weight drill pipes, in Europe and the United States.

Impairment testing

In the specific case of the first-time adoption of IFRS, and in view of the positive impact on shareholders' equity in the opening IFRS balance sheet as at 1 January 2004, depreciation schedules have been amended (see notes to 2005 IFRS financial statements - section D) and impairment tests conducted at the level of the main reporting entities (legal entities), i.e. the lowest level at which detailed cash forecasts are prepared, in order to test the recoverable amount of the various property, plant and equipment and intangible assets (excluding goodwill) that make up the Group's production equipment. The only exceptions related to the grouping of the following entities:

- HKM and V & M Deutschland, whose individual cash flows cannot be separately identified;
- V & M do Brasil, V & M Mineração and V & M Florestal, whose cash flows are closely linked.

Please refer to note 1 for information about impairment testing of goodwill.

Biological assets

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

As at 31 December 2007, the company was cultivating about 184,227 hectares of eucalyptus forests compared with 177,413 hectares as at 31 December 2006 and 177,076 as at 31 December 2005.

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

At 31 December 2007, the biological assets are included within "Other property, plant and equipment" in an amount of € 18.2 million (€ 16.8 million at 31 December 2006). V & M Florestal achieved sales of € 44 million in 2007 compared with € 34.8 million in 2006.

Leases

The amounts capitalized in respect of finance leases were not material to the Group's financial statements in 2005, 2006 and 2007.

Note 3. – Investments in equity affiliates

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

	HKM Germany	P.T. Citra Tubindo Indonesia	Other	Total
At 31/12/2004	37,540	10,699	3,816	52,055
Changes in consolidation scope	-11,264		5	-11,259
Capital increase			3,784	3,784
Impact of changes in exchange rates		1,713	1,161	2,874
Dividends paid	-17	-410		-427
Contribution to net income of the period	-1,267	1,322	1,107	1,162
Other movements			2	2
At 31/12/2005	24,992	13,324	9,875	48,191
Changes in consolidation scope			4,566	4,566
Capital increase				
Impact of changes in exchange rates		-1,557	-449	-2,006
Dividends paid	-6	-1,104	-511	-1,621
Contribution to net income of the period	-24	4,400	1,492	5,868
Other movements				
At 31/12/2006	24,962	15,063	14,973	54,998
Changes in consolidation scope				
Capital increase				
Impact of changes in exchange rates		-1,693	-456	-2,149
Dividends paid	-5	-2,942	-1,100	-4,047
Contribution to net income of the period	-18	4,783	1,477	6,242
Other movements				
At 31/12/2007	24,939	15,211	14,894	55,044

In 2006, the changes in the consolidation scope related to the acquisition of an additional 4% stake in Tubos Soldados Atlântico which generated goodwill of € 1,576 thousand and the subscription to the share capital of Xi'an Baotimet Valinox Tubes (see paragraph B - Consolidation scope).

The change in consolidation scope in 2005 resulted from the sale of the 10% shareholding in HKM. The capital increases were in the newly-formed companies Poongsan Valinox (in 2004) and Tubos Soldados Atlântico (in 2005).

HKM's contribution to consolidated net income of €-1,267 thousand in 2005 differs from the Group's share of the company's net income due to the change in Vallourec's percentage holding during 2005 (30% in the first half and 20% in the second half).

Key company financial data (in € thousand)		Shareholder s' equity	Sales	Net income
P.T. CitraTubindo - Indonesia	2007	60,845	165,756	17,095
	2006	60,251	178,019	16,403
	2005	53,708	84,640	3,638
	2007	124,693	2,166,920	44
	2006	124,810	1,863,875	25
HKM - Germany	2005	124,958	1,924,236	30

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

	2005	2006	2007
P.T.Citra Tubindo	1,322	4,400	4,783
Pacific Tubular Ltd	-42	74	201
HKM	-1,267	-24	-18
Poongsan Valinox	834	2,425	1,547
Tubos Soldados Atlanticos	315	-833	-525
Xi'an Baotimet Valinox Tubes	n/a	-174	255
Total	1,162	5,868	6,243

The stock market price of P.T. Citra Tubindo's shares was 30,000 Indonesian rupees at 31 December 2007, giving a valuation of the Group's shareholding of € 50.6 million.

Note 4. – Other non-current assets

	Other investments in equity instruments	Loans	Other financial investments	Total
Au 31/12/2004	2,771	14,459	16,302	33,532
Gross value	5,155	11,146	19,301	35,602
Provisions	-2,674	-1,232	-202	-4,108
At 31/12/2005	2,481	9,914	19,099	31,494
Gross value (*)	5,561	7,985	29,886	43,432
Provisions	-2,909	-1,032	-22	-3,963
At 31/12/2006 (*)	2,652	6,953	29,864	39,469
Gross value	5,471	6,701	34,603	46,775
Provisions	-3,135	-602	-32	-3,769
At 31/12/2007	2,336	6,099	34,571	43,006
(*) After transfer to assets held for sale (note 11) of:	-20	-992	-48	-1,060

Loans consist mainly of long-term construction effort participating loans. These loans are measured in accordance with the effective interest rate method applied to expected cash flows until the maturity dates of the loans. The rate used at 31 December 2007 was 4.20% (compared with 3.68% at 31 December 2006 and 3.5% at 31 December 2005). The reduction since 2006 was the result of the repayment of loans that had fallen due, as the contribution to the construction effort has since been made in the form of a subsidy.

Other financial investments consist mainly of interest-bearing security deposits in connection with tax disputes in Brazil (€ 17 million at 31 December 2007 and € 16 million at 31 December 2006, see also note 16) and tax receivables due in over one year, also in Brazil (€ 14 million in 2007 and € 10 million in 2006).

Maturities of other non-current assets	Between 1 and 5 years	Over 5 years	Total
Gross values at 31/12/2005			
Loans	4,274	6,872	11,146
Other investments in equity instruments	188	4,967	5,155

Other financial investments	16,274	3,027	19,301
Total	20,736	14,866	35,602
Gross values at 31/12/2006			
Loans	3,369	4,616	7,985
Other investments in equity instruments	174	5,387	5,561
Other financial investments	26,081	3,805	29,886
Total	29,624	13,808	43,432
Gross values at 31/12/2007			
Loans	2,456	4,245	6,701
Other investments in equity instruments	428	5,043	5,471
Other financial investments	32,455	2,148	34,603
Total	35,339	11,436	46,775

Note 5. – Deferred taxation

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

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

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

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

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

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

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

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

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

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

The deferred tax rates used in 2007 are 31.6% for Germany (39.9% in 2006), 34% for Brazil and 38% for the United States.

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

At 31/12/2005	Assets	Liabilities	Net deferred tax liabilities
Non-current assets	-	94,299	
Other assets and liabilities	549	-	
Inventories	21,345	-	
Employee benefits	25,782	-	
Derivatives	35,085	-	
Net balance	82,761	94,299	11,538
Recognition of tax losses	3,387		-3,387
Total	86,148	94,299	8,151

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

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

The following table provides an analysis of the Group's deferred tax balances as at 31 December 2005, 31 December 2006 and 31 December 2007:

At 31/12/2005	Gross values	Corresponding deferred tax	Deferred tax recognized	Deferred tax not recognized
Tax losses carried forward	16,349	3,443	3,387	56
Other tax credits (long-term capital losses)	10,038	1,578		1,578
Other tax assets	115,715	41,707	41,707	-
Total tax assets	142,102	46,728	45,094	1,634
Tax liabilities	-154,487	-53,245	-53,245	-
Total tax liabilities		-53,245	-53,245	
Total			-8,151	1,634

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

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

The tax losses carried forward in 2007 relate mainly to the subsidiary V & M Florestal and consist of 1.3 million Brazilian reals of tax losses carried forward taxable at 9% and 9.1 million Brazilian reals of tax losses carried forward taxable at 25%.

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

Net tax liability	2005	2006	2007
As at 1 January	21,272	8,151	55,797
Impact of changes in exchange rates	-1,518	-2,186	-7,905
Recognized in income	10,576	4,943	18,292
Recognized in reserves	-22,929	49,227	11,940
Change in consolidation scope and other	750	1,948	-2,868
Transfer to liabilities held for sale (note 11)	-	-6,286	
As at 31 December	8,151	55,797	75,256

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

Note 6. – Inventories and work-in-progress

	Raw materials, supplies and goods for resale	Work-in- progress	Finished and semi-finished products	Total
Gross values				
At 31/12/2004	312,268	171,944	180,832	665,044
Changes in inventories recognized in the income statement	81,830	78,110	62,616	222,556
Acquisitions by VAM Drilling USA (formerly Omsco Inc.)	22,601	5,631	1,423	29,655
Other changes in consolidation scope	-6,725	-151	-501	-7,377
Impact of changes in exchange rates	16,141	7,535	16,643	40,319
Other movements	-30,538			-30,538
At 31/12/2005	395,577	263,069	261,013	919,659
Changes in inventories recognized in the income statement	68,068	76,469	114,735	259,272
Changes in consolidation scope	1,850	-1,303	4,780	5,327
Impact of changes in exchange rates	-9,190	-6,103	-8,895	-24,188
Transfer to assets held for sale (note 11)	-29,360	-14,630	-13,321	-57,311
Other movements	9,629	-14,120	3,413	-1,078
At 31/12/2006	436,574	303,382	361,725	1,101,681
Changes in inventories recognized in the income statement	87,677	33,476	64,255	185,408
Changes in consolidation scope	-18,809	3,764	-10,174	-25,219
Impact of changes in exchange rates	-3,045	-9,311	-858	-13,214
Other movements	-10,211	8,944	2,063	796
At 31/12/2007	492,186	340,255	417,011	1,249,452
Provisions				
At 31/12/2004	-59,186	-4,934	-7,420	-71,540
Impact of changes in exchange rates	-977	-110	-590	-1,677
Charges to provisions	-6,432	-4,000	-5,047	-15,479
Reversals of provisions	9,614	907	2,339	12,860
Other movements	17,348			17,348
At 31/12/2005	-39,633	-8,137	-10,718	-58,488
Impact of changes in exchange rates	347	49	181	577
Charges to provisions	-11,180	-983	-10,945	-23,108
Reversals of provisions	7,551	2,190	4,375	14,116
Changes in consolidation scope	314	72	217	603
Transfer to assets held for sale (note 11)	2,217	738	558	3,513
Other movements	353	321	-293	381
At 31/12/2006	-40,031	-5,750	-16,625	-62,406
Impact of changes in exchange rates	-48	354	-107	199
Charges to provisions	-13,185	-4,403	-20,305	-37,893
Reversals of provisions	7,092	1,118	4,918	13,128
Changes in consolidation scope	4,893	-169	1,612	6,336
Other movements	265	-404	77	-62
At 31/12/2007	-41,014	-9,254	-30,430	-80,698
Net values				
At 31/12/2005	355,944	254,932	250,295	861,171
At 31/12/2006	396,543	297,632	345,100	1,039,275
At 31/12/2007	451,172	331,001	386,581	1,168,754

In 2005, "Other movements" represent the amount of inventories reclassified as property, plant and equipment in accordance with IAS 16 (gross values of € 30 million and provisions of € 17 million).
In 2007, "Changes in consolidation scope" correspond to the disposals of VPS and VCAV.

Note 7. – Trade and other receivables

	Advances and deposits paid on orders	Accounts receivable (gross) (*)	Provisions	Total
At 31/12/2004	4,304	654,611	-19,041	639,874
Impact of IAS 32/IAS39	-	-21,999	-	-21,999
Acquisitions by VAM Drilling USA (formerly Omsco Inc.)	61	11,742	-	11,803
Other changes in consolidation scope	-221	-5,632	33	-5,820
Impact of changes in exchange rates	662	46,198	-423	46,437
Changes in gross values	3,301	226,867	-	230,168
Charges to provisions	-	-	-3,677	-3,677
Reversals of provisions	-	-	9,392	9,392
At 31/12/2005	8,107	911,787	-13,716	906,178
Changes in consolidation scope	160	-355	280	85
Impact of changes in exchange rates	-227	-22,150	169	-22,208
Changes in gross values	4,090	163,626	2	167,718
Charges to provisions	-	-	-2,457	-2,457
Reversals of provisions	-	-	4,126	4,126
Transfer to assets held for sale (note 11)	-	-50,926	212	-50,714
At 31/12/2006	12,130	1,001,982	-11,384	1,002,728
Changes in consolidation scope	-1,221	-27,874	344	-28,751
Impact of changes in exchange rates	380	-10,238	52	-9,806
Changes in gross values	15,932	68,395	13	84,340
Charges to provisions	-	-	-3,346	-3,346
Reversals of provisions	-	-	3,457	3,457
At 31/12/2007	27,221	1,032,265	-10,864	1,048,622

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

The increase in "Accounts receivable" and "Advances and deposits paid on orders" is in line with the increase in the Group's activity. The provision reversals relate mainly to receivables that have become irrecoverable during the year and the remeasurement of provisions.

In 2007 the changes in consolidation scope correspond to the disposals of VPS and VCAV.

Note 8. – Financial instruments

Financial assets and liabilities

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

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

As explained in paragraph 2.18 of the accounting principles section, the main impact of IAS 32 and IAS 39 relates to the accounting treatment of hedging contracts entered into by the Group in respect of its commercial purchase and sale transactions in foreign currencies. The Group has also swapped to a fixed rate part of its variable-rate debt. The other effects of the transition to IAS 32 and IAS 39 have little impact on the financial statements (measurement of housing loans granted to staff in accordance with the effective interest rate method and measurement at fair value of marketable securities).

As regards exchange rate hedges, the hedging relationship is based on the spot rate for the currency. Premiums and discounts on derivatives are systematically regarded as ineffective and recognized in the income statement (financial income or loss).

Currency receivables and payables have been revalued at the spot rate at 31 December.

The position regarding hedging instruments changed from net assets of € 65.9 million at 31 December 2006 to net assets of € 130 million at 31 December 2007. This change is due mainly to the hedging of commercial transactions entered into by the European subsidiaries in US dollars. The continuing appreciation of the euro against the US dollar in 2007 generated a change of € 37.5 million resulting from hedges in respect of currency purchase and sale forecasts and € 25 million on hedges backed by receivables and payables.

In view of the effectiveness of the hedges in accordance with the criteria of IAS 39, the impact to be recognized in the income statement concerns mainly the premium/discount, which is in fact a loss of € 17.5 million in respect of the financial year 2007 (note 29).

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

Balance sheet items concerned	At 01/01/2006	At 31/12/2006	Movements in 2006		
			Total	o/w reserves	o/w income (loss)
1- Derivatives recognized in the balance sheet, see note 9 (1)					
Changes in the intrinsic value of forward sales of currencies and forward purchases (2) linked to order books and commercial tenders	-66,993	60,407	127,400	125,888	1,512
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with accounts receivables (and accounts payable (2))	-21,721	21,596	43,317	9	43,308
Recognition of premium/discount	-11,145	-23,131	-11,986	-9	-11,977
Recognition of changes in fair value of interest rate swaps	-1,398	7,632	9,030	9,030	
Changes in value due to derivatives not classified as such	802	-580	-1,382	25	-1,407
Sub-total: derivatives	-100,455	65,924	166,379	134,943	31,436
Reclassification as assets and liabilities held for sale		-1,028			
Of which: derivatives - assets	1,846	92,367			
Reclassification as assets held for sale		-1,324			
Of which: derivatives - liabilities	102,301	26,443			
Reclassification as liabilities held for sale		-296			
2 – Accounts receivable (accounts payable (2)) hedged in currencies – translation gain/loss					
Measurement at period-end exchange rate	20,280	-16,816	-37,096		-37,096
Impact of hedging operations	-80,175	49,108	129,283	134,943	-5,660
3 – Measurement of construction loans at the effective interest rate	-3,660	-3,515	145		145
4 – Measurement of marketable securities at fair value	34	121	87		87
5 – Deferred taxes (on exchange rate and interest rate hedges)	28,861	-22,706	-51,567	-49,227	-2,340
Total	-54,940	23,008	77,948	85,716	-7,768
Impact – see statement of changes in shareholders' equity					
Revaluation reserves - financial instruments	-43,023	42,702		85,725	
of which: Group share	-42,883	42,725		85,608	
of which: minority interests	-140	-23		117	
Other consolidation reserves	290	-11,926		-12,216	
Income (loss)	-12,207	-7,768		12,207	-7,768
Total	-54,940	23,008		85,716	-7,768

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

(2) Amounts not material in relation to sales.

Balance sheet items concerned	At 31/12/2006	At 31/12/2007	Movements in 2007		
			Total	o/w reserves	o/w income (loss)
1- Derivatives recognized in the balance sheet, see note 9 (1)					
Changes in the intrinsic value of forward sales of currencies and forward purchases (2) linked to order books and commercial tenders	60,407	97,958	37,551	37,896	-345
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with accounts receivable (and accounts payable (2))	21,596	46,598	25,002		25,002
Changes in the intrinsic value of hedges of raw materials and energy purchases linked to order books and commercial tenders		-249	-249	-249	
Changes in the intrinsic value of hedges of raw materials and energy purchases linked to accounts payable					
Recognition of premium/discount	-23,131	-17,918	5,213		5,213
Options to purchase US dollars linked to the acquisition of the premium OCTG activities of Grant Prideco		408	408		408
Recognition of changes in fair value of interest rate swaps	7,632	9,337	1,705	1,705	
Changes in value due to derivatives not classified as such	-580	-6,097	-5,517		-5,517
Sub-total: Derivatives	65,924	130,037	64,113	39,352	24,761
Reclassification as assets and liabilities held for sale		-1,028			
Of which: derivatives - assets	92,367	158,148			
Reclassification as assets held for sale		-1,324			
Of which: derivatives - liabilities	26,443	28,110			
Reclassification as liabilities held for sale		-296			

2 – Accounts receivable (accounts payable (2)) hedged in currencies – translation gain/loss					
Measurement at period-end exchange rate	-16,816	-45,273	-28,457		-28,457
Impact of hedging operations	49,108	84,764	35,656	39,352	-3,696
3 – Measurement of construction loans at the effective interest rate	-3,515	-1,671	1,844		1,844
4 – Measurement of marketable securities at fair value	121	693	572		572
5 – Deferred taxes (on exchange rate and interest rate hedges)	-22,706	-34,170	-11,464	-11,939	475
Total	23,008	49,616	26,608	27,413	-805
Impact – see statement of changes in shareholders' equity					
Revaluation reserves: financial instruments	42,702	70,097		27,395	
of which: Group share	42,725	70,026		27,301	
of which: minority interests	-23	71		94	
Other consolidation reserves	-11,926	-19,676		-7,750	
Income (loss)	-7,768	-805		7,768	-805
Total	23,008	49,616		27,413	-805

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

(2) Amounts not material in relation to sales.

The change in the fair value of financial instruments hedging the exchange rate risk which affected shareholders' equity as at 31 December 2006 was € 60,407 thousand.

At 31 December 2007, in view of the due dates of the orders in the Group's order book, around 94% of this change in fair value was transferred from shareholders' equity to the income statement, within the Group's foreign exchange gain or loss. This amount represents the impact of the changes in value of the exchange rate hedges in respect of the order book and commercial tenders at 31 December 2006 which have been fully or partially unwound or converted into receivables during the year ended 31 December 2007.

This impact was calculated for the hedges in US dollars, which represent 91% of the changes in fair value of the hedges affecting shareholders' equity as at 31 December 2006.

In view of the first-time application of IAS 39 as at 1 January 2005 and the modification of the information system during the financial years 2005 and 2006, the Group did not consider it necessary to provide this information in respect of the financial years 2005 to 2006, since the cost of obtaining such information would have been excessive in comparison with the relevance of the information produced.

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

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

Interest rate risk

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

Total debt

31/12/2007 (In € million)	Bond loan	Other loans	Cash and cash equivalents
Fixed rate	-	481.0	—
Variable rate	-	189.0	912.4
Total	-	670.0	912.4

Part of bank loans and other borrowings (€ 410 million) was swapped by Vallourec S.A. to a fixed rate: € 150 million (maturity: September 2008) was swapped at 4.05% and € 260 million (maturity: March 2012) was swapped at 3.55%, excluding the spread.

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

Its bank debt exposed to changes in variable interest rates amounted to about € 189 million (about 28.2% of total gross debt) at 31 December 2007.

The impact of a one percentage-point rise in interest rates applied to short-term rates of the eurozone, to Brazilian rates and US money market rates would result in a € 1.9 million increase in the Group's annual financial costs, based on the assumption that the level of debt and exchange rates remained completely

stable. This impact has not taken into account the interest rate risk on cash and cash equivalents due to the fact that part of such cash will be used to acquire the premium OCTG activities of Grant Prideco. In addition, according to our simulations, the impact of a one percentage-point rise or fall in interest rates applied to all interest rate curves would result in an approximately € 9.5 million change in the measurement of the swaps in place at 31 December 2007 (at Vallourec S.A. level).

Exchange rate risk

Translation risks

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

If the euro rises (or falls) against another currency, the value in euros of the various assets, liabilities, revenues and costs initially recognized in that other currency will fall (or rise). Therefore, changes in the value of the euro may have an impact on the value in euros of the assets, liabilities, revenues and costs not denominated in euros, even if the value of these items in their original currency has not changed. In 2007, about 38.4% of the net income, Group share, was generated by subsidiaries that prepare their financial statements in foreign currencies (mainly in US dollars and Brazilian reals). A 10% change in exchange rates would have an impact on net income, Group share, of around € 38 million.

In addition, the Group's sensitivity to the long-term exchange rate risk is reflected in the changes that have occurred in recent years in the translation reserves booked to shareholders' equity (€- 24 million as at 31 December 2007) which, over the last two years, have been linked mainly to movements in the US dollar and Brazilian real:

Translation reserve – Group share	31/12/2005	31/12/2006	31/12/2007
USD	20,001	-26,847	-72,572
GBP	52	897	-4,277
MXM (Mexican peso)	2,243	-2,668	-6,006
BRL (Brazilian real)	39,763	30,795	61,798
Others	1,013	-1,543	-2,981
	63,072	634	-24,038

Transaction risk

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

The main foreign currency used is the US dollar: a significant proportion of Vallourec's transactions is invoiced by the Group's European companies in this currency (30% of sales in 2007).

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

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

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

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

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

We estimate that a 10% rise in all hedges implemented by the Group would result in a € 123 million increase in the intrinsic value recognized in consolidated shareholders' equity and that a 10% fall would result in a € 140 million fall as at 31 December 2007. Most of these amounts would be due to changes in the US dollar against the euro.

Vallourec does not hedge the financial assets and liabilities in foreign currencies in its consolidated balance sheet.

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

At 31 December 2007, the following amounts were outstanding under forward foreign exchange contracts to hedge foreign-currency denominated purchases and sales:

Hedging contracts in respect of commercial transactions – Exchange rate risk	2005	2006	2007
Forward exchange contracts: forward sales	1,880,606	2,139,929	2,214,256
Forward exchange contracts: forward purchases	61,342	84,674	396,779
Currency options: sales		57,778	36,296
Currency options: purchases			249,650
Commodities: call options			639
Total	1,941,948	2,282,381	2,897,620

Contract maturities at 31 December 2007

Contracts in respect of commercial transactions	Total	One year or less	One to five years	Over five years
Forward exchange contracts: forward sales	2,214,256	1,922,141	262,115	-
Forward exchange contracts: forward purchases	396,779	302,666	94,113	-
Currency options: sales	36,296	36,296		-
Currency options: purchases	249,650	249,650		
Commodities: call options	639	639		
Total	2,897,620	2,511,392	356,228	

Forward sales correspond mainly to sales of US dollars (€ 2,022 million of the € 2,214 million total).

These contracts were transacted at an average forward EUR/USD exchange rate of 1.38.

Hedges usually cover an average period of 12 months and mainly hedge highly probable future transactions and foreign currency receivables.

At 31 December 2007, 88% of the hedges entered into by the Group had a maturity of less than 12 months. Hedges with a maturity in excess of 18 months are exceptional.

These details are representative of the Group's order book.

Credit risks

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

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

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

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

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

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

3. Trade receivables: the total amount of trade receivables that are more than 90 days overdue and against which no provision has been made represented about 2.5% of total trade receivables at 31 December 2007.

It should be noted that the Group's policy as regards providing against trade receivables is to recognize a provision as soon as any indications of impairment are identified. The amount of the provision is the difference between the carrying amount of the asset and the present value of the expected future cash

flows, taking into account the position of the counterparty, determined using the original effective interest rate of the financial instrument.

The Group does not consider it appropriate to assume that it is subject to any risk in respect of its receivables that are less than 90 days overdue.

As regards those receivables that are more than 90 days overdue, i.e. around 2.5% of total trade receivables at 31 December 2007, the Group considers that the risk is limited given its existing customer risk management procedures, which include:

- the implementation of credit limits and delegations of authority;
- the use of credit insurance and documentary credits;
- the reliability of the Group's customers and the longstanding nature of their commercial relationships;
- the commercial collection policy.

Share price risks

At 31 December 2006, Vallourec held 1,348,745 of its own shares acquired on 5 July 2001. At 31 December 2007, Vallourec held only 420,129 own shares following the exercise of options in respect of 928,616 shares under the terms of the 11 June 2003 share purchase plan (Note 17).

These shares are classified as investments in the Vallourec company accounts and stated at their carrying amount. They are deducted from shareholders' equity in the consolidated financial statements. The Management Board, in conjunction with the Supervisory Board, decided to allocate these shares in the following manner:

- to cover share purchase options granted under the option plan dated 11 June 2003, i.e. 928,616 options (1 option = 1 share) allocated in 2007;
- to cover bonus shares allocated on 16 January 2006, the definitive quantity of which will not be known until 2008;
- to cover bonus shares allocated on 3 May 2007, the definitive quantity of which will not be known until 2011;
- the balance to cover future allocations to certain Group employees, managers or officers of the Company, in accordance with the procedures defined jointly by the Management Board and the Supervisory Board.

In addition, in 2007 Vallourec implemented a liquidity contract with Crédit Agricole Chevreux, under the terms of the annual general share buy-back authorization granted by the Annual General Meeting of the shareholders on 1 June 2006 (16th resolution). To implement this contract, € 20 million was transferred to the liquidity account. At 31 December 2007, Vallourec held 63,400 shares with a value of € 12.3 million.

Classification and measurement of financial assets and liabilities

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

2007		Category (1)	Carrying amount at 31/12/2007	Amortized cost	At fair value through equity	At fair value through profit or loss
Assets						
Other non-current assets	Note 4					
Other investments in equity instruments		AVS	5,471		5,471	
Loans		L&R	6,701	6,701		
Other financial investments		L&R / HTM (2)	34,603	34,603		
Trade receivables	Note 7	L&R	1,032,065	1,032,265		
Derivatives - assets	Note 8					
Hedging financial instruments		CFH	158,148		108,048	50,100
Speculative financial instruments		A - FVTPL				
Other current assets	Note 9	L&R	142,753	142,753		
Cash and cash equivalents	Note 10	A - FVTPL	912,478			912,478
Liabilities and shareholders' equity						
Bank loans and other borrowings (3) (5)	Note 15	AC-EIR	544,630	544,630		
Other		AC-EIR	10,430	10,430		
Overdrafts and other short-term borrowings (4) (5)	Note 15	AC-EIR	115,028	115,028		
Trade payables		AC	671,900	671,900		
Derivatives - liabilities	Note 8					
Hedging financial instruments		CFH	22,614		2,169	20,445
Speculative financial instruments		L-FVTPL	5,497			5,497
Other current liabilities	Note 18	AC	292,762	292,762		

2006		Category (1)	Carrying amount at 31/12/2006	Amortized cost	At fair value through equity	At fair value through profit or loss
Assets						
Other non-current assets	Note 4					
Other investments in equity instruments		AVS	5,561		5,561	
Loans		L&R	7,985	7,985		
Other financial investments		L&R / HTM (2)	29,886	29,886		
Trade receivables	Note 7	L&R	1,001,982	1,001,982		
Derivatives - assets	Note 8					
Hedging financial instruments		CFH	91,043		66,255	24,788
Speculative financial instruments		A - FVTPL				
Other current assets	Note 9	L&R	111,928	111,928		
Cash and cash equivalents	Note 10	A - FVTPL	889,323			889,323
Liabilities and shareholders' equity						
Bank loans and other borrowings (3) (5)	Note 15	AC-EIR	494,036	494,036		
Other		AC-EIR	8,117	8,117		
Overdrafts and other short-term borrowings (4) (5)	Note 15	AC-EIR	345,737	345,737		
Trade payables		AC	602,344	602,344		
Derivatives – liabilities	Note 8					
Hedging financial instruments		CFH	25,525		519	25,006
Speculative financial instruments		L-FVTPL	622			622
Other current liabilities	Note 18	AC	263,401	263,401		

(1) A – FVTPL : Financial assets measured at fair value through profit or loss

HTM: Held-to-maturity investments

L & R: Loans and receivables

AVS: Available-for-sale financial assets

CFH: Cash flow hedge

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

AC: Amortized cost

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

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

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

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

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

(6) In the case of shares in listed companies, the impact must be recognized in shareholders' equity.

Note 9. – Other current assets

	Amounts due from staff and social security bodies	Receivables re taxes excluding income tax	Pre-payments	Receivables re income tax	Other receivables	Total
At 31/12/2004	6,540	66,388	5,528	44,470	14,261	137,187
Impact of changes in exchange rates	171	2,438	595	4,543	1,436	9,183
Other movements	64	6,673	-690	-45,697	10,165	-29,485
At 31/12/2005	6,775	75,499	5,433	3,316	25,862	116,885
Impact of changes in exchange rates	-22	-201	-262	-266	-336	-1,087
Transfer to assets held for sale (note 11)	-33	-1,970		-2,171	-9,231	-13,405
Other movements	1,103	-20,115	1,094	7,538	19,915	9,535
At 31/12/2006	7,823	53,213	6,265	8,417	36,210	111,928
Impact of changes in exchange rates	51	38	-250	248	481	568
Other movements	-600	10,664	4,102	6,900	9,191	30,257
At 31/12/2007	7,274	63,915	10,117	15,565	45,882	142,753

In 2005, changes in "Receivables re income tax" resulted from the reclassification of payments on account, which have been shown as a deduction from the tax liability shown on the liabilities side of the balance sheet.

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

Note 10. – Cash and cash equivalents

	Marketable securities (gross)	Cash	Total
At 31/12/2004	348,553	136,416	484,969
Impact of changes in exchange rates	27,394	7,071	34,465
Other movements	24,025	-2,181	21,844
At 31/12/2005	399,972	141,306	541,278
Impact of changes in exchange rates	-6,640	-9,328	-15,968
Other movements	238,764	126,294	365,058
Sub-total	632,096	258,272	890,368
Transfer to assets held for sale (note 11)		-1,045	-1,045
At 31/12/2006	632,096	257,227	889,323
Impact of changes in exchange rates	10,170	-10,362	-192
Other movements	-4,352	27,699	23,347
At 31/12/2007	637,914	274,564	912,478

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

Note 11. – Assets held for sale

Salzgitter and Vallourec signed the definitive agreement regarding the sale of Vallourec Précision Etirage (VPE) and the hot-rolling tube mill in Zeithain (Saxony) which had been announced on 13 December 2006. VPE, which specializes in the manufacture of cold drawn precision tubes, achieved sales of € 124.2 million in the first six months of 2007. VPE and the Zeithain plant employed 1,561 staff. The assets and liabilities concerned were shown as assets held for sale at the end of 2006. At 31 December 2006, these assets were measured at their carrying amount, which was not less than their fair value less costs to sell. The sale took effect on 2 July 2007.

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

In addition, VPS and VCAV, whose net assets were included within assets held for sale as at 30 September 2007, were sold in December 2007.

The sales achieved by these companies until they were sold totalled € 98 million and € 42 million respectively.

The sales of VPE, VPS, VCAV and the Zeithain plant resulted in a net loss of € 15 million, which has been recognized in the income statement.

Note 12. – Shareholders' equity

Capital

Vallourec's share capital comprised 53,038,720 ordinary shares with a nominal value of € 4 per share fully paid-up as at 31 December 2007 compared with 53,011,870 shares with a nominal value of € 4 per share fully-paid up as at 31 December 2006.

The share subscription options exercised at € 7.49 between 1 January 2007 and 14 June 2007 resulted in the issue of 26,850 new shares. i.e. an increase of € 202 thousand, premium included.

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

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

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

Reserves, financial instruments

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

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

Translation reserve

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

	USD	GBP	Brazilian Real	Mexican Peso	Others	Total
At 31/12/2005	20,001	52	39,763	2,243	1,013	63,072
Movements	-46,848	845	-8,968	-4,911	-2,556	-62,438
At 31/12/2006	-26,847	897	30,795	-2,668	-1,543	634
Movements	-45,725	-5,174	31,003	-3,338	-1,438	-24,672
At 31/12/2007	-72,572	-4,277	61,798	-6,006	-2,981	-24,038

It should be noted that, in accordance with the option offered by IFRS 1 ("First-time Adoption of IFRS"), the Vallourec Group chose, on 1 January 2004, to reclassify under the heading "Consolidated reserves" the translation reserve accumulated since the acquisition by the Group of the foreign subsidiaries.

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

	USD	GBP	Brazilian Real	Mexican Peso
2005				
Average rate	1.24	0.68	3.03	13.56
Closing rate	1.18	0.69	2.74	12.54
2006				
Average rate	1.26	0.68	2.73	13.69
Closing rate	1.32	0.67	2.81	14.23
2007				
Average rate	1.37	0.68	2.66	14.96
Closing rate	1.47	0.73	2.60	16.07

Note 13. – Earnings per share

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

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

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

Earnings per share	2005 (*)	2006	2007
Net income attributable to the ordinary shareholders for basic earnings per share	472,985	917,005	986,204
Weighted average number of ordinary shares for basic earnings per share	51,042,895	53,005,890	53,034,478
Weighted average number of own shares for basic earnings per share	-1,348,745	-1,348,745	-825,444
Weighted average number of shares for basic earnings per share	49,694,150	51,657,145	52,209,034
Earnings per share	9.5	17.8	18.9
Dilution effect – share purchase and share subscription options and bonus shares	809,555	1,132,572	332,131
Adjusted weighted average number of ordinary shares for diluted earnings per share	50,503,705	52,789,717	52,541,165
Diluted earnings per share	9.4	17.4	18.8

Dividends paid during the year	2005 (*)	2006	2007
In respect of the previous period	0.64	1.44	4.00
Interim dividend in respect of the current period	0.80	2.00	4.00

(*) Recalculated to take into account the division by 5 of the nominal value of Vallourec's shares, which took effect on 18 July 2006 (EGM of 1 June 2006).

Note 14. – Minority interests

	Reserves	Translation difference	Net income	Total
At 31/12/2005	-54,343	7,092	159,404	112,153
At 31/12/2006	14,286	-3,757	82,290	92,819
At 31/12/2007	54,510	-10,876	38,258	81,892

In 2005, the minority interests in the subsidiaries controlled by the Vallourec Group comprised mainly the Sumitomo and Timet Groups. Since 31 December 2006, following the acquisition from Timet of its 43.7% interest in Valtimet, minority interests have related largely to the Sumitomo Group.

Note 15. – Bank loans and other borrowings

Liquidity risks

In 2003, Vallourec entered into a € 150 million credit facility with the Crédit Agricole Group. The facility has a five-year term, maturing in September 2008. Vallourec used hedging instruments (swaps) to fix the rate of this borrowing. The loan contract requires the Vallourec Group to maintain its ratio of consolidated net debt to consolidated shareholders' equity at less than or equal to 75%.

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

This € 460 million facility requires Vallourec to maintain its ratio of consolidated net debt to consolidated shareholders' equity at less than or equal to 75% calculated at 31 December each year and for the first time on 31 December 2005. A change of control of Vallourec could result in the repayment of the loan if so decided by a two-thirds majority of the participating banks. It is also provided that the loan would become immediately repayable if the Group failed to make a repayment in respect of one of its other borrowings ("cross default"), or if a significant event occurred affecting the Group's business or financial situation and ability to repay its borrowings.

In addition, the capital expenditure of V & M do Brasil required this subsidiary to put in place several medium-term financing lines in 2005 and 2006, denominated in Brazilian reais. At 31 December 2007, the main constituents of the outstanding loan were 163 million reais from BNDES, 52 million reais from Banco do Nordeste, 49 million reais from Banco do Brasil and 45 million reais from BDMG.

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

As at 31 December 2007, a tranche of € 260 million had been drawn down and is included in non-current liabilities.

The Group complied with its covenants as at 31 December 2007.

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

Financial liabilities – Non-current liabilities

	Bank loans	Other bank and similar borrowings	Total
At 31/12/2004	187,221	2,594	189,815
Reclassification of minority interests as liabilities in accordance with IAS 32 - 1/01/2005	-	431,280	431,280
Purchase of minority interests on 23 June 2005	-	-436,627	-436,627
New borrowings taken out	303,786	147	303,933
Repayments	-24,245	-741	-24,986
Impact of changes in exchange rates	5,629	794	6,423
Other movements	-3,119	2,908	-211
At 31/12/2005	469,272	355	469,627
New borrowings taken out	21,398	193	21,591
Repayments	-22,600	-571	-23,171
Reclassifications	-5,578	1,791	-3,787
Impact of changes in exchange rates	-1,364	-5	-1,369
Changes in consolidation scope	3,484	1,380	4,864
Other movements		-300	-300
Sub-total	464,612	2,843	467,455
Transfer to liabilities held for sale (note 11)	-26		-26
At 31/12/2006	464,586	2,843	467,429
New borrowings taken out	34,591	133	34,724
Repayments	-1,876	-1,039	-2,915
Reclassifications	-166,146		-166,146
Impact of changes in exchange rates	4,204	-3	4,201
Changes in consolidation scope		-3,713	-3,713
Other movements		3,667	3,667
At 31/12/2007	335,359	1,888	337,247

At 1 January 2005, the changes in "Other bank and similar borrowings" consist mainly of the treatment of the "put option" exercisable by Mannesmannröhren – Werke AG in connection with the implementation of IAS 32 and IAS 39:

At 1 January 2005, a financial liability was recognized of an amount equal to the discounted fair value of the purchase amount (€ 431 million). This amount takes into account the acquisition price of € 545 million, which includes the net income until the acquisition date. This financial liability was recognized by deduction from the amount at which the minority interests in V & M Tubes were recorded in shareholders' equity in the IFRS balance sheet as at 31 December 2004, and as a deduction from shareholders' equity – Group share, in the case of the portion of the liability that exceeds said minority interests. The costs directly associated with the transaction have also been deducted from shareholders' equity – Group share. The purchase by Vallourec on 23 June 2005 of the 45% stake in V & M Tubes held by MRW terminated the put option (see information on consolidation scope - A). A discounting charge in respect of the put option of € 5.3 million is included in financial income (loss) (see note 29).

Financial liabilities – current liabilities

	Bank overdrafts	Accrued interest on bank overdrafts	Bank loans (one year or less)	Accrued interest on bank loans	Other bank and similar borrowings (one year or less)	Total
At 31/12/2004	220,430	68	19,302	689	125	240,614
Impact of changes in exchange rates	22,769		2,372			25,141
Other movements	-7,798	-27	16,952	583	872	10,582
At 31/12/2005	235,401	41	38,626	1,272	997	276,337
Reclassifications			5,578			5,578
Impact of changes in exchange rates	-4,003		-952	-1	-12	-4,968
Changes in consolidation scope	-2,174		481			-1,693
Other movements	129,598	51	-15,512	-19	4,289	118,407
Sub-total	358,822	92	28,221	1,252	5,274	393,661
Transfer to liabilities held for sale (note 11)	-13,127	-50	-23			-13,200
At 31/12/2006	345,695	42	28,198	1,252	5,274	380,461
Reclassifications			166,149			166,149
Impact of changes in exchange rates	6,400	-1	183		-251	6,331
Changes in consolidation scope	-17,518	-31		-46	-3,618	-21,213
Other movements	-219,579	20	14,000	-465	7,137	-198,887
At 31/12/2007	114,998	30	208,530	741	8,542	332,841

Indebtedness by currency

	USD	EUR	REAL	Others	Total
At 31/12/2005 – currency thousand	162,471	562,234	122,875	n/a	n/a
At 31/12/2005 - € thousand	137,722	562,234	44,819	1,189	745,964
At 31/12/2006 – currency thousand	189,346	624,583	191,519	n/a	n/a
At 31/12/2006 - € thousand	143,771	624,583	68,098	11,437	847,889
At 31/12/2007 – currency thousand	78,804	428,800	441,057	n/a	n/a
At 31/12/2007 - € thousand	53,532	428,800	169,520	18,236	670,088

Breakdown by maturity of non-current bank loans and other borrowings

	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
At 31/12/2005	4,418	156,096	6,805	6,512	295,796	469,627
At 31/12/2006	159,433	10,202	9,143	8,576	280,074	467,428
At 31/12/2007	13,770	17,662	14,621	278,001	13,193	337,247

Indebtedness over one year at the outset, by rate

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

	Rate < 3%	Rate 3% to 6%	Rate 6% to 10%	Rate >10%	Total
At 31/12/2005	Rate < 3%	Rate 3% to 6%	Rate 6% to 10%	Rate >10%	Total
Fixed rates	1,171	301,351	-	44,818	347,340
Variable rates	161,910		-	-	161,910
Total	163,081	301,351	-	44,818	509,250
At 31/12/2006	Rate < 3%	Rate 3% to 6%	Rate 6% to 10%	Rate > 10%	Total
Fixed rates	2,588	411,280	19,779	10,086	443,733
Variable rates	3,618	7,814	32,448	13,287	57,167
Total	6,206	419,094	52,227	23,373	500,900
At 31/12/2007	Rate < 3%	Rate 3% to 6%	Rate 6% to 10%	Rate >10%	Total
Fixed rates	1,845	435,959	42,301	788	480,893
Variable rates		6,727	44,713	21,986	73,426
Total	1,845	442,686	87,014	22,774	554,319

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

Note 16. – Provisions for liabilities and charges

Non-current liabilities	Provisions for environmental risks
At 31/12/2004	3,370
Allocations for the year	363
Provisions used	-
Impact of changes in exchange rates	574
Other	-
At 31/12/2005	4,307
Allocations for the year	216
Provisions used	-2,056
Impact of changes in exchange rates	-107
Other	1,217
At 31/12/2006	3,577
Allocations for the year	3,396
Provisions used	-343
Impact of changes in exchange rates	252
Other	
At 31/12/2007	6,882

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

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

Current liabilities	Commercial disputes	Orders outstanding – losses on completion	Reorganization measures	Tax risks (duties, taxes, tax audits, etc.)	Other	Total
At 31/12/2004	16,242	7,466	12,387	17,719	11,145	64,959
Allocations for the year	9,368	929		14,065	7,485	31,847
Provisions used	-6,630	-5,096	-9,634	-8,856	-4,678	-34,894
Other reversals	-2,205		-261		-1,098	-3,564
Impact of changes in exchange rates	2,194	40		6,125	653	9,012
Other	-383			6	-499	-876
At 31/12/2005	18,586	3,339	2,492	29,059	13,008	66,484
Allocations for the year	12,858	5,130	2	9,012	17,723	44,725

Provisions used	-10,231	-1,511	-1,361	-310	-5,306	-18,719
Other reversals	-2,424		-279	-6,454	-1,859	-11,016
Impact of changes in exchange rates	-288	-1		-796	-100	-1,185
Transfer to liabilities held for sale (note 11)	-566	-1,333	-535		-48	-2,482
Other	-189	-199		626	-525	-287
At 31/12/2006	17,746	5,425	319	31,137	22,893	77,520
Allocations for the year	20,508	2,266		3,840	10,887	37,501
Provisions used	-13,691	-2,854	-18	-4,507	-6,348	-27,418
Other reversals	-1,418				-22	-1,440
Impact of changes in exchange rates	415	5		2,458	214	3,092
Changes in consolidation scope	2,259	55			-2,302	12
Other (1)	-394	-40		2	-8,730	-9,162
At 31/12/2007	25,425	4,857	301	32,930	16,592	80,105

(1) Please refer to note 2.

Reorganization measures

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

Provision for tax risks

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

Other current provisions

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

Note 17. – Employee benefits

	Germany	France	United Kingdom	Other	Total
At 31/12/2005					
Net present value of the commitment	171,728	42,665	85,834	21,173	321,400
Retirement	141,524	34,787	85,834	17,885	280,030
Early retirement commitments	16,236	2,811			19,047
Long-service awards and medical benefits	13,968	4,838		3,290	22,096
Fair value of the plan assets		-900	-59,969	-4,045	-64,914
Past service costs not recognized		-3,397			-3,397
Actuarial gains and losses	-20,433	-927	-15,875	-5,877	-43,112
Provision	151,295	37,212	9,990	11,253	209,750
At 31/12/2006					
Discounted value of the commitment	170,156	42,305	91,900	23,108	327,469
Retirement	141,329	36,285	91,900	19,553	289,067
Early retirement commitments	15,375	964			16,339
Long-service awards and medical benefits	13,452	5,056		3,556	22,064
Fair value of the plan assets		-1,796	-71,830	-6,956	-80,582
Past service costs not recognized		-3,136			-3,136
Actuarial gains and losses	-15,110	-2,666	-13,086	-6,027	-36,889
Transfer to liabilities held for sale (note 11)	-4,964	-6,658			-11,622
Provision	150,082	28,049	6,984	10,126	195,241
At 31/12/2007					
Discounted value of the commitment	165,106	31,032	85,847	24,008	305,993
Retirement	141,735	27,502	85,847	19,996	275,080
Early retirement commitments	11,207	158			11,365
Long-service awards and medical benefits	12,164	3,372		4,012	19,548
Fair value of the plan assets	-30,000	-2,078	-75,660	-7,906	-115,644
Past service costs not recognized	-291	-2,875			-3,166
Actuarial gains and losses	-5,787	-948	-7,902	-4,348	-18,985
Changes in consolidation scope and other		45			45
Provision	129,028	25,176	2,285	11,754	168,243

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

Main actuarial assumptions	Germany	France	United Kingdom	Other
At 31/12/2005				
Discount rate	4.25%	4.00%	4.75%	between 4.00% and 9.65%
Long-term return on plan assets	n/a	4.00%	6.50%	between 4.00% and 9.65%
Rate of salary increase	2.75%	2.75%	4.25%	between 1.00% and 3.50%
At 31/12/2006				
Discount rate	4.50%	4.25%	5.25%	between 4.00% and 8.12%
Long-term return on plan assets	n/a	4.50%	6.50%	between 5.00% and 8.12%
Rate of salary increase	2.75%	2.75%	4.25%	between 3.22% and 5.10%
At 31/12/2007				
Discount rate	5.36%	5.15%	5.75%	between 4.00% and 8.12%
Long-term return on plan assets	5.70%	4.90%	6.50%	between 5.00% and 8.12%
Rate of salary increase	2.75%	3.00%	4.50%	between 3.22% and 3.50%

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

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

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

At 31 December 2004, the methods applied by the Vallourec Group for measuring retirement and similar benefits in accordance with the provisions of IAS 19 "Employee benefits" did not differ materially from those applicable under French GAAP.

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

For 2005, 2006 and 2007:

- the value of payments into the plans was € 5,849 thousand in 2005, € 10,761 thousand in 2006 and € 40,053 thousand in 2007;
- the return on plan investments was € 9,278 thousand in 2005, € 7,190 thousand in 2006 and € 6,210 thousand in 2007.

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

At 31 December 2007 the experience variances for the Group totalled € 3.5 million (€ 10.2 million at 31 December 2006).

The Group envisages paying in 2008 an amount of € 20.7 million in respect of defined benefit schemes, including € 8.4 million in respect of German schemes, € 7 million in respect of UK schemes and € 4.4 million in respect of Brazilian schemes.

Those schemes which are fully or partially outsourced represent a total commitment of € 194,609 thousand at 31 December 2007 for assets of € 115,644 thousand.

France

Commitments in France correspond mainly to retirement gratuities and long-service award schemes. At 31 December 2007 a sensitivity test was carried out on the retirement gratuities and long-service awards: a 0.5% reduction in the discount rate would result in a change of about € 1.2 million in these commitments.

In France, the provision booked in respect of "CASA" agreements (early retirement programmes for older employees) implemented in 2002 amounted to € 78.5 thousand as at 31 December 2007 (€ 0.5 million as at 31 December 2006 and € 2.9 million as at 31 December 2005).

Under the terms of the agreement entered into with the government, the scheme has been closed since 28 February 2005, that being the latest date on which employees were able to join the scheme. At 31 December 2007, 13 employees were beneficiaries under such agreements, compared with 71 the previous year and 162 in 2005.

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

Germany

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

A sensitivity test was carried out on the main German pension plans: a 0.5% reduction in the discount rate would result in a change of about € 7.6 million in these commitments.

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

A € 30 million exceptional contribution was paid to a financial institution to cover the Group's commitments in Germany.

United Kingdom

The Group participates in the financing of a defined benefit pension scheme for Group employees. The commitments are carried off balance sheet and managed by leading institutions in the financial markets. A sensitivity test was carried out on this plan: a 0.5% reduction in the discount rate would result in a change of about € 9.2 million in these commitments.

The return on plan assets for the financial year 2007 was € 5.6 thousand compared with an expected return of € 4.8 thousand, giving an actuarial gain of € 0.8 thousand.

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

Brazil

In Brazil, the employer participates in the financing of retirement gratuities and long-service awards. The retirement gratuities are partially carried off balance sheet in a pension fund with total assets of € 689 thousand at 31 December 2005, € 501 thousand at 31 December 2006 and € 802 thousand at 31 December 2007. The amounts paid into the fund totalled € 595 thousand in 2005, € 712 thousand in 2006 and € 521 thousand in 2007.

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

Mexico

Mexico was not one of the countries included in the review as at 31 December 2004 since local standards were considered to be similar to IFRS and any restatement deemed not material. In 2005, measurements in accordance with IAS 19 were carried out. The Group's commitments in Mexico, which amounted to € 513 thousand in 2007, € 483 thousand in 2006 and € 471 thousand in 2005, correspond mainly to retirement gratuities, which are partially financed.

United States

There is a retirement scheme under which benefits are not linked to salary. In 2005 the assumption was made that benefits would increase by 3%, which resulted in an increase in commitments of around € 2.7 million.

In addition, in 2005 the reduction in the discount rate and a more significant than forecast movement in salaries in respect of a limited number of employees resulted in the generation of actuarial losses.

The changes in the assumptions are deemed to have been made during 2005 and the charge for retirement commitments amended accordingly. As regards the assumption concerning the increase in medical benefits, the rate used will reduce successively from 2005 to 2012 and then be fixed beyond 2012, i.e. from 10.4% to 5.9% for active employees and from 12.2% to 6.5% for retired employees.

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

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

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

Other countries

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

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

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

Charge for the year	Germany	France	United Kingdom	Other	Total
At 31/12/2005					
Cost of services rendered	8,944	1,809	1,392	2,033	14,178
Interest charges on the commitment	7,184	1,530	3,261	961	12,936
Expected return on plan assets	-	-	-3,510	-267	-3,777
Net actuarial gains/losses recognized during the period	1,537	-183	-	780	2,134
Past service costs	-	74	-	5	79
Impact of any reduction or liquidation	-	-	-	-169	-169
Net charge recognized	17,665	3,230	1,143	3,343	25,381
Actual return on plan assets	-	-	9,341	-63	9,278
At 31/12/2006					
Cost of services rendered	5,158	1,786	2,319	2,088	11,351
Interest charges on the commitment	7,013	1,488	4,040	1,254	13,795
Expected return on plan assets	-	-57	-3,939	-398	-4,394
Net actuarial gains/losses recognized during the period	-523	984	408	615	1,484
Past service costs	-	149	-	2	151
Impact of any reduction or liquidation	-	-	-	-	-
Net charge recognized	11,648	4,350	2,828	3,561	22,387
Actual return on plan assets	-	108	6,533	549	7,190
At 31/12/2007					
Cost of services rendered	3,400	1,616	2,664	1,880	9,560
Interest charges on the commitment	7,101	1,583	4,666	1,283	14,633
Expected return on plan assets	-	-77	-4,755	-582	-5,414
Net actuarial gains/losses recognized during the period	960	-2	212	1,118	2,288
Past service costs	7,575	-	-	-	7,575
Impact of any reduction or liquidation	-	-9	-	-	-9
Net charge recognized	19,036	3,111	2,787	3,699	28,633
Actual return on plan assets	-	81	5,646	483	6,210

An analysis of the actuarial gains and losses is provided in the following table:

	Germany	France	United Kingdom	Other	Total
Actuarial gains and losses 31/12/2005	20,433	4,324	15,875	5,877	46,509
Actuarial gains and losses 31/12/2006	15,110	5,802	13,086	6,027	40,025
Change	-5,323	1,478	-2,789	150	-6,484
Net actuarial gains/losses recognized during the period	-523	984	408	615	1,484
Adjustments linked to experience	615	-2,244	-7,461	-1,106	-10,196
Adjustments linked to changes in actuarial assumptions	5,233	-122	10,122	-200	15,033
Exchange rate differences and other	-2	-96	-280	541	163
	5,323	-1,478	2,789	-150	6,484

	Germany	France	United Kingdom	Other	Total
Actuarial gains and losses 31/12/2006	15,110	5,802	13,086	6,027	40,025
Actuarial gains and losses 31/12/2007	5,496	4,325	7,902	4,931	22,654
Change	-9,614	-1,477	-5,184	-1,096	-17,371
Net actuarial gains/losses recognized during the period	960	-2	212	1,118	2,288
Adjustments linked to experience	-3,435	-661	76	477	-3,543
Adjustments linked to changes in actuarial assumptions	11,447	2,124	4,084		17,655
Exchange rate differences and other	642	16	812	-499	971
	9,614	1,477	5,184	1,096	17,371

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

Changes in associated assets	Germany	France	United Kingdom	Other	Total
Value of the assets	n/a	-	48,628	1,969	50,597
Return on assets	n/a		9,341	-63	9,278
Additional benefits	n/a	900	3,045	1,904	5,849
Benefits paid	n/a	-	-2,425	-353	-2,778
Impact of changes in exchange rates	n/a	-	1,380	588	1,968
At 31/12/2005	n/a	900	59,969	4,045	64,914
Value of the assets	n/a	900	59,969	4,045	64,914
Return on assets	n/a	108	6,533	549	7,190
Additional benefits	n/a	407	6,547	3,807	10,761
Benefits paid	n/a	-88	-2,611	-912	-3,611
Acquisitions, disposals, liquidations	n/a	469	-	-	469
Impact of changes in exchange rates	n/a	-	1,392	-533	859
Au 31/12/2006	n/a	1,796	71,830	6,956	80,582
Value of the assets		1,796	71,830	6,956	80,582
Return on assets		81	5,646	483	6,210
Additional benefits	30,000	466	7,824	1,763	40,053
Benefits paid		-294	-2,874	-243	-3,411
Acquisitions, disposals, liquidations		29	-	-	29
Impact of changes in exchange rates		-	-6,766	-1,053	-7,819
At 31/12/2007	30,000	2,078	75,660	7,906	115,644

Changes in the commitment	Germany	France	United Kingdom	Other	Total
At 31/12/2005	171,728	42,665	85,834	21,173	321,400
Cost of services rendered	5,158	1,786	2,319	2,088	11,351
Interest charges on the commitment	7,013	1,488	4,040	1,254	13,795
Employee contributions			556		556
Actuarial gains and losses	-5,847	2,415	-66	1,456	-2,042
Acquisitions / disposals		-219			-219
Payment of benefits	-7,896	-5,065	-2,611	-1,031	-16,603

Exchange rate differences			1,828	-1,692	136
Other	-	-765	-	-140	-905
At 31/12/2006	170,156	42,305	91,900	23,108	327,469

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

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

Changes in the provision	Germany	France	United Kingdom	Other	Total
Provision at 31/12/2004	141,074	38,255	11,110	8,441	198,880
Total charge for the period	17,665	3,230	1,143	3,343	25,381
Benefits or contributions to the funds	-7,444	-4,679	-2,587	-1,982	-16,692
Impact of changes in exchange rates	-	-	324	1,913	2,237
Other (reclassifications, etc.)	-	-104	-	48	-56
Provision at 31/12/2005	151,295	36,702	9,990	11,763	209,750
Total charge for the period	11,648	4,350	2,828	3,561	22,387
Benefits or contributions to the funds	-7,897	-5,052	-5,991	-3,929	-22,869
Impact of changes in exchange rates	-	-	157	-758	-601
Transfer to liabilities held for sale (note 11)	-4,964	-6,658	-	-	-11,622
Change in consolidation scope and other	-	-1,293	-	-511	-1,804
Provision at 31/12/2006	150,082	28,049	6,984	10,126	195,241
Total charge for the period	19,036	3,111	2,787	3,699	28,633
Benefits or contributions to the funds	-40,060	-3,225	-7,191	-2,058	-52,534
Impact of changes in exchange rates	-	-	-295	14	-281
Change in consolidation scope and other	-30	-2,759	-	-27	-2,816
Provision at 31/12/2007	129,028	25,176	2,285	11,754	168,243

The following table provides a breakdown of the plan assets:

United Kingdom	31/12/2007		31/12/2006		31/12/2005	
	Proportion	Rate of return	Proportion	Rate of return	Proportion	Rate of return
Equities (UK and Overseas)	63%	7.75%	63%	7.75%	61%	8.00%
Bonds	12%	4.87%	12%	5.25%	14%	4.75%
Property	0%	0%	0%	0.00%	0%	0.00%
Other (Cash & Index Linked Gilts)	25%	4.22%	25%	4.25%	25%	4.00%

United States	31/12/2007		31/12/2006		31/12/2005	
	Proportion	Rate of return	Proportion	Rate of return	Proportion	Rate of return
Equities	50%	9.00%	55%	10.00%	55%	10.00%
Bonds	40%	5.00%	34%	6.00%	35%	6.00%
Property	10%	9.00%	11%	10.00%	10%	10.00%
Other	0%	0%	0%	0.00%	0%	0.00%

France	31/12/2007		31/12/2006		31/12/2005	
	Proportion	Rate of return	Proportion	Rate of return	Proportion	Rate of return
Equities	0%	0%	0%	0.00%	0%	0.00%
Bonds	0%	0%	0%	0.00%	0%	0.00%
Property	0%	0%	0%	0.00%	0%	0.00%
Other	100%	4.50%	100%	4.00%	100%	4.00%

In the case of Germany, the exceptional € 30 million contribution, paid on 27 December by V & M Deutschland, was invested at the year end in risk-free money market funds.

Amounts written off as expenses in respect of defined contribution plans	Workers	Management and supervisory staff	Total
At 31/12/2005			
Employer's share of retirement contributions	7,599	9,299	16,898
Life insurance paid by the employer	729	1,099	1,828
Other retirement contributions	29	119	148
Total	8,357	10,517	18,874
At 31/12/2006			
Employer's share of retirement contributions	7,652	11,077	18,729
Life insurance paid by the employer	928	1,385	2,313
Other retirement contributions	462	4	466
Total	9,042	12,466	21,508
At 31/12/2007			
Employer's share of retirement contributions	6,993	10,202	17,195
Life insurance paid by the employer	802	1,206	2,008
Other retirement contributions	478	745	1,223
Total	8,273	12,153	20,426

Other employee benefits (options and bonus shares)

Share subscription options – granted on 15 June 2000

The Extraordinary Shareholders' Meeting held on 15 June 2000 (first resolution) authorized the Management Board to grant subscription options to managers and/or employees of the Group's companies, for a duration of five years and up to a limit of 4% of Vallourec's share capital. Options were granted under this authorization on 15 June 2000. The main characteristics of these options are shown in the table below.

All figures have been recalculated to take into account the division by 5 of the nominal value of Vallourec's shares on 18 July 2006 and the resulting multiplication by 5 of the number of shares.

	Plan
Date of General Meeting	15 June 2000
Date of Management Board meeting	15 June 2000
Total number of options granted	892,500
Adjustment to the number of options following the rights offering on 13 July 2005	1,090
Date from which options may be exercised	15 June 2004
Expiry date	14 June 2007

	2005	2006	2007
Of which number of options granted to those employees who were members of the Executive Committee as at 31 December	155,000	102,500	82,500
Number of senior managers involved	7	7	6
Exercise price (*)	€ 7.60	€ 7.60	€ 7.60
Exercise price adjusted for rights offering on 13 July 2005	€ 7.49	€ 7.49	€ 7.49
Number of options cancelled after being granted (**)	33,750	33,750	33,750
Number of options not exercised			3,810
Number of shares subscribed as at 31 December (1 option = 1 share)	818,970	829,180	856,030
(of which number of shares subscribed by members of the Executive Committee)	155,000	102,500	82,500

Number of options that could be exercised at 31 December (of which number of options that could be exercised by members of the Executive Committee)	40,870	30,660	
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(*) 95% of the average for the 20 trading sessions preceding the grant date.

(**) Option holders who have left the Group.

Share purchase options – granted on 15 June 2003

The second resolution of the Extraordinary Shareholders' Meeting held on 15 June 2000 also authorized the Management Board, during a five-year period and up to a limit of 10% of the share capital, to grant purchase options concerning existing shares that would first have to be bought on the stock exchange in accordance with the share repurchase authorizations given by the Meeting.

Options were granted under this authorization on 11 June 2003. The main characteristics of these options are shown in the table below.

All figures have been recalculated to take into account the division by 5 of the nominal value of Vallourec's shares on 18 July 2006 and the resulting multiplication by 5 of the number of shares.

	Plan
Date of General Meeting	15 June 2000
Date of Management Board meeting	15 June 2003
Total number of shares employees may purchase	965,000
Adjustment to the number of options following the rights offering on 13 July 2005	14,480
Date from which options may be exercised	11 June 2007
Expiry date	10 June 2010

	2005	2006	2007
Of which number of options granted to those employees who were members of the Executive Committee as at 31 December	270,000	195,000	175,000
Adjustment to the number of options following the rights offering	4,095	2,965	2,660
Number of senior managers involved	7	7	6
Exercise price (*)	€ 10.73	€ 10.73	€ 10.73
Exercise price adjusted for rights offering on 13 July 2005	€ 10.57	€ 10.57	€ 10.57
Number of options cancelled after being granted (**)	13,750	13,750	13,750
Number of options exercised since date granted			928,616
(of which number of shares subscribed by members of the Executive Committee)			177,660
Number of shares that employees may purchase at 31 December (of which number of shares subscribed by members of the Executive Committee)	965,730	965,730	37,114 -

(*) Average price for the 20 trading sessions preceding the grant date, not discounted.

(**) Option holders who have left the Group.

In accordance with the transitional provisions specifically provided for by IFRS 1 and IFRS 2, the Group has recognized and measured in accordance with IFRS 2 only the share purchase option plan - see paragraph 2.16 of the accounting principles section. This plan gave rise to payroll costs of € 0.9 million as at 31 December 2004, 2005 and 2006 and € 0.4 million in 2007 (note 24).

Bonus Share Allocation Plan (PAGA): 16 January 2006

At its meeting on 16 January 2006, Vallourec's Management Board implemented a Bonus Share Allocation Plan (*Plan d'Attribution Gratuite d'Actions - PAGA*) approved by the Supervisory Board.

A theoretical number of Vallourec bonus shares was allocated by the Management Board on 16 January 2006 (148,000 after multiplication by 5 of the number of shares on 18 July 2006 - see note 12). The definitive allocation (number of shares) will be based on the Vallourec Group's performance in terms of consolidated EBITDA in 2006 and 2007. It will be calculated by applying a multiplying factor K, representing this performance, to the theoretical number of shares allocated by the Management Board on 16 January 2006. K can range from 0 to 1.33.

Factor K is calculated for each of the two years 2006 and 2007 and is applied to one half of the initial theoretical allocation in respect of each year. The amount resulting from the application of each of the

coefficients for 2006 and 2007 will constitute the definitive number of shares allocated to the beneficiary on 16 January 2008. The value of K was 1.33 in 2006 and 1.23 in 2007.

The share price on 16 January 2006 was € 93.3 (after division by 5 of the nominal value of Vallourec's shares - see above).

The binomial model of projecting share prices has been used to measure the fair value of the shares allocated. Each employee's benefit corresponds to the fair value of the shares allocated, reduced to take into account the fact that no dividends will be received for two years and the cost to the employee of the fact that the shares may not be transferred for a period of two years.

	2006	2007
Initial theoretical number of shares allocated, if K=1	148,000	148,000
Number of shares cancelled after being allocated (**)	350	350
Theoretical number of shares allocated on 31 December, if K=1	147,650	147,650
Of which theoretical number of shares allocated to those employees who were members of the Executive Committee as at 31 December, if K=1	36,000	32,500
Number of senior managers involved	7	7
(**) Beneficiaries who have left the Group.		

The charge recognized in the income statement in respect of the 16 January 2006 PAGA was € 8.3 million for the financial year 2006 and € 7.2 million for the financial year 2007, of which € 7 million is included in payroll costs (note 24) and € 0.2 million is deducted from gains or losses on disposals of non-current assets (bonus shares allocated to employees of companies that have been sold).

Share subscription options – granted on 3 September 2007

The Extraordinary Shareholders' Meeting held on 6 June 2007 (seventh resolution) authorized the Management Board to grant share subscription options.

Options were granted under this authorization on 3 September 2007. The main characteristics of these options are shown in the table below.

	Plan
Date of General Meeting	6 June 2007
Date of Management Board meeting	3 September 2007
Total number of options granted	147,300
Date from which options may be granted	3 September 2011
Expiry date	3 September 2014

	2007
Of which number of options granted to those employees who were members of the Executive Committee as at 31 December	56,500
Number of senior managers involved	7
Exercise price (*)	190.60
Number of options cancelled after being granted (**)	-
Number of shares subscribed as at 31 December (1 option = 1 share)	-
(of which number of shares subscribed by members of the Executive Committee)	-
Number of options that could be exercised at 31 December	147,300
(of which number of options that could be exercised by members of the Executive Committee)	56,500
(*) 95% of the average for the 20 trading sessions preceding the grant date.	
(**) Option holders who have left the Group.	

In accordance with IFRS 2, Vallourec has recognized and measured the share purchase option plan (see paragraph 2.16 of the accounting principles section). This plan gave rise to payroll costs of € 0.7 million as at 31 December 2007 (note 24).

Bonus Share Allocation Plan (PAGA): 3 May 2007 plan

At its meeting on 3 May 2007, Vallourec's Management Board implemented a Bonus Share Allocation Plan (*Plan d'Attribution Gratuite d'Actions - PAGA*) approved by the Supervisory Board.

A theoretical number of Vallourec bonus shares was allocated (111,000 shares). The definitive allocation (number of shares) will be allocated in thirds in 2009, 2010 and 2011 and each third will be based on the Vallourec Group's performance in terms of consolidated EBITDA in 2008, 2009 and 2010. It will be calculated by applying a multiplying factor K, representing this performance, to the theoretical number of shares allocated by the Management Board on 3 May 2007. K can range from 0 to 1.33.

Factor K is calculated for each of the years concerned and is applied to one third of the initial theoretical allocation in respect of each year. The amount resulting from the application of each of the coefficients for 2008, 2009 and 2010 will constitute the definitive number of shares allocated to the beneficiary.

The share price on 3 May 2007 was € 198.5.

The binomial model of projecting share prices has been used to measure the fair value of the shares allocated. Each employee's benefit corresponds to the fair value of the shares allocated, reduced to take into account the fact that no dividends will be received for three years and the cost to the employee of the fact that the shares may not be transferred for a period of two years.

The charge recognized in the income statement in respect of this plan for 2007 was € 5.4 million, of which € 4.3 million is included in payroll costs (note 24) and € 1.1 million is deducted from gains or losses on disposals of non-current assets (bonus shares allocated to employees of companies that have been sold).

	2007
Initial theoretical number of shares allocated, if K=1	111,000
Number of shares cancelled (**)	600
Theoretical number of shares allocated on 31 December, if K=1	110,400
Of which theoretical number of shares allocated to those employees who were members of the Executive Committee as at 31 December, if K=1	8,400
Number of senior managers involved	7
(**) Beneficiaries who have left the Group.	

	Social security liabilities	Tax liabilities	Payables relating to the acquisition of non-current assets	Deferred income	Other current liabilities	Total
At 31/12/2004	137,071	48,283	5,274	9,372	18,280	218,280
Impact of changes in exchange rates	9,361	2,691	15	5	1,287	13,359
Other movements	39,621	26,047	4,592	-3,819	1,177	67,618
At 31/12/2005	186,053	77,021	9,881	5,558	20,744	299,257
Impact of changes in exchange rates	-3,590	-449	-18	-2	-733	-4,792
Transfer to liabilities held for sale (note 11)	-15,145	-1,050	-1,281	-68	-507	-18,051
Other movements	9,789	-41,274	3,709	8,096	6,667	-13,013
At 31/12/2006	177,107	34,248	12,291	13,584	26,171	263,401
Impact of changes in exchange rates	248	116	-23	-56	-833	-548
Other movements	15,455	5,451	1,795	-5,452	12,660	29,909
At 31/12/2007	192,810	39,815	14,063	8,076	37,998	292,762

Note 18. – Other current liabilities

In 2006, changes to "Tax liabilities" correspond mainly to a reclassification of assets (note 9).

Note 19. – Information on related parties

The following transactions were entered into with related parties:

	Sales to related parties	Purchases from related parties	Receivables due from related parties	Payables due to related parties
At 31/12/2005				
Salzgitter AG Group	82,556	634,290	6,517	57,449
Rothschild & Cie		750		
Timet Group	4,985	23,795	1,497	5,382
At 31/12/2006				
HKM	396	413,512	29	44,057
Rothschild & Cie		360		398
Timet Group	7,333	55,562	856	15,608
At 31/12/2007				
HKM	501	441,190	30	22,897
Rothschild & Cie		258		

In 2004 and 2005, the amounts shown in respect of the Salzgitter AG Group relate to sales of tube hollows to be drawn and purchases of rounds from HKM.

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

The transactions carried out in 2005, 2006 and 2007 with Rothschild & Cie relate to the consultancy agreement to assist the Management Board.

In 2005 and 2006, the transactions with the Timet Group represented mainly purchases of titanium coils used in the manufacture of welded tubes by Valtimet and its subsidiaries.

Supervisory Board and Management Board remuneration

The total attendance fees paid to members of the Supervisory Board was € 394 thousand in 2007, € 335 thousand in 2006 and € 230 thousand in 2005.

The total remuneration paid to the Executive Committee (7 people in 2007, 9 people in 2006 and 8 people in 2005) was as follows:

	2005	2006	2007
Remuneration and benefits in kind	2,419	3,410	2,647
Retirement commitments	550	547	504
Supplementary pension commitments	1,956	1,806	2,988

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

	2005	2006	2007
Subscription options granted on 15 June 2000 and exercisable between 15 June 2004 and 14 June 2007	155,000	102,500	82,500
Options subscribed as at 31 December (1 option = 1 share) by the members of the Executive Committee	155,000	102,500	82,500
Number of shares subscribed during the year (1 option = 1 share) by the members of the Executive Committee	-	-	-
Number of options that could be exercised at 31 December	-	-	-
Purchase options granted on 15 June 2003 and exercisable between 11 June 2007 and 10 June 2010	274,095	197,965	177,660
Options subscribed at 31 December (1 option = 1 share) by the members of the Executive Committee	-	-	177,660
Number of shares subscribed during the year (1 option = 1 share) by the members of the Executive Committee	-	-	177,660
Number of options that could be exercised at 31 December	-	-	-
Subscription options granted on 3 September 2007 and exercisable between 3 September 2011 and 3 September 2014			56,500
Options subscribed as at 31 December (1 option = 1 share) by the members of the Executive Committee			-
Number of shares subscribed during the year (1 option = 1 share) by the members of the			-

Executive Committee			
Number of options that could be exercised at 31 December			56,500

Bonus shares (note 17) allocated to employees who were members of the Executive Committee on 31 December of the year concerned:

	2006	2007
16 January 2006 plan		
Theoretical number of shares allocated during the year, if K=1	36,000	32,500
3 May 2007 plan		
Theoretical number of shares allocated during the year, if K=1	-	8,400

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

As at 31 December 2007, no loans or guarantees had been granted to senior management by the parent company Vallourec or its subsidiaries.

Note 20. – Off-balance-sheet commitments

On 24 May 2005, due to the nature of its business, V & M France was granted a greenhouse gas emission allowance. For 2007, this allowance amounted to 92,855 tonnes of CO₂ (92,855 tonnes in 2006 and in 2005). The market value as at 31 December 2007 was € 0.02 per tonne (€ 6.45 per tonne as at 31 December 2006 and € 21.10 per tonne as at 31 December 2005). The remaining balance of the allowances granted for the financial year 2007 is 13,865 tonnes (15,799 tonnes in 2006 and 14,859 tonnes in 2005). The allowances due in respect of the five-year period from 2008 to 2012 amount to 530,185 tonnes.

Commitments received	2005	2006	2007
Guarantees and commitments received	39,824	63,352	43,869
HKM supply contract	56,707	47,492	37,775
Other commitments received	19,344	56,474	92,302
Total	115,875	167,318	173,946
Commitments given (excluding financial instruments)	335,403	398,471	410,214

Commitments given by maturity

	2005	One year or less	Over one year	Over five years
Balance sheet				
Long-term borrowings	509,250	39,623	173,831	295,796
Off-balance sheet				
Market guarantees	96,010	77,895	18,115	
Other security, mortgages and pledges given	116,461	5,620	34,356	76,485
Long-term leasing contract	10,913	3,060	6,209	1,644
HKM supply contract	56,707	15,144	41,563	
Pensions and retirement gratuities	46,508	N/D	N/D	46,508
Other commitments	8,804	8,804		
Total	335,403	110,523	100,243	124,637

	2006	One year or less	Over one year	Over five years
Balance sheet				
Long-term borrowings	500,250	33,473	186,702	280,075
Off-balance sheet				
Market guarantees	99,571	67,333	30,546	1,692
Other security, mortgages and pledges given	136,033	19,956	23,576	92,501
Long-term leasing contract	37,846	6,406	18,704	12,736
HKM supply contract	47,492	17,270	30,222	

Pensions and retirement gratuities	39,697	N/D	N/D	39,697
Other commitments	37,832	33,019	292	4,521
Total	398,471	143,984	103,340	151,147

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

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

In addition, in connection with its normal operations, the Group is involved in a number of disputes and litigation which, in the Management Board's opinion, will not result in the Group bearing significant costs nor will they have a material impact on its financial situation, business or net income.

Additional information

In connection with the construction in Brazil by Vallourec & Sumitomo Tubos do Brasil Ltda - Brazil of a new, integrated, state-of-the-art pipe mill, the joint venture agreement signed by the two shareholders, Vallourec and Sumitomo, provides that each will benefit from an option to purchase the interest of the other shareholder in the event of a change of control of said other shareholder. The total investment is estimated at around USD 1.6 billion, with Vallourec's 56% interest totalling USD 890 million.

On 30 October 2007, Vallourec announced that it had entered into an agreement with Grant Prideco concerning the acquisition of Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™ for USD 800 million. This agreement is subject to the customary regulatory provisions, the terms of which are not expected to have significant unfavourable consequences for the Group.

All material off-balance-sheet commitments, as per the accounting standards currently in force, have been included in the above breakdown.

The main exchange rates used are set out in note 12.

(income statement items are translated at the average rate)

Note 21. – Sales

	2005	2006	2007
France	406,414	414,049	444,099
Germany	613,568	763,385	1,101,205
Other EU Member States	649,982	811,413	882,720
North America (NAFTA)	1,118,899	1,445,062	1,144,166
South America	496,098	598,798	786,034
Asia	838,103	1,174,443	1,284,169
Rest of the world	184,341	334,651	498,128
Total	4,307,405	5,541,801	6,140,521

For the full year 2007, sales increased by 10.8% to a record € 6,140.5 million (+12.5% on a comparable basis after adjusting 2006 sales to make them comparable with 2007 sales, the main adjustment relating to the sale of the precision tubes business to Salzgitter).

Note 22. – Other operating revenues

	2005	2006	2007
Fees for concessions and patents	12,449	17,069	19,939
Operating subsidies and other revenues	11,607	12,124	15,276
Total	24,056	29,193	35,215

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

Note 23. – Taxes and duties

	2005	2006	2007
Taxes on remuneration	-7,673	-9,495	-9,061
Business use tax	-24,488	-27,470	-26,411
Property tax	-6,431	-5,975	-6,394
Other taxes and duties	-14,373	-15,820	-14,384
Total	-52,965	-58,760	-56,250

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

	2005	2006	2007
Payroll costs			
Wages and salaries	-482,949	-539,959	-543,787
Employee profit sharing	-55,524	-57,344	-61,420
Charge in respect of share options and bonus shares	-912	-9,163	-12,522
15 June 2003 share purchase option plan		-912	-406
16 January 2006 bonus share allocation plan		-8,251	-7,048
3 May 2007 bonus share allocation plan		0	-4,363
3 September 2007 share subscription option plan		0	-705
Social security contributions	-177,039	-206,228	-209,311
Total	-716,424	-812,694	-827,040

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

Details of the costs associated with the share purchase option and bonus share allocation plans and retirement benefits are provided in note 17.

Average number of employees in consolidated companies			
Executives	1,163	1,273	1,310
Supervisory, clerical and technical staff	3,452	3,652	3,710
Production staff	12,670	13,081	12,751
Total	17,285	18,006	17,771

The Group's workforce totalled 16,835 at 31 December 2007 compared with 18,217 at 31 December 2006.

Note 25. – Other operating costs

	2005	2006	2007
Purchases of materials and supplies not for stock, sub-contracting	-241,906	-330,178	-426,985
Energy	-161,655	-205,161	-211,930
Maintenance	-133,812	-174,098	-184,716
Agents' commission, transportation costs	-239,105	-307,909	-329,941
Services, professional fees and other	-171,982	-203,133	-186,203
Total	-948,460	-1,220,479	-1,339,775

Note 26. – Charges to provisions net of reversals

	2005	2006	2007
Provisions for operating liabilities and charges	-45,454	-45,646	-57,925
Provisions against current assets	-19,412	-25,568	-41,313
Reversals of provisions for operating liabilities and charges	41,063	49,552	48,650
Reversals of provisions against current assets	22,307	18,480	16,585
Total	-1,496	-3,182	-34,003

Note 27. – Depreciation and amortization

	2005	2006	2007
Charges to amortization of intangible assets (see note 1)	-5,077	-11,774	-7,351
Charges to depreciation of property, plant and equipment (see note 2)	-94,357	-102,555	-110,622
Reversals of depreciation and provisions on property, plant and equipment	239	0	0
Total	-99,195	-114,329	-117,973

Note 28. – Asset disposals and restructuring costs

	2005	2006	2007
Reorganization measures (net of expenses and provisions)	-1,175	-632	-133
Asset disposals and restructuring costs			
Gains and losses on disposals of non-current assets	4,900	-4,138	11,066
Total	3,725	-4,770	10,933

In 2005, the capital gains on disposal correspond mainly to the disposal of consolidated participating interests (10% of HKM and all of Vallourec do Brasil Autopeças) and the disposal of other non-current assets.

In 2006, the gains and losses on disposals of non-current assets correspond mainly to the disposal of consolidated participating interests (Escofier Technologie, Spécitubes and Cerec), the receipt of insurance compensation as a result of losses suffered at Vallourec Précision Etirage (VPE) and the disposal or scrapping of non-current assets.

In 2007, the gains and losses on disposals of non-current assets correspond mainly to the disposal of consolidated participating interests (VPE) and the receipt of additional insurance compensation as a result of losses suffered at VPE in 2006. The disposals of VPS and VCAV generated neither a profit nor a loss since an impairment loss was recognized in respect of the assets of the two companies as at 30 June 2007.

Impairment of assets and goodwill

	2005	2006	2007
Impairment of assets and goodwill	173	-1,499	-21,169
	173	-1,499	-21,169

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

Note 29. – Financial income (loss)

	2005	2006	2007
Financial income			
Income from marketable securities	13,422	21,972	17,348
Income from disposals of marketable securities	5,905	12,158	18,956
Total	19,327	34,130	36,304
Interest costs	-23,637	-36,747	-40,619
Other financial income and charges			
Income from securities	938	1,900	1,825
Income from loans and receivables	2,847	2,236	1,082
Exchange losses (-) and gains (+) and changes in premiums/discounts	-8,990	-27,819	-18,138
Charges to provisions, net of reversals	-205	-1,981	2,189
Discounting of the put option on the 45% stake in V & M Tubes (until 23/6/2005) - (see note 14)	-5,347	0	0
Interest received in respect of tax dispute in Brazil (1)	-	39,584	0
Financial subsidy granted to HKM	-	-7,000	0
Other financial income and charges	-2,676	-626	-1,894
Total	-13,433	6,294	-14,936
Other discounting costs			
Financial charges: discounting of retirement commitments (see note 17)	-13,306	-15,245	-16,144
Financial income: discounting of certain assets and liabilities	310	74	769
Financial income from retirement plan assets (see note 17)	4,150	4,875	5,618
Total	-8,846	-10,296	-9,757
Financial income (loss)	-26,589	-6,619	-29,008

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

Note 30. – Reconciliation of theoretical and actual tax charge

Breakdown of the tax charge	2005	2006	2007
Current tax charge	-296,874	-539,846	-557,052
Deferred taxes (see note 5)	-10,576	-4,943	-18,292
Net charge	-307,450	-544,789	-575,344
Net income (loss) of consolidated companies	631,227	993,428	1,018,222
Tax charge	-307,450	-544,789	-575,344
Net income (loss) of consolidated companies, before tax	938,677	1,538,217	1,593,566
Statutory tax rate of consolidating company (see note 5)	34.93%	34.43%	34.43%
Theoretical tax charge	-327,880	-529,608	-548,665
Impact of main losses carried forward	12,736	1,000	116
Impact of long-term capital gains and losses	5,579	-344	0
Impact of permanent differences	20,944	17,127	-2,703
Other effects	-	-22	-121
Impact of differences in tax rates	-18,829	-32,942	-23,971
	-307,450	-544,789	-575,344
Actual tax rate	32.75%	35.42%	36.10%

The permanent differences consist mainly of the net income of the minority interests, withholding taxes, the share of the costs and charges in respect of the dividend distributions and the losses generated on the disposal of VPS, VCAV and VPE in France.

The differences in tax rates mainly reflect the diversity of tax rates applied in each company (France 34.43%, Germany 39.90%, the United States 38% and Brazil 34%).

The 2007 actual tax rate adjusted for non-recurring items would be 35.5%, which is comparable with that of 2006.

Note 31. – Segment information

Business segments

The following tables provide, for each business segment, information on the revenues and results as well as certain information on the assets, liabilities and capital expenditure for the financial years 2005, 2006 and 2007.

On 31 December 2006 the internal restructuring of the Vallourec Group was completed. The aim of the restructuring was to rationalize the Group's internal organization and structure following the transactions in 2005, which resulted in Vallourec owning all of the share capital of V & M Tubes. Following this restructuring the business segments were redefined and renamed (see A - Consolidation principles, paragraph 3) and the holding companies V & M Tubes and ValTubes (which merged in 2006) have been included in the "Holding companies and other" segment in 2005 to be comparable with 2006.

Primary segment reporting format: by business segment

2007	Seamless tubes	Automotive & "Speciality products"	Holding companies & other (*)	Inter-segment transactions	Total
Income statement					
Sales					
Sales to external customers	5,405,111	659,934	75,476		6,140,521
Inter-segment sales	171,146	27,692	31,907	-230,745	0
Total	5,576,257	687,626	107,383	-230,745	6,140,521
Charges to amortization and depreciation	-106,737	-9,234	-2,194	192	-117,973
Operating income (loss)	1,588,060	45,865	2,883	-14,235	1,622,573
Balance sheet					
Non-current assets	1,402,591	72,581	908,060	-891,060	1,492,172
Current assets	2,296,558	222,717	291,978	-292,976	2,518,277
Cash and cash equivalents	626,312	32,952	821,632	-568,418	912,478
Total assets	4,325,461	328,250	2,021,670	-1,752,454	4,922,927
Shareholders' equity	2,091,390	140,019	1,356,647	-880,287	2,707,769
Minority interests	70,732	11,187	-	-27	81,892
Non-current liabilities	342,839	11,860	264,320	-4,404	614,615
Current liabilities	1,820,502	165,186	400,268	-867,305	1,518,651
Total liabilities and shareholders' equity	4,325,463	328,252	2,021,235	-1,752,023	4,922,927
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	410,370	26,091	8,338		444,799
Other information					
Average number of employees	15,206	2,426	139		17,771
Payroll costs	692,930	98,767	35,343		827,040

2006	Seamless tubes	Automotive & "Speciality products"	Holding companies & other (*)	Inter-segment transactions	Total
Income statement					
Sales					
Sales to external customers	4,770,765	675,630	95,406		5,541,801
Inter-segment sales	217,461	36,105	28,009	-281,575	0
Total	4,988,226	711,735	123,415	-281,575	5,541,801
Charges to amortization and depreciation	-96,293	-17,267	-1,241	472	-114,329

Operating income (loss)	1,499,449	69,364	-17,360	-6,618	1,544,835
Balance sheet					
Non-current assets	1,106,439	98,893	946,074	-933,159	1,218,247
Current assets	2,030,914	204,872	277,453	-268,265	2,244,974
Cash and cash equivalents	691,802	43,973	153,548		889,323
Assets held for sale	34,672	140,906			175,578
Total assets	3,863,827	488,644	1,377,075	-1,201,424	4,528,122
Shareholders' equity	1,934,685	221,056	846,010	-871,349	2,130,402
Minority interests	81,319	11,549		-49	92,819
Non-current liabilities	350,551	26,342	413,772	-49,362	741,303
Current liabilities	1,490,552	158,535	117,293	-280,664	1,485,716
Liabilities held for sale	6,720	71,162			77,882
Total liabilities and shareholders' equity	3,863,827	488,644	1,377,075	-1,201,424	4,528,122
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	263,400	21,357	411		285,168
Other information					
Average number of employees	14,651	3,227	128		18,006
Payroll costs	651,479	129,072	32,143		812,694

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

2005	Seamless tubes	Automotive & "Speciality products"	Holding companies & other (*)	Inter-segment transactions	Total
Income statement					
Sales					
Sales to external customers	3,570,173	671,267	65,965		4,307,405
Inter-segment sales	191,947	27,436	373	-219,756	0
Total	3,762,120	698,703	66,338	-219,756	4,307,405
Charges to amortization and depreciation	-80,492	-18,023	-1,102	422	-99,195
Operating income (loss)	907,246	57,533	1,519	-1,032	965,266
Balance sheet					
Non-current assets	995,896	145,770	1,012,107	-996,857	1,156,916
Current assets	1,617,285	291,979	64,069	-87,253	1,886,080
Cash and cash equivalents	402,475	36,448	102,355	-	541,278
Total assets	3,015,656	474,197	1,178,531	-1,084,110	3,584,274
Shareholders' equity	1,286,736	200,741	653,983	-750,517	1,390,943
Minority interests	81,813	30,376	-	-36	112,153
Non-current liabilities	499,202	35,517	431,538	-228,592	737,665
Current liabilities	1,147,905	207,563	93,010	-104,965	1,343,513
Total liabilities and shareholders' equity	3,015,656	474,197	1,178,531	-1,084,110	3,584,274
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	204,359	17,716	38		222,113
Other information					
Average number of employees	13,787	3,391	107		17,285
Payroll costs	565,118	134,271	17,035		716,424

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

2005 (published)	V & M tubes	ValTubes	Vallourec and others (*)	Inter-segment transactions	Total
Income statement					
Sales					
Sales to external customers	3,568,842	671,267	67,296		4,307,405

Inter-segment sales	172,655	27,436	41,306	-241,397	0
Total	3,741,497	698,703	108,602	-241,397	4,307,405
Charges to amortization and depreciation	-79,739	-17,624	-765	-1,067	-99,195
Operating income (loss)	909,603	59,019	-2,835	-521	965,266
Balance sheet					
Non-current assets	994,933	144,475	1,079,720	-1,062,212	1,156,916
Current assets	1,610,336	292,501	37,749	-54,506	1,886,080
Cash and cash equivalents	432,617	94,534	14,127	-	541,278
Total assets	3,037,886	531,510	1,131,596	-1,116,718	3,584,274
Shareholders' equity	1,542,768	257,339	614,917	-1,024,081	1,390,943
Minority interests	81,813	30,376	-	-36	112,153
Non-current liabilities	295,349	31,516	431,122	-20,322	737,665
Current liabilities	1,117,956	212,279	85,557	-72,279	1,343,513
Total liabilities and shareholders' equity	3,037,886	531,510	1,131,596	-1,116,718	3,584,274
Cash flows					
Capital expenditure: property, plant and equipment and intangible assets	203,354	17,716	1,043		222,113
Other information					
Average number of employees	13,604	3,391	290		17,285
Payroll costs	552,898	134,271	29,255		716,424

(*) Vallourec, Setval (Vallourec Group analysis and research services) and the marketing subsidiaries Vallourec Tubes Canada and Vallourec Inc.

Geographical segments

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

Secondary segment reporting format: by geographical area

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

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

2005	Europe	North America and Mexico	South America	Asia	Rest of the world	Total
Sales						
Sales to external customers	1,669,964	1,118,899	496,098	838,103	184,341	4,307,405
Balance sheet						
Property, plant and equipment and intangible assets (net)	442,713	258,207	228,990	11,209		941,119
Cash flows						
Capital expenditure: property, plant and equipment and intangible assets (*)	96,946	44,777	73,867	6,523		222,113
Other information						
Average number of employees	10,478	1,317	5,322	168		17,285
Payroll costs	518,880	100,843	95,570	1,131		716,424

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

Note 32. – Post-balance-sheet events

Vallourec has decided to submit for approval to the General Meeting of shareholders to be held on 4 June 2008 the payment of an ordinary dividend of € 11 per share in respect of the financial year 2007 (compared with € 6 in respect of 2006). After taking into account the exceptional dividend of € 4 per share already paid on 4 July 2007 and which would, for legal purposes, be regarded as an interim dividend in respect of 2007, the balance remaining to be paid is € 7 per share, which will be paid on 18 June 2008.