vallourec

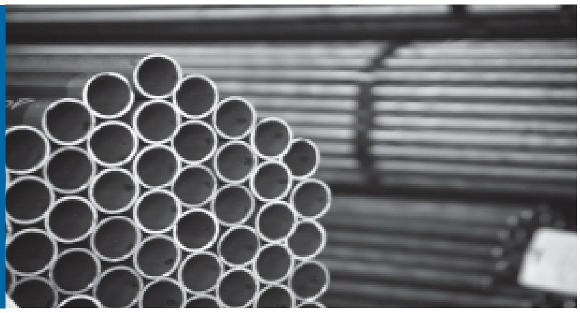
REGISTRATION DOCUMENT

AND ANNUAL FINANCIAL REPORT

2011

Contents

This document is a free translation of the French language Registration Document that was filed with the Autorité des marchés financiers (the "AMF") on April 13, 2012. This translation has been prepared solely for the information and convenience of English speaking users. In the event of any ambiguity or discrepancy between this translation and the French Registration Document, the French version shall prevail.



Registration Document and Annual Financial Report
Year ended 31 December 2011

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

The original version of this Registration Document *(document de référence)* in French was filed with the *Autorité des Marchés Financiers* – AMF (the French securities regulator) on 13 April 2012 in accordance with Article 212-13 of its general regulations. It may be used in connection with a financial transaction if supplemented by an Information Notice authorized by the AMF. This document was prepared by the issuer and is the responsibility of those who signed it.

Copies of this Registration Document are available free of charge from Vallourec (27, avenue du Général Leclerc, Boulogne-Billancourt, 92100, France), Vallourec's website (http://www.vallourec.com) and the AMF's website (http://www.amf-france.org).

This Registration Document includes all the elements of the annual financial report mentioned in Section I of Article L.451-1-2 of the French *Code monétaire et financier* and Article 222-3 of the AMF's general regulations. A concordance table showing documents referred to in Article 222-3 of the AMF's general regulations and the corresponding sections of this Registration Document is included on page 269.



WORLD LEADER IN PREMIUM TUBULAR SOLUTIONS

Vallourec is the world leader in premium tubular solutions primarily serving the energy markets (oil and gas, and power generation). Its expertise also extends to the Industry sector (mechanical, construction, etc.). With over 22,200 employees, sales of €5.3 billion in 2011 including 73% generated outside Europe, production units established in more than 20 countries and leading-edge R&D, Vallourec offers innovative global solutions suited to the energy challenges of the 21st century. Specialised in the most complex applications, Vallourec relies on its five worldwide Research & Development centres and more than 500 researchers in order to maintain its technological leadership and meet the new requirements of its customers. Control of the entire steel-finishing production chain guarantees the excellence of its products.

€5,296 million
sales in 2011

73% outside Europe

74% in the energy sector

22,200
employees

Operations in
over **20** countries

51 production facilities

2011 HIGHLIGHTS

18 JANUARY 2011 – Launch of the new capacities of Valinox Nucléaire facility in Montbard (France)

Valinox Nucléaire is a world leader in the production of stainless steel and high-nickel alloy tubes for nuclear steam generators.

9 FEBRUARY 2011 – Announcement of the start-up of Vallourec Umbilicals in Venarey-les-Laumes (France)

This new subsidiary will specialize in providing solutions for increasingly demanding applications in offshore oil fields.

23 MAY 2011 – Acquisition of Saudi Seamless Pipes Factory Company Limited (Zamil Pipes)

Vallourec strengthens its local presence in Saudi Arabia with operational heat treatment and threading facilities, with a capacity of 100,000 tonnes of tubes per year.

INTERNATIONAL PRESENCE

In order to support the growth of energy markets, Vallourec is pursuing an ambitious local development strategy with new sites in Brazil, the United States, the Middle East and China, which will enable it to bring solutions closer to its customers and improve its competitiveness.

COMMITMENTS

Vallourec's Code of Ethics, deployed throughout the whole company, illustrates its desire to engage with its stakeholders, its customers and its employees with mutual respect. The Group considers its activities as part of a sustainable development approach by offering solutions that allow for the responsible use of resources and by improving its own energy efficiency.

Main Vallourec locations

- F Finishing lines
- S Steel mills
- T Tube mills
- P Plantation and Mine
- O Sales offices and services

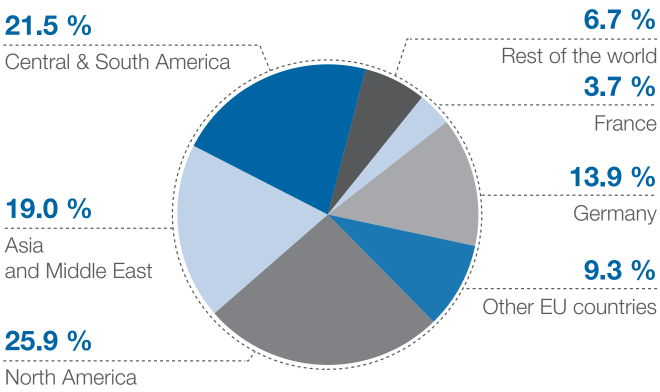
1 SEPTEMBER 2011 – Inauguration of the Vallourec & Sumitomo Tubos do Brasil plant

Vallourec's new integrated production site in Brazil, VSB, continues to ramp up operations and will provide Vallourec with additional capacity of 300,000 tonnes of tubes for the global oil and gas industry.

30 NOVEMBER 2011 – Launch of the building of a new premium threading unit in Youngstown (Ohio) in the United States

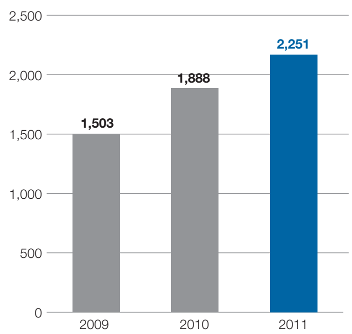
This new unit will respond to the development of unconventional oil and gas drilling in the United States.

SALES BREAKDOWN BY GEOGRAPHICAL AREA IN 2011

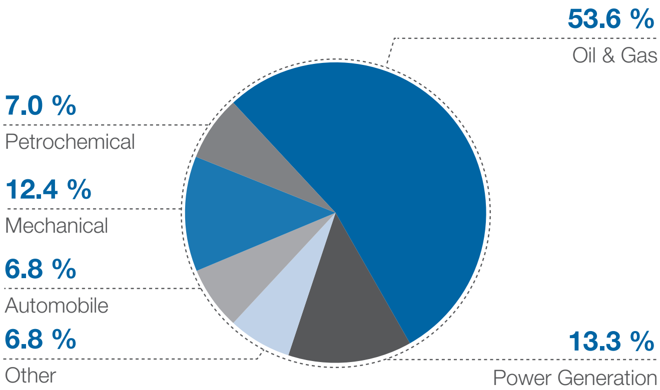


SALES VOLUME

(Kt)

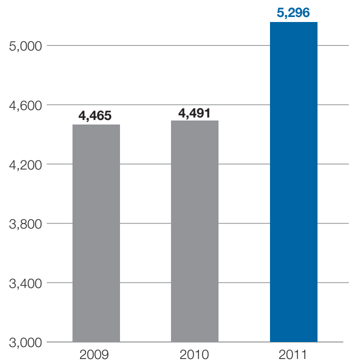


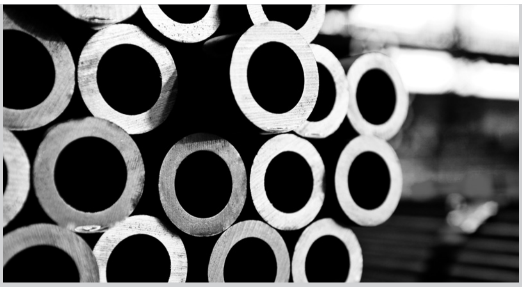
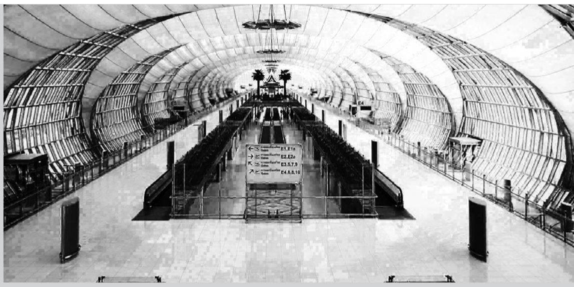
SALES BREAKDOWN BY ACTIVITY IN 2011



SALES

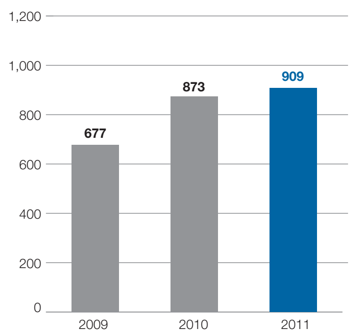
(in € million)



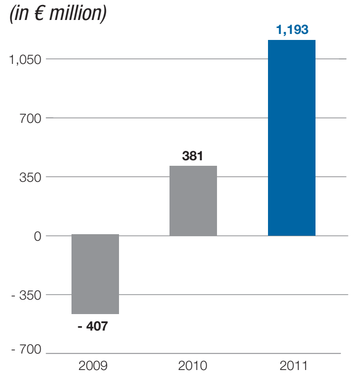
CAPITAL EXPENDITURE

(in € million)



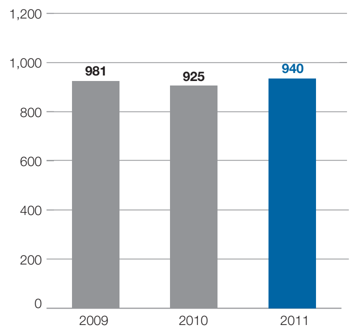
NET DEBT

(in € million)



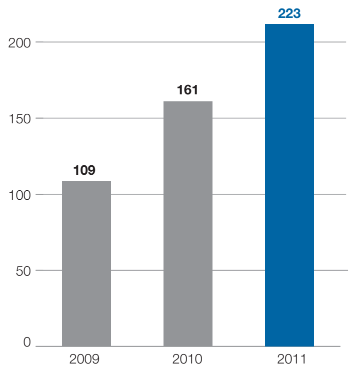
EBITDA

(in € million)



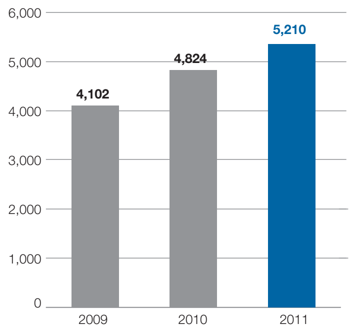
FINANCIAL INVESTMENTS

(in € million)



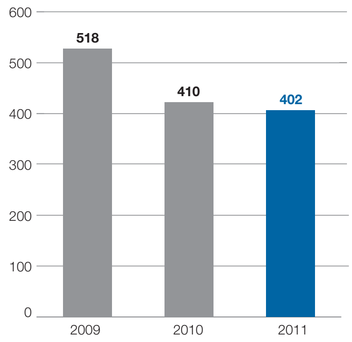
EQUITY

(in € million)



NET INCOME, GROUP SHARE

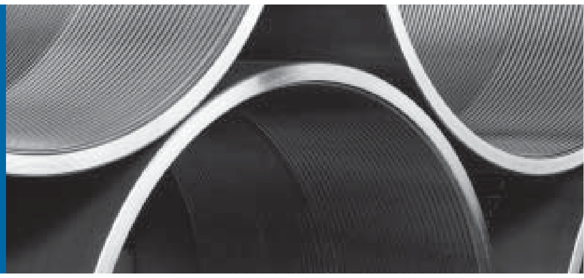
(in € million)



Performance indicators

(in € million)	2007	2008	2009	2010	2011
Sales volume (kt)	2,838	2,766	1,503	1,888	2,251
Sales	6,141	6,437	4,465	4,491	5,296
EBITDA	1,751	1,694	981	925	940
EBITDA margin (%)	28.5	26.3	22.0	20.6	17.7
Operating profit/(loss)	1,623	1,522	786	682	693
Net income, Group share	986	967	518	410	402
Net debt	- 242	347	- 407	381	1,193
Earnings per share (€)	9.5	9.2	4.7	3.6	3.4
Dividend per share* (€)	3.51	3.0	1.75	1.30	1.30

* *The dividend amounts paid in 2007, 2008 and 2009 have been recalculated to take into account the 2:1 stock split on 9 July 2010*



1 Persons responsible for the Registration Document and auditing

1.1 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

Mr Philippe Crouzet

Chairman of the Vallourec Management Board (hereinafter referred to as "Vallourec" or the "Company")

1.2 DECLARATION BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

I declare, having taken all reasonable steps to ensure that such is the case, that the information given in this Registration Document is, to the best of my knowledge, correct and that there are no omissions likely to change its import.

I declare that, to the best of my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the consolidated financial position, assets, liabilities and net profit of the Company and of the Group, and that the management report included in Section 8 (on pages 206 to 233) of this Registration Document gives an accurate overview of the business, consolidated results and financial position of the Company and of the Group, as well as a description of the main risks and uncertainties they face.

I have obtained from our Statutory Auditors an assignment-completion letter in which they indicate that they have verified the information relating to the Group's financial situation and the financial statements included in this Registration Document, and have read the Registration Document in its entirety.

The consolidated financial statements for the year ended 31 December 2009 presented in this Registration Document and filed with the *Autorité des Marchés Financiers* — AMF *(the* French securities regulator) under no. D.10-0285 on 19 April 2010 were the subject of the Statutory Auditors' report on pages 241 and 242, which contains the following observation: *"Without qualifying our opinion, we draw your attention to Note A-1 of the notes to the consolidated financial statements, 'Framework for the preparation and presentation of financial statements', which provides details of the new standards and interpretations applied as of 1 January 2009."*

The consolidated financial statements for the year ended 31 December 2010 presented in this Registration Document and filed with the *Autorité des Marchés Financiers* — AMF *(the* French securities regulator) under no. D.11-0332 on 19 April 2011 were the subject of the Statutory Auditors' report on pages 288 and 289, which contains the following observation: *"Without qualifying our opinion, we draw your attention to Note A-1 of the notes to the consolidated financial statements, 'Framework for the preparation and presentation of financial statements', which provides details of the change in the presentation of the income statement."*

The consolidated financial statements for the year ended 31 December 2011 presented in the 2011 Registration Document were the subject of the Statutory Auditors' report on page 260 which does not contain any observation.

Boulogne-Billancourt, 13 April 2012

Chairman of the Management Board

Philippe Crouzet

1.3 PERSONS RESPONSIBLE FOR AUDITING

1.3.1 PRINCIPAL STATUTORY AUDITORS

KPMG S.A.

Represented by:

Mr Jean-Paul Vellutini and
Mr Philippe Grandclerc

1, cours Valmy
92923 Paris-La Défense Cedex

Date on which first appointment commenced: 1 June 2006

KPMG SA was appointed by the Ordinary Shareholders' Meeting of 1 June 2006 to replace Barbier Frinault & Autres (Ernst & Young network), whose appointment had expired, for a term of six (6) years, to expire at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011. The Combined Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 will be asked to renew the appointment of KPMG S.A. as principal Statutory Auditors for a term of six (6) years, to expire at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2017. In accordance with Article L.822-14 of the French Commercial Code, which requires a change in the signing partner every six years, KPMG S.A. would be represented by a new signing partner, Ms Catherine Porta, in place of Messrs Jean-Paul Vellutini and Philippe Grandclerc, who have been the KPMG S.A. signing partners for the past six years.

Deloitte & Associés

Represented by:

Mr Jean-Marc Lumet [1]

185, avenue Charles-de-Gaulle
92524 Neuilly-sur-Seine Cedex

Date on which first appointment commenced: 1 June 2006

Deloitte & Associés was appointed by the Ordinary Shareholders' Meeting of 1 June 2006 to replace Cabinet Calan Ramolino & Associés (Deloitte network), whose appointment had expired, for a term of six (6) years, to expire at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011. The Combined Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 will be asked to renew the appointment of Deloitte & Associés as principal Statutory Auditors for a term of six (6) years expiring at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2017. Deloitte & Associés was represented by Mr Bertrand de Florival for 2006, 2007 and 2008 and by Mr Jean-Marc Lumet, jointly with Mr Jean-Paul Picard, for 2009 and 2010, and as sole signatory for 2011. As a change in signatories took place in 2009, Mr Jean-Marc Lumet would continue to represent Deloitte & Associés for 2012, 2013 and 2014.

(1) Since 2009, Deloitte & Associés has been represented by Messrs Jean-Paul Picard and Jean-Marc Lumet. As Mr Jean-Paul Picard left his post at Deloitte & Associés in 2011, Deloitte & Associés was represented for 2011 by Mr Jean-Marc Lumet as sole signatory.

1.3.2 ALTERNATE STATUTORY AUDITORS

SCP Jean-Claude André & Autres

Alternate Auditor for KPMG SA

Les Hauts de Villiers
2 bis, rue de Villiers
92300 Levallois-Perret

Date on which first appointment commenced: 1 June 2006

SCP Jean-Claude André & Autres was appointed by the Ordinary Shareholders' Meeting of 1 June 2006 to replace Mr Jean-Marc Besnier, whose appointment had expired, for a term of six (6) years, to expire at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011. The Combined Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 will be asked to appoint KPMG S.A. as alternate Statutory Auditors for a term of six (6) years, to expire at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2017.

BEAS

Alternate Auditor for Deloitte & Associés

7/9, villa Houssaye
92524 Neuilly-sur-Seine Cedex

Date on which first appointment commenced: 11 June 2002

The appointment of Société BEAS, previously alternate auditor for Cabinet Calan Ramolino & Associés, was renewed by the Ordinary Shareholders' Meeting of 1 June 2006 for a term of six (6) years, to expire at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011. The Combined Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 will be asked to renew the appointment of Société BEAS as alternate Statutory Auditors to Deloitte & Associés for a term of six (6) years, to expire at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2017.

1.4 PERSON RESPONSIBLE FOR THE GROUP'S LEGAL AFFAIRS

Mr Philippe Dupeyré

Group General Counsel

Vallourec

27, avenue du Général Leclerc
92660 Boulogne-Billancourt Cedex, France

Tel.: +33 (0)1 49 09 37 22

Fax: +33 (0)1 49 09 37 30

E-mail: philippe.dupeyre@vallourec.fr

1.5 PERSON RESPONSIBLE FOR COMMUNICATION OF FINANCIAL INFORMATION

Mr Étienne Bertrand

Investor Relations Director

Vallourec

27, avenue du Général Leclerc
92660 Boulogne-Billancourt Cedex, France

Tel.: +33 (0)1 49 09 35 58

Fax: +33 (0)1 49 09 36 94

E-mail: etienne.bertrand@vallourec.fr

Vallourec website: www.vallourec.com.

2 General information on Vallourec and its capital

2.1 GENERAL INFORMATION ON VALLOUREC

2.1.1 COMPANY NAME AND REGISTERED OFFICE

Vallourec

27, avenue du Général-Leclerc

92100 Boulogne-Billancourt, France

Tel.: +33 (0)1 49 09 35 00

2.1.2 LEGAL FORM – LEGISLATION – TRADE AND COMPANIES REGISTER

Vallourec is a French limited-liability company (*société anonyme*) having opted on 14 June 1994 for a management structure comprising a Management Board and a Supervisory Board. The Company is registered in the Nanterre (Hauts-de-Seine) Trade and Companies Register under no. 552 142 200 and recorded under the APE 7010 Z Code.

2.1.3 DATE OF ESTABLISHMENT AND TERM

The Company was formed in 1899.

It will be dissolved on 17 June 2067, unless its life is extended or it is dissolved earlier.

2.1.4 CORPORATE PURPOSE (ARTICLE 3 OF THE BY-LAWS)

The Company's purpose, in any country, either on its own account, or for a third party, or directly or indirectly with or through third parties, is to carry out all industrial and commercial transactions relating to all means for the preparation and manufacture, by all processes known or that could be discovered subsequently, of metals and any materials that may replace them in all their applications, and, in general, all commercial, industrial and financial transactions, and transactions in movable and fixed property, directly or indirectly associated with the above purpose.

2.1.5 CONSULTATION OF LEGAL DOCUMENTS

The by-laws, minutes of Shareholders' Meetings and other Company documents can be consulted at the registered office.

2.1.6 FINANCIAL YEAR

The Company's financial year runs for twelve (12) months, beginning on 1 January and ending on 31 December.

2.1.7 MANDATORY BREAKDOWN OF NET PROFIT (ARTICLE 15 OF THE BY-LAWS)

The distributable profit, as defined by law, is allocated by a Shareholders' Meeting.

Unless otherwise mandatorily required according to legal provisions, the Shareholders' Meeting decides how the net profit should be allocated.

The Shareholders' Meeting may also decide to grant each shareholder the right to choose, for all or part of the dividend to be distributed, between payment of the dividend in cash or in shares (1), in accordance with the statutory and regulatory provisions effective at the time.

(1) This option was introduced at the Shareholders' Meeting of 14 June 1994.

2.1.8 SHAREHOLDERS' MEETINGS (ARTICLE 12 OF THE BY-LAWS)

Shareholders' Meetings are called in accordance with the conditions provided for by law.

A Shareholders' Meeting is open to all shareholders, regardless of the number of shares held.

Each shareholder attending the Shareholders' Meeting has as many votes as shares owned or represented, unless there are legal requirements to the contrary. However, fully paid-up shares duly registered in the name of the same shareholder for four (4) years are entitling to the double voting rights compared to the voting rights conveyed by other shares (Article 12 paragraph 4 of the by-laws).

2.1.9 DECLARATIONS OF THRESHOLDS CROSSED AND IDENTIFICATION OF SHAREHOLDERS (ARTICLE 8 OF THE BY-LAWS)

The Extraordinary Shareholders' Meeting of 1 June 2006 *(second resolution)* supplemented Article 8 of the by-laws by introducing an additional requirement to provide information when thresholds, other than those already provided for by the prevailing legislation are crossed.

Consequently:

"In addition to the declarations of crossing thresholds expressly provided for by Articles L.233-7-I and II of the French Commercial Code, any shareholder (individual or corporate body) that acquires, directly or indirectly by means of companies controlled by the shareholder within the meaning of Article L.233-3 of the French Commercial Code, acting singly or jointly, a number of the Company's bearer shares equal to or greater than three (3), four (4), six (6), seven (7), eight (8), nine (9) or twelve and a half (12.5) per cent of the total number of shares comprising the share capital must, within five (5) trading days following the crossing of any of the said thresholds, inform the Company, by letter sent via recorded delivery with notice of receipt to the Company's registered office, of the total number of shares that it owns.

The information specified in the preceding clause must also be given within the same time limits and under the same terms when a shareholding falls below any of the thresholds referred to in the said clause."

In addition, the Company has the right to request the identification of holders of securities granting a right to vote immediately or in the future at its Shareholders' Meetings and information regarding the quantities held, under the provisions of current legislation.

2.2 GENERAL INFORMATION CONCERNING THE CAPITAL

2.2.1 CONDITIONS PROVIDED BY THE BY-LAWS FOR CHANGES TO THE CAPITAL AND RIGHTS IN THE COMPANY

An Extraordinary Shareholders' Meeting may, in accordance with the provisions of the law, increase or reduce the share capital or delegate to the Management Board the necessary powers to do so.

However, on the basis of the Company's internal organization (Article 9, Section 3 of the by-laws), the Management Board may not carry out the following transactions without previous authorization from the Supervisory Board:

- any capital increase in cash or by capitalization of reserves authorized by a Shareholders' Meeting;
- any other issue of securities, that could later give access to the capital, authorized by a Shareholders' Meeting.

The shares are freely tradable and transferable in accordance with legislative and regulatory provisions.

2.2.2 SHARE CAPITAL

On 1 January 2011, the start of the financial year 2011, the fully paid-up share capital amounted to €235,888,164 divided into 117,944,082 shares with a par value of €2 each.

On 7 July 2011, the Management Board formally recorded that, in accordance with the *fourth resolution* of the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, a capital increase had been carried out by means of the issue of 1,140,338 new shares (representing 0.97% of the share capital on that date) at the price of €75.92 per share in payment of the 2010 dividend of €1.30 per share. The issue of the new shares resulted in a capital increase in the nominal amount of €2,280,676, which increased Vallourec's share capital on 7 July 2011 from €235,888,164 to €238,168,840, divided into 119,084,420 shares with a par value of €2 each.

At the end of the clearing period for subscriptions to the international employee share ownership scheme, "Value 11" (see Chapter 6 below), at its meeting of 15 December 2011 the Management Board recorded, under the terms of the twenty-second, twenty-third and twenty-fourth resolutions of the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, the full completion of three capital increases for respective nominal amounts of €2,019,700, €2,394,410 and €285,868, for an aggregate nominal amount of €4,699,978, by the respective issue of 1,009,850, 1,197,205 and 142,934 new shares, leading to an aggregate total of 2,349,989 new shares with a par value of €2 each and a price per share of €35.90. The combined effect of these operations was to raise the share capital from €238,168,840 to €242,868,818. On 31 December 2011, the fully paid-up share capital thus totalled €242,868,818, divided into 121,434,409 shares with a par value of €2 each.

2.2.3 AUTHORIZED CAPITAL NOT ISSUED

2.2.3.1 Financial authorizations to issue shares and securities giving access to the Company's capital that remained in force on 31 March 2012

The authorizations to issue shares and securities giving access to the Company's capital that remained in force on 31 March 2012 were as follows:

	Maximum nominal ceilings on the capital increase *(in € or as a percentage of share capital)*	**Maximum nominal amount of debt securities** *(in €)*	**Date of Shareholders' Meeting that authorized the transaction**	**Duration of the authorization**	**Expiry date**
CAPITAL INCREASES RETAINING PREFERENTIAL SUBSCRIPTION RIGHTS (PSR)					
Capital increase PSR *(twelfth resolution)*	117 million	1.5 billion	7 June 2011	26 months	7 August 2013
Increase in amount of initial issue with PSR ("Greenshoe") (sixteenth resolution)	15% of the initial issue (a) (b)	15% of the initial issue (a) (b)	7 June 2011	26 months	7 August 2013
Capital increase by capitalization of reserves, profits or additional paid-in capital (fifteenth resolution)	70 million (a)	N/A	7 June 2011	26 months	7 August 2013
CAPITAL INCREASES WITHOUT PREFERENTIAL SUBSCRIPTION RIGHTS (PSR)					
Capital increase without PSR by means of public offering(s) *(thirteenth resolution)*	35 million (a)	1.5 billion	7 June 2011	26 months	7 August 2013
Capital increase without PSR by means of private placement(s) *(fourteenth resolution)*	35 million (a)	1.5 billion	7 June 2011	26 months	7 August 2013
Capital increase without PSR, carried out in accordance with the *thirteenth* and *fourteenth resolutions,* at a price freely set by the Shareholders' Meeting *(fifteenth resolution)*	10% per year (a) (c)	1.5 billion	7 June 2011	26 months	7 August 2013
Increase in amount of initial issue without PSR ("Greenshoe") (sixteenth resolution)	15% of the initial issue (a) (b)	15% of the initial issue (b)	7 June 2011	26 months	7 August 2013
Capital increase without PSR in consideration of in-kind contributions, excluding in the case of a share exchange offer initiated by the Company *(seventeenth resolution)*	10% (a) (c)	1.5 billion	7 June 2011	26 months	7 August 2013
Capital increase without PSR in consideration of securities contributed to a share exchange offer initiated by the Company (eighteenth resolution)	35 million (a)	1.5 billion	7 June 2011	26 months	7 August 2013
Capital increase without PSR, carried out as a result of the issue by the Company's subsidiaries of securities giving access to the Company's share capital *(nineteenth resolution)*	35 million (a)	1.5 billion	7 June 2011	26 months	7 August 2013
EMPLOYEE SHARE OWNERSHIP OFFERING					
Capital increase reserved for members of a company savings scheme under the terms of an employee share ownership offering (twenty-second resolution)	9.4 million (a) (e)	N/A	7 June 2011	26 months	7 August 2013
Capital increase reserved for employees and those with similar rights of Vallourec Group companies outside France under the terms of an employee share ownership offering (twenty-third resolution)	9.4 million (a) (e)	N/A	7 June 2011	18 months	7 December 2012

	Maximum nominal ceilings on the capital increase *(in € or as a percentage of share capital)*	Maximum nominal amount of debt securities *(in €)*	Date of Shareholders' Meeting that authorized the transaction	Duration of the authorization	Expiry date
Capital increase reserved for credit institutions or other entities intended to hold, subscribe to or transfer shares under the terms of an employee share ownership offering (twenty-fourth resolution)	9.4 million [(a) (e)]	N/A	7 June 2011	18 months	7 December 2012
Allocation of shares free of charge under the terms of an employee share ownership offering as a substitute to the contribution made to French employees (twenty-fifth resolution)	0.3% of the share capital [(a)]	N/A	7 June 2011	26 months	7 August 2013
SHARE SUBSCRIPTION AND SHARE PURCHASE OPTIONS AND PERFORMANCE SHARES					
Share subscription or share purchase options for the Group's employees and corporate officers (twenty-first resolution)	3% of the share capital [(a)]	N/A	4 June 2009	38 months	4 August 2012
Allocations of performance shares to the Group's employees and corporate officers (twenty-sixth resolution)	1% of the share capital [(a) (d)]	N/A	7 June 2011	38 months	7 August 2014

(a) This amount or percentage is deducted from the overall €117 million cap for capital increases with the retention of preferential subscription rights.
(b) This percentage is limited by the cap on the authorization in accordance with which the initial issue was carried out.
(c) This amount or percentage is deducted from the overall €35 million cap for capital increases without preferential subscription rights.
(d) This percentage is deducted from the 3% cap on the share capital set aside for share subscription and share purchase options.
(e) The aggregate capital increases carried out under the terms of an employee share ownership offering may not exceed €9.4 million.

2.2.3.2 Use of financial authorizations to issue shares and securities giving access to the Company's capital as of 31 March 2012

Employee share ownership offering

Under the terms of the authorizations relating to employee share ownership offerings, the Management Board, with the prior agreement of the Supervisory Board, introduced in 2011, for the fourth consecutive year, an international employee share ownership plan (for a description of the plans, see § 6.3.3 "Employee shareholding" below) known as "Value 11". Under the terms of the twenty-second, twenty-third and twenty-fourth resolutions of the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, at its meeting of 15 December 2011 the Management Board recorded the full completion of three capital increases for respective nominal amounts of €2,019,700, €2,394,410 and €285,868, for an aggregate nominal amount of €4,699,978 representing 1.99% of the share capital on that date, by the respective issue of 1,009,850, 1,197,205 and 142,934 new shares, leading to an aggregate total of 2,349,989 new shares with a par value of €2 each and a price per share of €35.90. The combined effect of these operations was to raise the share capital from a total of €238,168,840 to €242,868,818.

In place of the contribution granted to employees and those with similar rights of the Vallourec Group's French companies participating in the "Value 11" plan, the Management Board at the same time implemented, under the terms of the "Value 11" offering, a free share allocation plan for existing shares involving 6,462 shares, representing 0.005% of the share capital on that date, for the benefit of non French tax residents employees of Vallourec Group companies with registered offices located in Canada or the United States (excluding employees of VAM USA LLC) such employees having participated in a share + SAR scheme under the terms of the "Value 11" offering.

Performance shares

Under the terms of the twenty-sixth resolution relating to performance shares adopted by the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, the Management Board, with the prior agreement of the Supervisory Board, decided on 18 November 2011 upon the allocation, under presence and performance conditions, of a maximum number of 78,318 performance shares, representing 0.066% of the share capital on that date, up to a maximum of six shares per beneficiary, for all employees of Vallourec Group companies included in the scope of the "Value 11" offering (excluding members of the Management Board and employees of Vallourec Group companies which registered office is in Brazil) and employees of Vallourec Group companies whose registered offices are in India, the Netherlands, Russia, Malaysia and Norway.

In addition, under the terms of the sixteenth resolution relating to performance shares adopted by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008 and expired at the end of the Shareholders' Meeting of 7 June 2011, the Management Board decided on 30 March 2011 upon the allocation, with the prior agreement of the Supervisory Board, under presence and performance conditions, of a maximum number of 269,204 performance shares [(1)], representing 0.23% of the share capital on that date, for the benefit of the 1,154 executive managers and the members of the Management Board.

The terms and conditions of these plans are detailed in Section 6.3.1.2.1 "Allocation of performance shares" and in the Management Board's special report on free share and performance share allocations in Section 8.1.3 of this Registration Document.

(1) Based on the highest performance coefficient.

Share subscription and share purchase options

Under the terms of the twenty-first resolution of the Shareholders' Meeting of 4 June 2009 relating to share subscription and share purchase options, the Management Board implemented:

- on 1 September 2009, a share subscription option plan, under presence and performance conditions, concerning the allocation of a maximum number of 578,800 [1] options, representing 0.51% of the share capital on that date, for the benefit of 303 executive managers and the members of the Management Board;
- on 1 September 2010, a share subscription option plan, under presence and performance conditions, concerning the allocation of a maximum number of 512,400 options [1], representing 0.44% of the share capital on that date, for the benefit of 349 executive managers and the members of the Management Board;
- on 1 September 2011, a share subscription option plan, under presence and performance conditions, concerning the allocation of a maximum number of 684,521 options [1], representing 0.57% of the share capital on that date, for the benefit of 743 executive managers and the members of the Management Board.

The terms and conditions of these plans are detailed in Section 6.3.1.1 "Share subscription and/or purchase options" and in the Management Board's special report on share subscription and share purchase options in Section 8.1.2 of this Registration Document.

2.2.4 SHARE BUYBACKS

2.2.4.1 Information about transactions carried out under the terms of the share buyback program during 2011

Share buybacks (outside from the scope of the liquidity contract)

As of 1 January 2011, Vallourec held 457,114 of its own shares with a par value of €2, representing 0.39% of its share capital on that date. All of these shares were allocated to cover free share and performance share allocation plans.

Under the terms of the share buyback programs authorized by the Ordinary Shareholders' Meetings of 31 May 2010 (eleventh resolution) and 7 June 2011 (eleventh resolution), between 1 January 2011 and 31 December 2011, Vallourec conducted the following operations:

- 400,000 shares were purchased at a gross weighted average price of €58.43 per share to cover free share and performance share allocation plans. Trading fees in respect of these purchases totalled €27,954.34.
- 100,883 shares were transferred following the final allocation of shares under the terms of free share and performance share allocation plans.

The following table provides details of the total gross cash flows resulting from the share purchases, disposals and transfers (excluding those carried out under the liquidity contract) carried out between 1 January and 31 December 2011:

	Purchases	Transfers/Disposals
Number of shares	400,000	100,883
Average price per share (in €)	58.43	19.74
AGGREGATE AMOUNT IN EUROS	**23,373,230**	**1,991,627**

Own shares held directly (outside from the scope of the liquidity contract) as of 31 December 2011

As of 31 December 2011, Vallourec held 756,231 of its own shares, representing 0.62% of its share capital on that date. All of these shares were allocated to cover share purchase option, free share allocation and performance share allocation plans. As of 31 December 2011, the carrying amount of the portfolio was €34,921,137, the par value was €1,512,462 and the market value of which was €37,932,547.

Liquidity contract

In 2007, Vallourec implemented a liquidity contract entered into with Crédit Agricole Cheuvreux, in accordance with the Code of Conduct *(Charte de déontologie)* of the French Association of Financial Market Professionals (*Association Française des marchés financiers* – AMAFI). The liquidity contract has a term of one year and is tacitly renewable from year to year.

In 2011, under the terms of such liquidity contract, a total of 1,247,756 shares were repurchased, representing 1.03% of the share capital as of 31 December 2011, for a total amount of €77,185,175 and a weighted average price per share of €61.86. As regards sales under the liquidity contract, a total of 1,089,756 shares were sold, representing 0.90% of the share capital as of 31 December 2011, for total sales proceeds of €70,479,853 and a weighted average price per share of €64.67.

In 2011, a capital loss of €2,044,688 was generated in respect of the liquidity contract.

As of 31 December 2011, the balance on the liquidity account comprised:

- 256,000 shares.
- €8,922,848.

The management commission charge in respect of the liquidity contract for 2011 totalled €100,000 excluding VAT.

Cross-shareholding

None.

Open positions on derivatives as of 31 December 2011

None.

(1) Based on the highest performance coefficient.

2.2.4.2 Description of 2012-2013 share buyback program submitted to the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 (13th resolution)

The aim of this description of the program is, in accordance with Article 241-1 *et seq.* of the general regulations of the *Autorité des Marchés Financiers — AMF (the* French securities regulator), to describe the objectives, terms and conditions of Vallourec's own share buyback program, which will be submitted for approval to the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012.

Allocation by objectives of Vallourec shares held by the Company as of 31 March 2012

As of 31 March 2012, Vallourec held 674,193 of its own shares, representing 0.56% of its share capital on that date. All the shares have been allocated to cover free share allocation or performance share allocation plans.

In addition, the balance as of 31 March 2012 on the liquidity contract entered into with *Crédit Agricole Cheuvreux* was 206,000 shares, representing 0.17% of the share capital on that date.

Objectives of the share buyback program submitted to the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012

In accordance with the provisions of European Regulation no. 2273/2003 of 22 December 2003 implementing European Directive no. 2003/6/EC of 28 January 2003 and market practices allowed by the French securities regulator (*Autorité des Marchés Financiers* — AMF), set out below are the objectives of the share buyback programme submitted for approval to the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012:

1. To implement any Company share purchase option plan, or any similar plan, in accordance with the provisions of Article L.225-177 *et seq.* of the French *Commercial Code.*
2. To allocate or sell shares to employees to enable them to participate in the Company's expansion, and/or in connection with any Group or Company savings scheme or similar scheme as established under applicable law, in particular Article L.3332-1 *et seq.* of the French Labour *Code.*
3. To allocate free shares or performance shares, in accordance with the provisions of Article L.225-197-1 *et seq.* of the French *Commercial Code.*
4. To allocate shares to employees and/or corporate officers of the Group, such as in connection with international employee share ownership or variable remuneration offerings.
5. To stimulate the secondary market or increase the liquidity of Vallourec shares through an investment service provider, under the terms of a liquidity contract that complies with the AMAFI Code of Conduct as the latter is, approved by the French securities regulator (*Autorité des Marchés Financiers* — AMF), such stimulation increase being in accordance with the market practices permitted by the French securities regulator (*Autorité des Marchés Financiers* — AMF).
6. To hold and subsequently deliver shares (in payment, exchange or otherwise) in connection with any transactions involving acquisitions, and, in particular, mergers, split-offs or contributions, in accordance with the market practices permitted by the French securities regulator (*Autorité des Marchés Financiers* — AMF).
7. To deliver shares upon the exercise of rights attached to securities giving access to the share capital by means of redemption, conversion, exchange, exercise of a warrant or in any other manner.
8. To cancel some or all of the shares thus bought back, provided that the Management Board has been authorized to do so by a Shareholders' Meeting held as an Extraordinary Meeting and that such authorization is valid, enabling it to reduce the share capital by cancelling the shares acquired within the scope of a share buyback programme.

Terms and conditions of the share buyback program submitted to the Shareholders' Meeting of 31 May 2012

In the following table, details are provided on the maximum portion of the capital, the maximum number of shares and the characteristics of the shares that the Company proposes to acquire under the terms of its share buyback program, submitted for approval to the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, as well as the maximum purchase price per share:

Share characteristics	Maximum portion of the capital (a)	Maximum number of shares (b)	Maximum purchase price (per share)
Ordinary shares	10%	12,143,440	€100

(a) It is stipulated that this percentage applies to capital that will be adjusted, where applicable, to take account of any transactions affecting the share capital that may occur after the Shareholders' Meeting of 31 May 2012, and that, in all circumstances, the number of shares that the Company holds at any given time may not exceed 10% of the shares comprising the Company's capital on the date in question.

(b) This number corresponds to the theoretical number of ordinary shares that the Company could acquire, calculated on the basis of the share capital at 31 March 2012, i.e. €242,868,818, divided into 121,434,409 shares. Given the number of ordinary shares owned by Vallourec on that date (880,193 shares), Vallourec could acquire 11,263,247 of its own shares.

Term of the share buyback program submitted to the Shareholders' Meeting of 31 May 2012

The authorization, granted to the Management Board to implement the share buyback program, will be for a term of 18 months as of the Shareholders' Meeting of 31 May 2012, i.e. until 30 November 2013, subject to the approval of the program by the Ordinary Shareholders' Meeting.

2.2.5 CHANGE IN CAPITAL OVER THE LAST FIVE YEARS

Transaction date	Exercise of subscription options	Number of shares subscribed for in cash	Total number of shares after transaction	Nominal amount of capital increase *(in €)*	Additional paid-in capital *(in €)*	Total share capital after operation *(in €)*
14/06/2005	18,415	-	9,888,371	368,300	331,470	197,767,420
13/07/2005	-	706,312	10,594,683	14,126,240	110,855,668	211,893,660
31/12/2005	5,649	-	10,600,332	112,980	98,462	212,006,640
18/07/2006 [(a)]	-	-	53,001,660	-	-	212,006,640
31/12/2006	10,210	-	53,011,870	40,840	35,609	212,047,480
31/12/2007	26,850	-	53,038,720	107,400	93,707	212,154,880
16/12/2008	-	749,996	53,788,716	2,999,984	46,492,252	215,154,864
07/07/2009	-	2,783,484	56,572,200	11,133,936	195,623,256	226,288,800
17/12/2009	-	708,589	57,280,789	2,834,356	62,171,599	229,123,156
02/07/2010	-	993,445	58,274,234	3,973,780	126,018,498	233,096,936
09/07/2010 [(b)]	-	-	116,548,468	-	-	233,096,936
03/12/2010	-	1,395,614	117,944,082	2,791,228	82,536,612	235,888,164
07/07/2011	-	1,140,338	119,084,420	2,280,676	84,293,785	238,168,840
15/12/2011	-	2,349,989	121,434,409	4,699,978	79,664,627	242,868,818

(a) 5:1 stock split, as a result of which the par value was reduced from €20 to €4 and the number of shares was multiplied by five.
(b) 2:1 stock split, as a result of which the par value was reduced from €4 to €2 and the number of shares was doubled.

2.2.6 SECURITIES NOT REPRESENTATIVE OF CAPITAL

Transferable securities giving the right to the allocation of debt securities

The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 granted the Management Board, subject to the prior agreement of the Supervisory Board (see Section 2.2.1 above), the authority, for a period of 26 months, to issue securities that give the right to the allocation of debt securities that do not result in a Company capital increase, such as bonds with bond warrants, within the limit of a maximum nominal amount of €1.5 billion (twenty-first resolution). The Management Board did not make use of this authority.

Commercial paper issue program

To meet its short-term needs. on 12 October 2011, Vallourec set up a commercial paper issue program, the main characteristics of which are as follows:

Maximum cap on the program	€750,000,000
Term	> 1 day < 365 days
Minimum unit amount	€150,000
Currency of issue	Euro (€)
Paying agent	Crédit Industriel et Commercial
Underwriters	BNP Paribas BRED Crédit Agricole CIB CM — CIC HSBC France Natixis Société Générale CIB
Short-term rating (Standard & Poor's)	A-2

The financial prospectus for the commercial paper issue program and outstanding amounts of the issues can be consulted on the websites of the Company (www.vallourec.com) and the Banque de France (www.banque-france.fr).

Bond issue

On 7 December 2011, Vallourec successfully floated a bond issue in the amount of €650 million at a fixed rate, with a maturity date of 14 February 2017 (the "**Bonds**"). The Bonds have a unit par value of €100,000 and are listed for trading on NYSE Euronext Paris. They bear interest at an annual fixed rate of 4.25%, payable in arrears on 14 February each year, and are rated BBB+ by Standard & Poor's.

The nominal amount and interest on the Bonds represent direct, unconditional, unsubordinated liabilities, not backed by Vallourec assets, ranked *pari passu* without preference among them, with the other present and future unsubordinated Vallourec bonds not backed by assets. Throughout the maturity period of the Bonds, Vallourec has undertaken not to grant any security or guarantee (mortgage, lien, pledge, real surety etc.) on its assets, income or rights, present or future, for the benefit of holders of bonds, warrants or transferable securities listed or traded (or that may be listed or traded) on a regulated market, multilateral trading system, over-the-counter market or any other market, unless the same ranking or same surety or guarantee is granted to the Bonds.

This bond issue specifically includes a change of control clause that would trigger the mandatory early redemption of the Bonds at the request of each Bondholder in the event of a change in control of Vallourec (in favour of a person or group of people acting in concert) entailing a reduction in the Company's financial rating.

The Bonds may also be redeemed early at the request of the holder or the Company, depending on the case, in the event of certain standard cases of default for this type of transaction or change in the Company's situation or tax regulations.

The listing prospectus for the Bonds may be consulted on the website of the Company (www.vallourec.com) and the French securities regulator (*Autorité des Marchés Financiers* — AMF) (www.amf-france.org).

Rating

Vallourec's debt is rated by the Standard & Poor's financial rating agency. As of 31 March 2012, this rating was BBB+/stable/A-2.

2.3 BREAKDOWN OF CAPITAL AND VOTING RIGHTS

2.3.1 CHANGES TO THE BREAKDOWN OF CAPITAL OVER THE LAST THREE FINANCIAL YEARS

Years					2009
Shareholders	**Number of shares**	**% of capital**	**Theoretical number of voting rights**	**Theoretical % of voting rights**	**% voting rights that could be exercised at Shareholders' Meetings**
FSI [(a)]	NC	NC	NC	NC	NC
Capital Research [(b)]	NC	NC	NC	NC	NC
Bolloré Group [(c)]	2,990,588	5.22%	2,990,588	5.22%	5.24%
Sumitomo Metal Industries	986,567	1.72%	986,567	1.72%	1.73%
Public	51,561,306	90.02%	51,617,221	90.02%	90.42%
Group employees	1,487,614	2.60%	1,489,024	2.60%	2.61%
Own shares held directly by Vallourec [(d)]	254,714	0.44%	254,714	0.44%	0%
TOTAL	**57,280,789**	**100%**	**57,338,114**	**100%**	**100%**

Years					2010
Shareholders	**Number of shares**	**% of capital**	**Theoretical number of voting rights**	**Theoretical % of voting rights**	**% of voting rights that could be exercised at Shareholders' Meetings**
FSI [(a)]	7,097,617	6,02%	7,097,617	6.01%	6.04%
Capital Research [(b)]	5,906,563	5.01%	5,906,563	5.00%	5.02%
Bolloré Group [(c)]	6,141,152	5.21%	6,141,152	5.20%	5.22%
Sumitomo Metal Industries	1,973,134	1.67%	1,973,134	1.67%	1.68%
Public	92,250,915	78.22%	92,300,250	78.13%	78.50%
Group employees	4,019,587	3.41%	4,159,417	3.52%	3.54%
Own shares held directly by Vallourec [(d)]	555,114	0.47%	555,114	0.47%	0.00%
TOTAL	**117,944,082**	**100%**	**118,133,247**	**100%**	**100%**

Years					2011
Shareholders	**Number of shares**	**% of capital**	**Theoretical number of voting rights**	**Theoretical % of voting rights**	**% of voting rights that could be exercised at Shareholders' Meetings**
FSI [(a)]	8,427,464	6.94%	8,427,464	6.92%	6.98%
Capital Research [(b)]	5,736,382	4.72%	5,736,382	4.71%	4.75%
Bolloré Group [(c)]	2,046,475	1.69%	2,046,475	1.68%	1.69%
Sumitomo Metal Industries	1,973,134	1.62%	1,973,134	1.62%	1.63%
Public	96,202,505	79.22%	96,288,050	79.07%	79.73%
Group employees	6,036,218	4.97%	6,297,689	5.17%	5.21%
Own shares held directly by Vallourec [(d)]	1,012,231	0.83%	1,012,231	0.83%	0.00%
TOTAL	**121,434,409**	**100%**	**121,781,425**	**100%**	**100%**

(a) Jointly with Caisse des Dépôts et Consignations (CDC). Pursuant to Article 5 of Vallourec's by-laws, the CDC declared, via a letter dated 19 December 2011, that on 15 December 2011 it had upwardly crossed the statutory thresholds, directly and indirectly via the Fonds Stratégique d'Investissement (FSI), of 7% of the Vallourec capital and voting rights, and that it held, directly and indirectly via the FSI, 8,427,464 Vallourec shares with the same number of voting rights, representing 7.07% of the capital and 7.05% of the voting rights.

(b) By letter dated 28 October 2011, Capital Research and Management Company declared that, on 28 October 2011, it had crossed the 5% thresholds for Vallourec share capital and voting rights and held 5,736,382 Vallourec shares with the same number of voting rights, representing 4.82% of the capital and 4.80% of the voting rights (AMF decision and information notice no. 211C1966 of 2 November 2011).

(c) Including Compagnie de Cornouaille SAS and Bolloré SA (both companies controlled indirectly by Mr Vincent Bolloré). By letter dated 19 May 2011, Compagnie de Cornouaille SAS declared that, on 16 May 2011, it had crossed down the 5% Vallourec share capital and voting rights thresholds and individually held 2,011,910 Vallourec shares with the same number of voting rights, representing 1.71% of the capital and 1.70% of the voting rights (AMF decision and information notice no. 211C0727 of 20 May 2011). This threshold crossing was the result of a Vallourec share sale via private transaction. The same declaration specified that Mr Vincent Bolloré had, as a result of this transaction, indirectly crossed the same thresholds and subsequently indirectly held 2,012,022 Vallourec shares with the same number of voting rights, representing 1.71% of the share capital and 1.70% of the voting rights. See Section 8.1.1.11 below for a summary of all the individual declarations relating to transactions in Vallourec shares carried out by the persons referred to in Article L.621-18-2 of the French Monetary and Financial Code during the financial year 2011.

(d) Own shares held directly include the shares shown on the balance of the liquidity contract managed by Crédit Agricole Cheuvreux and the shares held by the Company on its own account to cover its plans for the allocation of performance shares and free shares. Consequently, the number of own shares held is liable to change at any time.

Agreement entered into by Vallourec with Sumitomo Metal Industries

In recognition of their strengthened industrial collaboration, on 26 February 2009 Vallourec and Sumitomo Metal Industries announced that they had agreed to purchase shares in each other's capital for an amount of approximately USD 120 million over a period up to 31 December 2009 (hereinafter referred to as the "Agreement").

The provisions of the Agreement provide for preferential sale conditions, the main characteristic of which is the existence of a reciprocal preemption right in the event that one of the two partners indicates its intention to sell its shareholding to a third party.

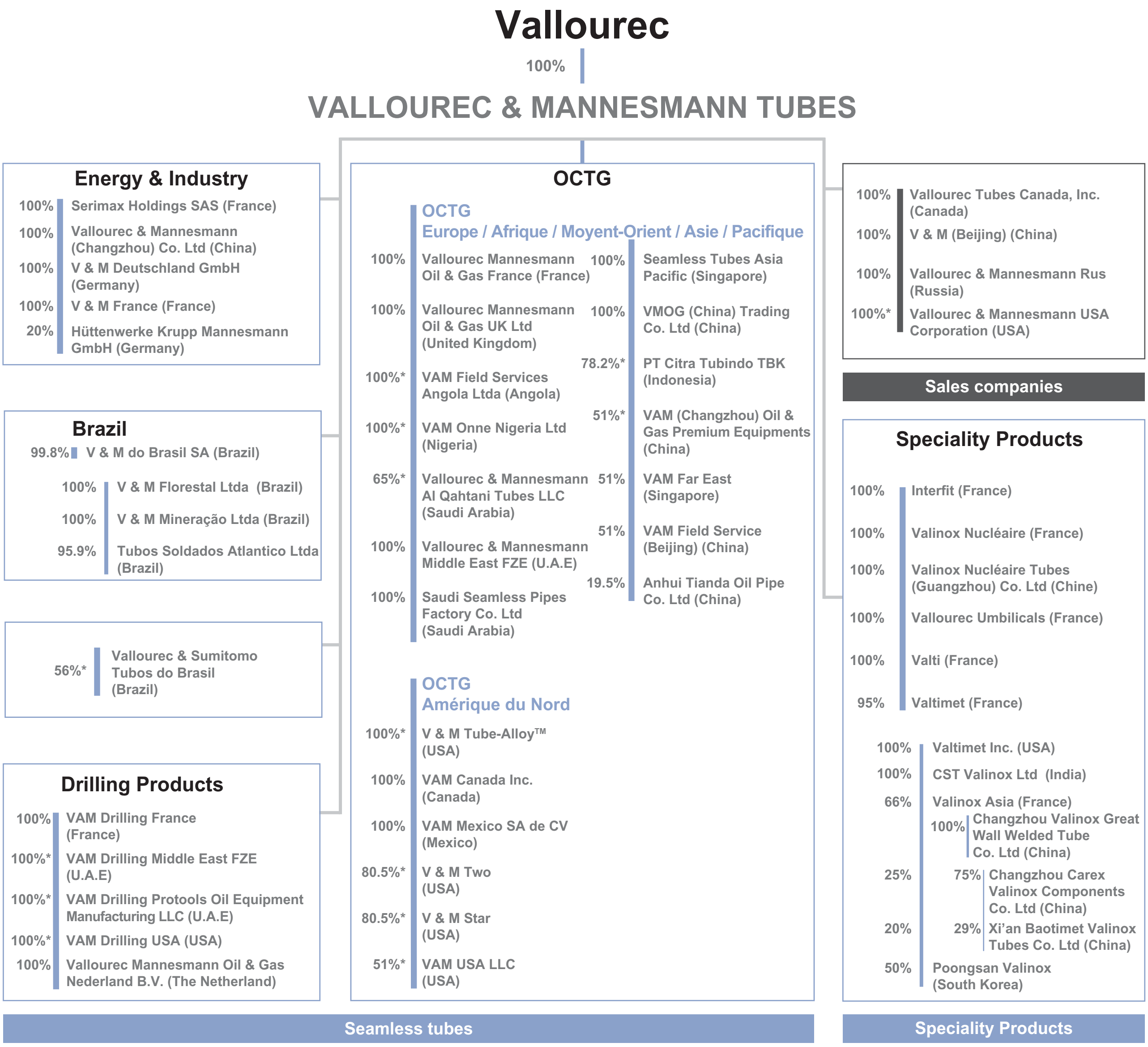
The Agreement was entered into for a period of seven years and can be automatically renewed for further one-year periods.

On 31 December 2011, Sumitomo Metal Industries held 1,973,134 Vallourec shares, representing a 1.62% stake in Vallourec's share capital, and, under the reciprocal arrangements, Vallourec held 47,194,000 Sumitomo Metal Industries shares, representing a 0.98% stake in Sumitomo Metal Industries' share capital.

2.3.2 OTHER PERSONS EXERCISING CONTROL OVER VALLOUREC

None.

2.3.3 ORGANISATIONAL CHART OF THE VALLOUREC GROUP AS OF 31 DECEMBER 2011



* Percentage interest held directly or indirectly by the Group.

2.4 MARKET FOR VALLOUREC'S SHARES

2.4.1 LISTING MARKET

The Company's shares are listed on the compartment A of NYSE Euronext Paris regulated market (ISIN code: FR0000120354-VK). They are part of the deferred settlement section and are a qualifying investment under the French equity savings plan *(Plan d'Épargne en Actions* — PEA) legislation.

Vallourec's shares form part of the MSCI World Index, Euronext 100, CAC 40 and SBF 120 indices — FTSE classification: Engineering and industrial capital goods.

The Bonds issued by Vallourec on 7 December 2011 are listed for trading on the NYSE Euronext market in Paris under ISIN no. FR0011149947 (see §2.2.6 above — "Securities not representative of capital").

2.4.2 OTHER POTENTIAL MARKETS

In October 2010, Vallourec implemented a sponsored Level 1 American Depositary Receipt (ADR) program in the United States. This new initiative demonstrates the Group's intention to broaden its investor base by enabling a larger number of US-based investors to participate in its future expansion.

An ADR is a US-dollar-denominated security representing shares in a non-US company, which allows American investors to hold shares indirectly and to trade them on securities markets in the United States. Vallourec's ADRs may be traded on the US over-the-counter (OTC) market.

JP Morgan is the depository bank responsible for administering the ADR programme. Technical information about the ADR program is available on the Group's website under the ADR heading. For further information, ADR holders may contact JP Morgan as follows:

- by phone: (800) 990-1135 (general) or (651) 453-2128 (if calling from outside the USA)
- by e-mail: jpmorgan.adr@wellsfargo.com
- or by post at the following address:

  JP Morgan Service Center
  J.P. Morgan Chase & Co.

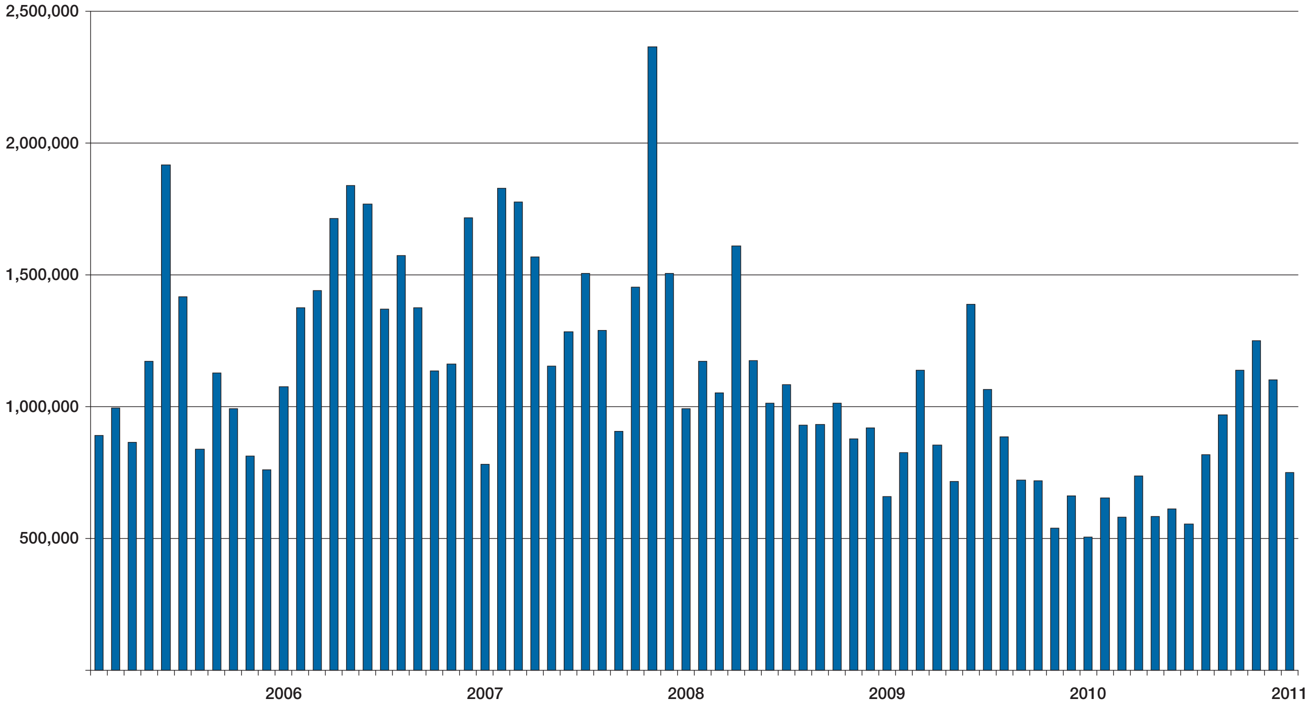
  P.O. Box 64504
  St Paul, MN 55164-0504
  USA

2.4.3 DETAILS ON VOLUMES TRADED AND SHARE PRICE HISTORY

For clarity and consistency, all the data provided in this section have been adjusted to take into account the 2-for-1 stock split of the Vallourec share's par value on 9 July 2010.

Adjusted Vallourec share price performance over five years compared to the CAC 40 index

Adjusted monthly average volumes traded per day



Evolution of share price adjusted for stock split and market capitalization over five years

In €	2007	2008	2009	2010	2011
Number of shares adjusted (as of 31 December)	106,077,440	107,577,432	114,561,578	117,944,082	121,434,409
Highest price	121.63	112.23	64.25	81.61	89.58
Lowest price	80.65	32.09	26.26	60.35	38.34
Average (closing) price for the year	100.85	74.83	47.34	73.05	68.33
Year-end price	92.58	40.50	63.53	78.60	50.16
Market capitalization (year-end price)	9,820,649,935	4,356,885,996	7,278,097,050	9,270,404,845	6,091,149,955

Source: Euronext

Vallourec share price and trading volume from January 2011 to March 2012

	Price (in €)			Transaction volume: Monthly total		Transaction volume: Daily average	
	Highest	Lowest	Month-end	Number of securities	Share capital in billions of euros	Number of securities	Share capital in billions of euros
2011							
January	85.59	78.67	79.34	13,693,212	1.12	597,053	0.05
February	81.66	72.00	75.07	11,941,052	0.93	578,932	0.05
March	80.60	69.18	79.16	16,907,689	1.26	735,117	0.05
April	85.15	79.25	84.19	11,071,058	0.91	582,687	0.05
May	89.58	80.79	86.97	13,410,530	1.15	609,570	0.05
June	87.39	77.53	83.99	12,173,346	0.99	553,334	0.05
July	87.60	68.88	71.12	17,162,754	1.34	817,274	0.06
August	73.10	54.35	62.65	22,248,598	1.37	967,330	0.06
September	63.05	43.02	43.50	24,996,992	1.32	1,136,227	0.06
October	49.50	38.34	43.98	26,239,047	1.18	1,249,478	0.06
November	51.30	40.00	50.72	24,218,122	1.08	1,100,824	0.05
December	52.35	44.52	50.16	15,748,509	0.76	749,929	0.04
2012							
January	55.79	49.68	51.63	11,430,073	0.60	519,549	0.03
February	58.24	50.53	52.85	16,904,420	0.91	804,972	0.04
March	54.88	46.30	47.50	18,008,853	0.90	818,584	0.04

Source: Euronext

2.4.4 PLEDGING OF THE ISSUER'S SHARES

None.

2.5 DIVIDEND PAYMENT POLICY

For a clear understanding of the following paragraphs, it is important to note that a 5:1 stock split was carried out on 18 July 2006 and a 2:1 stock split was carried out on 9 July 2010. The current par value of Vallourec's shares is €2.

Vallourec's dividend policy, as approved by the Supervisory Board at its meeting on 17 April 2003, is, over the long term, to distribute on average 33% of its consolidated net income, Group share.

At the Shareholders' Meeting to be held on 31 May 2012 (third and fourth resolutions), shareholders will be asked to approve the payment of a net dividend of €1.30 per share in respect of the financial year 2011 and, for the fourth consecutive year, to give each of the Company's shareholders the choice between payment of the dividend in cash or in shares, in accordance with the statutory and regulatory provisions. Shareholders on the register on 4 June 2012 will be entitled to the dividend and the share will go ex-dividend on 5 June 2012.

Accordingly, each shareholder will be able to opt for payment of the entire net dividend in cash or shares between 5 June 2012 and 19 June 2012 inclusive. If the option is not exercised by the end of this time limit, the dividend will be paid in cash only, on 27 June 2012.

This dividend corresponds to a payout ratio of 39.3% of the consolidated net profit, Group share. The average payout ratio in the last five years was 36.2%.

Based on the par value of Vallourec's shares at 31 December 2011, taking into account the 5:1 stock split on 18 July 2006 and the 2:1 stock split on 9 July 2010, the dividends per share paid in respect of the last five financial years were:

In € per share	Gross income	Tax credit	Net dividend	Payout ratio
2006	3.00	Not applicable	3.00 (a)	34.7%
2007	5.50	Not applicable	5.50 (b)	37.4%
2008	3.00	Not applicable	3.00 (c)	33.2%
2009	1.75	Not applicable	1.75 (c)	38.6%
2010	1.30	Not applicable	1.30 (c)	37.3%

(a) Including an interim dividend of €1 per share paid on 20 October 2006.
(b) Including an interim dividend of €2 per share distributed on 4 July 2007.
(c) It should be noted that the Ordinary and Extraordinary Shareholders' Meetings of 4 June 2009, 31 May 2010 and 7 June 2011 gave each of the Company's shareholders the option to receive payment of the dividend in cash or shares, in accordance with the statutory and regulatory provisions.

Based on the par value of Vallourec's shares on the date the dividends were paid, the dividends per share paid in respect of the last five financial years were:

In € per share	Gross income	Tax credit	Net dividend	Payout ratio
2006	6.00	Not applicable	6.00 (a)	34.7%
2007	11.00	Not applicable	11.00 (b)	37.4%
2008	6.00	Not applicable	6.00 (c)	33.2%
2009	3.50	Not applicable	3.50 (c)	38.6%
2010	1.30	Not applicable	1.30 (c)	37.3%

(a) Including an interim dividend of €2 per share distributed on 20 October 2006.
(b) Including an interim dividend of €4 per share paid on 4 July 2007.
(c) It should be noted that the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009, 31 May 2010 and 7 June 2011 gave each of the Company's shareholders the option to receive payment of the dividend in cash or shares, in accordance with the statutory and regulatory provisions.

2.6 FINANCIAL COMMUNICATION POLICY

The Group priority is to maintain lasting, trustworthy relations with all its shareholders, be they individual or institutional, French or foreign. The role of the Investor Relations and Financial Communication team is to facilitate shareholders' access to information on the Group's results, outlook and strategic developments.

Accordingly, and with ongoing concern for clarity and transparency, numerous dedicated communications media are available and regular meetings are arranged throughout the year.

2.6.1 INFORMATION AVAILABLE TO ALL SHAREHOLDERS

Financial information and communications media are available to all shareholders in electronic version on the Group's website (www.vallourec.com), under the Finance heading, which is an authoritative Group financial communications database that includes:

- the annual report, Shareholders' Guide, sustainable development report and letters to shareholders:
- all financial and strategic information issued to the financial markets: quarterly results, press releases, presentations and audio and video transmissions of conferences:
- all the regulated information disclosed under the European "Transparency" Directive of 15 December 2004, which specifically comprises:
  - the Registration Document, including the annual financial report and half-year report filed with the *Autorité des Marchés Financiers* — AMF (the French securities regulator),
  - the documents related to the Shareholders' Meeting (notice of meeting, draft resolutions, voting slip, meeting brochure).

Information may be sent by post following a request on the Group website or to the Investor Relations and Financial Communication Department via e-mail, phone or post.

2.6.2 RELATIONS WITH INSTITUTIONAL INVESTORS AND FINANCIAL ANALYSTS

The Investor Relations and Financial Communication Department organizes, with the contribution of various members of the Group's senior management, on a regular basis and in accordance with best business practices, meetings with institutional investors and financial analysts, including SRI (Socially Responsible Investment) specialists, in France and abroad:

- **Each quarter, a telephone conference is organized** when the financial results are released. Members of the Management Board present the results and answer questions from analysts and investors.
- **Each half-year, a conference is organized in Paris** when the half-year and full-year results are released. A video of the conference can be viewed live as it takes place subsequently on the Group's website.
- **An Investor Day is organized each year,** where a presentation is made to the financial community on the Group's strategy, products and operations. Vallourec held its 2010 Investor Day in the United States and 2011 Investor Day in Brazil. The Brazil event was highly successful, with investors and analysts keen to visit the Group's mining and industrial sites in Minas Gerais province, including the new VSB integrated plant at Jeceaba. They were also able to attend a series of presentations by Group management and the Brazilian teams on the new strategic, technological and environmental challenges facing Vallourec and the potential of the Brazilian energy market.

In addition, **numerous meetings between the Group's senior management and the financial community are arranged throughout the year.** In 2011, Vallourec's management and the Investor Relations and Financial Communication team took part in nearly 200 meetings and telephone conferences and were involved for some 50 days in roadshows and conferences, mostly dedicated to the oil sector, at the world's leading financial centres, especially in Europe and the United States.

2.6.3 RELATIONS WITH INDIVIDUAL SHAREHOLDERS

Special communications resources have been developed to respond to the expectations of individual shareholders, including:

- a dedicated Individual Shareholders area on the Group's website under the Finance heading (www.vallourec.com).
- regular posting of financial notices in the national press (publication of results, notice of Shareholders' Meetings).
- dedicated communication media: The Shareholders' Guide and letters to shareholders.
- a programme of visits to Vallourec's industrial sites, offering shareholders the opportunity to learn more about the Group in a more personal way, (registration through the Group's website).
- regional information meetings organized jointly with other companies in the oil services sector; a calendar of events is available on the Group's website.
- an Investor Relations and Financial Communication team that is constantly available to answer questions.

Annual General Meeting

The Annual General Meeting, which in 2011 was held at the Palais des Congrès in Paris, is a key opportunity for dialogue about the Group's performance over the year between individual shareholders and the Group's senior management. The Investor Relations and Financial Communication team is also available to advise shareholders on voting and attending Shareholders' Meetings.

Registered shares

Vallourec offers its shareholders the opportunity to enjoy the benefits afforded by direct registration of their shares, which include:

- **Free management:** direct registered shareholders are totally exempt from custody fees as well as the other fees associated with the management of their shares:
  - conversion to bearer shares and share transfers.
  - changes in the legal situation: transfers, gifts, inheritance, etc.
  - securities transactions (capital increases, allocations of shares, etc.).
  - dividend payments.
- **A guarantee of receiving personalized information:** direct registered shareholders are guaranteed to receive personalized information on:
  - notices of Shareholders' Meetings – direct registered shareholders will automatically be sent the invitation to attend, the postal voting form, an admission card request form and statutory information documents.
  - securities management, the taxation of securities and the organization of Shareholders' Meetings. A team of operators is always available from 9 a.m. until 6 p.m. Monday to Friday, at +33 (0)1 57 78 34 44.
- **Attending Shareholders' Meetings is easier:** all registered shareholders are automatically invited to Shareholders' Meetings and, in order to vote, do not need to go through the prior formality of requesting a certificate of holding.

Further information about direct registration and the registration forms may be obtained from **CACEIS Corporate Trust:**

- By mail at the following address:

  CACEIS Corporate Trust

  Investor Relations

  92862 Issy-les-Moulineaux Cedex 09
- By telephone: +33 (0)1 57 78 34 44
- By fax: +33 (0)1 49 08 05 80

2.6.4 CONTACT THE INVESTOR RELATIONS AND FINANCIAL COMMUNICATION TEAM

Investor Relations and Financial Communication Department

- Address: 27, avenue du Général Leclerc, Boulogne-Billancourt 92100, France
- Tel.: +33 (0)1 49 09 39 76
- E-mail: mailto:investor.relations@vallourec.fr or mailto:actionnaires@vallourec.fr

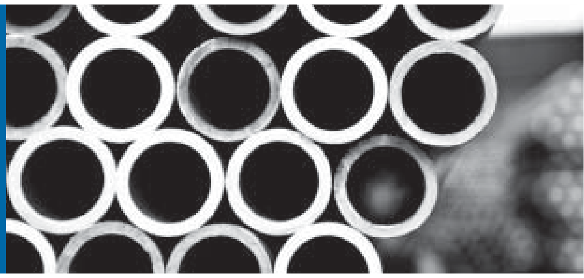
2.6.5 INDICATIVE 2012 TIMETABLE

Financial calendar

10 May 2012	Release of first-quarter results
31 May 2012	Shareholders' Meeting
27 June 2012	Payment of dividend
26 July 2012	Release of second-quarter results
7 November 2012	Release of third-quarter results
28-29 November 2012	Investor Day in the United States

Calendar of events for individual shareholders (as a guide, not definitive)

12 April 2012	Visit to the Saint-Saulve site
31 May 2012	Shareholders' Meeting
12 December 2012	Shareholders' roadshow in Strasbourg



3 Information on Vallourec Group activities

3.1 PRESENTATION OF VALLOUREC – COMPANY AND GROUP

The Vallourec Group is over 100 years old, certain companies at the Group's origins having been established in the last decade of the 19th century. The Group originated in two areas in France, both with long industrial traditions, and in which the Group still has a significant presence – the northern region around Valenciennes and Maubeuge and the Burgundy region around Montbard, in Côte-d'Or. Following the formation of Vallourec & Mannesmann Tubes (V & M Tubes) in 1997 (see 3.1.1 below), and the acquisition of V & M do Brazil in 2000, the Group also has a significant presence in the Düsseldorf area in North Rhineland-Westphalia (Germany) and in the region of Belo Horizonte in the Brazilian state of Minas Gerais. The acquisition by V & M Tubes at the beginning of July 2002 of the seamless tubes business of North Star Steel Company, now named V & M Star, supplemented in 2005 by the acquisition of Omsco (since renamed VAM Drilling USA) and, on 16 May 2008, of Atlas Bradford®, TCA® and Tube-Alloy™, significantly strengthened the Group's presence in the United States.

Although the name Vallourec first appeared in 1930, designating a company operating pipe mills in Valenciennes, Denain, Louvroil and Recquignies, the present Group has other, much earlier roots. It originated in Société Métallurgique de Montbard, which was formed in 1899 to take over Société Française de Fabrication des Corps Creux, which had operated a plant in Montbard since 1895. Listed on the Paris Stock Exchange since its formation in 1899, in 1907 it was named Société Métallurgique de Montbard-Aulnoye and in 1937 Louvroil Montbard Aulnoye after the takeover of the company Louvroil et Recquignies, itself a result of the merger between Société Française pour la Fabrication des Tubes de Louvroil, formed in 1890, and Société des Forges de Recquignies, founded in 1907.

In 1947, the name Vallourec was registered as a product name, but it was not until 1957, when the Valenciennes plant was bought from the company Denain Anzin, that Louvroil Montbard Aulnoye adopted the name Vallourec (the company formed under that name in 1930 was renamed Sogestra).

Major events in the Group's history between 1957 and 1996 include:

- 1967: Contribution by Usinor of the tubes business of Lorraine-Escaut, a company recently taken over by Usinor;
- 1975: Takeover of Compagnie des Tubes de Normandie;
- 1979: Contribution of the small welded tube business to the company Tubes de la Providence, which took the name of Valexy (Vallourec 64%, Usinor 36%);
- 1982: Takeover of Entrepose, a 90%-owned subsidiary of Vallourec, by Grands Travaux de Marseille, renamed GTM-Entrepose; Vallourec, with a 41% holding in GTM-Entrepose, became its main shareholder;
- 1985: Contribution to GTS Industries of the large welded tube business;
  - Withdrawal of Vallourec from the small welded tube business (Valexy) and large welded tube business (GTS Industries) in favour of Usinor, with Vallourec concentrating on seamless tube production and downstream processing activities,
  - Sale of Société Industrielle de Banque (SIB);
- 1986: Vallourec, until then a holding and industrial company with many production units, became a pure holding company, covering three business areas:
  - Tube businesses: Vallourec Industries, renamed Valtubes in 1987,
  - Other metalworking businesses: Sopretac,
  - Businesses associated with construction and civil engineering, especially a participating interest in GTM-Entrepose: Valinco;
- 1988: Transfer of control of Valinco to Dumez, as activities associated with construction and civil engineering were no longer considered to be one of the Group's main development areas;
- 1991: Sale of the residual holding in Valinco to Dumez.

3.1.1 CHANGE IN GROUP STRUCTURE IN RECENT YEARS

One of the major events of recent years was the formation on 1 September 1997 of V & M Tubes, a joint subsidiary of Vallourec (55%) and Germany's Mannesmannröhren-Werke (45%). As provided for in the initial agreement, this merger was completed in 2000 when V & M Tubes acquired the Brazilian subsidiary Mannesmann SA, now named V & M do Brazil SA.

V & M Tubes' acquisition of North Star Steel Company's seamless steel tube business (North Star Tubes) in early July 2002 increased Vallourec's share in the buoyant tube market in the energy sector and significantly strengthened its presence in the United States, the benchmark market for tubes for oil & gas well equipment (Oil Country Tubular Goods—OCTG). Now called V & M Star, this company is 80.5% controlled by V & M Tubes and 19.5% controlled by Sumitomo Corporation.

On 23 June 2005, Vallourec gained full control of V & M Tubes as a result of the acquisition, for €545 million, of the 45% stake held by Mannesmannröhren-Werke. This major transaction has given Vallourec:

- full control over the implementation of V & M Tubes' strategy (acquisitions, capital expenditure, etc.);
- a more consistent, clearer Group structure;
- full access to its subsidiary's results and cash-flow.

In order to control its supplies, V & M Tubes operates three steel mills (in France, Brazil and the United States) and owns a 20% stake in the German steel mill HKM as well as a supply contract entitling it to a portion of the mill's steel production.

With a view to continuing its expansion in the production of tubes for the power-generation market, in 2005 V & M Tubes created a subsidiary in Changzhou, China, V & M Changzhou, which began doing business at the end of September 2006 and specialises in the cold-finishing of large-diameter seamless alloy steel tubes produced in Germany for power-generation plants.

With regard to tubes for the oil & gas industry, following the 2002 acquisition of North Star, in 2005 V & M Tubes acquired the assets of the Omsco Division of ShawCor (Canada) based in the United States (Houston), which specialises in the manufacture of drill pipes, drill collars and heavyweight drill pipes. This acquisition enabled V & M Tubes to rise to No. 2 in the global oil & gas drill pipe market. This position was consolidated early in 2006 by the acquisition in France of SMFI *(Société de Matériel de Forage International),* which also specialises in drill collars, heavyweight drill pipes and high-tech products for oil & gas drilling, and a forging and machining workshop for these products previously owned by GIAT and located in Tarbes, France, which was integrated into Vallourec Mannesmann Oil & Gas France and transferred to SMFI in 2007. Omsco and SMFI changed their names early in 2007 to VAM Drilling USA and VAM Drilling France respectively.

In addition, VAM Changzhou Oil & Gas Premium Equipment was formed at the end of September 2006 to operate a plant in Changzhou, China for threading tubing to equip oil & gas wells. Production at the plant began in mid-2007. In the same year, Sumitomo Metal Industries and Sumitomo Corp. acquired shareholdings of 34% and 15% respectively in this company via VAM Holding Hong Kong Limited.

A major development project was launched in 2007, involving the construction of a new pipe mill integrating a steel mill and a rolling mill in the state of Minas Gerais, Brazil (see page 42 below). This new rolling mill will be mainly dedicated to the production of high-end seamless OCTG tubes and will integrate heat treatment and threading capacity. This investment was made jointly with the Sumitomo Metal Industries Group via the joint-venture company Vallourec & Sumitomo Tubos do Brazil, in which Vallourec owns a 56% stake. As of 31 December 2011, Vallourec had invested €1.2 billion in the project for the new plant. The first billet was pierced at the end of 2010, and production will continue to be ramped up until the end of 2012. The first commercial deliveries were made in the fourth quarter of 2011.

On 16 May 2008, the Group acquired Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™ from Grant Prideco. The first two companies were merged in 2009, respectively by VAM USA LLC and V & M Star, and the third was renamed V & M Tube-Alloy. Simultaneously, Sumitomo Metal Industries and Sumitomo Corporation maintained their 34% equity interest in the capital of VAM USA LLC, 15% in the capital of VAM USA LLC and 19.5% in the capital of V & M Star.

In addition to the partnership described above, Sumitomo Corporation, which already owned a 19.5% interest in the share capital of V & M Star (an American company 80.5% owned by Vallourec), acquired 19.5% of V & M TCA® on 27 February 2009. This company, located in Muskogee, Oklahoma and specialising in heat treatment operations, was acquired by Vallourec in May 2008 from the Grant Prideco Group and absorbed on 1 July 2009 by V & M Star following the latter's acquisition of all of the share capital of V & M TCA® from Vallourec Industries (which had an 80.5% stake) and Sumitomo Corporation (which had a 19.5% stake).

On 16 March 2009, the Group announced its decision to invest in new production capacities to meet the growing needs of the nuclear power industry. Valinox Nucléaire thus expanded the annual capacity of its Montbard plant by a factor of 2.5, enabling it to produce 4,500 km of tubular products per year. This plant was inaugurated in 2011.

In 2009, the decision to invest in new steam-generating capacity at Valinox Nucléaire was reinforced by the signing of two long-term agreements: the first, in May 2009 with Shanghai Electric Nuclear Power Equipment Corp. (SENPEC), provides for the supply of tubes for steam generators in several tranches between 2012 and 2015 in order to safeguard supplies for the Chinese programme, and the second, finalised in July 2009, is to back Areva's projects in France and for export, via deliveries as of 2012.

In 2011, Valtimet doubled the condenser tube manufacturing capacity of its plants at Venarey-les-Laumes (Côte-d'Or, France) and Brunswick (Georgia, United States).

On 2 July 2009, Vallourec raised its strategic interest in PTCitra Tubindo TBK (PTCT) to 78.2% of the share capital. The company has manufacturing facilities in Batam, Indonesia, that provide heat treatment and threading of oil country tubular goods (OCTG) and oilfield accessories and serve the oil & gas industry throughout the Asia-Pacific region. PTCT is the leader in the Indonesian market and has been supplying VAM® accessories since 1985. This strategic investment allows Vallourec to strengthen its presence in Indonesia and the Asia-Pacific region, where oil & gas exploration and production are expanding under technical conditions that increasingly require premium products and solutions.

On 24 September 2009, the Group acquired DPAL FZCO, a well-established supplier of drill pipes based in Dubai and owned by the Soconord Group. The VAM Drilling Middle East FZE manufacturing facility located in Jebel Ali Free Zone (Dubai, United Arab Emirates) offers a wide range of drill pipes to the oil drilling industry in the Middle East, which is an important market for drill pipes with growing demand for premium products. This acquisition has strengthened VAM Drilling's presence in the Middle East through the local manufacturing facility, which produces 25,000 pipes per year for its major international customers operating throughout the region and for local state-owned oil and drilling companies.

In February 2010, the Group acquired the Abu Dhabi-based Protools, the biggest drill pipe accessories producer in the Middle East, thus enabling the Drilling Products Division to offer a comprehensive solution for the whole drill string.

In the second quarter of 2010, construction began on a new high-end pipe mill for small-diameter tubes in Youngstown, Ohio (United States), which will initially produce 350,000 tonnes of tubes per year and will also comprise heat treatment and threading lines. This new offering will extend the range produced by Vallourec in North America and will consolidate the Group's leadership position as a provider of premium tubular solutions. Located close to such major shale basins as the Marcellus and combined with the Group's other operations in the vicinity of other shale plays (including Fayetteville and Haynesville), this new facility will benefit Vallourec customers in the United States.

On 8 June 2010, Vallourec acquired 100% of Serimax, the world leader in integrated welding solutions for offshore line pipe. This acquisition provides a good fit with Vallourec's businesses in the area of offshore line pipe, which is used to connect a wellhead located on the ocean floor to a production platform at the surface or to an onshore facility. These undersea pipelines are made of seamless steel tubes that are welded together. Due to the extreme mechanical stresses exerted on these pipes, which are being used under increasingly challenging operating conditions (in corrosive shafts, deepwater offshore applications, arctic regions and rough seas), premium grade steel and precision welding are essential. Through this partnership, Vallourec and Serimax are pooling their respective expertise in tube manufacturing and welding in order to optimise the various installation processes and offer their customers integrated solutions.

At the end of July 2010, Vallourec announced its decision to expand production capacity at the V & M Changzhou plant in China. The extension project will enable the plant to produce an additional 60,000 tonnes per year of seamless tubes, using new, proprietary forging technology, to satisfy local demand from power plants. Production is scheduled to begin in the second half of 2012. The V & M Changzhou plant, which is located in the province of Jiangsu and has been operating since 2006, is a high-end finishing unit for large-diameter seamless tubes destined for use in power plants. The unit currently has an annual finishing capacity of 15,000 tonnes. Extending the plant will make it possible to locally produce premium tubes specially designed to meet the needs of the latest generation of supercritical and ultra-supercritical power plants.

On 15 September 2010, Vallourec announced an agreement concerning the acquisition of a 19.5% stake in Tianda Oil Pipe Company Limited (TOP), a Chinese seamless tube manufacturer listed on the Hong Kong stock exchange. TOP has been manufacturing oil country tubular goods (OCTG) since 1993, and in January 2010 began operating a new PQF® seamless tube continuous rolling mill with an annual production capacity of 500,000 tonnes. TOP is a member of Anhui Tianda Enterprise Co. Limited, a company based in China's Anhui province. By acquiring this stake, Vallourec's position in the Chinese market has been consolidated and enhanced. Under the terms of a cooperative agreement with TOP, VAM Changzhou Oil & Gas Premium Equipment is to thread premium tubes manufactured locally by TOP for the Chinese premium OCTG market.

On 29 September 2010, Vallourec announced that its Valinox Nucléaire subsidiary would be building a steam generator tube manufacturing plant in Nansha, Guangdong province (south-east China). This new plant is intended to support the strong growth of Chinese nuclear facilities by 2020. This project will supplement the French Valinox Nucléaire plant at Montbard, which saw increased production capacity in 2011. When the new Nansha plant begins operating in the first half of 2013, Vallourec's total steam generator tube supply capacity will increase from 5,000 km to almost 7,000 km per year. This plant will employ a staff of 200. As a result of building this new facility, Vallourec will be ideally positioned to satisfy the requirements of its major Chinese customers and to continue supporting the nuclear programmes in several regions of the world.

Other acquisitions made in recent years have concerned Valtimet, which was created in 1997. At the end of 2006, V & M Tubes purchased the 43.7% holding of Timet, its longstanding partner, in Valtimet, and now owns 95% of the share capital, with Sumitomo Metal Industries retaining the remaining 5%.

- In December 2002, Valtimet Inc., a wholly-owned subsidiary of Valtimet, acquired the assets of the US company International Tubular Products (ITP), the main US specialist in stainless steel tubes for condensers.
- In May 2004, Valtimet entered into a joint-venture with the South Korean company Poongsan to manufacture, in Bupyung, Incheon, South Korea, welded stainless steel and titanium tubes designed mainly for the power generation and seawater desalination markets.
- In November 2005, Valtimet entered into a joint-venture agreement with the Chinese company Baoti to create Xi'an Baotimet Valinox Tubes Co. Ltd (which is 49%-owned by Valtimet and various Valtimet subsidiaries), in Xi'an, in the Chinese province of Shaan'xi. This company began producing welded titanium tubes in 2007, primarily for the Chinese energy market.
- In early April 2006, Valtimet acquired 75% of CST. This Indian company, which was renamed CST Valinox Ltd, is located in Hyderabad and specialises in the production of tubes for power plant condensers for the Indian market. In 2007, the Group increased its interest in CST Valinox to 90%.
- At the end of 2006, Changzhou Carex Valinox Components was formed, specialising in the manufacture of welded stainless steel tubes for use in the motor industry.
- In March 2008, Valtimet Inc. acquired the assets of High Performance Tubes, a company located in Georgia (United States) specialising in the finishing (finning, in particular) of stainless steel and titanium tubes, thereby strengthening Valtimet's position in the steam generation market.

As regards divestments, the main transactions in recent years have been carried out by the two sub-holding companies Valtubes and Sopretac and, as of 2005, by ValTubes, which was created as a result of the merger of these two sub-holding companies, ValTubes having itself been absorbed by V & M Tubes at the end of 2006.

- The Industrial Parts Division of Sopretac, made up of the companies Métal Déployé, Krieg & Zivy Industries and their subsidiaries, was sold in 2001 to the managers of this division in association with two investment funds.
- Valtubes' participating interest (one-third) in DMV Stainless was sold in December 2003 for a nominal amount to its majority (two-thirds) shareholder Mannesmannröhren-Werke, which had already assumed full responsibility for its management.

- The subsidiary Vallourec do Brazil Autopeças, which specialises in the assembly of rear axle units for Renault do Brazil and Peugeot Citroën do Brazil, and the subsidiary Vallourec Argentina, which specialises in the machining of automotive parts and the assembly of rear axle units for Renault Argentina, were sold early in 2005. These assembly activities were not part of Vallourec's core business, had not achieved the necessary critical size and no longer presented any real strategic interest.
- Spécitubes, the only company in the Group operating in the aerospace sector, was sold in 2006 to one of its main customers, the German company Pfalz-Flugzeugwerke GmbH (PFW).
- Cerec, which specialises in the pressing and forming of metal dished ends, was sold at the end of 2006 to Eureka Metal Srl, a subsidiary of the Italian family-owned company Calvi, which is well known to Vallourec since it has gradually taken control of Cefival since 1999.
- Vallourec Précision Étirage (VPE), which specialises in the manufacture of cold-drawn precision tubes, was sold to the Salzgitter Group early in July 2007. VPE, which generated sales in 2006 of €220 million, two-thirds of which was dedicated to the automotive industry, owned five production plants in France at the time of the sale and employed some 1,200 people. At the same time, V & M Tubes sold a hot-rolled pipe mill in Zeithain (Saxony, Germany), thereby enabling Salzgitter to be largely autonomous regarding its supply of hollows for redrawing.
- In December 2007, Vallourec Précision Soudage (VPS) and Vallourec Composants Automobile Vitry (VCAV) were sold to the ArcelorMittal Group. These companies are suppliers to the automotive industry and generate sales of €100 million and €45 million respectively.

Financial year 2011

On 9 February 2011, Vallourec Umbilicals, a new Group subsidiary intending to meet growing demand for the operation of offshore oil fields, began construction of a plant at Venarey-Les-Laumes (France) that will produce seamless stainless steel tubes integrated in umbilicals. Derived from high-tech processes, these umbilicals with be structures combining tubes, cables and optical fibres. They are used to connect seabed equipment to a control station on the surface. This innovative solution will extend the Group's premium offering. Production at the new plant is scheduled to begin during 2012.

On 23 May 2011, the Group signed an agreement for the acquisition of Saudi Seamless Pipe Factory Company Limited ("Zamil Pipes"), the leading processing and finishing company for seamless OCTG tubes in Saudi Arabia. This acquisition was finalised on 25 November 2011. Based in Dammam, Zamil Pipes gives Vallourec significant finishing capacity, especially for already operational heat treatment facilities with a capacity of 100,000 tonnes of tubes per year. Vallourec thus strengthened its local presence in Saudi Arabia and will reduce its production lead times to serve the premium OCTG market there.

On 1 September 2011, the Group inaugurated its new integrated plant in Brazil in the presence of Dilma Rousseff, the country's President. Located at Jeceaba, in the State of Minas Gerais (close to other Brazilian entities in the Vallourec Group), this integrated plant produces steel billets and seamless stainless steel tubing, and benefits from direct access to raw materials supplied by the two Vallourec subsidiaries specialising in extraction of iron ore and production of charcoal. The plant is a unique industrial complex on a 250-hectare site, equipped with all the latest technology, including a steel mill with two blast furnaces and an electric arc furnace, a high-end tube mill and a range of heat treatment, threading and finishing lines. It will employ 1,600 people and have a production capacity of 1 million tonnes of steel (including 300,000 tonnes for Vallourec's own requirements, excluding VSB) and 600,000 tonnes of tubes (of which 300,000 tonnes will be for Vallourec). It will enable the Group to increase its tube production capacity by over 10%, and will serve the international oil & gas markets, especially in West Africa.

On 30 November 2011, Vallourec announced its decision to construct a new premium threading plant at Youngstown, Ohio. This decision was led by the development of unconventional oil & gas drilling in shale plays, which is generating increasing demand for premium connections. The new VAM unit will be adjacent to Vallourec's existing tube mill and to the one that is due to be inaugurated shortly. It will also be near its customers operating in the Marcellus and Utica shale basins. This new plant will supplement the VAM USA LLC threading plants in Houston, Texas, and will enable the Group to extend its packaged offering of finished products (premium tubes and connections). Operations at the new plant will be steadily ramped up, starting with a first threading line in the second half of 2012 and followed by other lines by the end of 2013.

The Group did not make any significant disposals in 2011.

First quarter of 2012

On 1 January 2012, the Group instituted a new internal structure for its activities (for a description of the latter structure, see §3.1.3.2 below "Internal organisation of activities as of 1 January 2012").

On 8 February 2012, Valinox Nucléaire, a Group subsidiary specialising in the production of tubing for nuclear plants, was awarded a contract by Areva to manufacture tubes for the steam generators of two 1,300 MW reactors. This contract relates to the EDF programme to gradually replace large components of its 1,300 MW power plants announced in September 2011, which awarded the building of new steam generators for 11 reactors to Areva and Westinghouse. Each steam generator has an inner circuit made up of 122 kilometres of nickel-alloy tubes, which carry the steam that is then used to produce electricity via a high-power Brazil

Parent company-subsidiary organisation

- Valloure c is a holding company that:
  - Manages the Group's equity interests. Its income is mainly financial, including dividends, interest on long-term loans to subsidiaries and investment income from cash and cash equivalents. It also bears the cost of its debt,
  - Bears operating and brand protection costs. In accordance with general Group policy, the image of the Group belongs to Vallourec, which charges royalties in exchange for the use of its brand by its industrial subsidiaries and V & M Tubes,
  - Does not carry out any industrial activity.
- V & M Tubes is a sub-holding company that manages its participating interests and does not carry out any industrial activity. Until 2005, its income was mainly financial, including dividends, interest on long-term loans to subsidiaries and investment income from cash and cash equivalents.

Following the merger by absorption of Setval, which was carried out with retroactive effect from 1 January 2006, V & M Tubes took over part of Setval's service activities, including, in particular, the Group's management and its administrative departments.

During 2007, the Group centralised the euro and US dollar cash management for its European companies and the currency hedging operations in respect of its currency sales within V & M Tubes. As of 31 December 2011, the companies that were members of this centralised cash management system were Vallourec, V & M Tubes, V & M France, Vallourec Mannesmann Oil & Gas France, V & M Deutschland GmbH, VAM Drilling France, Valtimet, Valti, Valinox Nucléaire, Assurval, Interfit, Vallourec Umbilicals, VAM Onne Nigeria Ltd, Serimax Holdings S.A.S. and Vallourec University.

In addition, V & M Tubes bears the operating costs linked to its brand and charges royalties in exchange for the use of its brand by its industrial subsidiaries.

As of 31 December 2011, V & M Tubes had 171 employees. It invoices the Group's subsidiaries, in France and abroad, for its services.

Goods and services are provided at arm's length between Group companies and, consequently, do not come within the scope of the regulated agreements in accordance with the statutory and regulatory provisions.

3.1.2 DESCRIPTION OF MAIN BUSINESS

The Group is a world leader in premium tubing solutions, primarily for the energy market and other industrial applications. With over 22,000 employees, integrated production sites, state-of-the-art R&D and a presence in over 20 countries, it offers its customers innovative solutions tailored to the energy challenges of the 21st century.

The Group has a large, diversified portfolio of original, high-added-value tubing products, including the world's most extensive range of seamless tubes up to 1,500 mm in external diameter in a variety of over 250 grades of steel.

Its principal products are OCTG tubes (VAM threaded casing and tubing), drilling pipes, pipes for thermal power and nuclear plants, line pipes, mechanical tubing and construction tubes.

Specialising in the most complex industrial applications (high temperature, high pressure and highly corrosive environments), Vallourec is the world's leading supplier for oil & gas companies, electricity producers, engineering companies and major distributors.

Originally based in France and Germany, Vallourec now has frontline positions in the United States, Brazil, Europe, the Middle East and Asia. The Group has certain key advantages, including the integration of recently acquired companies Atlas Bradford (USA 2008) and PTCT (Indonesia 2009) and the construction of a new integrated plant in Brazil (2011) and new rolling mill in the United States (2012), to continue its expansion on booming energy markets.

With more than 50 production units and finishing lines around the world, Vallourec has integrated sites, combining a steel mill and tube mill, in Europe, the United States and Brazil.

Vallourec's commercial sites enable it to guarantee the worldwide supply of comprehensive solutions and service provisions tailored to local needs and its customers' requirements. For the oil & gas market, this local presence is underpinned by a network of over 160 VAM® licensees and support teams in the field (VAM Field Services).

The Group's activities are subject to European regulations (Council Regulation (EU) No. 267/2012 of 23 March 2012 and Council Regulation (EU) No. 36/2012 of 18 January 2012) and American regulations (Comprehensive Iran Sanctions, Accountability, and Divestment Act, effective from 1 July 2010, supplemented by the Executive Order of 21 November 2011), concerning the imposition of restrictive measures against Iran and Syria.

3.1.3 INTERNAL ORGANISATION OF ACTIVITIES

3.1.3.1 Internal organisation of activities up to 31 December 2011

Until 31 December 2011, Vallourec's businesses were organised into five Divisions:

- Energy and Industry Division (E & I);
- Oil Country Tubular Goods (OCTG) Division, which conducts its business in two broad geographic regions:
  - OCTG EAMEA (Europe, Africa, Middle East and Asia),
  - OCTG North America;
- Drilling Products Division;
- Brazil Division;
- Speciality Products Division.

The Group also operates a number of sales companies.

a) Energy and Industry Division (E & I)

The E & I Division produces seamless tubes in Europe and markets them to the energy and industry markets. It also supplies hollows to the downline OCTG EAMEA and Speciality Products Divisions. As the result of the acquisition of Serimax in 2010, it also provides welding solutions.

The Division is organised into three business lines:

- the energy business, which covers the power generation (tubes for electric boilers), PLP (undersea project line pipes for the Oil & Gas sector) and process markets (tubes for the petrochemicals and refining sector);
- the industry business, which covers the mechanical engineering tube, structural tube and hollows markets;
- the Serimax business, which provides comprehensive welding services.

Since 2008, all of these business lines plus as the sales departments have had their own marketing, R&D and business development functions to better address the requirements of their customers and develop synergies.

This organisational framework enables the Group to closely monitor the growth strategies of its customers, strengthen existing partnerships, address major technological challenges and, as a result, develop R&D programmes and new products.

The Group is also focussing on continuing to improve the quality and range of the products and services it offers.

Making communication more transparent, improving its ability to meet the needs of its customers and anticipate how these needs might change in the future are the key issues the Division needs to address if it is to ensure sustainable growth.

In 2011, the E & I Division continued the process of upgrading its industrial facilities, increasing the specialisation of its manufacturing plants and developing its service activities:

- Europe's Saint-Saulve and Mülheim sites are now concentrating their activities on Powergen and mechanical engineering tubes;
- renovation of the Rath Pilger rolling mill from its foundations through to rolling mill cages was completed in 2011;
- the Boiler Competence Center research unit was created to reinforce research and development activities at the Rath site for Powergen and line pipe products;
- lean initiatives have been launched in most divisional sites to improve service and quality for customers.

The E & I Division comprises four subsidiaries:

- **V & M France – France (100%)**

  V & M France operates an electric steel mill in Saint-Saulve (Nord) and three pipe mills in Déville-lès-Rouen (Seine-Maritime), Saint-Saulve (Nord) and Aulnoye-Aymeries (Nord), covering a wide range of diameters and thicknesses produced using plug and continuous-process rolling mills and a forge.

- **V & M Deutschland GmbH – Germany (100%)**

  This company operates four pipe mills in Mülheim, Düsseldorf-Rath and Düsseldorf-Reisholz (North Rhineland-Westphalia). The pipe mills are equipped with continuous-process, plug and pilger rolling mills and Erhardt presses, allowing them to manufacture products with the world's widest range of diameters, thicknesses and grades.

  Most of the raw materials for the French and German pipe mills are supplied by the Saint-Saulve steel mill and the German steel mill in Huckingen owned by Hüttenwerke Krupp Mannesmann (HKM), of which V & M Tubes owns 20% of the capital.

- **V & M Changzhou – China (100%)**

  V & M Changzhou was created in 2005 in order to increase the Group's machining capacity for large-diameter hot-rolled tubes produced in Europe for the Chinese power generation market. The plant at Changzhou, in the province of Jiangsu, began production in July 2006. The extension to this unit was started in August 2010 in order to install a forging and heat treatment unit to enable all the manufacturing operations for seamless large-diameter pipes to be integrated locally. The first pipes will be forged in the second half of 2012.

- **Serimax – France (100%)**

  Serimax is the world leader in integrated welding solutions for offshore line pipes. This company complements Vallourec's activities in offshore tubes and pipes and has been integrated into the E & I Division, creating a third business unit (Energy, Industry and Serimax).

b) Oil Country Tubular Goods (OCTG) Division

The business of the OCTG Division is structured as two regional entities: Europe, Africa, the Middle East and Asia (OCTG EAMEA) and North America (OCTG North America). These two large, geographically defined entities provide a structure comprising all of the Group's tubing and casing heat treatment facilities and oil & gas tube threading facilities, which are sited close to customers all over the world. In addition, OCTG North America produces its own steel and tubes via V & M Star, which operates facilities that include an electric steel mill and a rolling mill using modern technology.

The OCTG EAMEA Division strengthened the regional approach of its markets in 2011 via commercial hubs and operations dedicated to local growth. The Europe-Africa region is expanding its activity in Africa, notably with a threading unit in Nigeria (VAM Onne Nigeria Ltd). It covers the North Sea through its plants in Glasgow and Aberdeen and is developing its activities in Russia and the Caspian Sea region via sales offices in Moscow (Russia) and Atyrau (Kazakhstan). In the Middle East in May 2011, the Group acquired Saudi Seamless Pipes Factory Company Limited ("Zamil Pipes"), the leading processing and finishing company for seamless OCTG tubes in Saudi Arabia (located in Dammam), from the Zamil Group. In China, the Division is expanding through its subsidiary VAM Changzhou Oil & Gas Premium Equipment and Tianda Oil Pipe Company Limited (TOP) [(1)]. In the Asia-Pacific region, the main vector for growth is the PTCitra Tubindo TBK (Indonesia) heat treatment and threading plant.

The industrial facilities based in Europe also aim for major exports of high-technology content products as a key goal.

The OCTG North America Division concentrated its 2011 development through its main subsidiaries V & M Star, VAM USA LLC, V & M Tube-Alloy and V & M Two [(2)]. The small-diameter tube mill at Youngstown began its construction in 2010 and is almost complete, and is due to start operating in the second quarter of 2012.

The OCTG EAMEA and OCTG North America businesses perform all types of API and premium threading, particularly for the VAM® product line, which features patented threads developed by Vallourec since 1965 and ideally suited to the difficult conditions associated with operating oil & gas wells.

In order to make the VAM® range No. 1 in premium joints, Vallourec has consolidated the coordination of the Research and Development Departments involved with this line of products within Vallourec Mannesmann Oil & Gas France, and has set up a worldwide network of licensees. The Group also continued to develop its site services network, which provides worldwide coverage from service centres based in Scotland, the United States, Mexico, Singapore, China, Angola, Nigeria and the Middle East. Since 2008, V & M Tube-Alloy™, a US subsidiary, has also been producing accessories for Vallourec VAM® products.

OCTG EAMEA BUSINESS LINE (EUROPE, AFRICA, MIDDLE EAST AND ASIA)

- **Vallourec Mannesmann Oil & Gas France (VMOGF) – France (100%)**

  This company produces standard joints and the full VAM® range of products.

  It operates a production unit in Aulnoye-Aymeries (France) comprising a heat treatment unit and several oil & gas tube threading lines, enabling it to produce all diameters and connections for the VAM® product range.

  VMOGF also coordinates research and development for OCTG activities worldwide, which is conducted in France, the United States and Japan in partnership with Sumitomo Metal Industries. For research and development, VAM also uses Vallourec's general research centres in Aulnoye-Aymeries (France) and in the United States, Brazil and Germany.

- **Vallourec Mannesmann Oil & Gas UK – United Kingdom (100%)**

  This company, which joined the Group in early 1994, operates facilities specialising in heat treatment and threading in Clydesdale Belshill (Scotland), to meet, in particular, the needs of the North Sea market. The company has been operating under a VAM® licence since 1970.

  Vallourec Mannesmann Oil & Gas UK has also built up a significant services business for exploration platforms, based in Aberdeen (Scotland).

- **VAM Onne Nigeria – Nigeria (100%)**

  This company was formed in February 2008 to operate the tube threading plant in the Onne free trade zone in Port Harcourt (Rivers State, Nigeria). This plant has been in operation since December 2009 and supplies the local market.

- **VAM Changzhou Oil & Gas Premium Equipments – China (51%) [(3)]**

  This company was created in September 2006 for the operation of a threading plant for pipes for oil & gas well equipment; construction began in October 2006 and production in October 2007. It produces VAM threading on tubes imported into China by the Group or Sumitomo Metal Industries. Under the terms of a cooperative agreement with Tianda Oil Pipe Company Limited (TOP), VAM Changzhou Oil & Gas Premium Equipment will thread premium tubes manufactured locally by TOP for the Chinese premium OCTG market.

  Sumitomo Metal Industries and Sumitomo Corporation are joint shareholders in this subsidiary.

- **VMOG China Trading Co. Ltd – China (100%)**

  VMOG China Trading Co. Ltd was created in April 2010. This company sells V & M premium OCTG products on the Chinese domestic market.

  VMOG China Trading Co. Ltd will also market Tianda Oil Pipe Company Limited (TOP) "API" product exports and provide technical support and quality control functions.

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(1) On 15 September 2010, Vallourec announced an agreement concerning the acquisition of a 19.5% stake in Tianda Oil Pipe Company Limited (TOP), a Chinese seamless tube manufacturer listed on the Hong Kong stock exchange. This acquisition, worth approximately €76 million, was finalized in April 2011.

(2) V & M Two was merged into V & M Star on 1 January 2012, with Sumitomo Corporation keeping a stake of 19.5% in the new entity.

(3) Percentage interest.

- **V & M Tubes Asia Pacific Pte Ltd – Singapore (100%)**

  V & M Tubes Asia Pacific Pte Ltd is a trading company dealing with OCTG tubes sold in the Asia-Pacific region.

- **PTCitra Tubindo TBK – Indonesia (78.2%)**

  This company carries out heat treatment on tubes and threading of API and NS® joints in Indonesia, and has been producing VAM® joints since 1985.

  Its production unit is located on the island of Batam (Indonesia).

- **Vietubes Corporation Limited – Vietnam (33.3%)**

  This participating interest is held directly and indirectly via PTCitra Tubindo TBK. Vietubes Corporation Limited carries out threading on tubes and sleeves for the Vietnamese market.

  Its production unit is located in Vung Tau (Vietnam).

  The following companies are also attached to the OCTG EAMEA business for operational purposes:

- **VAM Field Services Angola – Angola (100%)**

  Service company formed in 2007. Operating base: Luanda.

- **VMOG Nigeria Limited – Nigeria (100%)**

  Service company formed in 2007. Operating base: Lagos.

- **VAM Far East – Singapore (51%)**

  This company, which was formed in association with Sumitomo Metal Industries, has been developing customer services and exploration/production platform consulting in South East Asia and Oceania since 1992.

  Its operational base is in Singapore.

- **VAM Field Services Beijing – China (51%)**

  This company was formed in August 2006 in association with Sumitomo Corporation and Sumitomo Metal Industries to promote premium VAM® range joints in China and provide services to drilling platforms.

- **V & M Al Qahtani Tubes LLC – Saudi Arabia (65%)**

  This company was formed in December 2009 in association with its Saudi partner Al Qahtani & Sons to develop a tube threading business in Dammam.

- **Tianda Oil Pipe Company Limited (TOP) – China (19.5%)**

  On 15 September 2010, Vallourec announced an agreement concerning the acquisition of a 19.5% stake in Tianda Oil Pipe Company Limited (TOP), a Chinese seamless tube manufacturer listed on the Hong Kong stock exchange, via a reserved capital increase. The operation was finalised on 1 April 2011. TOP has been manufacturing OCTG products for the oil & gas markets since 1993, and in January 2010 began operating a new PQF® seamless tube continuous rolling mill with an annual production capacity of 500,000 tonnes. TOP is a member of the Anhui Tianda Enterprise Co. Limited group, based in China's Anhui province. Acquiring a stake in TOP has consolidated and enhanced Vallourec's position on the Chinese market. Under the terms of a cooperative agreement with TOP, VAM Changzhou Oil & Gas Premium Equipment China will thread premium tubes manufactured locally by TOP for the Chinese premium OCTG market.

  Simultaneously with this stakeholding, Vallourec signed a shareholders' agreement with the leading shareholders of TOP under the terms of which Vallourec has an option to purchase a number of TOP shares to enable it to increase its stake in TOP to at least 51%, should the Chinese regulations be modified to allow foreign companies to control Chinese companies. The exercise price of the option to purchase is equal to the average TOP share price over the six months preceding the date of notification of exercise of the purchase option, increased by a premium of 9%. If Vallourec were to exercise the purchase option, and for a period of 18 months following such exercise, Tianda Holding (1), the majority shareholder in TOP, shall have the option to sell Vallourec all the TOP shares it holds. The exercise price of the option to sell is equal to the exercise price of the option to purchase.

- **Saudi Seamless Pipes Factory Company Limited ("Zamil Pipes") – Saudi Arabia (100%)**

  In November 2011, the Group acquired Saudi Seamless Pipes Factory Company Limited ("Zamil Pipes"), the leading processing and finishing company for seamless OCTG tubes in Saudi Arabia (located in Dammam), from the Zamil Group. This acquisition provides Vallourec with already-operational heat treatment and threading facilities with a capacity of 100,000 tonnes of tubes per year.

OCTG NORTH AMERICA ACTIVITIES

- **V & M Star – United States (80.5%)**

  V & M Star is an integrated manufacturer of seamless tubes for the oil & gas industry. Its facilities include an electric steel mill, a rolling mill using some of the latest technology and a heat treatment and threading unit. The annual production capacity is 500,000 tonnes, of which 80% is OCTG. Sumitomo Corporation is a partner with a 19.5% stake in V & M Star.

  The company's production units are located in Youngstown (Ohio), Houston (Texas) and Muskogee (Oklahoma).

  On 1 July 2009, V & M Star acquired all of the share capital of V & M TCA® (a company acquired from the Grant Prideco Group in May 2008) from Vallourec Industries Inc. and Sumitomo Corporation (which owned 80.5% and 19.5% respectively of V & M TCA®) prior to its absorption, which enabled V & M Star to integrate the heat treatment of high-grade tubular products

(1) Tianda Holding holds 40.5% of the capital of TOP (source: Tianda press release of 16 September 2010).

(which had until then been developed by V & M TCA®) with a strong focus on urgent orders. V & M TCA® has thus provided V & M Star with additional premium capacity, specific expertise in sour services as well as a good geographical fit, enabling Vallourec to extend its North American footprint.

- **V & M Two – United States (100%) (1)**

  V & M Two, formed in October 2009, is responsible for building a new small-diameter pipe mill in Youngstown (Ohio). The new plant will initially produce 350,000 tonnes of seamless tubes per year and has a yearly nominal capacity of 500,000. The project also includes heat treatment and threading lines. Production at the mill is scheduled to start in the summer of 2012. This new offering will extend the range produced by Vallourec in North America and will consolidate the Group's leadership position as a provider of premium tubular solutions. The new facility, ideally located close to such major shale basins as the Marcellus and combined with other Group operations in the vicinity, will benefit Vallourec customers in the United States.

- **VAM Mexico SA de CV (100%)**

  This company specialises in threading premium joints and provides the Mexican oil & gas industry with the complete range of VAM® products.

  The Veracruz production unit in Mexico has been producing VAM® joints under licence since 1981.

- **VAM Canada (100%)**

  This company has been producing and marketing VAM® products in Canada since 1983.

  It took over Atlas Bradford's threading activities in Canada in May 2008 when the Group acquired Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™.

  Its production units are located in Nisku, Alberta and Saint John's, Newfoundland (Canada).

- **VAM USA LLC (51%)**

  Since 27 February 2009, VAM USA LLC has been responsible – in partnership with Sumitomo Metal Industries which has a 34% interest, and Sumitomo Corporation, which has a 15% interest – for the threading activities of VAM® and Atlas Bradford®, which were acquired in May 2008 from the Grant Prideco Group.

  VAM USA LLC is well known in North America as a leading supplier of premium OCTG connection technology. The two VAM® and Atlas Bradford® brands complement Vallourec's product offering, providing significant expertise in the field of flush connections for the industry's most demanding applications.

  Its production units are located in Houston, Texas.

- **V & M Tube-Alloy – United States (100%)**

  V & M Tube-Alloy™, a company acquired in May 2008 from the Grant Prideco Group, produces and repairs accessories used inside oil & gas wells. It specialises in complex threading operations and in machining bespoke parts.

  Its production units are located in Broussard and Houma, Louisiana, Houston, Texas and Casper, Wyoming.

c) Drilling Products Division

The Drilling Products Division complements Vallourec's OCTG activities by manufacturing and distributing a full range of tubular products worldwide for the oil & gas drilling market.

In addition to the experience and expertise of the Drilling Products business developed by Vallourec, this Division includes assets of the Omsco Division of ShawCor Ltd (now VAM Drilling USA), acquired in 2005, Société de Matériel de Forage International-SMFI (now VAM Drilling France), acquired in 2006, DPAL FZCO (now VAM Drilling Middle East FZE), acquired in 2009, and Protools (now VAM Drilling Protools Oil Equipment Manufacturing LLC), acquired in 2010.

The Drilling Products Division offers a wide range of products and services: drill pipes, heavyweight drill pipes, drill collars, non-magnetic drill collars and MWD (measurement while drilling) cases, safety valves and accessories for all drilling applications.

It supplies high-quality, high-performance products that are used all over the world. The six main production facilities are located in France, the United States, the United Arab Emirates and the Netherlands. This Division – which has sales locations all over the world, in addition to the network of VAM service providers – maintains strong customer relations at local level, backed by a specialist support centre.

The Drilling Products Division's R&D and Marketing Departments are devoted exclusively to the development of unique tubular solutions and services to improve drilling efficiency and optimise safety margins in extremely demanding drilling environments. These Departments work closely with the operational companies and drilling contractors to develop new high-performance products in response to the challenges posed by modern drilling techniques.

- **VAM Drilling France – France (100%)**

  VAM Drilling France (formerly Société Matériel de Forage International – SMFI), which was acquired in March 2006, manufactures tubular products suited to the requirements of the oil & gas drilling industry. During 2007, VMOGF contributed its drilling products business.

  Its production units are located in Cosne-sur-Loire (Nièvre), Villechaud (Nièvre), Aulnoye-Aymeries (Nord) and Tarbes (Hautes-Pyrénées).

(1) V & M Two was merged into V & M Star on 1 January 2012, with Sumitomo Corporation keeping a stake of 19.5% in the new entity.

- **VAM Drilling USA – United States (100%)**

  Formed in September 2005 following acquisition of the assets of the Omsco Division of ShawCor Ltd (Canada), VAM Drilling USA manufactures tubular products suited to the needs of the oil & gas drilling industry. These products mainly comprise drill pipes, drill collars and heavyweight drill pipes.

  Its production unit is located in Houston, Texas.

- **Vallourec Mannesmann Oil & Gas Nederland (VMOG Nederland) – Netherlands (100%)**

  This company was acquired in March 2006 as part of the acquisition of SMFI (Société de Matériel de Forage International).

- **VAM Drilling Middle East FZE – Dubai, United Arab Emirates (100%)**

  VAM Drilling Middle East FZE (formerly DPAL FZCO) is a drill pipe supplier acquired in September 2009 from the Soconord group. This company supplies a wide range of drill pipes for the oil drilling industry in the Middle East, and has an annual production capacity of 25,000 drill pipes.

  Its production unit is located in Dubai (United Arab Emirates).

- **VAM Drilling Protools Oil Equipment Manufacturing LLC – Abu Dhabi, United Arab Emirates (100%)**

  VAM Drilling Protools Oil Equipment Manufacturing LLC, the largest producer of drill pipe accessories in the Middle East, was acquired in February 2010. This business enables the Vallourec Group to offer an integrated solution for the entire drill string.

  Its production unit is located in Abu Dhabi (United Arab Emirates).

- **Vallourec & Mannesmann Middle East FZE – Dubai, United Arab Emirates (100%)**

  Formed in March 2011, Vallourec & Mannesmann Middle East FZE markets OCTG products in Middle-Eastern countries.

d) Brazil Division

- **V & M do Brazil SA – Brazil (99.9%)**

  V & M do Brazil SA is located in the Barreiro district, Belo Horizonte, in the state of Minas Gerais. It occupies an area of more than 300 hectares and has an annual seamless tube production capacity of around 600,000 tonnes.

  This integrated unit groups together the full spectrum of production facilities, including a steel mill, various hot-process rolling mills and a number of tube finishing lines.

  V & M do Brazil SA produces seamless tubes for the Oil & Gas, Automotive, Petrochemicals, Power Generation and mechanical engineering sectors. For many years, it has focused on:

  - The Oil & Gas sector, via a longstanding partnership with Petrobras, serving the domestic market with increasingly sophisticated products to meet the challenges of the recently discovered, extremely deep-lying, offshore "pre-salt" fields;
  - The industrial sector (Petrochemicals, Power Generation, mechanical engineering, etc.), which is a market served mainly by distributors that work closely with V & M do Brazil SA to guarantee quality and technical support;
  - The Automotive sector (light vehicles, lorries and civil engineering and agricultural equipment), with precision parts such as tubes for diesel injectors, bearing rings and such forged parts as transmission shafts and axles.

  In addition, V & M do Brazil SA has the following subsidiaries:

- **V & M Florestal Ltda – Brazil (100%)** – which cultivates 114,173 hectares of eucalyptus (out of a total of 233,480 hectares of land) in order to produce charcoal, which is already used in the blast furnaces of V & M do Brazil SA and Vallourec & Sumitomo Tubos do Brazil. In 2011, V & M Florestal Ltda continued to buy some of its charcoal on the market from strictly controlled sources (i.e. cultivated eucalyptus forests). The aim is to achieve self-sufficiency for V & M do Brazil SA and Vallourec & Sumitomo Tubos do Brazil by 2016.
- **V & M Mineração – Brazil (100%)** – which produces nearly 4 million tonnes of iron ore per year at its Pau Branco mine, primarily for the V & M do Brazil SA steel mill and other manufacturers operating in Brazil, the largest of which are Vale (formerly CVRD), CSN and Gerdau. This subsidiary will also supply the Vallourec & Sumitomo Tubos do Brazil blast furnaces and pelletisation plant.
- **Tubos Soldados Atlântico Ltda (TSA) – Brazil (95.87%)** – a company formed in 2005 in partnership with Europipe GmbH and Interoil to produce large-diameter welded spiral tubes and apply tube coatings and linings. In 2011, V & M do Brazil SA acquired the stake of Europipe GmbH in TSA.

- **Vallourec & Sumitomo Tubos do Brazil – Brazil (56%) (1)**

  This company was incorporated in 2007 in association with Sumitomo Metal Industries as a vehicle for investment in a new state-of-the-art pipe mill, integrating a steel mill and rolling mill, at Jeceaba (Minas Gerais). Its annual steel production capacity will be 1 million tonnes produced in the form of billets, 700,000 tonnes of which will be needed to supply the new rolling mill. The remaining 300,000 tonnes could be used by the Vallourec Group as a substitute for more expensive external purchases.

  The new rolling mill will have an annual seamless tube production capacity of 600,000 tonnes. Production will be shared equally between Vallourec and Sumitomo Metal Industries, each having an annual capacity of 300,000 tonnes.

  Ground was broken on the new pipe mill on 10 July 2008. The first billet was pierced at the end of 2010, and production will continue to be ramped up in 2012. The first commercial deliveries were made in the fourth quarter of 2011.

  Vallourec & Sumitomo Tubos do Brazil is 56%(1) owned by Vallourec, 39% by Sumitomo Metal Industries and 5% by Sumitomo Corporation.

- **V & M Uruguay S.A. – Brazil (100%)**

  Formed on 14 September 2011, V & M Uruguay S.A., 100%-owned by V & M do Brazil, will market tubes exported from Brazil in Uruguay.

e) Speciality Products Division

This Division comprises companies specialising in the manufacture and transformation of welded and seamless tubes in carbon steel, stainless steel or special alloys within four activity areas.

- **Interfit – France (100%)**

  This company manufactures and markets fittings (bends and reducers) for assembling tubes intended to carry fluids (superheated water, steam, gas, oil products, etc.).

  Its production unit is located in Maubeuge (Nord).

- **Valti – France (100%)**

  This company produces and markets seamless tubes and rings for bearing manufacturers.

  Its production facilities are located in Montbard (Côte-d'Or) and La Charité-sur-Loire (Nièvre).

  Valti continued to implement streamlining measures during 2010 in order to adapt to the ongoing slowdown in the bearing tube market, particularly for smaller products, and to restore its competitiveness, which had been blunted by the economic crisis.

  As of 1 January 2010, the V & M France pipe mill in Montbard and the Valti cold-process production unit, which already cooperated closely, were merged to form Valti SAS, in order to simplify the organisational structure, reduce management and interface costs and provide the services required by an increasingly demanding clientele.

  In the context of the economic crisis, the coexistence of the two sites at Valti Krefeld and Valti Montbard was no longer sustainable. The capacities of the combined facility were increasingly surplus to requirements given the structural decline in demand for bearing tubes. As everything manufactured in Krefeld could also be produced by the Montbard facility, but the reverse was not true, the Krefeld plant was closed. As announced in July 2010, production at the Krefeld site ceased on 22 December 2010. All the employees were offered a transfer to V & M Deutschland or early retirement.

  Valti pursued its efforts to adapt to changing market trends, focusing on supplying large-diameter bearing rings and tubes as well as tubes for bespoke mechanical engineering and oil & gas applications.

- **Valtimet – France (95%)**

  Vallourec controls 95% of Valtimet, with the remaining 5% being owned by Sumitomo Metal Industries.

  As the world leader in the production of stainless steel and titanium welded tubes for secondary systems in conventional and nuclear power plants, Valtimet has expertise in manufacturing smooth and finned tubes for feedwater heaters as well as titanium, stainless steel and copper-alloy tubes for condensers. Valtimet also has a presence in the seawater desalination and chemical markets and provides thin tubing for the automotive industry.

  Its production unit is located in Venarey-les-Laumes (Côte-d'Or).

  Valtimet has a wholly-owned US subsidiary, Valtimet Inc., which operates plants in Morristown, Tennessee and Brunswick, Georgia.

  Following the Group's announcement on 16 March 2009 of its decision to invest €80 million in additional production capacity, Valtimet has doubled the condenser tube production capacity of its plants in Venarey-les-Laumes (Côte-d'Or, France) and Brunswick (Georgia, United States).

  In China, Valtimet conducts its business via the following companies:

  - Changzhou Valinox Great Wall Welded Co. Ltd (66%-owned via the sub-holding company Valinox Asia), with a plant in Changzhou, Jiangsu province,
  - Xi'an Baotimet Valinox Tubes Co. Ltd (49%-owned via various subsidiaries of Valtimet and Valtimet itself), with a production unit in Xi'an, Shaan'xi province,
  - Changzhou Carex Valinox Components Co. Ltd, a company specialising in the production of industrial parts for the automotive industry, with a plant in Changzhou, Jiangsu province.

(1) In % interest

Subsidiary in India: CST Valinox Ltd (100%), located in Hyderabad (Andhra Pradesh), specialising in tubes for power plant condensers.

Furthermore, Valtimet is expanding its business in Korea via Poongsan Valinox, a 50-50 joint-venture with Korea's Poongsan. Poongsan Valinox operates a production facility in Bupyung, Incheon, near Seoul.

- **Valinox Nucléaire – France (100%)**

This company produces and markets stainless steel, long, bent tubes for use in the manufacture of steam generators in nuclear power stations, as well as various types of fittings.

Valinox Nucléaire is among the world leaders in this specialist field.

On 16 March 2009, the Group announced its decision to invest in new production capacities to meet the growing needs of the nuclear energy sector, and Valinox Nucléaire multiplied the annual capacity of its Montbard plant by 2.5 to 4,500 km of tubes. This plant was inaugurated in 2011.

Its production unit is located in Montbard (Côte-d'Or).

On 8 February 2012, Valinox Nucléaire was awarded a contract by Areva to manufacture tubes for steam generators for two 1,300 MW reactors. This contract relates to the EDF programme announced in September 2011 to gradually replace large components of its 1,300 MW power plants, which awarded the building of new steam generators for 11 reactors to Areva and Westinghouse. Each steam generator has an inner circuit made up of 122 kilometres of nickel-alloy tubes designed to create steam, which is then used to produce electricity via a high-power turbine. These tubes will carry steam that will then produce electricity via a high-power turbine.

- **Vallourec Umbilicals – France (100%)**

Vallourec Umbilicals, formed in September 2010, will supply welded stainless steel tubes for use in umbilicals. The term "umbilicals" relates to structures comprising tubes, cables and/or optical fibres that are used to connect seabed equipment to a control station on the surface.

- **Vallourec Nucléaire Tubes Guangzhou Co. Ltd – China (100%)**

Vallourec Nucléaire Tubes Guangzhou, formed in November 2010 in the Chinese province of Guangdong, will produce steam generator tubes when the new plant in Nansha begins operating in the first half of 2013, increasing Vallourec's total annual supply of steam generator tubes from 5,000 km to nearly 7,000 km. This new plant is being built to support the rapid growth in Chinese nuclear facilities, forecast to extend to 2020.

As a result of building this facility, Vallourec will be ideally positioned to satisfy the requirements of its major Chinese customers and to support the nuclear revival currently underway in several regions of the world.

(f) Sales companies reporting to V & M Tubes

- **Vallourec & Mannesmann USA Corporation (formerly V & M Tubes Corporation) – United States (100%)**

In the United States, Vallourec & Mannesmann USA Corporation markets all the tubular goods produced by V & M Tubes' various subsidiaries. It also carries a stock of tubes intended for American oil & gas industry distributors, which usually thread the tubes themselves according to the end-customer's requirements.

Its offices are located in Houston, Texas, and Pittsburgh, Pennsylvania.

In addition, there are sales companies associated with V & M Tubes in:

- Canada;
- The United Kingdom;
- China;
- Russia;
- Dubai;
- Singapore;
- Italy;
- Sweden.

3.1.3.2 Internal organisation of activities as of 1 January 2012

New challenges in the global economy underpin Vallourec's global and local development strategies. On highly competitive, fast-changing markets, however, the Group still hopes to work toward greater customer proximity and competitiveness.

In this context, the Group has channelled its organisation toward a model with a greater focus on its customers that is structured according to its various markets so as to capture their future growth.

The new organisation instituted on 1 January 2012 is built on the following principles:

- an Upstream Division and seven Market Divisions;
- a Group Planning & Supply Chain Department and a Technology, Research, Development and Innovation Department (TRDI).

The Upstream Division comprises all the Group's steel and rolling mills in Europe. It is responsible for optimising their efficiency and supplying the Market Divisions at best cost, mainly in Europe, Africa, Asia and the Middle East.

The seven Market Divisions are in charge of sales, marketing and promoting the development of their products around the world. They are responsible for their profit and loss account.

Four of these Market Divisions are new:

- the Pipe Projects Division, dedicated to the process and line pipe markets, which includes Serimax and Interfit;
- the Powergen Division, dedicated to the world market for thermal power plants;
- the Speciality Powergen Division, composed of Valtimet, Valinox Nucléaire and Vallourec Umbilicals;
- the Industry Division, which is in charge of the mechanical engineering, structures (excluding Brazil) and hollows markets (including Valti).

The OCTG (including VSB) (1), Drilling Products and Brazil Divisions remain unchanged, as their existing organisation already suits the project's approach.

A Group Planning & Supply Chain Department will be in charge of optimising capacities in the allocation of orders between the Upstream Division and Market Divisions.

The TRDI Department, already in place, is responsible for driving process and product synergies and the monitoring and management of the R&D plan, as well as galvanising Innovation within the Group.

In this new structure, the E & I and Speciality Products Divisions have thus been restructured around the new Upstream, Pipe Projects, Powergen, Speciality Powergen and Industry Divisions. The Corporate Marketing, Purchasing and Sustainable Development Departments have been amalgamated into a single Department. The other corporate support functions are unchanged, and the Group's companies (which are legal entities) remain intact.

This new organisation should enable the Group to improve its effectiveness, consolidate its world-leader position and maintain its lead in premium products and innovative solutions. It illustrates Vallourec's determination to become our clients' major partner, one with which they can maintain reciprocal, sustainable relationships of trust.

The following table describes the move from the former organisation to the new one:

		Organisation from 1 January 2012								
		Seamless tubes					Powergen Products			
Organisation (until 31 December 2011) *		**Upstream**	**Industry**	**OCTG**	**Drilling Products**	**Brazil**	**Pipe Projects**	**Powergen**	**Speciality Powergen**	**Sales companies**
Seamless tubes										
	Energy & Industry	x	x				x	x		
	OCTG			x						
	Drilling products				x					
	Brazil					x				
Speciality products			x				x		x	
Sales companies										x

3.1.4 PRODUCTION AND PRODUCTION VOLUMES

The diversity of the Group's products and the absence of appropriate units of measurement other than financial ones prevent the provision of meaningful information on production volumes. However, the following table provides a summary of production output, which corresponds to the volumes produced in the Vallourec rolling mills, expressed in tonnes of hot-rolled seamless tubes:

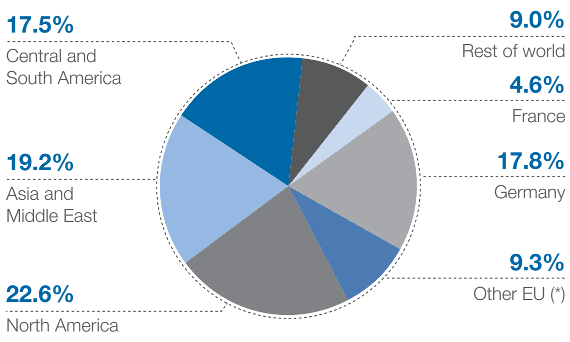
In thousands of tonnes	2009	2010	2011	2010-2011 comparison
1st quarter	488.3	344.0	500.7	+46%
2nd quarter	370.5	484.2	561.2	+16%
3rd quarter	314.6	507.1	600.8	+18%
4th quarter	329.6	552.9	588.8	+6%
TOTAL	**1,503.0**	**1,888.2**	**2,251.3**	**+19%**

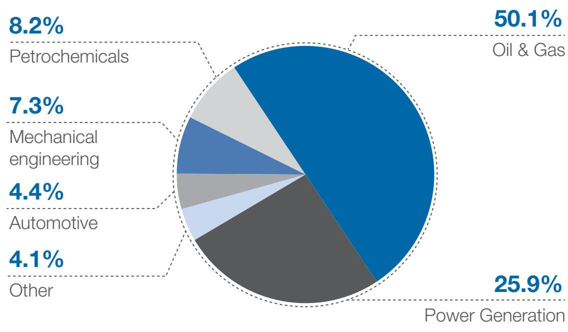
(1) Apart from the fact that VSB was attached to the Brazil Division until 31 December 2011 and is now attached to the OCTG Division.

3.1.5 SALES BY MARKETS AND GEOGRAPHIC SEGMENTS

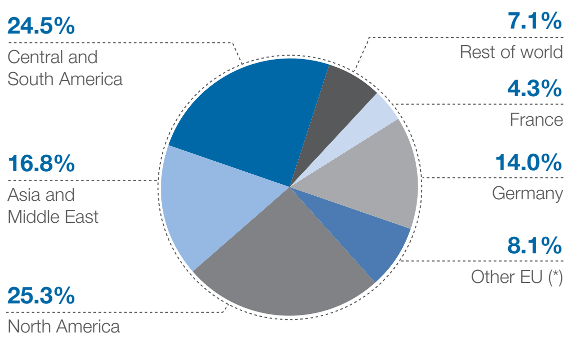
The breakdown of business activity by markets and geographic segments is the only meaningful indicator, due to the scale of the integrated industrial processes and the development of downstream activities. This breakdown is as follows:

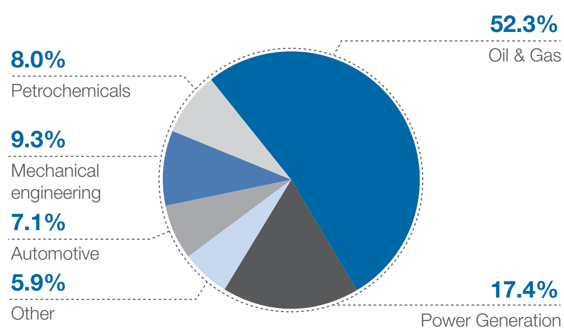
2009



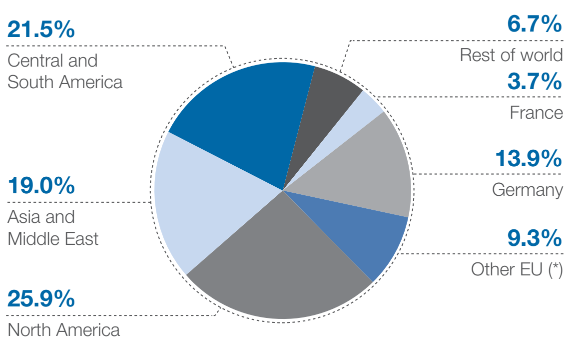


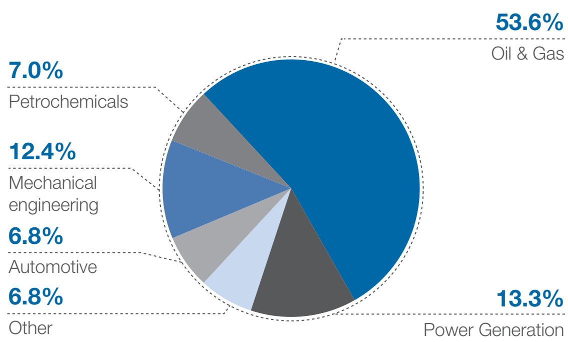
2010





2011





(*) Other European Union countries, excluding Germany and France.

Consolidated sales totalled:

- €4.465 billion in 2009, of which 68.3% outside Europe;
- €4.491 billion in 2010, of which 73.7% outside Europe;
- €5.296 billion in 2011, of which 73.1% outside Europe.

The main changes in consolidation scope were:

In 2009

The 2 July 2009 increase in Vallourec's strategic stake in the share capital of PTCitra Tubindo TBK (PTCT), bringing it to 78.2%;

The 24 September 2009 acquisition by V & M Tubes and VAM Drilling (Vallourec subsidiary) of DPAL FZCO, a drill pipe supplier based in Dubai.

In 2010

On 8 June 2010, the Group acquired 100% of Serimax, a world leader in the provision of integrated welding solutions for offshore line pipes. This acquisition enhances Vallourec's undersea line pipe business, which currently accounts for approximately 10% of Group sales in the oil & gas markets. Serimax reported full-year consolidated sales of €131 million in 2010.

In 2011

On 25 November 2011, the Group finalised the acquisition of 100% of the capital of Saudi Seamless Pipes Factory Company Limited ("Zamil Pipes") in Saudi Arabia. This acquisition provides Vallourec with already-operational heat treatment and threading facilities with a capacity of 100,000 tonnes of tubes per year.

3.1.6 LOCATION OF MAIN FACILITIES

3.1.6.1 Main tangible assets

The Group's head office is located at 27, avenue du Général Leclerc, 92100 Boulogne-Billancourt, France. The premises are occupied under the terms of a nine-year lease that came into effect on 1 October 2006. The properties occupied by the Company and its subsidiaries are not owned by any members of the Company's corporate officers.

As of 31 December 2011, the Group operated around 50 production facilities, most of which were owned on a freehold basis. These plants are located mainly in France, Germany, Brazil, China and the United States, reflecting Vallourec's internationalisation (see §3.1.1 above). The Group considers these plants to be an essential resource for carrying out its various industrial businesses.

The Group's tangible assets (including assets held under the terms of finance leases) and the biological assets held by consolidated companies had a net book value of €4.2506 billion at the end of 2011 (compared with 3.4844 billion at the end of 2010 and €2.367 billion at the end of 2009). Tangible assets mainly consist of property assets and industrial equipment:

- the Group's main property assets include the buildings at its plants and administration facilities;
- the industrial equipment consists of steel-making and tube manufacturing facilities.

The following items are described in the notes to the consolidated financial statements in §5.1 of this Registration Document:

- analysis of tangible assets by type and flow in Note 2.1;
- geographic distribution of tangible, intangible and biological industrial assets in 2010 (excluding scope changes), in Note 2.1;
- group commitments under the terms of finance leases (organised by main due date) in Note 21.

Details of capital investments made in 2011, which extended the Company's tangible asset base, are provided hereinafter (see §3.2.2 below).

3.1.6.2 Environmental considerations relating to the Company's property assets

Situation of operational facilities with regard to environmental regulations

The Group's French facilities are subject to environmental protection regulations under a classified facilities system (ICPE), which imposes certain obligations according to the type of activity conducted at the site and the environmental hazards and nuisances concerned. Vallourec's facilities comply with these regulations:

- four facilities are subject to a declaratory regime and are therefore run in accordance with standard operating requirements;
- 15 facilities are subject to authorisation and are therefore run in accordance with specific operating requirements issued via a prefectoral order, following the submission of an operating licence application, consultations with various organisations and a public enquiry. As of 31 December 2011, all of the above facilities held current prefectoral operating licences.

Vallourec facilities in other countries are subject to similar local legislation, which provides for specific permits in the various areas relating to the environment, including water, air and waste. All the Group's international locations hold the required permits.

Environmental situation of disused industrial facilities

Following its closure, the Anzin plant in northern France was sold to Valenciennes district council on 17 November 2004. A file containing soil studies was produced at that time, and decontamination work stipulated by the authorities was carried out; the quality of the underground water at the site continues to be monitored using piezometric sensors.

All other former sites (i.e. those operated by VPE, VPS, VCAV, CEREC and Spécitubes) underwent comprehensive environmental investigations prior to their disposal. As far as the Company is aware, no specific issues were raised during the disposal negotiations.

Situation of operational sites with regard to soil pollution

FRENCH FACILITIES

In view of the age of the sites, soil studies were commissioned for all at the Group's own initiative without being required by the authorities. The results of these investigations prompted some facilities to introduce piezometric sensor-based monitoring of underground water, after obtaining permission from the relevant authorities. The list of monitored sites is included in an official database known as BASOL.

Supplementary investigations, conducted at two plants, have led to the following actions:

1. at the Aulnoye-Aymeries site, a process to contain an old lagoon commenced in 2011 and a piezometric monitoring system was introduced;
2. at the Cosne-sur-Loire site, appropriate treatments were initiated to eliminate pollution identified in the water table and soil. A provision for completing this work remains on the accounts.

FACILITIES OUTSIDE FRANCE

After performing the appropriate analyses, underground water monitoring systems have been set up, with permission from the local authorities, at two facilities in Germany. As far as the Group is aware, the other plants are pollution-free.

In Brazil, the only potential risks relate to the Barreiro plant in areas of the site previously used to store waste. A depot formerly used to store slag (a byproduct of the steelmaking process) and a former sludge depot were made compliant with current standards, and piezometric sensor-based underground water monitoring was introduced. A 10-year programme of compliance work at a former solid industrial waste store (used for wood, plastic, scrap metal, etc.) was launched in 2004.

In the United States, analyses were performed at the vast majority of production facilities. As far as the Group is aware, none of the analysed sites were subject to significant pollution risks.

3.1.7 MAIN MARKETS

As of 31 December 2011, the Group's main markets were as follows:

Market	Sales *(In millions of euros)*	Sales *(as a %)*
Oil & Gas	2,841	53.6%
Power Generation	707	13.3%
Petrochemicals	373	7.0%
Mechanical engineering	657	12.4%
Automotive industry	359	6.8%
Other	359	6.8%
Total	**5,296**	**100%**

The table below shows the Group's sales by geographic region:

BREAKDOWN OF GROUP SALES BY GEOGRAPHIC REGION AND DESTINATION OF PRODUCTS

	France	Germany	Other EU (a)	CIS	North America	China	Other Asia and Middle East	Total Asia and Middle East	Brazil	Other Central & South America	Total South America	Rest of the world	Total 2011
TOTAL 2011 *(in € thousands)*	**196,541**	**736,162**	**493,677**	**48,866**	**1,372,225**	**249,573**	**756,832**	**1,006,405**	**1,052,551**	**85,665**	**1,138,216**	**305,670**	**5,295,762**
(as a %)	3.71	13.90	9.32	0.88	25.91	4.71	14.29	19.00	19.88	1.62	21.49	5.77	100.00

	France	Germany	Other EU (a)	CIS	North America	China	Other Asia and Middle East	Total Asia and Middle East	Brazil	Other Central & South America	Total South America	Rest of the world	Total 2010
TOTAL 2010 *(in € thousands)*	**191,367**	**628,508**	**363,051**	**33,065**	**1,135,213**	**274,951**	**478,052**	**753,003**	**1,022,787**	**76,236**	**1,099,023**	**288,039**	**4,491,272**
(as a %)	4.26	13.99	8.08	0.74	25.28	6.12	10.64	16.77	22.77	1.70	24.47	6.41	100.00

	France	Germany	Other EU (a)	CIS	North America	China	Other Asia and Middle East	Total Asia and Middle East	Brazil	Other Central & South America	Total South America	Rest of the world	Total 2009
TOTAL 2009 *(in € thousands)*	**203,876**	**793,611**	**414,038**	**33,742**	**1,007,818**	**432,917**	**423,044**	**855,960**	**712,506**	**67,914**	**780,420**	**375,014**	**4,464,479**
(as a %)	4.57	17.77	9.27	0.76	22.57	9.70	9.48	19.18	15.96	1.52	17.48	8.40	100.00

(a) Other European Union countries, excluding Germany and France.

3.1.8 EXCEPTIONAL EVENTS IN 2011

Vallourec's market environment saw some significant changes in 2011.

The price per barrel of oil and the cost of raw materials increased substantially in the first half of the year and remained high in the second:

- Price per barrel (Brent): $111 on average in 2011 versus $76 per barrel in 2010, up 46% [1];
- Price of scrap metal (shredded scrap Pittsburgh): $452/t on average in 2011 versus $363/t in 2010, up 25% [2], driven, like iron ore, by record steel production levels.

The rise in the price per barrel is the result of a continuing increase in global energy consumption, led by the development of emerging countries, rigid oil production quotas and the geopolitical crisis in North Africa and the Middle East. The high price levels encouraged global spending on exploration and production by oil companies, and stimulated drilling activity in the United States and in offshore during the year.

Global demand for oil is now estimated at 89 mbd in 2011 versus 88 mbd in 2010 [3].

Global expenditure on exploration and production (at $544 billion) was 19% higher in 2011 than in 2010 [4].

The number of drilling rigs in the United States increased rapidly to a total of 2,007 at the end of the year, up 18% [5] versus the end of 2010 with, for the first time in nearly 16 years, the total number of oil rigs exceeding gas rigs due to the high price per barrel and the rapid development of shale oil production.

In deep offshore, activity steadily resumed in the Gulf of Mexico, and investments by Petrobras continued in offshore fields, especially in the pre-salt region of Brazil.

In electrical energy, the Fukushima nuclear accident in Japan in March 2011 led some governments to review their energy mix policy. Sixteen countries, including France and China, remain committed to developing projects already approved. Nevertheless, the overall contribution of nuclear to the global energy mix in the long term is likely to be lower than previously forecast, while the share of gas- and coal-fired electrical energy will account for the majority.

The financial and banking crisis in Europe in mechanical engineering the second half has affected the economic outlook for the region. Estimates for GDP growth in Europe in 2011 and 2012 have been revised downwards, respectively from 1.9% to 1.5% and 1.6% to 0.7% [6]. While demand in markets excluding energy (mechanical engineering, construction, etc.) was robust throughout the first half of 2011, greater uncertainty led European distributors to take the prudent approach of cutting their inventories in the third quarter of the year.

The Brazilian economy saw a slowdown in 2011, with economic growth below 3% and growth in industrial production below 1%, compared to 8% and 11% respectively in 2010. The strength of the Brazilian real damaged the competitiveness of its exports and encouraged cheap imports, especially in the automotive and manufacturing sectors. These impacts are set to continue in 2012.

(1) Source IEA.
(2) Source CRU.
(3) Source IEA.
(4) Source Barclays Capital Global.
(5) Source Baker Hughes.
(6) Source Global Insight.

3.1.9 INFORMATION RELATING TO THE COMPETITIVE STATUS OF THE COMPANY

The information below is organised according to the various markets in which the Group operates, based on the Group's internal analyses, and represents its own estimates.

3.1.9.1 Oil & gas

Valourec is active in three markets: oilfield country threaded goods (OCTG – threaded seamless tubes for use in oil & gas exploration and production), drill pipes and offshore oil & gas line pipe.

- in the OCTG segment, Vallourec is among the world's three leading suppliers of premium products in terms of volumes delivered.
  - competition from Chinese seamless tube manufacturers is intensifying, especially in the markets for standard-quality seamless tubes,
  - in the market for premium connections that satisfy demanding technical performance criteria, the VAM® range (produced in cooperation with Sumitomo Metal Industries) is the world leader;
- in drill pipes, Vallourec ranks second in the world by volume, after NOV/Grant Prideco (United States) and ahead of Hilong (China) and Texas Steel Conversion (United States). Most of the other, smaller competitors are Chinese companies;
- in the offshore line pipe market, Vallourec is No. 2 in the global market, with a particularly strong position in very deep (>2,000 m) wells requiring high-technology products;
- in the market for integrated welding solutions for offshore line pipe, Serimax, acquired in 2010, is the world leader.

3.1.9.2 Power Generation

Vallourec is a supplier for several applications:

- seamless tubes for conventional power plants: boilers and energy recovery boilers. Combined-cycle power plants: header pipes, screen panels, economisers, evaporators, superheaters, reheaters, piping, feedwater heaters and energy recovery boilers. Vallourec is the leader in this global market;
- nickel alloy seamless tubes for steam generators at nuclear power plants: Vallourec is the leader in this technically very demanding global market;
- welded titanium tubes for power plant applications (condensers): operating through its Valtimet subsidiary, Vallourec is the world leader;
- welded stainless steel tubes for power plant applications (low- and high-pressure feedwater heaters and condensers, driers and steam heating equipment): via its Valtimet subsidiary, Vallourec ranks among the leaders in the world market;
- Vallourec's range of product dimensions and steel grades (including patented grades) is unmatched by any other manufacturer. In February 2009, the Group signed an agreement with Tubacex, the world's second-largest producer of stainless steel seamless tubes for the energy market, enhancing Vallourec's offering. This agreement also covers R&D efforts to design solutions for developing tubes that comply with the increasingly demanding temperature and pressure specifications of the next generation of power plants (which will operate at temperatures approaching 700 °C). From a sales and marketing perspective, Vallourec is able to harness Tubacex's expertise in order to extend its premium offering, while Tubacex benefits from Vallourec's market positions and experience to introduce solutions for energy markets.

3.1.9.3 Mechanical engineering

In terms of mechanical engineering applications, the main features of the seamless tubes market are:

- a wide range of applications, including tubes for hydraulic cylinders, construction and civil engineering cranes, industrial building frames, public facilities and oil rigs;
- competition for seamless tubes from alternative techniques: welded tubes, drilled steel bars, cold-drawn tubes, forged and formed tubes, etc.

Vallourec is the European leader in seamless tubes for mechanical engineering applications.

3.1.9.4 Petrochemicals

Vallourec is a supplier for several applications:

- seamless tubes for refineries and petrochemical facilities: Vallourec is a significant market player;
- welded titanium tubes for heat exchangers in desalination and natural gas liquefaction plants: through its Valtimet subsidiary, Vallourec is among the global market leaders.

3.1.9.5 Automotive industry

Vallourec, via its Valti subsidiary, is No. 2 in the European market for ball-bearing rings manufactured from seamless tubes. The Group supplies products for a range of applications, in particular in the automotive industry.

In Latin America, V & M do Brazil SA is the market-leading manufacturer of the following products manufactured from forged tubes or hot-rolled or cold-drawn seamless tubes: suspension shafts, steering columns, drive shafts and ball races. V & M do Brazil SA supplies a complete range of axle bearings, primarily for heavy goods vehicles but also for cars, heavy plant and agricultural machinery.

3.1.10 DEPENDENCY ON THE ECONOMIC, INDUSTRIAL AND FINANCIAL ENVIRONMENT

3.1.10.1 Distribution of raw materials supplies as of 31 December 2011

Purchases consumed during 2011 were as follows:

In € thousand	As of 31/12/2010	As of 31/12/2011
• Scrap metal and ferrous alloys	397,132	466,679
• Rounds/billets	757,192	1,033,454
• Flat parts	66,089	84,525
• Tubes	110,797	80,938
• Others [(a)]	127,527	189,678
Total	**1,458,737**	**1,855,274**

(a) Including stock variations.

3.1.10.2 Main customers (sales in excess of €35 million)

In 2011, the following customers accounted for sales of over €35 million:

Name	Home country	Vallourec markets	Activity
Açotubo	Brazil	Mech.eng./petrochem./other	Distributor
Alstom	France	Power Generation	Power plant construction
Aramco	Saudi Arabia	Oil & Gas	Oil company
Bharat Heavy Electricals	India	Power Generation	Power plant construction
Buhlmann	Germany	Power Generation	Distributor
Champions Pipe & Supply	United States	Oil & Gas	Distributor
Chickasaw	United States	Oil & Gas	Distributor
Dong Fang	China	Power Generation	Power plant construction
Doosan	South Korea	Power Generation	Power plant construction
Hitachi Power	Japan	Power Generation	Power plant construction
OGX	Brazil	Oil & Gas	Oil company
Petrobras	Brazil	Oil & Gas	Oil company
Pipeco Services	United States	Oil & Gas	Distributor
Premier Pipe	United States	Oil & Gas	Distributor
Salzgitter	Germany	Automotive/Mech.eng.	Tube manufacturing
ThyssenKrupp	Germany	Mech.eng./Other	Distributor
Total	France	Oil & Gas	Oil company
Van Leeuwen	Netherlands	Petrochemicals and industry	Distributor

3.2 INVESTMENT POLICY

3.2.1 INVESTMENT DECISIONS

Capital expenditure decisions are a central pillar of the Group's strategy, addressing the following requirements:

- keeping people and facilities safe and complying with legal obligations, notably those relating to safety and the environment;
- developing Vallourec's activities through organic growth and acquisitions;
- optimising production units' economic performance and enhancing the quality of the Group's products;
- maintaining and, where necessary, replacing obsolete facilities.

Capital expenditure decisions are subject to a dedicated process that systematically includes an economic impact study and a risk assessment to ensure that the selected projects will support long-term growth and deliver an acceptable return on investment.

When considering capital expenditure projects, Vallourec systematically attaches great importance to ensuring that environmental consequences and energy savings are highlighted.

3.2.2 MAIN INVESTMENTS

3.2.2.1 Main investments over the 2009-2011 period

In recent years, capital expenditure programmes have been directed mainly toward increasing capacity and streamlining production facilities, reorganising activities according to business line, improving quality and process control, adapting product lines to reflect customers' changing requirements, expanding premium product finishing capacity and reducing production costs.

Over the last three years, investments have been made as follows:

CAPITAL EXPENDITURE EXCLUDING CHANGES IN SCOPE (TANGIBLE, INTANGIBLE AND BIOLOGICAL)

In € million	31/12/2009	31/12/2010	31/12/2011
• Europe	186.2	162.2	139.1
• North America	46.3	163.7	321.2
• Central & South America	436.8	672.3 (a)	371.6 (c)
• Asia	7.9	66.1	79.4
• Other	5.0	0.5	0.9
TOTAL CAPITAL EXPENDITURE	**682.2**	**1,064.8 (a)**	**928.9 (c)**
Of which capital expenditure payments during the year	676.5	872.6 (b)	909.1 (d)
ACQUISITIONS AND FINANCIAL INVESTMENTS	**98.3 (e)**	**98.5 (f)**	**80.3 (g)**

(a) of which €42.6m for biological assets.
(b) of which €30.8m for biological assets.
(c) of which €41.2m for biological assets.
(d) of which €49.7m for biological assets.
(e) On 2 July 2009, Vallourec increased its strategic stake in PTCitra Tubindo to 78.2%.
(f) In particular, Vallourec acquired the Serimax Group on 8 June 2010.
(g) In particular, Vallourec acquired 100% of the capital of Saudi Seamless Pipes Factory Company Limited (Saudi Arabia) and 19.5% of Tianda Oil Pipe Company Limited (China).

The most significant investment programmes carried out in 2009, 2010 and 2011 are outlined below.

In 2009

In 2009, the general economic situation prompted a carefully controlled increase in the Group's commitments – without delaying the strategic projects already underway – and a focus on the following growth areas:

- doubling manufacturing capacity for products destined for the nuclear power sector, primarily in France but also in the United States, in order to satisfy growing demand in this industry. Accordingly, on 16 March 2009 the Vallourec Group announced that it would be investing €80 million in new production facilities. Valinox Nucléaire expanded the annual capacity of its Montbard plant by a factor of 2.5, and Valtimet is to double the condenser tube manufacturing capacity at its plants in Venarey-les-Laumes (Côte-d'Or, France) and Brunswick (Georgia, United States);
- streamlining the Group's threading facilities for premium products in the United States, following the merger between VAM USA LLC and V & M Atlas Bradford® on 27 February 2009;
- developing internal raw material resources in Brazil, particularly iron ore and charcoal, in order to optimise the Group's current resources;
- expanding R&D resources, especially within the context of the February 2009 agreement with Tubacex concerning the development of technical solutions for manufacturing tubes that comply with the increasingly demanding temperature and pressure specifications of the next generation of power plants;
- improving production flows and pursuing the existing cost reduction policy;
- continuing work at the new Vallourec & Sumitomo Tubos do Brazil pipe mill.

In 2010

Capital expenditure in 2010 was very high, with two-thirds of the sums invested being ring-fenced for implementing programmes initiated in previous years.

The main investments during the year are described below:

- a rolling competence centre was established in Riesa (Germany);
- a heat treatment facility was renovated in order to expand its capacity and greatly improve its environmental performance (France);
- threading machines were purchased to support the growth in demand for premium products (Brazil);
- two cloned eucalyptus plantations (covering 9,286 and 9,165 hectares) were created to satisfy the requirements of V & M do Brazil SA and Vallourec & Sumitomo Tubos do Brazil.

Numerous capital projects initiated in previous years continued in 2011, the main examples being:

- ongoing investment at the new Vallourec & Sumitomo Tubos do Brazil pipe mill in Jeceaba, which began industrial operation in 2011.
- major extension to production capacity at the Valinox Nucléaire plant in Montbard (Côte-d'Or).
- construction of a new pipe mill in Youngstown (Ohio, United States), announced on 15 February 2010, in order to satisfy strong growth in the North American OCTG market. The new plant, which will have an annual production capacity of 500,000 tonnes, will be operational in the first half of 2012, initially producing 350,000 tonnes of small-diameter (OD < 7") seamless tubes.
- a project, announced on 28 July 2010, to expand the capacity of the V & M Changzhou plant located in China's Jiangsu province. The extension will enable the plant to produce an additional 60,000 tonnes per year of seamless tubes to satisfy local demand from thermal power plants.
- a major programme of heat treatment renovation and development works, to increase available capacity while decreasing energy consumption and gaseous emissions (Germany and Brazil).
- a welding shop to produce drill pipe for the Brazilian market (Brazil).
- a workshop allowing double-length line pipe welding and coating in Brazil (a coordinated investment with Serimax).
- ongoing work to reconfigure the mine and build an ore concentration plant, which will enhance productivity and increase accessible reserves (Brazil).
- construction of a plant to produce welded tubes for "umbilicals", which are used as instrumentation pipes in the manufacturing and oil industries (France).
- investment in lean manufacturing programmes designed to enhance plant productivity and efficiency.

In 2011

Continuing the policy of 2010, the year was marked by a very solid investment programme, three-quarters of which was devoted to the pursuit of programmes initiated in previous years.

The principal investments initiated in 2011 were:

- the creation of a threading workshop for premium joints in Youngstown, and the increase in capacity for threaded sleeves in Houston, in order to respond to the growing needs for OCTG tubes for shale gas (United States);
- extension of the VAM USA LLC Research Center in Houston, enabling the development of premium threaded products to be ramped up through the creation of resources for supplementary tests (United States);
- increase in the threading capacity, heat treatment and finishing of casing tubes at V & M do Brazil SA to meet the growing needs of Petrobras for high premium grades (Brazil);
- increase in V & M do Brazil's hot-forging capacity for wheel shafts for cars and trucks, enabling it to meet a solid increase in demand;
- two eucalyptus plantations (covering 1,912 and 7,694 hectares) were created to satisfy the requirements of V & M do Brazil SA and Vallourec & Sumitomo Tubos do Brazil;
- start of construction of a new steam generator tube production plant in Nansha, Guangdong province, south-east China, to meet rapid growth in the Chinese nuclear power sector;
- the creation of a single IT portal comprising an internal messaging platform for the Group worldwide, a collaborative workspace, Group information, news and reference data.

Numerous capital projects initiated in previous years will be continued in 2012, the main ones being:

- ongoing investment at the new Vallourec & Sumitomo Tubos do Brazil pipe mill in Jeceaba, which began industrial operation in the second half of 2011;
- construction of a new pipe mill in Youngstown (Ohio, United States), announced on 15 February 2010, in order to satisfy strong growth in the North American OCTG market, due to begin operation in 2012;
- increase in the capacity of the V & M Changzhou plant, due to be commissioned in 2012;
- a major programme of heat treatment renovation and development works, to increase available capacity while decreasing energy consumption and gaseous emissions (Germany and Brazil);
- ongoing work to reconfigure the mine and build an ore concentration plant, which will enhance productivity and increase accessible reserves (Brazil);
- investment in lean manufacturing programmes designed to enhance plant productivity and efficiency.

3.2.2.2 Main capital expenditure projects planned for 2012

After the massive programmes launched in 2010 and 2011, 2012 will see further significant capital expenditure, although less than in previous years. 70% of the budget will concern the continuation of programmes initiated in 2011 or earlier. In addition to the aforementioned projects, Vallourec has decided to launch a number of major capital investment projects as part of the Group's strategy:

- renovation of the electric steel mill at Saint-Saulve (France);
- an "integral" threaded-joint development programme (France, Germany);
- upgrade to the piercer in the Youngstown mill (United States);
- a tool-joint production shop to produce drill pipe for the Brazilian market (Brazil);
- modifications at European plants to reorganise product flows, thereby enhancing performance and competitiveness.

In 2012, Vallourec will also be investing in additional R&D resources, improving safety for employees and facilities, reducing costs, maintaining existing installations and decreasing the Group's environmental impact.

3.3 RESEARCH AND DEVELOPMENT – INDUSTRIAL PROPERTY

Since 1 January 2010, the Research and Development Department has been amalgamated with the Technology Department in a new Technology, Research & Development (R&D) and Innovation Department. The objectives of this new Department are:

- leadership in technologies and technological solutions for segments of Vallourec's activity; and
- to supply choice in premium tube products and solutions.

The missions of the TRDI Department are:

- the promotion of innovation and the management of R&D and technology to enable the emergence of breakthrough innovations so as to be and remain ahead of the competition via differentiation through new products and bespoke solutions;
- the development and promotion of best practices and best available technologies to produce premium solutions, while being supported and driven by the strength of R&D in charge of the processes and by a culture of even greater innovation;
- deployment of a culture of innovation (via Vallourec University), knowledge management, teamwork, collaboration and expertise networks, all key elements for innovation, which is a process combining apprenticeship and induction.

3.3.1 RESEARCH AND DEVELOPMENT

Valllourec continues to increase its already significant R&D efforts, in particular in areas associated with Oil & Gas and Power Generation. R&D efforts are focussed on three areas:

- manufacturing processes (charcoal, steel making, continuous-casting of steel bars, tube rolling, heat treatment, non-destructive testing, welding, machining and threading);
- new and improved products;
- new services and solutions (customer support for tube design, working and use).

Vallourec's R&D organisation is based on R&D teams in the various Group divisions, close to customers and plants.

A dedicated Technology, Research, Development and Innovation Department coordinates all of Vallourec's expertise and resources in this area. Faced with a fiercely competitive global environment, the Group intends to strengthen its organisation in order to anticipate customers' future needs effectively and respond with innovative solutions based on differentiated products and services.

This restructuring is organised around five competence centres (currently being strengthened) specialising in particular products, processes or technologies:

1. The research complex in Aulnoye (France) accommodates:
   - Vallourec's long-established research centre, Vallourec Research Aulnoye, specialising in metallurgy, non-destructive testing, corrosion resistance, surface treatments, product and process simulations, OCTG products and mechanical engineering applications,
   - three VAM centres specialising in threaded connection design, proprietary grades and threading line industrialisation.
2. In Düsseldorf, Germany, Vallourec Research Düsseldorf specialises in:
   - thermal power plant and oil & gas line pipe applications,
   - tube hot-rolling research. This long-established centre, which is responsible for innovations involving Vallourec's core processes, is now supported by a new rolling laboratory.
3. The new hot-rolling laboratory in Riesa, Germany, which is equipped with the world's most advanced facilities, will enable Vallourec to increase the pace at which innovations in process methodologies and equipment are developed. The versatile, state-of-the-art rolling and forging facilities operated by Vallourec Research Riesa will push back the limits of steel and alloy rolling.
4. In Brazil, the Group has two research units. At Belo Horizonte, Brazil, Vallourec adapts the Group's solutions for its Brazilian customers at Vallourec Research Belo Horizonte, using its teams of experts and a testing laboratory to conduct its own research. At Rio de Janeiro, the Group decided to open a new research centre, Vallourec Research Rio de Janeiro, located within the University of Rio de Janeiro industrial park, close to CENPES, Petrobras' research centre. It is intended to align our Group research even more closely with that of Petrobras and its partners.

5. In the United States, a new VAM threaded connection design and testing centre has been set up in Houston (Texas). This centre will focus on developments demanded on the American market and harnesses the combined experience of the R&D teams of VAM USA LLC and Atlas Bradford. The centre's testing capacity has recently been doubled. Four testing stations worldwide conduct full-scale tests on the behaviour of VAM joints in wells under the most arduous conditions of use.

Vallourec's research, testing and investigation programme is also supported by a longstanding research partner, the Salzgitter Mannesmann Forschungsinstitut institute in Duisburg, Germany.

Innovation for customers is a major strategic objective of the Group, supported by:

- promoting innovation;
- R&D and technological leadership generating the necessary breakthrough innovations;
- a technical advance that differentiates new Group products and its bespoke solutions;
- across-the-board implementation of best practices and best technologies to produce premium tubing solutions;
- deployment of a culture of innovation, knowledge management, teamwork and network collaboration;
- customer-supplier technical partnerships;
- fundamental research programmes conducted with assistance from university laboratories in Europe and elsewhere.

This cross-functional interaction, combined with reliable, flexible and competitive processes, enables Vallourec's range of products, services and solutions to be continuously improved.

The Group is also developing R&D partnerships with companies and institutions with leading positions in their field, in particular:

- Sumitomo Metal Industries: collaboration since 1976 on the development of premium joints for the oil & gas industry (VAM® product range). The dynamic nature of this partnership is reflected in the recent launches of the new VAM® 21 premium threaded connection, which complies with the most stringent industry specifications (ISO CAL IV), and the Cleanwell Dry® grease-free dry lubrication solution;
- Tubacex: collaboration on the development of seamless tubes made of stainless steel and innovative alloys, thereby enhancing the Group's offering for the Oil & Gas market and the Power Generation sector. Research and development resources from both companies have been assigned to this joint programme, which focuses on the most demanding applications in terms of corrosion and heat resistance;
- Petrobras: innovative tubular solutions for exploration and production in hard-to-access oil & gas deposits (ultra-deepwater, salt, corrosion, carbon dioxide, etc.);
- Total: premium joints delivering unmatched performance in difficult wells;
- Weatherford: development and industrialisation of a special-purpose premium connection for innovative applications;
- British Petroleum: development of high-performance drill pipes for extended-reach drilling (ERD), and development of riser tubes and connections;
- Hitachi Power Europe, Alstom, Doosan: development of high-performance steels for ultra-supercritical coal-fired power plants.

A staff of 500 is involved in R&D activities within the Vallourec Group. To strengthen the Group's strategic situation in terms of competitiveness and innovation, Vallourec has introduced the Expert Career programme. The purpose of this initiative is to offer new career opportunities to the Group's technology and R&D engineers, who at each stage of their careers are now able to choose between management responsibilities and technical expertise with the same status and pay. To enable this, the Group's Human Resources Department coordinated the introduction of bridges between the two career paths, at equivalent grades.

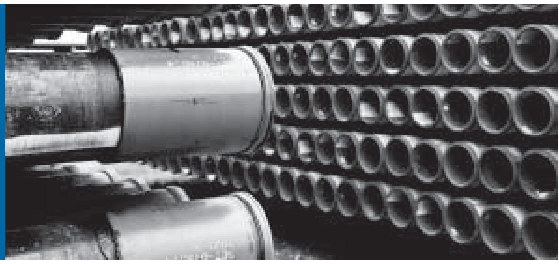
The R&D budget is €77.8 million and is regularly increased.

3.3.2 INDUSTRIAL PROPERTY

Vallourec has strengthened its industrial property organisation over the last two years, and now operates standardised patent application procedures.

The Group has significantly increased its patent registrations in recent years. In 2011, the Group filed for 36 base patents, which is a considerable advance on the average of 25 new patents per year over the last six years. Over 600 geographic extensions for patents were registered in 2011, double the figure for the preceding years.

In 2011, Vallourec filed to register seven new trademarks and 10 geographic extensions for existing trademarks. This portfolio of trademarks facilitates the ongoing development of new products and services. The Industrial Property Department also helped to secure four contracts, mainly in conjunction with external centres and university laboratories.



4 Risk factors

Investors are invited to consider all information featured in this Registration Document, including the risk factors described in this section, before deciding whether to make an investment. On the date this Registration Document was drawn up, these are the risks whose crystallization the Company considers could have a significant unfavourable effect on the Group, its business, its financial situation, its earnings or its development. Investors' attention is drawn to the fact that other risks may exist, which have not been identified at the time of this Registration Document, or whose crystallization is not considered, at this same date, as likely to have a significant unfavourable effect on the Group, its business, its financial situation, its earnings or its development.

4.1 MAIN RISKS

The Group operates in a rapidly-changing environment that generates a high degree of risk, some of which is outside its control.

This was the case with regard to the global economic and financial crisis arising in 2008, which had repercussions on the Group's industrial activity throughout 2009 and 2010.

The Group has evaluated the risks that could have a significant impact on its business or results (or on its ability to achieve its targets) and considers there are no significant risks other than those presented below. Moreover, other risks, of which it is not currently aware or which it does not currently regard as significant, could also have a negative effect.

4.1.1 RISK OF LEGAL DISPUTES

In the Group's opinion there are currently no financial, commercial or supply contracts that are likely to have a significant influence on its business or profitability.

In the normal course of its business, the Group is involved in law suits and may be subject to inspections or inquiries by tax or customs authorities and other national and supranational authorities. The Group recognizes a provision whenever a tangible risk is identified and a reliable estimate of the cost arising from said risk can be made.

As far as the Group is aware, there is currently no legal dispute or inspection or inquiry by tax or customs authorities or by any other authority that could materially affect the image, business, assets, earnings or financial position of the Company or of the Vallourec Group. However, there is always the possibility that such a dispute or inspection could arise and have an impact.

The Group owns all the main assets necessary for its operations. As far as the Group is aware, no significant pledges, mortgages or guarantees have been given in respect of its intangible assets, property, plant and equipment or investments. However, the possibility that the Group's development may require such material commitments in the future cannot be ruled out.

4.1.2 INDUSTRIAL AND ENVIRONMENTAL RISKS

4.1.2.1 Type of risks

To the Group's knowledge there are currently no specific industrial or environmental risks resulting from production processes or the use or storage of substances needed for such processes that are likely to have a significant impact on the assets, earnings or financial position of the Company or of the Group.

However, in the various countries in which the Group operates, particularly in Europe and the United States, its production activities are subject to numerous environmental regulations that are extensive and constantly changing. These regulations concern, in particular, control of major accidents, the use of chemicals (REACH regulations), disposal of wastewater, disposal of special industrial waste, air and water pollution and site protection. The Group's activities could, in the future, be subject to even more stringent regulations requiring it to incur expenditure in order to comply with regulations or the payment of taxes.

All the French plants require an authorization to operate in accordance with the provisions of Law no. 76–663 of 19 July 1976, as amended, relating to environmental protection in connection with classified facilities and with Decree no. 77-1133 of 21 September 1977 codified in Article R.512-1 of the French *Code de l'environnement*. Any major changes at these sites (investments, extensions, reorganization, etc.) require the updating of said authorizations in collaboration with the local Regional Directorates for the Environment, Planning and Housing (Directions Régionales de l'Environnement, de l'Aménagement et du Logement – DREAL).

Although, in accordance with its sustainable development principles, the Group endeavours to comply strictly with these authorizations and more generally with all the environmental regulations applicable in France and abroad, and takes every precaution to avoid environmental accidents, the nature of its industrial activity generates risks for the environment. The Group is therefore not exempt from the possibility of an environmental accident that could have a material impact on the continuing operation of the sites concerned and on the Group's financial situation.

In addition, the regulatory authorities and courts may require the Group to carry out investigations and clean-up operations, or even restrict its activities or close its facilities on a temporary or permanent basis. Given the long industrial past of several of the Group's sites that are currently in use or are no longer in use, the soil or ground water may have been polluted and instances of pollution may be discovered or occur in the future. Vallourec could be required to decontaminate the sites concerned. As regards its former activities, the Group could be held responsible in the event of damage to persons or property, which could adversely affect Vallourec's results. This could arise in the case of asbestos, which was not directly used in its production processes but was sometimes employed for thermal insulation. Legal action has been instituted against Vallourec in a limited number of cases linked to exposure to asbestos.

4.1.2.2 Risk measurement

The operating entities assess the industrial and environmental risks of their activities before these are developed and then regularly during operations. They comply with the regulatory requirements of the countries in which these activities are carried out and have developed specific risk measurement procedures.

At sites with significant technological risks, risk analyses are performed when new activities are developed and updated in the event of significant changes in existing installations and kept up to date on a regular basis. With the aim of standardizing these analyses and improving risk management, Vallourec has developed a shared methodology which will gradually be applied to all its operating activities. In France, none of the Group's sites subject to authorization is classed on the SEVESO scale: each prepares its own emergency measures or internal prevention measures depending on the analysis of the risks relating to the establishment.

Similar measures are taken at Vallourec's other European sites.

Moreover, environmental impact studies are carried out before any industrial development including, in particular, an analysis of the initial state of the site, the taking into account of its vulnerability and the choice of measures to reduce or prevent incidents. These studies also take into account the impact of these activities on the health of neighbouring populations. They are performed using common methodologies. In the countries that have authorization procedures and controls of the progress of the projects, no project is launched until the appropriate authorities authorize the project based on the studies submitted to them.

All Vallourec entities monitor regulatory changes in order to ensure that they comply at all times with the local and international regulations and standards relating to measurement and management of industrial and environmental risk. The accounting data relating to environmental matters is recorded in the Group's consolidated balance sheet under "Provisions" (see Note 16 of the notes to the consolidated financial statements). Future expenses for rehabilitation of sites is recognized by the Group using the accounting principles described in Note 2.14 of the notes to the financial statements.

4.1.2.3 Risk management

Risk assessment results in the definition of risk management measures designed to reduce the likelihood of accidents and limit their consequences and environmental impact. These measures relate to the design of the installations, strengthening protective measures, the organization to be put in place, and even the compensation for any eventual environmental impact if it seems inevitable. These studies may be accompanied, on a case by case basis, by an assessment of the cost of the measures to control risk and reduce impact.

Vallourec endeavours to limit the industrial and environmental risk inherent in its activities by putting in place efficient organizational structures and quality, safety and environmental management systems, by obtaining certification or assessing management systems, by performing stringent inspections and audits, by training the staff and heightening the awareness of all the parties involved, as well as by an active policy of investments that respect the environment and reduce industrial risk.

4.1.3 OPERATIONAL RISKS

To the Group's knowledge, there are currently no identified specific risks likely to have a significant impact on the assets, earnings or financial structure of the Company or the Group.

However, there are certain risks inherent to the activities of the Group and of each of its business sectors, which could materialize and have an adverse effect on the Company:

Risks linked to the cyclical nature of the tubes market

The tubes market is traditionally subject to cyclical trends due, in part, to the influence of macroeconomic conditions. These are linked in particular to trends in oil and gas prices, which influence demand for certain of its products. Other sectors are sensitive to the overall economic environment, in particular the mechanical engineering, Automotive and Power Generation sectors.

Deterioration in the global economic climate and in the financial markets could have a significant adverse effect on the Group's sales, earnings, cash flow and outlook.

Risks linked to competition

Vallourec operates in a highly competitive international environment. To respond efficiently to this competitive pressure, Vallourec's strategy is to stand out from its competitors by specializing in premium solutions for the energy markets. Meeting the complex needs of demanding customers in sophisticated markets requires a level of local knowhow, innovation, quality, and related services that only a few manufacturers are in a position to provide.

The Group nonetheless faces competition, with varying degrees of intensity according to the market concerned:

- in the oil & gas sector, the main differentiating element is premium joints for OCTG tubes. These patented joints ensure perfect sealing for tube columns thereby meeting customers' safety, environmental and performance requirements. However, strong competition in the OCTG commodity tubes market could bring downward pressure to bear on prices throughout the market, including the prices of premium tubes and joints;

- in the Power Generation sector, premium solutions contain high-alloy steel capable of withstanding extreme temperatures and pressure, requiring top-level metallurgical skills and state-of-the-art technology. As the world leader in premium solutions for supercritical and ultra-supercritical power plants, the Group has noted increased competition in this sector since 2009, in particular on the Chinese market, linked to some customers' decision to give preference to local manufacturers that have upgraded their ranges, even at the expense of their technical requirements;
- in its other business sectors (Petrochemicals, mechanical engineering, Automotive and Construction), the Group faces stronger competition as customer requirements are less sophisticated. The Group is nevertheless the regional leader in Europe and Brazil, thanks to local operations that enable it to offer short delivery times and related services. It works to innovate so as to create new, differentiated product ranges, such as fine-grain steel for industrial cranes and the Preon solutions for construction of industrial buildings.

Risks linked to an industry that consumes raw materials and energy

Tube production consumes raw materials such as iron ore, coal, coke and scrap metal. The Group has some in-house sources of supply and diversifies its external sources of supply whenever possible.

More generally, raw materials and energy represent a significant expense item for the Group.

An increase in raw materials and energy prices leads to a corresponding increase in the production cost of the Group's finished products. Uncertainty surrounding economic trends linked with a highly competitive environment in the international market for tubes means that the Group's ability to pass on any increases in raw materials and energy prices in its orders is uncertain, which could reduce Group margins, and thus have a negative impact on earnings.

Risks linked to activities in emerging countries

The Group conducts a significant part of its business in emerging countries, in particular because being located close to its customers in these countries enables it to improve its responsiveness and develop appropriate products and services. The risks associated with operating in such countries may include political, economic, social or financial instability and increased exchange rate risk. There are also risks relating to personnel, deployed on temporary or permanent assignments, despite procedures put in place by the Group's Security Department. The Group may not be in a position to take out insurance or hedge against such risks, and may also encounter problems in performing its activities in such countries, which could have an impact on its employees and/or on its earnings.

Risks linked to maintaining high technology on key products

The tubes market is subject to technological change. It is not possible at this point in time to foresee how such change could affect the Group's activities in the future.

Technological innovation could affect the competitiveness of the Group's existing products and services and have a negative impact on the value of existing patents and on the revenue generated by the Group's licences. Failure to develop or access (either alone or through partnerships) new technology, products or services ahead of its competitors could affect the Group's financial results and place it at a competitive disadvantage.

There is also the risk that competitors may access some of the Group's manufacturing secrets or certain innovations that are not yet patented or cannot be patented. Procedures put in place by the Group's Security and/or IT Departments may not be sufficient to safeguard against this. The Group's financial results could therefore be affected.

Risks linked to defective or faulty production

The Group's positioning in the market for premium tube solutions requires the implementation of a demanding quality control programme. However, the Group cannot totally exclude the possibility that some of its products may have production defects or faults, which could potentially cause damage to property, personnel or installations attached to the tubes, leading to an interruption of customers' or third parties' business or causing environmental damage. Although the Group follows quality control procedures for its products taking into account the most rigorous benchmark requirements in order to provide products without production defects or faults, these may occur in Group products, which could potentially cause a fall in demand for these products or could damage their reputation for safety or quality, and could therefore have a significant impact on the financial situation, the earnings and the image of the Group's businesses.

Risks linked to failures of the Group's equipment

The Group's success in meeting orders depends on a high level of reliability of its assets. Nevertheless, the Group could suffer from equipment breakdowns. Such failures could cause delays in the delivery of orders in progress or subsequent orders for which these resources were to be used. Although the Group follows a regular maintenance programme in order to keep all of its assets in good working order, the Group cannot exclude the possibility of breakdowns occurring. All equipment failures are likely to lead to dissatisfaction on the part of the Group's customers, and to have an impact on the cost of orders and therefore to significantly affect the financial situation, earnings and image of the Group.

4.1.4 OTHER SPECIFIC RISKS

Risks linked to Human Resources

Vallourec's success depends on keeping key personnel within the Group and on recruiting qualified staff.

The Group's success depends largely on the strong and continuing contribution made by its key executives. A limited number of people have responsibility for managing the Group's business, including relations with customers and licence holders. If the Group were to lose an important member of its management team, whether to a competitor or for any other reason, this could reduce its capacity to implement its industrial or business strategy successfully or lead to the loss of major customers or licence holders or have a negative impact on the operation of its businesses.

The Group's performance also depends on the talents and efforts of highly-qualified staff. Its products, services and technology are complex and its future growth and success depend largely on the skills of its engineers and other key personnel. Ongoing training of already skilled staff is also necessary to maintain a high level of innovation and adapt to technological change. The Group's ability to recruit, keep and develop top-quality staff is critical to its success. Failure to do so could have a negative impact on its operating performance.

The Group has put in place a number of human resources management programmes designed to limit the possible impact of these risks, such as drawing up succession plans for key persons in each Division and programmes to develop high-potential profiles. These programmes are monitored regularly by the Executive Committee.

Risks linked to occupational safety and health

The size and significance of the industrial labour force involved in the Group's business makes the management of employees' health and safety particularly important.

In 2008, the Group launched an ambitious safety improvement programme known as Cap Ten Safe. Driven by a determination to bring about change and act upon all safety levers, this programme has helped achieve a very marked improvement in the Group's performance in this area. The lost time injury rate per million hours worked (LTIR), which was 9.2 in 2008, was reduced to 5.3 in 2009, 3.16 in 2010, and 2.79 at the end of 2011, representing a 10% reduction from the end of 2010 and a 70% reduction since the launch of the Cap Ten Safe programme.

This programme was aimed at deploying the following main resources in every unit:

- establishing safety management committees at all levels of the Company;
- safety visits for all personnel;
- the deployment of a continuous Group risk assessment for safety;
- the establishment of ongoing progress groups for safety;
- OHSAS 18001 certification for all plants;
- improved working conditions through an ergonomic review of workstations.

Despite all the attention that the Group pays to the health and safety of its employees, the occurrence of accidents or a wave of occupational illnesses remains a risk.

Risks linked to protection of intellectual property

In order to preserve its technological lead, the Group's policy is to protect its innovations with patents. For the expertise and innovations that are difficult to protect by patents, the Group has put in place procedures to safeguard its manufacturing secrets and protective contractual stipulations. The commercial trademarks of products and services are also protected by registration in order to maintain the competitive advantage associated with their reputation. The protection of the Group's intellectual property recognises the value of its development work and avoids piracy of its technology and unfair competition.

The financial risks directly related to intellectual property arise from legal disputes with third parties. In order to limit, and indeed avoid, the significant costs generated by legal actions of this type, especially in the United States, the Group has qualified, experienced personnel who identify and evaluate the applicable rights and take the necessary measures to ensure that the Group's intellectual property rights and those of third parties are respected.

Despite all the actions it takes, if the Group is not successful in protecting, retaining and implementing its intellectual property rights, it could result in the loss of exclusive rights to use technologies, processes, which would have a significant adverse effect on its earnings. Moreover, the laws in some countries where the Group operates may not provide such extensive protection for intellectual property rights as other countries such as France or the United States.

Risks linked to the development of partnerships and acquisitions and disposals of companies

The Group has for several years implemented an active acquisitions policy that has enabled it to acquire:

- in the United States in 2008, acquisition from Grant Prideco of the businesses of Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™, experts in premium joint technology;
- in 2009, acquisition of Dubai-based DPAL FZCO, which markets a large range of drill pipes, and acquisition of 78.2% of the capital of PTCitra Tubindo TBK in Indonesia. PTCitra Tubindo's Batam plants provide heat treatment and threading for OCTG tubes, together with oil-field accessories serving the oil and gas industry throughout the Asia-Pacific region;

- in 2010, Protools, the largest producer of drill pipe components in the Middle East, and Serimax, the world leader in integrated welding solutions for offshore line pipes;
- in 2011, 19.5% of Tianda Oil Pipe Company Limited (TOP), a Chinese manufacturer of seamless tubes, and Saudi Seamless Pipes Factory Company Limited ("Zamil Pipes"), the largest company in Saudi Arabia for the forming and finishing of seamless OCTG tubes.

In 2007, the Group also disposed of businesses, in particular in the Automotive sector, that it felt no longer formed part of its core business.

Although the Group takes great care in the drafting and negotiation of acquisition and sale contracts and its protection in the form of guarantees or in some other form, it cannot rule out the risk that a liability, impairment of assets or claim may arise as a result of one of these contracts.

Risks linked to new production facilities

The Group has also worked to modernise and substantially strengthen its industrial resources in recent years. In 2007, in conjunction with Sumitomo Metal Industries, it began the construction of a new seamless premium tube mill in Brazil's Minas Gerais region, which will gradually expand in 2012, with the first commercial deliveries made at the end of 2011.

In 2010, the Group announced:

- the construction of a new small-diameter rolling mill in Youngstown, Ohio to cater for the needs of the fast-growing shale gas industry in the United States;
- the increase in capacity at its V & M Changzhou plant in China. The extension project will enable the plant to produce an additional 60,000 tonnes per year of seamless tubes, using proprietary new forging technology, to satisfy local demand from power plants;
- the construction of a production plant for tubes for steam generators in Nansha, Guangdong province, south-east China.

On 30 November 2011, the Group began construction of a new premium threading unit at Youngstown, Ohio to support the development of unconventional oil and gas in shale formations, which is generating increased demand for premium connections.

Although the Group is careful to protect its interests and obtain adequate guarantees from its suppliers and sub-contractors for the construction and commissioning of these major investments, it is nonetheless possible that these very complex projects could experience delays, budget overruns or non-compliance when the various installations are put into service resulting in damages, losses and other significant negative consequences for the Group that exceed the ceiling and terms of the guarantees and other legal protection obtained when the corresponding contractual commitments were entered into.

Risks related to the Group's development strategy

In pursuing its development policy, the Group has engaged in external growth operations (acquisitions of businesses and companies) and internal growth operations with the construction of new production units. Although the Group examines and defines the details of all investment projects according to a very strict procedure, the underlying assumptions for the profitability of investment projects may not turn out to be the case or the Group may not manage to successfully integrate the acquired or merged companies. Consequently, the expected benefits of future or already completed external or internal growth operations may not be realised under the expected timescales or to the expected extent, and this may affect the Group's financial situation.

Call options in relation to certain industrial collaboration agreements with Sumitomo Metal Industries (SMI) and Sumitomo Corporation

Certain industrial collaboration agreements linking Vallourec and Sumitomo Metal Industries (SMI) and Sumitomo Corporation contain reciprocal change of control clauses under the terms of which each party has, in certain circumstances, a call option over the other party's interest or right of cancellation depending on the circumstances, in the event of a change of control of the other party.

SMI and/or Sumitomo Corporation therefore have, in the event of a change of control of V & M Tubes or of Vallourec, the right to acquire the shares held by the Vallourec Group in the capital of VAM USA LLC (resulting from the merger on 27 February 2009 of VAM USA and V & M Atlas Bradford in the United States), Vallourec & Sumitomo Tubos do Brazil and VAM Holding Hong Kong. Similarly, Vallourec has the right, in certain circumstances, to acquire the shares held by SMI (and in the case of VSB, the shares held by Sumitomo Corporation) in the capital of these companies in the event of a change of control of SMI or of its direct or indirect controlling shareholders.

Moreover, SMI has, in the event of a change of control of Vallourec Mannesmann Oil & Gas France (VMOGF), V & M Tubes or Vallourec, the right to cancel the Research and Development contract entered into by VMOGF and SMI on 1 April 2007, while retaining the right to use the Research and Development results jointly obtained and to enable any licensees to benefit from such results. VMOGF has the same rights in the event of a change of control of SMI. If SMI exercises its right of cancellation, it will also be entitled to continue to use the VAM® brand name for three years from the date of such cancellation.

4.1.5 MARKET RISKS (INTEREST RATE, EXCHANGE RATE, CREDIT AND SHARE PRICE RISKS) AND LIQUIDITY RISK

Given its financial structure, the Group is exposed to (i) market risks, which comprise interest rate, foreign exchange, credit and share price risks, and (ii) liquidity risk.

A description of market and liquidity risks is provided in Notes 8 and 15 of the notes to the consolidated financial statements in Section 5.1 of this Registration Document.

4.1.5.1 Market risks

Interest rate risks

The Group is exposed to an interest rate risk on the portion of its debt that is at variable rates.

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

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

Vallourec & Sumitomo Tubos do Brazil (VSB) also drew down 318 million Brazilian reals (about €130 million) of the fixed-rate loan contracted in 2010 with BNDES and has taken out a new fixed-rate finance lease.

Lastly, on 7 December 20011, Vallourec carried out a bond issue for €650 million maturing in February 2017, with a fixed annual coupon of 4.25%.

Debt exposed to fluctuations in interest rates amounts to €200.8 million (approximately 9.6% of total gross debt) as of 31 December 2011. No other significant line of financing at a fixed rate will reach contractual maturity in the 12 months following the close at 31 December 2011, apart from the variable-rate loan converted to fixed rate of €260 million taken out by Vallourec in 2005, which will be repaid at maturity on 23 March 2012, and the outstanding amount, as of 31 December 2011, of €344.7 million in commercial paper with a maximum three-month maturity, and various lines of financing (for €25 million) at the Brazilian subsidiaries.

After taking into account the Group’s interest rate risk hedging policy, the impact of a one-percentage-point rise in interest rates applied to short-term rates of the eurozone, to Brazilian and Chinese rates and to UK and US money market rates would result in a €2.6 million increase in the Group’s annual financial costs, based on the assumption that the level of debt and exchange rates remained completely stable and after taking into account the effects of any hedging instruments. This impact does not take into account the interest rate risk on commercial paper with a maximum maturity of three months and on cash in short-term investments (at a maximum of three months).

In addition, based the Group’s simulations, a 0.5 percentage point rise or fall in interest rates applied to all yield curves would result in an increase, or a decrease, of approximately €1.5 million in the value of the swaps at 31 December 2011 (at the level of Vallourec).

Therefore, although significant financial expense could result from the application of variable interest rates to the Group’s debt, the hedging measures taken and summarized above minimize this risk.

The tables below summarize the Group’s situation with regard to interest rate risk in 2011 and 2010:

Total debt at 31/12/2011

In € thousand	Other loans	Cash and cash equivalents
Fixed rate on date granted	1,400,257	
Variable rate on date granted swapped to fixed rate	494,302	
Fixed rate	1,894,559	
Variable rate	200,834	901,886
TOTAL	**2,095,393**	**901,886**

Total debt at 31/12/2010

In € thousand	Other loans	Cash and cash equivalents
Fixed rate on date granted	366,889	
Variable rate on date granted swapped to fixed rate	484,317	
Fixed rate	851,206	
Variable rate	183,188	653,762
TOTAL	**1,034,394**	**653,762**

Exchange rate risk

CURRENCY TRANSLATION RISK

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 2011, a significant portion of net income, Group share, was generated by subsidiaries that prepare their financial statements in currencies other than the euro (mainly in US dollars and Brazilian real). A 10% change in exchange rates would have an upward or downward impact on net profit attributable to owners of the Company of around €36.1 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 foreign currency translation reserves booked to equity (a gain of €205.9 million as at 31 December 2011) which, in recent years, have been linked mainly to movements in the US dollar and Brazilian real.

Foreign currency translation reserve attributable to owners of the Company

In € thousand	31/12/2010	31/12/2011
USD	21,797	74,997
GBP	- 12,337	- 11,096
MXN	- 5,537	- 8,832
BRL	291,189	111,834
CNY	11,471	35,225
Other	1,867	3,804
	308,450	**205,932**

As far as the Group is aware, translation risk is unlikely to threaten its financial equilibrium.

TRANSACTION RISK

Vallourec is subject to exchange rate risks due to its business exposure linked to sales transactions entered into by some of its subsidiaries in currencies other than that of the country in which they are incorporated.

The main foreign currency used is the US dollar: a significant proportion of Vallourec's operations (approximately 32% of Group sales in 2011) is invoiced by companies whose functional currency is not the US dollar. Fluctuations in the euro/US dollar exchange rate might therefore have an effect on the Group's operating margin. Their impact is, however, very difficult to quantify for two reasons:

- 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;
- certain sales, even if they are denominated in euros, are influenced by the level of the US dollar. They are therefore 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 profit or loss 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, mainly forward purchases and sales. The Group sometimes uses options.

Order cancellations could therefore result in the cancellation of hedges implemented, leading to the recognition in the consolidated income statement of gains and losses in respect of these cancelled hedges.

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.

The following table shows the amounts outstanding as at 31 December 2009, 2010, 2011 under foreign exchange contracts to hedge foreign currency denominated purchases and sales:

Hedging contracts in respect of commercial transactions – Exchange rate risk	31/12/2010	31/12/2011
Forward exchange contract forward sales	1,147,978	1,240,377
Forward exchange contract forward purchases	178,691	52,130
Currency options: sales	-	-
Currency options: purchases	-	-
Commodities: call options	-	-
TOTAL	**1,326,669**	**1,292,507**

Contract maturities at 31/12/2011

Contracts in respect of commercial transactions	Total	1 year	One to five years	> 5 years
Foreign exchange contracts: Forward sales	1,240,377	1,235,732	4,645	-
Foreign exchange contracts: Forward purchases	52,130	52,130		-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Commodities: call options	-	-	-	-
TOTAL	**1,292,507**	**1,287,862**	**4,645**	

Forward sales (€1.240 billion out of €1.293 billion) corresponding mainly to the sale of US dollars made at an average EUR/USD forward rate of 1.35. In 2011, as in 2010, the hedges entered into generally covered an average period of about 12 months (except for Valinox Nucléaire, due to its specific business activity) and mainly hedged highly probable future transactions and foreign currency receivables.

In addition to hedges on commercial transactions, Vallourec has implemented hedging contracts for financial loans and receivables denominated in foreign currencies:

- in 2009, a US $205 million (€158.4 million) currency swap, supplemented in 2011 by US $95 million (€73.4 million). The currency swap matures in April 2013, when the hedged debt matures;
- in 2010 and 2011, forward sales of US $222.2 million (€171.7 million) and forward purchases for US $5 million (€3.9 million).

These instruments are intended to hedge either the debt denominated in US dollars, or loans in foreign currencies put in place by the financial holding company V & M Tubes in the currency of the subsidiaries that benefit from it. The forward sales mature at various times during 2012 and 2013, as and when the hedged loans mature.

Credit risks

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

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

- 1% building loans granted to the Group's employees.
- security deposits paid in connection with tax disputes and the tax receivables due to the Group in Brazil.;
- trade receivables.
- derivatives that have a positive fair value:
  - 1% building loans granted to the Group's employees: these loans do not expose the Group to any credit risk since the full amount of the loan is written off as soon as there is any delay in the collection of the amounts due. It should be noted that these loans are measured using the effective interest rate method applied to expected cash flows up to the loan maturity date (the contractual interest rate may be lower than the effective interest rate),
  - 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 the disputes is unfavourable, since the risk has already been assessed and a provision booked in respect of these receivables and the funds already paid in full or in part.
  - trade receivables: the Group's policy with regard to 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.

The Group considers that as of 31 December 2011 there is no reason to assume that there is any risk in respect of receivables for which no provision has been made and which are less than 90 days overdue. The total amount of trade receivables that were more than 90 days overdue and against which no provision had been made totalled €37.6 million at 31 December 2011, i.e. 3.6% of the Group's total net trade receivables.

Moreover, Vallourec considers that risk is limited given its existing customer risk management procedures, which include:

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

Moreover, at 31 December 2011, trade receivables not yet due amounted to €831.5 million, or 81% of total net trade receivables. The following table provides an analysis by maturity of these trade receivables (in € million):

At 31 December 2011	0 to 30 days	30 to 60 days	60 to 90 days	90 to 180 days	> 180 days	Total
Trade receivables not yet due	563.1	211.0	48.8	7.3	1.3	831.5

SHARE RISK

The own shares held by Vallourec at 31 December 2011 comprised:

1. shares to cover the allocation of shares to Group employees, executives and corporate officers.

   Within this framework, Vallourec holds:

   - 183,075 own shares acquired on 5 July 2001 after, specifically, the definitive awarding in 2011 of 44,074 shares under the terms of the performance share plan of 3 May 2007, 6,631 shares under the terms of the performance share plan of 1 September 2008 and 23,274 shares under the terms of the performance share plan of 31 July 2009,
   - 73,156 own shares in 2008 under the terms of the share buyback programme of 4 June 2008 after the final allocation in 2011 of 26,844 shares under the terms of the performance share plan of 17 December 2009,
   - 100,000 own shares acquired in 2010 under the terms of the 31 May 2010 share buyback plan,
   - 400,000 own shares acquired in 2011 under the terms of the 7 June 2011 share buyback plan.

   These figures take account of the 2:1 stock split on 9 July 2010.

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

   - to cover free shares allocated on 16 December 2008, the final quantity of which will not be known until 2013,
   - to cover performance shares allocated on 31 July 2009, the final quantity of which will not be known until 2013,
   - to cover free shares allocated on 17 December 2009, the final quantity of which will not be known until 2014,
   - to cover performance shares allocated on 17 December 2009, the final quantity of which will not be known until 2013,
   - to cover performance shares allocated on 15 March 2010, the final quantity of which will not be known until 2014,
   - to cover performance shares allocated on 31 July 2010, the final quantity of which will not be known until 2014,
   - to cover free shares allocated on 3 December 2010, the final quantity of which will not be known until 2015,
   - to cover performance shares allocated on 3 December 2010, the final quantity of which will not be known until 2014,
   - to cover performance shares allocated on 30 March 2011, the final quantity of which will not be known until 2015,
   - to cover performance shares allocated on 18 November 2011, the final quantity of which will not be known until 2015,
   - to cover free shares allocated on 15 December 2011, the final quantity of which will not be known until 2016.

2. The shares held in the context of the liquidity contract concluded with Crédit Agricole Cheuvreux, i.e. 256,000 shares for a total value of €11,126,085.96.

In 2007, Vallourec signed a liquidity contract with Crédit Agricole Cheuvreux. It is implemented under the annual general authorisation for the share buyback programme approved by the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 (11th resolution). To implement this contract, €20 million was allocated to the liquidity account.

To the best of its knowledge, the Group had no other exposure to share price risk at 31 December 2011.

4.1.5.2 Liquidity risks

The Company has carried out a specific review of liquidity risk and considers that it is in a position to meet its future obligations. The maturities of current bank loans and other borrowings totalling €906,172,000 and non-current bank loans and other borrowings totalling €1,189,221,000 as of 31 December 2011 are shown in the table below:

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

In € thousand	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
At 31/12/2010	**318,589**	**244,470**	**18,741**	**118,601**	**113,268**	**813,669**
• Finance leases	8,361	8,378	8,397	8,414	77,573	111,123
• Other non-current financial liabilities	248,518	21,494	115,973	15,636	676,477	1,078,098
At 31/12/2011	**256,879**	**29,872**	**124,370**	**24,050**	**754,050**	**1,189,221**

The Group's financial resources comprise bank financing and market financing.

The majority of long- and medium-term bank financing has been put in place in Europe through Vallourec and its sub-holding company V & M Tubes, and to a lesser extent via the subsidiaries in Brazil and the United States.

In Europe

In March 2005, a seven-year €460 million credit facility, partly in euros and partly in US dollars, was made available to Vallourec by a syndicate of banks to finance the acquisition of the 45% stake in V & M Tubes. This facility was reduced to €260 million in February 2011. As of 31 December 2011, a tranche of €260 million (included in non-current liabilities) had been drawn down.

In April 2008, Vallourec contracted a loan of US $300 million over five years with a syndicate of seven banks. This financing contract also provided for a €350 million revolving line of credit, which the Group closed in February 2011. As of 31 December 2011, Vallourec used the US $300 million loan (€232 million), which is recorded under non-current liabilities.

Also in November 2008, Vallourec took out a six-year, €100 million loan in November with the Crédit Agricole Group (maturity end of October 2015 — term extended by one year in October 2009). This loan was drawn down at the end of January 2009.

In February 2011, Vallourec signed a €1 billion multi-currency revolving credit facility maturing in 2016. This facility was used to refinance two revolving credit lines established in 2005 and 2008 and is also intended to refinance two drawn-down loans of €260 million and US $300 million, maturing in March 2012 and April 2013. As of 31 December 2011, this line had not been drawn down.

All these bank facilities require Vallourec to maintain its ratio of consolidated net debt to consolidated equity at less than or equal to 75%, calculated on 31 December each year.

A change in control of Vallourec could require the repayment of some or all of the credit, to be decided by 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 to this bank finance, the Vallourec Group aims to diversify its source of finance by calling on the markets. For example, Vallourec issued a commercial paper programme on 12 October 2011 to meet its short-term needs. The programme is capped at €750 million. At 31 December 2011, Vallourec had €344.5 million outstanding with a maturity of one to three months. This commercial paper programme is rated A-2 by Standard & Poor's.

On 7 December 2011, Vallourec carried out a bond issue for €650 million maturing in February 2017, with a fixed annual coupon of 4.25%. This bond issue had a maturity of five years and two months and is intended to diversify and increase the amount and extend the maturity of the financial resources available to the Group.

This bond issue specifically includes a change of control clause that would trigger the mandatory early redemption of the bonds at the request of each bondholder in the event of a change of control of Vallourec (in favour of a person or a group of people acting in concert) that entails a reduction in the Company's financial rating.

The bonds may also be redeemed early at the request of the holder or the Company, depending on the case, in the event of certain standard cases of default for this type of transaction or a change in the Company's situation or tax regulations.

The market value of the fixed-rate bond issue was €658 million as of 31 December 2011, taking account of the interest rate swap curve.

In addition to these lines of financing put in place by Vallourec, at the beginning of 2007 the Group negotiated five medium-term (five-year) bilateral lines for V & M Tubes with its closest banks. Apart from one line which has been rolled over to 2014, these lines will mature in 2013. Each of these lines is for €100 million and includes the same undertakings as those for the facilities put in place by Vallourec.

In Brazil

In 2006, the capital expenditure of V & M do Brazil SA, V & M Florestal Ltda and V & M Mineração Ltda required these subsidiaries to put in place several medium-term financing lines, denominated in Brazilian reals. The total amount of confirmed lines totalling 61.3 million reals (€25.4 million as of 31 December 2011) was spread among several banks (mainly BNDES, BDMG and BNB). These financing lines will mature in 2012.

In December 2009, Vallourec & Sumitomo Tubos do Brazil, which is 56% owned by the Group, contracted a loan of 448.8 million Brazilian reals from BNDES (Banco National de Desenvolvimento Econômico e Social). This fixed-rate loan at 4.5% is denominated in Brazilian real and has a term of eight years. It will be amortized from 15 February 2012. In 2010 and 2011, this loan was used in the amount of 318 millions Brazilian reals.

During the course of the 2010 financial year, this same company in Brazil concluded a finance lease with a nominal value of 570 million Brazilian reals relating to equipment required in the operation of the plant at the Jeceaba site.

In the United States

The Group's US companies (V & M Star, VAM Drilling USA, Valtimet Inc., VAM USA LLC, V & M Tube-Alloy™, V & M USA Corp and V & M Holdings Inc.) benefit from a series of bilateral bank lines, which were renewed in 2011, totalling US $185 million (Bank of America and CIC). As oft 31 December 2011, a total of US $40 million had been drawn down. These programmes, which mature within one year, contain gearing clauses and a change of control clause.

At 31 December 2011, the Group complied with its commitments and the conditions for obtaining and maintaining all the financial resources referred to above.

The entirety of the facilities described above adequately covered the Group's liquidity requirements as of 31 December 2011.

4.2 RISK MANAGEMENT

In addition to the internal control procedures drawn up by the functional departments, Vallourec has relied on the Risk Management Department to ensure the consistency and Group-wide implementation of its risk management strategy. The Group Risk Manager helps the Divisions to identify and analyse risks, using a systematic method of self-assessment. A mapping of the risks is in place for each of Vallourec's Divisions and for the Group as a whole. Each mapping describes the main risks, their scenarios, past occurrences and the controls carried out by other companies. The risks involved may be strategic, operational, financial or regulatory or may affect the Group's image. All Group Divisions have been covered by these arrangements since 2007. The Group Risk Manager attends the half-yearly Risk Committee meetings in the Divisions and those held centrally. These Committees validate action plans drawn up in the light of the problems that need to be addressed.

The Group Risk Manager organises centralised reporting with regard to risk management in conjunction with the local Risk Managers of the main Divisions.

A more detailed description of the risk management process is included in the report of the Chairman of the Supervisory Board, drawn up in accordance with the provisions of Article L.225-68 of the French Code de commerce.

4.3 INSURANCE: GROUP POLICY

The Group's policy in terms of protection against accidental risks focuses on prevention and the purchase of insurance cover. This policy is co-ordinated by the Human Resources Department in the case of the safety of individuals and by the Risks and Insurance Department for all other aspects.

The policy described below gives a picture of the situation at a given moment in time and cannot be considered representative of a permanent situation. The Group's policy with regard to insurance may change at any time according to market conditions, opportunities and the Management Board's assessment of the risks incurred and the adequacy of the insurance cover. The Group cannot guarantee that it will not suffer an uninsured loss.

Industrial risks insured within the Vallourec Group centre around two main types of insurance taken out with first-rate insurers:

- general insurance;
- third-party liability insurance.

The Group's policy with regard to purchasing insurance cover for industrial risks is designed to achieve two objectives:

- to take out shared insurance policies to ensure, on the one hand, the consistency of transferred risks and insurance cover purchased and, on the other, to optimize economies of scale, while taking into account the specific characteristics of the Group's different businesses and the contractual or legal constraints;
- to optimize thresholds and means of action on the insurance and reinsurance markets through suitably adapted deductibles.

In 2011, the Group pursued its policy of minimizing the amount of insurance premiums paid.

The Group's policy with regard to insurance consists of defining the global policy for insuring the Group's businesses based on expressions of needs drawn up by the subsidiaries, selecting and contracting with an internal service provider (the brokerage firm, Assurval, which is a wholly-owned subsidiary of Vallourec) and external service providers (brokers, insurers, etc.), and overseeing and coordinating the network of insurance managers at the main subsidiaries.

Implementation of the risk insurance policy is coordinated with the risk management policy within a single Department at Vallourec's head office. It takes into account the insurability of the risks linked to the Group's activities, the capacity available in the insurance and reinsurance markets, the premiums proposed in the light of the guarantees provided, the exclusions, limits, sub-limits and deductibles.

Action in 2011 focused mainly on:

- continuing action on identifying risks and preventive and protective measures, thanks in particular to a system for assessing "property damage and operating losses" risks at the main plants;
- a formal global bid process among the leading insurance brokers;
- communicating detailed information on the Company to the insurance and reinsurance markets;
- restructuring some policies and continuing to deploy the Group's risk management programmes.

The risk management and insurance policy is to define, in close collaboration with the internal structures at each subsidiary, major catastrophic risk scenarios (maximum possible claim), assess the financial consequences for the Group, help implement the measures designed to limit the likelihood and the scale of damage were such events to occur and decide whether to maintain the financial consequences of such events within the Group or transfer them to the insurance market.

The Group takes out global insurance cover covering all its subsidiaries for third party liability and material damages. The amounts covered vary according to the financial risks defined in the loss scenario and the insurance conditions offered by the market (available capacity and premium prices). The main insurance contracts that cover all the Group's Division are detailed below.

General insurance

This insurance covers all direct material damage to the Group's property, subject to specific exclusions, as well as any costs and consequential losses.

The contractual indemnity includes several exclusions and limitations to the cover.

As an example, for natural catastrophes in the United States (cyclones, etc.) the insured cap was US $60 million in 2011.

Deductibles applied to material damages claims range from €15,000 to €500,000 according to the size of the risk concerned, and are borne by the subsidiaries.

The main insurance programmes provide for cover based on a proportion of the total value or based on contractual limits per claim. In the latter case, the limits are established on the basis of major accidents estimated according to insurance market rules.

Insurance cover for operating losses and supplementary operating expenses is taken out on a case by case basis according to each analysis of the risk taking into account the existing emergency plans.

Third-party liability

Third-party liability insurance insures the Group in respect of any liability arising as a result of injury or loss caused to third parties either resulting from the Group's operations or after delivery of goods or services.

The indemnity also comprises a limit of liability.

In respect of both general insurance and third-party liability insurance, contracts are split between a main Group contract and local contracts. The Group contract prevails where terms or limits differ from those of local contracts issued by the leading insurer. Some subsidiaries are not covered by the Group contracts.

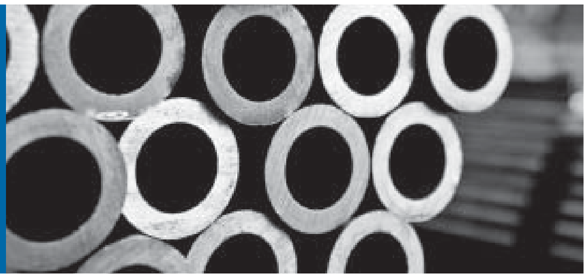
The insured cap for third-party general liability and products was raised in 2009 and again at the end of 2011, to take account of the increased size of the Group and the prevailing levels of compensation on the market in this area.

Employee benefits

Under the conditions laid down by law and company-level agreements, insurance programmes covering employees against accidents and medical costs have been put in place at the operating entities.

Third-party liability of corporate officers

The Group has taken out liability insurance covering corporate officers against risk resulting from claims made against them that could result in them being held personally, jointly and severally liable for loss suffered by third parties and which could be attributed to a real or alleged professional error committed by them in the course of the performance of their duties.



5 Assets, financial position and results

5.1 CONSOLIDATED FINANCIAL STATEMENTS

5.1.1 STATEMENT OF THE VALLOUREC GROUP FINANCIAL SITUATION

In € thousand	Notes	31/12/2010	31/12/2011
NON-CURRENT ASSETS			
Intangible assets, net	1	266,499	276,950
Goodwill	1	506,421	519,803
Gross property, plant and equipment	2.1	4,508,326	5,394,514
less: accumulated depreciation	2.1	-1,153,901	-1,328,239
Property, plant and equipment, net	2.1	3,354,425	4,066,275
Biological assets	2.2	129,996	184,299
Investments in equity affiliates	3	64,622	146,713
Other non-current assets	4	235,222	289,014
Deferred tax — assets	5	59,821	140,806
TOTAL		**4,617,006**	**5,623,860**
CURRENT ASSETS			
Inventories and work-in-progress	6	1,190,270	1,388,977
Trade and other receivables	7	863,581	1,057,871
Derivatives — assets	8	35,685	39,705
Other current assets	9	188,268	182,510
Cash and cash equivalents	10	653,762	901,886
TOTAL		**2,931,566**	**3,570,949**
TOTAL ASSETS		**7,548,572**	**9,194,809**

In € thousand	Notes	31/12/2010	31/12/2011
EQUITY AND LIABILITIES	**12**		
Issued capital		235,888	242,869
Additional paid-in capital		569,491	732,568
Consolidated reserves		3,063,829	3,349,473
Reserves, financial instruments		-9,502	-55,773
Foreign currency translation reserve		308,450	205,932
Profit or loss for the period		409,600	401,547
Own shares		-21,343	-46,330
Equity, Group share		**4,556,413**	**4,830,286**
Non-controlling interests	**14**	**267,159**	**380,022**
TOTAL EQUITY		**4,823,572**	**5,210,308**
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	15	813,689	1,189,221
Employee benefits	18	122,290	116,705
Provisions	16	8,549	9,929
Deferred tax — liabilities	5	136,629	198,817
Other long-term liabilities	17	50,961	92,113
TOTAL		**1,132,118**	**1,606,785**
CURRENT LIABILITIES			
Provisions	16	148,229	120,297
Overdrafts and other short-term bank borrowings	15	220,705	906,172
Trade payables		647,370	668,680
Derivatives — liabilities	8	29,698	115,697
Tax liabilities		97,888	62,485
Other current liabilities	19	448,992	504,385
TOTAL		**1,592,882**	**2,377,716**
TOTAL EQUITY AND LIABILITIES		**7,548,572**	**9,194,809**

5.1.2 VALLOUREC GROUP INCOME STATEMENT

In € thousand	Notes	2010	2011
Sales	22	4,491,272	5,295,861
Cost of sales [(a)]	23	-3,039,466	-3,744,615
Selling, general and administrative costs [(a)]	24	-487,527	-576,499
Other [(a)]	25	-39,461	-35,028
EBITDA		**924,818**	**939,719**
Depreciation of industrial assets	27	-184,008	-200,538
Other depreciation and amortization	27	-39,050	-55,969
Impairment of assets and goodwill	28	-3,195	391
Asset disposals and restructuring costs	28	-16,175	9,599
OPERATING PROFIT		**682,390**	**693,202**
Financial income		21,283	21,851
Interest costs		-45,441	-78,114
Net financial costs		-24,158	-56,263
Other financial income and charges		7,126	15,755
Other discounting costs		-10,810	-8,012
FINANCIAL INCOME/LOSS	**29**	**-27,842**	**-48,520**
PROFIT BEFORE TAX		**654,548**	**644,682**
Income tax	30	-199,453	-191,624
Net profit of equity affiliates	3	-2,260	3,765
NET PROFIT FROM CONTINUING OPERATIONS		**452,835**	**456,823**
CONSOLIDATED NET PROFIT		**452,835**	**456,823**
Profit attributable to non-controlling interests		43,235	55,276
Profit Group share		**409,600**	**401,547**
Profit Group share:			
Earnings per share	13	3.6	3.4
Diluted earnings per share	13	3.5	3.4

(a) Before depreciation and amortization.

5.1.3 COMPREHENSIVE INCOME STATEMENT

In € thousand	Notes	2010	2011
CONSOLIDATED NET PROFIT		**452,835**	**456,823**
Other comprehensive income:			
Exchange differences arising on translating the net assets of foreign operations	Notes 12 and 14	278,101	-85,096
Change in fair value of hedging financial instruments		-4,809	-42,165
Change in fair value of available-for-sale securities		440	-19,685
Tax relating to the change in fair value of hedging financial instruments		1,763	14,004
Tax relating to the change in fair value of available-for-sale securities		474	1,696
OTHER COMPREHENSIVE INCOME (NET OF TAX)		**275,969**	**-131,246**
TOTAL COMPREHENSIVE INCOME		**728,804**	**325,577**
Profit attributable to non-controlling interests		61,347	72,819
Profit Group share		**667,457**	**252,758**

5.1.4 STATEMENT OF CHANGES IN EQUITY, GROUP SHARE

In € thousand	Issued capital	Additional paid-in capital	Consolidated reserves	Foreign currency translation reserve	Reserves – changes in fair value of financial instruments – net of tax	Own shares	Profit or loss for the period	Total equity – Group share	Total non-controlling interests	Total equity
POSITION AT 31 DECEMBER 2009	**229,123**	**361,838**	**2,721,554**	**48,112**	**-7,021**	**-10,814**	**517,707**	**3,860,499**	**241,477**	**4,101,976**
Change in foreign currency translation reserve	-	-	-	260,338	-	-	-	260,338	17,763	278,101
Financial instruments	-	-	-	-	-3,000	-	-	-3,000	-46	-3,046
Available-for-sale financial assets	-	-	-	-	519	-	-	519	395	914
Other comprehensive income	-	-	-	*260,338*	*-2,481*	-	-	*257,857*	*18,112*	*275,969*
NET PROFIT FOR 2010	**-**	**-**	**-**	**-**	**-**	**-**	**409,600**	**409,600**	**43,235**	**452,835**
Total comprehensive income	-	-	-	*260,338*	*-2,481*	-	*409,600*	*667,457*	*61,347*	*728,804*
Net profit for 2009	-	-	517,707	-	-	-	-517,707			
Change in share capital and additional paid-in capital	2,791	81,646	-	-	-	-	-	84,437		84,437
Change in own shares			1,247	-	-	-10,529	-	-9,282		-9,282
Dividends paid [(a)]	3,974	126,007	-199,649	-	-	-	-	-69,668	-34,084	-103,752
Share-based payments	-	-	22,649	-	-	-	-	22,649		22,649
Changes in consolidation scope and other	-	-	321	-	-	-	-	321	-1,581	-1,260
POSITION AT 31 DECEMBER 2010	**235,888**	**569,491**	**3,063,829**	**308,450**	**-9,502**	**-21,343**	**409,600**	**4,556,413**	**267,159**	**4,823,572**
Change in foreign currency translation reserve	-	-	-	-102,518	-	-	-	-102,518	17,422	-85,096
Financial instruments	-	-	-	-	-28,010	-	-	-28,010	-151	-28,161
Available-for-sale financial assets					-18,261			-18,261	272	-17,989
Other comprehensive income	-	-	-	*-102,518*	*-46,271*	-	-	*-148,789*	*17,543*	*-131,246*
NET PROFIT FOR 2011							**401,547**	**401,547**	**55,276**	**456,823**
Total comprehensive income	-	-	-	*-102,518*	*-46,271*	-	*401,547*	*252,758*	*72,819*	*325,577*
Net profit for 2010	-	-	409,600	-	-	-	-409,600			
Change in share capital and additional paid-in capital	4,701	78,783		-	-	-	-	83,484		83,484
Change in own shares	-	-	-3,357	-	-	-24,987	-	-28,344		-28,344
Dividends paid [(b)]	2,280	84,294	-152,764	-	-	-	-	-66,190	-45,356	-111,546
Share-based payments	-	-	29,961	-	-	-	-	29,961		29,961
Changes in consolidation scope and other	-	-	2,204	-	-	-	-	2,204	85,400	87,604
POSITION AT 31 DECEMBER 2011	**242,869**	**732,568**	**3,349,473**	**205,932**	**-55,773**	**-46,330**	**401,547**	**4,830,286**	**380,022**	**5,210,308**

(a) Amounts net of €2.3 million representing equalization payment.
(b) Amounts net of €1.4 million representing equalization payment.

5.1.5 STATEMENT OF CHANGES IN NON-CONTROLLING INTERESTS

In € thousand	Consolidated reserves	Foreign currency translation reserve	Reserves – changes in fair value of financial instruments – net of tax	Profit or loss for the period	Non-controlling interests
POSITION AT 31 DECEMBER 2009	**245,372**	**-22,766**	**100**	**18,771**	**241,477**
Change in foreign currency translation reserve	-	17,763	-	-	17,763
Financial instruments	-	-	-46	-	-46
Available-for-sale financial assets			395		395
Other comprehensive income	-	*17,763*	*349*	-	*18,112*
Net profit for 2010	-	-	-	43,235	43,235
Total comprehensive income	-	*17,763*	*349*	*43,235*	*61,347*
Net profit for 2009	18,771	-	-	-18,771	-
Dividends paid	-34,084	-	-	-	-34,084
Changes in consolidation scope	-1,581	-	-	-	-1,581
POSITION AT 31 DECEMBER 2010	**228,478**	**-5,003**	**449**	**43,235**	**267,159**
Change in foreign currency translation reserve	-	17,422	-	-	17,422
Financial instruments	-	-	-151	-	-151
Available-for-sale financial assets	-	-	272	-	272
Other comprehensive income	-	*17,422*	*121*	-	*17,543*
Net profit for 2011	-	-	-	55,276	55,276
Total comprehensive income	-	*17,422*	*121*	*55,276*	*72,819*
Net profit for 2010	43,235	-	-	-43,235	-
Dividends paid	-45,356	-	-	-	-45,356
Changes in consolidation scope	85,400	-	-	-	85,400
POSITION AT 31 DECEMBER 2011	**311,757**	**12,419**	**570**	**55,276**	**380,022**

5.1.6 STATEMENT OF CASH FLOWS

In € thousand	2010	2011
Consolidated net profit (including non-controlling interests)	**452,835**	**456,823**
Net charges to amortization, depreciation and provisions	218,546	247,174
Unrealized gains and losses linked to changes in fair value	-2,577	-36,897
Income and charges linked to share options and equivalent	22,649	29,961
Capital gains and losses on disposals	2,188	600
Share of profit (loss) of equity affiliates	2,260	-3,765
Dividends reclassified as other flows linked to investing activities	-2,854	-1,708
Cash flow after cost of net financial debt and taxes	**693,047**	**692,188**
Cost of net financial debt	24,158	56,264
Tax charge (including deferred tax)	199,453	191,627
Cash flow before cost of net financial debt and taxes	**916,658**	**940,079**
Interest paid	-45,451	-78,124
Tax paid	-184,491	-245,398
Interest received	21,283	21,851
Cash flow from operating activities	**707,999**	**638,408**
Change in operating working capital requirement	-268,246	-337,381
NET CASH FLOW FROM OPERATING ACTIVITIES (1)	**439,753**	**301,027**
Cash outflows for acquisitions of tangible and intangible assets	-841,840	-859,431
Cash outflows for acquisitions of biological assets	-30,779	-49,706
Cash inflows from disposals of tangible and intangible assets	2,049	6,587
Impact of acquisitions (changes in consolidation scope)	-98,370	-80,258
Cash of subsidiaries acquired (changes in consolidation scope)	2,538	8,820
Impact of disposals (changes in consolidation scope)	-	-
Cash of subsidiaries sold (changes in consolidation scope)	-	-
Other cash flows from investing activities	-3,377	4,272
NET CASH FLOW FROM INVESTING ACTIVITIES (2)	**-969,779**	**-969,716**
Increase and decrease in equity	100,757	84,876
Dividends paid during the year		
• Dividends paid in cash to shareholders in the parent company	-71,929	-67,582
• Dividends paid to non-controlling shareholders in consolidated companies	-32,732	-37,941
– Movements in own shares	-8,627	-28,344
– Cash drawn down re new loans	167,539	1,158,460
– Repayments of borrowings	-158,093	-236,206
– Change in percentage of interest in controlled companies		70,614
Other cash flows from financing activities	-30,145	-19,304
CASH FLOW FROM FINANCING ACTIVITIES (3)	**-33,230**	**924,573**
Impact of changes in exchange rates (4)	27,979	-21,952
CHANGE IN CASH (1) + (2) + (3) + (4)	**-535,277**	**233,932**
Opening net cash	**1,146,761**	**611,484**
Closing net cash	**611,484**	**845,416**
Change	-535,277	233,932

Net cash represents cash and cash equivalents less bank overdrafts with an initial maturity of less than three months.

STATEMENT OF CHANGES IN NET DEBT IN 2011

In € thousand	Notes	31/12/2010	Change	31/12/2011
Gross cash (1)	10	653,762	248,124	901,886
Bank current accounts in debit and overdrafts (2)	15	42,278	14,192	56,470
CASH (3) = (1) - (2)		**611,484**	**233,932**	**845,416**
Gross debt (4)	15	992,117	1,046,806	2,038,923
NET DEBT = (4) - (3)		**380,633**	**812,874**	**1,193,507**

STATEMENT OF CHANGES IN NET DEBT IN 2010

In € thousand	Notes	31/12/2009	Change	31/12/2010
Gross cash (1)	10	1,157,803	-504,041	653,762
Bank current accounts in debit and overdrafts (2)	15	11,042	31,236	42,278
CASH (3) = (1) - (2)		**1,146,761**	**-535,277**	**611,484**
Gross debt (4)	15	740,119	251,998	992,117
NET DEBT = (4) - (3)		**-406,642**	**787,275**	**380,633**

5.1.7 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Unless otherwise stated, the figures shown below are expressed in € thousand.

A – Consolidation principles

1. FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2011, including the related notes to the consolidated financial statements, were approved by the Vallourec Management Board on 20 February 2012 and will be submitted for approval to the Shareholders' Meeting.

Pursuant to European Commission regulation 1606/2002 adopted on 19 July 2002 for all listed companies in the European Union, Vallourec has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The versions of the standards and interpretations used are those applicable as at 31 December 2011. The financial statements are available on the Company's website (www.vallourec.com).

The IFRS framework comprises the IFRS drawn up by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) and the interpretations on them issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC).

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

New standards with mandatory application

There are no new standards with mandatory application in 2011 having a significant impact on the consolidated financial statements at 31 December 2011.

New standards not applied early

The Group has not applied early any of the other standards or interpretations, application of which will become mandatory only for financial years commencing on or after 1 January 2011.

2. ACCOUNTING PRINCIPLES AND METHODS

2.1 General measurement principles

The Group consolidated financial statements are prepared in accordance with the historical cost principle, with the exception of biological assets, derivative financial instruments, which are measured at fair value, and financial assets, which are measured at fair value through profit or loss or through equity (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 certain information disclosed in the notes to the financial statements.

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

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

2.3 Consolidation of subsidiaries

The Group's consolidated financial statements comprise the financial statements of Vallourec and of its subsidiaries covering the period from 1 January to 31 December 2011.

Subsidiaries 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 and profit or loss of the subsidiaries concerned. Equity and profit or loss are split between the portion attributable to the owners of the Company and the portion attributable to the non-controlling shareholders.

The results of acquired companies are included in the consolidated income statement as from the effective date of taking control. The results of companies disposed of are included until the date of loss of control.

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

2.4 Consolidation of joint-venture companies

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

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

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 the financial and operational policy of which 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 consolidated 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 FINANCIAL STATEMENTS

The currency in which the financial statements are presented is the euro.

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

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

However, in accordance with the option authorised by IFRS 1 "Initial adoption of IFRS", the Vallourec Group has chosen to reclassify under the heading "Consolidated reserves" the accumulated "Foreign currency 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 "Foreign currency translation reserve" item since 1 January 2004 are transferred to the income statement as part of the profit or loss on divestment.

2.6.2 CONVERSION OF TRANSACTIONS IN FOREIGN CURRENCY

Foreign-currency denominated transactions are translated into the Company's functional currency. Where transactions are hedged, they are converted at the spot price on the day the hedging instrument is set up (see paragraph 2.18.4). Where transactions are not hedged, transactions in foreign currency are converted at the exchange rate on the day of the transaction.

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 and biological assets

2.7.1 MEASUREMENT AT COST NET OF DEPRECIATION AND IMPAIRMENT LOSSES

Other than when they are acquired in connection with a business combination, property, plant and equipment are recorded at their 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).

2.7.2 COMPONENT-BASED APPROACH

The main components of an item of property, plant and equipment, the useful life of which is different from 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 capitalised, 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 summarised below. Land is not depreciated.

Main categories of property, plant and equipment	Useful life
Buildings	
Administrative and commercial buildings	40
Industrial buildings/Infrastructure	30
Fixtures and fittings	10
Technical installations, equipment and tools	
Industrial installations	25
Specific production equipment	20
Standard production equipment	10
Other (automations, etc.)	5
Other property, plant and equipment	
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 a result of a business combination are valued at fair value on the acquisition date. They are depreciated using the straight-line method over the residual useful life on 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).

2.7.7 BIOLOGICAL ASSETS

The Group owns biological assets in Brazil, which mainly consist of eucalyptus plantations cultivated for the Group’s coke requirements. They are measured in accordance with the principles laid down in IAS 41 “Agriculture”. Due to the existence of an active market in Brazil, the Group is required to measure these assets at their fair value, less selling costs, on initial recognition as well as at each balance sheet date.

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 capitalised 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 the 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 recognised as an expense on a straight-line basis over the lease term.

2.9 Goodwill

The Group measures goodwill as the excess of:

— partly, the total of:

- the fair value of the consideration transferred;
- the amount of any participating interest that does not give control of the acquired company (non-controlling interests valued either at fair value (total goodwill) or at the carrying amount (partial goodwill));
- the fair value on the acquisition date of the participating interest previously owned by the acquirer in the acquired company in the case of a business combination achieved in stages;
- and partly, the net balance of the amounts, on the acquisition date, of the identifiable assets acquired and liabilities assumed.

In the case of material acquisitions, fair value is measured with the help of independent experts.

The decision as to whether to apply the partial goodwill method or the total goodwill method must be taken separately for each business combination.

Goodwill is not amortised. 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 recognised within the heading "Impairment of assets and goodwill" within the operating profit.

In accordance with the provisions of revised IFRS 3 and amended IAS 27, the Group recognises in equity the difference between the price paid and the share of the non-controlling shareholders repurchased in companies previously controlled.

The acquisition expenses incurred by the Group in carrying out the business combination, such as referral agents' commission, legal and due diligence fees and other professional or consultancy fees, are written off as expenses when incurred.

2.10 Intangible assets

2.10.1 RESEARCH AND DEVELOPMENT COSTS

In accordance with IAS 38 "Intangible Assets", research costs are written off as expenses and development costs are capitalised 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 analyse those projects in progress that had entered their development phase as defined in accordance with IAS 38.

The Group's development efforts, mainly in its activities associated with oil and Power Generation, the aim of which is to improve product design and develop new or improved manufacturing processes, fulfil the criteria for classification as assets and capitalisation under IAS 38 only at a very late stage. It is very difficult to prove the existence of additional, long-term future economic benefits that can be clearly distinguished from the normal expenditure on maintaining and enhancing production facilities and products with a view to preserving the Group's technological and competitive advantages. As a result, in 2011 as in 2010, no costs incurred in connection with major projects were identified that met the criteria of the standard.

2.10.2 OTHER INTANGIBLE ASSETS

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

Intangible assets acquired as part of a business combination are recorded separately from the goodwill if their fair value can be measured during the acquisition phase. Intangible assets with finite useful lives are amortised over the period during which they will be used by the entity.

Greenhouse gas emissions quotas received free of charge are recognised at nil value (in accordance with IAS 20). When the quotas granted by the state are insufficient to cover actual emissions, a provision is recognised. Notes 16 and 21 to the financial statements contain information about the methods used to measure the unused quotas at the end of the reporting period.

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.

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

These tests are performed at least once a year in the case of assets with an indefinite useful life, i.e. 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, continuing use of which 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 (highest of fair value less costs to sell and value in use) is less than the carrying amount of the CGU, an impairment loss is recognised on a specific line within operating profit or loss. When a CGU includes goodwill, the impairment loss reduces the goodwill first, i.e. before any write-down is recognised in respect of any of the CGU's other assets.

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

The main CGUs within the Group's current structure and organisation are V & M Europe, V & M do Brazil, V & M North America, Valti, Interfit, Valtimet, Valinox Nucléaire, Serimax and Vallourec & Sumitomo Tubos do Brazil.

2.12 Inventories and work-in-progress

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

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

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

In the case of a restructuring, a provision may be recognised 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;

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

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

When the benefits of the scheme are improved, the portion of the additional benefits relating to past services rendered by employees is written off as an expense on a straight-line basis over the average period until the corresponding rights are vested to employees. If the accrued benefits are vested, the cost of the benefits is recognised 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 recognises 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 and Brazil, employees' medical expenses.

2.16 Share-based payments

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

  Options must be measured on the date they are granted, in accordance with the Black & Scholes model.
- Certain Group officers and employees benefit from share allocation plans under which the vesting of rights is linked to performance conditions (percentage of consolidated EBITDA). These plans are measured using a binomial model to project share prices.
- Vallourec offers employee shareholding plans reserved for its employees. These plans are measured using a binomial model to project share prices.

2.17 Cross-shareholding

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

2.18 Financial instruments

Financial instruments comprise financial assets and liabilities and derivatives.

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

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

Moreover, in accordance with IAS 32, the sale of a put option to a non-controlling shareholder of a company that is exclusively controlled by the Vallourec Group results in the recognition of a financial liability of an amount equal to the discounted fair value of the estimated buy back amount. Since there is currently no accounting standard or interpretation dealing with such a transaction, the Group has recognised this financial liability by deduction from the amount at which the non-controlling interests are recorded and as a deduction from equity, Group share, in the case of the portion of the liability that exceeded said non-controlling interests.

2.18.1 FINANCIAL ASSETS

Financial assets comprise:

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

Initial measurement

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

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

Classification and measurement at the end of the reporting period

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 recognised in profit or loss
Held-to-maturity investments	Amortised cost	Not applicable
Loans and receivables	Amortised cost	Not applicable
Available-for-sale financial assets	General principle: fair value But amortised cost for equity instruments for which the fair value cannot be reliably determined (in particular, shares not listed on an active market)	Changes in fair value recognised in other comprehensive income 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 realising 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 (securities, cash and cash equivalents, etc.)

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 recognised 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 security 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 Group, this category includes:

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

The amortised 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 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;
- listed shares valued at their fair value at the end of the reporting period. Said fair value is determined on the basis of the stock exchange price at the end of the reporting period.

Changes in fair value are booked directly in equity unless a significant or lasting fall in fair value below the acquisition cost is recognised, in which case, the corresponding loss is permanently booked in the profit and loss account.

Impairment testing of financial assets

Financial assets carried at amortised 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 amortised 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 recognised in financial income or loss of the period.

As regards "Held-to-maturity investments" and "Loans and receivables", if, during subsequent financial years, 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 amortised cost would have been had the impairment not been recognised.

As regards unlisted equity interests classified as "Available-for-sale", the fair value of which cannot be determined reliably, no impairment loss previously recognised 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 securities (units in short-term cash UCITS and mutual and investment funds) that are immediately available (not pledged), risk-free and have a low level of volatility.

The cash flow statement is drawn up on the basis of the cash as defined above, net of overdrafts and other short-term bank borrowings, which mature in less than three months.

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

2.18.3 FINANCIAL LIABILITIES

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

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

Interest-bearing borrowings are initially recorded at fair value less associated transaction costs. Such costs (loan-issuance charges and additional paid-in capital) are taken into account in the calculation of the amortised cost in accordance with the effective interest rate method. They are recognised 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 amortised 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 cash flow hedge method. Changes in the fair value of swaps, linked to movements in interest rates, are recognised in equity when they relate to the effective portion, with the balance being recognised in financial income or loss.

2.18.4 DERIVATIVE INSTRUMENTS 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 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 recognised 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 recognised, changes in the intrinsic value are recognised in equity, in accordance with the principles of future 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 recognised in financial income or loss;

- the change in the time value (premium/discount). This change is systematically recognised 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 recognised at the spot rate on the date of implementation. The account receivable (account payable) is initially recognised at this same spot rate.

At each balance sheet date, hedged foreign currency accounts receivable and accounts payable are measured and recognised 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 recognised 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 recognised in equity is now classified as 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 or loss.

2.19 Tax

Income tax comprises current and deferred tax.

In accordance with IAS 12, deferred tax is recognised, 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 recognised 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 any restatements to ensure the conformity of the statutory or consolidated financial statements;
- losses carried forward are recognised only for companies and tax groups in which recovery in the foreseeable future is reasonably likely.

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 realised or the liability settled, on the basis of the tax regulations that have been adopted or almost adopted at the balance sheet date.

Deferred taxes are not converted to current value.

Current and deferred tax charges are recognised as income or expenditure in the income statement unless they relate to a transaction or event that is recognised within other comprehensive income or directly in 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 recognised 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 reasonably likely to be able to recover such assets in the foreseeable future.

2.20 Sales

Revenues from the sale of finished goods are recognised 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 likely 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 recognised in the income statement pro rata to the stage of completion at the balance sheet date.

No income is recognised if there are significant uncertainties as to the recovery of the amount due or associated costs.

In the event of a sale with reservation of title, the sale is recognised 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-collectability).

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 profit or loss

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

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

EBITDA is an important indicator for the Group, enabling it to measure its recurring performance. It is calculated by taking operating profit before amortisation 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 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

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

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

3. SEGMENT REPORTING

The segments presented in accordance with the Group's internal structure comply with the definition of operating segments identified and grouped in accordance with IFRS 8. This information corresponds to that reviewed by the Executive Committee.

The Group presents its segment information on the basis of the following operating segments reconciled with consolidated data:

- "Seamless tubes". This segment covers all the entities with production and marketing facilities dedicated to the Group's main activity, i.e. the production of hot-rolled seamless carbon and alloy steel tubes, both smooth and threaded, for the oil and gas industry. This activity is characterised 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 and gas, power generation, chemicals and petrochemicals, automotive and mechanical engineering, etc.);
- "Speciality Products". This segment incorporates a number of activities, the characteristics of which are very different from those described above, but which are not presented separately due to their relative immateriality. Such treatment is authorised by IFRS 8. It includes the production of stainless steel and titanium tubes as well as specific forming and machining activities.

In addition, geographical information is presented, distinguishing between five areas determined on the basis of an analysis of the specific risks and returns associated with them:

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

The Vallourec Group is not dependent on its customers since none of them accounts for more than 10% of the Group's sales.

Operating segments

Note 31 shows, for each operating segment, information on the revenues and results as well as certain information on the assets, liabilities and capital expenditure for the financial years 2011 and 2010.

Geographical information

Note 31 shows, by geographical area, 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 2011 and 2010.

B – Consolidation scope

The Group does not control any special purpose entities.

	% interest 31/12/2010	% control 31/12/2010	% interest 31/12/2011	% control 31/12/2011
Fully consolidated companies				
Changzhou Valinox Great Wall Welded Tubes Co. Ltd — China	62.5	100.0	62.5	100.0
CST Valinox Ltd — India	95.0	100.0	95.0	100.0
Changzhou Carex Valinox Components Co. Ltd — China	70.7	100.0	80.8	100.0
Interfit — France	100.0	100.0	100.0	100.0
Kestrel Wave Investment Ltd — Hong Kong	100.0	100.0	100.0	100.0
Premium Holding Limited — Hong Kong	100.0	100.0	100.0	100.0
PTCitra Tubindo TBK — Indonesia	78.2	78.2	78.2	78.2
Saudi Seamless Pipes Factory Company Ltd — Saudi Arabia	-	-	100.0	100.0
V & M Tubes Asia Pacific Pte Ltd — Singapore	100.0	100.0	100.0	100.0
Serimax Angola Ltd — Angola	100.0	100.0	100.0	100.0
Serimax Do Brazil Serviços de Soldagem e Fabricaçao Ltda — Brazil	100.0	100.0	100.0	100.0
Serimax Holdings S.A.S. — France	100.0	100.0	100.0	100.0
Serimax Ltd — United Kingdom	100.0	100.0	100.0	100.0
Serimax North America LLC — United States	100.0	100.0	100.0	100.0
Serimax Russia — Russia	100.0	100.0	100.0	100.0
Serimax S.A.S. — France	100.0	100.0	100.0	100.0
Serimax South East Asia Pte Ltd — Singapore	100.0	100.0	100.0	100.0
Serimax Welding Services Malaysia sdn bhd — Malaysia	100.0	100.0	100.0	100.0
Tubos Soldados Atlântico Ltda — Brazil	24.6	24.7	95.8	95.9
UMAX Service Ltd — Great Britain	100.0	100.0	100.0	100.0
Valinox Asia — France	62.5	65.8	62.5	65.8
Valinox Nucléaire — France	100.0	100.0	100.0	100.0
Valinox Nucléaire Tubes Guangzhou Co. Ltd — China	100.0	100.0	100.0	100.0
Vallourec S.A. — France	100.0	100.0	100.0	100.0
Vallourec Industries Inc. — United States	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Holdings Inc — United States	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Middle East FZE — United Arab Emirates	-	-	100.0	100.0
Vallourec & Mannesmann Oil & Gas France — France	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Oil & Gas Nederland B.V. — Netherlands	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Oil & Gas UK Ltd — United Kingdom	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Tubes — France	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Rus. — Russia	100.0	100.0	100.0	100.0
Vallourec Tubes Canada Inc. — Canada	100.0	100.0	100.0	100.0
Vallourec Umbilicals — France	100.0	100.0	100.0	100.0
Valti — France	100.0	100.0	100.0	100.0
Valti GmbH — Germany	100.0	100.0	100.0	100.0
Valtimet — France	95.0	95.0	95.0	95.0
Valtimet Inc. — United States	95.0	100.0	95.0	100.0
VAM Canada Inc — Canada	100.0	100.0	100.0	100.0

	% interest 31/12/2010	% control 31/12/2010	% interest 31/12/2011	% control 31/12/2011
VAM Drilling France — France	100.0	100.0	100.0	100.0
VAM Drilling Middle East FZE — United Arab Emirates	100.0	100.0	100.0	100.0
VAM Drilling Protools Oil Equipment Manufacturing Llc — United Arab Emirates	100.0	100.0	100.0	100.0
VAM Drilling USA — United States	100.0	100.0	100.0	100.0
VAM Far East — Singapore	51.0	51.0	51.0	51.0
VAM Field Services Angola — Angola	100.0	100.0	100.0	100.0
VAM Field Services Beijing — China	51.0	51.0	51.0	51.0
VAM Mexico SA de CV — Mexico	100.0	100.0	100.0	100.0
VAM ONNE Nigeria Ltd — Nigeria	100.0	100.0	100.0	100.0
VAM USA LLC — United States	51.0	51.0	51.0	51.0
VMOG (China) Trading Col. Ltd — China	100.0	100.0	100.0	100.0
VMOG Nigeria Ltd — Nigeria	100.0	100.0	100.0	100.0
V & M Al Qahtani Tubes Llc — Saudi Arabia	65.0	65.0	65.0	65.0
V & M Beijing Co. Ltd — China	100.0	100.0	100.0	100.0
V & M Changzhou — China	100.0	100.0	100.0	100.0
V & M Deutschland GmbH — Germany	100.0	100.0	100.0	100.0
V & M do Brazil SA — Brazil	99.9	99.9	100.0	100.0
V & M France S.A.S. — France	100.0	100.0	100.0	100.0
V & M Florestal Ltda — Brazil	99.9	100.0	100.0	100.0
V & M Mineração Ltda — Brazil	99.9	100.0	100.0	100.0
V & M One — France	100.0	100.0	100.0	100.0
V & M Services S.A. — France	100.0	100.0	100.0	100.0
V & M Star — United States	80.5	80.5	80.5	80.5
V & M Uruguay — Brazil	-	-	100.0	100.0
V & M Two — United States	100.0	100.0	80.5	100.0
V & M Tube-Alloy™ — United States	100.0	100.0	100.0	100.0
V & M USA Corp — United States	100.0	100.0	100.0	100.0
Proportionately consolidated companies				
Vallourec & Sumitomo Tubos do Brazil — Brazil	56.0	50.0	56.0	50.0
VAM Changzhou Oil & Gas Premium Equipments — China	51.0	50.0	51.0	50.0
VAM Holding Hong Kong Limited — Hong Kong	51.0	50.0	51.0	50.0
Equity affiliates				
Hüttenwerke Krupp Mannesmann (HKM) — Germany	20.0	20.0	20.0	20.0
Poongsan Valinox — Korea	47.5	50.0	47.5	50.0
Xi’an Baotimet Valinox Tubes Co. Ltd — China	37.1	49.0	37.1	49.0
Tianda Oil Pipe Co. Ltd — China	-	-	19.5	19.5

2011

- The Vallourec Group created the company Vallourec & Mannesmann Middle East FZE in February 2011, a commercial company to serve the Middle East market.
- On 1 April 2011, the Group announced the acquisition of 19.50% of the capital of Tianda Oil Pipe Company Limited (a company situated in China) for an amount of €75 million. Tianda Oil Pipe Company Limited is listed on the Hong Kong stock exchange. It is a Chinese manufacturer of OCTG (Oil Country Tubular Goods) seamless tubes for the oil and gas industry. Under a cooperation agreement, VAM Changzhou Oil & Gas Premium Equipments, a Vallourec Group company, is responsible for the local production of premium threading for tubes manufactured by Tianda Oil Pipe and intended to serve the Chinese premium OCTG market.
- On 27 September 2011, after disposal of 19.47% of V & M Two to Sumitomo, the Vallourec Group held 80.53% of V & M Two.
- On 25 November 2011, the Group acquired the company Saudi Seamless Pipes Factory Co. Ltd ("Zamil Pipes") for €97 million. This acquisition gives Vallourec heat treatment and threading facilities and thus strengthens the local presence of Vallourec with finishing units intended to serve the premium OCTG markets of Saudi Arabia and the Middle East.
- On 23 December 2011, Valtimet S.A.S. subscribed to the entire capital increase of USD 3.6 million of Changzhou Carex Valinox Components Co. Ltd, taking the Group's percentage interest in the company to 80.83%.
- On 15 December 2011, V & M do Brazil SA bought out all the shares in the Brazilian subsidiary Tubos Soldados Atlântico Ltda. This company was previously consolidated by the equity method and is fully consolidated from 31 December 2011.
- These changes in consolidation have no significant impact on the comparability of the Group's financial statements in 2011.

2010

- In February 2010, the Vallourec Group acquired Protools via its subsidiary VAM Drilling Dubai. Protools is the largest producer of drill pipe components in the Middle East. This acquisition has enabled VAM Drilling to offer an integrated solution for the entire drill string.
- On 15 February 2010, the Group announced its decision to build a new, small-diameter tube mill in Youngstown (Ohio, United States). The amount used at 31 December 2010 came to USD 206 million.
- On 8 June 2010, the Group acquired 100% of Serimax, a world leader in the provision of fully integrated welding solutions for offshore line pipes. This acquisition will complement Vallourec's existing offshore line pipe operations, which currently account for around 10% of the Group's total Oil and Gas sales. The Serimax Group's consolidated sales totalled €68 million for the first six months of the financial year 2010 and €131 million for the full year 2010. This business is included in the "Seamless tubes" operating segment.
- Valinox Nucléaire Tubes Guangzhou Ltd was incorporated in November 2010 in the province of Guangdong in China to produce steam generator tubes to meet the needs of the country's expanding nuclear power market.

C – Notes to the financial statements

Note 1 Intangible assets and goodwill

In € thousand	Concessions, patents, licences and other rights	Other intangible assets	Total intangible assets	Goodwill
GROSS VALUES				
At 31/12/2009	**51,466**	**327,477**	**378,943**	**397,823**
Acquisitions	1,896	3,886	5,782	-
Disposals	-78	-	-78	-
Impact of changes in exchange rates	2,289	24,044	26,333	30,404
Changes in consolidation scope	17,562	13,679	31,241	78,217
Other movements	2,955	-145	2,810	-
At 31/12/2010	**76,090**	**368,941**	**445,031**	**506,444**
Acquisitions	4,667	3,451	8,118	-
Disposals	-108	-51	-159	-
Impact of changes in exchange rates	-216	14,088	13,872	13,382
Changes in scope	-	37,829	37,829	-
Other changes	3,278	4,667	7,945	-
AT 31/12/2011	**83,711**	**428,925**	**512,636**	**519,826**
DEPRECIATION AND IMPAIRMENT				
At 31/12/2009	**-38,137**	**-90,511**	**-128,648**	**-20**
Net depreciation charge for the financial year	-3,604	-39,270	-42,874	-
Disposals	78	-	78	-
Impact of changes in exchange rates	-1,573	-5,515	-7,088	-3
Other changes	-	-	-	-
At 31/12/2010	**-43,236**	**-135,296**	**-178,532**	**-23**
Net depreciation charge for the financial year	-5,655	-45,367	-51,022	-
Disposals	108	51	108	-
Impact of changes in exchange rates	705	-6,996	-6,291	-
Other changes	-	-	-	-
AT 31/12/2011	**-48,078**	**-187,608**	**-235,686**	**-23**
NET VALUES				
At 31/12/2010	**32,854**	**233,645**	**266,499**	**506,421**
AT 31/12/2011	**35,633**	**241,317**	**276,950**	**519,803**

INTANGIBLE ASSETS

- In 2011, the main increases were due to the impact of changes in exchange rates and to the 'Sales Agreement' between Tianda Oil Pipe and three Group entities (€36 million). This asset represents the benefits that the Vallourec Group expects to gain from this commercial agreement. It is amortised over a 5-year period.
- In 2010, the main increases were due to the effects of exchange rate fluctuations and changes in scope (valuation of the customer base and the technology of Serimax and its subsidiaries by independent experts. These intangible assets are amortised over a maximum period of 15 years) (see Note 11).

Vallourec devotes significant efforts on an ongoing basis to Research and Development, particularly in the field of Power Generation. These efforts cover three main areas:

- manufacturing processes (charcoal, steel making, tube rolling, non-destructive testing, forming, welding and machining);
- new products and product improvements;
- new services (customer support for tube transformation, use and design matters).

No costs were identified that were incurred in connection with major projects and met the capitalisation criteria of the standard and therefore no such costs were capitalised.

There are no intangible assets with indefinite useful lives, other than goodwill.

GOODWILL

Cash-generating unit (CGU) (see paragraph 2.11 of Consolidation principles section) *In € thousand*	**V & M do Brazil**	**V & M North America**	**V & M Europe**	**Serimax**	**Other**	**Total**
At 31/12/2009	**3,197**	**277,788**	**111,450**	**-**	**5,368**	**397,803**
Impact of changes in exchange rates	37	21,707	8,178		479	30,401
Changes in scope	-	-	41,901	36,316	-	78,217
At 31/12/2010	**3,234**	**299,495**	**161,529**	**36,316**	**5,847**	**506,421**
Impact of changes in exchange rates	- 26	9,793	-	-	3,615	13,382
Changes in scope	-	-	-	-	-	
AT 31/12/2011	**3,208**	**309,288**	**161,529**	**36,316**	**9,462**	**519,803**

Origin of goodwill

Goodwill represents the difference between the acquisition price of consolidated companies and the Group's share in the assets and liabilities acquired, including contingent liabilities, measured at their fair value on the acquisition date. This fair value measurement is carried out by independent experts.

In 2010, goodwill was recognised in respect of the acquisition of controlling interests of companies in the Serimax group (€72.6 million allocated to the V & M Europe and Serimax CGUs) and VAM Drilling Protools Oil Equipment Manufacturing LLC (€5.6 million). The full goodwill method was used to account for these acquisitions.

In 2011, the change in goodwill was due to the change in foreign exchange rates.

Impairment testing

Goodwill is tested for impairment at each year end. The value in use of the CGUs is defined as the sum of the future cash flows in accordance with the discounted cash flow method (see paragraph 2.11 of the accounting principles and methods section). Changes in the economic climate may affect certain estimates and make it more difficult to assess the Group's outlook for the purposes of asset impairment testing. A stock market value of the Group below its consolidated net assets during a business cycle, negative prospects associated with the economic, legislative or technological environment or a business sector would constitute evidence of impairment.

FUTURE CASH FLOW

For these purposes, the Group uses future cash flows, as per its most recent forecasts, over a five-year period, since this corresponds to the best estimate of a complete business cycle. These forecasts have been prepared taking into account cyclical variations that affect selling prices, volumes and raw material costs. Beyond five years, the Group uses a standard year calculated as the average of the last five years and therefore representative of a complete business cycle. This standard year is projected to infinity by applying a growth rate of 1% to 2%, depending on the Cash Generating Unit.

DISCOUNT RATE

Future cash flows are discounted at a rate corresponding to the weighted average cost of capital applicable to companies in the sector. This rate is defined as the sum of the cost of equity and the post-tax cost of debt, weighted on the basis of their respective amounts.

The main components of weighted average cost of capital are:

- a risk premium that has increased in relation to preceding years;
- a risk-free rate corresponding to an average of treasury bonds in each region. It is different in Europe, the United States and Brazil and is between 2% and 4%;
- a beta calculated on the basis of a sample of companies in the sector (generally between 0.9 and 1.2);
- a country risk specific to the activities carried out outside Europe and the United States.

Implementation of these parameters results in a discount rate of 8.49% for Europe, 8.10% for the United States and 10.38% for Brazil.

SENSITIVITY ANALYSIS

The comparison of the carrying amounts of the CGUs with their value in use did not result in the recognition of any impairment losses as at 31 December 2011.

An analysis was carried out of the sensitivity of the calculation of the change in the parameters. This analysis did not identify any circumstances in which it is likely that the recoverable amount of the CGU would become lower than its carrying amount. In addition, the marginal discount rates to be used to ensure that the value in use is equal to the net carrying amounts of the CGUs are significantly higher than those used by the Group for its impairment testing.

Note 2.1 Tangible assets

In € thousand	Land	Buildings	Technical installations, equipment and industrial tools	Property, plant and equipment in progress	Other property, plant and equipment	Total
GROSS VALUES						
At 31/12/2009	**109,545**	**344,384**	**1,956,494**	**451,992**	**470,593**	**3,333,009**
Acquisitions	6,530	14,222	70,039	808,941	159,334	1,059,066
Disposals	-194	-271	-15,502	-476	-716	-17,159
Impact of changes in exchange rates	11,153	17,259	92,303	79,352	53,301	253,368
Changes in scope	180	4,966	22,031	5,136	3,026	35,339
Other changes	2,017	9,406	63,702	-119,418	18,992	-25,301
Reclassification at 31/12/2010 to biological assets (Note 2.2)	-	-	-	-	-129,996	-129,996
At 31/12/2010	**129,231**	**389,966**	**2,189,067**	**1,225,527**	**574,534**	**4,508,326**
Acquisitions	3,462	21,866	327,824	500,803	25,675	879,630
Disposals	-37	1,311	-18,954	-2,338	-1,545	-21,563
Impact of changes in exchange rates	-7,301	-9,851	-54,807	-17,732	-20,111	-109,802
Changes in scope	3,240	9,334	37,966	104,783	2,780	158,103
Other changes	-4,650	189,475	614,170	-532,640	-286,535	-20,180
AT 31/12/2011	**123,945**	**602,101**	**3,095,266**	**1,278,403**	**294,798**	**5,394,514**
DEPRECIATION AND IMPAIRMENT						
At 31/12/2009	**-22,388**	**-113,807**	**-760,437**		**-69,352**	**-965,984**
Net depreciation charge for the financial year	-2,575	-18,374	-144,663	-	-14,572	-180,184
Impairment losses	-	-	-1,522	-820	-	-2,342
Disposals	105	153	11,948	-	607	12,813
Impact of changes in exchange rates	-2,647	-4,226	-31,524	-	-4,492	-42,889
Other changes	290	2,433	21,539	-	423	24,685
At 31/12/2010	**-27,215**	**-133,821**	**-904,659**	**-820**	**-87,386**	**-1,153,901**
Net depreciation charge for the financial year	-2,704	-21,529	-165,335		-16,648	-206,216
Impairment losses						
Disposals		-1,507	15,262		1,240	14,995
Impact of changes in exchange rates	1,805	423	8,547		1,982	12,757
Other changes		1,769	2,386		-29	4,126
AT 31/12/2011	**-28,114**	**-154,665**	**-1,043,799**	**-820**	**-100,841**	**-1,328,239**
NET VALUES						
At 31/12/2010	**102,016**	**256,145**	**1,284,408**	**1,224,707**	**487,148**	**3,354,425**
AT 31/12/2011	**95,831**	**447,436**	**2,051,467**	**1,277,583**	**193,957**	**4,066,275**

CAPITAL EXPENDITURE EXCLUDING CHANGES IN SCOPE (TANGIBLE AND INTANGIBLE)

In € thousand	2010	2011
Europe	162,251	139,115
North America	163,703	337,942
South America	629,667	330,354
Asia	66,127	79,441
Other	479	896
TOTAL	**1,022,227**	**887,748**
Capital expenditure payments during the year totalled:	841,840	859,431

The biological assets have been separated from tangible assets in accordance with IAS 41 (Note 2.2).

In 2011, the Group continued the construction of a new small-diameter tube mill in Youngstown (Ohio, United States) to address the needs of the North American oil and gas industry. The project also includes a heat treatment and threading lines facility. The share of the V & M Two capital increase subscribed by our partner Sumitomo Corporation is presented as a deduction from cash outflows for acquisitions of intangible assets in the amount of €16.8 million.

Vallourec also continued the extension of its V & M Changzhou plant intended to meet local demand for power plants and the development of its production capacity for the nuclear industry.

The construction of a new high-end plant, incorporating a steel mill, tube mill and threading lines, at Jeceaba in the state of Minas Gerais, Brazil, was completed in 2011. The plant owned by Vallourec & Sumitomo Tubos do Brazil started production of steel billets and seamless steel tubes at the end of 2011.

Leases

In 2010, the Group entered into two finance leases in respect of buildings and production equipment.

In October 2010, the Group leased a building in Germany under a finance lease. At 31 December 2011, the building had a net carrying amount of €3.7 million.

At Vallourec & Sumitomo Tubos do Brazil, the finance lease for the construction of a water treatment facility had a net carrying amount of €249.2 million at 31 December 2011.

Note 2.2 Biological assets

In € thousand	2010	2011
Net value at 31 December	129,996	184,299

The Group's Brazilian subsidiary V & M Florestal cultivates eucalyptus plantations in order to produce charcoal used in the blast furnaces of V & M do Brazil SA and Vallourec & Sumitomo Tubos do Brazil.

At 31 December 2011, the Company had some 114,173 hectares of eucalyptus under cultivation in a total land area of 233,480 hectares.

At 31 December 2011, the biological assets were valued at €184.3 million (including revaluation of €25.3 million) compared with €130 million at the end of December 2010. V & M Florestal sales amounted to €108.8 million in 2011 compared with €107.9 million in 2010.

Note 3 Investments in equity affiliates

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

In € thousand	HKM Germany	Subsidiaries of PTCitra Tubindo TBK (a)	Tubos Soldados Atlântico Ltda (b)	Tianda Oil Pipe	Other	Total
At 31/12/2009	**34,094**		**12,386**		**10,202**	**56,682**
Changes in scope	-	-	-		-	
Capital increase	8,000	-	-		-	8,000
Impact of changes in exchange rates	-	-	1,509		1,152	2,661
Dividends paid	-6	-	-		-455	-461
Contribution to net profit of the period	1	-	-2,486		225	-2,260
At 31/12/2010	**42,089**		**11,409**		**11,124**	**64,622**
Changes in scope			-10,890	34,642		23,752
Capital increase	4,000	1,188	2,268	14,152		21,608
Reclassification		25,555			-23	25,532
Impact of changes in exchange rates		2,384	-534	6,246	508	8,604
Dividends paid	-7	-253		-593	-317	-1,170
Contribution to net profit of the period	6	3,811	-2,253	850	1,351	3,765
AT 31/12/2011	**46,088**	**32,685**		**55,297**	**12,643**	**146,713**

(a) These are long-term investments held by PTCitra Tubindo TBK in unlisted companies, not controlled directly by Vallourec. They were previously classified in "Other investments in equity securities".
(b) Since 15 December 2011, Tubos Soldados Atlântico Ltda has been fully consolidated within the scope of the Group.

Key figures for equity affiliates

In € thousand		Equity	Sales	Net income
HKM — Germany	**2011**	**230,437**	**3,105,420**	**30**
	2010	210,443	2,529,848	36
Tubos Soldados Atlântico Ltda (a)	**2011**	**36,170**	**48,213**	**-9,853**
	2010	40,116	45,205	-10,791
Tianda Oil Pipe (9 months)	**2011**	**283,572**	**386,828**	**4,356**

(a) Since 15 December 2011, Tubos Soldados Atlântico Ltda is fully consolidated within the Group scope.

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

In € thousand	2010	2011
HKM	1	6
Poongsan Valinox	543	1,308
Subsidiaries of PTCitra Tubindo TBK		3,811
Tubos Soldados Atlântico	-2,486	-2,253
Tianda Oil Pipe	-	850
Xi'an Baotimet Valinox Tubes Co. Ltd	-318	43
TOTAL	**-2,260**	**3,765**

Note 4 Other non-current assets

In € thousand	Other investments in equity instruments	Loans	Other financial investments	Other	Total
At 31/12/2009	**136,414**	**4,652**	**24,985**	**22,164**	**188,215**
Gross value	126,932	4,397	30,233	75,164	236,726
Provisions	-905	-	-599	-	-1,504
At 31/12/2010	**126,027**	**4,397**	**29,634**	**75,164**	**235,222**
Gross value	68,526	4,441	42,605	175,375	290,947
Provisions	-900		-1,033		-1,933
AT 31/12/2011	**67,626**	**4,441**	**41,572**	**175,375**	**289,014**

At 31 December 2011, other investments in equity interests mainly consisted of Sumitomo Metal Industries equity securities listed on the Tokyo stock exchange, acquired in 2009 at an average price per share of JPY 230.8 (representing a total of €81.9 million), with a fair value at 31 December 2011 of €65.9 million (€86.9 million in 2010) and classified as "securities available-for-sale". The change in fair value is considered not significant and not permanent, given the long-term partnerships with Sumitomo. Consequently, impairment at 31 December impacted equity by -€16 million (including -€21 million in 2011).

Most of the change in this item is due to the reclassification in 2011 of securities held by PTCitra Tubindo TBK as investments in equity affiliates (see Note 3).

Loans consist mainly of long-term participating loans for construction.

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 2011 was 3.36% (compared with 3.36% at 31 December 2010).

Other financial investments consist mainly of interest-bearing security deposits mainly paid in connection with tax disputes in Brazil (€18.7 million at 31 December 2011, see also Note 16).

Other non-current assets consist largely of tax credits of more than one year in Brazil and the United States (respectively €53.9 million and €13.0 million in 2011), a long-term supplier advance in Brazil (€30.2 million), and a "debt" granted to Sumitomo regarding VSB in the amount of €60.4 million.

Maturities of other non-current assets *In € thousand*	1 to 5 years	5 years or more	Total
GROSS VALUES AT 31/12/2010			
Loans	1,326	3,071	4,397
Other investments in equity instruments	35,394	91,538	126,932
Other financial investments	102,711	2,686	105,397
TOTAL	**139,431**	**97,295**	**236,726**
GROSS VALUES AT 31/12/2011			
Loans	1,667	2,774	4,441
Other investments in equity instruments		68,526	68,526
Other financial investments	201,832	16,148	217,980
TOTAL	**203,499**	**87,448**	**290,947**

Note 5 Deferred tax liabilities

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 the parent company or consolidated financial statements to Group practices;
- long-term recurring items: non-tax deductible provisions for retirement commitments.

The following items are recognised 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 recognised 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.

The basic income tax rate applicable to companies in France is 33.33%. The French Act on Financing Social Security No. 99-1140 of 28 December 1999 introduced an additional tax charge of 3.3% of the basic tax due, for French companies; this resulted in a 1.1% increase in the corporation tax rate to 34.43%. The amendment to the finance act for 2011 No. 2011-1978 of 28 December 2011 introduced an exceptional contribution of 5% of the amount of corporation tax payable by companies with turnover of more than €250 million. This contribution is temporary and is applicable to financial years 2011 and 2012.

The deferred tax rates used for the French companies in 2011 were unchanged from 2010 at 34.43% for current tax and 0% for long-term capital gains and losses.

The other deferred tax rates used in 2011 were 31.6% for Germany, 34.0% for Brazil and 36.5% for the United States.

The French supplementary corporation taxes, *Cotisation Foncière des Entreprises* (CFE) and *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE), are recognised as operating expenses.

At 31/12/2010 *In € thousand*	**Assets**	**Liabilities**	**Net deferred tax liabilities**
Non-current assets	-	213,943	
Other assets and liabilities	-	3,201	
Inventories	38,004	-	
Employee benefits	27,239	-	
Derivatives	3,997	-	
Distributable reserves and foreign currency translation reserves	-	780	
NET BALANCE	**69,240**	**217,924**	**148,684**
Recognition of tax losses	71,876		-71,876
TOTAL	**141,116**	**217,924**	**76,808**

At 31/12/2011 *In € thousand*	**Assets**	**Liabilities**	**Net deferred tax liabilities**
Non-current assets		228,253	
Other assets and liabilities		18,511	
Inventories	33,632		
Employee benefits	29,133		
Derivatives	23,278		
Distributable reserves and foreign currency translation reserves		98	
NET BALANCE	**86,043**	**246,862**	**160,819**
Recognition of tax losses	102,808		-102,808
TOTAL	**188,851**	**246,862**	**58,011**

The following table provides an analysis of the Group's deferred tax balances (gross values) as at 31 December 2010 and 31 December 2011:

At 31/12/2010 *In € thousand*	Gross value	Corresponding deferred tax	Deferred tax recognised	Deferred tax not recognised
Tax losses carried forward	246,292	81,585	71,876	9,709
Other tax assets		69,784	69,240	544
TOTAL TAX ASSETS		**151,369**	**141,116**	**10,253**
Tax liabilities			-217,924	
TOTAL TAX LIABILITIES			**-217,924**	
TOTAL			**-76,808**	**10,253**

At 31/12/2011 *In € thousand*	Gross value	Corresponding deferred tax	Deferred tax recognised	Deferred tax not recognised
Tax losses carried forward	377,749	123,121	102,808	20,313
Other tax assets		86,043	86,043	
TOTAL TAX ASSETS		**209,164**	**188,851**	**20,313**
Tax liabilities			-246,862	
TOTAL TAX LIABILITIES			**-246,862**	
TOTAL			**-58 011**	**20 313**

The tax losses carried forward in 2011 relate mainly to Vallourec & Sumitomo Tubos do Brazil, the French tax consolidation group, CST Valinox Ltd (India), Changzhou Carex Valinox Components Co. Ltd (China), VAM Changzhou (China) Serimax UK and Serimax USA.

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

Net tax liability	2010	2011
BALANCE AT 1 JANUARY	**89,311**	**76,808**
Impact of changes in exchange rates	-240	6,293
Recognised in profit or loss	-14,989	-19,748
Recognised in reserves	-2,237	-11,601
Change in scope and other	4,963	6,259
BALANCE AT 31 DECEMBER	**76,808**	**58,011**

The amount of the deferred tax recognised in reserves corresponds mainly to the change in deferred tax calculated on the derivative instruments.

Note 6 Inventories and work-in-progress

In € thousand	Raw materials, supplies and goods	Work-in-progress	Finished and semi-finished products	Total
GROSS VALUES				
At 31/12/2009	**463,517**	**274,702**	**287,858**	**1,026,077**
Changes in inventories recognised in the income statement	77,579	93,229	40,551	211,359
Changes in scope	18,645	-743	3,069	20,971
Impact of changes in exchange rates	19,663	12,656	21,470	53,789
Other changes	-27,446	-	424	-27,022
At 31/12/2010	**551,958**	**379,844**	**353,372**	**1,285,174**
Changes in inventories recognised in the income statement	45,793	73,083	67,973	186,849
Changes in scope	11,096	1,475	3,023	15,594
Impact of changes in exchange rates	-4,574	7,383	-9,773	-6,964
Others	-1,103	1	5,538	4,436
AT 31/12/2011	**603,170**	**461,786**	**420,133**	**1,485,089**
IMPAIRMENT				
At 31/12/2009	**-57,845**	**-13,925**	**-27,068**	**-98,838**
Impact of changes in exchange rates	-2,720	-686	-2,403	-5,809
Charges	-30,114	-8,470	-9,768	-48,352
Reversals of provisions	43,639	3,788	14,762	62,189
Other movements	-3,669	-	-425	-4,094
At 31/12/2010	**-50,709**	**-19,293**	**-24,902**	**-94,904**
Impact of changes in exchange rates	404	-84	1,005	1,325
Charges	-20,117	-5,364	-18,345	-43,826
Reversals of provisions	18,047	11,645	12,298	41,990
Other changes	15	-	-712	-697
AT 31/12/2011	**-52,360**	**-13,096**	**-30,656**	**-96,112**
NET VALUES				
At 31/12/2010	**501,249**	**360,551**	**328,470**	**1,190,270**
AT 31/12/2011	**550,810**	**448,690**	**389,477**	**1,388,977**

Note 7 Trade and other receivables

In € thousand	Advances and deposits paid on orders	Accounts receivable (gross) (a)	Provisions for depreciation	Total
At 31/12/2009	**13,766**	**611,132**	**-12,992**	**611,906**
Changes in scope	1,241	44,470	-158	45,553
Impact of changes in exchange rates	2,668	27,052	-336	29,384
Changes in gross values	22,033	152,272	735	175,040
Charges to provisions	-	-	-5,393	-5,393
Reversals of provisions	-	-	7,091	7,091
At 31/12/2010	**39,708**	**834,926**	**-11,053**	**863,581**
Changes in scope	862	7,653		8,515
Impact of changes in exchange rates	-2,278	-5,103	33	-7,348
Changes in gross values	-12,619	206,016		193,397
Charges to provisions			-7,704	-7,704
Reversals of provisions			7,430	7,430
AT 31/12/2011	**25,673**	**1,043,492**	**-11,294**	**1,057,871**

(a) Please refer to paragraph 2.18.1 “Financial assets” for details of the recognition and measurement methods.

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 EQUITY AND PROFIT OR LOSS

As explained in paragraph 2.18 of the accounting principles and methods 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 and the accounting treatment of available-for-sale financial assets. The Group has also swapped to a fixed rate part of its variable-rate debt. The other effects of the transition to IAS 32 and IAS 39 have had little impact on the financial statements (measurement of housing loans granted to staff in accordance with the effective interest rate method and measurement at fair value of 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 recognised in the income statement (financial income or loss). Currency receivables and payables were revalued at the spot rate at 31 December.

The position regarding hedging instruments changed from net assets of €6 million at 31 December 2010 to net liabilities of €75.8 million at 31 December 2011.

This change is due mainly to the hedging of commercial transactions entered into by the European subsidiaries in US dollars.

The movement of the euro against the US dollar in 2011 mainly explains the €55.2 million fall in the intrinsic value of hedges in respect of currency purchase and sale forecasts and the €45.3 million decrease in the intrinsic value of hedges backed by receivables and payables.

In view of the effectiveness of the hedges in accordance with the criteria of IAS 39, the impact recognised in the income statement mainly concerns the premium/discount, changes in the value of which at the year end gave rise to income of €8.7 million in respect of the financial year 2011.

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 *In € thousand*	**At 31/12/2010**	**At 31/12/2011**	**Changes in 2011** Total	o/w reserves	o/w profit or loss
1 – Derivatives recognised in the balance sheet [(a)]					
Changes in the intrinsic value of forward sales of currencies and forward purchases [(b)] linked to order books and commercial tenders	3,669	-51,558	-55,227	-55,116	-111
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with accounts receivable (and accounts payable [(b)])	4,266	-39,765	-44,031		-44,031
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with finance receivables (and finance payables)	11,756	10,508	-1,248		-1,248
Changes in the intrinsic value of hedges of raw material and energy purchases linked to order books and commercial tenders					
Changes in the intrinsic value of hedges of raw material and energy purchases linked to accounts payable					
Recognition of premium/discount	1,160	9,884	8,724		8,724
Recognition of changes in fair value of interest rate swaps	-25,433	-12,442	12,991	12,991	
Changes in values linked to hedging instruments implemented under the terms of the employee share ownership schemes	10,569	7,380	-3,189		-3,189
Changes in value due to derivatives not classified as such	-1	1	2		2
SUB-TOTAL: DERIVATIVES	**5,986**	**-75,992**	**-81,978**	**-42,125**	**-39,853**
• Of which: derivatives – assets	35,685	39,705			
• Of which: derivatives – liabilities	29,698	115,697			
2 – Receivables (payables [(b)]) hedged in currencies – translation gain/loss					
Valuation at the closing date exchange rate (accounts payable [(b)] and receivable)	-5,791	37,194	42,985		42,985
Valuation at the closing date exchange rate (finance payables and receivables)	-12,161	-17,904	-5,743		-5,743
IMPACT OF HEDGING OPERATIONS	**-11,966**	**-56,702**	**-44,736**	**-42,125**	**-2,611**
3 – Measurement of receivables (payables [(b)]) not hedged in currencies – translation gain/loss [(c)]	**-1,552**	**26**	**1,578**		**1,578**
4 – Measurement of construction loans at the effective interest rate	**-1,360**	**-889**	**471**		**471**
5 – Measurement of securities at fair value	**48**	**5**	**-43**		**-43**
6 – Measurement of other investments in equity instruments at fair value	**7,004**	**-12,681**	**-19,685**	**-19,685**	
7 – Deferred tax	**4,245**	**24,701**	**20,456**	**15,700**	**4,756**
TOTAL	**-3,581**	**-45,540**	**-41,959**	**-46,110**	**4,151**
Impact – see statement of changes in equity					
Revaluation reserves – financial instruments	-9,053	-55,203	-46,150	-46,150	
• Of which, Group share	-9,502	-55,773	-46,271	-46,271	
• Of which attributable to non-controlling interests	449	570	121	121	
Other consolidation reserves	4,960	5,511	551	551	
Net profit	511	4,152	3,641	-511	4,151
TOTAL	**-3,582**	**-45,540**	**-41,958**	**-46,110**	**4,151**

(a) Assets and liabilities offset in this table to give net position: + = net assets, - = net liabilities.
(b) Amounts not material.
(c) The + €1.6 million change in revaluation differences is related to an exchange gain realised in 2011.

The change in the fair value of financial instruments hedging the exchange rate risk, which affected equity as at 31 December 2010, was €3.7 million. During 2011, around 72% (and nearly 85% excluding Valinox Nucléaire) of the positive change in fair value allocated to the order book and commercial tenders at the end of 2010 was transferred from equity to the income statement, within the Group's foreign exchange gain or loss. This amount represents the impact of the changes in the value of exchange rate hedges in respect of the order book and commercial tenders at 31 December 2010, which were fully or partially unwound or converted into receivables during 2011.

This corresponds mainly to the hedges of receivables in US dollars, which represent nearly 95% of the changes in fair value of the hedges with an impact on equity as at 31 December 2010.

Balance sheet items concerned *In € thousand*	**At 31/12/2009**	**At 31/12/2010**	**Changes in 2010** Total	o/w reserves	o/w profit or loss
1- Derivatives recognised in the balance sheet [(a)]					
Changes in the intrinsic value of forward sales of currencies and forward purchases [(b)] linked to order books and commercial tenders	8,269	3,669	-4,600	-4,486	-114
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with accounts receivable (and accounts payable [(b)])	3,590	4,266	676		676
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with finance receivables (and finance payables)	1,328	11,756	10,428		10,428
Changes in the intrinsic value of hedges of raw material and energy purchases linked to order books and commercial tenders					
Changes in the intrinsic value of hedges of raw material and energy purchases linked to accounts payable					
Recognition of premium/discount	-68	1,160	1,228		1,228
Recognition of changes in fair value of interest rate swaps	-25,156	-25,433	-277	-277	
Changes in values linked to hedging instruments implemented under the terms of the employee share ownership schemes	6,759	10,569	3,810		3,810
Changes in value due to derivatives not classified as such	-497	-1	496		496
SUB-TOTAL: DERIVATIVES	**-5,775**	**5,986**	**11,761**	**-4,763**	**16,524**
• Of which derivatives — assets	*23,742*	*35,685*			
• Of which derivatives — liabilities	*29,517*	*29,698*			
2 — Receivables (payables [(b)]**) hedged in currencies —translation gain/loss**					
Valuation at the closing date exchange rate (accounts payable [(b)] and receivable)	-6,914	-5,791	1,123		1,123
Valuation at the closing date exchange rate (finance payables and receivables)	1,348	-12,161	-13,509		-13,509
IMPACT OF HEDGING OPERATIONS	**-11,341**	**-11,966**	**-625**	**-4,763**	**4,138**
3 — Measurement of receivables (payables [(b)]**) not hedged in currencies – translation gain/loss** [(c)]	**1,543**	**-1,552**	**-3,095**		**-3,095**
4 — Measurement of construction loans at the effective interest rate	**-1,576**	**-1,360**	**216**		**216**
5 — Measurement of securities at fair value	**36**	**48**	**12**		**12**
6 — Measurement of other investments in equity instruments at fair value	**6,564**	**7,004**	**440**	**440**	
7 — Deferred tax	**4,673**	**4,245**	**-428**	**332**	**-760**
TOTAL	**-101**	**-3,581**	**-3,480**	**-3,991**	**511**
Impact — see statement of changes in equity					
Revaluation reserves — financial instruments	-6,921	-9,053	-2,132	-2,132	
• Of which Group share	-7,021	-9,502	-2,481	-2,481	
• Of which attributable to non-controlling interests	100	449	349	349	
Other consolidation reserves	17,250	4,960	-12,290	-12,290	
Net profit	-10,430	511	10,941	10,430	511
TOTAL	**-101**	**-3,582**	**-3,481**	**-3,992**	**511**

(a) Assets and liabilities offset in this table to give net position: + = net assets, - = net liabilities.
(b) Amounts not material.
(c) The €3.1 million reduction in the revaluation difference is related to an exchange gain realised during 2010.

The change in the fair value of financial instruments hedging the exchange rate risk, which affected equity at 31 December 2009, was €8.3 million. During 2010, around 72% (and nearly 100% excluding Valinox Nucléaire) of the positive change in fair value allocated to the order book and commercial tenders at the end of 2009 was transferred from equity to the income statement, within the Group's foreign exchange gain or loss. This amount corresponds to changes in the value of exchange rate hedges in respect of the order book and commercial tenders at 31 December 2009, which have been either fully or partially unwound or converted into receivables during 2010.

The hedges of receivables in US dollars represent most (more than 90%) of the changes in fair value of the hedges recognised in equity.

8.2 INFORMATION ON THE TYPE AND EXTENT OF THE MARKET RISK AND THE WAY IT IS MANAGED BY THE GROUP

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

Interest rate risks

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

TOTAL LIABILITIES

At 31/12/2011 *In € thousand*	Other loans	Cash and cash equivalents
Fixed rate on date granted	1,400,257	
Variable rate on date granted swapped to fixed rate	494,302	
Fixed rate	**1,894,559**	
Variable rate	**200,834**	**901,886**
TOTAL	**2,095,393**	**901,886**

The amount of loans at a fixed rate on the date granted includes €643.1 million of bonds issued on 7 December 2011 for a nominal amount of €650 million adjusted for estimated financial costs using the amortised cost of capital method and for €344.7 million of outstanding commercial paper, which was issued at a fixed rate but has a maturity of over three months.

At 31/12/2010 *In € thousand*	Other loans	Cash and cash equivalents
Fixed rate on date granted	366,889	
Variable rate on date granted swapped to fixed rate	484,317	
Fixed rate	**851,206**	
Variable rate	**183,188**	**653,762**
TOTAL	**1,034,394**	**653,762**

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

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

Also, Vallourec & Sumitomo Tubos do Brazil (VSB) drew down 318 million reals (around €130 million) of the fixed-rate loan contracted in 2010 with BNDES and has taken out a new fixed-rate finance lease.

Lastly, on 7 December 20011, Vallourec carried out a bond issue for €650 million maturing in February 2017, with a fixed annual coupon of 4.25%.

Its bank debt exposed to changes in variable interest rates amounted to €200.8million (about 9.6% of total gross debt) at 31 December 2011.

No other significant line of fixed-rate financing will reach contractual maturity in the 12 months following the balance sheet date of 31 December 2011, apart from the variable rate loan swapped for a fixed rate of €260 million taken out by Vallourec, due to be reimbursed at maturity on 23 March 2012, and the outstanding €344.7 million of commercial paper issued for over 3 months, as well as the various lines of financing (totalling €25 million) at the Brazilian subsidiaries

After taking into account the Group's interest rate risk hedging policy, the impact of a one-percentage-point rise in interest rates applied to short-term rates of the eurozone, to Brazilian and Chinese rates and to UK and US money market rates would result in a €2.6 million increase in the Group's annual financial costs, based on the assumption that the level of debt and exchange rates remained completely stable and after taking into account the effects of any hedging instruments. This impact does not take into account the interest rate risk on commercial paper with maturity of more than three months and on cash in short-term investments (of more than three months).

In addition, based on the Group's simulations, a 0.5 percentage point rise or fall in interest rates applied to all yield curves would result in an increase, or a decrease, of approximately €1.5 million in the value of the swaps at 31 December 2011 (at the level of Vallourec).

Exchange rate risk

CURRENCY TRANSLATION RISK

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 recognised 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 2011, the net income, Group share, was generated to a significant extent by subsidiaries that prepare their financial statements in currencies other than the euro (mainly in US dollars and Brazilian real). A 10% change in exchange rates would have had an upward or downward impact on net income, Group share, of around €36.1 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 foreign currency translation reserves booked to equity (a gain of €205.9 million as at 31 December 2011) which, in recent years, have been linked mainly to movements in the US dollar and Brazilian real.

Foreign currency translation reserve – Group share *In € thousand*	**31/12/2010**	**31/12/2011**
USD	21,797	74,997
GBP	-12,337	-11,096
BRL	291,189	111,834
CNY (a)	11,471	35,225
Other	-3,670	-5,028
	308,450	**205,932**

(a) Chinese yuan

TRANSACTION RISK

The Groups is subject to exchange rate risks due to its business exposure linked to sales transactions entered into by some of its subsidiaries in currencies other than that of the country in which they are incorporated.

The main foreign currency used is the US dollar: a significant proportion of Vallourec's transactions (around 32% of Group sales in 2011) is invoiced in dollars by companies, the operating currency of which is not the dollar.

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 therefore 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 profit or loss 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, mainly forward purchases and sales. The Group sometimes uses options.

Order cancellations could therefore result in the cancellation of hedges implemented, leading to the recognition in the consolidated income statement of gains and losses in respect of these cancelled hedges in the consolidated profit and loss account.

We estimate that a 10% rise or fall in the currencies used in all hedges implemented by the Group would result in a €75 million decrease or increase in the intrinsic value recognized in consolidated equity at 31 December 2011. Most of these amounts would be due to changes in the US dollar against the euro.

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

At 31 December 2011, 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 *In € thousand*	**2010**	**2011**
Forward exchange contract forward sales	1,147,978	1,240,377
Forward exchange contract forward purchases	178,691	52,130
Currency options: sales	-	-
Currency options: purchases	-	-
Raw materials and energy: purchases, options	-	-
TOTAL	**1,326,669**	**1,292,507**

CONTRACT MATURITIES AT 31 DECEMBER 2011

Contracts in respect of commercial transactions *In € thousand*	**Total**	**< 1 year**	**One to five years**	**> 5 years**
Foreign exchange contracts: Forward sales	1,240,377	1,235,732	4,645	-
Foreign exchange contracts: Forward purchases	52,130	52,130		-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Commodities: call options Raw materials and energy — purchases, options	-	-	-	-
TOTAL	**1,292,507**	**1,287,862**	**4,645**	

Forward sales correspond mainly to sales of US dollars (€1,240 million of the €1,293 million total). These contracts were transacted at an average forward EUR/USD rate of 1.35.

In 2011, as in 2010, the hedges entered into generally covered an average period of around 12 months (except for Valinox Nucléaire due to its specific business activity) and mainly hedged highly likely future transactions and foreign currency receivables.

In addition to hedges on commercial transactions, Vallourec has implemented hedging contracts for financial loans and receivables denominated in foreign currencies:

- in 2009, a US $205 million (€158.4 million) currency swap supplemented in 2011 for US $95 million (€73.4 million). The currency swap matures in April 2013, when the hedged debt matures;
- in 2010 and 2011, forward sales of US $222.2 million (€171.7 million) and forward purchases for US $5 million (€3.9 million).

These instruments are intended to hedge either the debt denominated in USD, or loans in foreign currencies put in place by the financial holding company V & M Tubes in the currency of the subsidiaries that benefit from it. The forward sales mature at various times during 2012 and 2013, as and when the hedged loans mature.

Other than its foreign-currency-denominated borrowings, Vallourec does not hedge any of the other foreign currency assets and liabilities in its consolidated balance sheet (translation risks).

Credit risks

Vallourec is subject to credit risk in respect of its financial assets against which no impairment provision has been made, non-recovery of which 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 these loans (the contract interest rates may be lower).
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:

   - trade receivables: the Group's policy with regard to the amount of the provision for trade receivables is to recognise 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.

   The Group does not consider it appropriate to assume that it is subject to any risk in respect of its receivables, against which no provision has been made, that are less than 90 days overdue. The total amount of trade receivables that were more than 90 days overdue, and against which no provision had been made, totalled €37.6 million at 31 December 2011, i.e. 3.6% of the Group's total net trade receivables.

   Vallourec considers that the risk is limited given its existing customer risk management procedures, which include:

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

Moreover, at 31 December 2011, trade receivables not yet due amounted to €831.5 million, or 81% of total net trade receivables.

The following table provides an analysis by maturity of these trade receivables (in € million):

At 31 December 2011 *In € thousand*	**0 to 30 days**	**30 to 60 days**	**60 to 90 days**	**90 to 180 days**	**> 180 days**	**Total**
Trade receivables not yet due	563.1	211.0	48.8	7.3	1.3	831.5

Share price risks

The own shares held by Vallourec at 31 December 2011 comprised:

on the one hand, shares assigned to cover the allocation of shares to certain Group employees, executives and corporate officers.

Within this framework, Vallourec holds:

- 183,075 own shares acquired on 5 July 2001 after, specifically, the definitive award in 2011 of 44,074 shares under the terms of the performance share plan of 3 May 2007, 6,631 shares under the terms of the performance share plan of 1 September 2008, and 23,274 shares under the terms of the performance share plan of 31 July 2009;
- 73,156 own shares in 2008 under the terms of the share buyback programme of 4 June 2008 after the final allocation in 2011 of 26,844 shares under the terms of the performance share plan of 17 December 2009;
- 100,000 own shares acquired in 2010 under the terms of the 31 May 2010 share buyback plan;
- 400,000 own shares acquired in 2011 under the terms of the 7 June 2011 share buyback plan.

These figures take account of the 2:1 stock split on 9 July 2010.

The Management Board, in consultation with the Supervisory Board, has decided to allocate these own shares held directly in the following manner:

- to cover free shares allocated on 16 December 2008, the final quantity of which will not be known until 2013;
- to cover performance shares allocated on 31 July 2009, the final quantity of which will not be known until 2013;
- to cover free shares allocated on 17 December 2009, the final quantity of which will not be known until 2014;
- to cover performance shares allocated on 17 December 2009, the final quantity of which will not be known until 2013;
- to cover performance shares allocated on 15 March 2010, the final quantity of which will not be known until 2014;
- to cover performance shares allocated on 31 July 2010, the final quantity of which will not be known until 2014;
- to cover free shares allocated on 3 December 2010, the final quantity of which will not be known until 2015;
- to cover performance shares allocated on 3 December 2010, the final quantity of which will not be known until 2014;
- to cover performance shares allocated on 30 March 2011, the final quantity of which will not be known until 2015;
- to cover performance shares allocated on 18 November 2011, the final quantity of which will not be known until 2015;
- to cover free shares allocated on 15 December 2011, the final quantity of which will not be known until 2016.

Also, the shares held under the terms of the liquidity contract concluded with Crédit Agricole Cheuvreux, i.e. 256,000 shares for a total value of €11.1 million.

In 2007, Vallourec signed a liquidity contract with Crédit Agricole Chevreux. It is implemented under the annual general authorisation for the share buyback programme approved by the Shareholders' Meeting of 7 June 2011 (11th resolution). To implement this contract, €20 million was allocated to the liquidity account.

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.

2011 *In € thousand*	Notes	Class (a)	Gross value at 31/12/2011	Amortised cost	At fair value through equity	At fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed participating interests		AVS	65,940	-	65,940	-
Other investments in equity instruments		AVS	2,586	-	2,586	-
Loans		L&R	4,441	4,441	-	-
Other financial investments		L&R /AHM (b)	42,605	42,605	-	-
Accounts receivable	**7**	**L&R**	**1,043,492**	**1,043,492**	**-**	**-**
Derivatives — assets	**8**					
Hedging financial instruments (f)		CFH	39,705	-	797	38,908
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	**9**	**L&R**	**182,510**	**182,510**	**-**	**-**
Cash and cash equivalents	**10**	**A-FVTPL**	**901,886**	**-**	**-**	**901,886**
LIABILITIES						
Bank loans and other borrowings (c) (e)	**15**	**AC-EIR**	**808,640**	**808,640**	**-**	**-**
Other	**15**	**AC-EIR**	**476,044**	**476,044**	**-**	**-**
Overdrafts and other short-term bank borrowings (d) (e)	**15**	**AC-EIR**	**56,470**	**56,470**	**-**	**-**
Trade payables		**AC**	**668,680**	**668,680**	**-**	**-**
Derivatives — liabilities	8					
Hedging financial instruments		CFH	115,695	-	65,163	50,532
Speculative financial instruments		L-FVTPL	2	-	-	2
Other current liabilities	**19**	**AC**	**504,385**	**504,385**	**-**	**-**

(a) A-FVTPL Financial assets measured at fair value through profit or loss
AHM Assets held to maturity
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 Amortised cost
AC-EIR: Amortised cost according to the effective interest rate method
(b) In the Vallourec Group, the only assets in this category are security deposits and guarantees.
(c) Borrowings classified within non-current liabilities mature in more than 12 months.
(d) Borrowings that must be repaid within 12 months are classified as current liabilities.
(e) 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 the swap contracts, linked to interest rate movements, are recognised in equity to the extent of their effectiveness. Otherwise, they are recognised under financial income.
(f) Including the "Value 08", "Value 09", "Value 10" and "Value 11" warrant, the fair value of which was €7.6 million at 31 December 2011.

The financial instruments measured at fair value are classified by category on the basis of their measurement method. Fair value is determined as follows:

(A) the main method used is based on listed prices on an active market. Participating interests are measured in this manner;

(B) on the basis of observable methods and data and with reference to the financial markets (yield curve, forward prices, etc.).

2011 Balance sheet headings and classes of instruments *In € thousand*	Category	Total fair value in balance sheet	Fair value Listed prices (A)	Internal model with observable parameters (B)	Internal model with non -observable parameters
ASSETS					
Listed participating interests	AVS	65,940	65,940	-	-
Other investments in equity instruments	AVS	2,586	-	2,586	-
Derivatives — assets					
Hedging financial instruments	CFH	39,705	-	39,705	-
Speculative financial instruments	L-FVTPL	-	-	-	-
Cash and cash equivalents	**A-FVTPL**	**901,886**	**901,886**	**-**	**-**
LIABILITIES					
Derivatives — liabilities					
Hedging financial instruments	CFH	115,695	-	115,695	-
Speculative financial instruments	L-FVTPL	2	-	2	-

2010 *In € thousand*	**Notes**	**Class (a)**	**Gross value at 31/12/2010**	**Amortized cost**	**At fair value through equity**	**At fair value through income**
ASSETS						
Other non-current assets	**4**					
Listed participating interests		AVS	86,873	-	86,873	
Other investments in equity instruments		AVS	40,059	-	40,059	
Loans		L&R	4,397	4,397	-	
Other financial investments		L&R /AHM (b)	30,233	30,233	-	
Accounts receivable	**7**	**L&R**	**834,926**	**834,926**	**-**	
Derivatives — assets	**8**					
Hedging financial instruments (f)		CFH	35,685	-	4,222	31,463
Speculative financial instruments		A-FVTPL	-	-	-	
Other current assets	**9**	**L&R**	**188,268**	**188,268**	**-**	
Cash and cash equivalents	**10**	**A-FVTPL**	**653,762**	**-**	**-**	**653,762**
LIABILITIES						
Bank loans and other borrowings (c) (e)	**15**	**AC-EIR**	**775,762**	**775,762**	**-**	
Other	**15**	**AC-EIR**	**88,702**	**88,702**	**-**	
Overdrafts and other short-term bank borrowings (d) (e)	**15**	**AC-EIR**	**42,276**	**42,276**	**-**	
Trade payables		**AC**	**647,370**	**647,370**	**-**	
Derivatives — liabilities	**8**					
Hedging financial instruments		CFH	29,694	-	26,464	3,230
Speculative financial instruments		L-FVTPL	4	-	-	4
Other current liabilities	**19**	**AC**	**448,992**	**448,992**	**-**	

(a) A-FVTPL Financial assets measured at fair value through profit or loss
AHM Assets held to maturity
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 Amortised cost
AC-EIR: Amortised cost according to the effective interest rate method
(b) In the Vallourec Group, the only assets in this category are security deposits and guarantees.
(c) Borrowings classified within non-current liabilities mature in more than 12 months.
(d) Borrowings that must be repaid within 12 months are classified as current liabilities.
(e) 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 the swap contracts, linked to interest rate movements, are recognised in equity to the extent of their effectiveness. Otherwise, they are recognised under financial income.
(f) Including the "Value 08", "Value 09" and "Value 10" warrant, the fair value of which was €10.6 million at 31 December 2010.

The financial instruments measured at fair value are classified by category on the basis of their measurement method. Fair value is determined as follows:

(A) the main method used is based on listed prices on an active market. Participating interests are measured in this manner;

(B) on the basis of observable methods and data and with reference to the financial markets (yield curve, forward prices, etc.).

2010 Balance sheet headings and classes of instruments *In € thousand*	Category	Total fair value in balance sheet	Fair value Listed prices (A)	Fair value Internal model with observable parameters (B)	Fair value Internal model with non-observable parameters
ASSETS					
Listed participating interests	AVS	86,873	86,873		-
Other investments in equity instruments	AVS	40,059	-	40,059	-
Derivatives — assets					
Hedging financial instruments	CFH	35,685	-	35,685	-
Speculative financial instruments	L-FVTPL	-		-	-
Cash and cash equivalents	**A-FVTPL**	**653,762**	**653,762**	**-**	**-**
LIABILITIES					
Derivatives — liabilities					
Hedging financial instruments	CFH	29,694	-	29,694	-
Speculative financial instruments	L-FVTPL	4	-	4	-

Note 9 Other current assets

In € thousand	Amounts due from staff and social security bodies	Receivables re taxes excluding income tax	Prepaid expenses	Receivables re income tax	Other receivables	Total
At 31/12/2009	**6,646**	**45,384**	**18,960**	**26,479**	**55,451**	**152,920**
Impact of changes in exchange rates	209	1,344	1,593	2,358	2,568	8,072
Other changes	-802	26,640	2,188	-7,792	7,042	27,276
At 31/12/2010	**6,053**	**73,368**	**22,741**	**21,045**	**65,061**	**188,268**
Impact of changes in exchange rates	-146	-1,042	-787	-1,598	-242	-3,815
Other changes	-490	-5,125	5,430	6,728	-8,486	-1,943
AT 31/12/2011	**5,417**	**67,201**	**27,384**	**26,175**	**56,333**	**182,510**

Note 10 Cash and cash equivalents

In € thousand	Securities (from gross)	Cash and cash equivalents	Total
At 31/12/2009	**967,194**	**190,609**	**1,157,803**
Impact of changes in exchange rates	31,156	-2,472	28,684
Changes in scope	-	4,293	4,293
Other changes	-577,468	40,450	-537,018
At 31/12/2010	**420,882**	**232,880**	**653,762**
Impact of changes in exchange rates	-17,942	-4,627	-22,569
Changes in scope	8,703	117	8,820
Other changes	226,510	35,363	261,873
AT 31/12/2011	**638,153**	**263,733**	**901,886**

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

Note 11 Business combinations

This note presents the business combinations with a balance sheet total of over €100 million.

2011

Saudi Seamless Pipes Factory is the leading transformation and finishing company for seamless OCTG tubes in Saudi Arabia. The plant, situated at Dammam, had 99 employees at 31 December 2011.

Goodwill represents the difference between the acquisition price and the fair value at the acquisition date of the identifiable and contingent assets and liabilities. The Group has a period of 12 months to finalise the measurement of these assets and liabilities.

The following table shows the impact of the full consolidation of this company on the Group's assets and liabilities:

In € thousand	At 25 November 2011
Intangible assets	1,206
Tangible assets	106,043
Inventories	693
Trade receivables	198
Cash and cash equivalents	62
Other assets	233
TOTAL ASSETS	**108,435**
Goodwill [a]	478
Overdrafts and other short-term bank borrowings	101,018
Provisions for liabilities and charges	1,149
Employee benefits	147
Accounts payable	592
Other operating liabilities	103
TOTAL LIABILITIES	**103,487**
COUNTERPARTY PAID IN CASH [b]	**4,947**

(a) The acquisition of Saudi Seamless Pipes Factory generated negative goodwill of €0.5 million.
(b) Cash paid in respect of the acquisition of Saudi Seamless Pipes Factory.

This company was fully consolidated into the Group's financial statements as from 25 November 2011.

The intangible assets of Saudi Seamless Pipes Factory are amortised as follows:

- Land use right: 25 years

2010

Serimax is an international company with 800 employees, which offers comprehensive welding services in challenging conditions, comprising the planning, management and implementation of complex welding projects.

Goodwill represents the difference between the acquisition price and the fair value at the acquisition date of the identifiable and contingent assets and liabilities. The Group has a period of 12 months to finalise the measurement of these assets and liabilities.

The following table shows the impact of the full consolidation of this company on the Group's assets and liabilities:

In € thousand	**At 8 June 2010**
Intangible assets	30,262
Tangible assets	32,211
Goodwill [(a)]	72,634
Financial investments	306
Inventories	14,505
Trade receivables	44,280
Cash and cash equivalents	4,284
Other assets	11,279
TOTAL ASSETS	**209,761**
Overdrafts and other short-term bank borrowings	65,952
Provisions for liabilities and charges	6,215
Employee benefits	1,193
Accounts payable	31,575
Deferred tax liabilities	4,767
Other operating liabilities	17,430
TOTAL LIABILITIES	**127,132**
COUNTERPARTY PAID IN CASH	**82,629**

(a) The residual goodwill of €72.6 million is justified by the value of the human capital and by the defensive and commercial synergies expected from this acquisition.
(b) Cash paid in respect of the acquisition of Serimax.

The companies in the Serimax Group have been fully consolidated into the Group's financial statements as from 8 June 2010.

If these companies had been acquired on 1 January 2010, they would have contributed €131.3 million to the Group's sales.

Serimax's intangible assets, which were valued by independent experts, are amortised over the following periods:

- Customer relations: 9 years
- Technology: 15 years

Note 12 Equity

CAPITAL

The capital of Vallourec is composed of 121,434,409 ordinary shares with a par value of €2 fully paid up at 31 December 2011, compared with 117,944,082 at 31 December 2010 with a par value of €2.

2011

On 7 July 2011, the option to pay the dividend in shares, which was approved by the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, resulted in the creation of 1,140,338 new shares (0.97% of the share capital) issued at the price of €75.92, giving a capital increase of €86.6 million, including additional paid-in capital net of expenses.

On 15 December 2011, under the terms of the "Value 11" employee share ownership scheme, 2,349,989 new shares were subscribed at a price of €35.90 giving a capital increase of €83.5 million, including additional paid-in capital net of expenses.

2010

On 30 June 2010, the option for payment of the dividend in shares, which was approved by the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2010, resulted in the creation of 993,445 new shares (1.7% of the share capital) issued at a price of €130.85, giving a capital increase of €130.0 million, including additional paid-in capital net of expenses.

On 9 July, with the aim of making Vallourec's shares more accessible and increasing the number of individual shareholders, a 2:1 stock split was carried out in accordance with the decision of the Shareholders' Meeting of 31 May 2010.

On 3 December 2010, under the terms of the "Value 10" employee share ownership scheme, 1,395,614 new shares were subscribed at a price of €61.14 giving a capital increase of €84.4 million, including additional paid-in capital net of expenses.

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 recognised in equity.
- variable-rate borrowings in respect of which interest rate swaps (at 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 recognised in equity;

CURRENCY TRANSLATION RESERVES

This reserve arises as a result of the translation of the equity of subsidiaries outside the eurozone. The variation in the reserve corresponds to changes in exchange rates used to translate the equity and profit or loss for these subsidiaries. Components of the reserve may be written off to the income statement only in the event of the partial or total disposal and loss of control of the foreign subsidiary concerned.

In € thousand	USD	GBP	BRL	CNY (a)	Other	Total
At 31/12/2009	**-51,922**	**-13,717**	**126,791**	**1,844**	**-14,884**	**48,112**
Changes	73,719	1,380	164,398	9,627	11,214	260,338
At 31/12/2010	**21,797**	**-12,337**	**291,189**	**11,471**	**-3,670**	**308,450**
Changes	53,200	1,241	-179,355	23,754	-1,358	-102,518
AT 31/12/2011	**74,997**	**-11,096**	**111,834**	**35,225**	**-5,028**	**205,932**

(a) Chinese yuan

MAIN EXCHANGE RATES USED (EURO/CURRENCY): TRANSLATION OF BALANCE SHEET ITEMS (CLOSING RATE) AND INCOME STATEMENT ITEMS (AVERAGE RATE)

In € thousand for one €	USD	GBP	BRL	CNY (a)
2010				
Average rate	1.33	0.86	2.33	8.98
Closing rate	1.34	0.86	2.22	8.82
2011				
Average rate	**1.39**	**0.87**	**2.33**	**8.99**
Closing rate	**1.29**	**0.84**	**2.42**	**8.15**

(a) Chinese yuan

Note 13 Earnings per share

Basic earnings per share are calculated by dividing the net profit 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 profit 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 *In € thousand*	**2010**	**2011**
Net profit attributable to the ordinary shareholders for basic earnings per share	**409,600**	**401,547**
Weighted average number of ordinary shares for basic earnings per share	115,765,944	118,685,868
Weighted average number of own shares for basic earnings per share	-539,679	-700,878
Weighted average number of shares for basic earnings per share	115,226,265	117,984,990
EARNINGS PER SHARE (in €)	**3.6**	**3.4**
Earnings per share comparable to 2011 (in €)	3,6	
Dilution effect — share purchase and share subscription options and performance shares	198,955	405,929
Adjusted weighted average number of ordinary shares for diluted earnings per share	115,425,220	118,390,919
DILUTED EARNINGS PER SHARE (in €)	**3.5**	**3.4**
Earnings per share comparable to 2011 (in €)	3.5	-

Dividends paid during the year *In €*	**2010**	**2011**
• In respect of the previous period	1.75	1.30
• Interim dividend in respect of the current period	-	-

These figures take into account the 2:1 stock split, which took place on 9 July 2010, and the correlative multiplication of the number of shares by two.

Note 14 Non-controlling interests

In € thousand	**Reserves**	**Translation difference**	**Net profit**	**Total**
At 31/12/2010	228,927	-5,003	43,235	267,159
AT 31/12/2011	**312,327**	**12,419**	**55,276**	**380,022**

Non-controlling interests relate mainly to the Sumitomo Group.

Note 15 Bank loans and other borrowings

LIQUIDITY RISKS

The Group's financial resources are composed of bank finance and market finance.

The majority of long-term and medium-term bank finance has been put in place in Europe through Vallourec and its sub-holding company V & M Tubes, and to a lesser extent via the subsidiaries in Brazil and the United States.

In Europe

In March 2005, a seven-year €460 million credit facility, partly in euros and partly in US dollars, was made available to Vallourec by a syndicate of banks for a seven-year period to finance the acquisition of the 45% stake in V & M Tubes. This facility was reduced to €260 million in February 2011.

At 31 December 2011, a tranche of €260 million (included in non-current liabilities) had been drawn down.

In April 2008, Vallourec contracted a loan of US $300 million over five years with a syndicate of seven banks. This financing contract also provided for a €350 million revolving line of credit, which the Group closed in February 2011. At 31 December 2011, Vallourec used the US $300 million loan (€232 million), which is recorded under non-current liabilities.

In November 2008, Vallourec contracted a credit line of €100 million from the Crédit Agricole Group for a six-year period (maturing at the end of October 2015). This loan was drawn down at the end of January 2009.

In February 2011, Vallourec contracted a multi-currency revolving credit line in the amount of €1 billion maturing in 2016. This line, which has already enabled it to close two revolving credit lines put in place in 2005 and 2008, will also be used to refinance existing credit lines reaching maturity in March 2012 and April 2013. At 31 December 2011, this line had not been drawn down.

All these bank facilities require Vallourec to maintain its ratio of consolidated net debt to consolidated equity at less than or equal to 75% calculated at 31 December each year. A change in control of Vallourec could require the redemption of some or all of the credit, to be decided by 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 to this bank finance, the Vallourec Group aims to diversify its source of finance by calling on the markets. For example, Vallourec issued a commercial paper programme on 12 October 2011 to meet its short-term needs. The programme is capped at €750 million.

At 31 December 2011, Vallourec had €344.5 million outstanding with a maturity of one to three months. This commercial paper programme is rated A-2 by Standard & Poor's.

On 7 December 2011, Vallourec also carried out a bond issue for €650 million maturing in February 2017, with a fixed annual coupon of 4.25%.

This bond issue had a maturity of 5 years 2 months. It is intended to diversify and increase the amount and extend the maturity of the financial resources available to and used by the Group.

The market value of the fixed-rate bond issue was €658.0 million at 31 December 2011, taking account of the interest rate swap curve.

This bond issue specifically includes a change of control clause that would trigger the mandatory early redemption of the bonds at the request of each bondholder in the event of a change of control of the Company (in favour of a person or a group of people acting in concert) entailing a reduction in the Company's financial rating.

In addition to these lines of finance put in place by Vallourec, at the beginning of 2007 the Group negotiated for V & M Tubes five medium-term (five years) bilateral lines with its closest banks. Apart from one line which has been rolled over to 2014, these lines will mature in 2013. Each of these lines is for €100 million and includes the same undertakings as those for the facilities put in place by Vallourec.

In addition, these bonds may be subject to early repayment in the event of certain cases of default, as is usual for this type of transaction, as well as demands for early repayment at the behest of the Company or the holder, in certain cases, particularly a change in the Company's position or fiscal situation.

At 31 December 2011, the Group respected its commitments and conditions concerning obtaining and maintaining all the above financial resources and, at 31 December 2011, all the above-mentioned provisions were sufficient for the Group's liquidity requirements.

In Brazil

In 2006, V & M do Brazil, V & M Florestal and V & M Mineração Ltda put in place several medium-term financing lines, denominated in Brazilian reals. The amount of confirmed lines totalling 61.3 million reals (€25.4 million at 31 December 2011) was spread among several banks (mainly BNDES, BDMG and BNB). These financing lines will mature in 2012.

In December 2009, Vallourec & Sumitomo Tubos do Brazil, which is 56% owned by the Group, contracted a loan of 448.8 million Brazilian reals from BNDES (Banco National de Desenvolvimento Economico e Social). This fixed-rate loan at 4.5% is denominated in Brazilian real and has a term of eight years. It will be amortised from 15 February 2012. In 2010 and 2011, this loan was used in the amount of 318 millions Brazilian reals.

During the course of the 2010 financial year, this same company in Brazil concluded a finance lease agreement with a nominal value of 570 million Brazilian reals relating to equipment required in the operation of the plant at the Jeceaba site. In the United States

In the United States

The Group's US companies (V & M Star LP, VAM Drilling USA, Valtimet Inc., VAM USA LLC, V & M Tube-Alloy™, V & M USA Corp and V & M Holdings Inc.) benefit from a series of bilateral bank lines, which were renewed in 2011, totalling USD 185 million (Bank of America and CIC). The amount used at 31 December 2011 came to USD 40 million. The terms of these lines with maturities of less than one year contain clauses relating to the indebtedness of each of the companies referred to above and a change of control clause.

The carrying amount of these borrowings is a good approximation of their market value since most of them were variable rate borrowings when they were taken out.

FINANCIAL LIABILITIES — NON-CURRENT LIABILITIES

In € thousand	Bank borrowings	Finance leases	Bond issue	Other bank and similar borrowings	Total
At 31/12/2009	**623,739**	**-**	**-**	**11,191**	**634,930**
New borrowings taken out	73,486	121,465			194,951
Repayments	-70,626	-		-729	-71,355
Reclassifications	-16,676	-		-10,617	-27,293
Impact of changes in exchange rates	9,342	6,189		1,937	17,468
Changes in scope	64,947	-		-	64,947
Other changes	-	-		41	41
At 31/12/2010	**684,212**	**127,654**		**1,823**	**813,689**
New borrowings taken out	25,241		643,115	515	668,871
Repayments	-8,519	-6,483		-101,998	-117,000
Reclassifications	-259,850	-131			-259,981
Impact of changes in exchange rates	-7,869	-9,916		-45	-17,830
Changes in scope				102,366	102,366
Other changes				-894	-894
AT 31/12/2011	**433,215**	**111,124**	**643,115**	**1,767**	**1,189,221**

FINANCIAL LIABILITIES — CURRENT LIABILITIES

In € thousand	Bank overdrafts	Accrued interest on bank overdrafts	Bank borrowings (one year or less)	Accrued interest on bank borrowings	Other bank and similar borrowings (one year or less)	Total
At 31/12/2009	**11,038**	**4**	**70,346**	**3,780**	**31,063**	**116,231**
Reclassifications	-	-	16,676	-	10,617	27,293
Impact of changes in exchange rates	222	3	8,872	38	6,079	15,214
Changes in scope	1,726	29	-	58	6,556	8,369
Other changes	29,285	-31	-4,344	-2,764	31,452	53,598
At 31/12/2010	**42,271**	**5**	**91,550**	**1,112**	**85,767**	**220,705**
Reclassifications			259,850		1,378	261,228
Impact of changes in exchange rates	-962		-5,014	14	-6,625	-12,587
Changes in scope			51,288			51,288
Other changes	15,116	40	-22,249	2,941	389,690	385,538
AT 31/12/2011	**56,425**	**45**	**375,425**	**4,067**	**470,210**	**906,172**

DEBT BY CURRENCY

	USD	EUR	BRL	Other	Total
At 31/12/2010 — thousands of currency	423,614	400,930	641,020	n/a	n/a
At 31/12/2010 — thousands of euros	317,029	400,930	289,047	27,389	1,034,395
At 31/12/2011 — thousands of currency	**514,640**	**1,375,243**	**712,618**	**n/a**	**n/a**
AT 31/12/2011 — IN THOUSANDS	**397,743**	**1,375,243**	**294,970**	**27,437**	**2,095,393**

ANALYSIS BY MATURITY OF NON-CURRENT BORROWING AND DEBT (< 1 YEAR)

In € thousand	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
At 31/12/2010	**318,589**	**244,470**	**18,741**	**118,601**	**113,268**	**813,669**
Finance leases	8,361	8,378	8,397	8,414	77,574	111,124
Other non-current financial liabilities	248,518	21,494	115,973	15,636	676,476	1,078,097
At 31/12/2011	**256,879**	**29,872**	**124,370**	**24,050**	**754,050**	**1,189,221**

ANALYSIS BY MATURITY OF CURRENT BORROWING AND DEBT

2011 *In € thousand*	< 3 months	> 3 months and < 1 year	Total
Bank borrowings	291,799	83,625	375,424
Other borrowings	344,435	117,431	461,866
Finance lease borrowings	8,214	131	8,345
Accrued interest on borrowings	4,112		4,112
Bank overdrafts (negative cash and cash equivalents)	56,470		56,470
AT 31/12/2011	**704,985**	**201,187**	**906,172**

DEBT BY INTEREST RATE

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

In € thousand	Rate < 3%	Rate 3 to 6%	Rate 6 to 10%	Rate > 10%	Total
At 31/12/2010					
Fixed rate on date granted	6,247	166,276	61,620	132,747	366,890
Variable rate on date granted swapped to fixed rate	-	484,317	-	-	484,317
Fixed rate	6,247	650,593	61,620	132,747	851,207
Variable rate	118,768	26,643	35,410	2,366	183,187
TOTAL	**125,015**	**677,236**	**97,030**	**135,113**	**1,034,394**
At 31/12/2011					
Fixed rate on date granted	505,084	826,216	68,957		1,400,257
Variable rate on date granted swapped to fixed rate		494,302			494,302
Fixed rate	505,084	1,320,518	68,957		1,894,559
Variable rate	164,649	8,918	18,868	8,399	200,834
TOTAL	**669,733**	**1,329,436**	**87,825**	**8,399**	**2,095,393**

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

Note 16 Provisions

Non-current liabilities *In € thousand*	Provisions for environmental risks
At 31/12/2009	**5,602**
Provisions allocated for the year	2,292
Provisions used	-150
Impact of changes in exchange rates	805
Other	-
At 31/12/2010	**8,549**
Provisions allocated for the year	462
Provisions used	-77
Impact of changes in exchange rates	-760
Other	1,755
AT 31/12/2011	**9,929**

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

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 *In € thousand*	Commercial disputes	Orders outstanding – losses on completion	Reorganisation measures	Tax risks (duties, taxes, tax audits, etc.)	Other	Total
At 31/12/2009	**46,006**	**4,210**	**2,410**	**37,897**	**49,951**	**140,474**
Provisions allocated for the year	52,031	10,825	7,799	11,174	13,971	95,800
Provisions used	-57,449	-1,371	-2,443	-10,596	-25,065	-96,924
Other reversals	-6,043	-	-	-	-1,285	-7,328
Impact of changes in exchange rates	2,012	48	31	4,862	1,743	8,696
Changes in scope	890	1	-	5,593	1,027	7,511
At 31/12/2010	**37,447**	**13,713**	**7,797**	**48,930**	**40,342**	**148,229**
Provisions allocated for the year	41,829	7,515	500	10,325	11,976	72,145
Provisions used	-27,809	-11,777	-5,529	-6,768	-25,766	-77,649
Other reversals	-7,136			-9,291	-3,575	-20,002
Impact of changes in exchange rates	-1,003	108		-3,552	-1,311	-5,758
Changes in scope and others	169	-28	168	1,936	1,087	3,332
AT 31/12/2011	**43,497**	**9,531**	**2,936**	**41,580**	**22,753**	**120,297**

PROVISION FOR TAX RISKS

This provision mainly relates to risks in connection with tax disputes in Brazil, some of which are covered by security deposits (see Note 4).

The Brazilian tax authorities have challenged a judgment, which resulted in the Group obtaining, in 2006, the reimbursement of 137 million reals of IPI taxes (185 million reals of interest included at the end of 2011). This judgment was the final judgment of the Court of Appeal. Since the Group believed that a favourable outcome of this case was more probable than improbable, no provision was booked in respect of it.

OTHER CURRENT PROVISIONS

This heading comprises various provisions in respect of customer discounts, penalties for delays and other risks identified at the balance sheet date.

For 2011, actual annual greenhouse gas emissions were lower than the quotas granted by the state and therefore no provision has been recognised in respect of them.

Note 17 Other long-term liabilities

Other long-term liabilities
In € thousand

At 31/12/2009	**1,310**
Impact of changes in exchange rates	2,013
Other changes	47,638
At 31/12/2010	**50,961**
Impact of changes in exchange rates	-7,025
Other changes	48,177
AT 31/12/2011	**92,113**

Other long-term liabilities are mainly composed of other debt excluding operation of more than one year and the Sumitomo loan to VSB in the amount of €60.4 million.

The change in this item in 2011 is due to the loan granted by Sumitomo to VSB and by the decrease in debt on capital expenditure acquisitions.

Note 18 Employee benefits

In € thousand	Germany	France	United Kingdom	Other	Total
At 31/12/2010					
Discounted value of the commitment	**213,716**	**44,667**	**86,392**	**63,413**	**408,188**
Retirement	188,219	40,710	86,392	57,068	372,389
Early retirement commitments	12,475	-	-	-	12,475
Long-service awards and medical benefits	13,022	3,957	-	6,345	23,324
Fair value of the plan assets	-116,629	-3,500	-82,392	-11,849	-214,370
Past service costs not recognised	-25	-7,156	-	-96	-7,277
Actuarial gains and losses not recognised	-42,374	-4,485	-8,537	-8,855	-64,251
PROVISION	**54,688**	**29,526**	**-4,537**	**42,613**	**122,290**
At 31/12/2011					
Discounted value of the commitment	**206,781**	**44,183**	**101,997**	**64,244**	**417,205**
Retirement	180,758	40,438	101,997	58,691	381,884
Early retirement commitments	12,803	-	-	-	12,803
Long-service awards and medical benefits	13,220	3,745	-	5,553	22,518
Fair value of the plan assets	-122,921	-3,507	-91,921	-16,220	-234,569
Past service costs not recognised		-6,711		-21	-6,732
Actuarial gains and losses not recognised	-30,470	-1,424	-18,301	-9,004	-59,199
PROVISION	**53,390**	**32,541**	**-8,225**	**38,999**	**116,705**

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 31/12/2010				
Discount rate	4.00%	4.00%	5.60%	from 5.67% to 11.37%
Long-term return on plan assets	4.00%	4.00%	6.30%	from 7.5% to 10.24%
Rate of salary increase	2.75%	3.05%	4.50%	from 3.5% to 10%
At 31/12/2011				
Discount rate	4.70%	4.70%	4.85%	from 5.54% to 10.9%
Long-term return on plan assets	4.00%	3.50%	5.85%	from 7% to 11.37%
Rate of salary increase	2.75%	3.01%	4.10%	from 3.5% to 7%

In 2003, an exhaustive review was carried out of the defined benefit schemes on the entire scope of the Group. This was updated in 2010.

For the financial years 2010 and 2011:

- the amount of payments into the plan assets was €32.2 million in 2010 and €13.3 million in 2011;
- the return on plan investments was €11.9 million in 2010 and €6.7 million in 2011.

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.

Experience differentials and amendments to the plan generated in 2011 represent losses of €4 million for the Group (€1.4 million in 2010).

The Group envisages paying in 2012 an amount of €27.2 million in respect of defined benefit schemes, including €19.2 million in respect of German schemes, €3 million in respect of UK schemes, €2.7 million in respect of French schemes and €2.3 million in respect of Brazilian schemes.

Those schemes, which are fully or partially outsourced, represented a total commitment of €328 million at 31 December 2011 for assets of €235 million.

In the eurozone, the discount rate was based on the iBoxx index (AA-rated corporate bonds with a maturity or more than ten years, estimated on the date the commitments are measured). This index uses a basket of bonds composed of financial and non-financial securities. In 2011, a general fall in discount rates resulted in an overall decline in commitments generating material actuarial gains over the financial year.

The plan assets offered lower performance than the forecast €4.3 million but generated positive returns over the year.

France

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

At 31 December 2011, a sensitivity test was carried out: a 1% change in the discount rate would result in a change of about €3.8 million in these commitments.

On 14 September 2005, an additional retirement scheme with its own plan assets was set up for senior management. The scheme is partially outsourced to an insurance company. Since this is a defined benefit scheme, it is measured on an actuarial basis and recognised in accordance with IAS 19 in the case of active employees. At 31 December 2011, the commitment was €6.9 million for an asset of €3.3 million.

Germany

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

A sensitivity test was carried out on the main German pension plans: a 1% change in the discount rate would result in a change of about €18.9 million in these commitments.

As was the case in previous years, the Group continued the outsourcing process in 2011: additional contributions of €3.6 million (€24.5 million in 2010) were paid to a financial institution.

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.

Contributions have exceeded the pension expense, which has resulted in an asset automatically appearing in the Group's financial statements (€8.2 million at 31 December 2011 and €4.5 million at 31 December 2010) even though the commitment has continued to exceed the plan assets. Local actuaries have confirmed that the criteria required for an asset to be recognized have been met.

A sensitivity test was carried out on this plan: a 1% change in the discount rate would result in a change of about €20.4 million in these commitments.

Actuarial losses of €9.8 million were generated during the year. They are mainly related to changes in assumptions and particularly the fall in discount rates (€8.2 million).

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 €1.1 million in 2010 and €1.2 million in 2011. A contribution of €0.4 million was paid this year (no contribution in 2010).

Mexico

The commitments in Mexico are not material for the Group.

United States

Employees benefit from retirement benefits and health care insurance once they have retired.

The assumption concerning the increase in medical benefits will reduce successively from 2012 to 2017: i.e. from 7.8% to 5% for active employees and from 8.9% to 5.5% for retired employees.

No significant events occurred during 2011, which would have a material impact on commitments.

Other countries

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

The charges recognised 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 costs recognised during the period, the expected return on plan assets, the impact of reductions in or liquidations of plans and the amortisation of actuarial gains and losses. The portion relating to the discounting of rights is recognised within financial income or loss and the return on plan assets is recognised within financial income. An analysis of these charges is provided in the following table:

CHARGE FOR THE FINANCIAL YEAR

In € thousand	Germany	France	United Kingdom	Other	Total
At 31/12/2010					
Cost of services rendered	7,723	1,668	2,164	3,903	15 458
Interest charges on the commitment	9,031	1,758	4,881	3,154	18 824
Expected return on plan assets	-4,115	-177	-4,556	-834	-9 682
Net actuarial losses (+) / gains (-) recognised during the financial year	437	209	571	1,663	2 880
Past service costs	88	932		5	1 025
Impact of any reduction or liquidation	-43		900		857
NET CARRYING AMOUNT	**13,121**	**4,390**	**3,960**	**7,891**	**29 362**
ACTUAL RETURN ON PLAN ASSETS	**876**	**228**	**9,394**	**1,449**	**11 947**

In € thousand	Germany	France	United Kingdom	Other	Total
At 31/12/2011					
Cost of services rendered	6,697	2,909	1,795	3,048	14,449
Interest charges on the commitment	8,105	1,861	4,735	3,722	18,423
Expected return on plan assets	-4,618	-140	-5,233	-1,042	-11,033
Net actuarial losses (+) / gains (-) recognised during the financial year	3,559	-23		493	4,029
Past service costs	25	515		3	543
Impact of any reduction or liquidation	-204	-168			-372
NET CARRYING AMOUNT	**13,564**	**4,954**	**1,297**	**6,224**	**26,039**
ACTUAL RETURN ON PLAN ASSETS	**2,692**	**108**	**3,712**	**194**	**6,706**

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

2010 *In € thousand*	Germany	France	United Kingdom	Other	Total
Commitments not recognised at 31/12/2009 — Losses (+) / gains (-)	16,686	2,804	18,318	6,580	44,388
Commitments not recognised at 31/12/2010 — Losses (+) / gains (-)	42,399	11,641	8,537	8,951	71,528
CHANGE	**25,713**	**8,837**	**-9,781**	**2,371**	**27,140**
Amortisation of commitments not recognised during the financial year Losses (-) / gains (+)	489	592	570	3,107	4,758
Commitments not recognised generated during the year — experience adjustments and plan amendments	-2,882	-5,106	4,918	1,714	-1,356
Commitments not recognised generated during the year — changes in assumptions	-23,320	-4,323	4,904	-6,069	-28,808
Exchange gains or losses and other			-611	-1,123	-1,734
CHANGE	**-25,713**	**-8,837**	**9,781**	**-2,371**	**-27,140**

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

2011 *In € thousand*	Germany	France	United Kingdom	Other	Total
Commitments not recognised at 31/12/2010 — Losses (+) / gains (-)	42,399	11,641	8,537	8,951	71,528
Commitments not recognised at 31/12/2011 — Losses (+) / gains (-)	30,470	8,135	18,301	9,025	65,931
CHANGE	**-11,929**	**-3,506**	**9,764**	**74**	**-5,597**
Amortisation of commitments not recognised during the year Losses (-) / gains (+)	3,559	-23		493	4,029
Commitments not recognised generated during the year — experience adjustments and plan amendments	-5,713	165	-934	2,543	-3,939
Commitments not recognised generated during the year — changes in assumptions	14,083	3,364	-8,214	-2,846	6,387
Exchange gains or losses and other			-616	-264	-880
CHANGE	**11,929**	**3,506**	**-9,764**	**-74**	**5,597**

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

Changes in associated assets *In € thousand*	Germany	France	United Kingdom	Other	Total
At 31/12/2009	**91,250**	**4,425**	**68,355**	**8,815**	**172,845**
Value of assets	91,250	4,425	68,355	8,815	172,845
Return on assets	876	228	9,394	1,449	11,947
Contributions	24,503	275	6,340	1,114	32,232
Benefits paid		-1,428	-3,829	-263	-5,520
Acquisitions, disposals, liquidations					
Impact of changes in exchange rates			2,132	734	2,866
At 31/12/2010	**116,629**	**3,500**	**82,392**	**11,849**	**214,370**
Value of assets	116,629	3,500	82,392	11,849	214,370
Return on assets	2,692	108	3,712	194	6,706
Contributions	3,600		5,541	4,143	13,284
Benefits paid		-101	-2,502	-485	-3,088
Acquisitions, disposals, liquidations					
Impact of changes in exchange rates			2,778	519	3,297
AT 31/12/2011	**122,921**	**3,507**	**91,921**	**16,220**	**234,569**

Changes in the commitment *In € thousand*	Germany	France	United Kingdom	Other	Total
At 31/12/2009	**183,530**	**33,232**	**83,886**	**49,413**	**350,061**
Cost of services rendered	7,723	1,668	2,164	3,903	15,458
Interest charges on the commitment	9,031	1,758	4,881	3,154	18,824
Employee contributions			713		713
Actuarial losses (+) / gains (-) generated during the year	22,393	3,593	-4,984	4,593	25,595
Acquisitions / disposals	1,467	1,193		-	2,660
Payment of benefits	-10,485	-3,172	-3,829	-1,658	-19,144
Scheme amendments		5,902		486	6,388
Exchange rate differences			2,661	5,677	8,338
Other	57	493	900	-2,155	-705
AT 31/12/2010	**213,716**	**44,667**	**86,392**	**63,413**	**408,188**

Changes in the commitment *In € thousand*	Germany	France	United Kingdom	Other	Total
At 31/12/2010	**213,716**	**44,667**	**86,392**	**63,413**	**408,188**
Cost of services rendered	6,697	2,909	1,795	3,048	14,449
Interest charges on the commitment	8,105	1,861	4,735	3,722	18,423
Employee contributions			827		827
Actuarial losses (+) / gains (-) generated during the year	-10,440	-3,090	7,627	-358	-6,261
Acquisitions / disposals					
Payment of benefits	-11,380	-1,997	-2,503	-3,036	-18,916
Scheme amendments					
Exchange rate differences			3,124	-2,134	990
Other	83	-167	-	-411	-495
AT 31/12/2011	**206,781**	**44,183**	**101,997**	**64,244**	**417,205**

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

Change in the provision *In € thousand*	Germany	France	United Kingdom	Other	Total
PROVISION/(ASSET) AT 31/12/2009	**75,594**	**26,003**	**-2,787**	**34,018**	**132,828**
Total charge for the period	13,121	4,390	3,960	7,891	29,362
Benefits or contributions to the funds	-35,494	-2,018	-5,627	-3,523	-46,662
Impact of changes in exchange rates			-83	4,186	4,103
Change in consolidation scope and other	1,467	1,151		41	2,659
PROVISION/(ASSET) AT 31/12/2010	**54,688**	**29,526**	**-4,537**	**42,613**	**122,290**
Total charge for the period	13,564	4,954	1,297	6,224	26,039
Benefits or contributions to the funds	-14,980	-1,896	-4,715	-6,694	-28,285
Impact of changes in exchange rates			-270	-2,624	-2,894
Change in scope and other	118	-43		-520	-445
PROVISION/(ASSET) AT 31/12/2011	**53,390**	**32,541**	**-8,225**	**38,999**	**116,705**

The following table provides a breakdown of the plan assets:

United Kingdom	31/12/2011 Proportion	31/12/2011 Rate of return	31/12/2010 Proportion	31/12/2010 Rate of return
Equities (UK and Overseas)	48.00%	8.00%	47.00%	8.00%
Bonds	45.00%	7.50%	48.00%	4.60%
Property	-	-	4.00%	7.50%
Other (Cash & Index Linked Gilts)	7.00%	0.50%	1.00%	0.50%

United States	31/12/2011 Proportion	31/12/2011 Rate of return	31/12/2010 Proportion	31/12/2010 Rate of return
Equities	41.30%	10.00%	41.10%	10.00%
Bonds	47.40%	6.00%	48.30%	6.00%
Property	11.30%	10.00%	10.60%	10.00%
Other	-	-	-	-

France	31/12/2011 Proportion	31/12/2011 Rate of return	31/12/2010 Proportion	31/12/2010 Rate of return
Equities	-	-	-	-
Bonds	-	-	-	-
Property	-	-	-	-
Other	100.00%	3.52%	100.00%	4.00%

In Germany, the funds are invested in bonds and the expected yield is 4%.

Amounts written off as expenses in respect of defined contribution plans: *In € thousand*	Production staff	Management and supervisory staff	Total
At 31/12/2010			
Employer's share of retirement contributions	6,024	9,967	15,991
Life insurance paid by the employer	3,311	2,248	5,559
Other retirement contributions	440	14	454
TOTAL	**9,775**	**12,229**	**22,004**
At 31/12/2011			
Employer's share of retirement contributions	8,679	9,889	18,568
Life insurance paid by the employer	12,886	6,515	19,401
Other retirement contributions	461	5	466
TOTAL	**22,026**	**16,409**	**38,435**

OTHER EMPLOYEE BENEFITS (OPTIONS AND PERFORMANCE SHARES)

Share subscription plans

CHARACTERISTICS OF THE PLANS

Vallourec's Management Board authorised the setting up of share subscription plans in 2007, 2008, 2009, 2010 and 2011 for the benefit of certain staff members and corporate officers of the Vallourec Group.

The characteristics of these plans are as follows (the figures for the 2007, 2008 and 2009 plans have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the correlative multiplication of the number of shares by two):

	2007 plan	2008 plan	2009 plan	2010 plan	2011 plan
Date awarded	03/09/2007	01/09/2008	01/09/2009	01/09/2010	01/09/2011
Maturity date	03/09/2011	01/09/2012	01/09/2013	01/09/2014	01/09/2015
Expiration date	03/09/2014	01/09/2015	01/09/2019	01/09/2020	01/09/2021
Number of beneficiaries at outset	65	9	303	349	743
Strike price in euros	95.30	91.77	51.67	71.17	60.71
Number of options granted	294,600	143,600	578,800	512,400	684,521

CHANGE IN NUMBER OF UNEXPIRED OPTIONS

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

In number of options	2010	2011
Total at start of year	1,034,288	1,501,200
Options distributed	512,400	684,521
Options exercised	-26,678	-
Options not exercised at expiry date	-7,610	-
Options cancelled (a)	-11,200	-33,834
Total at end of year	1,501,200	2,151,887
including options that may be exercised	-	277,600

(a) Beneficiaries who have left the Group.

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

	2010	2011
2007 plan	277,600	277,600
2008 plan	143,600	143,600
2009 plan	567,600	547,600
2010 plan	512,400	499,200
2011 plan	-	683,887

Plan valuations (a) *In € thousand*	2007 plan	2008 plan	2009 plan	2010 plan	2011 plan
Charge for financial year 2007	705	-	-	-	-
Charge for financial year 2008	2,912	711	-	-	-
Charge for financial year 2009	1,817	1,445	820	-	-
Charge for financial year 2010	1,561	895	1,581	694	-
Charge for financial year 2011	1,083	746	1,321	2,253	853
Accumulated charge as at 31 December 2011	**8,078**	**3,797**	**3,722**	**2,947**	**853**
Assumptions					
Share price on allocation date	€99.00	€95.42	€50.65	€70.34	€62.93
Volatility (b)	35.00%	35.00%	43.00%	35.00%	35.00%
Risk-free rate (c)	4.20%	4.40%	2.39%	2.60%	3.01%
Strike price	€95.30	€91.77	€51.67	€71.17	€60.71
Dividend rate (d)	3.75%	3.50%	5.00%	3.00%	3.00%
Fair value of the option	€29.10	€31.79	€17.11	€24.05	€18.50

(a) The binomial model of projecting share prices has been used to measure the fair value of the options granted.
(b) Volatility corresponds to an historical volatility observed over a period corresponding to the duration of the plans.
(c) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries (Institut des Actuaires).
(d) The expected dividend rates have been determined on the basis of analysts' expectations and the Group's dividend policy.

Performance share allocation plans

CHARACTERISTICS OF THE PLANS

Vallourec's Management Board authorised the setting up of performance share allocation plans for the benefit of certain employees and corporate officers of the Vallourec Group in 2007, 2008, 2009, 2010 and 2011.

The characteristics of these plans are as follows (the figures for the 2007, 2008 and 2009 plans have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the correlative multiplication of the number of shares by two):

	Date awarded	Acquisition period	Holding period	Number of beneficiaries at outset	Theoretical number of shares allocated
2007 plan [a]	03/05/2007	2, 3 and 4 years	2 years	280	222,000
2008 plan [b]	01/09/2008	2 and 3 years	2 years	41	23,180
"Value 08" plan	16/12/2008	4.5 years	-	8,697	67,712
2009 plan [c]	31/07/2009	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	53	26,668
"Value 09" plan	17/12/2009	4.6 years	-	8,097	69,400
1-2-3 plan [d]	17/12/2009	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	17,404	104,424
03/2010 plan [e]	15/03/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	848	190,540
07/2010 plan [f]	31/07/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	2	4,280
"Value 10" plan	03/12/2010	4.6 years	-	9,632	83,462
2-4-6 plan [g]	03/12/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	12,098	72,588
2011 plan [h]	30/03/2011	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	1,157	196,961
2-4-6 2011 plan [i]	18/11/2011	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	13,053	78,318
"Value 11" plan	15/12/2011	4.6 years	-	841	6,462

(a) The final allocation, in terms of numbers of shares, will be made in thirds in 2009, 2010 and 2011 and each third will be based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales in 2008, 2009 and 2010. It will be made by applying a performance factor, calculated for each of the years concerned, to the theoretical number of shares allocated. This factor can range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(b) The final allocation, in terms of numbers of shares, will be made in halves in 2010 and 2011 and each half will be based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales in 2009 and 2010. It will be made by applying a performance factor, calculated for each of the years concerned, to the theoretical number of shares allocated. This factor can range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(c) The final allocation, in terms of numbers of shares, will be made in 2011 in the case of French residents and in 2013 in the case of non-French residents and will be based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales in 2009 and 2010. It will be made by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor can range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(d) The final allocation, in terms of numbers of shares, will be made in 2011 in the case of French residents and in 2013 in the case of non-French residents based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales for the period from 1 January 2010 to 30 September 2011. The number of shares actually acquired by each beneficiary at the end of the acquisition period can range from 0 to 6.

(e) The final allocation, in terms of numbers of shares, will be allocated in 2012 in the case of French residents and in 2014 in the case of non-French residents and will be based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales in 2010 and 2011. It will be made by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor can range from 0 to 1. The theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(f) The definitive allocation, in number of shares, will be made in 2012 for French residents and in 2014 for non-French residents in keeping with the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales in 2010 and 2011. It will be made by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor can range from 0 to 1. The theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

g) The final allocation, in terms of numbers of shares, will be made in 2012 in the case of French residents and in 2014 in the case of non-French residents based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales for the period from 1 January 2010 to 30 September 2012. The number of shares actually acquired by each beneficiary at the end of the acquisition period can range from 0 to 6.

(h) The definitive award, in number of shares, will be made in 2013 for French residents and members of the Management Board and in 2015 for non-French residents. For all beneficiaries (except members of the Management Board), it will be in keeping with the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales in 2011 and 2012. It will be made by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor can range from 0 to 1.25. The theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1. For members of the Management Board, the definitive award, in number of shares, which will take place in 2013, will depend on the following three evaluation criteria for 2011 and 2012: the growth rate in sales on a like-for-like basis, the ratio of consolidated gross operating profit compared to consolidated sales on a like-for-like basis for the period, and the performance of the Vallourec share price on the NYSE Euronext regulated market in Paris compared to a benchmark panel. It will be made by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor can range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(i) The final allocation, in terms of numbers of shares, will be made in 2013 in the case of French residents and in 2015 in the case of non-French residents based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales for the period from 1 January 2010 to 30 September 2013. The number of shares actually acquired by each beneficiary at the end of the acquisition period can range from 0 to 6.

CHANGE IN NUMBER OF SHARES

The characteristics of these plans are as follows (the figures for the 2007, 2008 and 2009 plans have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the correlative multiplication of the number of shares by two):

	Initial theoretical number of shares allocated	Number of shares cancelled	Theoretical number of shares acquired or being acquired	Number of shares delivered
2007 plan	222,000	-21,856	200,144	173,454
2008 plan	23,180	-2,100	21,080	15,443
“Value 08” plan	67,712	-2,930	64,782	-
2009 plan	26,668	-1,266	25,402	23,274
“Value 09” plan	69,400	-544	68,856	-
1-2-3 plan	104,424	-3,726	100,698	26,844
03/2010 plan	190,540	-7,560	182,980	-
07/2010 plan	4,280	-	4,280	-
“Value 10” plan	83,462	-251	83,211	-
2-4-6 plan	72,588	-1,758	70,830	-
2011 plan	214,271	-1,928	212,343	-
“Value 11” plan	78,318	24	78,294	-
2-4-6 plan 2011	6,462	-	6,462	-

Plan valuations [a] *In € thousand*	2007 plan	2008 plan	“Value 08” plan	2009 plan	“Value 09” plan	1-2-3 plan
Charge for financial year 2007	5,429	-	-	-	-	-
Charge for financial year 2008	7,099	264	17	-	-	-
Charge for financial year 2009	3,757	821	414	271	83	63
Charge for financial year 2010	-1,462	165	411	459	692	1,671
Charge for financial year 2011	486	51	412	290	657	1,639
Accumulated charge as at 31 December 2011	**15,309**	**1,301**	**1,254**	**1,020**	**1,432**	**3,373**
Assumptions						
Share price on allocation date	€99.25	€95.42	€41.08	€46.15	€59.50	€60.50
Volatility [b]	40%	35%	40%	40%	40%	40%
Risk-free rate [c]	4.40%	4.20%	3.03%	2.37%	2.40%	2.24%
Dividend rate [d]	3%	3.5%	7.30%	5%	5%	5%
Fair value of tranche 1 share	€90.39	€85.61	€28.12	€37.32 (French residents) or €35.71 (non-French residents)	€46.04	€52.07 (French residents) or €49.28 (non-French residents)
Fair value of tranche 2 share	€87.59	€82.50	-	-	-	-
Fair value of tranche 3 share	€84.89	-	-	-	-	-

Plan valuations [a] In € thousand	03/2010 plan	07/2010 plan	"Value 10" plan	2-4-6 plan	2011 plan	"Value 11" plan
Charge for financial year 2010	3,544	58	136	127		
Charge for financial year 2011	3,368	128	1,088	1,654	3,673	
Accumulated charge as at 31 December 2011	**6,912**	**186**	**1,224**	**1,781**	**3,673**	**-**
Assumptions						
Share price on allocation date	€72.65	€74.71	€72.77	€72.87	€78.98	€41.01
Volatility [b]	40%	40%	40%	40%	35%	35%
Risk-free rate [c]	2.01%	1.67%	1.93%	1.78%	2.69%	2.07%
Dividend rate [d]	5%	3.0%	3.00%	3%	3%	3%
Fair value of the share	€62.22 (French residents) or €59.18 (non-French residents)	€66.94 (French residents) or €66.14 (non-French residents)	€62.49	€65.44 (French residents) or €64.51 (non-French residents)	€70.81 (French residents) or €69.92 (non-French residents)	€36.31

Plan valuations [a] In € thousand	2-4-6 plan 2011
Charge for financial year 2011	
Accumulated charge as at 31 December 2011	**-**
Assumptions	
Share price on allocation date	€45.53
Volatility [b]	35%
Risk-free rate [c]	2.13%
Dividend rate [d]	3%
Fair value of the share	€40.32 (French residents) or €40.31 (non-French residents)

(a) The binomial model of projecting share prices has been used to measure the fair value of the shares allocated. Each employee's benefit corresponds to the fair value of the shares allocated, taking into account the fact that no dividends will be received during the acquisition period and the cost to the employee due to the fact that the shares may not be transferred during the mandatory holding period.
(b) Volatility corresponds to an historical volatility observed over a period corresponding to the duration of the plans.
(c) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries (Institut des Actuaires)).
(d) The expected dividend rates have been determined on the basis of analysts' expectations (external information) and the Group's dividend policy.

Details are provided in Note 24 of the impact of the employee share ownership schemes on the income statement.

Note 19 Other current liabilities

In € thousand	Social security liabilities	Tax liabilities	Payables relating to the acquisition of assets	Pre-booked income	Other current liabilities	Total
At 31/12/2009	**181,316**	**41,586**	**65,775**	**8,566**	**35,161**	**332,404**
Impact of changes in exchange rates	8,091	2,006	7,621	210	2,617	20,545
Other changes	36,263	3,660	39,327	-390	17,183	96,043
At 31/12/2010	**225,670**	**47,252**	**112,723**	**8,386**	**54,961**	**448,992**
Impact of changes in exchange rates	-4,375	-1,400	-3,710	125	1,958	-7,402
Other changes	11,421	11,651	22,458	3,306	13,959	62,795
AT 31/12/2011	**232,716**	**57,503**	**131,471**	**11,817**	**70,878**	**504,385**

The changes in "Other current liabilities" relate mainly to liabilities in respect of capital expenditure, dividends payable to non-controlling interests and the reclassification of provisions as liabilities.

Note 20 Information on related parties

The following transactions were entered into with related parties:

In € thousand	Sales to related parties	Purchases from related parties	Receivables due from related parties	Payables due to related parties
At 31/12/2010				
HKM	629	406,123	2	27,500
Rothschild & Cie	-	-	-	-
Proportionately consolidated companies	8,769	1,704	3,027	34,283
At 31/12/2011				
HKM	2,865	548,389	789	39,028
Rothschild & Cie	-	33	-	-
Proportionately consolidated companies	12,110	4,879	1,737	41,857

Purchases mainly concern purchases of steel rounds from HKM, products used as raw materials in the manufacture of European rolling mills by V & M Deutschland GmbH and V & M France.

The transactions carried out in 2011 with Rothschild & Cie relate to the consultancy agreement to assist the Management Board.

As regards Vallourec & Sumitomo Tubos do Brazil, which is proportionately consolidated, it has total assets of €1,569.8 million. In 2011, the Group made capital investments of €159.6 million (€463.2 million in 2010) and generated €3.6 million of sales for the Group.

REMUNERATION FOR THE MANAGEMENT AND SUPERVISORY BOARDS

The total remuneration paid to those employees who were members of the Executive Committee at 31 December (11 people in 2011 and 2010) and the retirement commitments at the year end were as follows:

In € thousand	2010	2011
Remuneration and benefits in kind	5,160	6,012
Share-based payments [(a)]	2,467	3,379
Retirement commitments	409	559
Supplementary pension commitments	4,136	4,648

(a) Information provided based on the 2010, 2009 and 2008 share subscription option plans, performance share plans and employee share-ownership schemes.

Share purchase or share subscription options (Note 18) granted to employees who were members of the Executive Committee as at 31 December

	2010 [(a)]	2011 [(a)]
Subscription options granted on 3 September 2007 and exercisable between 3 September 2011 and 3 September 2014	53,000	53,000
Options exercised 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	53,000	53,000
Subscription options granted on 1 September 2008 and exercisable between 1 September 2012 and 1 September 2015	108,000	108,000
Options exercised 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	108,000	108,000
Subscription options granted on 1 September 2009 and exercisable between 1 September 2013 and 1 September 2019	116,000	116,000
Options exercised 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	116,000	116,000
Subscription options granted on 1 September 2010 and exercisable between 1 September 2014 and 1 September 2020	104,400	104,400
Options exercised 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	104,400	104,400
Subscription options granted on 1 September 2011 and exercisable between 1 September 2015 and 1 September 2021	-	103,616
Options exercised 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	-	103,616

(a) The plan figures have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the correlative multiplication of the number of shares by two.

Performance shares (Note 18) allocated to employees who were members of the Executive Committee on 31 December

	2010 [(a)]	2011 [(a)]
3 May 2007 plan		
Theoretical number of shares allocated	9,600	9,600
Number of shares acquired during the year	2,560	2,272
1 September 2008 plan		
Theoretical number of shares allocated	6,400	6,400
Number of shares acquired during the year	2,560	2,272
16 December 2008 "Value 08" plan		
Theoretical number of shares allocated	42	42
31 July 2009 plan		
Theoretical number of shares allocated	14,992	14,992
Number of shares acquired during the year		16,941
17 December 2009 "Value 09" plan		
Theoretical number of shares allocated	24	24
17 December 2009 1-2-3 plan		
Theoretical number of shares allocated	36	42
Number of shares acquired during the year		36
15 March 2010 plan		
Theoretical number of shares allocated	23,300	23,300
31 July 2010 plan		
Theoretical number of shares allocated	4,000	4,000
3 December 2010 "Value 10" plan		
Theoretical number of shares allocated	24	24
3 December 2010 2-4-6 plan		
Theoretical number of shares allocated	36	36
30 March 2011 plan		
Theoretical number of shares allocated	-	28,837
18 November 2011 2-4-6 plan		
Theoretical number of shares allocated	-	36
15 December 2011 "Value 11" plan		
Theoretical number of shares allocated	-	

(a) The plan figures have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the correlative multiplication of the number of shares by two.

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 18).

As at 31 December 2011, no loans or guarantees had been granted to senior management by the Vallourec parent company or its subsidiaries.

Note 21 Off-balance-sheet commitments

Due to the nature of its business, V & M France was granted a greenhouse gas emission allowance of 98,840 tonnes for 2011.

OFF-BALANCE-SHEET COMMITMENTS RECEIVED (EXCLUDING FINANCIAL INSTRUMENTS)

In € thousand	2010	2011
Firm non-current asset orders	187,638	146,808
Guarantees and commitments received	97,450	150,030
Other commitments received	110,084	63,754
TOTAL	**395,172**	**360,592**
OFF-BALANCE SHEET COMMITMENTS GIVEN (EXCLUDING FINANCIAL INSTRUMENTS)	725,576	750,459

Commitments given by maturity

In € thousand	2011	< 1 year	> 1 year	> 5 years
Balance sheet				
Long-term borrowings	2,095,393	906,172	435,171	754,050
Off-balance sheet				
Market guarantees and letters of credit given	195,322	122,626	72,659	37
Other security, mortgages and pledges given	130,595	9,692	14,286	106,617
Long-term leasing contract	78,502	7,626	27,158	43,718
Pensions and retirement gratuities (actuarial gains and losses)	67,364	-	55,630	11,734
Firm non-current asset orders given	146,808	34,505	52,557	59,746
Other commitments	131,868	82,660	1,430	47,778
TOTAL	**750,459**	**257,109**	**223,720**	**269,630**

In € thousand	2010	< 1 year	> 1 year	> 5 years
Balance sheet				
Long-term borrowings	1,034,394	220,705	700,401	113,288
Off-balance sheet				
Market guarantees and letters of credit given	176,053	68,784	107,176	93
Other security, mortgages and pledges given	117,773	3,931	6,868	106,974
Long-term leasing contract	28,438	8,236	19,846	356
Pensions and retirement gratuities (actuarial gains and losses)	69,558	-	55,929	13,629
Firm non-current asset orders given	199,133	188,231	10,902	-
Other commitments	134,621	69,319	29,363	35,939
TOTAL	**725,576**	**338,501**	**230,084**	**156,991**

The firm non-current asset orders relate mainly to Vallourec & Sumitomo Tubos do Brazil and V & M Changzhou.

The joint-venture agreement signed by the two shareholders, Vallourec and Sumitomo Metal Industries, 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 the other shareholder.

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

Income statement items are translated at the average rate.

Note 22 Sales

In € thousand	2010	2011
France	191,367	196,541
Germany	628,508	736,162
Other EU countries	363,051	493,677
North America (NAFTA)	1,135,213	1,372,225
South America	1,099,023	1,138,215
Asia	753,003	1,006,505
Rest of the world	321,107	352,536
TOTAL	**4,491,272**	**5,295,861**

For the full year 2011, sales increased by 17.9% to €5,295.9 million (they increased by 15.8% on a comparable basis after adjusting 2010 sales to make them comparable with 2011 sales).

Note 23 Cost of sales

In € thousand	2010	2011
Direct cost of sales	-272,788	-348,114
Cost of raw materials consumed	-1,322,561	-1,629,751
Labour costs	-671,356	-781,987
Other manufacturing costs	-881,012	-1,036,323
Change in non-raw material inventories	108,251	51,560
TOTAL	**-3,039,466**	**-3,744,615**
Depreciation and amortisation	-184,008	-200,538
TOTAL (INCLUDING DEPRECIATION AND AMORTISATION)	**-3,223,474**	**-3,945,153**

Note 24 Selling, general and administrative costs

In € thousand	2010	2011
Research and development costs	-68,120	-77,819
Selling and marketing costs	-86,405	-104,022
General and administrative costs	-333,002	-394,658
TOTAL	**-487,527**	**-576,499**
Depreciation and amortisation	-39,050	-55,969
Total (INCLUDING DEPRECIATION AND AMORTISATION)	**-526 577**	**-632 468**

PAYROLL COSTS AND AVERAGE NUMBER OF STAFF IN CONSOLIDATED COMPANIES

Payroll costs *In € thousand*	**2010**	**2011**
Wages and salaries	-632,754	-734,390
Employee profit sharing	-49,509	-43,431
Charges in respect of share subscription and share purchase option plans and performance shares	-22,649	-29,960
3 September 2007 share subscription option plan	*-1,561*	*-1,082*
1 September 2008 share subscription option plan	*-895*	*-847*
1 September 2009 share subscription option plan	*-1,581*	*-1,321*
1 September 2010 share subscription option plan	*-694*	*-2,253*
1 September 2011 share subscription option plan		*-853*
3 May 2007 performance share allocation plan	*1,462*	*-225*
1 September 2008 performance share allocation plan	*-165*	*-42*
"Value 08" December 2008 employee share ownership scheme including 16 December 2008 share allocation plan	*-411*	*-412*
31 July 2009 performance share allocation plan	*-459*	*-320*
17 December 2009 "Value 09" employee share ownership scheme including 17 December 2009 free share allocation plan	*-692*	*-657*
17 December 2009 1-2-3 performance share allocation plan	*-1,671*	*-1,639*
15 March 2010 performance share allocation plan	*-3,544*	*-3,368*
31 July 2010 performance share allocation plan	*-58*	*-128*
3 December 2010 "Value 10" employee share ownership scheme including 3 December 2010 free share allocation plan	*-12,253*	*-1,088*
3 December 2010 2-4-6 performance share allocation plan	*-127*	*-1,654*
30 March 2011 performance share allocation plan	*N/A*	*-3,673*
15 December 2011 "Value 11" employee share ownership scheme including free share allocation plan	*N/A*	*-10,398*
Social charges	-255,546	-276,288
TOTAL	**-960,458**	**-1,084,069**

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.

2011

An employee share ownership scheme was offered to employees. In order to comply with the legal and tax requirements of each country, a number of different formulae have been proposed:

- Leveraged company mutual fund (*Fonds commun de placement entreprise levier – FCPE levier*): employees subscribe, by means of a company mutual fund, to a number of Vallourec shares, discounted by 20%, enabling them to benefit, on expiry of the period during which their holdings are locked up, from a performance multiple on the Vallourec shares and protection for their initial investment, excluding foreign exchange rate effects. The multiple of the increase is obtained as a result of the transfer of the discount, dividends and other financial rights linked to the holding of the shares to the bank structuring the transaction by means of a swap contract.
- Company mutual fund (*Fonds commun de placement classique – FCPE classique*): employees subscribe by means of an FCPE for Vallourec shares at a price discounted by 20% and receive any dividends;
- Shares and Stock Appreciation Rights (SAR): employees, by means of the acquisition of a share at a price discounted by 20%, benefit from a SAR (protection of their initial investment, excluding foreign exchange rate effects, and performance multiple on this share), which will be paid by the employer, in cash, on expiry of the lock-up period. The resulting liability (SAR) is covered by warrants provided to the employer by the bank structuring the transaction. The issue of the warrants was obtained as consideration for the issue of shares, reserved for the bank, at a price discounted by 20%.
- Cash and Stock Appreciation Rights (SAR): employees, by means of an investment in an interest-bearing bank account, benefit from SARs (performance multiple on this investment), which will be paid to the employee by the employer, in cash, on expiry of the lock-up period. The resulting liability (SAR) is covered by warrants provided to the employer by the bank structuring the transaction. The issue of the warrants was obtained as consideration for the issue of shares, reserved for the bank, at a price discounted by 20%.

The IFRS 2 charge resulting from the benefit granted to the employee under the terms of the employee share ownership scheme is measured on the grant date. The fair value of the benefit corresponds, in the case of the classic formula, to the value of the economic benefit granted, less the cost to the employee of the non-transferability of the share, and, for the leveraged formulae, to the expected present value of the amounts ultimately paid to the employee. In the case of the "Share and SAR" formula, the discount on the share held by the employee and the value of the option protecting his initial investment are added.

Characteristics of Value plans	2010	2011
Date awarded	17 November 2010	18 November 2011
Maturity date of plans	1 July 2015	1 July 2016
Reference price	€76.43	€44.88
Subscription price	€61.14	€35.90
Discount	20%	20%
Total amount subscribed (in € thousand)	85,328	84,365
Total number of shares subscribed	1,395,614	2,349,993
Total discount (in € thousands)	21,333	21,338
Multiple per share		
• Leveraged company mutual fund formula	6.8	8.1
• Share + SAR formula	4.8	6.2
• Cash + SAR formula	6	7.2
Measurement assumptions		
Volatility (a)	40%	35%
Risk-free rate (b)	1.93%	2.07%
Annual dividend rate (c)	3.00%	3.00%
Total IFRS 2 charge (d) (in € thousands)	12,117	10,398

(a) Volatility corresponds to an historical volatility observed over a period corresponding to the duration of the plans.
(b) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries (Institut des Actuaires)).
(c) The expected dividend rates have been determined on the basis of analysts' expectations (external information) and the Group's dividend policy.
(d) Calculated using the binomial model to project the share price.

This benefit resulted in the recognition of payroll costs of €10.4 million in 2011 compared to €12.1 million in 2010.

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

Parameters for measuring fair value of SARs	"Value 08"	"Value 09"	"Value 10"	"Value 11"
Measurement date	31 December 2011	31 December 2011	31 December 2011	31 December 2011
Maturity date	1 July 2013	1 July 2014	1 July 2015	1 July 2016
Share price on measurement date	€50.16	€50.16	€50.16	€50.16
Multiple per share				
• Share and SAR formula	5.1	4.7	4.8	6.2
• Cash and SAR formula	6.1	5.9	6	7.2
Measurement assumptions				
Volatility (a)	47.5%	50%	50%	51%
Risk-free rate (b)	1.11%	1.56%	1.95%	2.30%
Annual dividend rate (c)	3.00%	3.00%	3.00%	3.00%
IFRS 2 charge (d) (in € thousands)	-2,906	-747	-875	1,369

(a) Volatility corresponds to an historical volatility observed over a period corresponding to the duration of the plans.
(b) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries (Institut des Actuaires)).
(c) The expected dividend rates have been determined on the basis of analysts' expectations (external information) and the Group's dividend policy.
(d) Calculated using the binomial model to project the share price.

The liability to employees resulting from the SARs resulted in a charge included in the payroll costs of €3.2 million in 2011.

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

Parameters for measuring fair value of warrants	"Value 08"	"Value 09"	"Value 10"	"Value 11"
Measurement date	31 December 2011	31 December 2011	31 December 2011	31 December 2011
Maturity date	1 July 2013	1 July 2014	1 July 2015	1 July 2016
Share price on measurement date	€50.16	€50.16	€50.16	€50.16
Multiple per share				
• Share and SAR formula	5.1	4.7	4.8	6.2
• Cash and SAR formula	6.1	5.9	6	7.2
Measurement assumptions (a)				
Implied volatility	38%	39%	39%	39%
Interest rate	from 1.31% to 1.42%	from 1.31% to 1.42%	from 1.31% to 1.53%	from 1.31% to 1.71%
Annual dividend	€1.30	€1.30	€1.30	€1.30
IAS 39 income in the year (in € thousands)	**-2,989**	**-774**	**-735**	**1,306**

(a) Assumptions of bank structuring the transaction.

The income corresponding to the warrants paid to the employer by the bank that completed the employees' investment was recognised in payroll costs in an amount of €3.2 million in 2011 since it is intended to cover the charge associated with the SARs (see above).

Average number of employees in consolidated companies (a)	2010	2011
Executives	2,394	2,980
Supervisory, clerical and technical staff	3,595	3,679
Production staff	13,075	14,347
TOTAL	**19,064**	**21,006**

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

The Group's workforce totalled 21,822 at 31 December 2011 compared with 20,044 at 31 December 2010.

Note 25 Other

In € thousand	2010	2011
Employee profit sharing	-49,509	-43,431
Fees for concessions and patents	19,386	24,750
Other income and expenses	-9,338	-16,347
TOTAL	**-39,461**	**-35,028**

Note 26 Statutory Auditors' fees

	KPMG		Deloitte	
	Amount (excl. tax)			
In € thousand	2010	2011	2010	2011
Audit				
Statutory audit, certification, examination of Company and consolidated financial statements				
Issuer	240	242	240	253
%	21%	22%	15%	15%
Fully consolidated companies	749	760	1,346	1,423
%	67%	68%	84%	82%
Other services directly associated with the statutory audit				
Issuer	68	88	19	55
%	6%	8%	1%	3%
Fully consolidated subsidiaries	**11**	**32**	**0**	**0**
%	1%	3%	0%	0%
SUB-TOTAL	**1,068**	**1,122**	**1,605**	**1,731**
%	96%	100%	100%	100%
Other services provided by audit network to fully consolidated subsidiaries				
Legal, tax, employment	**0**	**0**	**0**	**0**
%	0%	0%	0%	0%
Other (details to be provided if > 10% of audit fees)	**49**		**0**	**0**
%	4%	0%	0%	0%
SUB-TOTAL	**49**	**0**	**0**	**0**
%	4%	0%	0%	0%
TOTAL	**1,117**	**1,122**	**1,605**	**1,731**

Note 27 Depreciation and amortisation

In € thousand	2010	2011
By function		
Depreciation of industrial assets	-184,008	-200,538
Depreciation and amortisation of assets allocated to research and development	-2,641	-4,425
Depreciation and amortisation — Sales and Marketing Departments	-27,587	-32,063
Depreciation and amortisation — general and administrative costs	-8,822	-19,481
TOTAL	**-223,058**	**-256,507**
By nature		
Charges to amortisation of intangible assets (see Note 1)	-42,874	-51,022
Charges to depreciation of property, plant and equipment (see Note 2)	-180,525	-206,216
Reversals of depreciation and provisions on property, plant and equipment (see Note 2)	341	731
TOTAL	**-223,058**	**-256,507**

Note 28 Impairment of assets and goodwill, asset disposals and restructuring costs

In € thousand	2010	2011
Reorganisation measures (net of expenses and provisions)	-14,144	-2,300
Gains and losses on disposals of non-current assets and other	-2,031	11,899
TOTAL	**-16,175**	**9,599**

In € thousand	2010	2011
Impairment of assets and goodwill	-2,342	-321
Impairment of inventories specific to discontinued operations	-853	712
TOTAL	**-3,195**	**391**

2011

Most of the reorganisation measures correspond to the final shutdown costs of Valti GmbH.

Income from disposals of non-current assets and other mainly consists of the gain recognised on taking over control of TSA.

2010

The reorganisation measures category consists mainly of the costs of the planned shutting down of Valti GmbH and the modification of the industrial equipment of V & M Deutschland GmbH.

Note 29 Net financial income

In € thousand	2010	2011
Financial income		
Income from securities	18,717	20,805
Income from disposals of securities	2,566	1,046
TOTAL	**21,283**	**21,851**
Interest expenses	**-45,441**	**-78,114**
Other financial income and charges		
Income from securities	2,854	1,708
Income from loans and receivables	2,125	11,158
Exchange losses (-) and gains (+) and changes in premiums/discounts	2,369	10,909
Charges to provisions, net of reversals	-932	452
Other financial income and charges	710	-8,472
TOTAL	**7,126**	**15,755**
Other discounting costs		
Financial charges: discounting of retirement commitments	-10,911	-8,367
Financial income: discounting of certain assets and liabilities	101	355
TOTAL	**-10,810**	**-8,012**
FINANCIAL INCOME/LOSS	**-27,842**	**-48,520**

Note 30 Reconciliation of theoretical and actual tax charge

Breakdown of the tax charge *In € thousand*	**2010**	**2011**
Current tax charge	-214,442	-211,373
Deferred taxes (see Note 5)	14,989	19,749
NET CHARGE	**-199,453**	**-191,624**
Net profit or loss of consolidated companies	455,095	453,058
Tax charge	-199,453	-191,624
INCOME FROM CONSOLIDATED COMPANIES BEFORE TAX	**654,548**	**644,682**
Statutory tax rate of consolidating company (see Note 5)	34.43%	34.43%
Theoretical tax charge	-225,360	-221,963
Impact of main losses carried forward	-3,133	-62
Impact of permanent differences	17,151	26,947
Other effects	-547	-41
Impact of differences in tax rates	12,436	3,496
NET CHARGE	**-199,453**	**-191,623**
ACTUAL TAX RATE	**30.47%**	**29.72%**

The permanent differences consist mainly of the net profit attributable to non-controlling interests, withholding taxes and the change in the share of the costs and charges in respect of the dividend distributions, including those in respect of future dividends.

The differences in tax rates mainly reflect the diversity of tax rates applied in each country (France 34.4%, Germany 31.60%, the United States 36.5%, Brazil 34.0% and China 25.0%).

Note 31 Segment information

OPERATING SEGMENTS

The following tables provide, for each operating segment, information on the revenues and results as well as certain information on the assets, liabilities and investments for the financial years 2010 and 2011.

Information about profit or loss, assets and liabilities by operating segment

2011 *In € thousand*	Seamless tubes	Speciality Products	Holding companies & other (a)	Inter-segment transactions	Total
Income statement					
Sales to external customers	4,906,629	320,467	68,765		5,295,861
EBITDA / Gross operating income	967,109	22,570	-43,817	-6,143	939,719
Depreciation and amortisation	-240,067	-15,892	-982	434	-256,507
Impairment of assets and goodwill	543	-584		432	391
Asset disposals and restructuring costs	11,060	-70	-1,391		9,599
OPERATING PROFIT	**738,645**	**6,024**	**-46,190**	**-5,277**	**693,202**
Unallocated income					37,606
Unallocated charges					-86,126
Profit before tax					644,682
Income tax					-191,624
Net profit of equity affiliates					3,765
Net income from the consolidated entity					456,823
Balance sheet					
Non-current assets	5,244,260	214,197	3,853,825	-3,688,422	5,623,860
Current assets	2,450,390	193,520	232,296	-207,143	2,669,063
Cash and cash equivalents	555,014	28,505	1,063,190	-744,823	901,886
TOTAL ASSETS	**8,249,664**	**436,222**	**5,149,311**	**-4,640,388**	**9,194,809**
Equity	4,429,031	171,194	3,352,234	-3,122,173	4,830,286
Non-controlling interests	371,266	8,809	-	-53	380,022
Non-current liabilities	1,167,177	11,578	993,615	-565,585	1,606,785
Current liabilities	2,282,822	245,200	805,632	-955,938	2,377,716
TOTAL LIABILITIES	**8,250,296**	**436,781**	**5,151,481**	**-4,643,749**	**9,194,809**
Cash flows					
Property, plant & equipment, intangible and biological assets	875,468	53,199	272	-	928,939
Other information					
Average number of employees	19,299	1,585	186		21,070
Payroll costs	-957,260	-67,112	-64,884	5,187	-1,084,069

(a) Vallourec, V & M Tubes and the marketing subsidiary Vallourec Tubes Canada Inc.

2010 *In € thousand*	Seamless tubes	Speciality Products	Holding companies & other [(a)]	Inter-segment transactions	Total
Income statement					
Sales to external customers	4,164,220	278,171	48,881	-	4,491,272
EBITDA/Gross operating income	943,628	20,712	-42,110	2,588	924,818
Depreciation and amortisation	-211,339	-11,318	-840	439	-223,058
Impairment of assets and goodwill	-3,076	-119	-	-	-3,195
Asset disposals and restructuring costs	-11,218	-4,789	10,318	-10,486	-16,175
OPERATING PROFIT	**717,995**	**4,486**	**-32,632**	**-7,459**	**682,390**
Unallocated income					28,409
Unallocated charges					-56,251
Profit before tax					654,548
Income tax					-199,453
Net profit of equity affiliates					-2,260
Net income from the consolidated entity					452,835
Balance sheet					
Non-current assets	4,242,835	175,773	3,196,058	-2,997,660	4,617,006
Current assets	2,105,775	154,832	146,693	-129,496	2,277,804
Cash and cash equivalents	735,560	57,074	566,733	-705,605	653,762
TOTAL ASSETS	**7,084,170**	**387,679**	**3,909,484**	**-3,832,761**	**7,548,572**
Equity	3,934,606	159,830	2,965,824	-2,503,846	4,556,414
Non-controlling interests	257,620	9,579	-	-40	267,159
Non-current liabilities	992,815	12,281	605,285	-478,264	1,132,117
Current liabilities	1,899,766	206,549	339,350	-852,783	1,592,882
TOTAL LIABILITIES	**7,084,807**	**388,239**	**3,910,459**	**-3,834,933**	**7,548,572**
Cash flows					
Intangible investments and property, plant and equipment	992,242	72,075	532	-	1,064,849
Other information					
Average number of employees	17,338	1,555	171		19,064
Payroll costs	842,791	63,537	57,280	-3,150	960,458

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

GEOGRAPHICAL AREAS

The following tables provide, by geographical area, 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).

2011 *In € thousand*	Europe	North America	South America	Asia	Rest of the world	Total
Sales						
Sales to external customers	1,426,380	1,372,225	1,138,215	1,006,505	352,536	5,295,861
Balance sheet						
Property, plant & equipment, intangible assets, biological assets and goodwill (net)	1,066,329	1,335,914	2,084,774	557,173	3,137	5,047,327
Cash flows						
Property, plant & equipment, intangible assets and biological assets	127,761	337,943	371,546	80,866	10,853	928,969
Other information						
Average number of employees	9,709	2,478	7,347	1,516	20	21,070
Payroll costs	-631,884	-169,946	-257,463	-24,065	-711	-1,084,069

2010 *In € thousand*	Europe	North America	South America	Asia	Rest of the world	Total
Sales						
Sales to external customers	1,182,926	1,135,213	1,099,023	753,003	321,107	4,491,272
Balance sheet						
Property, plant & equipment, intangible assets, biological assets and goodwill (net)	1,040,600	1,018,705	1,865,623	327,902	4,511	4,257,341
Cash flows						
Property, plant & equipment, intangible assets and biological assets	109,877	193,923	672,289	88,281	479	1,064,849
Other information						
Average number of employees	9,271	2,214	6,244	1,318	17	19,064
Payroll costs	571,423	159,488	212,751	16,374	422	960,458

Note 32 Events subsequent to the close

None.

5.2 STATUTORY FINANCIAL STATEMENTS OF VALLOUREC

5.2.1 COMPANY BALANCE SHEET

Assets

In € thousand	31/12/2010	31/12/2011
NON-CURRENT ASSETS		
Intangible assets	79	79
Tangible assets	93	93
Equity interests	1,057,036	2,056,410
Own shares	8,901	12,089
Receivables, loans and other investments	653,045	1,065,304
TOTAL I	**1,719,154**	**3,133,975**
CURRENT ASSETS		
Receivables	375	479
Other receivables	958,038	1,014,489
Marketable securities	29,881	43,287
Cash and cash equivalents		552
Prepayments	77	658
Deferred expenses		6,889
Translation differences — premium/discount	20,070	26,904
TOTAL II	**1,008,441**	**1,093,258**
TOTAL ASSETS (I+II)	**2,727,595**	**4,227,233**

Liabilities

In € thousand	31/12/2010	31/12/2011
EQUITY		
Issued capital	235,888	242,869
Additional paid-in capital	573,181	736,258
Revaluation reserve	634	634
Reserves	81,661	82,338
Retained earnings carried forward	656,416	1,018,461
Interim dividend		
Earnings for the year	515,486	458,554
TOTAL I	**2,063,266**	**2,539,114**
Provisions for liabilities and charges	7,338	15,857
Bank loans and other borrowings	589,668	1,597,940
Payables	4,940	6,723
Other liabilities	52,818	66,153
Translation differences — premium/discount	9,565	1,446
TOTAL II	**664,329**	**1,688,119**
TOTAL EQUITY AND LIABILITIES (I+II)	**2,727,595**	**4,227,233**

5.2.2 COMPANY INCOME STATEMENT

In € thousand	2010	2011
Sales	3,939	6,334
Provision reversals and charges transferred	1,950	3,953
Other revenues	998	920
External services	-10,509	-19,166
Taxes, duties and similar payments	-419	-558
Payroll costs	-4,968	-4,557
Other operating expenses	-800	-814
Amortisation, depreciation and provisions	-6,868	-10,609
OPERATING PROFIT	**-16,677**	**-24,497**
Financial income	**541,784**	**532,525**
Income from equity interests	535,365	509,777
Other long-term securities and receivables	1,980	802
Other interest and similar income	2,471	7,535
Provision reversals and financial charges transferred		6,334
Exchange gains	1,896	7,894
Net income on disposal of securities	72	183
Financial charges	**-27,252**	**-54,550**
Financial depreciation and provisions	-3	-16,695
Interest and similar charges	-26,063	-35,402
Exchange losses	-1,186	-2,453
FINANCIAL INCOME/LOSS	**514,532**	**477,975**
INCOME FROM CURRENT OPERATIONS BEFORE TAX	**497,855**	**453,478**
Exceptional income	3,311	4,850
Exceptional charges	-711	-7,796
EXCEPTIONAL INCOME	**2,600**	**-2,946**
Income tax	15,031	8,022
NET PROFIT	**515,486**	**458,554**

5.2.3 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Unless otherwise stated, the figures shown below are expressed in € thousand.

Notes to the balance sheet (before allocation) for the year ended 31 December 2011, which totals €4,227.2 million, and to the income statement, which shows a net profit of €458.6 million.

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

Vallourec prepares consolidated financial statements.

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

On 7 July 2011, the option for payment of the dividend in shares, which was approved by the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, resulted in the creation of 1,140,338 new shares (1% of the share capital) issued at the price of €75.92, giving a capital increase of €86.6 million, including additional paid-in capital net of expenses.

On 15 December 2011, under the terms of the "Value 11" employee share ownership scheme, 2,349,989 new shares were subscribed to at a price of €35.90 resulting in a capital increase of €83.5 million, including additional paid-in capital net of expenses.

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

B – Accounting principles

The statutory financial statements are prepared in accordance with current French accounting regulations (regulation no. 99–03) 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.

EQUITY INTERESTS

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

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

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

TREASURY SHARES

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

- the shares allocated to the Group's various share ownership plans for certain employees, managers and corporate officers;
- the shares held under the terms of the liquidity contract.

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

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

RECEIVABLES AND PAYABLES

Receivables and payables are measured at their par value.

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

SECURITIES

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

The own shares acquired since 2008 and available to be allocated to employees have been classified as marketable securities.

CONVERSION FROM FOREIGN CURRENCIES OF TRANSACTIONS AND FINANCIAL INSTRUMENTS

Revenues and costs denominated in foreign currencies are recorded using the exchange rate applicable on the transaction date. Receivables, cash and cash equivalents and payables in foreign currency appear in the balance sheet as equivalents at the end of the financial year.

Unrealised 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 organised markets or on over-the-counter markets and are measured at their market value and recognised as off-balance-sheet items at each balance sheet date.

PROVISIONS FOR CONTINGENCIES AND LIABILITIES

Retirement pensions

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

Retirement gratuities

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

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

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

The following assumptions have been used:

- Discount rate of 4.7% (including inflation);
- Inflation rate of 2%;
- Staff turnover rate variable accordance to age and category;
- INSEE 2006/2008 mortality table.

Commitments in respect of retirement gratuities and additional retirement agreements are measured by an independent actuary based on an actuarial calculation (projected credit method) and provided for as a liability in the balance sheet. At 31 December 2011, the discount rate was based on the iBoxx index (eurozone, AA-rated corporate bonds with a maturity of more than ten years, estimated on the date the commitments are measured). This index uses a basket of bonds composed of financial and non-financial stocks.

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

Provisions on shares earmarked for employee share allocations

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

– on the one hand, the acquisition cost of the shares or their net carrying amount (when they were already owned) on the date they were allocated to the employee share ownership scheme less the price likely to be paid by the beneficiaries; and

– on the other hand, the number of shares that are expected to be allocated given the provisions of said scheme (satisfaction of conditions regarding continuing employment and performance) as assessed on the balance sheet date.

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

Other provisions

A provision has been made for all disputes (technical, tax, etc.) and risks to the extent of the likely cost to be incurred estimated at the year end.

EXCEPTIONAL INCOME AND CHARGES

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

C – Notes to the balance sheet

1. MOVEMENTS IN NON-CURRENT ASSETS

Movements in the value of non-current assets

In € thousand	31/12/2010	Additions Charge	Disposals Reversals	31/12/2011	Of which revaluation reserve	Of which affiliated companies
INTANGIBLE ASSETS	**79**			**79**		
Trademarks	79			79		
PROPERTY, PLANT AND EQUIPMENT	**93**	**0**	**0**	**93**	**23**	
Land	93		0	93	23	
Buildings	113		0	113		
Depreciation of buildings	*-113*		*0*	*-113*		
EQUITY INTERESTS	**1,057,036**	**1,000,000**	**-626**	**2,056,410**	**611**	**2,056,410**
Equity interests	1,057,059	1,000,000	-649	2,056,410	611	2,056,410
Provisions on equity interests	*-23*	*0*	*23*	*0*		*0*
LONG-TERM INVESTMENTS & OWN SHARES	**90,849**	**-13,456**	**0**	**77,393**		
Long-term investments & own shares	90,849	3,187		94,036		
Provisions Other Long-Term Investments		*-16,643*		*-16,643*		
RECEIVABLES, LOANS, OTHER INVESTMENTS	**571,097**	**1,000,000**	**-571,097**	**1,000,000**	**0**	**1,000,000**
Other financial assets	571,097	1,000,000	-571,097	1,000,000		1,000,000
TOTALS	**1,719,154**	**986,544**	**-571,723**	**3,133,975**	**634**	**3,056,410**

On 31 October 2011, Vallourec subscribed to the capital increase of its subsidiary Vallourec & Mannesmann Tubes, in the gross amount of €1,000 million, by incorporation of loans and receivables.

Own shares classified as non-current assets and as marketable securities:

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

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

- 16 December 2008 "Value 08" free share allocation plan,
- 31 July 2009 performance share allocation plan,
- 17 December 2009 "Value 09" free share allocation plan,
- 17 December 2009 "1-2-3" share allocation plan,
- 15 March 2010 performance share allocation plan,

- 31 July 2010 performance share allocation plan,
- 3 December 2010 "Value 10" free share allocation plan,
- 3 December 2010 2-4-6 performance share allocation plan,
- 30 March 2011 performance share allocation plan,
- 18 November 2011 2-4-6 performance share allocation plan,
- 15 December 2011 "Value 11" free share allocation plan.

In 2011, at the end of the acquisition (vesting) period, Vallourec made a definitive allocation of 44,074 shares (€0.2 million) under the terms of tranche 3 of the 3 May 2007 performance share plan, 6,631 shares (€0.03 million) under the terms of tranche 2 of the 1 September 2008 performance share plan, 23,274 shares (€0.1 million) under the terms of the 31 July 2009 performance share plan, 26,844 shares (€1.6 million) under the terms of the 17 December 2009 1-2-3 share plan. Vallourec also made a definitive award, in advance, due to death or disability, of 24 shares under the terms of other performance share plans.

LIQUIDITY CONTRACT

In 2007, Vallourec signed a liquidity contract with Crédit Agricole Chevreux. To implement this contract, €20 million were allocated to the liquidity account. At 31 December 2011, Vallourec held 256,000 shares under the terms of this contract with a value of €11.1 million.

Receivables, loans, other investments

On 16 May 2008, Vallourec acquired, indirectly via its subsidiary V & M Tubes, Grant Prideco's three tubular businesses, Atlas Bradford® (V & M Atlas Bradford), TCA® (which was renamed V & M TCA) and Tube-Alloy™ (which was renamed V & M Tube-Alloy™). To finance this acquisition, Vallourec took out a USD 450 million loan (€323.3 million) on behalf of V & M Tubes. In 2009, V & M Tubes repaid USD 355 million (€257.4 million). At the end of 2010, the balance of the loan was USD 95.0 million.

In 2011, this loan was reimbursed by V & M Tubes.

On 1 October 2010, Vallourec took out a €500 million loan on behalf of V & M Tubes to finance, via its subsidiary VM Two, the construction of a new plant in the United States.

In 2011, this loan was incorporated into the capital of V & M Tubes.

On 31 December 2011, Vallourec put in place a loan of €1,000 million for V & M Tubes to finance the long-term needs of its subsidiary, remunerated at a fixed rate of 4.6% per annum.

2. SECURITIES

In € thousand	31/12/2010	31/12/2011	Measurement 31/12/2011	Loss provided for	Unrealised gain
Mutual and investment funds	16,759	8,366	8,372		6
TOTAL	**16,759**	**8,366**	**8,372**		**6**

During 2007, the Group centralised the euro and US dollar cash management of its main European companies and the currency hedging operations in respect of its US dollar sales within Vallourec & Mannesmann Tubes (V & M Tubes). Vallourec became a member of this centralised cash management system.

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

In addition, in 2008, Vallourec acquired 50,000 (before taking into account the impact of the 2:1 stock split) of its own shares valued at €6 million. These own shares are classified as marketable securities: they were acquired for the Group's employees, managers and corporate officers under the terms of the "1-2-3" share allocation plan.

Vallourec acquired, in 2010, 50,000 of its own shares (before impact of the 2:1 stock split) for €7.2 million and, in 2011, 400,000 of its own shares for €23.4 million. These own shares are classified as marketable securities: they were acquired for the Group's employees, managers and corporate officers under the terms of the performance share allocation and bonus stock option plans for Vallourec Group employees.

In € thousand	31/12/2010	Acquisition Charge	Disposal Reversal	31/2012/2011
Own shares	13,122	23,401	1,602	34,921
Impairment provision				
TOTAL	**13,122**	**23,401**	**1,602**	**34,921**

3. STATEMENT OF RECEIVABLES AND PAYABLES

Assets at 31/12/2011 *In € thousand*	Gross value	Of which accrued receivables	Of which affiliated companies	Gross value - 1 year	Gross value +1 year
FINANCIAL ASSETS RECEIVABLES AND PAYABLES	**1,000,000**		**1,000,000**		**1,000,000**
TRADE RECEIVABLES	**479**	**0**	**0**	**479**	**0**
Advances and deposits paid to suppliers				0	
Accounts receivable					
Other trade receivables	479			479	
OTHER RECEIVABLES	**1,014,488**		**997,518**	**1,014,488**	**0**
Intra-Group cash advance	994,447		994,447	994,447	
Sundry receivables	20,041		3,071	20,041	
TOTAL	**2,014,967**	**0**	**1,997,518**	**1,014,967**	**1,000,000**

Loans granted during the year: €1,000,000,000

Loans repaid during the year: €500,000,000

Receivables represented by commercial paper: none.

Liabilities at 31/12/2011 *In € thousand*	Gross value	Of which accrued payables	Of which affiliated companies	-1 year	+1 year	+5 years
DEBT	**1,597,940**	**3,534**	**7,774**	**616,069**	**331,871**	**650,000**
Bond issue	650,000					650,000
Borrowings and debt from banks	595,392	3,534		263,534	331,858	
Commercial paper	344,750			344,750		
Other borrowings	24			11	13	
Intra-Group cash advance	7,774		7,774	7,774		
TRADE PAYABLES	**6,723**	**3,181**	**2,300**	**6,723**	**0**	**0**
Accounts payable	4,127	898	2,300	4,127		
Tax and social security liabilities	2,596	2,283		2,596		
OTHER LIABILITIES	**66,153**	**220**	**65,780**	**66,153**	**0**	**0**
Tax liabilities (corporation tax)				0		
Sundry liabilities	66,153	220	65,780	66,153		
TOTAL	**1,670,816**	**6,935**	**75,854**	**688,945**	**331,871**	**650,000**

In February 2011, Vallourec contracted a multi-currency revolving credit line in the amount of €1 billion maturing in 2016. This line, which has already enabled it to close two revolving credit lines put in place in 2005 and 2008, will also be used to refinance existing credit lines reaching maturity in March 2012 and April 2013. At 31 December 2011, this line had not been drawn down.

4. TRANSLATION DIFFERENCES ON DEBTS AND RECEIVABLES DENOMINATED IN FOREIGN CURRENCY

At 31/12/2011	Amount	Of which offset by foreign currency hedges	Provisions for foreign exchange losses
Translation differences — unrealised losses			
Reduction in receivables			
Increase in liabilities	26,904	26,904	
Translation differences — unrealised gains			
Increase in receivables	0	0	
Reduction in liabilities			

The translation of the USD 300 million debt taken out in May 2008 (paragraph C.7) generated an unrealised translation loss of €26.9 million. This debt was hedged by exchange rate hedging instruments in the amount of USD 300 million.

No provision for foreign exchange losses was recognised in respect of the unrealised translation loss as at 31 December 2011.

5. EQUITY

The changes in equity are shown below:

In € thousand	Number of shares	Issued capital	Earnings for the year	Additional paid-in capital and reserves	Equity
As at 31/12/2009	**57,280,789**	**229,123**	**427,377**	**876,513**	**1,533,013**
Allocation of profit and loss for 2009			-427,377	427,377	
Capital increase	993,445	3,974		126,006	129,980
2:1 stock split	58,274,234				
Capital increase	1,395,614	2,791		81,646	84,437
Revaluation reserve					
Dividend paid				-199,650	-199,650
Interim dividend					
Profit and loss for 2010			515,486		515,486
Change	*60,663,293*	*6,765*	*88,109*	*435,379*	*530,253*
As at 31/12/2010	**117,944,082**	**235,888**	**515,486**	**1,311,892**	**2,063,266**
Allocation of profit and loss for 2010			-515,486	515,486	
Capital increase	3,490,327	6,981		163,077	170,058
Revaluation reserve					
Dividend paid				-152,764	-152,764
Interim dividend					
Profit and loss for 2010			458,554		458,554
Change	*3,490,327*	*6,981*	*-56,932*	*525,799*	*475,848*
Situation as at 31/12/2011	**121,434,409**	**242,869**	**458,554**	**1,837,691**	**2,539,114**

The capital of Vallourec is composed of 121,434,409 ordinary shares with a par value of €2 fully paid up at 31 December 2011 compared with 117,944,082 at 31 December 2010 with a par value of €2.

The capital increase resulting from the payment of the dividend in shares, at the shareholder's option, at the price of €75.92, led to the issue of 1,140,338 new shares, i.e. a capital increase of €86.6 million, including additional paid-in capital net of expenses.

In accordance with the Group's employee share ownership policy, in 2011 Vallourec offered to its employees in eight countries the opportunity to subscribe to a reserved capital increase at a price discounted by 20% in relation to the average of the 20 opening prices of the Vallourec share between 17 October and 11 November 2011, i.e. €44.88.

The capital increase reserved for employees and the bank guaranteeing the leverage effect of the share ownership plan resulted in the issue of 2,349,989 new shares, giving a capital increase of €83.5 million, including additional paid-in capital net of expenses.

Employee share ownership

SHARE SUBSCRIPTION PLANS

Characteristics of the plans

Vallourec's Management Board authorised the setting up of share subscription plans in 2007, 2008, 2009, 2010 and 2011 for the benefit of certain staff members and corporate officers of the Vallourec Group.

The characteristics of these plans are as follows (the figures for the 2007, 2008 and 2009 plans have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the correlative multiplication of the number of shares by two):

	2007 plan	2008 plan	2009 plan	2010 plan	2011 plan
Date awarded	03/09/2007	01/09/2008	01/09/2009	01/09/2010	01/09/2011
Maturity date	03/09/2011	01/09/2012	01/09/2013	01/09/2014	01/09/2015
Expiration date	03/09/2014	01/09/2015	01/09/2019	01/09/2020	01/09/2021
Number of beneficiaries at the outset	65	9	303	349	743
Strike price in euros	95.30	91.77	51.67	71.17	60.71
Number of options granted	294,600	143,600	578,800	512,400	684,521

Change in number of unexpired options

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

In number of options	2010	2011
Total at start of year	1,034,288	1,501,200
Options distributed	512,400	684,521
Options exercised	-26,678	-
Options not exercised at expiry date	-7,610	-
Options cancelled [(a)]	-11,200	-33,834
TOTAL AT END OF PERIOD	**1,501,200**	**2,151,887**
Of which options remaining to be exercised	-	277,600

(a) Beneficiaries who have left the Group.

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

	2010	2011
2007 plan	277,600	277,600
2008 plan	143,600	143,600
2009 plan	567,600	547,600
2010 plan	512,400	499,200
2011 plan	-	683,887

PERFORMANCE SHARE ALLOCATION PLANS

Characteristics of the plans

Vallourec's Management Board authorised the setting up of performance share allocation plans for the benefit of certain employees and corporate officers of the Vallourec Group in 2007, 2008, 2009, 2010 and 2011.

The characteristics of these plans are as follows (the figures for the 2007, 2008 and 2009 plans have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the correlative multiplication of the number of shares by two):

	Date awarded	Acquisition period	Holding period	Number of beneficiaries at outset	Theoretical number of shares allocated
2007 plan (a)	03/05/2007	2, 3 and 4 years	2 years	280	222,000
2008 plan (b)	01/09/2008	2 and 3 years	2 years	41	23,180
"Value 08" plan	16/12/2008	4.5 years	-	8,697	67,712
2009 plan (c)	31/07/2009	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	53	26,668
"Value 09" plan	17/12/2009	4.6 years	-	8,097	69,400
1-2-3 plan (d)	17/12/2009	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	17,404	104,424
03/2010 plan (e)	15/03/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	848	190,540
07/2010 plan (f)	31/07/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	2	4,280
"Value 10" plan	03/12/2010	4.6 years	-	9,632	83,462
2-4-6 plan (g)	03/12/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	12,098	72,588
Plan 2011 (h)	30/03/2011	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	1,149	196,961
2-4-6 2011 plan (i)	18/11/2011	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	13,053	78,318
"Value 11" plan	15/12/2011	4.6 years	-	841	6,462

(a) The final allocation, in terms of numbers of shares, will be made in thirds in 2009, 2010 and 2011 and each third will be based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales in 2008, 2009 and 2010. It will be made by applying a performance factor, calculated for each of the years concerned, to the theoretical number of shares allocated. This factor can range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(b) The final allocation, in terms of numbers of shares, will be made in halves in 2010 and 2011 and each half will be based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales in 2009 and 2010. It will be made by applying a performance factor, calculated for each of the years concerned, to the theoretical number of shares allocated. The factor can range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(c) The definitive award, in number of shares, will be made in 2011 for French residents and in 2013 for non-French residents, in keeping with the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales in 2009 and 2010. It will be made by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor can range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(d) The final allocation, in terms of numbers of shares, will be allocated in 2011 in the case of French residents and in 2013 in the case of non-French residents based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales for the period from 1 January 2010 to 30 September 2011. The number of shares actually acquired by each beneficiary at the end of the acquisition period can range from 0 to 6.

(e) The definitive award, in number of shares, will be made in 2012 for French residents and in 2014 for non-French residents in keeping with the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales in 2010 and 2011. It will be made by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor can range from 0 to 1. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(f) The final allocation, in terms of numbers of shares, will be made in 2012 in the case of French residents and in 2014 in the case of non-French residents and will be based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales in 2010 and 2011. It will be made by applying a performance factor, calculated for the three years concerned, to the theoretical number of shares allocated. This factor can range from 0 to 1. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

g) The final allocation, in terms of numbers of shares, will be allocated in 2012 in the case of French residents and in 2014 in the case of non-French residents based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales for the period from 1 January 2011 to 30 September 2012. The number of shares actually acquired by each beneficiary at the end of the acquisition period can range from 0 to 6.

(h) The final allocation, in terms of numbers of shares, will be allocated in 2013 in the case of French residents and members of the Management Board and in 2015 in the case of non-French residents. For all beneficiaries (except members of the Management Board), it will be based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales in 2011 and 2012. It will be made by applying a performance factor, calculated for the three years concerned, to the theoretical number of shares allocated. This factor can range from 0 to 1. The theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.25. For members of the Management Board, the definitive award, in number of shares, will depend on the following three evaluation criteria for 2011 and 2012: the growth rate in sales on a like-for-like basis, the ratio of consolidated gross operating profit compared to consolidated sales on a like-for-like basis during the period, and the performance of the Vallourec share price on the NYSE Euronext regulated market in Paris compared to a benchmark panel. It will be made by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor can range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(i) The final allocation, in terms of numbers of shares, will be allocated in 2013 in the case of French residents and in 2015 in the case of non-French residents based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales for the period from 1 January 2012 to 30 September 2013. The number of shares actually acquired by each beneficiary at the end of the acquisition period can range from 0 to 6.

Change in number of shares

The characteristics of these plans are as follows (the figures for the 2007, 2008 and 2009 plans have been recalculated to take into account the 2:1 stock split on 9 July 2010 and the correlative multiplication of the number of shares by two):

	Initial theoretical number of shares allocated	Number of shares cancelled	Theoretical number of shares acquired or being acquired	Number of shares delivered
2007 plan	222,000	-21,856	200,144	173,454
2008 plan	23,180	-2,100	21,080	15,443
"Value 08" plan	67,712	-2,930	64,782	-
2009 plan	26,668	-1,266	25,402	23,274
"Value 09" plan	69,400	-544	68,856	-
1-2-3 plan	104,424	-3,726	100,698	26,844
03/2010 plan	190,540	-7,560	182,980	-
07/2010 plan	4,280	-	4,280	-
"Value 10" plan	83,462	-251	83,211	-
2-4-6 plan	72,588	-1,758	70,830	-
2011 plan	214,271	-1,928	212,343	-
"Value 11" plan	6,462	-	6,462	-
2-4-6 plan 2011	78,318	-24	78,294	-

6. PROVISIONS FOR CONTINGENCIES AND LIABILITIES

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

In € thousand	31/12/2010	Charges	Reversals used	Reversals of provisions no longer needed	31/12/2011
Provisions for liabilities and charges					0
Retirement provisions	73	47			120
Provisions for additional retirement commitments	654	543	0		1,197
Provisions for charges re performance shares	6,611	10,023	-2,094		14,540
TOTAL	**7,338**	**10,613**	**-2,094**	**0**	**15,857**

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.

The balance of the provision for charges relating to the performance share plans (2007, 2008, 2009, 2010 and 2011 plans) totalled €14.5 million (see paragraph 3.5).

Retirement provisions

Retirement commitments, net of plan assets, totalled €3.1 million at 31/12/2011.

The actuarial gains and past service costs not recognised totalled €0.3 million. The commitments not recognised in the balance sheet correspond to changes in or the non-crystallisation of assumptions, the effect of which is amortised over time using the corridor method.

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 change in the discount rate.

7. DEBT

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

  This facility requires the Group to maintain its ratio of consolidated net debt to consolidated 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 2009, a tranche of €260 million had been drawn down.

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

  The Company has been using the USD 300 million term loan since May 2008.

- In November 2008, the Company took out a €100 million loan with the Crédit Agricole Group with an initial term of six years (expiring on 27 October 2014). In 2009, the term was extended by one additional year, making the final maturity date 27 October 2015. This loan was drawn down on 27 January 2009. The loan documentation contains commitments of the same type as those entered into under the terms of the €460 million facility described above.

- In addition to this bank finance, the Vallourec Group aims to diversify its source of finance by calling on the markets. For example, Vallourec issued a commercial paper programme on 12 October 2011 to meet its short-term needs. The programme is capped at €750 million.

  At 31 December 2011, Vallourec had €344.5 million outstanding with a maturity of one to three months. This commercial paper programme is rated A-2 by Standard & Poor's.

  On 7 December 2011, Vallourec also carried out a bond issue for €650 million maturing in February 2017, with a fixed annual coupon of 4.25%.

  This bond issue specifically includes a change of control clause that would trigger the mandatory early redemption of the bonds at the request of each bondholder in the event of a change of control of the Company (in favour of a person or a group of people acting in concert) entailing a reduction in the Company's financial rating.

  In addition, these bonds may be subject to early repayment in the event of certain cases of default, as is usual for this type of transaction, as well as demands for early repayment at the behest of the Company or the holder, in certain cases, particularly a change in the Company's position or fiscal situation.

  This bond issue had a maturity of 5 years and 2 months. It is intended to diversify and increase the amount and extend the maturity of the financial resources available to, and used by, the Group.

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) on the bank loans and other borrowings of €260 million and USD 300 million was a negative amount of €12.4 million at 31 December 2011.

Information on exchange rate risk

At 31 December 2011, the USD 300 million loan was hedged in full through a foreign exchange swap.

D – Notes to the income statement

OPERATING REVENUES

Sales totalling €6.3 million correspond to the recharging to the subsidiaries by the Group of the costs of the employee performance share allocation plans.

Other operating income: Vallourec invoiced fees totalling €0.9 million for the use of its brand name.

FINANCIAL CHARGES AND INCOME FOR ASSOCIATED COMPANIES

Financial charges:	€425,000
Financial income:	€509,777,000

EXCEPTIONAL INCOME

The net exceptional income for the year amounted to €2.9 million.

This figure includes the gains and losses resulting from the sales of own shares carried out under the terms of the liquidity contract totalling a net gain of €3.1 million, the charge of €2 million associated with the exercise of the 2007, 2008 and 2009 performance share allocation plans (see paragraph C.1), the €2.2 million capital gain on the disposal of securities in the subsidiaries Vallourec Tubes Canada Inc and Valsept.

E – Other information

COMPOSITION OF THE AVERAGE WORKFORCE

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

TAXATION

Fiscal integration

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 2011, the tax group comprised Vallourec, Assurval, Interfit, Valti, Valtimet, Vallourec University, Vallourec Umbilicals, Valinox Nucléaire, Vallourec & Mannesmann Tubes, VAM Drilling France, V & M France, V & M Oil & Gas France, V & M One, V & M Services, Serimax Holding SA, Serimax SAS and Serimax Russia.

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

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

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

In respect of 2011:

The net tax credit in the income statement amounted to: €8,022,000

It can be broken down as follows:

- Tax charge relating to Vallourec -€683,000;
- Tax credit relating to the integrated Group €8,705,000.

At 31 December 2011, the saving recognised by Vallourec, which heads the fiscal integration group in France, totalled €42.6 million, which was recognized as a liability in the balance sheet.

The Vallourec tax group was in a loss-making situation in 2011, with losses carried forward totalling €110.78 million at the end of 2011.

Increase in, and relief of, future tax liabilities

Nature of temporary differences	Amount at 31/12/2011 (base)
Increase	
Reductions	
Provision for retirement commitments	1,317
Provision for employee share ownership arrangements	4,847
Provision for paid holidays	20
Solidarity social security contribution provision	2
Unrealised gains on UCITS	10

Vallourec is in credit in 2011 in the amount of €6.4 million.

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

In € thousand	Profit before tax	Tax due	Net profit
Operating profit (loss)	453,478		453,478
Exceptional income (loss)	-2,946		-2,946
SUB-TOTAL	**450,532**	**0**	**450,532**
Charge specific to Vallourec		-683	-683
Income relating to fiscal integration		8,705	8,705
VALLOUREC TOTAL	**450,532**	**8,022**	**458,554**

REMUNERATION FOR MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT

Administrative bodies

Board attendance fees paid during the year amounted to €0.5 million.

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 COMMITMENT

Off balance sheet commitments are as follows:

Retirement gratuities €307,000 (actuarial loss)
Long-term vehicle lease €17,000

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

EVENTS AFTER THE REPORTING PERIOD

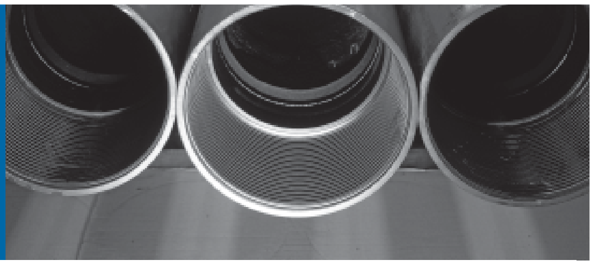
None

Notes to the financial statements of Vallourec — Allocation of the results for the year ended on 31 December 2011 and dividend distribution

The Management Board will make a proposal to the General Shareholders' Meeting on 31 May 2012 for allocation of the results for the year ended on 31 December 2011 and for distribution of a dividend according to the following terms:

(in €)	***2011***
Net profit for the year	458,554,434.52
Allowance to legal reserve	*698,065.40*
Retained earnings	*1,018,460,945.85*
DISTRIBUTABLE PROFIT	***1,476,317,314.97***
DIVIDEND	***157,864,731.70***
Balance allocated in its entirety to retained earnings account	***1,318,452,583.27***

The dividend, in the amount of €157,864,731.70 payable to Vallourec shareholders — based on the number of shares outstanding on 31 December 2011 — corresponds to a distribution of €1.30 per share with a nominal value of €2.



6 Corporate governance

6.1 COMPOSITION AND OPERATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The Ordinary and Extraordinary Shareholders' Meeting held on 14 June 1994 approved the adoption of a dual management structure with a Supervisory Board and a Management Board.

This structure is based on the separation of the management functions, which are the responsibility of the Management Board, from the supervision of said management, which is the responsibility of the Supervisory Board, which is the representative body of the shareholders:

- the Management Board, which is a collegial body, is responsible for managing the Group using the powers conferred on it by statutory and regulatory provisions and the Group's by-laws; and
- the Supervisory Board is responsible for ongoing control of said management. It receives the necessary information to enable it to fulfil its duties.

6.1.1 COMPOSITION OF THE MANAGEMENT AND SUPERVISORY BOARDS AT 31 MARCH 2012

6.1.1.1 Management Board

	Year of birth	Date of first appointment to Management Board	Date appointment most recently renewed	End date of term of office
Chairman				
Philippe Crouzet — Chief Executive Officer [(a)]	1956	01/04/2009	15/03/2012	15/03/2016
Members				
Jean-Pierre Michel — Chief Operating Officer [(b)]	1955	01/04/2006	15/03/2012	15/03/2016
Olivier Mallet — Chief Financial Officer and General Counsel [(c)]	1956	30/09/2008	15/03/2012	15/03/2016

(a) At its meeting on 25 February 2009, the Supervisory Board appointed Mr Philippe Crouzet as Chairman of the Management Board as from 1 April 2009, thereby succeeding Mr Pierre Verluca for the remainder of Mr Verluca's term of office, i.e. until 15 March 2012. On 22 February 2012, the Supervisory Board renewed his appointment as Chairman of the Management Board, with effect from 15 March 2012 until 15 March 2016.

(b) At its meeting on 7 March 2006, the Supervisory Board appointed Mr Jean-Pierre Michel as a member of the Management Board as from 1 April 2006. At its meeting on 3 June 2008, it renewed his appointment as a member of the Management Board with effect from 4 June 2008 from the end of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008 until 15 March 2012, and at its meeting on 25 February 2009, appointed him as Chief Operating Officer with immediate effect. On 22 February 2012, the Supervisory Board renewed his appointment as member of the Management Board and Chief Operating Officer, with effect from 15 March 2012 until 15 March 2016.

(c) The Supervisory Board of 29 September 2008 appointed Mr Olivier Mallet as a member of the Management Board from 30 September 2008 until 15 March 2012. On 22 February 2012, the Supervisory Board renewed his appointment as a member of the Management Board, with effect from 15 March 2012 until 15 March 2016.

Information about Mr Philippe CROUZET, Chairman of the Management Board – Chief Executive Officer (1)

Date of first appointment: *1 April 2009*

Date appointment most recently renewed:
15 March 2012

Date on which appointment ceases: *15 March 2016*

Date of birth: 18 October 1956
French nationality

Business address:
Vallourec
27, avenue du Général Leclerc
92100 Boulogne-Billancourt, France

Expertise and managerial experience

- Graduate of École Nationale d'Administration;
- Counsel (Maître des requêtes) to the Conseil d'État;
- Twenty-three years' industrial experience with the Saint-Gobain group;
- Chairman of the Management Board of Vallourec since 1 April 2009.

Positions held by Mr Philippe CROUZET

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Chairman of the Management Board of Vallourec (since 01/04/2009) • Chairman of Vallourec & Mannesmann Tubes (since 01/04/2009) • Chairman of the Supervisory Board of V & M France (since 01/04/2009) • Director of VMOG France (since 01/05/2009) **Positions held in foreign companies** • Director of V & M do Brazil (Brazil) (since 31/07/09)	**Positions held in French companies** • Director of Électricité de France
Positions expired within the last five years	**Positions held in French companies** • Member of the Supervisory Board of Vallourec (up to 31/03/2009) **Positions held in foreign companies** • Director of Finalourec (Luxembourg) (up to 30 July 2010)	**Positions held in French companies** • Chairman of Saint-Gobain Distribution Bâtiment (up to March 2009) • Chairman of the Supervisory Board of Point P (up to March 2009) • Chairman of the Supervisory Board of Lapeyre (up to March 2009) • Chairman of Aquamondo (up to March 2009) • Chairman of Partidis (up to March 2009) • Chairman of Projeo (up to March 2009) **Positions held in foreign companies** • Chairman of Saint-Gobain Distribution (Switzerland) (up to March 2009) • Chairman of Saint-Gobain Distribution Nordic (Sweden) (up to March 2009) • Chairman of the Board of Directors of Dahl International (Sweden) (up to March 2009) • Member of the Supervisory Board of Raab Karcher Baustoffe (Germany) (up to March 2009) • Director of Saint-Gobain Cristaleria (Spain) (up to March 2009) • Director of Norandex Distribution (United States) (up to March 2009) • Director of Saint-Gobain Building Distribution (United Kingdom) (up to March 2009) • Director of Jewson (United Kingdom) (up to March 2009) • Director of Meyer Overseas Investment (United Kingdom) (up to March 2009)

(1) At its meeting on 25 February 2009, the Supervisory Board appointed Mr Philippe Crouzet as Chairman of the Management Board as from 1 April 2009, thereby succeeding Mr Pierre Verluca for the remainder of Mr Verluca's term of office, i.e. until 15 March 2012. The Supervisory Board of 22 February 2012 renewed his appointment as Chairman of the Management Board, with effect from 15 March 2012 until 15 March 2016.

Information about Mr Jean-Pierre MICHEL, Member of the Management Board and Chief Operating Officer (1)

Date of first appointment: 1 April 2006

Date appointment most recently renewed: 15 March 2012

Date on which appointment ceases: 15 March 2016

Date of birth: 17 May 1955
French nationality

Business address:
Vallourec
27, avenue du Général Leclerc
92100 Boulogne-Billancourt, France

Expertise and managerial experience

- Graduate of the École Polytechnique and Institut Français de Gestion;
- More than 30 years with the Vallourec Group (plant management, management control and Chairman of various Divisions);
- Member of the Management Board of Vallourec (since 1 April 2006);
- Chief Operating Officer of Vallourec (since 2009).

Positions held by Mr Jean-Pierre MICHEL

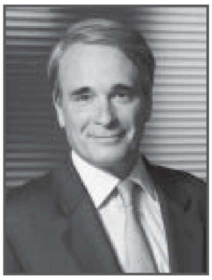
	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Member of the Management Board and Chief Operating Officer of Vallourec (since 01/04/2006 and 25/02/2009, respectively) • Director and CEO of Vallourec & Mannesmann Tubes (since 15/03/2006 and 07/11/2006, respectively) • Member of the Supervisory Board of V & M France (since 21/06/2005) • Director of VMOG France (since 13/11/2002) • Director of Valtimet (since 29/12/2006) • Director of Valti (since 30/04/2007) • Director of Interfit (since 28/05/2004) • Director of V & M Services (since 28/04/2006) • Director of Valinox Asia (since 18/06/2004) • Director of Valinox Nucléaire (since 28/05/2004) • Director of VAM Drilling France (since 14/02/2007) • Manager of V & M One (since 02/06/2004) **Positions held in foreign companies** • Chairman of the Supervisory Board of V & M do Brazil SA (Brazil) (since 31/10/2008) • Director of V & M do Brazil SA (Brazil) (since 30/04/2008) • Director of Vallourec & Sumitomo Tubos do Brazil (Brazil) (since 19/07/2007)	None

(1) At its meeting on 7 March 2006, the Supervisory Board appointed Mr Jean-Pierre Michel as a member of the Management Board as from 1 April 2006. At its meeting on 3 June 2008, it renewed his appointment as a member of the Management Board with effect from 4 June 2008 from the end of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008 until 15 March 2012, and at its meeting on 25 February 2009, appointed him as Chief Operating Officer with immediate effect. On 22 February 2012, the Supervisory Board renewed his appointment as member of the Management Board and Chief Operating Officer, with effect from 15 March 2012 until 15 March 2016.

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
	• Director of Vallourec Industries Inc. (United States) (since 01/07/2001) • Director of V & M Holdings (United States) (since 10/06/2004) • Director of VAM USA LLC (United States) (since 24/02/2009) • Member of the Executive Committee of V & M Two [(a)] (United States) (since 31/12/2009) • Member of the Executive Committee of V & M Star (United States) (since 28/06/2002) • Director of V & M USA Corp. (United States) (since 03/05/2000) • Director of Vallourec Inc. (United States) (since 21/03/2007) • Director of VAM Drilling USA (United States) (since 15/09/2005) • Director of VMOG UK (United Kingdom) (since 29/06/2000)	
Positions expired within the last five years	**Positions held in French companies** • Chairman of Valtimet (up to 22/04/2008) • Director of VCAV (up to 16/11/2007) • Director of VPS (up to 16/11/2007) • Director of VPE (up to 02/07/2007) **Positions held in foreign companies** • Chairman of the Board of Directors of V & M do Brazil SA (Brazil) (up to 31/07/2009) • Chairman of the Board of Directors of Vallourec Industries Inc. (United States) (up to 31/03/2009) • Director of V & M Atlas Bradford (United States) (up to 27/02/2009) • Director of V & M TCA (United States) (up to 24/02/2009) • Member of the Supervisory Board of V & M Deutschland GmbH (Germany) (up to 31/03/2009) • Chairman of the Board of Directors and Director of Finalourec (Luxembourg) (up to 30/07/2010)	None

(a) V & M Two was absorbed by V & M Star on 1 January 2012.

Information about Mr Olivier MALLET, Member of the Management Board and Chief Financial Officer (1)



Date of first appointment: *30 September 2008*

Date appointment most recently renewed:
15 March 2012

Date on which appointment ceases: *15 March 2016*

Date of birth: 14 July 1956
French nationality

Business address:
Vallourec
27, avenue du Général Leclerc
92100 Boulogne

Expertise and managerial experience

- Graduate of the École Nationale d'Administration – General Inspector of Finance;
- Technical advisor within several cabinet offices, including that of the Prime Minister (1988-1993);
- CFO and member of the Executive Committee with responsibility for finance at Thomson Multimédia (1995-2001);
- CFO and member of the Executive Committee of Pechiney (2001-2004);
- At Areva group: Deputy CFO (2004-2006) then Senior Executive Vice-President of the Mining, Chemistry and Enrichment sector (2006-2008);
- Member of the Management Board, Chief Financial Officer and General Counsel (since 30 September 2008).

Positions held by Mr Olivier MALLET

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Member of the Management Board of Vallourec (since 30/09/2008) • Chairman and CEO of V & M Services (since 30/09/2008) • CEO and Director of Vallourec & Mannesmann Tubes (since 29/07/2008) • Member of the Supervisory Board of V & M France (since 29/10/2008) • Director of Vallourec Mannesmann Oil & Gas France (since 30/09/2008) • Director of Interfit (since 30/09/2008) • Director of Valti (since 30/09/2008) • Director of Valtimet (since 12/12/2008) **Positions held in foreign companies** • Chairman of V & M Holdings (United States) (since 01/04/2009) • Member of the Supervisory Board of V & M Deutschland GmbH (Germany) (since 23/07/2008) • Director of V & M do Brazil SA (Brazil) (since 31/10/2008) • Director of Vallourec Tubes Canada Inc. (Canada) (since 30/09/2008) • Director of V & M Holdings (since 30/09/2008) • Director of V & M USA Corp (since 29/09/2008)	None

(1) The Supervisory Board of 29 September 2008 appointed Mr Olivier Mallet as a member of the Management Board from 30 September 2008 until 15 March 2012. On 22 February 2012, the Supervisory Board renewed his appointment as a member of the Management Board, with effect from 15 March 2012 until 15 March 2016.

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
	• Director of V & M Tube-Alloy™ (since 30/09/2008) • Chairman (since 01/04/2009) and Director (since 30/09/2008) of Vallourec Industries Inc. • Director of VAM Drilling USA (United States) (since 29/09/2008) • Member of the Executive Committee of V & M Two [(a)] (since 31 December 2009) • Member of the Executive Committee of VAM USA LLC (since 27/02/2009) • Member of the Executive Committee of V & M Star (United States) (since 29/09/2008)	
Positions expired within the last five years	**Positions held in foreign companies** • Director of V & M Atlas Bradford (United States) (up to 27/02/2009) • Director of V & M TCA (United States) (up to 24/02/2009) • Director of Finalourec (Luxembourg) (up to 30 July 2010)	**Positions held in French companies** • Chairman and CEO of CFMM (up to May 2008) • Chairman and CEO of CMM (up to March 2008) • Chairman of ANC Expansion 1 (up to June 2008) • Chairman of SET (up to March 2008) • Member of the Supervisory Board of Eurodif (up to June 2008) • Permanent representative of Areva NC on the Boards of Directors of Comurhex and Sofidif (up to September 2008) • Director of SGN, TN International (up to June 2008) • Chairman of CFMM Développement (up to October 2007) **Positions held in foreign companies** • Director of Songaï Mining Corp. (South Africa) (up to May 2008) • Chairman of the Board of Directors of UG GmbH (Germany) (up to September 2008) • Director of Cogema Deutschland (Germany) (up to September 2007) • Director of Areva NC Australia (Australia) (up to May 2008) • Director of La Mancha Resources (Canada) (up to June 2008) • Director of Areva Resources Canada (Canada) (up to May 2008) • Chairman of the Board of Directors of PMC Inc. and of Comin (United States) (up to June 2008) • Director of Areva NC Inc. (United States) (up to August 2008) • Director of CRI USA (United States) (up to June 2008) • Director of Katco (Kazakhstan) (up to July 2008) • Vice-Chairman, permanent representative of Areva NC on the Board of Directors of Cominak (Niger) (up to June 2008) • Chairman of the Board of Directors, permanent representative of Areva NC on the Board of Directors of Somair (Niger) (up to June 2008)

(a) V & M Two was absorbed by V & M Star on 1 January 2012.

6.1.1.2 Composition of the Supervisory Board at 31 March 2012

	Year of birth	Date of first appointment	Date appointment most recently renewed	End date of term of office	Other main appointments held
Chairman					
Jean-Paul Parayre [(a)]	1937	13/06/1989	Ordinary Shareholders' Meeting ("OSM") 07/06/2011	2013 OSM to approve financial statements for year ended 31/12/2012	Member of the Supervisory Board of Peugeot SA
Vice-Chairman					
Patrick Boissier [(b)]	1950	15/06/2000	OSM 07/06/2011	2015 OSM to approve financial statements for year ended 31/12/14	Chairman and CEO of DCNS
Members					
Pascale Chargrasse	1960	13/12/2010	OSM 07/06/2011	2015 OSM to approve financial statements for year ended 31/12/2014	Business Development Manager at Valinox Nucléaire
Jean-François Cirelli [(c)]	1958	13/05/2009		2012 OSM to approve financial statements for year ended 31/12/2011	Vice-Chairman and COO of GDF SUEZ
Vivienne Cox	1959	31/05/2010		2014 OSM to approve financial statements for year ended 31/12/2013	Director of BG Group plc, Pearson plc and Rio Tinto plc
Michel de Fabiani [(d)]	1945	10/06/2004		2014 OSM to approve financial statements for year ended 31/12/2013	Director of BP France Director of Valeo
Anne-Marie Idrac	1951	07/06/2011		2015 OSM to approve financial statements for year ended 31/12/2014	Director of Saint-Gobain and Mediobanca (Italy)
Edward G. Krubasik [(e)]	1944	06/03/2007	OSM 04/06/2008	2012 OSM to approve financial statements for year ended 31/12/2011	Vice-Chairman of the Federation of German Industry (BDI)
Alexandra Schaapveld	1958	31/05/2010		2014 OSM to approve financial statements for year ended 31/12/2013	Member of the Supervisory Board of Casino Holland
Jean-Claude Verdière	1938	01/07/2001	OSM 31/05/2010	2012 OSM to approve financial statements for year ended 31/12/2011	CEO, member of the Management Board of Vallourec until 30 June 2001
Bolloré	N/A	13/11/2008	OSM 31/05/2010	2014 OSM to approve financial statements for year ended 31/12/2013	
represented by Cédric de Bailliencourt	1969	01/01/2011	-	2014 OSM to approve financial statements for year ended 31/12/2013	CFO of Bolloré Group
Censeurs (non-voting Board members)					
François Henrot	1949	13/12/2010	OSM 07/06/2011	2015 OSM to approve financial statements for year ended 31/12/2014	Chairman of Rothschild Group investment bank
José Carlos Grubisich [(f)]	1957	09/11/2011	-	2012 OSM to approve financial statements for year ended 31/12/2011	Chairman of Eldorado Brazil Papel e Celulose

(a) The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 renewed, in accordance with Article 10 paragraph 1 of the by-laws, the term of office as a member of the Supervisory Board of Mr Jean-Paul Parayre for a period of two (2) years, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2012. At its meeting following the Shareholders' Meeting, and on the recommendation of the Appointments, Remuneration and Governance Committee, the Supervisory Board renewed Mr Jean-Paul Parayre's position as Chairman of the Supervisory Board for the duration of his term of office.

(b) The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 renewed, in accordance with Article 10 paragraph 1 of the by-laws, the term of office as a member of the Supervisory Board of Mr Patrick Boissier for a period of four (4) years, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2014. At its meeting following the Shareholders' Meeting, and on the proposal of Mr Jean-Paul Parayre, the Supervisory Board renewed Mr Patrick Boissier's position as Vice-Chairman of the Supervisory Board for the duration of his term of office.

(c) At its meeting on 13 May 2009, the Supervisory Board appointed Mr Jean-François Cirelli as a member of the Supervisory Board to replace Mr Philippe Crouzet, who had resigned, for the remainder of his predecessor's term of office, i.e. until the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011. This appointment was ratified by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009. The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 is asked to renew, in accordance with Article 10 paragraph 1 of the by-laws, the term of office as a member of the Supervisory Board of Mr Jean-François Cirelli for a period of four (4) years, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2015.

(d) Following a proposal from the Fonds Stratégique d'Investissement (FSI), approved by the Supervisory Board, Mr. Michel de Fabiani has been sitting on the Supervisory Board of Vallourec since 4 August 2011, representing FSI.

(e) The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 is asked to renew, in accordance with Article 10 paragraph 1 of the by-laws, the term of office as a member of the Supervisory Board of Mr Edward G. Krubasik for a period of four (4) years, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2015.

(f) Mr José Carlos Grubisich was appointed Censeur (non-voting Board member) on the Supervisory Board from 9 November 2011 for a term expiring at the close of the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012. A resolution will be put to the Shareholders' Meeting to appoint him as a Member of the Supervisory Board, pursuant to Article 10 paragraph 1 of the by-laws, for a period of four (4) years, i.e. until the end of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2015.

6.1.1.2.1 Members of the Supervisory Board

Information about Mr Jean-Paul PARAYRE [(1)]

Chairman of the Supervisory Board

Date of first appointment: *13 June 1989 (at which time Vallourec was managed by a Board of Directors)*

Date appointment most recently renewed: *7 June 2011*

Date of first election as Chairman of the Supervisory Board: *15 June 2000*

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2012*

Date of birth: 5 July 1937
French nationality

Business address: *Not applicable*

Expertise and managerial experience

- Chairman of the Management Board of PSA Peugeot-Citroën (1977-1984);
- COO then Chairman of the Management Board of Dumez (1984-1990);
- Vice-President and CEO of Lyonnaise des Eaux Dumez (1990-1992);
- Vice-President and CEO of Bolloré (1994-1999);
- CEO of Saga (1996-1999).

Positions held by Mr Jean-Paul PARAYRE

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Chairman of the Supervisory Board of Vallourec • Permanent representative of Vallourec on the Board of Directors of Vallourec & Mannesmann Tubes	**Positions held in French companies** • Member of the Supervisory Board of Peugeot SA • Director of Bolloré • Director of Société Financière du Planier • Chairman of the Supervisory Board of Stena Maritime (a) **Positions held in foreign companies** • Manager B of Stena International Sarl (Luxembourg) (a)
Positions expired within the last five years	None	**Positions held in French companies** • Director of SNEF (up to June 2009)

(a) Position held within the Stena group.

(1) The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 renewed, in accordance with Article 10 paragraph 1 of the by-laws, the term of office as a member of the Supervisory Board of Mr Jean-Paul Parayre for a period of two (2) years, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2012. At its meeting following the Shareholders' Meeting, and on the recommendation of the Appointments, Remuneration and Governance Committee, the Supervisory Board renewed the Mr Jean-Paul Parayre's position as Chairman of the Supervisory Board for the duration of his term of office.

Information about Mr Patrick BOISSIER [(1)]

Vice-Chairman of the Supervisory Board
Member of the Supervisory Board's Appointments, Remuneration and Governance Committee

Date of first appointment: *15 June 2000*

Date appointment most recently renewed: *7 June 2011*

Date of first election as Vice-Chairman of the Supervisory Board: *18 April 2005*

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2014*

Date of birth: 18 February 1950
French nationality

Business address:
DCNS
40-42, rue du Docteur Finlay
75732 Paris Cedex 15

Expertise and managerial experience

- Graduate of École Polytechnique;
- 27 years' managerial experience with industrial companies in the iron and steel, capital goods, shipbuilding and services sectors.

Positions held by Mr Patrick BOISSIER

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	Positions held in French companies • Vice-Chairman of the Supervisory Board of Vallourec	Positions held in French companies • Chairman and CEO of DCNS • Director of Institut Français de la mer • Member of the Supervisory Board of Steria
Positions expired within the last five years	None	Positions held in French companies • CEO of Cegelec (up to 31/12/2008) • Chairman and CEO of Chantiers de l'Atlantique (up to March 2008) • Director of Sperian Protection (up to June 2009)

(1) The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 renewed, in accordance with Article 10 paragraph 1 of the by-laws, the term of office as a member of the Supervisory Board of Mr Patrick Boissier for a period of four (4) years, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2014. At its meeting following the Shareholders' Meeting, and on the proposal of Mr Jean-Paul Parayre, the Supervisory Board renewed Mr Patrick Boissier's position as Vice-Chairman of the Supervisory Board for the duration of his term of office.

Information about Ms Pascale CHARGRASSE

Member of the Supervisory Board representing the employee shareholders

Date of first appointment: *13 December 2010 (1)*

Date appointment most recently renewed: *7 June 2011*

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2014*

Date of birth: 10 July 1960
French nationality

Business address:
Valinox Nucléaire
5, avenue du Maréchal Leclerc
BP 50
21501 Montbard

Expertise and managerial experience

- Graduate of the Orsay Technology Institute with a DUT diploma in Computer Science;
- Employee of the Vallourec Group since 1985 and currently Business Development Manager at Valinox Nucléaire, a wholly owned subsidiary of Vallourec;
- Member of the Supervisory Board of Vallourec Actions Corporate Mutual Fund (FCPE);
- Union representative on the Group's Works Council.

Positions held by Ms Pascale CHARGRASSE

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Member of the Supervisory Board of Vallourec	None
Positions expired within the last five years	None	None

(1) Ms Pascale Chargrasse was co-opted by the Supervisory Board at its meeting on 13 December 2010, as the member of the Supervisory Board representing employee shareholders to replace Mr François Henrot, for the remainder of her predecessor's term of office, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2010. The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 approved this provisional appointment and renewed, in accordance with Article 10 paragraph 1 of the by-laws, the term of office as a member of the Supervisory Board of Ms Pascale Chargrasse representing the employee shareholders for a period of four (4) years, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2014.

Information about Mr Jean-François CIRELLI

Member of the Supervisory Board
Member of the Supervisory Board's Strategy Committee

Date of first appointment: *13 May 2009*

Date appointment most recently renewed: *Not applicable* (1)

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2011*

Date of birth: 9 July 1958
French nationality

Business address:
GDF SUEZ
1, Place Samuel de Champlain
92930 Paris La Défense Cedex

Expertise and managerial experience

- Graduate of École Nationale d'Administration, law degree;
- Various positions within the French Ministry for Economy and Finance's Treasury Department (1985-1995);
- Technical Advisor then Economic Advisor to the French Presidency (1995-2002);
- Deputy Director of the Prime Minister's office (2002-2004);
- Chairman and CEO of Gaz de France (2004-2008);
- Vice-Chairman and Chief Operating Officer of GDF SUEZ since July 2008.

Positions held by Mr Jean-François CIRELLI

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Member of the Supervisory Board of Vallourec	**Positions held in French companies** • Vice-Chairman and COO of GDF SUEZ [a] • Director of GDF SUEZ Energy Services [a] • Director of Suez Environnement Company [a] **Positions held in foreign companies** • Chairman of the Board of Directors of Electrabel (Belgium) [a] • Director of Suez-Tractebel (Belgium) [a]
Positions expired within the last five years	None	**Positions held in French companies** • Chairman and CEO of Gaz de France (up to July 2008) • Chairman of Fondation d'entreprise Gaz de France (up to December 2009) • Director of Neuf Cegetel (up to March 2009) • Member of the Supervisory Board of Atos Origin (up to February 2009)

(a) Position held within the GDF SUEZ group.

(1) At its meeting on 13 May 2009, the Supervisory Board appointed Mr Jean-François Cirelli as a member of the Supervisory Board to replace Mr Philippe Crouzet, who had resigned, for the remainder of his predecessor's term of office, i.e. until the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2011. This appointment was ratified by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009. The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 is asked to renew, in accordance with Article 10 paragraph 1 of the by-laws, the term of office as a member of the Supervisory Board of Mr Jean-François Cirelli for a period of four (4) years, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2015.

Information about Ms Vivienne COX

Member of the Supervisory Board
Chairman of the Supervisory Board's Strategy Committee (1)
Member of the Supervisory Board's Finance and Audit Committee

Date of first appointment: *31 May 2010*

Date appointment most recently renewed: *Not applicable*

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2013*

Date of birth: 29 May 1959
British nationality

Business address:
Vallourec
27, avenue du Général Leclerc
92200 Boulogne-Billancourt, France

Expertise and managerial experience

- Graduate of Oxford University and INSEAD and Honorary Doctorate from the University of Hull;
- 28 years' experience with the BP Group;
- CEO of BP Gas, Power and Renewables (2004-2009);
- Chairman of the advisory and investment firm Climate Change Capital Ltd (2010 - March 2012);
- Director and member of the Appointments Committee and Sustainable Development Committee of Rio Tinto Plc;
- Director of BG Group Plc;
- Director of Pearson Plc.

Positions held by Ms Vivienne COX

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Member of the Supervisory Board of Vallourec	**Positions held in French companies** • Member of the Board of Directors of INSEAD (since 2009) **Positions held in foreign companies** • Director of BG Group Plc (since 2012) • Director of Pearson Plc (since 2012) • Director of Rio Tinto Plc (since 2006) • Director of the Department for International Development (since 2010) • Director of Climate Change Organisation (since 2010) • Director of Climate Change Capital Limited (since 2008) • Non-Executive Chairman of Climate Change Capital Limited (since 2009) • Member of the Offshore Advisory Committee of Mainstream Renewable Power (since 2010)
Positions expired within the last five years	None	**Positions held in French companies** • None **Positions held in foreign companies** • Chairman and Director of Climate Change Capital Limited (up to March 2012) • Executive Vice-President of BP Plc (up to 2009) • Director of BP Shipping Limited (up to 2007) • Director of BP Oil International Limited (up to 2007) • Director of BP Turkey Refining Limited (up to 2008) • Director of Britannic Trading Limited (up to 2007) • Director of Britannic Energy Trading Limited (up to 2007) • Director of Japan Trading Limited (up to 2007) • Director of Investments Asia Limited (up to 2007) • Director of Britannic Strategies Limited (up to 2007)

(1) Mr Edward G. Krubasik chaired the Strategy Committee from 3 May 2007, the date on which this Committee was re-established after being dissolved in 2002. For the purposes of good corporate governance, the Supervisory Board has chosen to rotate the chair of this Committee and, at its meeting of 27 July 2011, decided to appoint Ms Vivienne Cox as Chairman of the Strategy Committee, to succeed Edward G. Krubasik who continues to sit on the Committee as a member.

Information about Mr Michel de FABIANI

Member of the Supervisory Board [(1)]
Chairman of the Supervisory Board's Appointments, Remuneration and Governance Committee [(2)]

Date of first appointment: *10 June 2004*

Date appointment most recently renewed:
31 May 2010

Date on which appointment ceases:
Shareholders' Meeting called to approve the financial statements for the financial year 2013

Date of birth: 17 June 1945
French nationality

Business address:
Chambre de Commerce Franco-britannique
31, rue Boissy d'Anglas
75008 Paris

Expertise and managerial experience

- CFO of BP Europe (1991-1994);
- Commercial Director of BP Europe (1994-1997);
- CEO of BP Mobil Europe joint-venture (1997-2001);
- Regional President of BP Europe (1997-2004);
- Chairman of BP France (1995-2004).

Positions held by Mr Michel de FABIANI

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Member of the Supervisory Board of Vallourec	**Positions held in French companies** • Director of BP France • Director of Valeo • Chairman of the Franco-British Chamber of Commerce **Positions held in foreign companies** • Director of EBtrans (Luxembourg) • Chairman of Hertford British Hospital Corporation (United Kingdom)
Positions expired within the last five years	None	**Positions held in foreign companies** • Director of Rhodia (up to 2011) • Director of Star Oil (Mali) (up to September 2009) • Director of SEMS (Morocco) (up to May 2009)

(1) Following a proposal from the Fonds Stratégique d'Investissement (FSI), approved by the Supervisory Board, Mr. Michel de Fabiani has been sitting on the Supervisory Board of Vallourec since 4 August 2011, representing FSI.
(2) At its meeting of 28 March 2011, the Supervisory Board appointed Mr Michel de Fabiani as Chairman of the Appointments, Remuneration and Governance Committee with immediate effect, to replace Mr Jean-Paul Parayre.

Information about Ms Anne-Marie IDRAC

Member of the Supervisory Board

Date of first appointment: *7 June 2011*

Date appointment most recently renewed: *Not applicable*

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2014*

Date of birth: 27 July 1951
French nationality

Business address:
9, place Vauban
75007 Paris

Expertise and managerial experience

- Graduate of École Nationale d'Administration;
- Graduate of the Institut d'Études Politiques and the Université de Paris II;
- Secretary of State for transport (1995-1997);
- Chairman & CEO of RATP (2002-2006);
- Chairman of the Board of Directors of SNCF (2006-2008);
- Secretary of State for external trade (2008-2010).

Positions held by Ms Anne-Marie IDRAC

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Member of the Supervisory Board of Vallourec **Positions held in foreign companies** None	**Positions held in French companies** • Director of Saint Gobain (since 2011) **Positions held in foreign companies** • Director of Mediobanca (Italy) (since 2011)
Positions expired within the last five years	None	**Positions held in French companies** • Chairman & CEO of RATP (2002-2006); • Chairman of the Board of Directors of SNCF (2006-2008). **Positions held in foreign companies** None

Information about Mr Edward-Georg KRUBASIK

Member of the Supervisory Board
Member of the Supervisory Board's Strategy Committee (1)
Member of the Supervisory Board's Finance and Audit Committee

Date of first appointment: *6 March 2007*

Date appointment most recently renewed: *Not applicable*

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2011* (2)

Date of birth: 19 January 1944
German nationality

Business address:
Maximilian Strasse 35 A
80539 Munich
Germany

Expertise and managerial experience

- Doctor of nuclear physics (Karlsruhe), researcher at Stanford University, MBA from INSEAD at Fontainebleau, Honorary professor at Munich University;
- Partner and Director at McKinsey & Company, Inc. for 23 years (1973-1996);
- Member of the Executive Committee of Siemens AG (1997-2006), Vice-Chairman of the Federation of German Industries since 2004 and Chairman of the Federation of the Electrical and Electronics Industry (2004-2007), Chairman of Orgalime (2006-2007);
- Former Chairman of the Federal Committee of the Economic, Development and Innovation Council (Germany), former Chairman of the Federation of the Electrical and Electronics Industry (Germany), former Vice Chairman of the Federation of German Industries (Germany), former Chairman of Orgalime (European Association), former member of the Federal Government's Economic Council and former Chairman of the Industry and Technology Committee of the Economic Council of Bavaria.

Positions held by Mr Edward-Georg KRUBASIK

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Member of the Supervisory Board of Vallourec	**Positions held in French companies** None **Positions held in foreign companies** • Member of the Central Advisory Board of Commerzbank (Germany) • Member of the Supervisory Board of Asahi Tec (Japan)
Positions expired within the last five years	None	**Positions held in foreign companies** • Member of the Supervisory Board of Dresdner Bank (Germany) (up to December 2008) • Chairman of Honsel AG (Germany) (up to March 2010)

(1) Mr Edward G. Krubasik chaired the Strategy Committee from 3 May 2007, the date on which the Committee was re-established after being dissolved in 2002. For the purposes of good corporate governance, the Supervisory Board has chosen to rotate the chair of this Committee and, at its meeting of 27 July 2011, decided to appoint Ms Vivienne Cox as Chairman of the Strategy Committee, to succeed Mr Edward G. Krubasik, who continues to sit on the Committee as a member.

(2) The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 is asked to renew, in accordance with Article 10 paragraph 1 of the by-laws, the term of office as a member of the Supervisory Board of Mr Edward G. Krubasik for a period of four (4) years, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the financial year ended 31 December 2015.

Information about Ms Alexandra SCHAAPVELD

Member of the Supervisory Board
Member of the Supervisory Board's Finance and Audit Committee

Date of first appointment: *31 May 2010*

Date appointment most recently renewed: *Not applicable*

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2013*

Date of birth: 5 September 1958
Dutch nationality

Business address:
Bernard Zweerskade 10
1077 TX Amsterdam
Netherlands

Expertise and managerial experience

- Graduate in Politics, Philosophy and Economics from Oxford University and Master in Development Economics from Erasmus University;
- 25 years' experience with the ABN AMRO Group;
- Senior Vice-President responsible for Sector expertise for the ABN AMRO Group (2001-2004);
- Head of Investment Banking for the ABN AMRO Group (2004-2007);
- Head of Europe for Royal Bank of Scotland (2007-2008);
- Member of the Supervisory Board of Holland Casino;
- Member of the Supervisory Board of Bumi Armada Berhad (Malaysia).

Positions held by Ms Alexandra SCHAAPVELD

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Member of the Supervisory Board of Vallourec	**Positions held in French companies** • None **Positions held in foreign companies** • Member of the Supervisory Board of Holland Casino • Member of the Supervisory Board of the University of Amsterdam and University Medical Centre • Member of the Supervisory Board of Bumi Armada Berhad (Malaysia).
Positions expired within the last five years	None	**Positions held in French companies** • None **Positions held in foreign companies** • Chairman of the Supervisory Board of Druin & Kruidberg (up to 2007) • Member of the Supervisory Board of ABN AMRO Rothschild Equity Capital Markets (up to 2007) • Member of the Supervisory Board of ABN AMRO Mellon Global Custody Services (up to 2007)

Information about Mr Jean-Claude VERDIÈRE

Member of the Supervisory Board
Chairman of the Supervisory Board's Finance and Audit Committee
Member of the Supervisory Board's Strategy Committee
Member of the Supervisory Board's Appointments, Remuneration and Governance Committee

Date of first appointment: *1 July 2001*

Date appointment most recently renewed:
31 May 2010

Date on which appointment ceases:
Shareholders' Meeting called to approve the financial statements for the financial year 2011

Date of birth: 11 April 1938
French nationality

Business address:
None

Expertise and managerial experience

- Graduate of the École Polytechnique;
- 40 years with the Vallourec Group, mainly in finance/management control;
- Member of the Management Board and COO of Vallourec from 1994 to 2001.

Positions held by Mr Jean-Claude VERDIÈRE

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Member of the Supervisory Board of Vallourec • Director of Vallourec & Mannesmann Tubes	None
Positions expired within the last five years	None	None

Information about the company BOLLORÉ

Member of the Supervisory Board

Date of first appointment: 13 November 2008 (1)

Date appointment most recently renewed: 31 May 2010

Date on which appointment ceases: Shareholders' Meeting called to approve the financial statements for the financial year 2013

Business address:
Tour Bolloré
31-32, quai de Dion Bouton
92811 Puteaux

Positions held by BOLLORÉ

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Member of the Supervisory Board of Vallourec	**Positions held in French companies** • Chairman of Compagnie Saint-Gabriel (a) • Director of Bolloré Média (a), Direct Soir (a), Havas, SFDM (a), Société de Culture des Tabacs et Plantations Industrielles (a), Financière Moncey (a), Financière de Cézembre (a), MP 42 (a), Transisud (a), BatScap (a), Fred & Farid Paris, Fred & Farid Group and W & Cie • Director of CSA TMO Holding (a) **Positions held in foreign companies** • Director of S.E.T.V. (Ivory Coast) (a), SDV Mauritanie SA (a)
Positions expired within the last five years	None	**Positions held in French companies** • Director of Euro Média France (up to 28/02/2011) • Director of Direct 8 (up to 28/06/2011) • Director of Video Communication France (up to 28/11/2007) • Director of Euro Media Télévision (up to 28/09/2007) • Director of IER (up to 16/04/2010) • Director of SAGA (up to 01/09/2010) **Positions held in foreign companies** • Director of Comarine (Morocco) (up to 31/07/2007)

(a) Position held within the Bolloré group.

(1) *Following the streamlining of the Bolloré Group's structures, Bolloré was appointed as a member of the Supervisory Board by the Board meeting of 13 November 2008 to replace Société Financière de Sainte-Marine (Groupe Bolloré). This appointment was ratified by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009.*

Information about Mr Cédric de BAILLIENCOURT, permanent representative of the company Bolloré

Permanent representative of Bolloré (as from 1 January 2011)

Date of first appointment: *1 January 2011*

Date appointment most recently renewed: *Not applicable*

Date on which appointment as permanent representative ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2013*

Date of birth: 10 July 1969
French nationality

Business address:
Tour Bolloré
31/32, quai de Dion Bouton
92811 Puteaux Cedex

Expertise and managerial experience

- Graduate of the Institut d'Études Politiques de Bordeaux, DESS degree in Political and Social Communication
- 16 years with the Bolloré group, Director of Shareholdings (1996-2008) and Chief Financial Officer of the Bolloré Group since 2008.

Positions held by Mr Cédric de BAILLIENCOURT

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Permanent representative of Bolloré on Vallourec's Supervisory Board **Positions held in foreign companies** • None	**Positions held in French companies** • Vice-Chairman and CEO of Financière de l'Odet (a); • Vice-Chairman and CEO of Bolloré (a) • Chairman of the Management Board of Compagnie du Cambodge (a) • Chairman of the Board of Directors of Compagnie des Tramways de Rouen (a), Financière Moncey (a), Société des Chemins de Fer et Tramways du Var et du Gard (a) and Société Industrielle et Financière de l'Artois (a) • Chairman of Sofibol (a), Compagnie de Bénodet (a), Compagnie de Treguennec (a), Compagnie de Cornouaille (a), Compagnie de Guénolé (a), Compagnie de Guilvinec (a), Compagnie de Pleuven (a), Financière V (a), Financière de Beg Meil (a), Financière de Bréhat (a), Financière d'Ouessant (a), Financière de Loctudy (a), Financière du Perguet (a), Financière de Sainte-Marine (a), Financière de Pont-Aven (a), Financière de Kerdévot, Imperial Mediterranean (a), Omnium Bolloré (a) and Compagnie des Glénans (a) • Manager of Socarfi (a), Financière du Loch (a) and Compagnie de Malestroit (a) • Director of Bolloré (a), Bolloré Participations (a), Compagnie des Tramways de Rouen (a), Financière V (a), Financière Moncey (a), Omnium Bolloré (a), Sofibol (a), Société Industrielle et Financière de l'Artois (a), Financière de l'Odet (a), and Société des Chemins de Fer et Tramways du Var et du Gard (a) • Member of the Management Board of Compagnie du Cambodge (a) • Permanent representative of Bolloré on the Boards of BatScap (a) and Socotab (a) and of Financière V on the Board of Société Anonyme Forestière et Agricole (Safa) (a) • Permanent representative of Bolloré on the Board of Directors of Havas • Permanent representative of Compagnie du Cambodge on the Supervisory Board of Banque Jean-Philippe Hottinguer & Cie

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
		Positions held in foreign companies • Chairman of the Board of Directors of Plantations des Terres Rouges (a), PTR Finances (a) and SFA (a) • Director of African Investment Company (a), Champ de Mars Investissements (a), Financière Nord Sumatra (a), Cormoran Participations (a), Financière du Champ de Mars (a), Forestière Équatoriale (a), BB Group (a), Plantations des Terres Rouges (a), SFA (a), PTR Finances (a), Sorebol (a) and Technifin (a) • Permanent representative of Pargefi Helios Iberica Luxembourg on the Board of Pargefi SA (a) • Permanent representative of Bolloré Participations on the Board of Nord Sumatra Investissements (a) • Permanent representative of Bolloré Participations on the Boards of Socfinasia, Socfinaf (ex-Intercultures), Socfinde, Terrasia, Socfinal (ex-Socfin), Induservices SA, Centrages, Immobilière de la Pépinière, Socfinco, Sogescol, and Agro Products Investment Company
Positions expired within the last five years	**Positions held in French companies** None **Positions held in foreign companies** None	**Positions held in French companies** • Chairman of the Board of Directors and Director of Financière de Kéréon (a) (up to 13/07/2011) • Chairman of Compagnie de Locmaria (a) (up to 13/11/2007) • Chairman of Financière de Port La Forêt (a) (up to 31/12/2008) • Director of Saga (a) (up to 01/09/2010) • Permanent representative of Bolloré Participations on the Board of Compagnie des Glénans (a) (up to 11/06/2009) • Permanent representative of Plantations des Terres Rouges on the Board of Compagnie du Cambodge (a) (up to 28/08/2008) **Positions held in foreign companies** • Director of Arlington Investissements SA (a) (up to 18/05/2010) • Director of Dumbarton Invest SA (a) (up to 18/05/2010) • Director of Elycar Investissements SA (a) (up to 18/05/2010) • Director of Latham Invest SA (a) (up to 18/05/2010) • Director of Peachtree Invest SA (a) (up to 18/05/2010) • Director of Renwick Invest SA (a) (up to 18/05/2010) • Director of Swann Investissements SA (a) (up to 18/05/2010) • Permanent representative of Sofimap on the Board of SHAN (a) (up to 14/01/2009) • Permanent representative of Bolloré Participations on the Board of Plantations des Terres Rouges (a) (up to 08/12/2010) • Permanent representative of Bolloré Participations on the Board of Red Lands Roses (a) (up to 27/01/2008)

(a) Position held within the Bolloré group.

6.1.1.2.2 Censeurs (non-voting Board members) of the Supervisory Board

Information about Mr François HENROT

Censeur (non-voting Board member) of the Supervisory Board

Date of first appointment: *13 December 2010*

Date appointment most recently renewed: *7 June 2011*

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2014*

Date of birth: 3 July 1949
French nationality

Business address:
Banque Rothschild & Cie
23 bis, avenue de Messine
75008 Paris

Expertise and managerial experience

- COO, then Chairman of the Management Board of Compagnie Bancaire (1985-1995);
- Member of the Supervisory Board of Paribas and Chairman of the Supervisory Board of Crédit du Nord (1995-1997);
- Managing partner of Rothschild & Cie Banque (1997-2010) and, since 2010, Chairman of the investment bank of the Rothschild group;
- Member of the Supervisory Board of Vallourec (up to 13 December 2010);
- Member of the Vallourec Supervisory Board's Strategy Committee (up to 13 December 2010).

Positions held by Mr François HENROT

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Censeur (non-voting Board member) of the Supervisory Board	**Positions held in French companies** • Chairman of Rothschild group investment bank • Managing Partner of Rothschild & Cie (a) • Member of the Supervisory Board of 3 Suisses **Positions held in foreign companies** • Member of the Board of Yam Invest N.V. (Netherlands)
Positions expired within the last five years	**Positions held in French companies** • Member of the Supervisory Board of Vallourec (until 13 December 2010)	**Positions held in French companies** • Managing Partner of Rothschild & Cie Banque (up to 2011) (a) • Member of the Supervisory Board of Cogedim (up to 2007) • Director of Eramet (up to 07/03/2007)

(a) Position held within the Rothschild group.

Information about Mr José Carlos GRUBISICH (1)

Censeur (non-voting Board member) of the Supervisory Board

Date of birth: 19 February 1957
Brazilian nationality

Business address:
Avenida das nações unidas – 8501
05425-070-São Paulo
Brazil

Expertise and managerial experience

- Graduate of the Advanced Management Program of the Fundaçao Dom Cabral and INSEAD;
- CEO of Rhodia for Brazil and Latin America (1996);
- Chairman & CEO of Rhône Poulenc Group for Brazil (1997);
- Vice-Chairman and member of the Executive Board of Rhodia Group Worldwide and Chairman of Rhodia Fine Organics Worldwide (1999);
- Chairman & CEO of Brazilian company Braskem S.A. (petrochemicals) (2002);
- Chairman & CEO of Brazilian company ETH Bioenergia S.A. (bioenergy) (2008-2012);
- Chairman of Eldorado Brazil Papel e Celulose (since 2012).

Positions held by Mr José Carlos GRUBISICH

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	**Positions held in French companies** • Censeur (non-voting Board member) of the Supervisory Board of Vallourec **Positions held in foreign companies** None	**Positions held in French companies** None **Positions held in foreign companies** • Chairman of Eldorado Brazil Papel e Celulose (since February 2012). • Member of the Board of Braskem S.A.
Positions expired within the last five years	None	**Positions held in foreign companies** • Chairman & CEO of Brazilian company ETH Bioenergia S.A. (bioenergy) (up to February 2012)

(1) Mr José Carlos Grubisich was appointed Censeur (non-voting Board member) on the Supervisory Board from 9 November 2011 for a term expiring at the end of the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012. A resolution will be put to the Shareholders' Meeting to appoint him as a Member of the Supervisory Board, pursuant to Article 10 paragraph 1 of the by-laws, for a period of four (4) years, i.e. until the end of the Ordinary Shareholders' Meeting called to vote on the financial statements for the year ended 31 December 2015.

6.1.1.2.3 Honorary Chairman

Mr Arnaud LEENHARDT

Having spent his entire career in the Vallourec Group, of which he was Chairman from 1981 to 2000, Mr Arnaud Leenhardt has instigated numerous formative decisions that have had a major influence on the Group's development and the success of its products.

Honorary Chairman of Vallourec since 15 June 2000

Business address:

None

Expertise and managerial experience

- Graduate of the École Polytechnique;
- 40 years with the Vallourec Group, mainly in plant and general management;
- Chairman and CEO of Vallourec (1981-1994);
- Chairman of the Supervisory Board of Vallourec (1994-2000);
- Censeur (non-voting Board member) of the Supervisory Board of Vallourec (2006-2010);

Positions held by Mr Arnaud LEENHARDT

	Related to the Vallourec Group (France and other countries)	Outside Vallourec Group (France and other countries)
Positions currently held	None	**Positions held in French companies** • Honorary Chairman of UIMM
Positions expired within the last five years	**Positions held in French companies** • Censeur (non-voting Board member) of the Supervisory Board of Vallourec (until 31 May 2010)	**Positions held in French companies** • Member of the Supervisory Board of Fives (formerly Fives-Lille) (up to December 2011) • Member of the Supervisory Board of ODDO et Cie (up to June 2009) • Director of AON France (up to 01/01/2009)

6.1.1.3 Executive Committee

At 31 March 2012, Vallourec's Executive Committee was composed of the following members:

- Philippe Crouzet — Chairman of the Management Board – Chief Executive Officer
- Jean-Pierre Michel — Member of the Management Board and Chief Operating Officer
- Olivier Mallet — Member of the Management Board, Chief Financial Officer and General Counsel
- Flavio de Azevedo — TRDI Director and Chairman of V & M do Brazil SA and Vallourec & Sumitomo Tubos do Brazil
- Dirk Bissel — Director of the Drilling Products Division
- Philippe Carlier — Director of the Upstream Division (since 1 January 2012)
- François Curie — Head of Human Resources
- Nicolas de Coignac — Director of Powergen and Speciality Powergen Divisions (since 1 January 2012)
- Andreas Denker — Director of the Industry Division (since 1 January 2012)
- Pierre Frentzel — Director of Strategic Projects
- Didier Hornet — Director of the OCTG Division
- Alexandre Lyra — CEO of V & M do Brazil SA
- Jean-Yves Le Cuziat — Strategic Marketing and Sourcing Director (since 1 January 2012) (1)
- Dominique Richardot — Director of the Pipe Projects Division (since 1 January 2012)
- Philippe Roch — Chief Performance Officer

The Executive Committee meets each week.

(1) Jean-Yves Le Cuziat was Director of the Energy and Industry Division up to 31 December 2011 and was a member of the Executive Committee in this capacity. Under the new organisation put in place from 1 January 2012, he was appointed Strategic Marketing and Sourcing Director and continues to be a member of the Executive Committee in this capacity (for a description of the new organisation, cf. Section 3.1.3.2 above).

6.1.2 OPERATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

6.1.2.1 Operation of the Supervisory Board

At its meeting on 17 April 2003, the Vallourec Supervisory Board drew up internal regulations designed to formalise its operating rules and working methods. These regulations are strictly internal and are not intended to and do not replace the Company by-laws or the laws and regulations governing sales companies. They may be amended or added to at any time as a result of a decision taken by the Supervisory Board. They have been regularly revised to ensure that their terms are consistent with the new statutory and regulatory provisions.

The Supervisory Board meets at least four times a year.

In addition to the legal obligations under prior authorisations (sureties and guarantees – sales of property or equity interests – constitution of sureties) and the restrictions on the powers of the Management Board as stipulated in Article 9, Section 3 of the by-laws (see Section 2.2.1 above), it is also stipulated that the following actions must receive the prior approval of the Supervisory Board:

- the buyback by the Company of its own shares;
- the allocation to Directors and/or Group employees of options to subscribe for or purchase the Company's shares, the allocation of shares free of charge and of performance shares, or any other granting of benefits of a similar nature under the terms of authorizations granted by the Shareholders' Meeting;
- any significant transaction such that could substantially modify the scope of activity or financial structure of the Company or of the Group that it controls or the nature of the risks incurred.

Once a quarter, the Management Board, in accordance with the provisions of Section 4 of Article L.225-68 of the French Code de commerce, submits a report to the Supervisory Board describing the Group's current performance.

The Management Board consults the Supervisory Board about the dividend to be proposed to the Shareholders' Meeting. At the end of the year, it submits the budget, forecast capital expenditure programme and financing plan for the following year together with the strategy plan.

In the performance of its duties, the Supervisory Board is regularly informed by the Management Board of any significant event concerning the Group's performance. It ensures that the latter keeps it informed of all matters that it deems useful and necessary in the exercise of its supervisory role. In order to ensure the process operates correctly, the Chairman of the Supervisory Board, at the initiative of any member of the Board, gathers this information. The specific information required by each of the Committees of the Supervisory Board for the performance of its duties is gathered by the Chairman of each Committee in collaboration with the Management Board.

In addition, each member of the Supervisory Board is also required to:

- attend, unless specifically prevented, Board meetings and the meetings, if relevant, of the Committee to which he/she belongs;
- comply with the legal and regulatory obligations arising from his position and, in particular, to comply with the law relating to the plurality of offices;
- behave as a representative of all the shareholders and act in the Company's interest at all times;
- inform the Supervisory Board of any conflict of interests situation, even potential, and to refrain from voting on any issue examined by the Board with regard to which he would be in a situation of conflict of interests;
- convert into registered form all of the Vallourec shares he holds. The minimum holding requirement, as stipulated by the by-laws, is fifty (50);
- regard himself as being in possession of insider knowledge, given the confidential information obtained in the course of his duties and, as such, in particular, to respect the provisions laid down by the Board concerning the periods during which members in possession of insider knowledge may not buy, sell or take positions in the Company's shares or in any other financial instrument linked to the Vallourec share (options, warrants, etc.), i.e. the thirty (30) calendar days preceding each of the four earnings releases (annual, first half, first quarter and third quarter) as well as the day of publication and the following day, without prejudice to the current statutory and regulatory provisions on "insider dealing";
- comply with the general regulation of the *Autorité des Marchés Financiers* – AMF (the French securities regulator) as regards the obligation to disclose transactions carried out by corporate officers on financial instruments issued by the Company and in particular to inform the Company of all the purchases and sales of Vallourec shares made during each half-year period, in accordance with the decision approved unanimously by the Board at its meeting on 24 April 2002;
- comply with the ethical rules of Article 17 of the April 2010 AFEP-MEDEF corporate governance Code.

Once a year, the Supervisory Board carries out a formalized assessment of the Supervisory Board's operation. The Supervisory Board reports on this assessment in the minutes of the meeting during which the assessment is made.

When first appointed, the members of the Supervisory Board receive a guide containing all the documents concerning the Group's governance (by-laws, Code of Ethics, Code of Conduct, etc.) and activities. At the request of members, visits are arranged to plants in France and abroad. Since 2011, one Supervisory Board per annum is held at one of the Group's industrial sites. The Supervisory Board meeting of 11 May 2011 was held at Belo Horizonte in Brazil, enabling members to visit the plants of V & M do Brazil and of Vallourec & Sumitomo Tubos do Brazil, as well as the Pau Branco mine and the V & M Florestal eucalyptus forest.

The members also have the opportunity, if they so wish, of learning about specific aspects concerning the Group, its businesses, sector of activity and organisation and to meet the operational executive Directors.

At the request of members, the Group may also organise internal and external training sessions specific to their role as a member of the Supervisory Board. Internal training is provided by the Group's Legal Director based on the Group's corporate and stock exchange documentation and any particular questions raised by the member before the training meeting. It is supplemented by external training provided by an independent organisation specialising in training for company Directors.

6.1.2.2 Meetings of the Supervisory Board during the year ended 31 December 2011

The Supervisory Board met seven times in 2011. The rate of absenteeism is extremely low and the absent members generally provide a proxy in order to be represented. The average length per meeting is approximately 3½ hours. However, the meeting of 9 November 2011 took an entire day to give the members more time to discuss the strategic plan with the Management Board (see Section 8.2 below. – Report of the Chairman of the Supervisory Board drawn up in accordance with the provisions of Article L.225-68 of the French Commercial Code.

6.1.2.3 Independent members and members associated with the Company

The Supervisory Board has examined, on an individual basis, the position of each of its members with regard to the independence criteria set forth in the April 2010 AFEP-MEDEF Corporate Governance Code. It based its examination on the recommendations made by the Appointments, Remuneration and Governance Committee (see Section 6.1.2.5 below).

As in preceding years, all the necessary steps have been taken to ensure that the Board comprises independent members to assure shareholders and the market that its duties are fulfilled with the necessary independence and objectivity, and to prevent the risk of conflicts of interest with the Company and its management.

At 31 December 2011, in the light of the aforementioned AFEP-MEDEF corporate governance code:

- the following can be deemed independent members: Ms Vivienne Cox, Anne-Marie Idrac and Alexandra Schaapveld, Messrs Patrick Boissier, Jean-François Cirelli, Michel de Fabiani, Edward G. Krubasik, and Jean-Claude Verdière, and the company Bolloré, represented by Mr Cédric de Bailliencourt;
- the following can be considered associated with the Company:
  - Mr Jean-Paul Parayre, who was first appointed as a Director more than 12 years ago, on 13 June 1989,
  - Ms Pascale Chargrasse, an employee of the Group since 1985.

At 31 December 2011, nine out of the eleven members of the Supervisory Board were independent, representing 82% of the Supervisory Board members. The Supervisory Board therefore comprised a greater number of independent members than that recommended by the AFEP-MEDEF Corporate Governance Code, which requires that, in the case of widely-held corporations without controlling shareholders, at least one half of the members of the Board must be independent.

6.1.2.4 Diversity within the Supervisory Board: more female members and a broader range of international backgrounds

According to a recommendation resulting from a performance assessment of the operation of the Supervisory Board conducted in 2009, the composition of the Supervisory Board changed significantly during 2010 and 2011, to achieve more balanced gender representation and a broader international range of backgrounds.

At 31 December 2011, the composition of the Supervisory Board was as follows (excluding Censeurs (non-voting Board members)):

- four women (Vivienne Cox, Pascale Chargrasse, Anne-Marie Idrac and Alexandra Schaapveld) and seven men, i.e. a proportion of women above 36%. The Board therefore had a greater number of women members than that recommended by the AFEP-MEDEF Corporate Governance code, which stipulates that the percentage of women on Boards should be at least 20% by April 2013, and a greater number than that stipulated under the provisions of Article 5 of Law no. 2011-103 of 27 January 2011 relating to the balanced representation of women and men on Boards of Directors and Supervisory Boards and professional equality, which require that the proportion of Supervisory Board members of each gender may not be lower than 20% at the close of the first Shareholders' Meeting following 1 January 2014;
- three people of foreign nationality (Vivienne Cox (British), Alexandra Schaapveld (Dutch) and Edward G. Krubasik (German)), i.e. a proportion of foreign nationals of 27%. José Carlos Grubisich, Censeur (non-voting Board member) of the Supervisory Board since 9 November 2011, is Brazilian. His appointment to the Supervisory Board will be proposed to the Shareholders' Meeting of 31 May 2012.

6.1.2.5 Committees set up within the Supervisory Board

The Supervisory Board is assisted by three specialist Committees:

- the Finance and Audit Committee;
- the Appointments, Remuneration and Governance Committee;
- the Strategy Committee.

The role of these Committees is to provide advice and to prepare the necessary information for the Board's deliberations. They issue proposals, make recommendations and provide advice in their areas of expertise. For each meeting, a preparatory set of papers is sent out several days in advance. At the meeting, each presentation is made, where applicable, in the presence of one or more members of the Management Board, by the specialist executive manager for the issue concerned and followed by discussion. A report of the meetings is prepared for the members of the Supervisory Board.

To fulfil their role, the Committees may conduct, or arrange to have conducted, any analysis, using external experts if required. They may invite any external persons of their choice to their meetings.

The term of office of the members of each of the Committees is the same as their term of office as a member of the Supervisory Board unless changed in advance by the Committee. Subject to this condition, the term of office of a Committee member may be renewed at the same time as the term of office of a Member of the Supervisory Board.

A Committee's composition may be changed at any time by decision of the Supervisory Board.

Finance and Audit Committee

At its meeting of 30 July 2009, the Supervisory Board decided that this Committee (created on 5 March 2002 as the Audit Committee and subsequently renamed the Finance Committee) would be renamed the Finance and Audit Committee. At the same meeting the Supervisory Board revised the Committee's internal regulations (initially approved by the Supervisory Board meeting of 17 April 2003) to bring them into line with the provisions of Order No. 2008-1278 of 8 December 2008 transposing Directive 2006/43/EC of 17 May 2006 concerning the Statutory Auditors.

These regulations define the Committee's role, composition and operating rules. Their scope is strictly internal and they do not in any way replace the Company's by-laws nor the laws applicable to companies.

In application of the statutory and regulatory provisions, the Finance and Audit Committee oversees:

- **the process of preparation of financial information;**

  In this respect, the Committee is presented with:

  - the retrospective and forward-looking financial data each quarter,
  - at its request, any accounting matters that could have a material impact on the preparation of the financial statements, such as information relating to subsidiaries in special situations.

  Draft financial releases are presented to the Committee for its opinion;

- **the effectiveness of the internal control and risk management systems;**

  In this respect, each year the Committee is presented with:

  - the internal audit plan,
  - the assignment reports and main findings of the audits,
  - a summary of the actions taken in the area of risk management.

- **the statutory audit of the parent company's statutory financial statements and the consolidated financial statements.**

  In this regard, the Statutory Auditors present the results of their audit of the financial statements for the financial year and of their limited review of the half-year financial statements.

  The Committee gives the Supervisory Board its opinion as to the relevance and consistency of the accounting methods used to prepare the parent company and consolidated financial statements;

- **the independence of the Statutory Auditors.**

In this regard, the Committee oversees the procedure for selecting the Statutory Auditors, issues a recommendation prior to the draft resolution concerning their appointment submitted to the Shareholders' Meeting, receives the Statutory Auditors' statement of independence and receives an annual summary of all the services provided to the Vallourec Group by the Statutory Auditors and their networks.

In addition to the above duties, the Supervisory Board or its Chairman may decide to refer to the Finance and Audit Committee any issue requiring the Board's prior approval (transactions affecting the share capital, the issue of convertible bonds, etc.).

Also, the Supervisory Board or its Chairman may request it to examine a specific matter in order to determine the financial implications.

More generally, the Finance and Audit Committee reviews the various elements of the Group's financial strategy.

The Committee, which has no decision-making powers, formulates its opinions and recommendations to the Supervisory Board, reports to it regularly on its work and findings and informs it of any difficulties encountered in the course of its duties.

To perform its role, the Finance and Audit Committee has access to all the information it needs and may meet the Finance Department manager, the Internal Audit manager and the Statutory Auditors, with or without members of the Management Board being present. It may also resort to external experts.

As at 31 March 2012, the Finance and Audit Committee was composed of Mr Jean-Claude Verdière (Chairman), Mr Edward G. Krubasik, Ms Vivienne Cox and Ms Alexandra Schaapveld, all of whom are independent members. All the members have particular knowledge of finance or accounting and have the necessary expertise, experience and qualifications to perform their mission successfully within the Finance and Audit Committee. The Chairman, Mr Jean-Claude Verdière, has spent forty years in the Vallourec Group in finance and management control (for a description of the expertise and experience of members of the Finance and Audit Committee, see Section 6.1.1.2.1 above). When they are first appointed, the members are sent detailed information on the Group's specific accounting, financial and operating processes.

The Finance and Audit Committee met five times in 2011, with an attendance rate of 95%. In particular, the Committee conducted a review of the financial statements for 2011, the interim financial statements at 30 June 2011 and the quarterly financial statements at 31 March and 30 September 2011. It met on 20 February 2012 to review the financial statements for 2011. The Committee's meetings for the review of the annual, half-year and quarterly financial statements are held at least two days before the meetings of the Supervisory Board and the Management Board.

The Statutory Auditors attended all the meetings of the Finance and Audit Committee in 2011. They presented a report on their work and pointed out the essential items of the results and the accounting principles used.

Among the important subjects examined in 2011, the Finance and Audit Committee in particular reviewed and issued opinions on:

- the 2011 forecast figures and outlook for 2012;
- the Group's financial communication policy;
- the quarterly cash situation and the medium and long-term financing plan;
- monitoring the budget of strategic projects;
- the process for drawing up and controlling the 2012 budget;
- the internal audit plan and progress thereon;
- the results of the "Cap Ten" and "CAPTEN+" triennial productivity plans on cost savings;
- the report of the Chairman of the Supervisory Board on internal control and risk management;
- risk mapping;
- the Group's financing strategy;
- dividend policy;
- proposed acquisitions or significant investments;
- preparation for closing the accounts for 2011; and
- renewing the Statutory Auditors' terms of office.

Appointments, Remuneration and Governance Committee

The Remuneration Committee, set up in 1994 when Vallourec adopted a management structure with a Management Board and a Supervisory Board, was renamed the Appointments and Remuneration Committee on 17 April 2003. At its meeting on 28 July 2010, the Supervisory Board broadened the role of the Appointments and Remuneration Committee to include governance. Accordingly, this Committee was renamed the "Appointments, Remuneration and Governance Committee" and its internal regulations were amended.

At 31 March 2012, the Appointments, Remuneration and Governance Committee was composed of Messrs Michel de Fabiani (Chairman), Patrick Boissier, and Jean-Claude Verdière, all of whom are independent.

The regulations of the Appointments, Remuneration and Governance Committee were approved by the Supervisory Board at its meeting on 17 April 2003. They were updated on 3 May 2007 and 28 July 2010.

The duties of the Appointments, Remuneration and Governance Committee are as follows:

- **Appointments**
  - preparation of the procedure used to select members of the Supervisory Board and Management Board and determination of the criteria to be used,
  - drawing up proposals for appointments and re-appointment.

  The Committee's choice of candidates for appointment as members of the Board is guided by the interests of the Company and all its shareholders. It takes into account, in particular, the desired balance of the composition of the Board in view of the composition of, and changes in, the Company's shareholder base.

- **Remuneration**
  - proposals concerning the amounts and allocation of attendance fees paid to Board members as well as the remuneration of members of the Committees,
  - proposals concerning the remuneration of the Chairman of the Supervisory Board,
  - remuneration of members of the Management Board: the Committee is responsible for recommending to the Board the structure and level of the remuneration paid to each member of the Management Board (fixed part, variable part and benefits in kind),
  - share subscription and share purchase options or allocations of performance shares allocated to the members of the Management Board. In addition, the Committee issues a recommendation on the policy for granting share subscription and share purchase options and performance shares and reviews each plan that the Management Board envisages implementing for the benefit of Group managers and/or employees.

  Finally, as regards members of the Executive Committee, the Committee is informed of their appointment, remuneration and succession arrangements.

- **Governance**
  - reviewing the operation of the management bodies, particularly as regards changes in French regulations concerning the governance of listed companies and in the light of the recommendations of the AFEP-MEDEF Corporate Governance Code and, where applicable, making proposals to the Board on updating the Company's corporate governance rules,
  - regularly reviewing the composition of the Board and its Committees and making recommendations on changes to its composition when this appears appropriate,
  - preparing the annual assessment of the Board and recommendations resulting from such assessment,
  - reviewing and monitoring any conflicts of interest between a Board member and the Company, and
  - reviewing the independence of Board members.

The Committee met six times in 2011, with an average attendance rate of 96%. In particular, it reviewed and drew up recommendations on the following subjects:

- the trend in the fixed and variable monetary remuneration of Management Board members;
- the overall budgets and the number of performance shares and share subscription options allocated to each member of the Management Board, and requirements for such members to retain a portion of the shares and options allocated;
- Vallourec's policy as regards remuneration and its incentive policy aimed at strengthening its employees' stake in the Group's results, in particular as regards the measures adopted by the Management Board to ensure compliance with the provisions of the 3 December 2008 law on employment income;
- the total annual budget allocated in respect of the payment of attendance fees to the members of the Supervisory Board, the members of the Committees and the Censeurs (non-voting Board members);
- the payment of attendance fees to Supervisory Board members, Committee members and Censeurs (non-voting Board members);
- the composition of the Supervisory Board and a search for new members, which led to:
  - the appointment, on 7 June 2011, of Ms Anne-Marie Idrac as a member of the Supervisory Board,
  - the appointment, on 9 November 2011, of Mr José Carlos Grubisich as Censeur (non-voting Board members) of the Supervisory Board with the prospect of presenting his candidacy as a member of the Supervisory Board to the vote of shareholders at the General Meeting to be held on 31 May 2012.
- the composition of the Supervisory Board committees, leading to the appointment on 28 March 2011, of Mr Michel de Fabiani as Chairman of the Appointments, Remuneration and Governance Committee, replacing Mr Jean-Paul Parayre and, on 27 July 2011, of Ms Vivienne Cox, as Chairman of the Strategy Committee to replace Mr Edward G. Krubasik, who continues to sit on the committee as a member.

Strategy Committee

The Strategy Committee, created in 2000 and discontinued in 2002, was re-established on 3 May 2007. At its meeting of 23 February 2010, the Supervisory Board decided to draw up a set of internal regulations to formalise the Strategy Committee's duties.

The Strategy Committee is responsible for preparing the Supervisory Board's deliberations with regard to the Group's strategic directions and long-term future. To this end, it issues opinions, proposals and recommendations in its area of expertise. It acts under the authority of the Supervisory Board, to which it reports whenever necessary and which it shall not replace.

In the course of its duties, the Strategy Committee reviews:

- each year, the Group strategy plan presented by the Management Board and any changes as well as the assumptions on which it is based;
- any projected merger agreement or partial transfer of assets, all industrial and commercial agreements with other companies that could affect the Company's future and, more generally, any major transaction that could materially alter the business scope or financial structure of the Company and of its Group or the type of risks it incurs;

At its meeting on 9 November 2011, the Supervisory Board extended the role of the Strategy Committee to the monitoring and review of strategic projects and it approved the revision of its internal regulations on 22 February 2012.

The Committee may carry out any other duties, regular or occasional, assigned to it by the Supervisory Board in its area of competence. It may suggest that the Supervisory Board refer to it on any particular point with regard to which it considers such referral necessary or relevant.

At 31 December 2011, the Committee was composed of Vivienne Cox (Chairman), Edward G. Krubasik, Jean-François Cirelli and Jean-Claude Verdière, all of whom are independent.

The Committee met five times in 2011 with an average effective attendance rate of 85%.

6.1.2.6 Censeurs (non-voting Board members)

The Extraordinary Shareholders' Meeting of 1 June 2006 decided in its sixth resolution on the creation of the position of Censeur. The main role of the Censeurs is to ensure the strict application of the by-laws.

There may not be more than two Censeurs. They attend meetings of the Supervisory Board and take part in discussions in an advisory capacity.

At 31 March 2012, the Censeurs are Mr François Henrot and Mr José Carlos Grubisich.

6.1.3 SHAREHOLDINGS OF MEMBERS OF THE MANAGEMENT AND SUPERVISORY BOARDS

As far as the Company is aware, the number of shares held by each of the members of the Management Board is as follows:

Members of the Management Board		Number of Vallourec shares held
Messrs	Philippe Crouzet	11,395
	Jean-Pierre Michel	9,075
	Olivier Mallet	4,719

As far as the Company is aware, the number of shares [1] held by each of the members of the Supervisory Board and by each of the Censeurs (non-voting Board members) is as follows:

Members of the Supervisory Board		Number of Vallourec shares held
	Jean-Paul Parayre (Chairman)	242,346
	Patrick Boissier (Vice Chairman)	601
	Pascale Chargrasse	74
	Jean-François Cirelli	302
	Vivienne Cox	50
	Michel de Fabiani	555
	Anne-Marie Idrac	298
	Edward G. Krubasik	763
	Alexandra Schaapveld	700
	Jean-Claude Verdière	1,130
Company	Bolloré [(a)]	2,046,475
	François Henrot (Censeur)	512
	José Carlos Grubisich (Censeur)	100

(a) Including 114 Vallourec shares held by Bolloré SA and 2,046,361 by the Compagnie de Cornouaille, a company in the Bolloré Group. Mr Cédric de Bailliencourt, permanent representative of Bolloré since 1 January 2011, has no personal holding of Vallourec shares.

6.1.4 DECLARATIONS CONCERNING THE MANAGEMENT AND SUPERVISORY BOARDS

To the Company's knowledge:

- no member of the Management Board or Supervisory Board has been convicted of fraud during the past five years;
- no member of the Management Board or Supervisory Board has been involved, during the past five years, with a bankruptcy, receivership or liquidation as a member of an administration, management or supervisory body;
- no member of the Management Board or Supervisory Board has been charged, during the past five years, with an offence or been the subject of disciplinary action on the part of the statutory or regulatory authorities (including designated professional bodies);
- no member of the Management Board or Supervisory Board has been prevented, during the past five years, by a court from acting as a member of an administration, management or supervisory body of an issuer or being involved in the management or conduct of the business of an issuer;
- no member of the Management Board or Supervisory Board has a current or potential conflict of interest between his duties to Vallourec and his private interests and/or other duties.

Note that, under current statutory and regulatory provisions, only the Shareholders' Meeting is competent to remove a member of the Supervisory Board from office. Members of the Management Board may be removed from office, under the terms of the Company's by-laws, by the Supervisory Board and, in accordance with statutory and regulatory provisions, the Shareholders' Meeting.

6.1.5 LOANS AND GUARANTEES

No loans or guarantees have been granted by the Company or by a Group company to any member of the Management Board or Supervisory Board.

6.1.6 SERVICE AGREEMENTS PROVIDING FOR THE GRANTING OF BENEFITS

To the Company's knowledge, there is no service agreement between any member of the Management Board or Supervisory Board providing for the granting of benefits.

(1) Includes the 50 guarantee shares which they are required to own for the duration of their terms of office in accordance with the provisions of the Company's by-laws (Article 10).

6.1.7 MANAGEMENT OF CONFLICTS OF INTERESTS

To prevent any risk of a conflict of interest between a Member of the Supervisory Board and the Management Board or any of the Group's companies, the Appointments, Remuneration and Governance Committee constantly monitors the independence of members with regard to the AFEP-MEDEF Corporate Governance Code criteria and the Supervisory Board includes this as an item on its agenda at least once a year.

Each member is required to inform the Board of any situation of a conflict of interest, even a potential one, and to abstain from taking part in discussions or voting on any issue at Board meetings when he or she might be in a conflict of interest situation, and to leave the Board meeting if a subject exposing the member to such a situation is discussed.

If any member finds himself or herself in a conflict of interest situation, even a potential one, concerning a subject to be debated by the Board, he or she must alert the Appointments, Remuneration and Governance Committee to ensure that information concerning this subject is not communicated to the member in question.

6.1.8 DECLARATION ON CORPORATE GOVERNANCE

The Supervisory Board decided, in 2008, to adopt the AFEP-MEDEF Corporate Governance Code for listed companies as amended for application to a limited company managed by a Supervisory Board and a Management Board, and to comply with the code's recommendations.

In view of the above, Vallourec believes that it complies with the corporate governance regulations currently in force in France.

6.2 COMPENSATION AND BENEFITS

Details are provided below of the compensation and benefits of all types paid to Vallourec's Executive corporate officers by the Company and companies controlled by the Company within the meaning of Article L.233-16 of the French Code de commerce, in accordance with the presentation defined by the AFEP-MEDEF Corporate Governance Code, as laid down by the Recommendation of 22 December 2008 of the *Autorité des Marchés Financiers*—AMF (the French securities regulator). It is specified that the variable portion of the monetary remuneration of the corporate officers and the stock options and performance shares allocated to them are subject to the achievement of precise quantitative objectives set by the Supervisory Board, on the recommendation of the Appointments, Remuneration and Governance Committee, but that are not made public for reasons of confidentiality.

6.2.1 COMPENSATION AND BENEFITS OF ALL KINDS PAID TO CORPORATE OFFICERS

The general principles and rules for determining Management Board compensation are detailed in the report of the Chairman of the Supervisory Board, drawn up in accordance with the provisions of Article L.225-68 of the French Code de commerce (see Section 8.2.D below).

6.2.1.1 Table of compensation for members of the Management Board

The following tables show the compensation paid to members of the Management Board as at 31 December 2011.

TABLE 1: SUMMARY OF COMPENSATION, STOCK OPTIONS AND PERFORMANCE SHARES ALLOCATED TO EACH MEMBER OF THE MANAGEMENT BOARD

The following table summarises the compensation due in respect of the years ended 31 December 2010 and 31 December 2011 and the valuation of the share subscription options and performance shares allocated during the financial year.

In €	Financial year 2010	Financial year 2011
Philippe Crouzet, Chairman of the Management Board		
Compensation due in respect of the financial year (detailed in Table 2)	1,384,344	1,319,344
Valuation of options allocated during the financial year (detailed in Table 3) [(a)]	793,650	630,300
Valuation of performance-based shares allocated during the year (detailed in table 5)	559,980	849,720
TOTAL	**2,737,974**	**2,799,364**
Jean-Pierre Michel, Chief Operating Officer		
Compensation due in respect of the financial year (detailed in Table 2)	718,894	708,894
Valuation of options allocated during the financial year (detailed in Table 3) [(a)]	360,750	286,500
Valuation of performance-based shares allocated during the year (detailed in table 5)	273,768	417,779
TOTAL	**1,353,412**	**1,413,173**
Olivier Mallet, Chief Financial Officer		
Compensation due in respect of the financial year (detailed in Table 2)	631,420	628,420
Valuation of options allocated during the financial year (detailed in Table 3) [(a)]	288,600	229,200
Valuation of performance-based shares allocated during the year (detailed in table 5)	223,992	339,888
TOTAL	**1,144,012**	**1,197,508**

(a) All the share subscription options allocated to members of the Management Board in 2010 and 2011 were subject to performance requirements. The valuation of the options shown in the table is theoretical and results from the application of the binomial model used for the consolidated financial statements. The actual valuation is zero if the share price is equal to or less than €71.17 for options allocated in 2010 and €60.71 for those allocated in 2011.

TABLE 2: SUMMARY TABLE OF COMPENSATION FOR EACH MEMBER OF THE MANAGEMENT BOARD

In €	Financial year 2010		Financial year 2011	
	Amounts due in respect of the financial year	Amounts paid during the financial year	Amounts due in respect of the financial year	Amounts paid during the financial year
Philippe Crouzet, Chairman of the Management Board				
Fixed compensation	760,000	760,000	760,000	760,000
Variable compensation	620,000	219,415	555,000	620,000
Extraordinary compensation				
Attendance fees		-	-	-
Benefits in kind	4,344	4,344	4,344	4,344
TOTAL	**1,384,344**	**983,759**	**1,319,344**	**1,384,344**
Jean-Pierre Michel, Chief Operating Officer				
Fixed compensation	430,000	430,000	430,000	430,000
Variable compensation	285,000	157,007	275,000	285,000
Extraordinary compensation				
Attendance fees				
Benefits in kind	3,894	3,894	3,894	3,894
TOTAL	**718,894**	**590,901**	**708,894**	**718,894**
Olivier Mallet, Chief Financial Officer				
Fixed compensation	375,000	375,000	375,000	375,000
Variable compensation	250,000	145,257	247,000	250,000
Extraordinary compensation				
Attendance fees				
Benefits in kind	6,420	6,420	6,420	6,420
TOTAL	**631,420**	**526,677**	**628,420**	**631,420**

TABLE 3: STOCK OPTIONS FOR SUBSCRIPTION OR PURCHASE ALLOCATED DURING THE YEAR TO EACH MEMBER OF THE MANAGEMENT BOARD BY VALLOUREC AND EACH GROUP COMPANY

Name of Executive Corporate Officer	Plan number and date	Type of options (purchase or subscription)	Value (a) of options based on method used for the consolidated financial statements *(in €)*	Number of options granted in the year	Exercise price *(in €)*	Exercise period	Performance requirements (b)
Philippe Crouzet	2011 plan 01/09/2011	Subscription options	630,300	33,000 (b)	60.71	01/09/2015 to 01/09/2021	Yes
Jean-Pierre Michel	2011 plan 01/09/2011	Subscription options	286,500	15,000 (b)	60.71	01/09/2015 to 01/09/2021	Yes
Olivier Mallet	2011 plan 01/09/2011	Subscription options	229,200	12,000 (b)	60.71	01/09/2015 to 01/09/2021	Yes
TOTAL			**1,146,000**	**60,000**			

(a) The valuation of the options shown in the table is theoretical and results from the application of the binomial model used for the consolidated financial statements. The actual valuation is zero if the share price is equal to or less than €60.71 for the options allocated in 2011.

(b) Note that the allocation of all share subscription options is subject to a condition of continuing employment and performance requirements based on the ratio of the Group's consolidated EBITDA to consolidated sales for 2011, 2012, 2013 and 2014 (for more information on the performance requirement, see Section 8.1.2 below, special Report of the Management Board on share subscription and share purchase options).

TABLE 4: SHARE SUBSCRIPTION OR SHARE PURCHASE OPTIONS EXERCISED DURING THE YEAR BY EACH MEMBER OF THE MANAGEMENT BOARD

No Management Board members exercised share subscription or share purchase options during the year ended 31 December 2011.

TABLE 5: PERFORMANCE SHARES ALLOCATED DURING THE YEAR TO EACH MEMBER OF THE MANAGEMENT BOARD BY VALLOUREC AND EACH GROUP COMPANY

Name of Executive Corporate Officer	Plan number and date	Maximum number of shares allocated during the year	Valuation of shares according to the method used for the consolidated financial statements *(in €)*	Vesting date	Available date	Performance conditions
Philippe Crouzet	2011 plan 30/03/2011	12,000	849,720	30/03/2013	30/03/2015	Yes
Jean-Pierre Michel	2011 plan 30/03/2011	5,900	417,779	30/03/2013	30/03/2015	Yes
Olivier Mallet	2011 plan 30/03/2011	4,800	339,888	30/03/2013	30/03/2015	Yes
TOTAL		**22,700**	**1,607,387**			

The definitive allocation of performance shares to members of the Management Board under the 30 March 2011 plan is subject to a condition of continuing employment in the Company for two years from the date of allocation, and to quantified performance criteria for all the performance shares allocated. Performance will be assessed over financial years 2011 and 2012 and measured on the basis of the following three quantified criteria: the growth rate of sales on a like-for-like basis, the ratio of consolidated EBITDA to consolidated sales on a like-for-like basis in the period, and the stock market performance of the Vallourec share on the NYSE Euronext regulated market in Paris compared with a reference panel. The Company will communicate the actual performance rates achieved for each Management Board member at the end of the assessment period.

TABLE 6: PERFORMANCE SHARES BECOMING AVAILABLE IN THE PERIOD FOR EACH MEMBER OF THE MANAGEMENT BOARD

Name of Executive Corporate Officer	Plan number and date	Number of shares that became available during the financial year [(a)]	Vesting conditions [(b)]
Philippe Crouzet	-	-	-
Jean-Pierre Michel	1st tranche of the 2007 plan of 3 May 2007	654	218
Olivier Mallet	-	-	-
TOTAL	**-**	**654**	**218**

(a) After deducting the number of shares required to be held until termination of office.
(b) Management Board members are required to retain one quarter of the performance shares allocated to them under the terms of a plan until the expiry of their terms of office.

TABLE 7: HISTORY OF SHARE SUBSCRIPTION AND SHARE PURCHASE ALLOCATIONS TO MEMBERS OF THE MANAGEMENT BOARD

Information about share subscription and share purchase options	2007 plan	2008 plan	2009 plan	2010 plan	2011 plan
Date of authorization by Shareholders' Meeting	6 June 2007	6 June 2007	4 June 2009	4 June 2009	4 June 2009
Date of plan	3 September 2007	1 September 2008	1 September 2009	1 September 2010	1 September 2011
Total number of shares that can be subscribed for or purchased, of which the number that can be subscribed for or purchased by:	294,600	143,600	578,800	512,400	684,521
• Philippe Crouzet	-		44,000 (a)	33,000	33,000
• Jean-Pierre Michel	22,000 (a)	24,000 (a)	20,000 (a)	15,000	15,000
• Olivier Mallet	-	46,000 (a)	16,000 (a)	12,000	12,000
Date from which options may be exercised	3 September 2011	1 September 2012	1 September 2013	1 September 2014	1 September 2014
Expiry date	3 September 2014	1 September 2015	1 September 2019	1 September 2020	1 September 2020
Subscription or purchase price (in €)	95.30 (a)	91.77 (a)	51.67 (a)	71,17	60,71
Exercise procedures	-				
Number of shares subscribed	-				
Accumulated number of share subscription or purchase options that have been cancelled or become null and void	17,000		31,200	13,200	634
Shares subscription or purchase options remaining at the end of the financial year	277,600	143,600	547,600	499,200	683,887

(a) The figures have been restated to take into account the 2:1 stock split on 9 July 2010.

TABLE 8: SHARE SUBSCRIPTION OR PURCHASE OPTIONS ALLOCATED TO THE TEN EMPLOYEES WHO ARE NOT CORPORATE OFFICERS, TO WHOM THE LARGEST NUMBER OF OPTIONS WAS ALLOCATED, AND THE OPTIONS EXERCISED BY THEM

	Total number of options allocated/shares subscribed or purchased	Weighted average exercise price *(in €)*	Share subscription or share purchase option plans
Options allocated during the year to the ten Group employees to whom the largest number of options was allocated	52,300	60.71	1 September 2010 share subscription plan
Options exercised during the year by the ten Group employees who purchased or subscribed for the largest number of shares in this way			

TABLE 9: SUMMARY OF ELEMENTS OF COMPENSATION FOR MEMBERS OF THE MANAGEMENT BOARD

	Contract of employment	Complementary retirement scheme	Payments or benefits due or likely to become due in respect of termination of office or change of position	Indemnities relating to a non-competition clause
Philippe Crouzet Chairman of the Management Board Date of first appointment: 1 April 2009 [a] Date of appointment as Chairman of the Management Board: 1 April 2009 [a] Date appointment most recently renewed: 15 March 2012 [a] Date on which appointment ceases: 15 March 2016 [a]	No	Yes	Yes	None
Jean-Pierre Michel Member of the Management Board Date of first appointment: 7 March 2006 [b] Date appointment most recently renewed: 15 March 2012 [b] Date on which appointment ceases: 15 March 2016 [b]	Yes [d]	Yes [e]	None	None
Olivier Mallet Member of the Management Board Date of first appointment: 30 September 2008 [c] Date appointment most recently renewed: 15 March 2012 [c] Date on which appointment ceases: 15 March 2016 [c]	Yes [d]	Yes [e]	None	None

(a) At its meeting on 25 February 2009, the Supervisory Board appointed Mr Philippe Crouzet as Chairman of the Management Board as from 1 April 2009. He thereby succeeded Mr Pierre Verluca for the remainder of Mr Verluca's term of office, i.e. until 15 March 2012. The Supervisory Board of 22 February 2012 renewed his appointment as Chairman of the Management Board with effect from 15 March 2012 until 15 March 2016.

(b) At its meeting on 7 March 2006, the Supervisory Board appointed Mr Jean-Pierre Michel as a member of the Management Board as from 1 April 2006. At its meeting on 3 June 2008, it renewed his appointment as a member of the Management Board with effect from 4 June 2008 from the end of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008 until 15 March 2012, and at its meeting on 25 February 2009, appointed him as Chief Operating Officer with immediate effect. On 22 February 2012, the Supervisory Board renewed his appointment as member of the Management Board and Chief Operating Officer, with effect from 15 March 2012 until 15 March 2016.

(c) The Supervisory Board of 29 September 2008 appointed Mr Olivier Mallet as a member of the Management Board from 30 September 2008 until 15 March 2012. On 22 February 2012, the Supervisory Board renewed his appointment as a member of the Management Board, with effect from 15 March 2012 until 15 March 2016.

(d) The employment contracts are suspended during their respective terms of office.

(e) In respect of their contracts of employment.

6.2.1.2 Attendance fees received by members of the Supervisory Board

Remuneration of Supervisory Board members

The overall maximum annual attendance fees for allocation by the Supervisory Board to its members were increased to €520,000 by the Ordinary Shareholders' Meeting of 31 May 2010 *(Tenth resolution)*.

Until 2008, each Board member and each Censeur (non-voting Board members) received attendance fees set at €28,000 per year, reduced pro rata in the case of an appointment or termination of an appointment during the year.

To ensure that it complies with the provisions of Article 18 of the AFEP-MEDEF Corporate Governance Code and to bring its practice into line with that of the majority of companies in the CAC 40 index, which allocate all or part of their attendance fees on the basis of members' attendance at meetings, the Supervisory Board, in accordance with the recommendation made to it by the Appointments and Remuneration Committee, decided to adopt a new system of compensation for Board members: the aforementioned €28,000 total, which was increased to €33,000 in 2010, is now divided into two equal parts, one of which will be paid in all circumstances and the other allocated on the basis of members' attendance at meetings. This new rule has been applied since 1 July 2009.

The Chairman of the Supervisory Board receives remuneration, the amount of which was increased by the Supervisory Board, as recommended by the Appointments and Remuneration Committee, to €250,000 per year with effect from 1 January 2006. He also receives attendance fees of €33,000. The Chairman and members of the Supervisory Board were not allocated any share options, performance shares or termination payments of any kind.

Compensation of Committee members

Under the aforementioned €520,000 annual budget, members of the Committees (Finance and Audit Committee, Appointments, Remuneration and Governance Committee and Strategy Committee) receive additional attendance fees based on their actual attendance at meetings of the Committees, at the rate of €2,500 per meeting, and €3,500 per meeting for Committee Chairmen.

However, in order to keep within this budget of €520,000 authorised by the Shareholders' Meeting of 31 May 2010 in the event of 100% attendance, the Supervisory Board of 28 March 2011 decided to allocate a maximum compensation budget to each committee.

Compensation of the Censeurs (non-voting Board members)

Compensation of the Censeurs, which is the same as that applicable to Supervisory Board members with regard to amounts and terms and conditions, comes within the annual budget for attendance fees allocated to the Supervisory Board.

TABLE 10: ATTENDANCE FEES RECEIVED BY MEMBERS AND CENSEURS (NON-VOTING BOARD MEMBERS) OF THE SUPERVISORY BOARD

Members and Censeurs (non-voting Board members) of the Supervisory Board *In €*	**Amounts paid in 2010**	**Amounts paid in 2011**
Jean-Paul Parayre	33,000	33,000
Luiz-Olavo Baptista *(Censeur until 09/11/2011)*	28,000	25,929
Patrick Boissier	43,200	40,500
Pascale Chargrasse (Member since 13 December 2010)	-	33,000 (a)
Jean-François Cirelli	33,000	38,143
Vivienne Cox (Member since 31 May 2010)	21,800	49,143
Michel de Fabiani	43,000	43,500
Denis Gautier-Sauvagnac (Member until 07/06/2011)	16,500	12,375
José Carlos Grubisich (Censeur from 09/11/2011)	-	4,125
François Henrot (Member until 13/12/2010 and Censeur from that date)	31,000	21,214
Anne-Marie Idrac (Member since 7 June 2011)	-	19,250
Edward G. Krubasik	59,500	56,000
Arnaud Leenhardt (Censeur until 31 May 2010)	16,500	-
Alexandra Schaapveld (Member since 31 May 2010)	24,400	45,500
Jean-Claude Verdière	73,000	65,500
Bolloré – Thierry Marraud (Permanent representative until 31/12/2010)	45,500	-
Bolloré – Cédric de Bailliencourt (Permanent representative from 01/01/2011)	-	30,643
TOTAL	**468,400**	**517,821**

(a) This amount is additional to the fixed and variable compensation and the value of the 98 performance shares received in 2011 by Ms Pascale Chargrasse under her employment contract with the Group, for a total of €58,102.

6.2.2 COMPENSATION AND PENSION COMMITMENTS FOR THE GROUP'S SENIOR MANAGEMENT

6.2.2.1 Compensation of the group's senior management

The total amount of direct and indirect compensation of all kinds paid in 2011 by the Group's French and foreign companies in respect of all the Group's senior managers (i.e. the eight members of the Group's Executive Committee at 31 December 2011 excluding members of the Management Board) amounted to €3,277,622. The variable portion represented 20.9% of the total.

The charge in respect of the share subscription options and performance shares allocated to the Group's senior management during the year and recognised in the 2011 income statement was €3,379,000.

6.2.2.2 Pension commitments

As regards pension provision, Management Board members, like the entire Group's senior management, are covered by a supplementary pension scheme that complies with the AFEP-MEDEF Corporate Governance Code for listed companies, the terms and conditions of which are described in the Chairman of the Supervisory Board's report (see Section 8.2 below). Moreover, beneficiaries may retain their benefits under the scheme if they are dismissed on or after their 55th birthday and are unable to find alternative employment after leaving the Company.

This scheme, which does not give any specific benefits to Management Board members over and above those applicable generally to the Group's senior management, appears reasonable since the additional pension is capped at 20% of the average base salary, excluding the variable portion, for the last three years and limited to four times the annual social security cap.

Details of the pension commitments in respect of members of the Executive Committee are provided in Note 20 of the notes to the consolidated financial statements in Section 5.1 of this Registration Document.

6.3 MANAGERS' INTERESTS AND EMPLOYEE PROFIT SHARING

At its meeting of 13 May 2009, the Supervisory Board approved the policy for strengthening employees' involvement in the Group's results as presented by the Management Board.

In 2011, this policy was implemented at the Supervisory Board's meetings of 28 March (plan to allocate performance shares to all employees and plan to allocate performance shares to 1,154 executives, excluding Management Board members), 11 May 2011 ("Value 11" employee share ownership scheme), and 27 July 2011 (plan to allocate share subscription options to 740 beneficiaries, excluding members of the Management Board). The Supervisory Board also determined, at its meetings on 28 March and 27 July 2011, the principles of compensation of Management Board members in the form of share subscription options and performance shares.

This information was published in accordance with the AFEP-MEDEF corporate governance code via notices on the Company's website on 4 April and 28 July 2011 (http://www.vallourec.com), thereby supplementing the information relating to executive corporate officers' compensation posted on the Company's website in 2009 and 2010 (http://www.vallourec.com).

Vallourec thus aims to supplement the compensation paid to its employees with various schemes designed to involve them in the Group's performance over the long-term and build a significant level of employee share ownership, in line with Vallourec's development ambitions. The policy will gradually be extended to all categories of Group staff worldwide, subject to and in accordance with local legislation and regulations and budgetary constraints (relationship between the number of staff in a country and the cost of implementing the offer).

In 2011 the Group therefore renewed:

- for the fourth consecutive year (see Section 6.3.3 below "Employee shareholding"), a "Value" employee share ownership scheme, named "Value 11", for the benefit of employees and those with similar rights of most companies of the Vallourec Group in France, Germany, Brazil, the United States, the United Arab Emirates, the United Kingdom, Mexico, China and Canada;
- for the third consecutive year (see Section 6.3.3 below "Employee shareholding"), a performance share allocation plan, subject to performance and continuing employment conditions, for the benefit of most of the Group's employees based on enhanced coverage relative to 2010, i.e. the employees included in the scope of the "Value 11" offering (excluding members of the Management Board and of Vallourec Group companies located in Brazil) and employees of the Vallourec Group's entities located in India, the Netherlands, Russia, Malaysia and Norway.

Vallourec's second aim is to achieve closer convergence between the interests of Vallourec's management and those of its shareholders over the long term through the annual allocation of options and/or performance shares subject to the achievement of performance targets over several financial years.

These allocations have gradually been extended to an increasing number of Group managers. They are conditional upon:

- continuing employment within the Company;
- the fulfilment of objective and predefined performance requirements.

Beneficiaries are thus encouraged to make greater efforts to improve earnings and help the Group achieve its targets.

6.3.1 OPTIONS AND PERFORMANCE SHARES

The Supervisory Board sets the maximum number of share subscription or share purchase options and performance shares, and their conditions of allocation to the members of the Management Board.

It approves the maximum number of beneficiaries and the maximum number of share subscription or share purchase options and performance shares that the Management Board proposes to allocate to Group employees under the terms of a plan.

The Management Board is responsible for determining the conditions for implementing any allocation of share subscription or share purchase options and performance shares, including the identification of beneficiaries of such plans and, in the case of share subscription or share purchase options, the reference price. It is also responsible for ensuring the proper implementation of each plan and reports to the Supervisory Board, in the context of its control function.

6.3.1.1 Share subscription and/or purchase options

(The figures in the following tables have been recalculated, where necessary, to take into account the capital increase in July 2005, the 5:1 stock split effective as from 18 July 2006 and the 2:1 stock split effective as from 9 July 2010).

SHARE SUBSCRIPTION PLANS: 3 SEPTEMBER 2007 PLAN

Date of Shareholders' Meeting	6 June 2007
Date of Management Board meeting	3 September 2007
Number of beneficiaries when plan implemented	65
Total number of options granted	294,600
• of which total number of options granted to members of the Management Board (as at 3 September 2007)	92,000
• number of members of the Management Board concerned	4
Total number of options allocated to the 10 Group employees who are not corporate officers and to whom the largest number of options was allocated	64,000
Potential dilution	0.24% (b)
Strike price (a)	€95.30
Date from which options may be exercised	3 September 2011
Expiry date of exercise period	3 September 2014
Number of options cancelled since their allocation (option holders who have left the Group)	17,000

(a) Average of the last 20 prices for the 20 trading sessions preceding the allocation date.
(b) On the basis of the 121,434,409 shares making up the share capital at 31/12/2011.

SHARE SUBSCRIPTION PLANS: 1 SEPTEMBER 2008 PLAN

Date of Shareholders' Meeting	6 June 2007
Date of Management Board meeting	1 September 2008
Number of beneficiaries when plan implemented	9
Total number of options granted	143,600
• of which options granted to members of the Management Board (as at 1 September 2008)	98,000
• number of members of the Management Board concerned	3
Total number of options allocated to the 10 Group employees who are not corporate officers and to whom the largest number of options was allocated	45,600
Potential dilution	0.12% (b)
Strike price (a)	€91.77
Date from which options may be exercised	1 September 2012
Expiry date of exercise period	1 September 2015
Number of options cancelled since their allocation (option holders who have left the Group)	-

(a) Average of the last 20 prices for the 20 trading sessions preceding the allocation date.
(b) On the basis of the 121,434,409 shares making up the share capital at 31/12/2011.

SHARE SUBSCRIPTION PLANS: 1 SEPTEMBER 2009 PLAN

Date of Shareholders' Meeting	4 June 2009
Date of Management Board meeting	1 September 2009
Number of beneficiaries when plan implemented	303
Total number of options granted	578,800
• of which options granted to members of the Management Board (as at 1 September 2009)	80,000
• number of members of the Management Board concerned	3
Total number of options allocated to the 10 Group employees who are not corporate officers and to whom the largest number of options was allocated	48,000
Potential dilution	0.48% (b)
Strike price (a)	€51.67
Date from which options may be exercised	1 September 2013
Expiry date of exercise period	1 September 2019
Number of options cancelled since their allocation (option holders who have left the Group)	31,200

(a) Average of the last 20 prices for the 20 trading sessions preceding the allocation date.
(b) On the basis of the 121,434,409 shares making up the share capital at 31/12/2011.

SHARE SUBSCRIPTION PLANS: 1 SEPTEMBER 2010 PLAN

Date of Shareholders' Meeting	4 June 2009
Date of Management Board meeting	1 September 2010
Number of beneficiaries when plan implemented	349
Total number of options granted	512,400
• of which options granted to members of the Management Board (as at 1 September 2010)	60,000
• number of members of the Management Board concerned	3
Total number of options allocated to the 10 Group employees who are not corporate officers and to whom the largest number of options was allocated	51,800
Potential dilution	0.42% (b)
Strike price (a)	€71.17
Date from which options may be exercised	1 September 2014
Expiry date of exercise period	1 September 2020
Number of options cancelled since their allocation (option holders who have left the Group)	13,200

(a) Average of the last 20 prices for the 20 trading sessions preceding the allocation date.
(b) On the basis of the 121,434,409 shares making up the share capital at 31/12/2011.

SHARE SUBSCRIPTION PLANS: 1 SEPTEMBER 2011 PLAN

Date of Shareholders' Meeting	4 June 2009
Date of Management Board meeting	1 September 2011
Number of beneficiaries when plan implemented	743
Total number of options granted	684,521
• of which options granted to members of the Management Board (as composed at 1 September 2011)	60,000
• number of members of the Management Board concerned	3
Total number of options allocated to the 10 Group employees who are not corporate officers and to whom the largest number of options was allocated	52,300
Potential dilution	0.56% (b)
Strike price (a)	€60.71
Date from which options may be exercised	1 September 2015
Expiry date of exercise period	1 September 2021
Number of options cancelled since their allocation (option holders who have left the Group)	634

(a) Average of the last 20 prices for the 20 trading sessions preceding the allocation date.
(b) On the basis of the 121,434,409 shares making up the share capital at 31/12/2011.

6.3.1.2 Allocation of performance shares and free shares

(The figures in the following tables have been recalculated, where necessary, to take into account the rights offering in July 2005, the 5:1 stock split effective as from 18 July 2006 and the 2:1 stock split effective as from 9 July 2010).

6.3.1.2.1 Allocation of performance shares

	2007 plan	2008 plan	2009 plan	1-2-3 plan [(a)]	2010 plan	2-4-6 plan [(a)]	2011 plan	2-4-6 plan [(a)]
Date of Shareholders' Meeting	07/06/2005	04/06/2008	04/06/2008	04/06/2008	04/06/2008	04/06/2008	04/06/2008	07/06/2011
Date of allocation by the Management Board	03/05/2007	01/09/2008	31/07/2009	17/12/2009	15/03/2010 and 31/07/2010	03/12/2010	30/03/2011	18/11/2011
Number of beneficiaries when plan implemented	280	41	53	17,404	850	12,098	1,157	13,053
Maximum total number of performance shares	295,260	30,829	35,468	104,424	194,820	72,588	269,204	78,318
• of which maximum total number of performance shares allocated to members of the Management Board (as composed when plan implemented)	12,768	0	19,939	0	17,000	0	22,700	0
• number of members of the Management Board concerned	4	0	3	0	3	0	3	0
Maximum total number of performance shares allocated to the ten employees who are not corporate officers and to whom the largest number of options was allocated	31,920	13,726	5,581	60	11,900	60	9,994	60
Potential dilution	0	0	0	0	0	0	0	0
Acquisition period	2, 3 or 4 years	2 or 3 years	2 or 4 years	2 or 4 years	2 or 4 years	2 or 4 years	2 or 4 years	2 or 4 years
Holding period	2 years	2 years	0 or 2 year(s)	0 or 2 year(s)	0 or 2 year(s)	0 or 2 year(s)	0 or 2 year(s)	0 or 2 year(s)
Number of performance shares cancelled since their allocation	21,856	2,100	1,266	3,726	7,560	1,758	1,928	24

(a) For a description of these plans, see Section 6.3.3 below "Employee shareholding".

6.3.1.2.2 Free share allocation

Free share allocation plans (without performance conditions) have been implemented only under the terms of the "Value" employee share ownership offerings (see Section 6.3.3 below "Employee shareholding"), implemented in 2008, 2009, 2010 and 2011, for the sole benefit of employees and those with similar rights who are non-French residents for tax purposes of certain Group companies instead of the contribution granted to employees and those with similar rights of the Vallourec Group's French companies.

	"Value 08" plan	"Value 09" plan	"Value 10" plan	"Value 11" plan
Date of Shareholders' Meeting	04/06/2008	04/06/2009	04/06/2009	07/06/2011
Date of allocation by the Management Board	16/12/2008	17/12/2009	03/12/2010	15/12/2011
Number of beneficiaries when plan implemented	8,697	8,097	9,632	841
Total number of free shares	67,712	69,400	83,462	6,462
• of which total number of free shares allocated to members of the Management Board (when plan implemented)	0	0	0	0
• number of members of the Management Board concerned	0	0	0	0
Total number of free shares allocated to the 10 Group employees who are not corporate officers and to whom the largest number of shares was allocated	174	120	120	80
Potential dilution	0	0	0	0
Acquisition period	4.5 years	4.6 years	4.6 years	4.5 years
Holding period	0	0	0	0
Number of free shares cancelled since their allocation	2,930	544	251	0

A description of the performance share allocation and free share allocation plans is included, in addition, in Notes 18 and 20 of the notes to the consolidated financial statements in Section 5.1 of this Registration Document.

6.3.2 PROFIT SHARING, INCENTIVE AND SAVINGS SCHEMES

Profit sharing

The amounts paid in respect of special reserves for profit sharing during the last five financial years are as follows:

In € million	2007	2008	2009	2010	2011
	21.62	12.30	4.70	3.23	3.22

Incentive schemes

Most Group companies have put in place incentive and profit sharing schemes that involve the employees in the Company's business performance, based on the EBITDA/sales ratio.

The amounts paid in respect of special reserves for incentive schemes during the last five financial years are as follows:

In € million	2007	2008	2009	2010	2011
	39.80	46.58	36.60	46.28	10.23

Company savings scheme

In France, in 1989, the Group formed a Company savings scheme (Plan d'Épargne d'Entreprise – PEE) to help employees build up capital over the medium and long term. Since 2005, these arrangements have been supplemented by the implementation, by agreement, of a group retirement savings scheme (Plan d'Épargne Retraite Collectif – PERCO).

Employees' voluntary payments are topped up by the Company in accordance with a scale updated each year in relation to the Group's performance.

The amounts paid by way of Company contributions over the last five financial years were as follows:

	2007		2008		2009		2010		2011	
In € million	PEE	PERCO	PEE	PERCO	PEE	PERCO	PEE	PERCO	PEE	PERCO
	1.20	1.50	2.19 (a)	1.37 (a)	2.95 (b)	1.04 (b)	2.4 (c)	0.4 (c)	3.1 (d)	0.6 (d)

(a) Including €823,000 in respect of the "Value 08" employee share ownership scheme.
(b) Including €907,847 in respect of the "Value 09" employee share ownership scheme.
(c) Including €1,047,964 in respect of the "Value 10" employee share ownership scheme.
(d) Including €1,161,716.91 in respect of the "Value 11" employee share ownership scheme.

6.3.3 EMPLOYEE SHAREHOLDING

6.3.3.1 International employee share ownership offerings

An employee share ownership scheme introduced in July 2001 reached maturity after five years in July 2006. Taking into account movements in the Vallourec share price, performance has been remarkable, with subscribers' investments having been multiplied by 27.6 on average.

A new five-year plan was proposed, which was implemented on 13 July 2006. This plan was intended for all French and German employees with at least three months' service. A total number of 4,956 employees subscribed, for a total of €4.4 million, which was invested in Vallourec shares acquired on the market. There was therefore no dilution. This plan matured on 13 July 2011 and each holder of units in the plan was offered the possibility of remaining in a fund invested in Vallourec shares.

In 2008, all the Group's employees in the eight main countries in which the Group operates benefitted from an employee share ownership scheme known as "Value 08". The Group consequently proceeded to a capital increase on 16 December 2008 for a total amount of €49.5 million through the issue of 749,996 new shares [1] at the subscription price of €65.99 [2] per share, pursuant to the authorisations granted to the Management Board by the Shareholders' Meeting of 4 June 2008 under the twelfth, thirteenth and fourteenth resolutions. Nearly 12,200 employees in the eight countries concerned, i.e. 68% of eligible employees, chose to subscribe to the share offering proposed by the Group. The shares owned as a result of the offering represented 1.53% of Vallourec's share capital at 31 December 2008 compared with 0.16% at 31 December 2007.

Instead of the contribution granted to employees and those with similar rights of the Vallourec Group's French companies participating in the "Value 08" plan, the Management Board at the same time implemented, under the terms of the "Value 08" offering, a free share allocation plan in respect of the existing shares, involving 33,856 shares [3], i.e. 0.06% of the share capital, for the benefit of employees who are non-French residents for tax purposes of Group companies with registered offices located in Germany, Brazil, Canada, the United States (excluding VAM USA LLC), Mexico and the United Kingdom.

(1) i.e. 1,499,992 shares taking into account the 2:1 stock split effective as from 9 July 2010.
(2) i.e. €32.99 taking into account the 2:1 stock split effective as from 9 July 2010.
(3) i.e. 67,712, taking into account the 2:1 stock split which has been effective since 9 July 2010.

A new "Value" plan was implemented in 2009 under the "Value 09" name. The Group consequently proceeded to a capital increase on 17 December 2009 for a total amount of €65 million through the issue of 708,589 new shares [(1)] at the subscription price of €91.74 [(2)] per share, pursuant to the authorisations granted to the Management Board by the Shareholders' Meeting of 4 June 2009 under the seventeenth, eighteenth and nineteenth resolutions. 11,146 employees in the eight countries concerned, i.e. 62% of eligible employees, chose to subscribe to the share offering proposed by the Group. The shares owned as a result of the offering represented 2.60% of Vallourec's share capital at 31 December 2009 compared with 1.53% at 31 December 2008.

Instead of the contribution granted to employees and those with similar rights of the Vallourec Group's French companies participating in the "Value 09" plan, the Management Board at the same time implemented, under the terms of the "Value 09" offering, a free share allocation plan for existing shares, involving 34,700 shares [(3)], i.e. 0.06% of the share capital, for the benefit of employees who are non-French residents for tax purposes of Group companies with registered offices located in Germany, Brazil, Canada, the United States (excluding VAM USA LLC), Mexico and the United Kingdom.

In 2010, the Group implemented a new "Value" plan for the third year running, known as "Value 10" and, under the terms of the plan, on 3 December 2010 carried out a capital increase for a total amount of €85 million through the issue of 1,395,614 new shares at a subscription price of €61.14 per share, in accordance with the authorisations granted to the Management Board by the Shareholders' Meeting of 4 June 2009 under the seventeenth, eighteenth and nineteenth resolutions. Over 13,000 employees in the eight countries concerned, i.e. nearly 70% of eligible employees, chose to subscribe to the Group's proposed share offering. The shares owned as a result of the offering represented 3.41% of Vallourec's share capital at 31 December 2010 compared with 2.60% at 31 December 2009.

Instead of the contribution granted to employees and those with similar rights of the Vallourec Group's French companies participating in the "Value 10" plan, the Management Board at the same time implemented, under the terms of the "Value 10" offering, a free share allocation plan for existing shares, involving 83,462 shares, i.e. 0.07% of the share capital, for the benefit of employees who are non-French residents for tax purposes of Group companies with registered offices located in Germany, Brazil, Canada, the United States (excluding VAM USA LLC), Mexico and the United Kingdom.

In 2011, the Group implemented a new "Value" plan, for the fourth year running, called "Value 11", and under the terms of the plan, on 15 December 2011 carried out a capital increase for a total amount of €84 million through the issue of 2,349,989 new shares at a subscription price of €35.90 per share, in accordance with the authorisations granted to the Management Board by the Shareholders' Meeting of 7 June 2011 under the twenty-second, twenty-third and twenty-fourth resolutions. Nearly 15,000 employees in the nine countries concerned, i.e. nearly 73% of the eligible employees (the highest participation rate of the four "Value" plans), chose to subscribe to the Group's proposed share offering. The shares owned as a result of the offering represented 4.97% of Vallourec's share capital at 31 December 2011 compared with 3.41% at 31 December 2010.

Instead of the contribution granted to employees and those with similar rights of the Group's French companies situated in Germany, Brazil, Mexico, the United Arab Emirates and the United Kingdom and participating in the "Value 11" plan, the Management Board at the same time implemented, under the terms of the "Value 11" offering, a free share allocation plan for existing shares, involving 6,462 shares, i.e. 0.005% of the share capital, for the benefit of employees who are non-French residents for tax purposes of Group companies with registered offices located in Canada and the United States (excluding VAM USA LLC).

The "Value 08", "Value 09", "Value 10" and "Value 11" plans have been a great success, all the more so in that they took place in the context of the international financial crisis. By subscribing massively, employees have demonstrated their loyalty to their company, as well as their confidence in Vallourec's strategy and future. Against this backdrop, on 13 December 2010, the Supervisory Board provisionally appointed Ms Pascale Chargrasse as the member of the Supervisory Board representing employee shareholders. The Shareholders' Meeting of 7 June 2011 approved this provisional appointment and renewed her term of office at its expiry for a period of four years.

These plans have also enabled the Group to achieve the three objectives it had set for each of these operations:

- to involve as many employees as possible in the Group's performance;
- to strengthen the "Group spirit", the cornerstone of its culture;
- to develop a long-term relationship with employees that will help Vallourec to maintain a stable shareholder base.

Details of the terms and conditions of the "Value 08", "Value 09", "Value 10" and "Value 11" arrangements are provided in Note 24 to the consolidated financial statements in Section 5.1 of this Registration Document.

6.3.3.2 International plans for the allocation of performance shares to employees

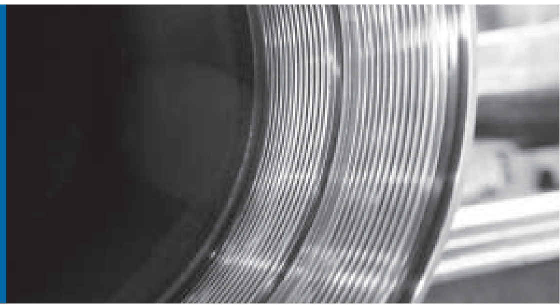
Alongside the "Value 09", "Value 10" and "Value 11" plans described above, the Management Board of Vallourec also decided:

- in 2009, the allocation of a maximum of three performance shares to all the employees of Vallourec Group companies included within the scope of the "Value 09" offering (excluding members of the Management Board);

(1) i.e. 1,417,178, taking into account the 2:1 stock split which has been effective since 9 July 2010.
(2) i.e. €45.87 taking into account the 2:1 stock split effective as from 9 July 2010.
(3) i.e. 69,400, taking into account the 2:1 stock split which has been effective since 9 July 2010.

- in 2010, the allocation of a maximum of six performance shares to all the employees of Vallourec Group companies included within the scope of the "Value 10" offering (excluding members of the Management Board and employees of Vallourec Group companies headquartered in Brazil) and employees of Vallourec Group companies headquartered in India, the United Arab Emirates and the Netherlands; and
- in 2011, the allocation of a maximum of six performance shares to all the employees of Vallourec Group companies included within the scope of the "Value 11" offering (excluding members of the Management Board and employees of Vallourec Group companies headquartered in Brazil) and employees of Vallourec Group companies headquartered in India, the Netherlands, Malaysia, Norway and Russia.

Named 1-2-3 at its launch in 2009, this annual plan has enabled each employee included in the allocation scope to receive 0 or one or two or three Vallourec shares depending on the Group's performance over two years. The two analogous plans replicated in 2010 and 2011 were named 2-4-6 to take account of the 2:1 split in the par value of the Vallourec share in July 2010, but remained governed by the same principles, with the employees included in the allocation scope being able to receive 0 or two or four or six Vallourec shares depending on the Group's performance over two years.



7 Information on recent developments and outlook

In 2011, Vallourec's oil and gas markets saw robust growth, while growth in other industrial markets has slowed down since the summer, largely due to the European financial crisis.

7.1 OIL & GAS

In 2011, global economic growth boosted demand for oil, [1] which increased slightly to 89 mbd over the year. The sharp rise in oil prices [2], which reached an average of $111/bbl in 2011 compared with $76/bbl in 2010, stimulated spending on exploration and production, with a very positive knock-on to Vallourec's oil and gas activities. In 2012, oil prices are expected to remain high and spending on exploration and production [3] to grow by around 10%.

Exploration and production were particularly active in the United States, where the increase in oil drilling, especially in shale basins, offset the weakness of the gas market, which suffered particularly low prices. In 2011, the gas price had fallen to an average for the year of $4.00 per mBtu versus $4.40 in 2010, and stood at $3.30 in the fourth quarter of 2011 [4].

The number of active drilling rigs in the United States [5] increased by 19% in 2011 to a total of 2,007 rigs at the end of December, with the 56% increase in oil directed rigs offsetting the 12% decline in gas directed rigs.

The Gulf of Mexico benefited from an increase in activity during the fourth quarter of 2011, with a 22% rise in the number of new drilling permits. The number of rigs came to 41, up eight since September 2011 and up 17 since the end of 2010, generating premium product orders for Vallourec.

In 2012, the active drilling rig count in the United States should remain significant. Sustained by oil prices that are expected to remain high, the operation of "wet" gas wells, which produce a mixture of gas, oil and natural gas liquids, will continue to develop to the detriment of the operation of "dry" gas wells.

In the rest of the world, the active drilling rig count increased by 5.5% in 2011 to a total of 1,180 units at the end of December, with steady growth in Brazil, Europe and the Middle East.

In the North Sea, numerous HP/HT [6] projects require products of extremely high quality. The development of gas fields by national oil companies in the Middle East has stimulated demand for products specifically for corrosive environments. The granting of new licences for offshore development in West Africa has led to high demand for tubes from Total and independent oil companies. In Brazil, sales have been boosted by heavy demand from the international oil companies and from Petrobras that continues to show strength. In Brazil, the state-owned oil company Petrobras revised its investment plan upwards to US $127 billion [7] for the 2011-2015 period, including requirements relating to the operation of promising pre-salt fields.

7.2 POWER GENERATION

In conventional power generation, equipment needs in Europe and the United States were restrained in 2011. A number of thermal power plant projects were cancelled in Europe, largely due to uncertainties regarding environmental policies. Although some new projects were launched in Eastern Europe, they represent only modest new capacity. Low gas prices in the United States, resulting from an abundance of shale gas, have given the building of combined-cycle power plants rather than coal-fired facilities a competitive advantage. Coal-fired plants are only likely to represent 5% [8] of new power production capacities in the United States by 2020, compared with 44% for gas-fired facilities and 33% for wind farms.

However, very high energy requirements in Asia, reflecting the dynamism of the Asian economies, are promoting the development of new high-performance power plants. China has resumed its policy of replacing small subcritical power plants with more productive, less polluting supercritical plants. China and India now represent over 60% of the new capacity expected by 2020 [8]. South Korea is now positioning itself as another dynamic player in the development of new capacity in Asia. However, all these projects are taking place within a fiercely competitive environment for international players.

For several years, the nuclear energy market has benefited from an upturn as many countries looked to reduce their CO_2 emissions. The Fukushima disaster in April 2011 led some countries to review their nuclear energy policy. 16 countries, including France and China, remain committed to developing their approved projects.

(1) IEA.
(2) Brent crude price.
(3) Barclays Capital – Global 2012 E&P Spending Outlook.
(4) Henry Hub natural gas price.
(5) Baker ughes.
(6) HP/HT: High Pressure/High Temperature.
(7) Petrobras – 2011-2015 business plan.
(8) IHS Global Insight – 2011.

With its high energy requirements, China is aiming to significantly increase its number of nuclear power plants in the coming years to achieve a capacity of some 80 GW in 2020, compared to the current 15 GW[1]. France has the second-largest nuclear power array in the world, and is committed to a steady programme of replacing the main components of its 1,300 MW plants. In September 2011, EDF launched a programme for the construction of 11 new steam generators.

7.3 OTHER MARKETS

The petrochemicals market held up well in 2011, with solid performance from the Middle East, North America and Asia-Pacific contrasting with a sluggish situation on European markets. A number of projects related to the operation of oil sands in Canada. In the Middle East, Vallourec is involved in some major projects, as the Shaiba gas project in Saudi Arabia and Amal steam project in Oman. Demand in the Middle East and Asia will remain strong in 2012, with several hydrocarbon projects in Saudi Arabia, Kuwait and South Korea.

In Europe, Vallourec's non-energy markets (mechanics, automotive and construction) benefited from a sharp upturn in industrial production in the first half of 2011. This was stimulated by the economies of Northern Europe and, in particular, by strong demand from the German manufacturing industry. However, the financial crisis dampened confidence from the summer onward. European distributors have been prudent and have reduced their orders for industrial products, which will lead to a decline in the Group's deliveries in the first half of 2012.

The Brazilian economy saw a slowdown in 2011, with economic growth below 3% and growth in industrial production below 1%, compared to 8% and 11% respectively in 2010. The strength of the Brazilian real encouraged cheap imports, especially in the Automotive sector. These impacts are set to continue in 2012.

7.4 OUTLOOK FOR 2012

2012 will be another year of growth for Vallourec, thanks to favourable trends that are set to continue in its oil and gas activities, sustainable price hikes in 2011, and first sales at its new units in Brazil and the United States. Vallourec is expecting revenue growth of about 10%.

However, the global economic uncertainties will affect the Group's non-oil and gas activities, as evidenced by the low bookings recorded in industrial segments in Europe in the second half of 2011. Combined with seasonal effects, a weak performance is expected in the first quarter of 2012. In Brazil, the Group will be faced with a less favourable environment for its non-oil and gas domestic activities.

The two new plants in Brazil and the United States will start to generate sales, but their net contribution to EBITDA will remain negative during this development phase, with a dilutive effect on the Group's margin. Vallourec therefore expects that its EBITDA margin (EBITDA/Sales) will be lower in 2012 than in 2011.

As well as positive prospects on activities for the coming year, the Group benefits from a number of strengths and levers that will drive profitable growth over the longer term:

- Vallourec is pursuing the continuous improvement strategy introduced in 2007 with the launch in early 2011 of CAPTEN+, a new, wider-ranging three-year programme aimed at improving operational efficiency and ensuring quality, excellent service and customer satisfaction. This programme is also aimed at reducing the ecological footprint of the Group's industrial activities. Cost savings of €300 million are expected from the programme by the end of 2013 compared with 2010. In 2011, in its first year, the programme generated savings before inflation of €83 million;
- It is successfully pursuing development of its production capacities to meet strong market growth, with the full commissioning of its new integrated plant in Brazil, after preliminary deliveries at the end of 2011, and the new tube mill in Youngstown, Ohio, which will deliver its first tubes in the second half of 2012;
- Vallourec is in a sound financial position, with a debt-to-equity ratio of 23% as of 31 December 2011. This will enable the Group to seize new growth opportunities for premium tubular solutions.

(1) IAEA.

8 Additional information

8.1 MANAGEMENT BOARD REPORTS

8.1.1 MANAGEMENT REPORT TO THE SHAREHOLDERS' MEETING OF 31 MAY 2012

8.1.1.1 Results

In 2011, Vallourec's oil & gas markets saw solid growth, while growth in other industrial markets have slowed down since the summer, largely due to the European financial crisis.

Production shipped of rolled tubes increased by 19% to 2,251,000 tonnes, versus 1,888,000 tonnes in 2010. Existing mills operated at high utilisation rates.

Over the full year 2011, consolidated sales totalled €5.296 billion, up 18% compared with 2010, mainly due to the increase in production shipped (+19%).

Cost of sales came to 70.7% of sales, higher than in the previous year, mainly due to the higher price of raw materials and a less favourable business and geographical mix. The ratio of selling, general and administrative (SG&A) and research costs to sales was virtually the same as in 2010, at 10.9%. In part this reflects a change in scope, start-up costs for VSB and other projects. The CAPTEN+ programme enabled gross annual savings of €83 million to be generated.

EBITDA reached €940 million in 2011, up 2% compared with 2010, representing 17.7% of sales, compared with 20.6% of sales in 2010.

Depreciation of industrial assets totalled €201 million versus €184 million in 2010, reflecting the progressive capitalisation of new capacities commissioned in 2011.

Financial results amounted to -€48 million compared with -€28 million in 2010, in line with changes in net debt.

The effective income tax rate was 30% of income compared with 31% in 2010.

Total net income came to €457 million, against €453 million in 2010. Income attributable to non-controlling interests amounted to €55 million, up 28% compared with 2010, which mainly reflects increased income from the Group's subsidiaries in the United States. Net income, Group share was €402 million, down 2% against 2010.

Gross cash flow from operations totalled €638 million in 2011, compared with €708 million in 2010. The working capital requirement was €337 million higher due to the sharp increase in activity and the escalation of operations at the new VSB tube mill. In 2010, it had increased by €268 million. In total, operating cash flow reached €301 million in 2011 compared to €440 million in 2010.

Details are provided below of changes in the Group's industrial and financial investments.

Altogether, total cash outflow was €813 million in 2011, versus €787 million in 2010. Net debt as of 31 December 2011 was €1.194 billion, representing 22.9% of equity (€5.210 billion), versus €381 million as of 31 December 2010 (7.9% of equity).

Overdrafts and short-term borrowing (€906 million) were an equivalent amount to the Group's cash position (€902 million). In December 2011, Vallourec successfully launched a €650 million bond issue, maturing in February 2017. The Group is also maintaining its undrawn confirmed lines of credit of about €1.5 billion, including revolving credit facility of €1 billion, maturing in February 2016.

8.1.1.2 Capital expenditure and financial investments

Capital expenditure totalled €909 million in 2011 (€873 million in 2010), including €622 million related to strategic projects, particularly VSB in Brazil and the new tube mill in Youngstown, Ohio.

Financial investments amounted to €223 million in 2011, compared with €161 million in 2010. These include the acquisition in the second quarter of 19.5% of Tianda Oil Pipe in China, the acquisition of Saudi Seamless Pipes Factory Company Limited ("Zamil Pipes") in Saudi Arabia and the higher equity interest in TSA in Brazil in the fourth quarter.

8.1.1.3 Highlights

On 18 January 2011, Valinox Nucléaire, a world leader in the production of high nickel alloy stainless steel tubes for steam-powered nuclear generators, commissioned its new plant at Montbard, Côte d'Or, France on time after 14 months of construction work.

On 9 February 2011, Vallourec Umbilicals, a new Group subsidiary intending to meet growing demand for the operation of offshore oil fields, began construction of a plant at Venarey-Les-Laumes (France) that will produce seamless stainless steel tubes integrated in umbilicals. Derived from high-tech processes, these umbilicals are structures combining tubes, cables and optical fibres. They are used to connect seabed equipment to a control station on the surface. This innovative solution will extend the Group's premium offering. Production at the new plant is scheduled to begin during 2012.

On 11 February 2011, the Group announced that it had signed a €1 billion five-year multi-currency revolving credit facility. This facility is available for use for the Group's general financing requirements. It will partially refinance and will increase the existing credit lines maturing in March 2012 and April 2013, enabling the Group to increase its financial flexibility and extend the maturity of its resources.

On 1 April 2011, Vallourec announced the finalization of the acquisition of 19.5% of the capital of Tianda Oil Pipe Company Limited, the Chinese seamless OCTG (Oil Country Tubular Goods) tubes plant for the oil & gas market. This operation was carried out through a reserved capital increase, in accordance with the agreement announced on 15 September 2010.

On 23 May 2011, the Group signed an agreement for the acquisition of Saudi Seamless Pipes Factory Company Limited ("Zamil Pipes"), the leading finishing company for seamless OCTG tubes in Saudi Arabia. This acquisition was finalised on 25 November 2011. Based in Dammam, this acquisition provides Vallourec with operational heat treatment and threading facilities with a capacity of 100,000 tonnes of tubes per year. Vallourec thus strengthened its local presence in Saudi Arabia and will reduce its production lead times to serve the premium OCTG market there.

The dividend for 2010 was paid on 7 July 2011. The portion paid in shares resulted in the issue and listing on the NYSE Euronext regulated stock exchange in Paris of 1,140,338 new shares (representing 0.97% of the capital) and the portion in cash amounted to €67.6 million.

On 1 September 2011, the Group inaugurated its new integrated plant in Brazil in the presence of Dilma Rousseff, the country's President. Located in Jeceaba in the State of Minas Gerais (close to other Brazilian entities in the Vallourec Group), this integrated plant produces steel billets and seamless steel tubing, and benefits from direct access to raw materials supplied by the two Vallourec subsidiaries specializing in extraction of iron ore and production of charcoal. The plant covers 250 hectares and includes a steel mill, a high-end tube mill and a complex of heat treatment, threading and finishing lines. It will employ 1,600 people and its tube production capacity will be 600,000 tonnes, of which 300,000 tonnes will be for Vallourec, enabling the Group to increase its tube production capacity by over 10%. It will serve the international oil & gas markets, especially in West Africa and the Middle East.

On 12 October 2011, Vallourec set up a commercial paper programme, rated A-2 by Standard & Poor's, for a maximum of €750 million.

On 30 November 2011, Vallourec announced its decision to construct a new premium threading plant at Youngstown, Ohio. This decision was led by the development of unconventional oil & gas drilling in shale plays, which is generating increasing demand for premium connections. The new VAM unit will be adjacent to Vallourec's existing tube mill and Group mill that is due to be inaugurated shortly. It will also be near its customers operating in the Marcellus and Utica shale basins. This new plant will supplement the VAM USA LLC threading plants in Houston, Texas, and will enable the Group to extend its offering of finished products (premium tubes and connections). Operations at the new plant will be steadily ramped up, starting with a first threading line in mid-2012 and followed by other lines by the end of 2013.

At the beginning of December 2011, Vallourec successfully launched an inaugural bond issue for €650 million, maturing in February 2017, with an annual coupon of 4.25%. This issue will be used for the Group's general financing needs and will enable Vallourec to increase its financial flexibility, extend the average term of its debt and diversify its financial resources.

On 15 December 2011, the Group successfully finalized its "Value 11" employee share ownership scheme. Nearly 15,000 employees in nine countries, i.e. nearly 73% of the workforce concerned (the highest participation rate of the four "Value" plans), chose to subscribe to the Group's fourth global share offering. The capital increase totalled €84.4 million, premium included, and resulted in the issue of 2,349,989 new shares. This offering took the total number of Vallourec shares in circulation to 121,434,409. Following the operation, shares held by employees represented 4.97% of Vallourec's share capital as of 31 December 2011, compared with 3.41% at 31 December 2010.

First quarter 2012

On 1 January 2012, the Group instituted a new internal structure for its activities (for a description of the latter structure, see §3.1.3.2).

On 8 February 2012, Valinox Nucléaire, a Group subsidiary specializing in the production of tubing for nuclear plants, was awarded a contract by Areva to manufacture and deliver tubes for the steam generators of two 1,300 MW reactors. This contract relates to the EDF programme announced in September 2011 to gradually replace large components of its 1,300 MW power plants, which awarded the building of new steam generators for 11 reactors to Areva and Westinghouse. Each steam generator has a 122-km internal circuit of nickel alloy tubes. These tubes are designed to create steam that is used to produce electricity via a high-power turbine.

8.1.1.4 Vallourec (holding company)

Vallourec posted a loss of €24.5 million compared with a loss of €16.7 million in 2010. This loss resulted from costs borne by the holding company (payroll costs, legal fees and communications expenses).

The financial result (the difference between financial expenses and income) was a profit of €478 million, compared to €514.5 million in 2010. This is largely due to a dividend of €485.3 million received from V & M Tubes.

There was a net exceptional loss for the year of €2.9 million compared with a profit of €2.6 million in 2010. This included income of €3.1 million associated with disposals of own shares under the terms of the liquidity contract.

The income tax charge was negative and represents a net credit of €8 million (€15 million in 2010) as a result of the transfer of tax losses in consolidated companies to Vallourec, the Company heading the tax group.

Net profit for the year was slightly lower at €458.6 million compared with net profit of €515.5 million in 2010.

On 1 January 2011, the start of the financial year 2011, the fully paid-up share capital amounted to €235,888,164 divided into 117,944,082 shares with a par value of €2 each. On 7 July 2011, the Management Board noted that, in accordance with the *fourth resolution* of the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, a capital increase had been carried out by means of the issue of 1,140,338 new shares (representing 0.97% of the share capital on that date) at the price of €75.92 per share in payment of the 2010 dividend of €1.30 per share. The issue of the new shares resulted in a capital increase in the nominal amount of €2,280,676, which increased Vallourec's share capital on 7 July 2011 from €235,888,164 to €238,168,840, divided into 119,084,420 shares with a par value of €2 each. At the end of the clearing period for subscriptions to the international employee share ownership scheme, "Value 11", at its meeting of 15 December 2011 the Management Board recorded, under the terms of the twenty-second, twenty-third and twenty-fourth resolutions of the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, the full completion of three capital increases for respective nominal amounts of €2,019,700, €2,394,410 and €285,868, for an aggregate nominal amount of €4,699,978, by the respective issue of 1,009,850, 1,197,205 and 142,934 new shares, for an aggregate total of 2,349,989 new shares with a par value of €2 each and a price per share of €35.90. The combined effect of these operations was to raise the share capital from a total of €238,168,840 to €242,868,818. On 31 December 2011, the fully paid-up share capital thus totalled €242,868,818, divided into 121,434,409 shares with a par value of €2 each.

Equity was up by €475.8 million, totalling €2.5391 billion as of 31 December 2011. This increase is due to net profit for 2011 of €458.6 million, the distribution of a cash dividend of €1.30 per share on 7 July 2011 for a total of €67.6 million, the capital increase of €86.6 million (including additional paid-in capital but excluding issuance fees) generated by the option for payment of the dividend in shares and the capital increase of €84.4 million (including additional paid-in capital) generated by the "Value 11" international employee share ownership scheme.

Financial debt was €1.5979 billion, €1.0082 billion higher than in 2010. In addition to this bank financing, Vallourec chose to diversify its financing resources by calling on the capital markets. To meet its short-term needs, on 12 October 2011 it set up a commercial paper programme, rated A-2 by Standard & Poor's, for a maximum of €750 million. Under this programme, on 31 December 2011 it issued €344.5 million with a maturity of three months. On 7 December 2011, Vallourec also floated a bond issue, rated BBB+ by Standard & Poor's, for €650 million, maturing in February 2017, with a fixed annual coupon of 4.25%.

To finance the long-term needs of its subsidiary Vallourec & Mannesmann Tubes, Vallourec subscribed to the subsidiary's capital increase in an amount of €1 billion by offsetting debts, and set up a loan of €1 billion remunerated at an annual fixed rate of 4.6%.

To the best of the Company's knowledge, the financial year 2011 did not generate any expenses referred to in Article 39-4 of the French Code général des impôts (CGI).

In accordance with Article D.441-4 of the French Code de commerce, the following table provides a breakdown by due date of trade payables as at 31 December 2011 and 2010.

In € thousands **Due dates (D=31/12/2011)**	**Amounts due at year-end**	**Due dates D+15**	**Due dates between D+16 and D+30**	**Due dates between D+31 and D+45**	**Due dates between D+46 and D+60**	**Due dates over D+60**	**No due date**	**Total accounts payable**
Trade payables	-	2,592	-	637	-	-	-	3,229
Trade payables Non-current assets	-	-	-	-	-	-	-	-
TOTAL PAYABLE	**-**	**2,592**	**-**	**637**	**-**	**-**	**-**	**3,229**
Accruals: invoices not yet received		-	-	-	-	-	898	898
Other		-	-	-	-	-	-	-
TOTAL	**-**	**2,592**	**-**	**637**	**-**	**-**	**898**	**4,127**

In € thousands **Due dates (D=31/12/2010)**	**Amounts due at year-end**	**Due dates D+15**	**Due dates between D+16 and D+30**	**Due dates between D+31 and D+45**	**Due dates between D+46 and D+60**	**Due dates over D+60**	**No due date**	**Total accounts payable**
Trade payables	-	1,921	-	184	-	-	-	2,105
Trade payables Non-current assets	-	-	-	-	-	-	-	-
TOTAL PAYABLE	**-**	**1,921**	**-**	**184**	**-**	**-**	**-**	**2,105**
Accruals: invoices not yet received		-	-	-	-	-	383	383
Other		-	-	-	-	-	-	-
TOTAL	**-**	**1,921**	**-**	**184**	**-**	**-**	**383**	**2,488**

8.1.1.5 Other information

The 2011 Registration Document contains the following information, which is an integral part of this management report.

- The Group's activities, business development and results (see Section 3 above "Information on Vallourec Group activities" and Section 5 "Assets, financial position and results").
- Details of the foreseeable trends and outlook for the Group (see Section 7 above "Information about recent developments and outlook").
- Significant events occurring between the financial year-end and the publication of the management report (see Section 3.1.1 above "Changes in the Group's structure in recent years" and Section 5.1 "Consolidated financial statements").
- A description of the main risks and uncertainties facing the Group, with information on the use of financial (see Section 4 above "Risk factors").
- The remuneration paid to corporate officers and a list of the positions or functions they exercise in any company (see Section 6 above "Corporate Governance").
- Vallourec shareholding structure (see Section 2.3 above "Breakdown of capital and voting rights") and employee shareholding (see Section 6.3 above "Managers' interests and employee profit sharing").
- Details of the powers delegated by the Shareholders' Meeting to the Management Board (see Section 2.2.3 above "Authorized capital not yet issued").
- The Company's purchase and sale of its own shares during the year under review (see Section 2.2.4 above "Share buybacks").
- Elements having an impact in the event of a takeover (see Section 8.2 above "Report of the chairman of the Supervisory Board on the conditions governing the preparation and organization of the Supervisory Board's work and the internal control and risk management procedures implemented by Vallourec");
- The table of results for the last 5 years and the amount of dividends distributed in the last 3 financial years (see Section 8.5 below "Summary of financial income over last five years").

8.1.1.6 Trends in Vallourec Group markets

Over the full year 2011, **Oil & Gas sales** increased by 21% to €2.841 billion. They saw a very sharp rise in the fourth quarter of 2011, climbing to €880 million, a 29% increase compared with the third quarter of 2011 and 22% compared with the fourth quarter of 2010.

In the United States, sales in the fourth quarter benefited from sustained drilling activity and the price rises that had been announced in previous quarters. In the United States, the active drilling rig count [1] was stable overall for the quarter at nearly 2,000 rigs, with continued growth in oil oriented rigs (+12%) offsetting the decline in gas oriented rigs (-12%). By the end of December, 60% of the rigs were dedicated to oil drilling and 40% to gas drilling, compared with a ratio of 55/45 at the end of September. The active drilling rig count is expected to remain high in 2012. Sustained by expectations of high oil prices, the activity will continue to develop more strongly in oil wells and "wet" gas wells, which produce liquid hydrocarbons (condensates), to the detriment of "dry" gas wells.

Throughout the year, Vallourec's finished product offering (VAM premium tubes and joints combined) generated high demand, especially for the operation of oil and gas shale basins and "wet" gas. To meet customer demand, the Vallourec plants in the United States operated at full capacity, and small-diameter tubes produced in the Group's European plants were imported.

The Gulf of Mexico benefited from an increase in activity during the fourth quarter of 2011, with a 22% rise in the number of new drilling permits. The number came to 41 units, up 8 since September 2011 and up 17 since the end of 2010, generating premium product orders for Vallourec.

In the rest of the world, sales throughout the year saw strong international activity in the North Sea, the Middle East, West Africa, Asia and Brazil, with strong demand for subsea pipes and premium products.

In the North Sea, numerous HP/HT [2] projects require products of extremely high quality. The development of gas fields by national oil companies in the Middle East has stimulated demand for products specifically for corrosive environments. The granting of new licences for the development of offshore in West Africa has led to high demand for tubes from Total and independent oil companies. In Brazil, sales benefited from solid demand from international oil companies in addition to strong demand from Petrobras.

The successful commercial launch of VAM® 21 illustrates its high-end positioning for major growth markets, with orders from customers in the North Sea, Indonesia, Nigeria and Brazil. VAM® 21 is the only connection that respects the new ISO 2011 test protocol adapted to HP/HT(2) conditions.

Vallourec expects Oil & Gas sales to continue to grow in 2012, benefiting partly from the continuing price rises applied to new orders and partly to an increase in volumes. The Group's order book outside North America now stands at about six months. However, the high level of advanced deliveries in the fourth quarter will result in lower sales for the first quarter of 2012.

Over the full year 2011, sales of **powergen** totalled €707 million, down 9% compared with 2010, which benefited from higher average sale prices and a better mix in terms of activity related to equipment for conventional coal-fired plants.

Coal-fired power production is expected to grow by 35% over the next 10 years [3]. Some 60% of future new coal-fired power production capacity will be in China and India, where increasing local competition to supply tubes has led to strong pressure on prices in recent years. Other dynamic markets on which Vallourec is well positioned include Eastern Europe, South Africa and Korea. Maintenance operations represented nearly 20% of electrical energy revenues.

(1) Baker Hughes.
(2) HP/HT = High Pressure/High Temperature.
(3) IEA – November 2011.

Sales for nuclear plants represented about 20% of powergen revenues. Following the Fukushima accident, several countries have revised their nuclear energy strategy. Sixteen countries, including France and China, remain committed to developing their projects. Valinox Nucléaire's capacities were successfully extended in 2011, and under EDF's project to renovate its nuclear plants in France Areva recently awarded Vallourec a contract for the supply of tubes for steam generators for two 1,300 MW reactors.

Vallourec anticipates moderate growth in its powergen sales in 2012, with the nuclear energy share expected to increase.

Over the full year 2011, **Petrochemicals** sales totalled €373 million, up 4% compared to 2010.

Sales have been mainly driven by growth in the United States and Asia and by sustained activity in the Middle East, which enabled it to offset the fall in sales in Europe.

Sales in 2011 are related to new projects in Canadian oil sands operations, plus the Shaiba gas project in Saudi Arabia and the Steam Amal project in Oman. Demand in the Middle East and Asia remains strong, with several hydrocarbon projects in Saudi Arabia, Kuwait and South Korea. This is likely to sustain sales growth in 2012.

Altogether, over full-year 2011, **Energy** sales totalled €3.921 billion, a 12% increase compared with 2010. This represented 74% of Group sales in 2011 compared with 78% in 2010.

Over full-year 2011, **non-Energy** sales (mechanics, Automotive, Construction and others) increased by 38% to €1.375 billion, which is 26% of Group sales. The growth rate slowed in the fourth quarter of 2011, in particular via a downturn in sales in industrial sectors in Brazil, especially the automotive segment.

Mechanical sales totalled €657 million in 2011, up 58% versus 2010, driven by strong demand from the German export industry, especially in the first half of the year. The growth rate slowed in the second half of the year and a significant drop in bookings was noted in the second half, due to economic uncertainties that led distributors in the region to reduce their stocks. This is likely to be reflected in lower sales in the first quarter of 2012 compared to the fourth quarter of 2011.

Automotive sales, which are largely concentrated in Brazil, amounted to €359 million in 2011, up 13% in one year. In the fourth quarter of 2011, revenues from activities in Brazil dipped by comparison with the third quarter due to a decline in light vehicle sales.

Construction and other sales totalled €359 million in 2011, up 35% versus 2010. This segment includes sales of iron ore to Brazil that benefited from high prices in 2011. Revenues from these sales are likely to decline in 2012 due to lower market prices.

8.1.1.7 Research and Development

A combination of strong demand for steel and sustainable development issues is boosting interest in Brazil's cast iron/charcoal industry, which Vallourec is constantly enhancing and which operates competitively and in an environmentally sound manner. The main thrusts of this programme include scientific tree selection, improving forest nutrition programmes and industrializing the continuous charcoal-making process.

The development and production of 9% and 13% chromium steels using continuous-casting processes forms the basis of the Group's range of high-tech solutions.

Extensive research has been conducted into these technologies. The new continuous casters have many innovative features that have enhanced the Group's production capacity and quality as well as increasing its independence in terms of premium steel procurement.

Hot-process steel tube-making is a core technology for the Group, and many innovations have been made in this area. For example, a new Premium Forged Pipes (PFP®) process has been developed to produce large-diameter, very thick tubes, in particular for the mechanical engineering and power generation markets. This patented technological solution was industrially deployed in 2010 and 2011.

The rolling laboratory that opened in Riesa, Germany in 2010 will enable Vallourec to develop its own innovative technologies and will boost its progress in tooling and heat production processes, including for the latest tube heat-rolling technologies, such as PQF.

Significant developments were made in the area of non-destructive tests to ensure that the Group's products are extremely reliable. Such innovations are major differentiating factors.

The rollout of process communities across the Group continued apace. These promote rapid, continuous progress by sharing best practices for the Group's main processes: threading, steel-making and continuous casting, heat treatment, heating rounds, heat rolling and non-destructive tests.

The most difficult conditions for oil & gas operations necessitate the development of more resistant steel and new, higher-performance threaded connections, including for deep sea, high temperature and high pressure deep reservoirs, improved oil recovery by steam injection, shale gas and Brazilian pre-salt reservoirs.

Many projects are underway, particularly in the North Sea, Brazil (pre-salt reservoirs), the United States (shale gas), the Gulf of Mexico, Alaska, West Africa and Malaysia.

Developing steel grades that are able to resist corrosion by hydrogen sulphide is an essential task for the oil & gas industry. This range of sour service grades has been extended with the introduction of the VM125SS grade, which, being specially designed for high temperature and high pressure applications, is proving to be a commercial success.

VAM® 21, the next-generation premium threaded connection, is now being marketed. This innovative connection complies with the compressive strength requirements in the latest revision of ISO 13679 CAL IV, which is the technical specification required by oil industry customers for the most demanding applications.

Cleanwell® is a dry film lubricant developed for threaded connections, to replace polluting grease while ensuring a watertight connection and effectively protecting against seizure and corrosion. There is strong demand for environmentally-friendly products that facilitate the use of our tubes, particularly in the North Sea. This family of coatings is being extended to cover an increasingly wide spectrum of applications, and very cold conditions in particular.

To facilitate operations in new shale gas plays, a new threaded connection, VAM® SG, has been developed in partnership with customers, in record time, in order to satisfy very specific performance criteria. Shale gas is extracted from wells with a long horizontal section (from 1,500 to 3,000 metres). This requires certain critical tubular connections, since the very-high-pressure fracking puts heavy stress on the connections.

The VAM® HTF high-performance connection has been developed and successfully marketed as a solution for the most difficult applications, such as deviated shafts with long horizontal sections. This premium threaded connection features metal-to-metal sealing and self-locking variable threading, enabling it to withstand very high torque forces.

The VAM® RISER threaded connection range has established itself as the market leader for deepwater applications. The threaded riser tubes that link floating platforms to the sea bed require exceptional fatigue resistance, necessitating the development of cutting-edge technology and special approval tests. Numerous projects are being carried out in Brazil, Australia, the Gulf of Mexico and Indonesia.

The highly corrosion-resistant alloy (CRA) solutions being developed via the Research and Development partnership with Tubacex are strengthening the Group's market position in the area of challenging wells.

In just five years since its creation, VAM Drilling has become a leader in the technology, especially by developing drill pipes and accessories, including:

- VAM® Express, VAM® EIS and VAM® CDS high-torque connections, which deliver a combination of high performance and outstanding operational reliability, resulting in very low repair rates;
- an unprecedented high-grade steel (165 ksi) for highly deviated drilling and a comprehensive range of steels for all applications, including wells in highly corrosive environments;
- high-pressure risers (used to connect the seabed equipment to the oil rig) that surpass the strictest requirements;
- the Hydroclean® range of well-cleaning products has been extended.

Demand in the Power Generation sector remained strong, driven by the construction of coal, lignite and oil-fired thermal power plants, which require an extensive range of tubes in diameters and alloyed steel grades in which the Group is a market leader.

Vallourec's VM12 SHC 12% chromium steel alloy, designed for use at high temperatures, is now being used in highly efficient, ultra-supercritical power plants. The stainless steel tubes being developed jointly with Tubacex enhance the Group's offering in the market for very high-performance power plants.

The Group is constantly expanding its range of products for the construction markets, including bridges, stadiums and airports. Highly innovative tubular solutions are being developed for industrial and commercial buildings, particularly in Germany and Brazil. The patented Preon large-span tubular roof frame system is now being used in numerous applications. The deployment of light solutions for metal structures is a major development line.

Stainless steel and titanium welded tubes continue to grow in popularity in the energy and desalination markets. Solutions using bi-material assemblies have been developed to extend the range of products offered by Valtimet Inc. Enhancing heat exchange processes is one major innovation area, resulting in the development of finned tubes for MSR and industrial process applications. For the umbilicals market, current developments include the industrial manufacture of stainless steel premium welded tubes. This innovative solution will generate significant performance benefits.

8.1.1.8 Information on the social implications of the Group's activity

The employment-related indicators detailed below have been prepared on the basis of the companies fully consolidated by the Group. However, it has not been possible to incorporate Saudi Seamless Pipes Factory Company Limited ("Zamil Pipes"), a company acquired at the end of 2011.

I – Number of employees

At 31 December 2011, Vallourec had 22,204 employees at its production and service sites working under contract (permanent employees and employees working under fixed-term contracts).

List of countries in which the Group has at least 100 employees:

1.	Brazil	7,964
2.	France	5,220
3.	Germany	4,182
4.	United States	2,389
5.	Indonesia	555
6.	China	538
7.	United Kingdom	453
8.	Mexico	319
9.	Malaysia	210
10.	India	120

1. CHANGE IN WORKFORCE BY GEOGRAPHIC REGION

Employees registered as of 31 December 2011 (Permanent/temporary employment contracts)	2010	2011	Change 2010-2011	2010 Breakdown	2011 Breakdown
Europe	9,488	9,888	4.21%	46%	45%
Brazil	7,346	7,964	8.41%	36%	36%
NAFTA (United States, Canada, Mexico)	2,299	2,765	20.26%	11%	12%
Asia	1,302	1,448	11.21%	6%	7%
Middle East	110	117	6.36%	1%	1%
Africa	16	22	37.5%	-	-
TOTAL	**20,561**	**22,204**	**7.99%**	**100%**	**100%**

The Group's workforce has increased by nearly 8% since 2010, largely due to investments in its activities. The regions concerned are Brazil, NAFTA, Europe and Asia, where the number of employees has increased respectively by over 600, 450, 400 and 140 respectively.

Employees on open-ended contracts (permanent staff) have increased by 6%. This increase is primarily due to the realization of the Group's major current in-process investments:

- +21% in China (Forge in Changzhou);
- +15% in the USA (rolling mill at Youngstown);
- +7% in Brazil (VSB plant).

The workforce in Europe increased by 2%, while in other countries it remained virtually stable.

Saudi Seamless Pipes Factory Company Limited ("Zamil Pipes"), which was acquired by the Group at the end of 2011 and has a workforce of about 90, is not included in the above figures.

2. BREAKDOWN OF PERMANENT EMPLOYEES BY PROFESSIONAL CATEGORY

	Production staff	Technical and supervisory staff	Executives
2009	68%	24%	9%
2010	68%	18%	14%
2011	68%	17%	15%

The increase in the proportion of executives and the correlated decrease in technical staff from 2010 onward is due mainly to a process of clarification and harmonization of degrees of responsibility within positions in these areas, based on an assessment method applied in all countries. This analysis resulted in some employees being classified as "executives" who had previously been classified as "technical supervisors."

The strengthening of R&D teams, which is a key strategic development area for the Group, has also contributed to an increase in the proportion of executives.

3. BREAKDOWN OF EMPLOYEES BY GENDER

Women account for 11% of the permanent workforce. They occupy one-third of the administrative and sales positions. Few women are employed as production staff, other than in China.

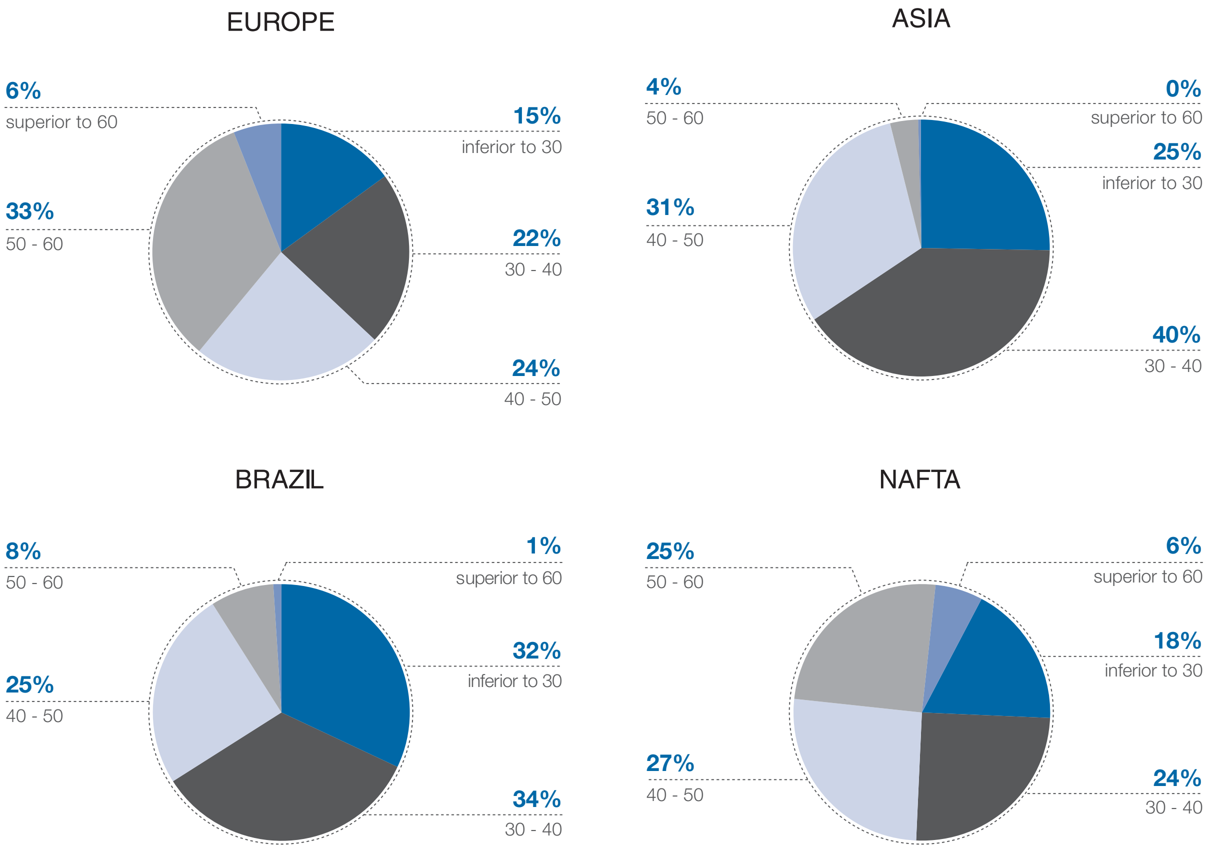
The proportion of women in senior management positions remains modest, but is increasing in Brazil and the NAFTA zone.

	Europe		Brazil		NAFTA		Asia		Total	
% of women (permanent employees)	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Production staff	2%	2%	4%	5%	2%	1%	13%	16%	3%	4%
Technical and supervisory staff	31%	32%	25%	27%	34%	34%	23%	27%	29%	30%
Executives	19%	19%	21%	22%	17%	18%	18%	16%	19%	20%
TOTAL	**10%**	**11%**	**9%**	**9%**	**11%**	**11%**	**17%**	**19%**	**10%**	**11%**

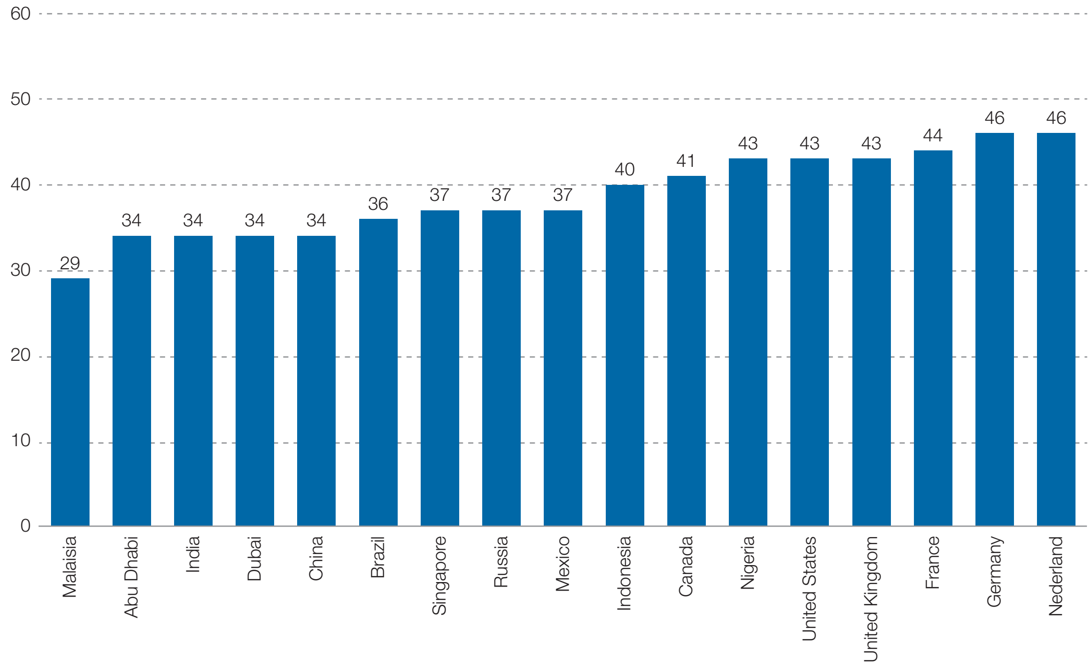
4. BREAKDOWN OF EMPLOYEES BY AGE AND GEOGRAPHIC REGION

In Europe, employees aged over 50 represent 38% of the workforce, which is an issue for the future management of jobs and skills.

Outside Europe, the age pyramids are more balanced.



Average age by country



5. NEW EMPLOYEES

In 2011, Group companies recruited – excluding intra-Group transfers – 2,922 permanent employees, i.e. 14% of the permanent workforce.

The breakdown of new employees by professional category was as follows:

Breakdown of new employees and transfers, by professional category and by country	Production staff		Technical and supervisory staff		Executives		Total	
	In number	In %	In number	In %	In number	In %	In number	As a %
Europe	467	51%	223	25%	214	24%	904	28%
Brazil	1,049	79%	143	11%	134	10%	1,326	41%
NAFTA	451	63%	110	15%	150	21%	711	22%
Asia	130	52%	73	29%	49	19%	252	8%
Other	11	NS	10	NS	6	NS	27	1%
TOTAL GROUP	**2,108**	**65**	**559**	**17**	**553**	**17**	**3,220**	**100**

The above movements include 298 voluntary transfers, over half of them in Europe.

Women represent 15% of all new recruits, excluding transfers.

One executive post in five was filled by a woman in 2011.

% of women recruited	As a % of total new employees (excluding transfers)	Breakdown of new female employees and transfers by professional category: Production staff	Technical and supervisory staff	Executives	Total
Europe	19%	2%	33%	23%	15%
Brazil	13%	8%	41%	22%	13%
NAFTA	11%	4%	25%	19%	10%
Asia	34%	28%	36%	14%	28%
TOTAL	**15%**	**7%**	**33%**	**20%**	**14%**

6. DEPARTURES

8% of employees on a permanent contract left the Group.

Some of these departures were related to the age pyramid (greater number of departures for retirement in Europe) and cultural practices (mobility traditionally strong in China).

The percentage of departures by geographic region is as follows:

Departures (excluding transfers) of permanent staff	Brazil	China	Europe	USA	Total
2009	11%	10%	4%	24%	9%
2010	6%	11%	6%	18%	7%
2011	9%	10%	6%	15%	8%

7. REASONS FOR TERMINATING EMPLOYMENT CONTRACT

	Brazil	USA	Europe	China	Total
Retirement	12%	3%	28%	4%	14%
Resignation	16%	25%	25%	76%	24%
Redundancy	70%	39%	28%	19%	47%
Other reasons	1%	33%	19%	2%	14%

There were no redundancies for economic reasons in 2011.

In France, the permanent workforce of the company Interfit was adjusted using voluntary transfers within the Group, in particular to neighbouring units in the North. This was achieved without terminating employment contracts and with the agreement of the employees concerned.

In Germany, the 2010 adjustment plan, which provided for the shutdown of Valti GmbH (87 people) and the workforce's move to the Müllheim plant (-190 people), was implemented with no social consequences, since the departures were processed or will be processed fully thanks to the age structures and transfers to other sites in the Düsseldorf area.

8. EMPLOYEES ON SHORT-TERM AND TEMPORARY CONTRACTS

Due to the highly cyclical nature of its markets, Vallourec needs to be able to adapt rapidly to changes in activity levels. Its policy is to employ a nucleus of permanent staff so that it is able to handle its on-going workload and to use temporary staff (staff employed under fixed-term contracts and interim staff) to cope with unusually high activity levels. To address this problem, permanent employees are managed on the basis of a typical employee involved in a standard activity over three to five years. Changes in peak or trough activity are resolved via flexible local solutions (loans between plants, working-time regulation in Europe, temporary staff, short-term contracts).

In 2011, Europe has seen growth in the majority of its activities. Employees on fixed-term contracts (excluding apprentices) and temporary staff increased by 76% and represented 14% of the total European workforce.

At Group level, such personnel increased by 55% and represented 10% at the end of 2011.

Breakdown between permanent and temporary staff at 31 December	Total		Of which Brazil		Of which NAFTA		Of which Asia		Of which Europe	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Permanent staff	19,873	21,065	7,279	7,877	2,299	2,572	1,172	1,297	9,000	9,183
Short-term (excluding apprentices)	332	656	66	6	0	193	126	151	137	303
Temporary staff	1,176	1,687	8	48	158	121	241	289	700	1,168
% flexibility	8%	11%	1%	1%	7%	12%	31%	34%	9%	16%

II – Remuneration

1. PAYROLL

In 2011, the Group's payroll costs, excluding temporary staff, totalled €1.084 billion:

- Wages and salaries: €734 million
- Employee profit-sharing and incentives: €43 million
- Charges associated with share subscription and share purchase options and performance shares: €20 million
- Social security charges: €286 million

The 12.9% increase in payroll compared with the previous year is due mainly to the increase in the workforce and wage increases (+3.8%).

Breakdown of payroll by country:

	2011	
	Breakdown of total payroll costs	Breakdown of average workforce
Germany	24%	19%
Brazil	24%	35%
China	1%	2%
United States	14%	10%
France	32%	24%
Mexico	1%	1%
United Kingdom	3%	2%
Other	1%	7%
TOTAL	**100%**	**100%**

2. AVERAGE SALARIES

Vallourec's remuneration policy is based on the principles of employee motivation and fairness (while taking into account the conditions of the local employment market), including profit-sharing arrangements.

The average salary in France is based on all salaries, including those of the Group's senior management.

Average salaries including profit-sharing and social security charges	Average 2010 salaries including profit-sharing *In €*	Average 2011 salaries including profit-sharing *In €*	% of 2010 social security charges	% of 2011 social security charges
Germany	61,510	63,060	28%	20%
Brazil	34,070	35,040	66%	67%
Canada	71,850	72,210	19%	16%
China	12,740	13,360	16%	20%
United States	80,650	74,710	30%	26%
France	62,340	67,290	49%	53%
Mexico	25,120	29,990	16%	15%
United Kingdom	53,780	59,760	21%	18%

3. INCENTIVES AND PROFIT-SHARING

Profit-sharing schemes enable employees to become involved with the enterprise's performance. In 2011, these accounted for €43 million.

In France, an employee savings scheme (Plan d'épargne entreprise – PEE) and a retirement savings scheme (Plan d'épargne retraite – PERCO) enable employees to invest amounts received under profit-sharing and incentive arrangements to build up savings in a fund that is tax efficient and to benefit from contributions paid by the employer.

4. EMPLOYEE SHAREHOLDING

In 2011, the Group announced:

- For the fourth consecutive year, a "Value" employee share ownership scheme, known as "Value 11", for the benefit of employees and those with similar rights of the Vallourec Group's entities in France, Germany, Brazil, the United States, the United Arab Emirates, the United Kingdom, Mexico, China and Canada. Nearly 15,000 employees in the nine countries concerned, i.e. 73% of eligible employees, chose to subscribe to the proposed share offering. This participation rate, which is the highest of all the four "Value" plans, demonstrates the loyalty of Vallourec's employees to their company and their confidence in the Group's strategy and future. Shares held by employees represented 4.97% of Vallourec's capital As of 31 December 2011, compared with 3.41% as of 31 December 2010.
- For the third consecutive year, an allocation plan (subject to presence and performance conditions) of a maximum number of 78,318 performance shares, offering a maximum of six performance shares per beneficiary, in favour of all employees included within the scope of the "Value 11" offer (excluding members of the Management Board and Vallourec Group companies in Brazil) and employees of entities of the Vallourec Group situated in India, the Netherlands, Russia, Malaysia and Norway.

III – Organization of working time

1. WORKING PATTERNS – SPECIFIC ARRANGEMENTS

The Group's policy is designed to provide maximum flexibility so that work patterns can be adapted to customer demand.

Work patterns enable the Group to tailor the functioning of its plants to production requirements. A system of continuous shift work (24 hours per day) for five or six days per week using three, four or five rotating shifts is adopted at most production sites.

In order to minimize the strenuousness associated with employees' working arrangements, research is being undertaken in conjunction with occupational physicians and employees into the structuring of work patterns in line with physiological rhythms.

Innovative solutions have been implemented, which depend closely on cultural factors and prevailing national legislation.

2. HOURS WORKED

The upturn in activity levels as compared with last year resulted in an increase in the number of hours worked, mainly in the United States and Europe.

In France and Germany, the Group has adopted short-time working at some sites. Loans of staff on a volunteer basis, however, have mitigated the effects of low capacity utilization.

The following table shows the number of hours worked and the average number of hours of overtime worked in the last two years. It has been produced on the basis of the number of hours worked by the permanent workforce in each country. Although the system of overtime does not apply to executives, the average number of hours of overtime has been calculated for the entire permanent staff including executives.

	Number of hours worked in 2010	Number of hours worked in 2011	Of which average number of hours of overtime worked during the year	
			2010	2011
Germany	1,493	1,540	108	143
Brazil	1,974	2,020	99	102
China	2,098	2,165	278	268
United States	2,225	2,098	328	292
France	1,526	1,571	18	28
Mexico	2,336	2,527	88	124
United Kingdom	1,966	2,197	205	258

3. INDIVIDUAL WORKING ARRANGEMENTS AND PART-TIME WORK

In France, virtually all technical and supervisory staff benefit from individual working arrangements, enabling them to determine their starting and finishing times on the basis of personal constraints and the requirements of the Department for which they work. In addition, 78 employees (12 workers, 40 technical and supervisory staff and 26 managerial staff) work on a part-time basis for personal or medical reasons (part-time work on health grounds).

4. ABSENTEEISM

The rate of absenteeism is calculated by comparing the total of all paid leave (including paid leave for illness, maternity and accidents at work or while travelling to and from work) with the total number of hours actually worked. It is in the lower range of rates observed in comparable industries.

	Rate of absenteeism
Europe	5.1%
Brazil	3.6%
NAFTA	1.6%
Asia	1.5%
TOTAL	**3.7%**

IV – Labour relations

1. DIALOGUE BETWEEN EMPLOYERS AND EMPLOYEES

Over 19,000 Group employees in some 20 countries, representing 87% of the workforce, are covered by collective agreements for their business line or company.

The system ensuring dialogue between employers and employees is organized in each country in accordance with the applicable national legislation.

- At European level:

  A European Committee composed of 30 French, German and British representatives is informed about Vallourec's activities, results and strategy in Europe and the rest of the world. The committee meets in full each year in the presence of Vallourec's senior management following publication of the Group's results. A preparatory meeting is held the previous day to enable the representatives to prepare their presentations. In addition, a smaller Executive Board composed of two German representatives, two French representatives and one Scottish representative meets five times per year, alternating among the countries. The Executive Board meets with the Chairman of the Management Board and the Director of Human Resources twice per year and on an ad-hoc basis as and when significant events affecting the Group occur.

  A Supervisory Board, composed of equal numbers of French and German personnel, participates in the management of the company mutual fund, which was created at the time of the employee share ownership offering in France and Germany in 2006. A member of the Vallourec Supervisory Board representing employee shareholders was appointed from among the members of the company mutual fund's Supervisory Board.

- In France, employees are represented at several levels:

  The Group Committee is the representative body for all French companies. It has 20 representatives chosen by the trade unions from among those elected by the works councils, and meets once per year in the presence of the Management Board. It is provided with general information on the Group (review of financial statements, activity, capital expenditure etc.) and is assisted by a chartered accountant. It is also involved with the management of provident and employee savings schemes.

  When negotiations take place at Group level, each of the five trade unions represented within the Group (CGT, CFDT, FO, CFE-CGCC and CFTC) appoints mandated representatives, and a negotiation committee is formed. The agreements signed in this context, in particular agreements on the organization of working time, lifelong professional training, healthcare and the employment of older workers, result in joint discussions being held via monitoring committees.

  In 2011, negotiations concerned wages, jobs, skills management, the prevention of psycho-social risks and welfare provision.

  In each company, the works councils, central works councils and consultative committees, which are elected, are informed and consulted about the economic affairs of the company or entity. They participate in the management of budgets in respect of employment-related matters.

  The personnel representatives, who are elected by the employees of each entity, present employees' individual and collective claims in respect of salaries and working regulations.

  The shop stewards are members of staff appointed by the trade unions. They represent employees in negotiations, in particular the statutory negotiation that takes place each year concerning salaries, the organization of working time and equal opportunities for men and women.

  Matters relating to health and safety and working conditions are dealt with by the Committees for Health, Safety and Working Conditions (*Comités d'hygiène, de sécurité et des conditions de travail* – CHSCT).

  Following the satisfaction survey conducted among all employees in France in 2010, action plans aimed at strengthening the motivation and efficiency of the teams were implemented in 2011.

- In Germany, labour relations are organized in accordance with the principles of co-determination, by virtue of the provisions of the law on works councils of 15 January 1972 (*Betriebsverfassungsgesetz*).

  The works council (*Betriebsrat*), whose members are elected by the workforce, represents employees. It is involved in decisions concerning the Company's internal affairs and must give its prior agreement in a number of fields that affect staff, and is closely involved in matters that involve safety. The employer only attends meetings if invited to do so or if such meetings are held at the former's request.

  An economic committee (*Wirtschaftsausschuss*) assists the works council, meeting once per month in the employer's presence.

  The senior managers' committee (*Sprecherausschuss*) represents managerial staff.

  Salary negotiations take place outside the Company between the employers' organization (*Arbeitgeberverband Stahl*) and the *Industriegewerkschaft Metall* trade union, which represents the majority of employees. In 2009, the signing of an agreement on short-time working enabled the short-time working benefit to be increased to 90% of net pay. These measures concerned two sites in Germany at the end of 2011.

- In the United Kingdom, employees are represented through four trade unions, three of which represent the production workforce and one the administrative and technical workforce. In 2011, negotiations focused on salaries and employment.

- In Brazil, most employees are represented by a trade union. A special body, the *Conselho Representativo dos Empregados* (CRE), was set up in 1999 to enable V & M do Brazil SA's employees at the Barreiro plant to be represented. Its 13 representatives are elected for two years. The CRE facilitates joint discussions on such internal matters as safety, working conditions, promotions and transfers. The trade unions are represented by six employees, appointed by the union and paid by V & M do Brazil SA. The unions have sole jurisdiction for collective bargaining on wages, profit-sharing and remuneration systems. Collective bargaining takes place at branch level.

  For VSB, representation is identical to that of V & M do Brazil SA.

- In Mexico, the union mainly represents production workers and employees who fall under the collective bargaining agreements. For this employee population, the list of which is established by agreement, the union to which the subscription is made and membership is obligatory may propose candidates for recruitment. Negotiations relate to salaries and benefits in kind.

- In the United States, employees voted, as required by law, on the method of staff representation and chose to have no trade union involvement. Social dialogue takes the form of frequent meetings at the Group's premises attended by senior management and employees.

- In China, the national union is represented at the plant by an employee who is senior management's contact in staff matters. If there is no union representative, social dialogue takes the form of direct contact between the workers and senior management via ad-hoc bodies.

  Following the satisfaction survey conducted among all employees in France in 2010, action plans aimed at strengthening the motivation and efficiency of the teams were implemented in 2011.

2. THE GROUP'S INTERNAL COMMUNICATION

Internal communication is designed to boost the commitment and motivation of all Group employees worldwide. Vallourec uses various channels to inform them of its strategy, objectives and results and to maintain dialogue with its employees:

- Vallourec Inside, the Group's intranet, went online on January 2012 and reaches a large proportion of the staff (about 10,000 employees in 18 countries) and enables information to be circulated in real time. It also offers collaborative work tools, which teams can use to work together and respond quickly.

- *Vallourec Info*, the magazine for all personnel, offers every employee a picture of the latest Group news in their country's language. Key information is also rapidly communicated by notices displayed at Group premises.

- Communication on projects makes employees aware of key issues for the Group – ethics and values (Vallourec Way) and safety (CAPTEN+ Safe) – or galvanizes them for important events, such as subscription to the "Value" employee share ownership schemes or the launch of the "Opinion" internal satisfaction survey.
- At annual conventions, managers meet with the Group's management team for information and discussion. These meetings are held at regional level in North America, Brazil and Europe.

The Group's internal communication is also based on local resources in countries and companies, which relay messages, provide feedback from the field and generate interest within their own channels of communication (newsletters, in-house intranets, etc.).

V – Talent management

The new talent management information system (management of objectives, reference framework for skills and experience, individual assessment, management of high-flyers and succession plans) was deployed at the beginning of 2011. The establishment of this tool was enthusiastically welcomed by all the managers and enabled individual appraisals to be conducted with over 97% of staff in the sectors concerned in 2011.

In 2012, the tool will be extended to all Group executives, including in Germany and China.

Harmonization of the talent management process for executives continued in 2011, with:

- The systematic deployment of a talent review in each Group entity (plant, Commercial Department, Financial Department etc.), based on the conclusions of individual performance appraisals.
- The consolidation of this review at the level of each Operational Division and functional department (Marketing, Human Resources, Technology/R&D/Innovation, Finance etc.).
- Consolidation at Group level.

VI – Health and safety

1. SAFETY

Safety is the No. 1 priority for the Group, which aims to be world class in this respect and a model for success.

Safety training and awareness are critical for everyone on joining the Group and are the subject of regular reminders. Temporary personnel receive the same safety training as permanent staff. In the United States, Brazil and Europe, an original e-learning safety training programme has been introduced, which enables the Group to regularly test all employees' knowledge and understanding of the Group's safety rules.

Significant efforts are made to ensure that staff are familiar with safety procedures, including communication campaigns on accidents involving hands and eyes, inter-site cross audits, the introduction of CIT (Continuous Improvement Team) meetings on various health and safety issues (in 2011, 313 CIT meetings were held) and improved prevention plans where external organizations are involved.

The Group's policy is also based on risk analysis and an ongoing risk prevention programme.

In 2008, the Group launched an ambitious safety improvement programme known as Cap Ten Safe. Driven by a determination to bring about change and act on all safety levers, this programme has helped achieve a very marked improvement in the Group's performance in this respect, with the lost time incident rate (LTIR) per million hours worked reduced from 9.2 in 2008 to 5.3 in 2009, 3.16 in 2010 and 2.79 in 2011. The Group is aiming for a level below 2.

Safe Start, a programme that relies on the individual attitude of employees, was deployed in 2011 at 10 pilot sites and will be extended to other sites in 2012.

2. HEALTH

Hand-in-hand with safety, health is a constant, major concern for the Group, which has conducted the following actions in this regard:

- Efforts toward preventing psycho-social risks in France, Germany and Brazil, with help from occupational medics employed by the Group.
- Efforts to improve working conditions and reduce stress through ergonomic studies on workstations.

With regard to the use of refractory ceramic fibres, Vallourec has produced and circulated a single set of instructions for all countries.

VII – Training

The Group needs personnel who are well-trained, motivated and able to adapt to changes in the Group's business and markets. It endeavours to reconcile its changing requirements with the individual aspirations of its employees by ensuring that all employees benefit from proper career development.

In 2011, more than 677,000 hours were spent on professional training for employees, at a cost equivalent to 2.6% of total salaries (training costs + remuneration of staff attending training sessions versus remuneration excluding payroll costs).

The proportion of employees trained during the year – i.e. receiving at least one complete day's training – was 72%.

% of employees receiving at least one day's training per year *(in €)*	Europe	Brazil	United States	Asia	Total
Production staff	32%	71%	37%	31%	47%
Technical and supervisory staff	16%	10%	14%	26%	14%
Executives	10%	12%	15%	7%	11%
TOTAL EMPLOYEES TRAINED	**58%**	**94%**	**66%**	**64%**	**72%**

Type of training provided

	Europe	Brazil	United States	Asia	Total
Average number of training hours per employee (temporary or permanent contract)	29 H	36 H	30 H	21 H	31 H
% of technical and professional training	30%	24%	39%	36%	28%
% of safety training	21%	20%	26%	19%	22%
% of other training (management, efficiency, personnel, IT, language)	49%	56%	35%	45%	50%

1. VALLOUREC UNIVERSITY

2011 saw the operational start-up of Vallourec University, the goal of which is to be a centre of excellence where employees and clients can meet to create and share a common culture and enhance their understanding via continuous learning. The aim is to strengthen certain important values for Vallourec's operations: a focus on the customer, creativity, innovation and respect for people and their various cultures. Vallourec University offers training programmes for Vallourec employees worldwide. It is a centre of excellence where 2,500 executives and 400 frontline managers can learn, share and develop their capacities, involving such issues as creativity, innovation and customer service. In 2011, 530 employees took part in international programmes and 2,100 in regional programmes.

The objectives are as follows:

- To ensure shared understanding of Vallourec values and an enterprise culture.
- To encourage strategic, managerial and technical excellence in order to boost the Group's competitive advantage.

To achieve these objectives, Vallourec University has developed four principles ("experiment, exchange, learn and apply") as the basis of all its training. The participants have the opportunity to share their experience and acquire new understanding by alternating theoretical and practical modules and applying and adapting the methods they have learned to their specific requirements. Training is systematically related to the strategic objectives of the Group, its Divisions and its teams.

Vallourec University offers customized training and seeks to develop skills across the Group to fit with the Group's strategy. Its apprenticeship centre is based on the following four key pillars:

- Leadership, which prepares for the management of specific difficulties encountered in management and leadership roles.
- On-demand training for Vallourec's important issues, such as inter-cultural training, project management, public speaking and finance for non-specialists.
- Functional training, aimed at improving practical and technical skills for each business line "family".
- Operational excellence training, which disseminates expertise on processes and technologies according to the Group's priorities and strategic guidelines, especially as a contribution to the development of a unified business culture.

Vallourec University activities include the Learning Centre, Think Tanks and External Stakeholders. The Learning Centre is the main segment and applies to all training activities. Its modules are implemented at national and international level and are intended to continually develop and improve employee skills to meet the specific requirements of each level of responsibility and the various geographic regions.

The Think Tanks have three main objectives: change management, customer focus and innovation. The first two objectives focus on integrating individual and organizational change management to ensure that Vallourec achieves its results. The Innovation Workshops are designed to develop innovative and creative ways of thinking and to deploy problem-solving mechanisms.

The External Stakeholders activities are intended to improve the brand image among clients and suppliers through "business knowledge" and "tubular essentials" training. This also contributes to attracting new employees and strengthening Vallourec's reputation as an employer.

Over the next few years, Vallourec University will continue to develop a range of new training programmes.

2. OTHER TRAINING PROGRAMMES

Every year, each Group company develops a training programme in line with the Group's educational concerns. Special training programmes have been set up for employees recruited in Brazil, the United States, France and China to serve the launch of the Group's major strategic investments.

3. APPRENTICESHIPS AND WORK-STUDY VOCATIONAL TRAINING

To optimize skills transfer and expertise in the context of the age pyramid imbalance in Europe and to attract a greater number of young talents with a training programme geared to the needs of its activities, the Group has been conducting a dynamic apprenticeship programme in Germany, with 294 apprentices in 2011, and intends to expand this programme in France, where 80 work-study apprentices have been undertaking training in 2011, representing a 50% increase versus the end of 2010.

VIII – Equal opportunities

1. GENDER EQUALITY

Gender equality was discussed by Vallourec's Management and Supervisory Boards at the end of 2011.

The Group's policy hinges on the following two objectives: boosting the presence of women in operational business lines, particularly in production, and improving their access to senior executive positions.

An action plan will be deployed in 2012, focusing on the following key points:

- senior management's commitment to instituting gender equality.
- The appointment of an Executive Committee sponsor for the Group's approach to gender equality, who will set the priorities and oversee and incorporate gender equality in succession plans.
- Aligning the recruitment policy with the job market.
- Establishment of relevant indicators to ensure the monitoring and traceability of actions undertaken by the Group.
- Improving the work/life balance.

2. DISABILITIES

At the end of 2011, 3% of the Group's employees had a disability or medical restriction requiring an adjustment to their job or workstation.

Policies and actions are in place in the following countries:

- In Germany and Brazil: priority is given to maintaining employment for employees with a disability.
- In the United Kingdom: a company-wide agreement on disability has been established.
- In France: Vallourec signed a professional integration charter for those with disabilities in November 2009. The action plan also includes purchasing services from disability support centres.

IX – Ethics

The Group's ethical standards have, since 2009, been set out in a single document: the Code of Ethics.

The Code of Ethics is based on a set of fundamental values, such as integrity and transparency, standards and professionalism, performance and responsiveness, respect for men and women and joint commitment.

It provides a frame of reference for the proper conduct of the day-to-day activities of each employee by means of principles for action, which are based on these values. These principles for action reflect the way in which Vallourec means to conduct its relations with all partners and other parties, such as employees, its customers, shareholders and suppliers, and constitute a benchmark for the Group, especially in implementing its sustainable, responsible development plans.

The Code of Ethics also prescribes rules of conduct on a variety of subjects, such as conflicts of interests, relations with third parties and the conservation of assets in such a way as to protect, under all circumstances, the Group's reputation and image.

Vallourec's Code of Ethics applies to all Group consolidated companies. Each employee is personally responsible for implementing its values and principles and complying with rules Vallourec publishes.

Management makes the Code of Ethics known to all Group personnel. It has been translated into five languages, and has also been published on the Company's website to affirm the Group's values with regard to third parties.

In order to support implementation of the Code of Ethics by all Vallourec personnel, in particular managers, a Code of Ethics Officer has been appointed for the Group, whose duties are:

- To assist Group companies in disseminating the Code of Ethics.
- To coordinate actions to make new employees aware of the Code of Ethics.
- To participate in setting procedures for applying the Code.
- To ascertain any difficulties in interpreting or applying the Code of Ethics that are raised by staff; to that end, the Officer receives any information relative to breaches of the principles of responsibility.
- To produce an annual report on implementation of the Code of Ethics for the Chairman of the Management Board.

The Code of Ethics Officer reports to the Management Board and relies on a network of local contacts.

Over and above the principles inscribed in the Code of Ethics and in line with the commitments of the United Nations Global Compact to which the Group subscribed in 2010, Vallourec aims to prevent the specific risks arising from competition, anti-corruption and respect for the environment through a global programme of legal compliance.

This programme has been devised by the Group's Legal Department and is aimed at raising the awareness of the Group managers concerned to the laws and regulations applicable in these three areas, with particular emphasis on internal training. It is intended to respond effectively to the risks to which they could be exposed in their day-to-day activities through precise recommendations and practical case studies.

Introduced in France, Germany, Scotland and the United States in 2011, the programme will continue to be deployed in 2012 in Brazil and China.

The deployment of Vallourec's Code of Ethics among all employees continued in 2011.

Poster campaigns and "Vallourec Way" meetings were held. By the end of November 2011, more than 19,000 employees had been familiarised with the Code of Ethics.

8.1.1.9 Environmental information

The following information does not include the V & M Mineração site.

I – General policy on environmental issues

Vallourec's production policy aims to minimize the environmental impact of the Group's activities. This basic policy is embodied in the sustainable development charter published by the Group in 2011.

1. ENVIRONMENTAL MANAGEMENT

In accordance with the guidelines established at Group level, each site manager is responsible for implementing an effective environmental management system, appropriate to local conditions and the type of business concerned. He must appoint an environment manager to be responsible for all environmental matters.

The Environment Department, which reports to the Sustainable Development Department, is responsible for coordinating environmental initiatives. This Department is supported by environment managers at each production site, who are responsible for implementing Vallourec policy at local level.

These structures exist in all countries. Across the Group, more than 100 people at production sites in each country specialize in environmental matters.

Communication between the various countries is improving and contributes to progress throughout the Group by enabling comparison of the respective performances and solutions adopted by each country.

The Environment Department in France is also responsible for coordinating and supervising this benchmarking, and, in particular, for gathering and collating all the Group's environmental data. The sustainable development report, which is now published annually, summarizes this data, measures changes relative to previous years in order to assess the progress achieved and highlights any problems encountered and the solutions implemented. The report presents best practices, identified from among all Vallourec's sites around the world, by way of illustration.

2. THE VALLOUREC MANAGEMENT SYSTEM (VMS)

The Vallourec Management System (VMS) was introduced to provide a framework for implementing the quality, health and safety and environmental policies set out by senior management, with the underlying aim of enhancing the Group's performance in these areas.

This system ensures that initiatives are consistent with the strategic plan and deliver continuous progress. It also ensures that due consideration is given to management requirements in terms of Quality (ISO 9001, ISO/TS 16949, API and ASME standards), Health and Safety (OHSAS 18001) and the Environment (ISO 14001)

The Vallourec Management System is organized according to three main pillars:

- Total Quality Management (TQM) action plans.
- Steering committees.
- Continuous Improvement Teams (CITs).

The three fundamental principles underpinning the VMS are:

- Risk prevention.
- Control over process fluctuations.
- Efficiency gains.

3. AUDITS AND CERTIFICATIONS

Environmental audits are organized regularly in each country, in order to assess compliance with regulations, environmental performance and environmental risks. Specifically, the Performance & Risk audit compares environmental performance with the environmental management system (EMS) that is in place, and highlights priorities and action plans.

As at 31 December 2011, all of Vallourec's main sites, accounting for more than 98% of total output, are now certified ISO 14001, in accordance with the goals set in 2006.

4. LEGAL COMPLIANCE

Regular audits are conducted, to assess compliance of the production sites' activities with statutory and regulatory requirements.

In France, regulations are monitored by means of the intranet, via an environment portal that can be accessed by all production sites. Regular, systematic reviews of these provisions enable frequent action to be taken in terms of improvements, investment and organization.

5. TRAINING AND AWARENESS-RAISING

Training and raising employee awareness of environmental issues and sustainable development are undertaken at the plants by a variety of means, including poster campaigns, periodical publications, information meetings, a compliance programme and e-learning resources.

In 2011, training in health, safety and the environment totalled 147,000 hours.

6. INVESTMENTS

The Group systematically incorporates a sustainable development dimension in its investments. In particular, a health, safety and environment analysis is conducted at the beginning of every project to assess the potential impacts and anticipate the risks. The actions resulting from these analyses are drawn from the best available techniques and practices, covering the following areas in particular:

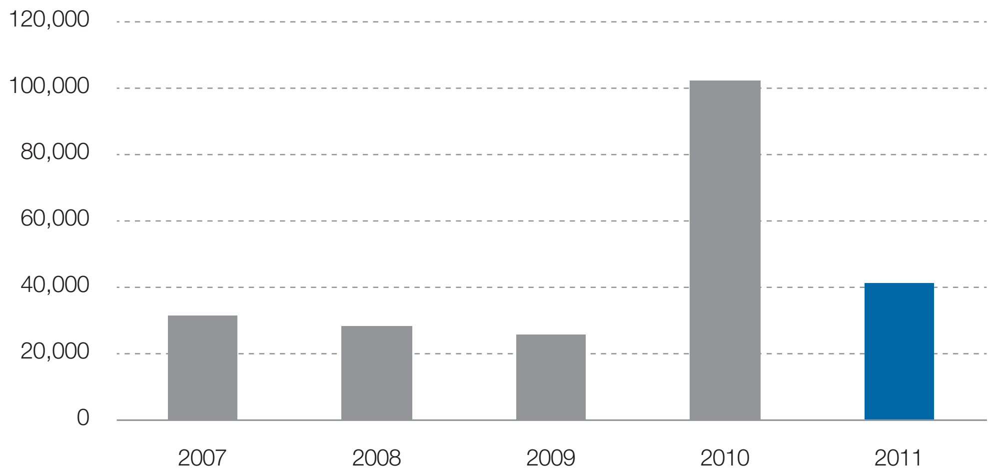
- Optimization of working conditions by examination of the ergonomics, lighting, heating and ventilation at workstations.
- Maximum energy efficiency by optimizing the efficiency of the type of energy chosen, recovery of available energy sources (use of gas emitted during electricity production, recovery of heat emitted by the process, recovery of energy emitted when engines are shut down etc.), better insulation of furnace walls for heat treatment of tubes and the installation of thermostats and limit controls to optimise energy consumption for heating and lighting.
- Reduction of atmospheric emissions by constant improvement in fume retention systems.
- Water management through recycling and recovery of rainwater using storage reservoirs, and improving in wastewater quality and reduction of volumes.

- Waste management through better collection and recycling.
- Reduction of noise inside and outside the plants by emphasis on cutting noise emissions at source.

In 2011, investments in health, safety and the environment (HSE), including major projects, amounted to €41 million. However, this amount does not include the €41.2 million investment in the eucalyptus forest.

The following table shows the amounts of investments by the Group in HSE from 2000 to 2011. Note that the amounts of investments from 2007 to 2009 do not include the share of HSE in major projects, although this is shown in the amounts for 2010 and 2011.

HSE investments (in € thousands)



In 2011, investments were made in the following areas in particular:

- Improvement in working conditions (noise reduction, heating and lighting).
- Ensuring environmental compliance of work equipment (fume retention and aspiration, water and gas networks, fire protection systems and product storage).
- reduction in energy consumption: Improvement in furnaces for heat treatment, automated lighting and building insulation.
- better water management;
- Layout and safety of plants in terms of roofing, roads and parking.
- Renewal of operating permits.
- Environmental incidents.

Two environmental incidents relating to the quality of industrial wastewater were recorded in 2011:

- VAM USA (Houston)

  Discharges with an excess over the permitted limits for metal concentration levels (zinc, nickel, aluminium and copper) came to light during the year. The problem was dealt with in close cooperation with the competent authorities. Various improvements were put in place (in particular an evaporator, which enables industrial wastewater from the plant to be reduced to zero), and the water treatment station is now entirely compliant with requirements. No further actions were taken.

- V & M Déville-lès-Rouen

  Very occasional incidents of iridescence and red colouring were noted in industrial water discharged from the Déville plant into Le Cailly, a small river. The problem was purely visual, as the wastewater complied with the mandatory quality limits. An action plan was accepted by the local environmental authority, DREAL, and will be put in place in 2012 and 2013.

II – Discharges into the air, water and ground

1. AIR QUALITY

To preserve the quality of the air around its plants, the Group systematically measures the levels of atmospheric emissions and implements solutions appropriate for each type of emission in order to limit them. The emissions produced by our plants are as follows:

Vapours

- NOx (nitrogen oxide) emissions from our furnaces for steel billets and heat treatment of tubes: to limit these emissions, all furnaces are fuelled by natural gas, which is low in emissions, and every year some of the older boilers are replaced by low-NOx boilers that meet the highest technical specifications for this type of emission. In 2011, emissions totalled 667 tonnes of NOx, corresponding to 0.12 kg /tonne produced.
- Emissions of volatile organic compounds (VOCs) from our facilities for tube lubrication, lacquering and painting and for degreasing and cleaning tubes and machinery parts: actions are put in place every year to reduce VOC emissions at source; these action plans consist of eliminating emissions by using substitute products without VOCs by coordinating with product suppliers and, if this is impossible, channelling and treating emissions in order to comply with applicable regulations.

Following the progress made in recent years, the main source of the Group's VOC emissions is related to the temporary protection of OCTG tubes, and efforts to limit VOC emissions will be focused in future on the corresponding facilities.

In 2011, VOC emissions were estimated at 400 tonnes.

- Emissions of oily vapours from laminating or cold rolling facilities and from tools and machinery: these vapours are channelled and filtered before discharge.
- Vapours from surface treatments: the facilities are equipped with a treatment and retention system in order to comply with the applicable regulations.

Particles

- The main potential sources of particle emission are steel mill furnaces. Every year, retention systems are improved to continuously reduce the corresponding emissions. In the last three years, the Group invested, in particular, in an innovative dioxin-retention system for the Saint-Saulve steel mill, which has enabled it to cut its emissions by a factor of 50 and comply with the highest requirements of the applicable regulations. The systems for dust-retention at other French, American and Brazilian steel mills have also been improved.
- Tube mills and finishing plants also produce dust from facilities for hot rolling, grinding and polishing tubes. Processes for sealing, aspiration and filtering are incorporated into the machinery to collect dust at source. Where necessary, these systems can be supplemented by aspiration devices and filters on the roof to capture diffused emissions.
- Trucks, cars and other handling vehicles operating outside the buildings are also a source of dust emissions. To ensure that personnel and neighbours are not inconvenienced by dust clouds, the road surfaces are coated with concrete or polymers.

2. WASTE PRODUCTION PREVENTION, RECYCLING AND ELIMINATION

As is the case for all industrial activities, the Group inevitably generates a significant quantity and wide variety of waste. For Vallourec, waste management is a major ecological and economic issue.

The costs of eliminating waste are relatively high. As part of a process of continuous improvement, every waste family is monitored monthly and annually at each site in order to optimize costs as well as volumes.

In a world of increasingly scarce raw materials, destroying waste is almost a form of failure. The Group has therefore combined a waste reduction target with a policy of recycling its waste of any type and in whichever country it is generated, and in this way contributes to saving and preserving resources. Waste is seen as a resource to be exploited and not as a fatal production-process burden. Waste is processed via various methods, depending on its environment impact origin and type.

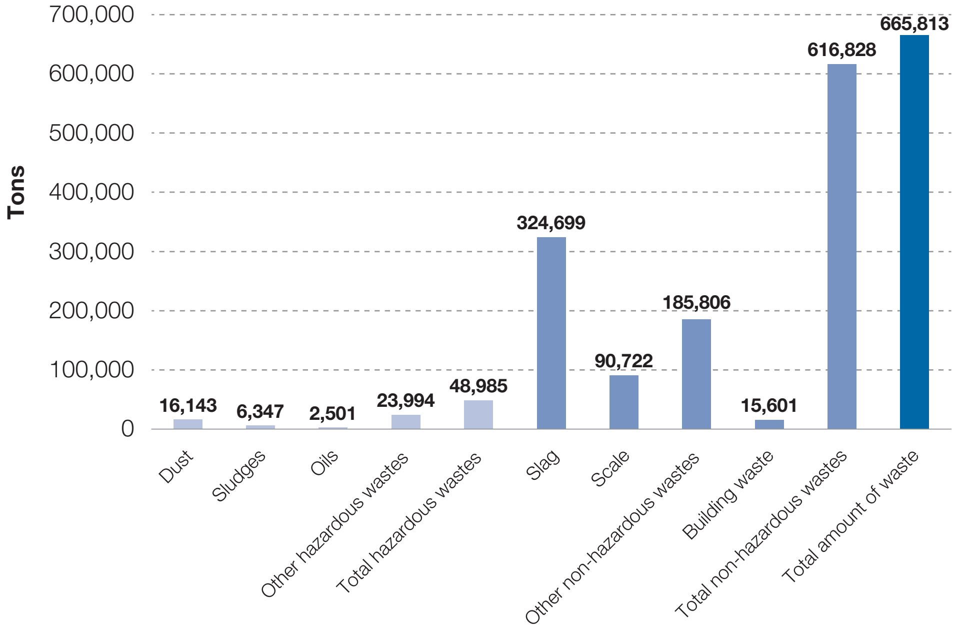
Non-hazardous waste is processed in accordance with local regulations, with maximum emphasis on recycling or waste-to-energy conversion.

As hazardous waste represents a risk to health and the environment, it is subject to particular processing rules. A survey commenced in 2010 and continued in 2011 has enabled the Group to identify and work on two main categories:

- Organic waste (sludge, oils).
- Solid mineral waste (dust).

In 2011, the Group's activities generated 670,000 tonnes of waste, of which 7.5% was hazardous waste. Various actions have been undertaken or are in the course of development to act upon the manufacturing process or on raw materials. The Group's actions and its determination should enable it to meet its objectives. In 2011, 89% of waste was recycled, and our objective is to achieve 95% in three years.

Quantity of waste in 2011



3. NOISE

The Group's activities inevitably produce some noise, which arises from various sources: steel mill furnaces, the cutting and storage of steel bars, the impact between tubes and steel-rolling processes. Noise is integral to tube processing, but several types of action are in place to limit noise, reduce it as far as possible or eliminate it entirely.

Vallourec's aim is to protect its employees and integrate readily into its environment.

To determine noise levels, the first stage is to identify, measure and analyze the sources of noise. Depending on local constraints, these measurements are taken internally, at the edge of the site, or at neighbouring properties, if the plant is situated close to a residential area. On some sites, very elaborate systems are in place, allowing for noise measurement at very precise locations and for pinpointing of the source. Simulation software is often linked in to assess the difference in noise levels that various insulating systems might provide. In this way, the choice of the best action to be undertaken is studied before it is put into practice. This approach optimizes actions as well as costs.

The most effective actions are those that enable noise to be reduced at source whenever possible. For example, some plants replace pneumatic movement commands by hydraulic movement commands or incorporate rubber between tubes to avoid a much noisier direct impact. Similarly, the tubes are cleaned with Venturi nozzles instead of standard nozzles.

If source noise reduction is too much of a constraint or impossible, other actions can be undertaken, such as setting up barriers, containing the machinery or building soundproof walls.

To limit the impact of noise on employee health, the Group's plants provide staff with earplugs and make their use a strict requirement in certain work areas. To make wearing them more comfortable, employees are provided with custom-fit earplugs that allow certain frequencies to pass through, so that people can communicate while taking in substantially reduced mechanical noise. Employees undergo regular medical checks for very early detection of any loss in auditory function.

III – Sustainable use of resources

1. WATER CONSUMPTION

The Group considers the management of water to be a major sustainable development issue. In recent years, the quantity of water consumed and quality of wastewater produced by plants have improved.

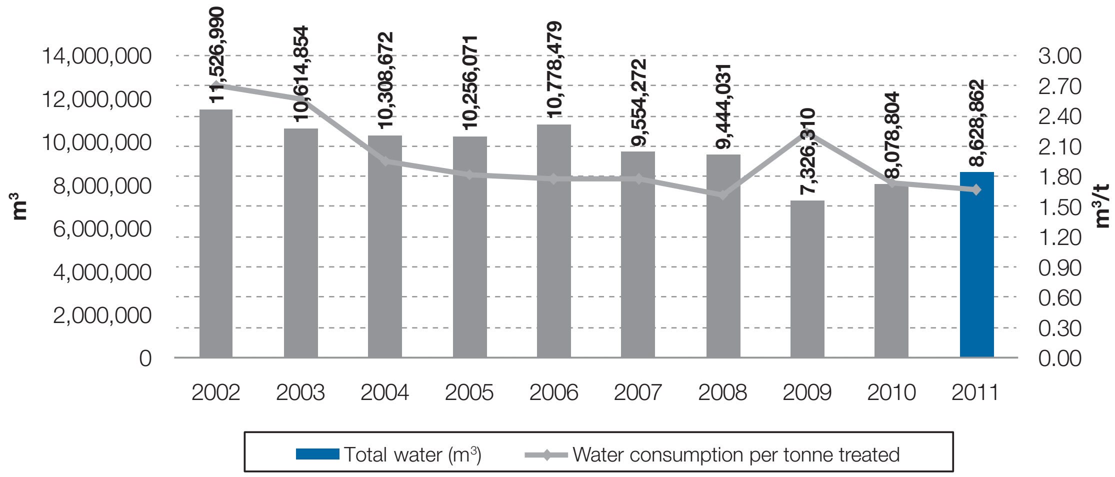
Water is necessary for the manufacturing processes in plants. Its main uses involve:

- Cooling hot machinery (furnaces for steel billets, tube rolling machines and heat treatment furnaces), which represents some 50% of the Group's water requirements.
- Cooling tubes after heat treatment, which represents 25% of the Group's water requirements.

- Surface treatments, hydraulic operations, non-destructive tube tests and cooling of other tools in the manufacturing process.

The Group's objective is to define ways of improving water use and taking account of each plant's water footprint. The representative indicator for this footprint will be calculated in 2012 for the highest-consuming plants, factoring in the volume and quality of water consumed and discharged in relation to a positive ecological status for the local resource and the scarcity of water in the catchment area.

Water consumption 2002-2011



Water consumption has decreased in the last 10 years, mainly due to the establishment of measures to increase recycling, from 11.5 million cu.m in 2002 to 8.63 million cu.m in 2011.

Relative consumption has also improved regularly (except in 2009, when activity was reduced). In 2011, it represented 1.67 cu.m tonne.

Industrial water is discharged into:

- The municipal network, for the majority of the Group's plants. The water is then treated by the urban treatment station. The plants aim to reduce the quantity discharged and ensure its constant quality.
- The natural environment, after treatment in a treatment facility at the plant, as is the case for V & M France (plants at Deville, Saint-Saulve and Aulnoye) and VAM Drilling at Tarbes (France), V & M Deutschland GmbH at Rath (Germany), V & M Star at Houston (United States) and PTCT (Indonesia). Each of these plants is subject to specific quality criteria for its wastewater. Note that since 1 January 2012, the VAM USA LLC plant in Houston no longer discharges its industrial wastewater into the natural environment.

Wastewater quality is stipulated by local authorities, whose criteria form part of the legal obligations at each plant and are established in the operating permit (in France, this is issued by the Departmental prefect). These criteria are regularly checked and audited by the authorities. These checks cover the following parameters in particular:

- SPM: Suspended particulate matter.
- COD: Chemical oxygen demand.
- TH: Total hydrocarbons.
- Metals (particularly iron, zinc, chrome and nickel).

2. CONSUMPTION OF RAW MATERIALS

The majority of the steel used by Vallourec for the manufacture of tubes is produced in the Group's steel mills in Brazil (Barreiro), through the blast furnace process (BOF – Basic Oxygen Furnace), and in the United States (Youngstown) and France (Saint-Saulve), through the electric process (EAF – Electric Arc Furnace). For the electric process, the Group mostly uses recycled ferrous scrap rather than "new" steel or cast iron. For example, for the Saint-Saulve (France) and Youngstown (United States) furnaces, the ratio of recovered scrap to charged tonnages is 100% and 98.4% respectively.

To optimize the efficiency of this process, continuous improvement groups have been defined. Their main lines of work are as follows:

- Precise formalization of the internal rules and requirements for the steel mills, in order to obtain the steel grades to be developed by optimizing the ovens' energy efficiency.
- Maximum possible recovery of scrap iron in the Group, by adapting the sorting done in the tube mills to the requirements of the steel mills.
- Adapting the logistics, for optimum supply of the steel mills.

3. ENERGY CONSUMPTION

In order to significantly reduce its overall energy consumption, the cost of which amounted to €240 million in 2011, in 2009 the Group set up the GreenHouse project, the objective of which is to reduce the total consumption of gas and electricity by 20% by 2020 at the latest, at like-for-like scope, product mix and level of activity and taking the year 2008 as the reference basis. With this project, Vallourec is also preparing for a "low-carbon" economy by contributing to the reduction of greenhouse gas emissions.

The project is rigorous in its approach, capitalizing on VMS methodologies and tools and focusing particularly on the following elements:

- Sharing of best practices: best practice manuals were circulated in all energy-related fields (including thermal, electric, compressed-air and steam-production processes). Numerous "quick wins" have been put in place, and 72 continuous improvement groups have been working exclusively in the energy field to improve the Group's performance.
- Establishment of thermal balances: 45 thermal balances have been carried out to date (representing 60% of the Group's furnaces). This furnace performance analysis helps to identify areas for improvement and to propose investments to increase energy efficiency, such as putting in place regenerative burners, heat recovery from steam and better insulation.

In 2011, energy consumption per tonne came to 675 kWh/t for gas and 309 kWh/t for electricity (634 kWh/t and 289 kWh/t respectively in 2008). Although higher than in 2008, these figures show real progress is being made in energy performance for the following reasons:

- In 2011, the level of activity represented 90% of that in 2008.
- The proportion of premium products was significantly higher, 57% of products having been heat treated in 2011 compared to 50% in 2008.
- The share of alloy steel was significantly higher.

Consequently, at equivalent order book and volume, performance improved by 5% versus 2010.

The table below shows the source of the energy consumed by the Group: over 35% of the energy used is from renewable sources.

Energy source (in GWh)	Renewable	Non-renewable	Total
Electricity purchased	300	1,300	1,600
Electricity produced	100	-	100
Natural gas		3,400	3,400
Oil		160	160
Charcoal	2,400	-	2,400
Total	2,800	4,860	7,660
% of energy consumed	36.5%	63.5%	100%

This ratio is even higher for the Brazilian plants, since 75% of the energy consumed by VMB in 2011 was from renewable sources. This performance is related partly to the use of charcoal produced by V & M Florestal and partly to blast furnace gas and tar from the carbonization of charcoal to produce electricity: the Barreiro thermoelectric plant has installed power of 12.9 kWh and can cover a third of VMB's requirements.

IV – Climate change

The reduction of greenhouse gas emissions is a high priority for Vallourec. As shown in the following table, steel produced by Vallourec emits on average much less CO_2 per tonne produced than that of its competitors.

		Production KT	Emission ratio Kg CO_2/ton
BOF	Iron ore and biomass	540	500
EAF	Scrap iron		
	• Saint-Saulve	460	
	• Youngstown	480	400
	Other electric steel mills (purchases)	340	
BOF	HKM (purchases)	800	1,700
		2,620	**825**

The Group uses biomass as a source of energy for its blast furnaces in Brazil. It has 250,000 hectares of eucalyptus plantations, the basis for charcoal production. Native forest, composing about one-third of the surface, is maintained in its natural state while the rest is cultivated: every year, about one-seventh of the forest is cut down for the production of charcoal, and that area is then replanted. As they grow, these forests absorb CO_2; the CO_2 emitted during the combustion of the coal is thus absorbed by the forest. The main CO_2 emissions from this process come from the emission of methane during the charcoal-making process.

In its two steel mills at Saint-Saulve (France) and Youngstown (United States), the Group also uses the EAF (electric arc furnace) manufacturing process, which emits less CO_2.

The Saint-Saulve steel mill comes under the scope of the European Directive of 23 April 2009 on the system for trading of greenhouse gas quotas (ETS – Emissions Trading System). In 2011, the quota allocated to the steel mill was 106,000 tonnes. The emissions recorded in 2011 came to less than this amount at 64,235 tonnes. This significant difference was due partly to the steel mill's production of well below the programmed amount (70% of the mill's nominal capacity) and partly to significant improvements in its energy efficiency and workload planning.

The Group has produced a full carbon footprint report for its activities, with the help of an external firm, Carbone 4. A summary of this report, breaking down direct emissions (Scope 1), indirect emissions from electricity (Scope 2) and indirect emissions from other energy sources (Scope 3), is provided below. This report is much more comprehensive for Scope 3 than in previous years, which explains certain significant differences. It does not reflect an increase in the Group's emissions, but rather a better understanding of them.

The main differences between 2010 and 2011 are due to the following factors:

- Introduction of new sources of emissions for Scope 3: supply, losses of electricity and gas during transport and emissions related to assets.
- Revision of emissions related to transport and waste, using universally recognized standards and emission factors.

This carbon footprint report constitutes a basis for improvement plans to be conducted in future years.

		2010 following old methodology	2010 following new methodology	2011 following new methodology
Scope	**Component**	**Tonnes of CO_2**	**Tonnes of CO_2**	**Tonnes of CO_2**
Scope 1 – Direct emissions	Combustion of natural gas (furnaces)	588,220	588,220	656,332
	Methane emissions (carbonization of wood)	213,346	250,362	270,933
	Emissions due to production of steel	90,048	90,048	81,680
	Internal transport and storage	32,634	32,634	41,833
	TOTAL SCOPE 1	**924,248**	**961,264**	**1,050,778**
Scope 2 – Indirect emissions (electricity)	Electricity purchased	451,320	451,320	462,931
	TOTAL SCOPE 2	**451,320**	**451,320**	**462,931**
Scope 3 – Indirect emissions (other)	Purchases of raw materials and services.	1,372,032	1,793,127	1,836,270
	External transport	190,784	561,495	625,999
	Waste treatment	238,177	238,177	239,225
	Losses related to energy transport (gas and electricity)		137,741	148,433
	Emissions due to our machinery (equipment in our plants)		100,832	115,872
	Transport of personnel	34,138	54,602	68,688
	TOTAL SCOPE 3	**1,835,131**	**2,885,974**	**3,034,487**
TOTAL CARBON FOOTPRINT (SCOPE 1 TO 3)		**3,210,699**	**4,298,558**	**4,548,196**
CARBON FOOTPRINT KG CO_2/TONNE OF TUBES		**692**	**926**	**879**

V – Biodiversity

Some of the Group's specific activities have a direct link to biodiversity. Accordingly, some very concrete measures aimed at preserving biodiversity have been in place for several years. The Brazilian subsidiary V & M Florestal Ltda operates a forestry and carbonization business in order to produce charcoal, which is used as a source of energy in steel-making. It conducts flora and fauna monitoring programmes, in conjunction with the University of Lavras in Minas Gerais, which measure the impact of its activities in the natural environment and put in place appropriate management systems to preserve the biodiversity balance. The maintenance of "ecological corridors" guarantees the free circulation of animals. The company thus plays a fundamental role in nature conservation, protecting the region's natural ecosystems. A monitoring programme, including the use of cameras, has helped identify hundreds of bird species and dozens of mammal species, some of which are threatened with extinction.

V & M Mineração Ltda operates mining activities in the city of Brumadinho, 50 kilometres from the Barreiro industrial complex. This is the area of transition between two ecosystems: the "*cerrado*" (savanna) and the "*mata atlantica*" (Atlantic forest). In order to have better control of its activities' impact on the natural environment, V & M Mineração Ltda conducts regular biodiversity monitoring at its site and in neighbouring areas. A 200-hectare reserve has also been established in the Atlantic forest to serve as a conservation area for numerous species of animals: for example, 148 different bird species have been counted. The company also pays special attention to the environmental rehabilitation of mining areas. In 2008, 167,000 m^2 of land used for mining was rehabilitated with the planting of species native to the region. These areas are now covered with a wide variety of trees, grasses and legumes.

Surveys have also been conducted at other Vallourec sites to study the impact of their activities on biodiversity. No major risk has been identified, but a monitoring strategy is nevertheless being maintained.

8.1.1.10 Information on commitments to the community

I – Regional economic and social impact of the business

The Group's strategy consists of developing a local presence with clients to raise the level of service for their benefit. Each site, whether older or more recent, pays careful attention to the local impact of its activity, especially regarding recruitment and using local suppliers.

Local purchases mainly relate to maintenance, production services, consumables and some raw materials. These purchase represented about €1.5 billion in 2011, which is nearly 45% of the Group's expenditure. This proportion is fairly consistent for all regions.

II – Relations with people and organizations with an interest in the Group's activity

1. SURVEY ON GROUP PRACTICES

Vallourec has initiated numerous relationships with local stakeholders in its activities, such as professional organizations and local authorities, residents' associations and groups with a social or environmental objective related to the activity of its sites.

In Brazil, for historic, cultural and regulatory reasons, and because the Barreiro site is situated in the middle of a very urban district, relations with local stakeholders have followed a structured process for several years. In other regions of the world, a survey to elicit practical insights on local relations and issues has been conducted among 50 functional, operational and local managers using a structured questionnaire.

The results showed that:

- Few requests for support were expressed.
- The resources allocated to managing relations with local stakeholders were low.
- Apart from Brazil and Indonesia, the actions undertaken were quite limited.

Although data from local stakeholders was not methodically collected, relations were considered good.

Following this survey, a consensus view emerged, encouraging the establishment of a Group policy in this area and publication of simple guidelines and giving autonomy to local managers for decisions on actions to be undertaken, reporting to line management.

2. ACTIONS UNDERTAKEN

The resources devoted to financing partnerships, the vast majority of these in Brazil and Indonesia, amount to about €6 million per year. In Brazil, the regional and federal authorities encourage social actions, which are often tax deductible. In Europe and the United States, the initiatives undertaken are only for limited amounts. The actions undertaken generally tend to support educational, cultural and sports initiatives, the financing of social projects, the renovation of cultural centres or the creation of social housing.

3. DECISIONS TAKEN BY THE SUSTAINABLE DEVELOPMENT COMMITTEE

At its meetings in June 2011 and January 2012, the Sustainable Development Committee examined the question of relations with local stakeholders and invited all the Group's local sites to identify and categorize their local stakeholders and then to formalize the actions deemed relevant. To this end, methodological assistance in the form of guidelines will be provided to facilitate the implementation of local initiatives. Local promoters will form a community with the aim of sharing best practices.

4. CONTENT OF GUIDELINES

The guidelines are based on the following principles:

- Coherence between actions undertaken within a single region.
- Regular, high quality discussions.
- Priority given to actions supported by the Group's employees.
- Preference for actions that support teaching, health and local development.

5. GOODPLANET PARTNERSHIP

Given its strong preoccupation with the impact of its activities on the environment, the Group decided to give financial support to actions undertaken by the GoodPlanet foundation in the form of a multi-year partnership.

III – Subcontracting and suppliers

In 2011, the Sustainable Development Committee decided it was necessary to identify suppliers who could present a high risk for the Vallourec Group in terms of the safety of employees, quality of products, respect for the environment and reputation of the Company.

Working closely with a specialist firm in this area, an analysis of suppliers was conducted, examining a set of criteria that includes the type of purchases, Vallourec's influence over them, the volume of purchases and the effect on the relationship between Vallourec and its clients. A preliminary list of about 400 suppliers (out of a total of 15,000) was drawn up, mainly for the supply of raw materials, industrial subcontracting and transport. The investigation method used involved sending a self-assessment questionnaire, adapted to the size of the supplier, covering the supplier's commitments and certification, the existence of health, safety, quality and environment policies and the history of relations with the Group.

Following this survey, the suppliers will be subjected to an in-depth examination in 2012 and may, if applicable, be audited at their business premises.

8.1.1.11 Summary of individual declarations relating to transactions in Vallourec's shares by persons referred to in Article L.621-18-2 of the French Code monétaire et financier during the financial year 2011

Person making the declaration	Financial instruments	Nature of the transaction	Date of the transaction	Date of receipt of declaration	Place of transaction	Unit price *In €*	Amount of transaction *In €*
Jean-Paul Parayre Chairman of the Supervisory Board	Other types of financial instruments	Acquisition	18/01/2011	21/01/2011	Euronext Paris	1.23	31,475.03
Jean-Paul Parayre Chairman of the Supervisory Board	Other types of financial instruments	Disposal	18/01/2011	21/01/2011	Euronext Paris	2.88	70,503.60
Individual linked to Gérard Terneyre, Director of Strategy and Group Development	Shares	Disposal	20/01/2011	24/01/2011	Euronext Paris	80.97	54,315
Jean-Paul Parayre Chairman of the Supervisory Board	Other types of financial instruments	Acquisition	25/02/2011	03/03/2011	Euronext Paris	0.07	411.30
Jean-Paul Parayre Chairman of the Supervisory Board	Other types of financial instruments	Acquisition	28/02/2011	03/03/2011	Euronext Paris	0.151	3,020
Jean-Paul Parayre Chairman of the Supervisory Board	Other types of financial instruments	Disposal	25/02/2011	03/03/2011	Euronext Paris	5.21666	76,696.63
Jean-Paul Parayre Chairman of the Supervisory Board	Other types of financial instruments	Disposal	01/03/2011	03/03/2011	Euronext Paris	3.10	45,540.45
Gérard Kottmann, CEO of Valinox Nucléaire, a Group subsidiary	Shares	Disposal	29/03/2011	05/04/2011	Euronext Paris	77.20	15,347.38
Compagnie de Cornouaille, a legal entity affiliated with Bolloré, Member of the Supervisory Board	Other types of financial instruments (derivative product)	Forward sale of 3,748,956 shares with option of delivery in cash at maturity on 16/05/2011	05/04/2011	11/04/2011	Off-market	67.53183	253,173,859.27
Compagnie de Cornouaille, a legal entity affiliated with Bolloré, Member of the Supervisory Board	Other types of financial instruments (derivative product)	Forward sale of 176,616 shares with option of delivery in cash at maturity on 16/05/2011	05/04/2011	11/04/2011	Off-market	78.27225	13,824,131.71

Person making the declaration	Financial instruments	Nature of the transaction	Date of the transaction	Date of receipt of declaration	Place of transaction	Unit price *In €*	Amount of transaction *In €*
Compagnie de Cornouaille, a legal entity affiliated with Bolloré, Member of the Supervisory Board	Other types of financial instruments (derivative product)	Forward sale of 96,000 shares with option of delivery in cash at maturity on 16/05/2011	05/04/2011	11/04/2011	Off-market	80.64209	7,741,640.64
Gérard Kottmann, CEO of Valinox Nucléaire, a Group subsidiary	Shares	Disposal	05/04/2011	13/04/2011	Euronext Paris	81.20	16,142.89
Jean-Paul Parayre Chairman of the Supervisory Board	Other types of financial instruments	Acquisition	16/05/2011	20/05/2011	Euronext Paris	2.23	113,885.05
Jean-Paul Parayre Chairman of the Supervisory Board	Other types of financial instruments	Disposal	16/05/2011	20/05/2011	Euronext Paris	1.9930	126,737.41
Compagnie de Cornouaille, a legal entity affiliated with Bolloré, Member of the Supervisory Board	Shares	Disposal (corresponding to published forward sales and shares received as a dividend connected to these forward sales)	16/05/2011	19/05/2011	Off-market	67.53183	253,173,859.27
Compagnie de Cornouaille, a legal entity affiliated with Bolloré, Member of the Supervisory Board	Shares	Disposal (corresponding to published forward sales and shares received as a dividend connected to these forward sales)	16/05/2011	19/05/2011	Off-market	78.27225	13,824,131.71
Compagnie de Cornouaille, a legal entity affiliated with Bolloré, Member of the Supervisory Board	Shares	Disposal (corresponding to published forward sales and shares received as a dividend connected to these forward sales)	16/05/2011	19/05/2011	Off-market	80.64209	7,741,640.64
Gérard Terneyre, Director of Strategy and Group Development	Shares	Disposal	20/05/2011	25/05/2011	Euronext Paris	88	107,360
Gérard Kottmann, CEO of Valinox Nucléaire, a Group subsidiary	Shares	Disposal	24/05/2011	28/05/2011	Euronext Paris	87	17,295.95
Jean-Paul Parayre, Chairman of the Supervisory Board	Other types of financial instruments	Acquisition	08/06/2011	15/06/2011	Euronext Paris	1.38	41,400

Person making the declaration	Financial instruments	Nature of the transaction	Date of the transaction	Date of receipt of declaration	Place of transaction	Unit price *In €*	Amount of transaction *In €*
Jean-Paul Parayre, Chairman of the Supervisory Board	Other types of financial instruments	Disposal	08/06/2011	15/06/2011	Euronext Paris	3.8633	115,899.90
Patrick Boissier, Vice-Chairman of the Supervisory Board	Shares	Share-based dividend payment	21/06/2011	21/06/2011	Euronext Paris	75.92	683.28
Gérard Terneyre, Director of Strategy and Group Development	Shares	Disposal	13/06/2011	27/06/2011	Euronext Paris	82.95	82,950
Gérard Terneyre, Director of Strategy and Group Development	Shares	Disposal	13/06/2011	28/06/2011	Euronext Paris	82.95	82,950
Compagnie de Cornouaille, a legal entity affiliated with Bolloré, Member of the Supervisory Board	Shares	Share-based dividend payment	07/07/2011	08/07/2011	Euronext Paris	75.92	2,615,519.92
Bolloré, Member of the Supervisory Board	Shares	Share-based dividend payment	07/07/2011	08/07/2011	Euronext Paris	75.92	151.84
Edward G. Krubasik, Member of the Supervisory Board	Shares	Acquisition	29/07/2011	01/08/2011	Frankfurt stock exchange	71.78	10,049.2
Philippe Crouzet, Chairman of the Management Board	Shares	Acquisition	12/08/2011	12/08/2011	Euronext Paris	61.11	61,110
Edward G. Krubasik, Member of the Supervisory Board	Shares	Acquisition	11/08/2011	17/08/2011	Frankfurt stock exchange	62	10,044
Edward G. Krubasik, Member of the Supervisory Board	Shares	Acquisition	12/09/2011	15/09/2011	Frankfurt stock exchange	54.92	9,885.6
Edward G. Krubasik, Member of the Supervisory Board	Shares	Acquisition	23/09/2011	23/09/2011	Frankfurt stock exchange	47.63	5,001.15
Jean-Pierre Michel, Member of the Management Board and Chief Operating Officer	Shares	Acquisition	27/09/2011	03/10/2011	Euronext Paris	47.98	36,464.80
Jean-Pierre Michel, Member of the Management Board and Chief Operating Officer	Shares	Acquisition	28/09/2011	03/10/2011	Euronext Paris	47.45	11,388
Edward G. Krubasik, Member of the Supervisory Board	Shares	Acquisition	04/10/2011	06/10/2011	Frankfurt stock exchange	39.46	4,971.96
Jean-Paul Parayre, Chairman of the Supervisory Board	Other types of financial instruments	Disposal	10/10/2011	14/10/2011	Euronext Paris	4.86	97,273

Person making the declaration	Financial instruments	Nature of the transaction	Date of the transaction	Date of receipt of declaration	Place of transaction	Unit price In €	Amount of transaction In €
Jean-Paul Parayre Chairman of the Supervisory Board	Other types of financial instruments	Disposal	10/10/2011	14/10/2011	Euronext Paris	5.64	112,729
Gérard Terneyre, Director of Strategy and Group Development	Shares	Disposal	25/11/2011	07/12/2011	Euronext Paris	41.245	58,155.45
Gérard Terneyre, Director of Strategy and Group Development	Shares	Disposal	30/11/2011	07/12/2011	Euronext Paris	50.4799	25,239.95

8.1.2 SPECIAL REPORT OF THE MANAGEMENT BOARD ON SHARE SUBSCRIPTION AND SHARE PURCHASE OPTIONS

This report has been drawn up in accordance with the provisions of Article L.225-184 of the French Code de commerce. It provides details of the share subscription and share purchase options allocated by the Company during the financial year 2011. Information in respect of allocations made under stock option plans in previous financial years is provided in Section 6.3.1.1 of the 2011 Registration Document.

Companies related to Vallourec pursuant to the conditions set out in Article L.225-180 of the French Code de commerce have not allocated any share subscription or share purchase options.

On 1 September 2011, Vallourec created a share subscription option plan concerning the allocation of a maximum number of 684,521 options, representing 0.57% of the share capital on that date, for the benefit of 740 executive managers and members of the Management Board ("2011 Plan"). The definitive allocation of all the stock options in this plan is subject to a presence condition (continued employment in the Company) and performance condition (ratio of the Group's consolidated EBITDA to consolidated sales for financial years 2011, 2012, 2013 and 2014). The maximum number of options granted and detailed below corresponds to the application of the highest performance coefficient.

I – Allocations to members of the Management Board in financial year 2011

The following table shows the maximum number, the exercise dates and the price of share subscription options allocated to each of the members of the Management Board in financial year 2011 under the 2011 Plan.

Name of Executive Corporate Officer	Plan number and date	Type of options (purchase or subscription)	Maximum number of options granted in the year	Exercise price In €	Exercise period
Philippe Crouzet	2011 Plan 01/09/2011	Subscription options	33,000	60.71	01/09/2015 to 01/09/2021
Jean-Pierre Michel	2011 Plan 01/09/2011	Subscription options	15,000	60.71	01/09/2015 to 01/09/2021
Olivier Mallet	2011 Plan 01/09/2011	Subscription options	12,000	60.71	01/09/2015 to 01/09/2021
TOTAL			**60,000**		

No members of the Management Board exercised share subscription or purchase options in 2011 under the stock option plans created in previous years.

II – Options allocated to the 10 employees who received the highest maximum number of options in financial year 2011 and who are not corporate officers of the Company

The following table shows the maximum number, exercise dates and prices of the share subscription options allocated under the 2011 Plan to the 10 employees who are not corporate officers of Vallourec receiving the highest maximum number of option allocations in the financial year 2011.

	Plan number and date	Type of options (purchase or subscription)	Maximum number of options granted in the year	Exercise price *In €*	Exercise period
Allocations to the 10 employees who received the highest maximum number of options and are not corporate officers of Vallourec	2011 Plan 01/09/2011	Subscription options	52,300	60.71	01/09/2015 to 01/09/2021

No employee who is not a corporate officer exercised share subscription or purchase options in 2011 under the stock option plans created in previous years.

III – Allocations to employees in the financial year 2011

The following table shows the maximum number, exercise dates and prices of share subscription options allocated to Group employees in financial year 2011 under the 2011 Plan.

	Plan number and date	Type of options (purchase or subscription)	Maximum number of options granted in the year	Exercise price *In €*	Exercise period
Allocations to Group employees	2011 Plan 01/09/2011	Subscription options	684,521	60.71	01/09/2015 to 01/09/2021

8.1.3 SPECIAL REPORT OF THE MANAGEMENT BOARD ON ALLOCATIONS OF FREE SHARES AND PERFORMANCE SHARES

This report has been drawn up in accordance with the provisions of Article L.225-197-4 of the French Code de commerce. It provides details of allocations of free shares and performance shares by Vallourec in the financial year 2011. Information regarding allocations of free shares or performance shares made under plans in previous financial years is provided in Section 6.3.1.2 of the 2011 Registration Document.

Companies related to Vallourec pursuant to the conditions set out in Article L.225-197-2 of the French Code de commerce have not allocated any shares free of charge or performance shares.

In 2011, the Management Board decided upon, with the agreement of the Supervisory Board:

- On 30 March 2011, the allocation subject to presence and performance conditions, of a maximum number of 269,204 performance shares, representing 0.23% of the share capital on that date, to 1,154 executive managers and members of the Management Board (the “2011 Plan”).
- On 18 November 2011, the allocation, under presence and performance conditions, of a maximum number of 78,318 performance shares, representing 0.066% of the share capital on that date, up to a maximum of six shares per beneficiary, for the 13.053 employees of Vallourec Group companies included in the scope of the “Value 11” international employee share ownership offering (excluding members of the Management Board and employees of Vallourec Group companies whose registered office is in Brazil) and employees of Vallourec Group companies whose registered offices are in India, the Netherlands, Russia, Malaysia and Norway (the “2-4-6 Plan”).
- On 15 December 2011, the allocation of free shares involving 6,462 shares, representing 0.005% of the share capital on that date, for the benefit of 841 employees, who are not French residents for tax purposes, of Vallourec Group companies with registered offices located in Canada or the United States (excluding employees of VAM USA LLC) who have participated in a “Shares + SAR” scheme under the terms of the “Value 11” international employee share ownership offering as a substitute for the contribution granted to employees and those with similar rights of the Vallourec Group’s French companies participating in “Value 11” (the “Value 11 plan”).

The maximum number of performance shares granted and detailed below corresponds to the application of the highest performance coefficient.

I – Allocations to members of the Management Board in financial year 2011

The following table shows the maximum number and value of performance shares allocated by Vallourec to each member of the Management Board in financial year 2011.

Name of Executive Corporate Officer	Plan number and date	Maximum number of shares awarded during the year	Valuation of shares according to the method used for the consolidated financial statements (in €)	Vesting date	Available date	Performance conditions
Philippe Crouzet	2011 Plan 30/03/2011	12,000	849,720	30/03/2013	30/03/2015	Yes
Jean-Pierre Michel	2011 Plan 30/03/2011	5,900	417,779	30/03/2013	30/03/2015	Yes
Olivier Mallet	2011 Plan 30/03/2011	4,800	339,888	30/03/2013	30/03/2015	Yes
TOTAL		**22,700**	**1,607,387**			

The definitive allocation of performance shares to members of the Management Board under the 2011 Plan is subject in part to a condition of continuing employment in the Company for two years from the date of allocation and in part to quantified performance criteria for all the performance shares allocated. Performance is assessed over two consecutive financial years and measured on the basis of the following three quantified criteria: the growth rate of sales on a like-for-like basis, the ratio of consolidated EBITDA to consolidated sales on a like-for-like basis in the period, and the stock market performance of the Vallourec share on the regulated market of NYSE Euronext in Paris compared with a reference panel. The Company will communicate the actual performance rates achieved for each Management Board member at the end of the assessment period.

II – Allocations to the 10 employees who received the highest maximum number of shares in the financial year 2011 and are not corporate officers of the Company

The following table shows the maximum number and value of shares allocated to the 10 employees who received the highest maximum number of performance shares in the financial year 2011 and are not corporate officers of the Company.

	Plan number and date	Maximum number of shares awarded	Valuation of shares according to the method used for the consolidated financial statements (in €)	Vesting date	Available date	Performance conditions
Allocations to the 10 employees who received the highest maximum number of shares and are not corporate officers of the Company	2011 Plan 30/03/2011	9,994	707,675	30/03/2013 or 30/03/2015	30/03/2015	Yes (a)
	2-4-6 plan 18/11/2011	60	2,420	18/11/2013 or 18/11/2015	18/11/2015	Yes (a)

(a) The definitive allocation of performance shares to employees is conditional, in their entirety, upon continuing employment within the Group and the Group's performance based on achievement of a given ratio of EBITDA to consolidated sales for the years 2011 and 2012 in the case of the 2011 Plan and for the years 2012 and 2013 in the case of the 2-4-6 Plan.

III – Allocations to employees in the financial year 2011

The following table shows the maximum number and value of shares allocated to Group employees in the financial year 2011.

	Plan number and date	Maximum number of shares awarded	Number of beneficiaries	Valuation of shares according to the method used for the consolidated financial statements (In €)	Vesting date	Available date	Performance conditions
Allocations to Group employees	2011 Plan 30/03/2011	269,204	1,157	19,062,335	30/03/2013 or 30/03/2015	30/03/2015	Yes [(a)]
	2-4-6 plan 18/11/2011	78,318	13,053	3,157,782	18/11/2013 or 18/11/2015	18/11/2015	Yes [(a)]
	"Value 11" plan 15/12/2011	6,462	841	234,635	01/07/2016	01/07/2016	No [(b)]

(a) The definitive allocation of shares, in their entirety, is conditional upon continuing employment within the Group and the Group's performance based on achievement of a given ratio of EBITDA to consolidated sales for the years 2011 and 2012 in the case of the 2011 Plan and for the years 2012 and 2013 in the case of the 2-4-6 Plan.

(b) The allocation of free shares under the "Value 11" plan involved only subscribers to the "Value 11" employee share ownership offering who were non-resident in France for tax purposes and were employed by Group companies with registered offices located in Canada and the United States (except for employees of VAM USA LLC), as a substitute for the employer's contribution allocated to employees and those with similar rights of French companies within the Group.

8.1.4 ADDITIONAL MANAGEMENT BOARD REPORT ON THE USE OF THE TWENTY-SECOND, TWENTY-THIRD AND TWENTY-FOURTH RESOLUTIONS OF VALLOUREC'S ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF 7 JUNE 2011 IN CONNECTION WITH THE IMPLEMENTATION OF THE "VALUE 11" INTERNATIONAL EMPLOYEE SHARE OWNERSHIP SCHEME

This additional report has been drawn up pursuant to application of Article R.225-116 of the French Code de commerce regarding the use of the twenty-second, twenty-third and twenty-fourth resolutions of Vallourec's Ordinary and Extraordinary Shareholders' Meeting on 7 June 2011 in connection with the implementation of the "Value 11" international employee share ownership scheme.

I. Presentation of the "Value 11" international employee share ownership scheme

In a bid to give its employees greater involvement in the Group's business and results, Vallourec sought to offer its staff the opportunity to invest in Vallourec shares.

Pursuant to the twenty-second, twenty-third, twenty-fourth and twenty-fifth resolutions passed by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, after obtaining authorization from the Supervisory Board, on 30 June 2011 Vallourec's Management Board agreed in principle to put in place a share subscription offering ("Value 11") reserved for employees (and those with similar rights) of Vallourec and of companies in which Vallourec holds, directly or indirectly, the majority of the share capital, under the conditions set out below.

Implementation of this operation is based on the use of:

- the delegations of authority conferred by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 under the terms of the twenty-second, twenty-third and twenty-fourth resolutions with a view to issuing shares at a 20% discount, subject to an overall maximum nominal amount of €4,700,000 (being 2,350,000 shares); and
- the authorization granted by the Ordinary and Extraordinary Shareholders' Meeting of Vallourec of 7 June 2011 under the terms of the twenty-fifth resolution, with a view to the allocation of existing free shares within the limit of 20,000 shares (this limit, however, being increased by the number of shares that may be granted in respect of adjustments intended to protect the rights of beneficiaries in the event of transactions in the Company's capital).

The main features of the "Value 11" offering can be summarized as follows:

Beneficiaries of the offering

The "Value 11" offering was opened to employees and those with similar rights of Vallourec and of companies in which Vallourec holds, directly or indirectly, the majority of the share capital and whose registered offices are located in one of the following countries: Brazil, Canada, China, France, Germany, Mexico, the United Arab Emirates, the United States and the United Kingdom.

More precisely, the following were eligible for the "Value 11" offering:

- employees (also corporate officers as defined in Article L.3332-2 of the French Code du travail) of companies belonging to the Vallourec Group savings scheme (PEV) or the international Vallourec Group savings scheme (PEVI) with at least three months' service in the Group at the end of the subscription/retraction period;
- retirees and early retirees of French, UK and German companies belonging to the Group savings scheme (PEV) or the Group international savings scheme (PEVI) who hold assets in either scheme on the day of their payment to the offering;

- employees of companies included in Vallourec's accounting consolidation group whose head office is in Brazil, Mexico, the United States, the United Arab Emirates or China, other than companies participating in the international savings scheme, who have been working at a Vallourec Group company for at least three months at the end of the subscription/retraction period.

Subscription arrangements

The “Value 11” offering comprises two sets of arrangements:

- a leveraged offering open to all employees and those with similar rights eligible for the “Value 11” offering, the aim of which is to guarantee the employee his/her initial investment (subject to exchange rate movements, taxation and deductions for social security charges and possible termination of the exchange transaction) and enable him/her to benefit from a multiple of the protected average increase in the share price compared with the reference price between the effective date of the capital increase and 1 July 2016;
- a traditional offering open to employees and those with similar rights eligible for the “Value 11” offering, allowing them to subscribe for shares at a 20% discount together with an employer’s contribution through the Vallourec Value Relais 11 company mutual fund (*fonds commun de placement d’entreprise* – “FCPE”).

Except in cases of early withdrawal, the employee’s investment will be subject to a mandatory holding period until 1 July 2016.

The leveraged schemes have been put in place by groups of countries in order to comply with local regulations or to take advantage of specific taxation measures that are more favourable for subscriptions by employees, while at the same time ensuring that all employees eligible to participate in the offering receive a comparable economic benefit (notably in the form of a leveraged dedicated company mutual fund or a direct subscription for shares [or a cash deposit by the employee] combined with the allocation of stock appreciation rights by the employer).

In Germany, France, Brazil, the United Arab Emirates, Mexico and the United Kingdom, it is combined with an employer’s contribution, and in the other countries with a free share allocation or in some cases a deferred contribution.

The structure used for each country is as follows:

- **France:**
  - traditional offering: subscription to units in the Vallourec Value Relais 11 company mutual fund (fonds commun de placement d’entreprise) and a cash contribution from the employer via the Vallourec savings scheme (PEV) for the amounts invested excluding arbitrage. The company mutual fund will subscribe to Vallourec shares at a 20% discount,
  - leveraged offering: subscription to units in the Vallourec Value France 11 compartment of the Vallourec Value France Germany UK company mutual fund (fonds commun de placement d’entreprise) and a cash contribution from the employer via the Group savings scheme (PEV) for the amounts invested excluding arbitrage. The company mutual fund compartment will subscribe to Vallourec shares at a 20% discount and will benefit from a banking top-up equal to nine times the unitholders’ investment (including the net employer’s contribution), enabling the compartment to subscribe to 10 times more shares than would have been possible using only the individual’s contribution and the net employer’s contribution.
- **Germany and the United Kingdom:** subscription to units in the Vallourec Value Germany UK 11 compartment of the Vallourec Value France Germany UK company mutual fund (*fonds commun de placement d’entreprise*). The company mutual fund compartment will subscribe to Vallourec shares at a 20% discount and will benefit from a banking top-up equal to nine times the unitholders’ investment (including the net employer’s contribution), enabling the compartment to subscribe to 10 times more shares than would have been possible using only the individual’s contribution and the net employer’s contribution.
- **Mexico, Brazil and the United Arab Emirates:** subscription to units in the Vallourec Value Brazil Mexico UAE 11 compartment of the Vallourec Value Brazil Mexico UAE company mutual fund (*fonds commun de placement d’entreprise)* offered outside a savings scheme. The company mutual fund compartment will subscribe to Vallourec shares at a 20% discount and will benefit from a banking top-up equal to nine times the unitholders’ investment (including the net employer’s contribution), enabling the compartment to subscribe to 10 times more shares than would have been possible using only the individual’s contribution and the net employer’s contribution.
- **United States (for all subsidiaries except VAM USA LLC) and Canada:** direct subscription for the Company’s shares at a discounted price, combined with the allocation of stock appreciation rights by the employer and the allocation of free shares by Vallourec. The introduction of these arrangements is combined with the subscription via a vehicle controlled by the financial institution participating in the structuring of the operation to a number of shares equal to nine times the number of shares subscribed for by employees and those with similar rights.
- **China and the United States (for VAM USA LLC):** cash deposit by the employee combined with the allocation of stock appreciation rights by the employer and a deferred bonus. Introduction of these arrangements is combined with the subscription via a vehicle controlled by the financial institution participating in the structuring of the operation to a number of shares equal to nine times the number of stock appreciation rights actually allocated under the “cash + stock appreciation rights” arrangements, rounded down to the nearest whole number.

Method of holding shares

Share subscriptions are made via a temporary company mutual fund (fonds commun de placement d’entreprise relais) and a company mutual fund (fonds commun de placement d’entreprise) with compartments offered in connection with the Group savings scheme (PEV) or the Group international savings scheme (PEVI), a company mutual fund (fonds commun de placement d’entreprise) with compartments offered to those not in any company savings scheme and, in certain countries, by direct shareholder investment. In addition, some of the shares (corresponding to nine times the employees’ subscription in the arrangements excluding company mutual funds) will be subscribed for by a vehicle controlled by the financial institution participating in the structuring of the operation.

Voting rights relating to securities held in the company mutual funds (fonds commun de placement d’entreprise) will be exercised by the company mutual fund’s Supervisory Board. The financial institution will ensure that the voting rights relating to shares held by the vehicle that it controls are exercised in the same manner as the Supervisory Board of the leveraged company mutual fund (fonds commun de placement d’entreprise) open to French, English and German employees.

Individual subscription limit

OFFERING UNDER THE GROUP SAVINGS SCHEME (PEV)

Pursuant to Article L.3332-10 of the French Code du travail, the amount of the annual payments (including profit-sharing) made by an employee to the savings schemes in which he/she participates cannot exceed one-quarter of his/her gross annual remuneration or retirement pension received for 2011. For the purposes of calculating this limit, the banking top-up from which the leveraged company mutual fund (fonds commun de placement d'entreprise) benefits is taken into account.

OFFERING UNDER AN INTERNATIONAL GROUP SAVINGS SCHEME (PEVI) VIA A COMPANY MUTUAL FUND (FCPE)

Pursuant to Article L.3332-10 of the French Code du travail, the amount of the annual payments made by an employee to the savings schemes in which he/she participates cannot exceed one-quarter of his/her gross annual remuneration or retirement pension received for 2011. For the purposes of calculating this limit, the banking top-up from which the leveraged company mutual fund (fonds commun de placement d'entreprise) benefits is taken into account.

OFFERING UNDER AN INTERNATIONAL GROUP SAVINGS SCHEME (PEVI) VIA THE "SHARES + SAR" SCHEME

In view of the limit stipulated in Article L.3332-10 of the Code du travail and the leverage mechanism, the subscription to the offering is limited to 2.5% of the gross annual remuneration for 2011.

OFFERING UNDER A COMPANY MUTUAL FUND OUTSIDE THE SCHEME

Subscription is capped at 100% of the gross annual remuneration for 2011. For the purposes of calculating this limit, the banking top-up from which the leveraged company mutual fund (fonds commun de placement d'entreprise) benefits is taken into account.

OFFERING UNDER THE "DEPOSIT + SAR" SCHEMES

In view of the leverage mechanism, the amount of the deposit is limited to 2.5% of the gross annual remuneration for 2011 for employees working at VAM USA LLC and to 10% of the gross annual remuneration for 2011 for employees working in the Chinese subsidiaries.

Country-specific subscription and payment procedures

Country-specific subscription and payment procedures were brought to employees' attention in the subscription documentation provided to them. A minimum subscription also applies. It varies depending on the country. Stricter limits apply for subscriptions during the subscription/retraction period. Employees are informed of these details in the subscription documentation they receive.

For the reasons explained in II. (d) below, at the request of the Chinese State Administration of Foreign Exchange (SAFE), foreign employees with an employment contract with a Chinese subsidiary were excluded from the offering and did not therefore subscribe during the reservation period from 19 September to 7 October 2011. The abandonment of the company mutual fund scheme in favour of the "Deposit + SAR" scheme, by virtue of a decision of the Management Board on 12 September 2011 as mentioned in II. (d) below, no longer justified this exclusion. Consequently, foreign employees in China have been invited to subscribe to the Deposit+ SAR scheme during an exceptional reservation period from 24 to 28 October 2011 that has been included to enable them to benefit from similar subscription conditions to those of the other beneficiaries of the "Value 11" offering.

Staging of the capital increase – reduction procedures

The capital will be increased by the number of shares subscribed for by the Vallourec Value Brazil Mexico UAE 11 compartment of the Vallourec Value Brazil Mexico UAE company mutual fund, the Vallourec Value France 11 and Vallourec Value Germany UK 11 compartments of the Vallourec Value France Germany UK company mutual fund, the Vallourec Value Relais 11 company mutual fund and the vehicle controlled by the financial institution and directly by the subscribing employees in the United States and Canada. However, if the payment commitments are such that there is a breach of the maximum amount of the capital increase authorized by the Management Board at its meeting of 30 June 2011, being 2,350,000 shares, these commitments will be reduced as follows:

Throughout this description of the reduction procedures, the number of shares requested and/or delivered includes the net employer's contribution and leverage where applicable (regardless of the form it takes) and is based on use of the exchange rates set in the decisions taken by the Management Board at its meeting of 14 November 2011.

The shares available will initially be allocated to the various countries included in the scope of the offering in proportion to the number of shares requested by the employees in each country. As such, each country will represent the same proportion of the total number of shares distributed as it did in the unreduced initial overall request.

Then, in each country:

- the total number of shares allocated to the country will be divided by the number of subscribers in that country in order to obtain the "average number of shares" or the "reduction threshold" (including the contribution paid by the employer);
- no reduction will be made to the subscription request for all arrangements combined for requests not exceeding this average number of shares (including the contribution paid by the employer), although the reduction cannot under any circumstances result in the employee's personal contribution being reduced to below the minimum subscription required;
- aside from this individual country threshold, a reduction will be made in proportion to the fraction of the surplus demand;
- in countries in which subscriptions must be made for a whole number of shares, the new number of shares allocated to each employee will be rounded down to the nearest whole number of shares and any fractional shares will be allocated to countries using company mutual fund arrangements;
- where a combination of arrangements is used (France only), the reduction will be allocated to each set of arrangements in proportion to the number of shares requested by the employee for each set of arrangements;
- when a combination of payment options for a single scheme is available (France only), the reduction will first be applied to the portion of the subscription financed by arbitrage of assets in the Group savings scheme (PEV), and then to the portion financed by withdrawal from the bank account.

This reduction mechanism will lead to an automatic corresponding adjustment of the number of shares subscribed for by the Crédit Agricole CIB vehicle and by each of the company mutual funds (FCPE).

Apart from the application of the reduction rules mentioned above, for fairness, the fixed amount for the contribution from the employer in Brazil may be considered.

Allocations of free shares will not exceed 20,000 shares.

Mandatory holding period

The shares subscribed for directly, together with the units in the aforementioned company mutual funds or the deposit made by employees, will be blocked for a period ending on 1 July 2016, except in the case of early release.

Timetable

11 May 2011	Authorization given by the Supervisory Board for the Management Board to use the resolutions, provided that they are ratified by the Ordinary and Extraordinary Shareholders' Meeting on 7 June 2011.
30 June 2011	Management Board makes decision on the principle and procedures of the offering.
From 19 September to 7 October 2011 (inclusive)	Reservation period.
14 November 2011	Setting of dates and subscription price.
From 16 November to 18 November 2011 (inclusive)	Subscription/retraction period open to the beneficiaries of the "Value 11" offering.
15 December 2011	Recognition of completion of the capital increase.

II. Context of capital increases carried out for the purpose of implementing the "Value 11" employee share offer

(a) Decisions of the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011

The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 adopted a group of resolutions enabling the Management Board to offer employees of the Vallourec Group, in France and abroad, the opportunity to subscribe for or acquire shares or securities giving access to the Company's share capital on preferential terms (including free of charge) in order to associate them more closely with the development of the Company. Each of these resolutions included the cancellation of shareholders' preferential subscription rights.

Twenty-second resolution: general resolution authorizing **a capital increase reserved for members of a company savings scheme** established in the Vallourec Group (where applicable, through an FCPE company mutual fund) or the sale of securities, in both cases at a discount of up to 20% (as the counterpart to a mandatory holding period of five years).

Twenty-third resolution: general resolution authorizing **a capital increase reserved for employees of the Vallourec Group's foreign companies and those with similar rights (or members of an FCPE company mutual fund) not members of a company savings scheme** at a discount of 20% (as the counterpart to a mandatory holding period equivalent to that applicable to employee members of a company savings scheme).

Twenty-fourth resolution: resolution authorizing **a capital increase reserved for a financial institution at a discount of 20%.** This capital increase enables the implementation of a leveraged scheme in countries in which extension of the structured offer that would be made to French employees raises legal or tax difficulties or uncertainties.

Twenty-fifth resolution: resolution enabling the awarding of free **shares to non-resident employees** (and those with similar rights) as a substitute for the contribution by the employer to French employees. The intended objective is to provide a benefit similar to that granted to employees in France while deferring the point at which tax and social security contributions are levied to the date on which employees may dispose of their shares. In the countries in which this solution is applied, the free shares would be intended to benefit all participants in the offering reserved for employees (subject, if applicable, to any minimum investment requirement).

A double cap is applicable to the twenty-second, twenty-third and twenty-fourth resolutions:

- an individual cap of €9,400,000, to which, if applicable, would be added the nominal amount of any additional shares to be issued in the case of new financial transactions, in order to protect the rights of the holders of securities giving access to the Company's share capital;
- an overall cap of €9,400,000, such that the maximum nominal amount of capital increases that may be carried out now or in the future by virtue of the delegations granted under the terms of these three resolutions would be limited to €9,400,000, to which, if applicable, would be added the nominal amount of any additional shares to be issued in the case of new financial transactions, in order to protect the rights of the holders of securities giving access to the Company's share capital.

The nominal amount of capital increases that may be carried out now or in the future by virtue of these resolutions will moreover be allocated against the overall cap amount provided for in paragraph 2 of the twelfth resolution adopted by the Extraordinary Shareholders' Meeting of 7 June 2011 (i.e. €117 million excluding issues intended to protect the rights of the holders of securities giving access to the Company's share capital) or, where applicable, against the overall cap amount provided for in a resolution of a similar nature that may succeed the aforementioned resolution during the term of the validity of resolutions.

To date, these delegations have not been used by the Management Board.

The term of the delegations granted by virtue of the twenty-second and twenty-fifth resolutions is 26 months from the date of the meeting. The term of the delegations granted by virtue of the twenty-third and twenty-fourth resolutions is 18 months from the date of the meeting.

(b) Decisions of the Supervisory Board of 11 May 2011

At its meeting on 11 May 2011, the Supervisory Board authorized the Management Board, subject to the approval of resolutions by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, to utilize:

- the delegations of authority granted by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 under the terms of the twenty-second, twenty-third and twenty-fourth resolutions for the issue of shares at a 20% discount; and
- the authorisation granted by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 under the terms of the twenty-fifth resolution for the allocation of free shares.

(c) Decisions of the Management Board of 30 June 2011

The Management Board, in its meeting of 30 June 2011, approved in principle the implementation of the "Value 11" international employee share ownership scheme, the main characteristics of which were presented in point I. above and, to that effect, authorized in principle the use of the delegations granted by the twenty-second, twenty-third, twenty-fourth and twenty-fifth resolutions of the Shareholders' Meeting of 7 June 2011:

- with a view to the issue of new shares at a 20% discount, within the limit of a maximum nominal amount of €4,700,000, in respect of the twenty-second, twenty-third and twenty-fourth resolutions;
- with a view to the allocation of free shares within the limit of 20,000 shares in respect of the twenty-fifth resolution (this limit may, however, be increased by the number of shares that may be allocated in respect of adjustments intended to protect the rights of beneficiaries in the event of transactions in the Company's capital).

(d) Decisions of the Management Board of 12 September 2011

At its meeting of 12 September 2011, the Management Board decided to open the reservation period in China from 19 September to 7 October 2011, by offering employees in China the opportunity to subscribe to units in the Vallourec Value Brazil, China, Mexico, UAE 11 compartment of the Vallourec Value Brazil, China, Mexico, UAE company mutual fund, provided that the Chinese authority SAFE approves the offering of the fund's units by 21 October 2011 at the latest. If this approval was not received by midnight on 21 October 2011, the "Deposit + SAR" scheme would automatically replace the company mutual fund arrangement.

(e) Decisions of the Management Board of 14 November 2011

The Management Board, in its meeting of 14 November 2011, approved the definitive terms and conditions of the "Value 11" offer, the main characteristics of which were presented in Section I above.

In order to implement the "Value 11" offering, the Management Board decided to use the delegations granted by the twenty-second, twenty-third, twenty-fourth and twenty-fifth resolutions of the Shareholders' Meeting of 7 June 2011:

- with a view to the issue of new shares at a 20% discount, within the limit of a maximum nominal amount of €4,700,000, in respect of the twenty-second, twenty-third and twenty-fourth resolutions;
- with a view to the allocation of a maximum number of 20,000 free shares under the twenty-fifth resolution (this limit, however, being increased by the number of shares that may be allocated in respect of adjustments intended to protect the rights of beneficiaries in the event of transactions in the Company's capital).

If approval for the offering of units in the company mutual fund (the FCPE scheme) in China is not granted by the Chinese foreign exchange authority SAFE by midnight on 21 October 2011, the Management Board has also decided that, at midnight on 21 October, the "Deposit + SAR" scheme would automatically replace the FCPE scheme in China under the conditions set forth in its decision of 12 September 2011.

The Management Board also set the dates of the subscription/retraction period for employees and those with similar rights (from 16 November to 18 November 2011, inclusive) and the subscription price for the new shares required to be issued in the context of using the twenty-second, twenty-third and twenty-fourth resolutions.

III. Conditions for the use of the twenty-second, twenty-third and twenty-fourth resolutions

III.1 Conditions for using the twenty-second resolution

BENEFICIARIES OF THE CAPITAL INCREASE REALIZED BY VIRTUE OF THE TWENTY-SECOND RESOLUTION

The issue realized by virtue of the twenty-second resolution is reserved for employees (and corporate officers treated as employees by virtue of Article L.3332-2 of the French Code du travail) of Vallourec Group companies who are members of the Group savings scheme (PEV) or of the Group international savings scheme (PEVI) on the date the reservation period opens, provided that such employees and corporate officers meet the three-month length of service condition provided for in such plans, as well as for retirees and elder retirees of those companies who have retained their assets in such plans. In France, subscriptions will be made through the Vallourec Value Relais 11 company mutual fund for the traditional scheme and through the Vallourec Value France 11 compartment of the Vallourec Value France Germany UK company mutual fund for the leverage-based scheme. Outside France, only the leveraged arrangement is offered. In Germany and the United Kingdom, subscriptions will be made through Vallourec Value Germany UK 11, a compartment of the Vallourec Value France Germany UK company mutual fund. In other countries, within the PEVI, subscriptions will take the form of a direct offering of shares within the framework of the "Shares + SAR" schemes.

PURPOSE

The purpose of this capital increase is to implement the "Value 11" offering described in Section I above in France, Germany, the United Kingdom, Canada and the United States (for all subsidiaries except VAM USA LLC).

AMOUNT OF THE ISSUE

The maximum nominal amount of the capital increase realized by virtue of the twenty-second resolution is €4,700,000 (i.e. a maximum of 2,350,000 new shares), it being specified, however, that the combined use of the twenty-second, twenty-third and twenty-fourth resolutions for the purpose of implementing the "Value 11" offering is subject to an overall cap of €4,700,000 (nominal amount).

The number of shares effectively issued in the context of use of the twenty-second resolution will be equal to the sum of:

- the number of shares equal to the whole number immediately below the number resulting from the quotient of (i) the sum of the subscriptions through personal contributions made by the beneficiaries to whom the Vallourec Value Relais 11 company mutual fund is open (after any reduction made in accordance with the terms and conditions described below) and the related net employer's contribution, and (ii) the Discounted Subscription Price. The definitive number of shares reserved for the Vallourec Value Relais 11 company mutual fund will be set following the subscription/retraction period in the light of the beneficiaries' actual subscriptions, after any reduction;
- the number of shares equal to the whole number immediately below the number resulting from the quotient of (i) 10 times the sum of (x) the subscriptions through personal contributions made by the beneficiaries to whom the Vallourec Value France 11 compartment of the Vallourec Value France Germany UK company mutual fund is open (after any reduction made in accordance with the terms and conditions described below) and (y) the related net employer's contribution, and (ii) the Discounted Subscription Price. The definitive number of shares reserved for the Vallourec Value France 11 compartment of the Vallourec Value France Germany UK company mutual fund will be set following the subscription/retraction period in light of the beneficiaries' actual subscriptions, after any reduction;
- the number of shares equal to the whole number immediately below the number resulting from the quotient of (i) 10 times the sum of (x) the subscriptions through personal contributions made by the beneficiaries to whom the Vallourec Value Germany UK 11 compartment of the Vallourec Value France Germany UK company mutual fund is open (after any reduction made in accordance with the terms and conditions described below) and (y) the related net employer's contribution (translated to euros on the basis of exchange rates set in the decisions of the Management Board of 14 November 2011) and (ii) the Discounted Subscription Price. The definitive number of shares reserved for the Vallourec Value Germany UK 11 compartment of the Vallourec Value France Germany UK company mutual fund will be set following the subscription/retraction period in light of the beneficiaries' actual subscriptions, after any reduction;
- the number of shares actually subscribed for (after any reduction made in accordance with the terms and conditions described below) by the beneficiaries eligible for the "Shares + SAR" schemes.

SUBSCRIPTION PRICE

The unit subscription price of the shares is equal to the average opening price of the Vallourec share recorded in the 20 stock-market trading days immediately prior to the date of the decision to open the subscription period, 14 November 2011, less a 20% discount and rounded up to the nearest euro cent (the "Discounted Subscription Price").

The reference period for the purpose of calculating the Discounted Subscription Price was from 17 October 2011 to 11 November 2011, both dates inclusive. The average opening price of the Vallourec share recorded during this period was €44.87 and the Discounted Subscription Price was €35.90.

SUBSCRIPTION TERMS AND CONDITIONS

The subscription/retraction period for employees and those with similar rights was from 16 to 18 November 2011 (inclusive). The Vallourec Value Relais 11 company mutual fund and the Vallourec Value France 11 and Vallourec Value Germany UK 11 compartments of the Vallourec Value France Germany UK company mutual fund will subscribe on 15 December 2011.

The subscription terms and conditions were approved in principle on 30 June 2011 by the Management Board, which ratified them on 14 November 2011. The main features are described in Section I above.

LIMITATION ON THE AMOUNT OF THE CAPITAL INCREASE – REDUCTION RULES

See Section III.4 below.

OTHER TERMS AND CONDITIONS

The new shares will be paid up in cash on issue and will immediately carry dividend rights; they will be fully assimilated with the existing shares.

The difference between the share subscription price and their par value will be recognised as additional paid-in capital. The costs of the capital increase will be set off against the related additional paid-in capital. If applicable, the sum required to increase the statutory reserve to one-tenth of the revised capital following the capital increase may be charged against additional paid-in capital.

III.2 Conditions for using the twenty-third resolution

BENEFICIARIES OF THE CAPITAL INCREASE REALIZED BY VIRTUE OF THE TWENTY-THIRD RESOLUTION

The issue realized by virtue of the twenty-third resolution is reserved for the Vallourec Value Brazil Mexico UAE 11 compartment of the Vallourec Value Brazil Mexico UAE company mutual fund, open to employees of the Brazilian, Mexican and UAE companies that are included in Vallourec's accounting consolidation scope, provided that the condition of three months' employment in one of the companies of the Vallourec Group at the end of the subscription/retraction period is met.

PURPOSE

The purpose of this capital increase is to implement the "Value 11" offering described in Section I above in Brazil, Mexico and the United Arab Emirates.

AMOUNT OF THE ISSUE

The maximum nominal amount of the capital increase realized by virtue of the twenty-third resolution is €4,700,000 (i.e. a maximum of 2,350,000 new shares), it being specified, however, that the combined use of the twenty-second, twenty-third and twenty-fourth resolutions for the purpose of implementing the "Value 11" offering is subject to an overall cap of €4,700,000 (nominal amount).

The number of shares effectively issued in the context of use of the twenty-third resolution will be equal to the sum of the whole number of shares immediately below the number resulting from the quotient of (i) 10 times the sum of the subscriptions made by the employees to whom the Vallourec Value Brazil Mexico UAE 11 compartment of the Vallourec Value Brazil Mexico UAE company mutual fund is open (translated into euros using the exchange rate set on 11 November 2011 and after any reduction made in accordance with the terms and conditions described below), and (ii) the Discounted Subscription Price. The definitive number of shares reserved for the Vallourec Value Brazil Mexico UAE 11 compartment of the Vallourec Value Brazil Mexico UAE company mutual fund will be set following the subscription/retraction period in light of the employees' actual subscriptions, after any reduction.

SUBSCRIPTION PRICE

The unit subscription price of the shares is equal to the Discounted Subscription Price, i.e. €35.90.

SUBSCRIPTION TERMS AND CONDITIONS

The subscription/retraction period for employees and those with similar rights was from 16 to 18 November 2011 (inclusive). The Vallourec Value Brazil Mexico UAE 11 compartment of the Vallourec Value Brazil Mexico UAE company mutual fund will subscribe on 15 December 2011.

The subscription terms and conditions were approved in principle on 30 June 2011 by the Management Board, which ratified them on 14 November 2011. The main features are described in Section I above.

LIMITATION ON THE AMOUNT OF THE CAPITAL INCREASE – REDUCTION RULES

See Section III.4 below.

OTHER TERMS AND CONDITIONS

The new shares will be paid up in cash on issue and will immediately carry dividend rights; they will be fully assimilated with the existing shares.

The difference between the share subscription price and their par value will be recognised as additional paid-in capital. The costs of the capital increase will be set off against the related additional paid-in capital. If applicable, the sum required to increase the statutory reserve to one-tenth of the revised capital following the capital increase may be charged against additional paid-in capital.

III.3 Conditions for using the twenty-fourth resolution

BENEFICIARIES OF THE CAPITAL INCREASE REALIZED BY VIRTUE OF THE TWENTY-FOURTH RESOLUTION

The issue realized by virtue of the twenty-fourth resolution is reserved for Value Plan International Employees, a French simplified limited company (*société par actions simplifiée*) having its registered office at 9 Quai du Président Paul Doumer, 92920 La Défense Cedex, registered in the Nanterre Trade and Companies Registry under No. 422 551 093 and controlled by Crédit Agricole CIB (the "Crédit Agricole CIB Vehicle").

PURPOSE

The purpose of this capital increase is to implement the "Shares + SAR" and "Deposit + SAR" schemes of the "Value 11" offering described in Section I above.

The structure of these schemes is based on the subscription by a vehicle controlled by the financial institution participating in structuring the transaction, at the Discounted Subscription Price, of a number of shares equal to:

- nine times the number of shares subscribed for by participants in the "Shares + SAR" schemes; and
- nine times the number of shares that could have been subscribed for using the overall deposit made by participants in the "Deposit + SAR" schemes.

As a counterpart, Crédit Agricole CIB provides coverage of the commitments taken by Group companies participating in the "Value 11" plan arising from the allocation of SAR (excluding social security contributions, tax deductions and foreign exchange effects).

AMOUNT OF THE ISSUE

The maximum nominal amount of the capital increase realized by virtue of the twenty-fourth resolution is €4,700,000 (i.e. a maximum of 2,350,000 new shares), it being specified, however, that the combined use of the twenty-second, twenty-third and twenty-fourth resolutions for the purpose of implementing the "Value 11" offering is subject to an overall cap of €4,700,000.

The number of shares reserved for the Crédit Agricole CIB Vehicle will be equal to the whole number of shares immediately below the number equal to nine times the sum (after any reduction made in accordance with the terms and conditions described below) of (i) the number of shares actually subscribed for by eligible beneficiaries under the "Shares + SAR" schemes, and (ii) the number of SAR actually allocated under the "Deposit + SAR" schemes (after any reduction made in accordance with the terms and conditions described below). The definitive number of shares reserved for the Crédit Agricole CIB Vehicle will be set following the subscription/retraction period in the light of the employees' (and those with similar rights) actual subscriptions, after any reduction.

SUBSCRIPTION PRICE

The unit subscription price of the shares is equal to the Discounted Subscription Price, i.e. €35.90.

SUBSCRIPTION TERMS AND CONDITIONS

The Crédit Agricole CIB Vehicle will subscribe to the capital increase on 15 December 2011.

LIMITATION ON THE AMOUNT OF THE CAPITAL INCREASE – REDUCTION RULES

See Section III.4 below.

OTHER TERMS AND CONDITIONS

The new shares will be paid up in cash on issue and will immediately carry dividend rights; they will be fully assimilated with the existing shares.

The difference between the share subscription price and their par value will be recognised as additional paid-in capital. The costs of the capital increase will be set off against the related additional paid-in capital. If applicable, the sum required to increase the statutory reserve to one-tenth of the revised capital following the capital increase may be charged against additional paid-in capital.

III.4 Overall cap

The use of each of the above three resolutions is subject to an individual cap of €4,700,000 (nominal amount), i.e. 2,350,000 shares. The cumulative use of the three resolutions cannot exceed the overall cap of €4,700,000, i.e. 2,350,000 shares.

In other words, the “Value 11” offer will have a cap such that the sum of (the “Total Number”):

- the number of shares actually subscribed for by the Vallourec Value Relais 11 company mutual fund;
- the number of shares actually subscribed for by the Vallourec Value France 11 and Vallourec Value Germany UK 11 compartments of the Vallourec Value France Germany UK company mutual fund;
- the number of shares actually subscribed for by the Vallourec Value Brazil Mexico UAE 11 compartment of the Vallourec Value Brazil Mexico UAE company mutual fund;
- ten times the number of shares actually subscribed for by the beneficiaries participating in the “Shares + SAR” schemes;
- the number of shares equal to the whole number of shares immediately below the number equal to nine times the number of SAR actually allocated in the context of the “Deposit + SAR” schemes(1);
- does not exceed 2,350,000 shares.

If, following the subscription/retraction period, in light of the subscription forms collected in all the countries included in the scope, it appears that the total number would exceed 2,350,000, the subscriptions by beneficiaries of the “Value 11” offering will be reduced in accordance with the principles set out in Section I above.

IV. Reason for the issues and cancellation of shareholders’ preferential subscription rights

The capital increases described in this report were decided upon for the purposes of implementing the “Value 11” international employee share ownership scheme, the implementation of which was approved in principle by the Management Board on 30 June 2011. The main features are described in Section I above.

More precisely:

- the capital increase realized by virtue of the twenty-second resolution of the Ordinary and Extraordinary Shareholders’ Meeting is intended, in the context of Group savings schemes, to enable the implementation of a traditional scheme in France through a temporary company mutual fund having the purpose of merging with a company mutual fund invested in the Company’s securities and of a leveraged arrangement through a leveraged company mutual fund (in France, through the Vallourec Value France 11 compartment of the Vallourec Value France Germany UK company mutual fund and, in Germany and the United Kingdom, through the Vallourec Value Germany UK 11 compartment of the Vallourec Value France Germany UK company mutual fund) or in the form of “Shares + SAR” schemes in Canada and the United States (for all subsidiaries except VAM USA LLC);
- the capital increase realized by virtue of the twenty-third resolution of the Ordinary and Extraordinary Shareholders’ Meeting is intended to enable the implementation of a leveraged arrangement outside a Group savings scheme within the framework of a compartment of a leveraged company mutual fund in Brazil, Mexico and the United Arab Emirates;
- the purpose of the capital increase reserved for the Crédit Agricole CIB Vehicle by virtue of the twenty-fourth resolution of the Ordinary and Extraordinary Shareholders’ Meeting is the structuring of the “Shares + SAR” schemes (implemented in Canada and the United States for all subsidiaries except VAM USA LLC) or the “Deposit + SAR” schemes (implemented in China and the United States for VAM USA LLC), which are described in Section I above. As a counterpart, Crédit Agricole CIB provides coverage of the commitments (excluding social security contributions, tax deductions and foreign exchange effects) taken by Vallourec companies participating in the “Value 11” scheme arising from the allocation of SAR.

V. Terms and conditions for determination of the issue price and justification

The Discounted Subscription Price of the shares offered to beneficiaries of the “Value 11” offering (directly or through a company mutual fund) and to the Crédit Agricole CIB Vehicle was determined in accordance with the provisions of the twenty-second, twenty-third and twenty-fourth resolutions of the Ordinary and Extraordinary Shareholders’ Meeting of 7 June 2011.

It is equal to the average opening price of the Vallourec share recorded on the 20 stock-market trading days immediately prior to the date of the decision by the Management Board to open the subscription period (decision of 14 November 2011) for the capital increase realized by virtue of the twenty-second resolution, less a 20% discount and rounded up to the nearest euro cent.

The reference period for the purpose of calculating the Discounted Subscription Price was from 17 October 2011 to 11 November 2011, both dates inclusive. The average opening price of the Vallourec share recorded during this period was €44.87 and the Discounted Subscription Price was €35.90.

VI. Theoretical impact on the position of shareholders of the capital increases resulting from the use of the twenty-second, twenty-third and twenty-fourth resolutions

As at the date of this report, the number of shares to be issued in the context of the use of each of the resolutions is unknown.

(1) The number of SAR granted to each participant under a “deposit + SAR” formula will be equal to the number (rounded down to two decimal places) obtained from the quotient of the participant’s deposit (translated into euros using the exchange rate determined by the Management Board on 14 November 2011) and the Discounted Subscription Price.

By way of indication, and assuming that overall all of the 2,350,000 shares offered jointly in the context of the capital increases realized by virtue of the twenty-second, twenty-third and twenty-fourth resolutions are subscribed for, the impact of the proposed capital increases on the interest in the capital of a shareholder holding 1% of the capital of the Company prior to the capital increases (to which the shareholder does not subscribe), calculated on the basis of the number of shares comprising the share capital as of the date of this report (i.e. 119,084,420 shares), would be as follows:

(1) Impact of the issue of 2,350,000 new shares at the Discounted Subscription Price on the interest in the capital of a shareholder holding 1% of the capital of the Company prior to the capital increases (to which the shareholder does not subscribe), calculated on the basis of the number of shares comprising the share capital as of the date of this report, i.e. 119,084,420 shares [1]:

	Shareholder's interest as a percentage of the share capital
Before the capital increase	1,00%
After the issue of 2,350,000 shares	0,981%

(2) Impact of the issue of 2,350,000 new shares at the Discounted Subscription Price on the interest in the consolidated equity for the holder of one Company share not subscribing to the above issues (based on the consolidated equity as of 30 June 2011 and the number of shares comprising the capital as of the date of this report, i.e. 119,084,420 shares):

	Proportion of consolidated equity based on the consolidated equity as of 30 June 2011 [a]
Before the capital increase	€37.73
After the issue of 2,350,000 shares	€37.69

(a) Excluding non-controlling interests.

VII. Theoretical impact on the current stock market price of the Vallourec share of the capital increases resulting from the use of the twenty-second, twenty-third and twenty-fourth resolutions

As at the date of this report, the number of shares to be issued in the context of the use of each of the resolutions is unknown.

By way of indication, and assuming that overall all of the 2,350,000 shares offered jointly in the context of the capital increases realized by virtue of the twenty-second, twenty-third and twenty-fourth resolutions are subscribed for, the theoretical impact of the above capital increases on the current stock-market price of the Vallourec share, as indicated by the average price during the 20 trading sessions preceding the setting of the Discounted Subscription Price, would be as follows:

- number of shares comprising the share capital: 119,084,420 shares
- average opening price during the 20 trading sessions preceding the setting of the Discounted Subscription Price: €44.87
- based on this average:

  The theoretical price of the Vallourec share after the issue of 2,350,000 shares, based on the share capital at the date of this report, would be €44.70.[2]

There are no other securities giving access to the Company's share capital.

This report will be completed when the number of shares actually subscribed for following the realization of the capital increases resulting from the use of the twenty-second, twenty-third and twenty-fourth resolutions is actually known.

This report, as well as the additional report by the Company's Statutory Auditors, will be available to shareholders at the Company's registered office and will be brought to the their attention during the next Shareholders' Meeting.

14 November 2011

The Management Board

(1) As indicated in Note 11 of the 2011 interim financial report, the share capital was composed of 117,944,082 shares at 30 June 2011. The option for payment of the dividend in shares, approved by the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, resulted in the creation of 1,140,338 new shares on 7 July 2011 and increased the number of shares comprising the share capital to 119,084,420 shares. The share capital has not changed since then.

(2) The theoretical price is equal to $\frac{119{,}084{,}420 \times 44.87 + 2{,}350{,}000 \times 35.90}{119{,}084{,}420 + 2{,}350{,}000}$

8.1.5 ADDITIONAL REPORT OF THE MANAGEMENT BOARD OF 15 NOVEMBER 2011 ON THE USE OF THE TWENTY-SECOND, TWENTY-THIRD AND TWENTY-FOURTH RESOLUTIONS OF VALLOUREC'S ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF 7 JUNE 2011 IN CONNECTION WITH THE IMPLEMENTATION OF THE "VALUE 11" INTERNATIONAL EMPLOYEE SHARE OWNERSHIP SCHEME

This report supplements the additional report prepared pursuant to Article R.225-116 of the French Code de commerce in the context of the use of the twenty-second, twenty-third and twenty-fourth resolutions of the Ordinary and Extraordinary Vallourec Shareholders' Meeting, approved on 14 November 2011 by the Management Board within the context of implementing the "Value 11" international employee share ownership scheme ("Value 11 offering").

At its meeting of 15 December 2011, the Management Board:

- recorded that the subscriptions of the employees and those with similar rights who participated in the "Value 11" offering (after eliminating payment defaults) would lead to the issue of a total number of shares under the use of the twenty-second, twenty-third and twenty-fourth resolutions in excess of the overall cap of 2,350,000 shares set by the Management Board for the use of these three resolutions in its decisions of 30 June and 14 November 2011;
- proceeded to reduce the subscriptions of the beneficiaries of the "Value 11" offering in accordance with the principles that had previously been defined and which are described in the supplementary report of 14 November 2011;
- set the number of shares to be issued under the use of each of the above three resolutions as follows:
  - issue of 1,009,850 new shares at a unit price of €35.90 in the context of the twenty-second resolution, of which 20,152 shares subscribed for by the Vallourec Value Relais 11 company mutual fund, 360,248 shares subscribed for by the Vallourec Value France 11 compartment of the Vallourec Value France Germany UK company mutual fund, 618,402 shares subscribed for by the Vallourec Value Germany UK compartment of the Vallourec Value France Germany UK company mutual fund, and 11,048 shares subscribed for by employees and those with similar rights who participated in a "Shares + SAR" scheme,
  - issue of 1,197,205 new shares at a unit price of €35.90 in the context of the twenty-third resolution, subscribed for by the Vallourec Value Brazil Mexico UAE 11 compartment of the Vallourec Value Brazil Mexico UAE company mutual fund,
  - issue of 142,934 new shares at a unit price of €35.90 in the context of the twenty-fourth resolution, subscribed for by Value Plan International Employees, a French simplified limited company (société par actions simplifiée) with capital of €37,000 having its registered office at 9 Quai du Président Paul Doumer, 92400 Courbevoie, registered in the Nanterre Trade and Companies Registry under No. 422 551 093 (the "Calyon Vehicle");
- noted the definitive realisation of the following capital increases and amended the by-laws accordingly:
  - the definitive realization, under the twenty-second resolution of the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, of a capital increase in the gross amount of €36,253,615.00 (thirty-six million, two hundred and fifty-three thousand, six hundred and fifteen euros), through the issue of 1,009,850 new shares at a unit price of €35.90, subscribed for by the Vallourec Value Relais 11 company mutual fund (20,152 shares), the Vallourec Value France 11 compartment of the Vallourec Value France Germany UK company mutual fund (360,248 shares) and the Vallourec Value Germany UK 11 compartment of the Vallourec Value France Germany UK company mutual fund (618,402 shares), on behalf of unitholders and directly by beneficiaries of the "Shares + SAR" scheme who have participated in "Value 11" under the international employee shareholding plan (PEVI) (11,048 shares). The issue of the 1,009,850 new shares resulted in an increase in the nominal amount of the share capital of €2,019,700 (two million, nineteen thousand and seven hundred euros) and the recognition of additional paid-in capital of €34,233,915.00 (thirty-four million, two hundred and thirty-three thousand, nine hundred and fifteen euros), representing the difference between the total amount subscribed for and the total nominal amount of the capital increase,
  - the definitive realization, under the twenty-third resolution of the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, of a capital increase in the gross amount of €42,979,659.50 (forty-two million, nine hundred and seventy-nine thousand, six hundred and fifty-nine euros and fifty cents), through the issue of 1,197,205 new shares at a unit price of €35.90, subscribed for by the Vallourec Value Brazil Mexico UAE 11 of the Vallourec Value Brazil Mexico UAE company mutual fund. The issue of 1,197,205 new shares through a capital increase in the nominal amount of €2,394,410 (two million, three hundred and ninety-four thousand, four hundred and ten euros) and by the recognition of additional paid-in capital of €40,585,249.50 (forty million, five hundred and eighty-five thousand, two hundred and forty-nine euros and fifty cents), representing the difference between the total amount of the subscription price and the total nominal amount of the capital increase,
  - the definitive realization, in the context of the twenty-fourth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, of a capital increase for a gross amount of €5,131,330.60 (five million, one hundred and thirty-one thousand, three hundred and thirty euros and sixty cents) by the issue of 142,934 new shares at a unit price of €35.90, subscribed for by Value Plan International SAS. The issue of 142,934 new shares resulted in an increase in the nominal amount of the share capital of €285,868 (two hundred and eighty-five thousand, eight hundred and sixty-eight euros) and the recognition of additional paid-in capital of €4,845,462.60 (four million, eight hundred and forty-five thousand, four hundred and sixty-two euros and sixty cents), representing the difference between the total amount subscribed for and the total nominal amount of the capital increase.

The new shares thus issued immediately carry dividend rights; they are fully assimilated with the existing shares. The Management Board decided to charge against the additional paid-in capital the cost of the capital increase and the amount necessary to increase the statutory reserve to 10% of the nominal amount of the share capital following the capital increase.

- proceeded to the allocation free of charge of 6,462 existing shares under the twenty-fifth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011, for employees who are not French residents for tax purposes, of Vallourec Group companies with registered offices located in Canada or the United States (excluding employees of VAM USA LLC) who have participated in a "Shares + SAR" scheme under the terms of the "Value 11" offering.

Since the realisation of the above-described capital increases results in the issue of 2,349,989 shares, very close to the rounded number of 2,350,000 shares on the basis of which the supplementary report had been drafted, it is not necessary to update the information on the impact of the capital increases which appeared in the report of 14 November 2011. It should be noted that this information is understood without accounting for the impact of the costs of increasing the capital.

15 December 2011

The Management Board

8.2 REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD ON THE CONDITIONS GOVERNING THE PREPARATION AND ORGANIZATION OF THE SUPERVISORY BOARD'S WORK AND THE INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES IMPLEMENTED BY VALLOUREC

In accordance with the provisions of Article L.225-68 of the French Code de commerce, the Chairman of the Supervisory Board of Vallourec (hereinafter referred to as "Vallourec" or the "Company") presents this report to the shareholders, detailing:

- the conditions governing the preparation and organization of the Supervisory Board's work (A);
- the procedures governing shareholder participation in the Company's Shareholders' Meetings (B);
- information required by Article L.225-100-3 of the French Code de commerce relative to elements that are liable to have an impact in the event of a takeover bid (C);
- the internal control and risk management procedures implemented by the Company (D);
- the principles and rules laid down by the Supervisory Board for determining the benefits and compensation of all types allocated to corporate officers (E); and
- the Corporate Governance Code with which the Company complies (F).

For the preparation of this report, Vallourec drew on the final report on the Audit Committee dated 22 July 2010, issued by a working group formed by the French securities regulator (*Autorité des Marchés Financiers* – AMF).

This report has been prepared by the Group's Legal Department, under the responsibility of the Management Board, after consulting the Finance Department, the Cash Management Department, the Internal Audit Department, the Communications Department, the Investor Relations and Financial Communications Department, the Investment Department, the Quality, Safety and Management System Department, the Sustainable Development Department, the Technology, Development Research and Innovation Department, the Purchasing Department, the Information Systems Department, the Risk Department and the Human Resources Department.

It was approved by the Supervisory Board at its meeting on 22 February 2012.

A – CONDITIONS FOR THE PREPARATION AND ORGANIZATION OF THE SUPERVISORY BOARD'S WORK

The composition of the Supervisory Board and of its committees and their respective internal regulations are detailed in Section 6 of the Registration Document for the year ended 31 December 2011 dealing with corporate governance, which is an integral part of this report.

In 2011, the Board met eight times. The average duration of its meetings was approximately 3.5 hours. The meeting on 11 May 2011 was held at Belo Horizonte in Brazil. During this visit, Board members were invited to tour Vallourec's local industrial sites and discuss all questions concerning the Group's development in the region with the local companies' senior executives. The meeting on 9 November 2011 was held over a full day so that the members could have more time to discuss the strategic plan with the Management Board.

In order to ensure that Board members are able to attend meetings, the timetable of meetings is prepared very far in advance. For 2011, the timetable, a preliminary version of which was presented at the Board meeting on 12 May 2010, was approved by the Board meeting of 13 December 2010. For 2012, the timetable was decided upon at the Board meeting of 11 May 2011 and covered seven meetings.

The actual attendance rate of members at Board meetings, calculated as a ratio of the number of members present to the total number of members of the Board, was above 94% on average for the meetings held in 2011.

Dates of Board meetings (financial year 2011)	Attendance rate
23 February	9/11 (82%)
28 March	9/11 (82%)
11 May	10/11 (91%)
6 June	11/11 (100%)
7 June	11/11 (100%)
27 July	11/11 (100%)
9 November	11/11 (100%)
20 December	11/11 (100%)

The individual attendance rate for Supervisory Board meetings, calculated as a ratio of the number of meetings that each of the members actually attended to the total number of Board meetings, as an average throughout 2011 for each Board member, was as follows:

Members of the Supervisory Board in 2011	Attendance rate (a)
Jean-Paul Parayre	8/8 (100%)
Patrick Boissier	8/8 (100%)
Pascale Chargrasse	8/8 (100%)
Jean-François Cirelli	7/8 (87.5%)
Vivienne Cox	7/8 (87.5%)
Michel de Fabiani	8/8 (100%)
Denis Gautier-Sauvagnac (a)	2/4 (50%)
Anne-Marie Idrac (a)	4/4 (100%)
Edward G. Krubasik	8/8 (100%)
Alexandra Schaapveld	8/8 (100%)
Jean-Claude Verdière	8/8 (100%)
Bolloré, represented by Cédric de Bailliencourt	7/8 (87.5%)

(a) On a time pro-rated basis, until expiry of the term of office or from date of appointment, depending on the case.

As a general rule, members of the Board were represented when absent.

In 2011, the members of the Management Board attended all Supervisory Board meetings.

The arrangements for the meetings are confirmed on average a week in advance by the sending out a notice of meeting, which includes the agenda and the draft minutes of the previous meeting. Board members are invited to submit any comments they have in advance of Board meetings.

The Management Board circulates documents, in particular those of a financial nature, a few days in advance of Board Meetings, thereby enabling members to familiarize themselves with such documents before meetings. At Board meetings, a complete file incorporating the supporting documentation in respect of items on the agenda is given to each participant. This file also contains, in the case of meetings at which quarterly results are reviewed, the Management Board's quarterly report to the Supervisory Board on the Company's performance, prepared in accordance with the provisions of Article L.225-68, Section 4, of the French Code de commerce. Where necessary, the Board relies on preliminary work carried out by the Committees.

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

In 2011, Vallourec's Statutory Auditors attended those Supervisory Board Meetings at which the statutory financial statements and half-year financial statements were reviewed.

After the assessments of the operation of the Board carried out in 2003, 2006, 2008, 2009 and 2010, a further self-assessment was carried out in 2011 based on an updated version of the same questionnaire, which comprised six assessment topics. An analysis of Board members' responses, which was sent to Board members and discussed at a Board meeting, shows a high level of satisfaction among all members, who observed ongoing improvement in its governance and a climate of constructive dialogue with the Management Board. Efforts made in 2011 to extend and diversify the composition of the Board were deemed satisfactory and the number of members sufficient. The advent of Mrs Anne-Marie Idrac to the Board in 2011 increased the level of female representation on the Board, building on the start made in 2010. In addition, the wish to diversify and have greater international representation on the Board led to the proposal of Mr José Carlos Grubisich, a Brazilian national and chairman of the company Eldorado Brazil Papel e Celulose. Following a recommendation resulting from the assessment conducted in 2011, the duration of Board meetings will be increased to carry out a more thorough review of the issues presented and to ensure optimum breadth and depth of discussions. The assessment also confirmed the members' wish to reserve a significant portion of certain meetings for major subjects such as Group strategy or the organization of its supplies of raw materials. The documentation presented as background information for these meetings is judged to be sufficiently detailed and constantly improving. Members are also keen to continue site visits and meeting operating staff once per year.

Regarding the business, in 2011 the Supervisory Board devoted the majority of its work to examining the annual, half-year and quarterly financial statements, reviewing the Group's activity, improved safety at industrial sites, the dividend policy, restructuring the Departments, financing policy, the strategic plan, the 2012 budget, the steel plan, the Group's policy on gender equality in work and wages and negotiations currently underway, especially concerning acquisitions.

As regards Corporate Governance, the Supervisory Board examined the following subjects in particular:

- the setting of remuneration for members of the Management Board for 2010 and 2011 and for its Chairman;
- Vallourec's policy as regards remuneration and its incentive policy aimed at strengthening employees' stake in the results of the Vallourec Group, in particular as regards the measures adopted by the Management Board to ensure compliance with the provisions of law no. 2008-1258 of 3 December 2008 relating to employment income;
- the overall budgets and the number of performance shares and share subscription options allocated to employees and each member of the Management Board, and the requirement for such members to retain a portion of the shares resulting from the exercise of options and of the performance shares allocated;
- the payment of attendance fees to Supervisory Board members, Committee members and the Censeurs (non-voting Board members);
- the composition of the Supervisory Board, with a particular emphasis on increasing the representation of women and greater international spread among its members;
- the composition of the Committees.

B – SHAREHOLDER PARTICIPATION IN THE COMPANY'S SHAREHOLDERS' MEETINGS

Any shareholder is entitled to participate in the Company's Shareholders' Meetings in accordance with the statutory and regulatory provisions and regardless of the number of shares held. Article 12 of the by-laws – which are published on the Company's website [1] and at its registered office – concerning Shareholders' Meetings does not provide any specific conditions for attending and participating, although a double voting right is awarded to all registered shares held by the same owner for at least four years.

Since Vallourec places great importance on listening to its shareholders, it endeavours, whenever it can, to improve shareholder participation at its Shareholders' Meetings by making shareholders aware of such meetings in advance, by publishing information over and above that required by law in specialist newspapers and by sending a letter to all shareholders in the weeks preceding each Annual Shareholders' Meeting.

The list of attendees at the Ordinary and Extraordinary Shareholders' Meeting held on 7 June 2011 shows that 2,246 shareholders were present, represented or voted by correspondence; they owned 69,460,479 voting shares out of a total of 117,500,894 (59.11% of the voting shares) and 69,627,705 voting rights out of a total of 117,704,356 (59.15%), resulting in a quorum that was 4.5% higher than the quorum at the preceding Annual Shareholders' Meeting held in 2010 and more than 15% higher than that at the 2008 meeting. In this analysis, the *Caisse des Dépôts et Consignations* (CDC) and the *Fonds Stratégique d'Investissement* (FSI) accounted for a combined number of 7,952,221 shares representing the same number of voting rights, which is 6.74% of the capital and 6.76% of net voting rights.

C – INFORMATION REFERRED TO IN ARTICLE L.225-100-3 OF THE FRENCH CODE DE COMMERCE

In accordance with Article L.225-100-3 of the French Code de commerce, factors that are liable to have an impact in the event of a takeover bid are set forth below.

1. Structure of the share capital and direct or indirect equity interests declared in accordance with Articles L.233-7 and L.233-12 of the French Code de commerce

A table showing the structure of the Company's share capital and direct or indirect equity interests in the capital of the Company declared in accordance with Articles L.233-7 and L.233-12 of the French Code de commerce is presented in Section 2.3 of the 2011 Registration Document.

2. Statutory restrictions on the exercise of voting rights

Article 8 paragraph 5 of the Company's by-laws lays down an obligation of disclosure on any person who comes to hold or to cease to hold a number of bearer shares of the Company equal to or greater than three (3), four (4), six (6), seven (7), eight (8), nine (9) and twelve and a half (12.5) percent of the total number of shares comprising the share capital (cf. Section 2.1.9 above).

In the event of failure to comply with this obligation of disclosure, and at the request of one or more shareholders holding at least 5% of the Company's shares, the voting rights attached to the shares exceeding the fraction that should have been declared cannot be exercised or delegated by the shareholder who failed to meet the obligation, for all meetings of shareholders held for a period of two years following the date of rectification of the disclosure notification.

3. Holders of any security containing special rights of control

Article 12 paragraph 4 of the by-laws provides for fully paid-up shares duly registered in the name of the same shareholder for four (4) years to have double the voting rights conferred on other shares. Apart from this condition, there are no other securities that have special rights of control.

4. Control mechanisms within an employee shareholding system

In accordance with Article L.214-40 of the French Code monétaire et financier, the Supervisory Boards of the Vallourec Actions, Value France Germany UK and Value Brazil Mexico UAE company mutual funds (FCPEs) decide whether to contribute Company securities to a public offering to purchase or exchange these shares.

(1) http://www.vallourec.com/en/finance/shareholder-corner/general-meetings/global-information//Vallourec's_By-laws_as_of_03.12.2010.pdf

5. Agreements between shareholders of which the Company is aware that could lead to restrictions on the transfer of shares and the exercise of voting rights

Apart from the agreement between the Company and Sumitomo Metal Industries on 26 February 2009 (cf. Section 2.3.1 above), to the Company's knowledge there is no agreement between shareholders that could lead to restrictions on the transfer of shares and the exercise of voting rights in the Company.

6. Rules applicable to the appointment and replacement of the members of the Company's Management Board

No provision in the by-laws or agreement concluded between the Company and a third party contains an obligation or particular rule regarding the appointment and/or the replacement of members of the Management Board of the Company that is liable to have an impact in the event of a takeover bid.

7. Powers of the Management Board in the event of a takeover bid

Since 2009, the Shareholders' Meetings called to decide on conferring authority on the Management Board to purchase shares of the Company expressly rules out the possibility of share buybacks during takeover bids for the Company. The Shareholders' Meeting of 31 May 2012 will be asked to renew this ban.

The Management Board is not authorized by the Shareholders' Meeting to issue share subscription warrants during a takeover period on shares of the Company, as stipulated in Article L.233-32 II of the French Code de commerce. No draft resolution in this regard is due to be put to the Shareholders' Meeting on 31 May 2012.

8. Agreements made by the Company that would be amended or terminated in the event of a change in control of the Company

Some agreements made by the Company contain a change of control clause. Among the most significant items liable to have an impact in the case of a takeover bid are: some industrial agreements with Sumitomo Metal Industries and Sumitomo Corporation (cf. Section 4.1.4 above – "Other specific risks"), the multi-currency revolving credit facility in the amount of €1 billion expiring in 2016, concluded in February 2011 (cf. Section 4.1.5.2 above – "Liquidity risks"), and the bonds issued in December 2011 (see Section 2.2.6 above – "Securities not representing share capital").

9. Agreements providing for indemnities to members of the Management Board or employees if they resign or are dismissed for no real or serious cause or if their employment is terminated due to a takeover bid

The Chairman of the Management Board, who took up his post on 1 April 2009, is entitled to an indemnity on termination of office ("golden parachute") in the event of forced departure, especially when due to a significant change in the structure of the share capital that is liable to affect the composition of the Supervisory Board, or a merger operation, or a change in the strategy decided by the Supervisory Board or the shareholders of the Company. The principles for determining it are set forth in Section E of this report, "Principles and rules for determining the remuneration of corporate officers", paragraph 1 – "Remuneration of members of the Management Board".

D – INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

1. Objectives of internal control

The Group's internal control system was developed and implemented with the significant involvement of Vallourec Group staff. It aims to provide reasonable assurance that the following four objectives may be achieved:

- compliance with laws and regulations in force;
- proper application of the instructions issued and compliance with the policies laid down by the Management Board;
- proper operation of internal processes (in particular those relating to the safeguarding of assets); and
- accuracy of financial information.

In contributing to the effectiveness of its operations, the efficient use of its resources and the control of risk, this internal control system plays a key role in the management and supervision of the Group's various activities. As is the case with any control system, the Group's internal control system cannot provide an absolute guarantee that the Group's objectives will be achieved and that all risk of error or fraud is fully eliminated or controlled.

2. Components of internal control

To guarantee the consistency of day-to-day procedures carried out worldwide in the Group's name, Vallourec has implemented a group of procedures which constitute the basis of the internal rules applicable to all its staff and Departments.

Situated at the heart of Vallourec's internal control system, these procedures provide a framework for the actions of each employee. They relate, in particular, to ethics, the delegation of authority, the confidentiality of information, the prevention of insider trading, external communication and financial communication.

Code of Ethics

The Group's ethical standards have, since 2009, been set out in a single document: the Code of Ethics.

The Code of Ethics is based on a set of fundamental values, such as integrity and transparency, standards and professionalism, performance and responsiveness, respect for men and women and joint commitment.

It provides a frame of reference for the proper conduct of the day-to-day activities of each employee by means of principles for action, which are based on the aforementioned values. These principles for action reflect the way in which Vallourec means to conduct its relations with all partners and other parties, such as employees, its customers, shareholders and suppliers, and constitute a benchmark for the Group, especially in implementing its sustainable, responsible development plans.

The Code of Ethics also prescribes rules of conduct on a variety of subjects, such as conflicts of interests, relations with third parties and the conservation of assets in such a way as to protect, under all circumstances, the Group's reputation and image.

Vallourec's Code of Ethics applies to all Group consolidated companies. Each employee is personally responsible for implementing its values and principles and complying with rules Vallourec publishes.

Management makes the Code of Ethics known to all Group personnel. It has been translated into five languages. It has also been published on the Company's website[1] to affirm the Group's values with regard to third parties.

In order to support implementation of the Code of Ethics by all Vallourec personnel, in particular managers, a Code of Ethics Officer has been appointed for the Group whose duties are:

- to assist Group companies in disseminating the Code of Ethics;
- to coordinate actions to make new employees aware of the Code of Ethics;
- to participate in setting procedures for applying the Code;
- to ascertain any difficulties in interpreting or applying the Code of Ethics that are raised by staff; to that end, the officer receives any information relative to breaches of the principles of responsibility; and
- to produce an annual report on implementation of the Code of Ethics for the Chairman of the Management Board.

The Code of Ethics Officer reports to the Management Board and relies on a network of local contacts.

Global programme of legal compliance

In line with the principles inscribed in the Code of Ethics and the commitments of the United Nations Global Pact to which the Group subscribed in 2010, Vallourec aims to prevent the specific risks involving competition, anti-corruption and respect for the environment through a global programme of legal compliance.

This programme, devised by the Group's Legal Department, is aimed at raising the awareness of the relevant Group managers to the laws and regulations applicable in these three areas, with particular emphasis on internal training. It is intended to respond effectively to the risks to which they could be exposed in their day-to-day activities through precise recommendations and practical case studies.

Introduced in France, Germany, Scotland and the United States in 2011, the programme will continue to be deployed in 2012 in Brazil and China.

Delegated authority procedure

The level of authority given to each manager within the Group must remain compatible with the maintenance of an overall level of control, the Group's strategy and the application of rules common to all Group entities.

To better meet these requirements, the aim, at Group level, of the delegated authority procedure is to define clearly the approval levels which must be complied with before commitments can be entered into by any Group entity. It may not constitute a departure from the statutory and regulatory provisions.

Confidentiality Charter

Against a backdrop of intense competition, the Group has needed to make all staff aware of their obligations as regards confidentiality. Vallourec therefore drew up a Confidentiality Charter with the aim, on the one hand, of enabling it to carry out its business under the best possible conditions when faced with such competition and, on the other hand, of protecting people working for Vallourec by informing them as accurately as possible of the duty of confidentiality with which they must comply.

The Code of good practice on securities transactions in Vallourec shares and the prevention of insider trading

Vallourec has a Code of good practice on the prevention of insider trading that could occur in connection with transactions in its shares.

This Code concerns not only all the members of Vallourec's management and control bodies, but also all its senior managers and employees and those of all its subsidiaries. It is sent to all employees who have access to privileged information, of whom the Company maintains an up-to-date list.

Its objective is to ensure compliance with the precautionary principle in order to (i) protect staff at all levels by making them aware of stock exchange regulations and applicable penalties, so as to enable them to avoid being the subject of legal proceedings, (ii) protect Vallourec and its Group, in particular from the risks of damage to its image and reputation and a fall in the value of its shares, and (iii) retain the confidence of investors and maintain equality between shareholders.

To take account of the AMF recommendation No. 2010-07 of 3 November 2010 on the prevention of insider misconduct by directors of listed companies, this Code was amended in January 2011 to:

- lengthen the term of periods known as "negative windows," which are 30 calendar days preceding the four results publications (annual, half-year, first and third quarters); and
- introduce a manager for the ethics function at Vallourec; this is currently the responsibility of the Group's Legal Director, whose main mission is to oversee compliance with the provisions of the Code of Good Conduct, although the end responsibility for compliance with the applicable regulations is the responsibility of each person involved.

(1) http://www.vallourec.com/fr/groupe/developpement-durable/Documents/Charte_ethique_vF.pdf

The Code was amended again in January 2012 to extend the negative windows that had been defined in January 2011 to the day following the four publications of results (annual, half-year, first and third quarters).

External communication procedure

Vallourec has drawn up an external communication procedure, the aim of which is to ensure the consistency of information provided to the outside world (verbal and written), which may affect Vallourec's reputation (social and environmental image, etc.).

Any information communicated outside the Group relating, in particular, to the order book, new contracts, capital expenditure, planned acquisitions or, more generally, the Group's past or future activity must be the subject of an internal approval process.

The financial communication procedure

Vallourec has drawn up a financial communication procedure, the aim of which is to ensure that the Group's system of providing financial information to the public complies with the prevailing statutory and regulatory provisions.

Annual and half-year financial reports and quarterly financial information are thus the subject of an internal approval process prior to their release and filing with the *Autorité des Marchés Financiers*—AMF *(the* French securities regulator).

3. Description of internal control procedures

3.1 Internal control procedures adapted to the specific characteristics of the Vallourec Group

Responsibility for implementing appropriate internal control procedures governing risk management, financial control and compliance with legislation is delegated to the managers of each Vallourec Group company.

To ensure the consistency of the Vallourec Group's procedures worldwide, the Management Board relies on the functional departments to draw up the procedures necessary for the proper operation of controls, issue instructions regarding their implementation and ensure compliance with them.

In accordance with Article L.823-19 of the French Code de commerce, the Finance and Audit Committee monitors the financial information preparation process and the effectiveness of the internal control and risk management systems.

The Vallourec Group's key operations and the control procedures applicable to them are as follows.

3.2 Internal control procedures in respect of financial and accounting information

3.2.1 FINANCIAL AND ACCOUNTING REPORTING

Financial and accounting information is prepared centrally on the basis of the subsidiaries' financial statements, adjusted to comply with Group standards. The information is collected via reporting and consolidation software at all the consolidated subsidiaries.

The subsidiaries report monthly in the following month. Accounting consolidation is comprehensive and completed quarterly, within the same period of one month. The reporting of off-balance-sheet commitments is an integral part of the quarterly consolidation process.

3.2.2 EXTERNAL FINANCIAL INFORMATION

Since 2007, the Company has released quarterly information as at 31 March and 30 September including, in particular, the consolidated balance sheet and income statement. The preparation of the quarterly, half-yearly and annual consolidations is the responsibility of the Management Board. The Statutory Auditors conduct an audit of the statutory financial statements and a limited check on the half-year financial statements. They do not audit the quarterly financial information.

3.2.3 CASH MANAGEMENT AND FINANCING

The Cash Management and Financing Department is in charge of the Group's financing strategy and manages banking liquidity and access to market financing. For example, in 2011 it renewed its banking liquidity, put in place a commercial paper programme, published a BBB+ Standard & Poor's rating and issued a bond loan.

It is responsible for optimizing the cash position using cash-flow forecasts created by the Group companies and centralizing the euro and US dollar cash management for the main European companies.

It is also responsible for foreign exchange and interest rate risk management.

In this regard, foreign exchange hedging for sales in US dollars is centralized for the Group's main companies.

Currency and hedging transactions are governed by rules emanating from the Group's Finance Department. More generally, all the cash management operations specific to each company are conducted within the framework of a general cash and risk management strategy.

Subsidiaries' borrowings, investments and foreign exchange transactions are monitored on a monthly basis by means of a report produced by the Head of Group Treasury and submitted to the Management Board.

Long-term (more than one year) financing and investment are managed by the Cash Management and Financing Department. Responsibility for borrowings and investments with a term of less than one year is delegated to the subsidiaries, which are required to comply with specific Group procedures: quality of the banks involved, risk-free investment and monitoring of financial guarantees given.

3.2.4 PROCEDURES AND INSTRUCTIONS FOR FINANCIAL AND ACCOUNTING REPORTING

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

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

To ensure coherence between financial and accounting data on the one hand and management tools and rules on the other, the Group has drawn up a set of procedures in a Management Manual, summarizing the definitions, principles and rules for management control and for the production of financial information. This document is circulated to all employees in charge of measuring and monitoring financial and management control, and contributes to guaranteeing the quality and consistency of the information used by the Group.

3.2.5 INTERNAL CONTROL OF ACCOUNTING AND FINANCIAL INFORMATION

The internal control questionnaire developed by Vallourec, was based on the report of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) and complies with the provisions of the application guide for the frame of reference of the *Autorité des Marchés Financiers* – AMF (the French securities regulator) relating to the internal control of financial and accounting information published by issuers.

The questionnaire covers the following financial and accounting cycles: capital expenditure, purchasing, inventories, sales, cash, provisions, staff, taxes and reporting processes. New companies in the Group self-assess their accounting and financial procedures on the basis of this questionnaire, and these assessments are reviewed on-site via an internal audit in the year following their acquisition.

All fully consolidated companies were the subject of an internal control review carried out by the Internal Audit Department on the basis of this questionnaire, and the results were communicated to the senior management of the companies and Divisions concerned, the Management Board, the Finance and Audit Committee and the Statutory Auditors. Discussions were held with the Statutory Auditors concerning the plan to implement the main recommendations for these companies.

In-depth internal audits were carried out in accordance with the annual audit plan on specific matters identified on the basis of reviews of internal control, the Group's risk matrix and requests from the Management Board and Division heads.

3.2.6 INTERNAL AUDIT

The Internal Audit and Financial Control Department reports to the Vallourec Group Finance Department. It audits the subsidiaries in accordance with an audit plan designed to assess and improve the accuracy and reliability of accounting and financial information.

In addition to the team based at its head office, Vallourec has an auditor based at V & M Deutschland GmbH and a team based at V & M do Brazil SA. Their audit plans are validated by the Internal Audit Department, whose responsibilities relate mainly to internal control procedures.

External consultants may be used in the case of one-off assignments.

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

3.3 *Other key processes analysed*

3.3.1 CAPITAL EXPENDITURE

The Executive Committee reviews the position regarding the Group's investments presented by the Investment Department several times per year. It examines budgets, investment authorizations and actual and forecast expenses. In accordance with procedures for "Large Capex Orientation" and "Large Capex Approval", a dossier is produced by the relevant Division and a memo by the Management Control Department for projects with an expected cost of over €5 million (or less in the case of a strategic project) before being submitted to the Management Board for approval.

The Investments Department carries out a monthly check on compliance with annual objectives and, in conjunction with the Divisions concerned, ensures that corrective measures are taken if any discrepancy is noted.

A posteriori controls are carried out on expenses, expected objectives and the profitability of capital expenditure projects. Such controls are performed by the Investments Department or the Management Control Department on projects that are deemed representative, which were authorized in earlier years and which involve mass production. In addition, project management audits may be carried out during the project implementation phase.

3.3.2 ORGANIZATION OF SUSTAINABLE DEVELOPMENT – QUALITY – SAFETY – ENVIRONMENT

Within the Vallourec Group, sustainable development is managed by a member of the Executive Committee.

The Sustainable Development Department, which was set up in 2010 at Group level and reports to the Executive Committee, is responsible for:

- Identifying issues to be addressed, constraints and risks;
- Promoting awareness of sustainable development issues among employees;
- Coordinating the Sustainable Development Committee; and
- Monitoring and communicating results.

The Sustainable Development strategy, projects and programmes are proposed by the Sustainable Development Department to the Sustainable Development Committee, which includes the Directors of the Divisions and the Group's functional departments and two members of the Management Board.

After validation by the Sustainable Development Committee, the Group's sustainable development policy is then deployed and implemented by the relevant Department in each Group company.

Each Director is responsible for setting up effective sustainable development procedures, adapting them to the local environment and type of activity while ensuring compliance with the Vallourec Management System (VMS) described below.

The Sustainable Development Department is also responsible for the environment: it coordinates and promotes the actions of the local environmental managers, who are responsible for ensuring that the Group's activities comply with the applicable regulations and for improving their environmental performance, in accordance with the Vallourec Group's Sustainable Development Charter, which was drawn up in 2004 and reviewed in 2011.

It carries out audits and establishes environmental performance indicators that enable the main parameters to be periodically monitored. An environmental performance report is published every quarter.

A sustainable development report, published annually, describes the Group's commitments and actions in this area and the progress made in all Vallourec Group entities.

The Vallourec Group's main sites, which account for more than 98% of the Group's production, now have certification under ISO 14001. The Group plans to obtain certification for some relatively small sites in 2012 and 2013.

The aim of the GreenHouse project, which was launched in 2009 and continued to be implemented in 2011, is to draw up and implement initiatives designed to prepare the Group for the "carbon economy" and thereby to integrate its efforts to combat global warming into its strategic decisions. The objective is to significantly reduce the consumption of energy (gas and electricity) and thus reduce greenhouse gas emissions. The Sustainable Development Department is responsible for coordinating these initiatives.

Finally, the Vallourec Group has continued to make significant investment in the field of environmental protection and safety.

The QSMS (Quality, Safety and Management System) Department defines the systems, methods and tools used in the Vallourec Group, in accordance with the requirements of quality management (standards ISO 9001 and ISO/TS 16 949, API, ASME, etc.), health and safety standards (OHSAS 18001) and environmental standards (ISO 14001).

These elements form the Vallourec Management System (VMS), which has been implemented in all Group companies. The VMS is structured according to three main components:

- total Quality Management (TQM) plans, i.e. plans for monitoring the Group's entities, which facilitate the control of processes by identifying operational performance measurement indicators;
- the Continuous Improvement Teams (CITs), which promote the commitment of staff to continuous improvement in accordance with the same operational indicators, by implementing a stringent, standardized method for resolving problems;
- the steering committees, which ensure the commitment of senior management, and the monitoring and support of the continuous improvement approach.

In addition to the control of processes and continuous improvement, the VMS is responsible for ensuring that initiatives are consistent with the aims of the strategic plan.

The QSMS Department is responsible for the continuous auditing of the VMS in all Vallourec Group entities, identifying variances and areas with room for improvement, issuing recommendations and ensuring they are taken into account in the action plans. This work is carried out in collaboration with external certification bodies and with the internal Departments involved, in particular the Human Resources Department and the Management Control Department.

As regards quality, the QSMS Department is responsible, in the context of the VMS, for applying specific methods and tools designed for the continuous improvement of the quality of the Group's products and control of its manufacturing processes. It assists with their implementation, sets up the necessary training programmes and oversees the sharing of best practice. By means of the audits it carries out at all Group sites, in addition to those carried out by external certification bodies, it ensures said practices are properly applied to all processes which contribute to customer satisfaction.

The Vallourec Quality approach takes into account the requirements of the most stringent standards, in particular as regards standardization, the control of variations in quality, risk prevention and problem resolution.

In 2008, the Group launched an ambitious three-year safety improvement programme, Cap Ten Safe. Driven by a determination to bring about change and act on all safety levers, this programme has helped achieve a very marked improvement in the Group's performance in this respect, since the lost time incident rate (LTIR), which was 9.2 in 2008 (per million hours worked), was reduced to 5.3 in 2009 and 3.16 in 2010.

On the strength of this success and with the aim of continuous, ongoing improvement in the Group's safety culture, in 2011 Vallourec created a new three-year (2011-2013) safety improvement programme, CAPTEN+ Safe.

Like Cap Ten Safe, this programme is part of the VMS in accordance with the following three fundamental principles: the commitment of all senior management, the involvement of all staff and the implementation of appropriate monitoring indicators.

At the end of 2011, the LTIR came to 2.79, a 10% decrease against 2010 and 70% since the first Cap Ten Safe programme.

Sharing the Management Board's concern regarding safety, the Supervisory Board starts each of its meetings with a progress review of the safety performance at industrial sites.

3.3.3 RESEARCH AND DEVELOPMENT

The Research and Development Department, which has since 1 January 2010 been grouped with the Technology Department within the Technology, R&D and Innovation Department, has drawn up procedures at Vallourec Group level concerning the management of programmes for developing new products and industrial processes. The processes thus defined are applied in a consistent manner by the entities concerned, particularly as regards intellectual property.

Training and specific assistance by experienced professionals were introduced in respect of certain selected projects. The Divisions' project portfolios are monitored on the basis, in particular, of their potential benefit to the Group and the risks that might be incurred.

Each year, audits are also carried out by the Group QSMS (Quality, Safety and Management System) Department in accordance with the Vallourec Management System (VMS).

3.3.4 PURCHASING

2011 confirmed the strong economic contribution of the various Purchasing Departments, thanks to:

- analyses of the full acquisition cost of products and services purchased, particularly for purchases corresponding to significant investments made in connection with major construction projects for new plants in Brazil, China and the United States;
- greater pooling of purchasing where common to several Group entities.

In addition, audits have been carried out in most of the Group's Purchasing Departments in order to identify:

- risk regions (suppliers, processes, etc.) and propose appropriate action plans, such as changing suppliers or increasing their number; and
- best practices in the purchasing field and make all the Group's purchasing staff aware of such practices.

In 2011, the Group launched several projects in which the "procurement" and "purchasing" processes are distinguished in order to improve efficiency and control. This structure, which is already in place in Brazil and the United States, is in the process of being introduced in Europe. As a result, buyers at the sites report through their line management to the Purchasing Director in these countries.

In addition, current projects are aimed at including purchases of raw materials and logistics within the overall scope of the Group Purchasing Department.

3.3.5 INFORMATION SYSTEMS

The IT security audit plan, introduced in 2009, continued in 2011, especially in Brazil.

Several initiatives have also been implemented to improve the Group's IT security:

- the project for the segregation of access rights to IT applications (GRC project) was extended to cover smaller entities;
- phase 1 of the introduction of the SAP application at V & M Star and V & M Two has been completed;
- a global contract was signed with two anti-virus software providers for the use of one single system throughout the Vallourec Group with the aim of strengthening protection at the level of mail gateways and controlling employees' access to the internet;
- an audit supplemented by an action plan was carried out to strengthen the security of the local computer networks at the Group's plants.

3.3.6 HUMAN RESOURCES

The Human Resources Department has an internal control process throughout its operating chain: the performance of its duties, training and skills management, the working environment, compliance with the Vallourec Group's internal regulations and the prevailing statutory and regulatory provisions, compensation management and the protection of privacy and information regarding the Company and its employees.

In this regard, each country with its own Human Resources Department carries out a self-assessment review of its operations using a standardized questionnaire. On the basis of the answers received, the Group Human Resources Department carries out one-off or regular audits and monitors plans for corrective action or improvements.

A monitoring committee including the Group Internal Audit manager, the Group Risk manager, the Group IT Security manager and the Group HR Internal Control manager has been set up. It meets monthly.

In 2011, particular attention was paid to new acquisitions in the Middle East.

This approach also enables best practices to continue to be identified and implemented on a Group-wide basis.

3.3.7 CUSTOMER RELATIONS

With the aim of specifying and formalizing certain practices regarding contractual relations with its customers, Vallourec has developed a procedure for managing customer risk (limits in respect of credit and delegation of authority, and credit insurance) and drawn up general sales terms to be applied by all Vallourec Group entities, with the aim of making practices consistent throughout the Group and reducing risk exposure.

The Legal Department periodically analyses the legal provisions applicable to sales contracts entered into between the Group's subsidiaries and their customers. General terms, standard documents, sales contracts and bids in response to invitations to tender are reviewed on a regular basis.

The Legal Department and the risk manager work closely together in order to ensure the application of best market practices in contractual legal risk management, with the aim of constantly improving the reporting, procedures and standards in force.

3.3.8 INSURANCE

Industrial risks are covered by two types of Group insurance: general insurance (direct material damage to Group property, not subject to specific exclusions, as well as any resulting costs and losses) and third-party liability insurance (liability arising as a result of injury or loss caused to third parties either resulting from the Group's operations or after delivery of goods or services).

4. Risk management

Risks are managed by the industrial and sales units and by the functional departments (Finance, Human Resources, Legal, Purchasing, Quality, IT, Insurance, etc.). In addition, Vallourec is developing a Group-wide policy to ensure that risk management is consistent, comprehensive and well-monitored.

Vallourec's Risk Department coordinates a top-down approach whereby senior managers collect data from the operational staff, enabling them to evaluate major risks and create a risk map in order to implement measures to reduce the probability and impact of these risks. The method establishes priorities according to the Group's projects, by taking into account the "potential for improvement" of controls. Therefore, a "major" risk, for which Vallourec already has a control in place on a par with the best practice in the industry (prevention, protection against the consequences of risks, and insurance), will simply be monitored. However, a "high" risk, for which Vallourec has not yet optimized its controls, will result in the drawing up of an action plan.

Risk mapping is in place for each of Vallourec's Divisions and at Group level as regards the provision of information to the Management Board. Each describes the main risks, their scenarios, past occurrences, the controls in place, and, where applicable, the best control practices of other companies. It is therefore these main risks that justify the launching of action plans.

Vallourec's Divisions and Management Board manage their risk mapping by means of a committee that meets each half-year. Vallourec's risk manager attends the committee meetings in order to stimulate discussion, guarantee the consistency of the actions taken and report to the Management Board. All committee meetings are attended by the relevant Division manager and his/her main assistants. The functional managers affected by certain risks are also invited to attend (e.g. R&D and IT). Each committee meeting handles the following matters:

- validation and monitoring of action plans, presented by the owner of each priority risk;
- validation of the key risk indicators, which will guarantee the relevance of new controls, after closure of the action plan, and the ongoing application of said controls;
- updating of the self-assessment of priority risks.

Therefore, control over the priority risks has been steadily increased to the level of the industry's best practice since the establishment of the risk mappings in 2007. Risk Management is being integrated into the Vallourec Management System (VMS) via the systematic practice of Committee meetings and management indicators. The aim of the risk management function is to supplement the Group's internal control and internal audit functions. It collaborates with them and helps to draw up the internal audit programme. It methodically tests the robustness of the above-mentioned internal control procedures, and then steps them up to best practices. As a result, specific procedures have been implemented to ensure the prevention of:

- physical risk to an employee in the performance of his duties;
- the risk of the disclosure of confidential information;
- the risk of media attention not under the Group's control.

Additional cover has been taken out at Group level or by certain subsidiaries against a number of other insurable risks.

To conclude, risk management is based on internal control that is increasingly comprehensive and customized. In return, it helps improve internal control by anticipating risks, benchmarking procedures and directing action plans from the highest level within the Divisions and the Management Board.

Additional information is provided in Section 4, paragraph 4.2 "Risk management" of the 2011 Registration Document, which is an integral part of this report.

E – PRINCIPLES AND RULES FOR DETERMINING THE REMUNERATION OF CORPORATE OFFICERS

1. Remuneration of Management Board members

At its meeting on 6 April 2009, the Supervisory Board verified that the rules regarding remuneration and pensions applied by the Company to members of the Management Board complied with the AFEP-MEDEF Corporate Governance Code. It approved, in particular, the terms of the contract appointing Mr Philippe Crouzet as Chairman of the Management Board, having satisfied itself that his contract complies with the AFEP-MEDEF Corporate Governance Code. In accordance with the AFEP-MEDEF Corporate Governance Code, these rules were published on Vallourec's website on 9 April 2009. The rules were supplemented on 10 August 2009, 2 March 2010, 30 July 2010 and 4 April 2011 by an information document in connection with the incentive policy aimed at strengthening employees' stake in the results of the Vallourec Group and with the compensation of Management Board members.

The general principles of the Management Board remuneration policy and an analysis of the individual position of each of its members are presented to the Supervisory Board by the Appointments, Remuneration and Governance Committee, which bases its recommendations on research and advice from a leading international firm specializing in management and corporate officer remuneration.

A breakdown of the remuneration of the Group's corporate officers is provided in Section 6 of the 2011 Registration Document dealing with corporate governance, which is an integral part of this report.

The monetary remuneration of Management Board members is composed of a fixed portion and a variable portion. Their remuneration is compared each year to a reference sample made up of listed French industrial groups, Vallourec's policy being to maintain the fixed and variable portions at or below the respective medians of this sample.

For 2011, the target variable portion was set at 90% of the fixed portion for Philippe Crouzet and at 75% of the fixed portion for Jean-Pierre Michel and Olivier Mallet, and the maximum variable portion was set at 120% of the fixed portion for Philippe Crouzet and at 100% of the fixed portion for Jean-Pierre Michel and Olivier Mallet (30% as a function of net profit, 45% as a function of EBITDA and 45% as a function of the achievement of objectives set by the Board and relative to cost reduction, strategic investments and the Group's international development, with these percentages being respectively 25%, 37.5% and 37.5% for Jean-Pierre Michel and Olivier Mallet). On these bases, at its meeting on 28 March 2012 the Supervisory Board set the variable portion of remuneration in respect of the 2011 financial year at €555,000 for Mr Philippe Crouzet (i.e. 73% of the fixed portion), €275,000 for Mr Jean-Pierre Michel (64% of the fixed portion) and €247,000 for Mr Olivier Mallet (66% of the fixed portion).

For 2012, on the recommendation of the Appointments, Remuneration and Governance Committee, the Supervisory Board of 28 March 2012, determined the fixed portion of the monetary remuneration of members of the Management Board and decided to continue using the same principles as in 2011 for determining the variable portion. The variable portion is a maximum of 120% of the fixed portion for the Chairman of the Management Board and 100% for the other two members of the Management Board. Consequently, the fixed and variable monetary remuneration determined was as follows:

	Philippe Crouzet, Chairman of the Management Board	Jean-Pierre Michel, Chief Operating Officer	Olivier Mallet, Chief Financial Officer
Fixed portion in euros (rounded figures)	760,000	450,000	400,000
Target variable portion as % of the fixed portion	90%	75%	75%
Maximum variable portion as % of the fixed portion	120%	100%	100%

The maximum variable portion of Philippe Crouzet's remuneration will depend for 30% on consolidated net profit, for 45% on consolidated EBITDA, and for 45% on cash flow from operations and the achievement of objectives set by the Board in the areas of security, cost cutting, strategic investments and the Group's international expansion. These percentages have been set at 25%, 37.5% and 37.5% respectively for Jean-Pierre Michel and Olivier Mallet.

In order to enable them to obtain an interest in the Group's capital, Management Board members may be granted share subscription or share purchase options and performance shares under the conditions drawn up by the Supervisory Board, based on the recommendations of the Appointments, Remuneration and Governance Committee.

Since 2006, the allocation of performance shares in their entirety has been subject to conditions of presence (continuing employment in the Group) and performance. Up to 2010, the performance condition was a function of the achievement of a ratio of the Group's EBITDA to consolidated sales. Since 2011, performance has been assessed over two consecutive financial years and measured on the basis of the following three quantified criteria: the growth rate of sales on a like-for-like basis, the ratio of consolidated EBITDA to consolidated sales on a like-for-like basis in the period and the stock market performance of the Vallourec share compared with a reference panel.

Presence and performance conditions also have to be met for a very significant portion of the share subscription options granted to Management Board members in 2008 and for all options granted to them since 2009.

Since 2007, and in accordance with the AFEP-MEDEF Corporate Governance Code, Management Board members have been required to retain until the end of their terms of office (i) one-quarter of the performance shares allocated to them under the terms of a plan and (ii) the equivalent in Vallourec shares of one-quarter of the gross capital gain realized on the date of sale of the shares resulting from the exercise of options. Management Board members formally undertake not to use hedging instruments in connection with the exercise of options, the sale of shares resulting from the exercise of options or the sale of performance shares.

As regards pension provisions, Management Board members, like all the Group's senior management, are covered by a supplementary pension scheme that complies with the AFEP/MEDEF corporate governance code. Beneficiaries may retain their benefits under the scheme if they are dismissed on or after their 55th birthday and are unable to find alternative employment.

This scheme, which does not give any specific benefits to Management Board members over and above those applicable generally to the Group's senior management, appears reasonable, since the additional pension is capped at 20% of the average base salary, excluding the variable portion, for the last three years and limited to four times the annual social security cap. The gross theoretical annuity is equal to the sum of the annual rights calculated in respect of each full financial year in accordance with the following formula: $C = 0.25 \times (B/P) - 1$[1].

(1) C = annual rights capped at 2%; B = annual base salary; P = annual social security cap

The Chairman of the Management Board, whose term of office commenced on 1 April 2009, does not have an employment contract with the Group. He is entitled to a termination payment in the event that his departure is imposed on him and in the event of a significant change in the Group's capital structure that is liable to affect the composition of the Supervisory Board, or a merger or a change of strategy initiated by the Supervisory Board or the Company's shareholders. In accordance with Article L.225-90-1 of the French Code de commerce and the AFEP/MEDEF corporate governance code for listed companies, the receipt of such payments is conditional upon performance requirements. The indemnity for the termination of office is limited to twice the fixed portion of the remuneration increased by a targeted variable portion as determined by the Supervisory Board and corresponding to 80% of the fixed portion ("the reference remuneration"). The payment of this indemnity depends upon performance conditions based on three criteria: (i) EBITDA expressed as a percentage of sales, (ii) the comparison between the actual EBITDA of the financial period ended, expressed in euros, with the budgeted EBITDA and (iii) the achievement of personal improvement objectives determined by the Supervisory Board for the financial period under examination. Each of these criteria, expressed as a percentage of the fixed portion of the remuneration, is limited to 30. The performance conditions are met if the total of the three criteria determining the Performance Criteria (hereinafter "PC") is, on average over the last three financial periods, equal to or higher than half of the targeted variable portion. If the PC is lower than this threshold, then no indemnity is paid. If the PC is equal to half the targeted variable portion, then the indemnity paid is 1.5 times the reference remuneration; this varies on a linear basis between PC=40 and PC=80. Furthermore, stock options and performance-based shares are definitively attributed, even in the event of termination of office under circumstances as described above, if the PC is equal to or higher than 40 on average over the last three years.

The other members of the Management Board are not entitled to any termination payments if they are dismissed by the Company. Those who had employment contracts with Vallourec & Mannesmann Tubes before they were appointed as members of the Company's Management Board, application of which is suspended during their term of office, are entitled to a redundancy payment in the event that they are dismissed by Vallourec & Mannesmann Tubes. The amount of the redundancy payment is equal to two years' gross fixed remuneration under the contract of employment, plus a variable lump sum of 12.5%.

2. Remuneration of Supervisory Board members

The overall maximum annual attendance fees for allocation by the Supervisory Board to its members were increased to €520,000 by the Ordinary Shareholders' Meeting of 31 May 2010 *(tenth* resolution).

Until 2008, each Board member and each Censeur (non-voting Board members) received attendance fees set at €28,000 per year, reduced pro rata in the case of an appointment or termination of an appointment during the year.

To ensure that it complies with the provisions of Article 18 of the AFEP-MEDEF Corporate Governance Code and the practice of most CAC 40 companies, which allocate all or part of their attendance fees on the basis of members' attendance at meetings, the Company's Supervisory Board, in accordance with the recommendation made to it by the Appointments and Remuneration Committee, decided to adopt a new procedure for the remuneration of Board members, dividing the aforementioned €28,000 total, increased to €33,000 in 2010, into two equal portions, one of which will be paid in full and the other allocated on the basis of members' attendance at meetings. This new rule has been applied since 1 July 2009.

The Chairman of the Supervisory Board receives remuneration, the amount of which was increased by the Supervisory Board, as recommended by the Appointments and Remuneration Committee, to €250,000 per year with effect from 1 January 2006. He also receives attendance fees of €33,000. The Chairman and members of the Supervisory Board were not allocated any share options, performance shares or termination payments of any kind.

3. Compensation of Committee members

Members of the Committees (Finance and Audit Committee, Appointments, Remuneration and Governance Committee and Strategy Committee) receive, as part of the aforementioned €520,000 annual budget, additional attendance fees based on their actual attendance at meetings of said Committees, at the rate of €2,500 per meeting, and €3,500 per meeting for Committee Chairmen.

4. Compensation of the Censeurs (non-voting Board members)

Remuneration of the Censeurs, which is calculated on the same basis as the remuneration of the Supervisory Board members, comes within the annual budget for attendance fees allocated to the Supervisory Board.

F – CORPORATE GOVERNANCE

Having for several years pursued an active corporate governance strategy, in 2008 the Supervisory Board decided to adopt the AFEP/MEDEF corporate governance code for listed companies, as amended for application to limited companies managed by a Supervisory Board and a Management Board, and to comply with the recommendations detailed therein. The main circumstances in which the Company applies these recommendations are detailed in Section 6 of the 2011 Registration Document covering corporate governance, which is an integral part of this report.

The AFEP-MEDEF Corporate Governance Code, resulting from the consolidation of the October 2003 AFEP and MEDEF report and their January 2007 and October 2008 recommendations concerning the compensation of executive corporate officers of listed companies and their April 2010 recommendation on increasing the proportion of women members on Boards, is available on the MEDEF website (www.medef.com).

8.3 STATUTORY AUDITORS' REPORTS FOR THE FISCAL YEAR ENDED 31 DECEMBER 2011

8.3.1 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED 31 DECEMBER 2011

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

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In accordance with our appointment as Statutory Auditors by your Shareholders' Meeting, we hereby report to you for the year ended 31 December 2011, on:

- the audit of the accompanying financial statements of Vallourec;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

I – Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2011 and of the results of its operations for the year then ended in accordance with French accounting principles.

II – Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French company law (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

Provisions for impairment of participating interests are recorded by your Company as described in Note B to the financial statements.

Our work involved assessing the information and assumptions on which these estimates were based, reviewing the calculations made by the Company, comparing the accounting estimates of earlier periods with the corresponding actual figures and examining the procedures applied by Management for approving these estimates.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III – Specific procedures and disclosures

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

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report the Management Board and in the documents addressed to Shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French company law (Code de commerce) relating to remunerations and benefits received by the Directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the information concerning the controlling interests and the identity of the Shareholders and holders of the voting rights has been properly disclosed in the management report.

Neuilly-sur-Seine and Paris La Défense, 10 April 2012

The Statutory Auditors,

Deloitte & Associés	**KPMG Audit** *Department of KPMG S.A.*	
Jean-Marc Lumet	Jean-Paul Vellutini	Philippe Grandclerc

8.3.2 STATUTORY AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED 31 DECEMBER 2011

This is a free translation into English of the Statutory Auditors' report on the consolidated financial statements issued in the French language and it is provided solely for the convenience of English speaking users.

The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes explanatory paragraphs discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report also includes information relating to the specific verification of information given in the management report.

This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2011, on:

- the audit of the accompanying consolidated financial statements of VALLOUREC;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these consolidated financial statements based on our audit.

I – Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2011 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II – Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French company law (Code de commerce) relating to the justification of our assessments, we draw to your attention the following matters:

Note A-2.2 to the consolidated financial statements mentions the significant estimates and assumptions made by the Management that affect certain amounts in the consolidated financial statements and accompanying notes. This note specifies that these assumptions are, by nature, subject to uncertainties and that actual results could differ from these estimates, especially in the current economic situation. In the context of our audit of the consolidated financial statements for the year ended December 31, 2011, we considered that these significant assumptions and estimates concern intangible assets, goodwill and tangible assets (Notes A-2.9 to A-2.11), provisions (Note A-2.14), retirement benefits and similar obligations (Note A-2.15) and financial instruments (Note A-2.18):

- Concerning the intangible assets, goodwill and tangible assets, we have examined the methods for implementing the impairment tests that were performed as well as the cash flow forecasts and assumptions used. We have also verified the appropriateness of the information disclosed in Notes C-1 and C-2 to the consolidated financial statements;
- Concerning the provisions, we have assessed the bases and assumptions on which such estimates were made, reviewed the calculations made by the Company, examined Management's procedures for approving these estimates, and reviewed the appropriateness of the information disclosed in Note C-16 to the consolidated financial statements;
- Concerning retirement benefits and similar obligations, which have been measured by independent actuaries, our procedures consisted in examining the information used, assessing the assumptions adopted and reviewing the appropriateness of the information disclosed in Note C-17 to the consolidated financial statements;
- Concerning financial instruments, we have assessed the documentation prepared by your Company justifying, in particular, the classification of financial instruments, the hedging relationships as well as their effectiveness, and reviewed the appropriateness of the information disclosed in Note C-8 to the consolidated financial statements.

These assessments were performed as part of our audit approach for the consolidated financial statements taken as a whole, and therefore contributed to the expression of our unqualified opinion in the first part of this report.

III – Specific verification

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

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

Neuilly-sur-Seine and Paris La Défense, April 10, 2012

The Statutory Auditors,

Deloitte & Associés	KPMG Audit	
	Department of KPMG S.A.	
Jean-Marc Lumet	Jean-Paul Vellutini	Philippe Grandclerc

8.3.3 STATUTORY AUDITORS' REPORT ON REGULATED AGREEMENTS AND COMMITMENTS

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

Annual General Meeting for the approval of the financial statements for the year ended 31 December 2011

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby present to you our report on the regulated agreements and commitments.

We are required to present to you, on the basis of the information provided to us, the main terms and conditions of the agreements and commitments of which we were notified or of which we became aware during our engagement. It is not our role to determine whether they are beneficial or appropriate neither to ascertain whether any other regulated agreement or commitment exists. It is your responsibility, under the terms of Article R.225-58 of the French company law (Code de commerce), to evaluate the benefits arising from these agreements and commitments prior to their approval.

In addition, in accordance with the terms of Article R.225-58 of the French company law (Code de commerce), we are required to present to you the continuing effect of agreements and commitments already approved by the General Shareholders' Meeting, if any.

We performed the procedures we considered necessary in accordance with professional guidance issued by the National Institute of Auditors (Compagnie Nationale des Commissaires aux Comptes), relating to this engagement. Our work consisted in verifying that the information provided to us is in agreement with the underlying documentation from which it was extracted.

Agreements and commitments to be submitted for the approval of the Annual General Meeting

We were not informed of any agreement or commitment to be submitted for approval at the Annual General Meeting pursuant to the provisions of Article L.225-86 of the French company law (Code de commerce).

Continuing agreements and commitments previously approved by an Annual General Meeting

Agreements and commitments previously approved which had no effect during the year

Pursuant to Article R.225-57 of the French company law (Code de commerce), we were informed that the following agreements and commitments already approved by an Annual General Meeting in prior years remained in force but had no effect during the year.

ADDITIONAL PENSION SCHEME ATTRIBUTED TO EXECUTIVE OFFICERS

Members of the Management Board concerned: Mr. Philippe Crouzet (Chairman of the Management Board), Mr. Jean-Pierre Michel (member of the Management Board) and Mr. Olivier Mallet (member of the Management Board)

Additional pension scheme attributed to executive officers dated 15 September 2005

On 14 September 2005, your Supervisory Board approved the implementation of an additional pension scheme attributed to executive officers and noted that the members of the Vallourec's Management Board are likely to benefit from these rights.

The defined benefit scheme (additional pension scheme) financed by the Group in respect of which the vesting of rights is conditional on the employee finishing his career at Vallourec and/or Vallourec & Mannesmann Tubes, which supplements the income following retirement of the Group's former managerial staff, under acceptable economic, financial and social conditions, was renewed in 2009.

The Company undertakes to pay a lifetime annuity at a predetermined level, directly proportional to the salary and in accordance with the employee's seniority and career development. The annuity is capped at 20% of the average basic salary excluding bonus of the last three years and limited to four times the annual social security ceiling. This scheme is insured with Axa France-Vie. The scheme is established for an indefinite period but may be terminated at any time.

Endorsement to the additional pension scheme attributed to executive officers dated 7 May 2008

On 7 May 2008, your Supervisory Board authorized an endorsement to the additional pension scheme dated 15 September 2005.

The purpose of the endorsement is to allow executive officers, including members of the Management Board, who have left the Company at an age over 55 years old following a decision taken by the employer, to benefit from the rights vested through the additional pension scheme of Vallourec on condition that they are not subsequently in active employment.

INDEMNITY FOR THE TERMINATION OF OFFICE OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Member of the Management Board concerned: Mr. Philippe Crouzet

On 6 April 2009, your Supervisory Board authorized that the Chairman of the Management Board will benefit from an indemnity following his removal from office especially in case of a significant change in the shareholding of the Company, of merger or of a significant change in strategy initiated by the Supervisory Board or by shareholders of the Company. In accordance with Article L.225-90-1 of French *Code de commerce*, entitlement to this indemnity is subject to achievement of performance conditions.

The indemnity for the termination of office is limited to twice the fixed portion of the remuneration increased by a targeted variable portion as determined by the Supervisory Board and corresponding to 80% of the fixed portion ("the reference remuneration").

The payment of this indemnity depends on performance conditions based on three criteria: (i) the EBITDA expressed in percentage of sales, (ii) the comparison between the actual EBITDA of the financial period ended expressed in euros with the budgeted EBITDA and (iii) the achievement of personal improvement objectives determined by the Supervisory Board for the financial period under examination. These all three criteria expressed in percentage of the fixed portion of the remuneration are limited to 30.

The performance conditions are met if the total of the three criteria determining the Performance Criteria (hereinafter "PC") is in the average over the last three financial periods, equal or higher than the half of the targeted variable portion of the remuneration. Would PC be lower than this threshold then no indemnity has to be paid. Would PC equal the half of the targeted variable portion then the indemnity paid amounts to one and a half times the reference remuneration; its varies on a linear basis between PC=40 and PC=80.

Furthermore, stock-options as well as stocks based on performance conditions are definitively attributed even in case of termination of office under circumstances as described above, if PC is equal or higher than 40 in the average over the last three years.

Neuilly-sur-Seine and Paris La Défense, April 10, 2012

The Statutory Auditors,

Deloitte & Associés

Jean-Marc Lumet

KPMG Audit

Department of KPMG S.A.

Jean-Paul Vellutini

Philippe Grandclerc

8.3.4 STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L.225-235 OF THE FRENCH COMPANY LAW ("CODE DE COMMERCE"), ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Year ended 31 December 2011

This is a free translation into English of the Statutory Auditors' report issued in French prepared in accordance with Article L.225-235 of French company law on the report prepared by the Chairman of the Supervisory Board on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information issued in French and is provided solely for the convenience of English speaking users.

This report should be read in conjunction and construed in accordance with French law and the relevant professional standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Vallourec and in accordance with Article L.225-235 of French company law (Code de commerce), we hereby report on the report prepared by the Chairman of the Supervisory Board of your company in accordance with Article L.225-68 of French company law (Code de commerce) for the year ended 31 December 2011.

It is the Chairman's responsibility to prepare, and submit to the Supervisory Board for approval, a report on the internal control and risk management procedures implemented by the Company and containing the other disclosures required by Article L.225-68 of French company law (Code de commerce), particularly in terms of corporate governance.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, and
- to attest that this report contains the other disclosures required by Article L. 225-68 of French company law (Code de commerce), it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the Company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Supervisory Board in accordance with Article L.225-68 of French company law (Code de commerce).

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by Article L. 225-68 of French company law (Code de commerce).

Neuilly-sur-Seine and Paris La Défense, April 10, 2012

The Statutory Auditors,

Deloitte & Associés	KPMG Audit *Department of KPMG S.A.*	
Jean-Marc Lumet	Jean-Paul Vellutini	Philippe Grandclerc

8.3.5 SUPPLEMENTARY STATUTORY AUDITOR'S REPORT TO THE REPORT DATED 15 APRIL 2011 ON CAPITAL INCREASES WITH CANCELLATION OF PREFERENTIAL SUBSCRIPTION RIGHTS AUTHORIZED BY THE EXTRAORDINARY GENERAL MEETING OF 7 JUNE 2011 IN THE 22ND, 23RD AND 24TH RESOLUTIONS

Decision of the Management Board of 14 November 2011

To the Shareholders,

In our capacity of Statutory Auditors of your Company and in accordance with Article R.225-166 of the French *Code de commerce*, we hereby issue our supplementary report to our report dated 15 April 2011 on capital increases with cancellation of preferential subscription rights authorized by your Extraordinary General Meeting of 7 June 2011 in the 22nd, 23rd and 24th resolutions.

This General Meeting delegated to your Management Board the ability to decide such operations for a period of twenty-six months (22nd resolution) and of eighteen months (23rd and 24th resolutions) respectively and for a maximum amount of €9,400,000 (individual and global limit to be applied to these resolutions) increased if needed by the nominal amount of shares to be issued in the event of a new financial operation in order to preserve the rights of holders of securities granting access to the capital.

Using these delegations, your Management Board has decided during its meeting held on 14 November 2011, to proceed with capital increases for a maximum nominal global amount of €4,700,000 by issuing a maximum of 2,350,000 shares corresponding to:

- The capital increase through the issue of shares or securities granting access to the share capital reserved for participants in corporate savings plans (22nd resolution);
- The capital increase reserved for employees of foreign companies of the Vallourec Group outside of a corporate savings plan (23rd resolution);
- The capital increase reserved for Value Plan International Employees SAS, controlled by Credit Agricole CIB, as part of a transaction reserved for employees (24th resolution).

It is the responsibility of your Management Board to prepare a report pursuant to Articles R.225-115 and R.225-116 of the French *Code de commerce*. Our role is to express an opinion on the fairness of the quantified data derived from the financial statements, on the proposed cancellation of preferential subscription rights and on certain other information pertaining to the issue, as presented in this report.

We performed the procedures that we considered necessary in accordance with the professional standards of the Compagnie nationale des commissaires aux comptes (French National Institute of Registered Auditors) applicable to this engagement. Such procedures consisted in verifying:

- The fairness of the quantified data derived from the half-year consolidated financial statements as of 30 June 2011 issued under the responsibility of the Management Board and established based on accounting methods and presentation as applied for the last consolidated financial statements. We performed a limited review of these half-year financial statements in accordance with professional standards applicable in France;
- The conformity of the terms and conditions of the operation regarding the delegation conferred by the General meeting;
- The information as given in the supplementary report prepared by the Management Board on the conditions under which the issue price of the equity securities and the final global amount to be issued were determined.

We have nothing to report on:

- The fairness of the quantified data derived from the half-year consolidated financial statements of the Company and on information as given in the supplementary report prepared by the Management Board;
- The conformity of the terms and conditions of these operations regarding the delegations conferred by the Extraordinary General Meeting of 7 June 2011 and on information provided to it;
- The conditions under which the issue price of the equity securities and the final global amount to be issued were determined;
- The presentation of the consequence of these issues on the situation of holders of securities granting access to the capital regarding consolidated shareholder's equity and on the stock market value of the shares;
- The cancellation of preferential subscription rights on which you were previously asked to decide.

The Statutory Auditors

Paris La Défense and Neuilly-sur-Seine, 28 November 2011

Deloitte & Associés	**KPMG Audit** *Department of KPMG S.A.*	
Jean-Marc Lumet	Jean-Paul Vellutini	Philippe Grandclerc

8.4 SUBSIDIARIES AND DIRECTLY-HELD PARTICIPATING INTERESTS AT 31 DECEMBER 2011

In € thousands Companies	Issued capital	Other equity before allocation of profit (loss)	Percentage of capital held (%)	Carrying amount of securities held Gross	Net	Loans and advances granted by Vallourec and not yet repaid	Total securities and guarantees given by Vallourec	Sales excluding taxes for the last financial year	Profit (loss) for the last financial year	Dividends received by Vallourec during the financial year
A) Subsidiaries and participating interests with a carrying amount in excess of 1% of Vallourec's capital (i.e. €2,358 million)										
I. Subsidiaries (at least 50%-owned)										
French companies	-	-	-	-	-	-	-	-	-	-
Vallourec & Mannesmann Tubes 27 Avenue du Général-Leclerc 92100 Boulogne-Billancourt, France	762,708	2,093,486	100,00	2,056,403	2,056,403	1,994,447	-	47,735	405,816	485,360
B) Subsidiaries and participating interests with a carrying amount of less than 1% of Vallourec's capital (i.e. €2,358 million)										
I. Subsidiaries (at least 50%-owned)										
French companies	-	-	-	-	-	-	-	-	-	-
Assurval 27 Avenue du Général-Leclerc 92100 Boulogne-Billancourt, France	10	317	99.00	8	8	-	-	613	142	85
II. Participating interests (10%- to 50%-owned)										
a) French companies										
b) Non-French companies										
c) Long-term investments										
French companies	-	-	-	-	-	-	-	-	-	-
Foreign companies	-	-	-	-	-	-	-	-	-	-
Sumitomo Metal Industries	-	-	0.98%	81,947	81,947	-	-	-	-	797

8.5 SUMMARY OF FINANCIAL INCOME OVER LAST FIVE YEARS

In €	2007	2008	2009	2010	2011
CAPITAL					
Share capital	**212,154,880**	**215,154,864**	**229,123,156**	**235,888,164**	**242,868,818**
Number of ordinary shares in issue	53,038,720	53,788,716	57,280,789	117,944,082	121,434,409
Number of preference dividend shares (without voting rights) in issue	-	-	-	-	
Maximum number of new shares to be issued:					
by conversion of bonds	-	-	-	-	
by exercise of subscription rights	147,308	212,100	500,000	1,511,800	2,151,887
by bond redemptions	-	-	-	-	
OPERATIONS AND EARNINGS FOR THE YEAR					
Sales excluding taxes	-	4,093,551	108,188	3,938,925	6,334,458
Profit (loss) before tax, employee profit sharing, depreciation and amortization, and provisions	533,143,895	715,270,552	413,810,495	505,369,693	475,723,170
Income tax	-21,998,166	-15,892,775	-11,559,643	-15,030,740	-8,022,363
Employee profit sharing for the financial year	-	-	-	-	
Profit (loss) after tax, employee profit sharing, depreciation and amortization, and provisions	553,894,374	730,835,635	427,376,831	515,485,566	458,554,435
Dividends distributed	**583,425,920**	**322,732,296**	**200,482,762**	**153,327,307**	**157,864,732**
EARNINGS PER SHARE					
Net income after income tax and employee profit-sharing, but before depreciation and amortization, and provisions	10.47	13.59	7.43	4.41	3.98
Profit (loss) after tax, employee profit sharing, depreciation and amortization, and provisions	10.44	13.59	7.46	4.37	3.78
Dividend allotted to each share	**11.00**	**6**	**3.50**	**1.30**	**1.30**
Adjusted dividend per share[(a)]	**5.50**	**3**	**1.75**	**1.30**	**1.30**
STAFF					
Average number of employees during the financial year	4	7	7	6	7
Payroll during the financial year	353,485	1,633,803	2,566,640	3,220,974	3,149,976
Payroll-related costs (social security, employee benefits, etc.)	65,419	903,538	929,471	1,746,856	1,406,613

(a) The adjustment is intended to take account of the 2:1 stock split on 9 July 2010.

8.6 CONCORDANCE TABLES AND INFORMATION INCLUDED FOR REFERENCE

8.6.1 CONCORDANCE TABLE OF THE VALLOUREC REGISTRATION DOCUMENT FACILITATING THE IDENTIFICATION OF THE INFORMATION STIPULATED IN APPENDIX I OF EC REGULATION NO. 809/2004 OF 29 APRIL 2004

	Vallourec Registration Document	
Appendix I of the European prospectus regulations	**Sections**	**Pages**
1. Persons responsible	**1.1 / 1.2**	**8**
2. Statutory Auditors	**1.3**	**9**
3. Selected financial information	**3.1 / 5 / 8.1.1.1**	**5 / 32 / 70 / 206**
4. Risk factors	**4**	**56**
5. Information about the issuer		
5.1. History and development of the Company	3.1.1	32
5.2. Investments	3.2 / 8.1.1.2	50 / 206
6. Business overview		
6.1 Main activities	3.1.2 / 3.1.3 / 3.1.4	36 / 44
6.2 Main markets	3.1.5 / 3.1.7	45 / 47
6.3 Exceptional events	3.1.8	48
6.4 Possible dependency	3.1.10	50
6.5 Group's competitive position	3.1.9	49
7. Organizational structure		
7.1 Brief description of the Group	2.3.3	22
7.2 List of significant subsidiaries	3.1.3 / 5	36 / 86
8. Property, plant and equipment		
8.1 Main tangible assets	3.1.6.1 / 5 (Notes 2.1 and 21)	46 / 91 / 130
8.2 Environmental issues that may affect the Group's utilization of its property, plant and equipment	3.1.6.2	46
9. Operating and financial review	**8.1.1.1 / 8.1.1.2 / 8.1.1.6**	**206 / 209**
10. Capital resources		
10.1 Issuer's capital resources	5	70 - 155
10.2 Sources and amounts of cash flows	5	70 - 155
10.3 Borrowing requirements and financial structure	5	70 - 155
10.4 Information regarding any restrictions on the use of capital resources	5	70 - 155
10.5 Anticipated sources of funds	5	70 - 155
11. Research and Development, patents and licences	**3.3.1 / 8.1.1.7 / 8.2D**	**53 / 210 / 255**
12. Trend information	**7**	**202**
13. Profit forecasts and estimates	**N/A**	**N/A**
14. Management and Supervisory bodies		
14.1 Names and functions of members of the supervisory and management bodies and details of the principal activities performed by them outside the Company	6.1.1	158
14.2 Supervisory and management bodies' conflicts of interest	6.1.4 / 6.1.5 / 6.1.6 / 6.1.7	186 - 187

Appendix I of the European prospectus regulations	Vallourec Registration Document Sections	Pages
15. Remuneration and benefits		
15.1 Amount of remuneration paid and benefits in kind granted	6.2 / 8.2E	187 / 256
15.2 Total amounts set aside or accrued by the Group to provide pension, retirement or similar benefits	5.1 (Note 18) / 6.2.2	117 / 193
16. Board practices		
16.1 Expiry date of current terms of office	6.1.1	158
16.2 Information about members of the supervisory and management bodies' service contracts with the Group	6.1.6	186
16.3 Information about the Supervisory Board's Committees	6.1.2.5	182
16.4 Declaration of compliance with the corporate governance regime in force	6.1.8	187
17. Employees		
17.1 Number of employees	8.1.1.8	211
17.2 Shareholdings, share subscription and share purchase options, free-of-charge shares and performance shares	5.1 (Note 18) / 6.3 / 8.1.2 / 8.1.3	117 / 194 / 233 / 234
17.3 Arrangements for involving the employees in the share capital	N/A	N/A
18. Major shareholders		
18.1 Shareholders owning more than 5% of the capital	2.3.1	20
18.2 Existence of different voting rights	2.1.8	13
18.3 Ownership or control of the issuer	2.3.1 / 2.3.2	20 / 21
18.4 Arrangements the operation of which may result in a change of control	N/A	N/A
19. Related party transactions	**5 (Note 20)**	**127**
20. Financial information concerning the issuer's assets and liabilities, financial situation and profits and losses		
20.1 Annual historical financial information	5	70 - 155
20.2 Pro forma financial information	N/A	N/A
20.3 Financial statements	5 / 8.5	70 - 155 / 266
20.4 Auditing of the historical annual financial information	8.3.1 / 8.3.2	259 / 260
20.5 Age of latest financial information	5	70 - 155
20.6 Interim and other financial information	N/A	N/A
20.7 Dividend policy	2.5	26
20.8 Legal and arbitration proceedings	5 (Note 16)	116
20.9 Significant change in the Group's financial or trading position	N/A	N/A
21. Additional information		
21.1 Share capital	2.2.2	13
21.2 By-laws	2.1 / 2.2.1 / 6.1.2	12 / 13 / 181
22. Major contracts	**3.1.3.1 / 3.1.9.2 / 3.3.1 / 4.1.4 / 5**	**38 / 39 / 40 / 42 / 49 /54 / 60 / 148**
23. Third party information, statements by experts and declarations of interests	**N/A**	**N/A**
24. Documents on display	**2.1.5 / 2.6.1**	**12 / 27**
25. Information on holdings	**8.4 / 5**	**265 / 86**

8.6.2 CONCORDANCE TABLE BETWEEN THE VALLOUREC REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT

	Vallourec Registration Document	
Annual financial report	**Sections**	**Pages**
1. Statutory financial statements	5.2	142
2. Consolidated financial statements	5.1	70
3. Statutory Auditors' report on the statutory financial statements	8.3.1	259
4. Statutory Auditors' report on the consolidated financial statements	8.3.2	260
5. Management report comprising as a minimum the information specified in Articles L.225-100, L.225-100-2, L.225-100-3 and L.225-211, Section 2, of the French *Code de Commerce*	8.1.1	206
6. Declaration by the persons taking responsibility for the annual financial report	1.2	8
7. Statutory Auditors' remuneration (Article 222-8 of the AMF's general regulations)	5.1 (Note 26)	135
8. Report of the Chairman of the Supervisory Board on the conditions governing the preparation and organization of the Supervisory Board's work and the internal control and risk management procedures implemented by Vallourec (Article 222-9 of the AMF's general regulations)	8.2	247
9. Statutory Auditors' report on the report of the Chairman of the Supervisory Board (Article 222-9 of the AMF's general regulations)	8.3.4	263

8.6.3 INFORMATION INCLUDED FOR REFERENCE

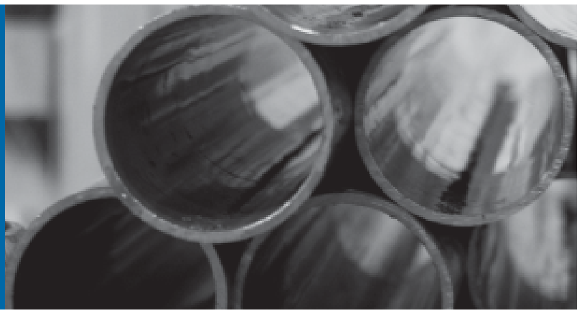
In accordance with Article 28 of European Commission Regulation no. 809/2004 of 29 April 2004, this Registration Document includes the following information for reference:

- The statutory and consolidated financial statements for the financial year ended 31 December 2010, the related Statutory Auditors' reports and the management report presented, respectively, in Section 5.2 (pages 140 to 154), Section 5.1 (pages 62 to 139), Sections 8.5.1 to 8.5.6 (pages 285 to 296) and Section 8.1.1 (pages 204 to 224) of the 2010 Registration Document, filed with the *Autorité des Marchés Financiers* - AMF (the French securities regulator) on 19 April 2011 under number D.11-0332, and
- The statutory and consolidated financial statements for the financial year ended 31 December 2009, the related Statutory Auditors' reports and the management report presented, respectively, in Section 5.2 (pages 145 to 157), Section 5.1 (pages 58 to 144), Sections 8.6.1 to 8.6.4 (pages 238 to 243) and Section 8.1.1 (pages 198 to 215) of the 2009 Registration Document, filed with the *Autorité des Marchés Financiers* - AMF (the French securities regulator) on 19 April 2010 under number D.10-0285.

8.7 OTHER PERIODIC INFORMATION REQUIRED UNDER THE TERMS OF THE GENERAL REGULATIONS OF THE FRENCH SECURITIES REGULATOR (AUTORITÉ DES MARCHÉS FINANCIERS – AMF)

The Registration Document includes certain of the periodic information required under the terms of the AMF's general regulations. The following table provides details of the pages on which this information appears.

	Registration Document	
	Sections	**Pages**
Report of the Chairman of the Supervisory Board on the conditions governing the preparation and organization of the Supervisory Board's work and the internal control and risk management procedures implemented by Vallourec (Article 222-9 of the AMF's general regulations)	8.2	247
Statutory Auditors' report on the report prepared by the Chairman of the Supervisory Board of Vallourec (Article 222-9 of the AMF's general regulations)	8.3.4	263
Statutory Auditors' remuneration (Article 222-8 of the AMF's general regulations)	5.1 (Note 26)	135
Description of share buyback programme (Article 241-2 of the AMF's general regulations)	2.2.4.2	17



Glossary

Alloy: combination of a metal and one or more other chemical elements that acquires greatly enhanced mechanical properties when subjected to mechanical and heat treatments.

American Petroleum Institute (API) standards: US organization that produces standards relating to the oil industry.

Billet: section cut from a steel bar (round tube) for the purpose of transforming it into a tube by mechanically working it while hot.

Blast furnace: reactor that uses carbon (in the form of coke or charcoal) as an iron ore-reducing agent to produce iron.

Buttress: standard threading for OCTG products.

Casing: tubes assembled by means of leak-tight threaded connections to form a column consolidating the walls of an oil or gas well.

Connection: system enabling tubes to be connected to each other by a make-up process.

Continuous caster: industrial facility that solidifies metal in a mould in a continuous process, forming long bars.

Drill pipe: extremely strong tube used to drill oil or gas wells. Drill pipes are assembled end-to-end to form a drill string, which may be up to 10,000 m long.

Drilling: use of appropriate tools to penetrate underground formations, whether for geological studies or to remove fluids (oil, gas, water, etc.) from the drilled terrain.

Electric arc furnace: furnace designed for smelting scrap metal or prepared ore, in which the main heat source is an electric arc.

Heat treatment: transformations in the structure of steel obtained by performing heating and cooling cycles for the purpose of improving the steel's mechanical properties.

Hollow: semi-finished tube, which can subsequently be transformed into a product satisfying the specific requirements of a particular market.

Line-pipe: oil and gas transport pipes, generally consisting of seamless tubes in the offshore section and large-diameter welded tubes in the onshore section.

MSH section: trade mark registered by the Vallourec Group for premium structural tubes.

OCTG: Oil Country Tubular Goods – casing and tubing products for oil and gas production.

Premium tube: high-performance tube, the manufacturing of which demands considerable technological and industrial expertise.

Riser: offshore pipe that carries oil extracted from the sea bed to the export facility on the surface.

Rolling mill: plant where seamless tubes are manufactured in a three-stage hot process:

1. pierce the billet;
2. draw the resulting hollow on an internal mandrel;
3. calibrate the final dimensions.

Structural tube (hollow section, micro-pile, etc.): round, square or rectangular hollow sections used in a vast range of applications in the mechanical engineering, construction and civil engineering sectors.

Supercritical or ultra-supercritical power plant: enhanced-performance thermal power plants that operate at high temperature (>374°C) and high pressure (>221 bar). The term "ultra-supercritical" applies to plants operating at temperatures in excess of 600°C.

Threading: machined profile at the ends of tubes, allowing them to be assembled by screwing the male and female parts together.

Tubing: steel tubes assembled by means of gas-tight threaded connection to form a production string through which fluids are piped from a well bottom to the surface.

Umbilicals: assembly of steel tubes and/or hydraulic pipes, electric cables and optical fibres, used to connect the equipment on the sea floor to its control station on the surface. Vallourec supplies stainless steel tubes for umbilicals.

VAM® joints: family of premium threaded joints invented and patented by Vallourec. VAM® joints ensure a totally gas-tight connection and are suitable for a wide range of demanding applications.

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vallourec

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A French limited liability company (société anonyme) with Management and Supervisory Boards and issued capital of €242,868,818