vallourec

2012 REGISTRATION DOCUMENT

and annual financial report

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Registration Document

and Annual Financial Report

Year ended 31 December 2012

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 24 April 2013 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 284.

This 2012 Registration Document available on 14 May 2013 cancels and replaces the Registration Document of 24 April 2013. It corrects a wrong figure in page 281, the income paid out for the 2012 financial year amounting to € 86,212,986 and not to € 162,430,263.

Profile

WORLD LEADER IN PREMIUM TUBULAR SOLUTIONS mainly for energy markets (Oil & Gas, Power Generation). Vallourec also contributes its expertise to other industrial sectors.

Oil & Gas

Premium tubes, connections and solutions for the exploration and operation of oil & gas deposits:

- OCTG*: tubes and connections for completing oil and gas wells (casing, tubing, premium VAM® connections, accessories)
- Drill pipe, bottom hole assembly, VAM® connections and accessories for drill strings
- Offshore line pipe for conveying hydrocarbons (flowlines, risers)
- Super duplex welded tubes for umbilicals
- Pipe and fittings for onshore hydrocarbon transportation and processing
- VAM® Global Solutions: customized package offerings of products and services to meet the specific needs of oil & gas companies (well design, training, supply chain management, repair and field services…)
- Integrated welding and fabrication solutions for offshore and onshore projects

* *Oil Country Tubular Goods.*
VAM® is a registered trademark of Vallourec Group.

Power Generation

The entire range of tubes needed to build nuclear and conventional power plants:

- Seamless tubes and pipe for boiler applications: water wall panels, super heater, re-heaters, headers, piping system
- Seamless tubes for nuclear power plants: steam generator tubes and nuclear environment products
- Welded tubes for heat exchangers: condensers, low pressure and high pressure feedwater heaters, MSRs

Industry

Hollow sections, round tubes and hollow bars for:

- mechanical engineering: cranes, hydraulic cylinders, agricultural machinery, oil & gas field accessories, etc.
- automotive: all types of vehicles, light or heavy
- construction: bridges, stadiums, airport terminals, exhibition halls, etc.

COMMITMENT

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.

January February March April May June

29 MARCH 2012: presentation of Preon® marine

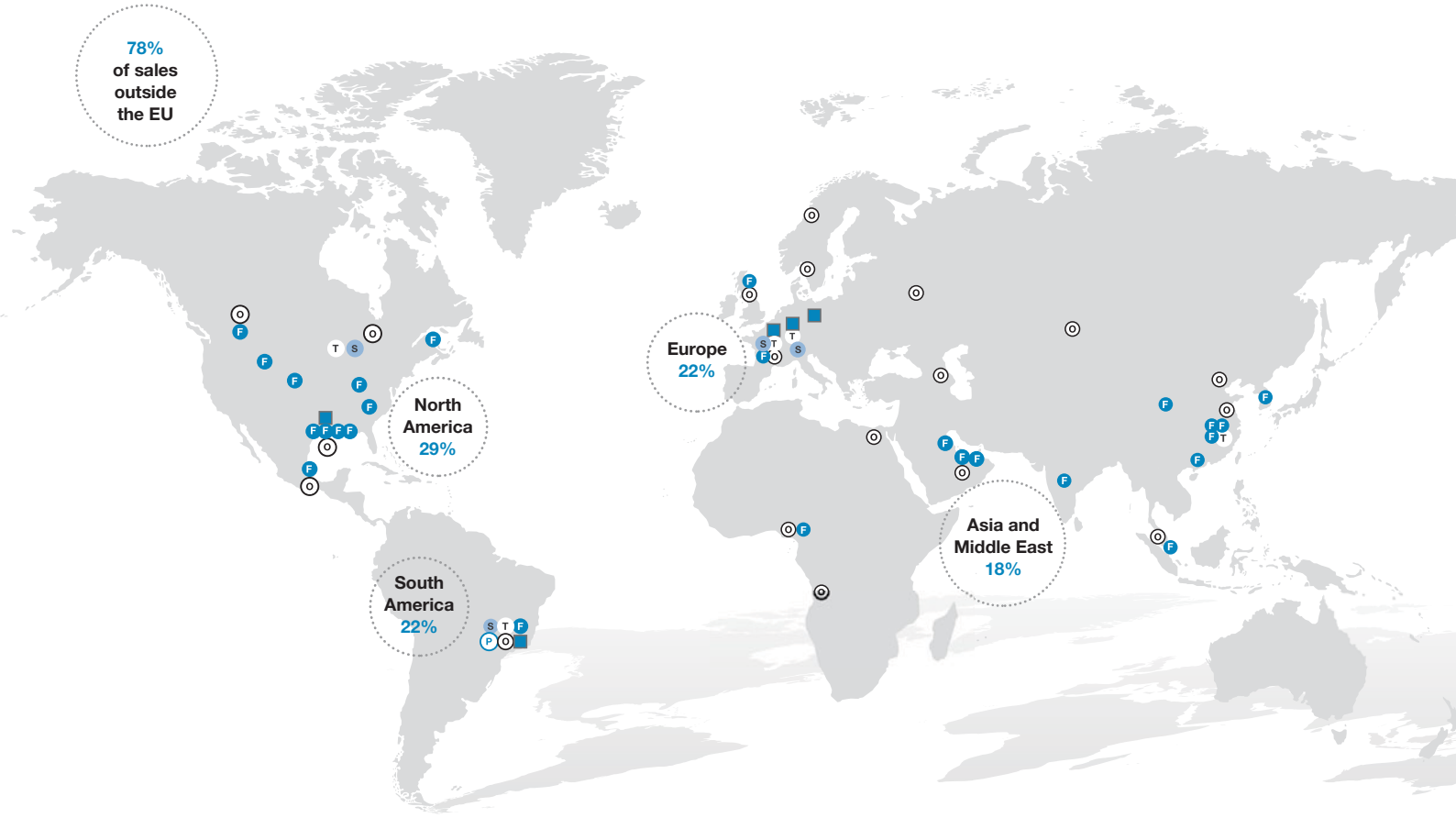
Vallourec presents its new patented tube system for anchoring wind turbines offshore.

6 JULY 2012: inauguration of a new accessories plant at Rio das Ostras (Brazil)

This new plant produces premium accessories for completing oil and gas wells so Vallourec can now supply a comprehensive range locally.

13 SEPTEMBER 2012: inauguration of the extension to Vallourec's plant at Changzhou (China)

This extension now enables the plant to produce and finish premium seamless tubes locally, intended primarily for the power generation market.



Main Vallourec locations

- F Finishing lines
- S Steel mills
- T Tube mills
- P Plantation and Mine
- O Sales offices and services
- R&D Centers
- Breakdown of sales by geographic region

OPERATIONS WORLDWIDE

With over 23,000 employees, sales of €5.3 billion in 2012, 78% of which were realized outside Europe, and integrated manufacturing facilities in more than 20 countries, Vallourec is conducting an ambitious strategy of local development with new plants in Brazil, the United States, the Middle East and China, enabling it to provide solutions closer to its clients and improve its competitiveness. Vallourec has six R&D centers around the world and over 500 researchers to maintain its technological leadership and provide innovative solutions to meet its clients' needs.

July August September October November December

5 NOVEMBER 2012: first pipes produced in the new Vallourec plant at Youngstown (United States)

Focusing particularly on the production of small-diameter tubes, this new plant enables the Group to serve the North American shale hydrocarbons market.

30 NOVEMBER 2012: doubling of capacity at the VAM® connections test center in Houston (United States)

These new capacities will enable the development of increasingly innovative products and ensure their qualification to the latest standards for the most extreme well conditions.

6 DECEMBER 2012: finalization of the "Value 12" employee share ownership plan

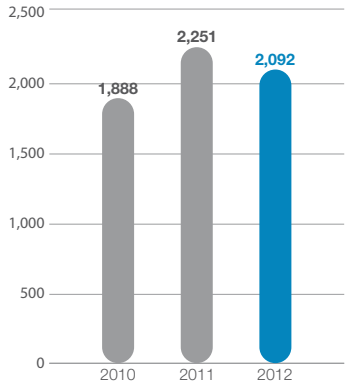
Some 14,000 employees subscribed to the fifth international plan offered by the Group, raising the percentage of share capital owned by employees to over 7%.

Highlights

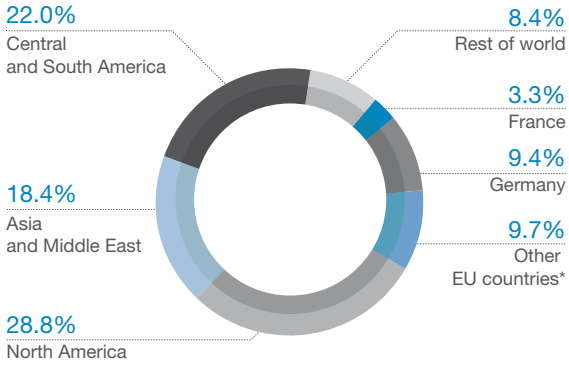
2012 sales	EBITDA	Sales volume	Employees
5,326 million euros	**786** million euros	**2,092** Kt	**23,177**

SALES VOLUME

(in Kt)



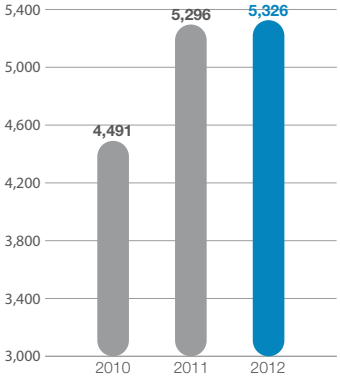
SALES BY GEOGRAPHIC REGION IN 2012



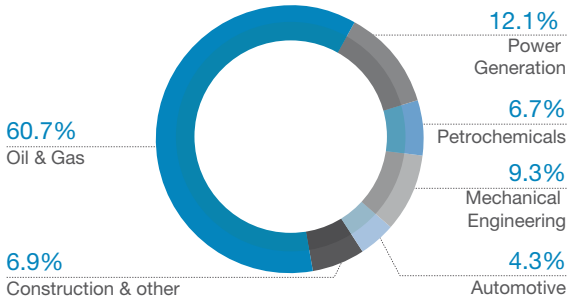
* *Other European Union countries, excluding Germany and France.*

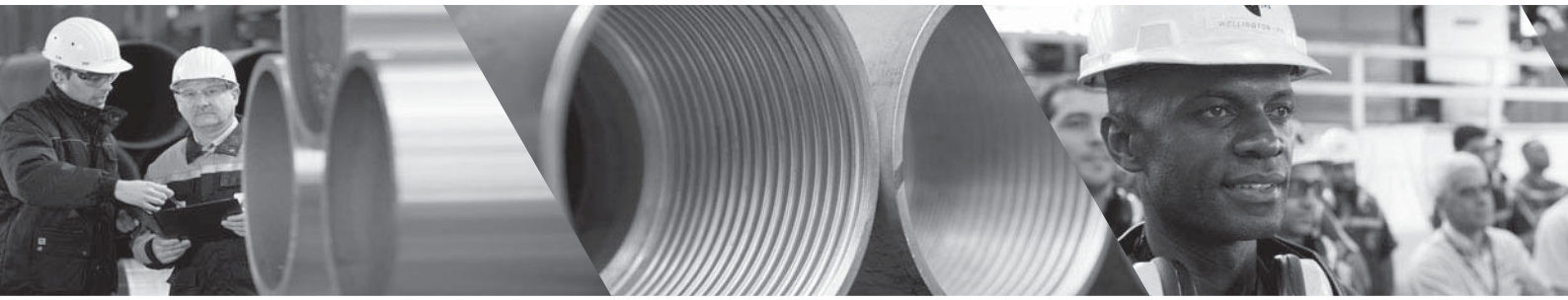
SALES

(in € millions)



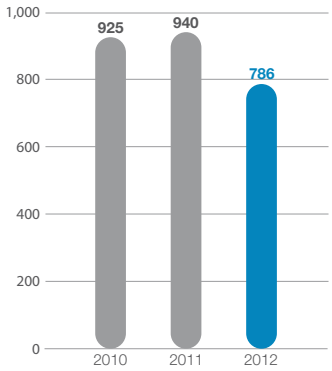
SALES BY ACTIVITY IN 2012





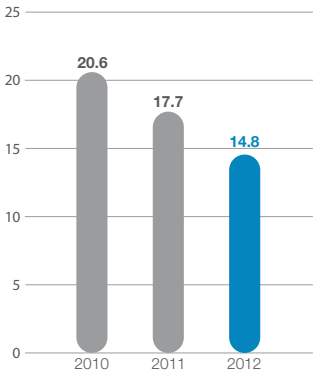
EBITDA

(in € millions)



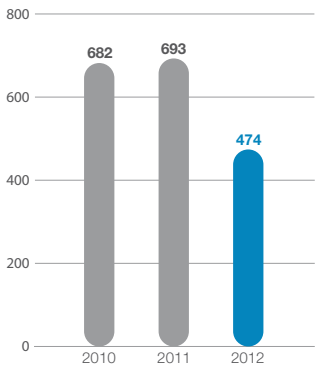
EBITDA/SALES

(in %)



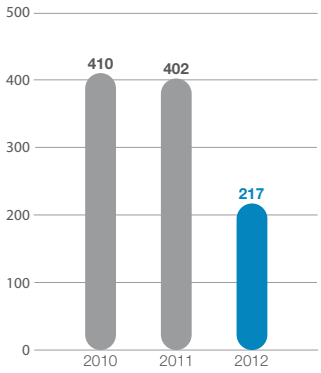
OPERATING INCOME

(in € millions)



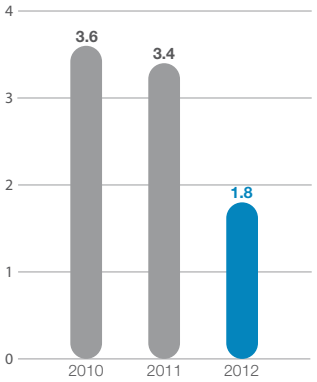
NET INCOME – GROUP SHARE

(in € millions)



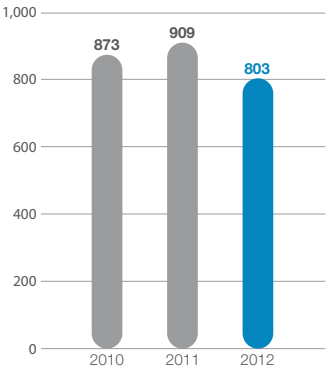
EARNINGS PER SHARE

(in €)



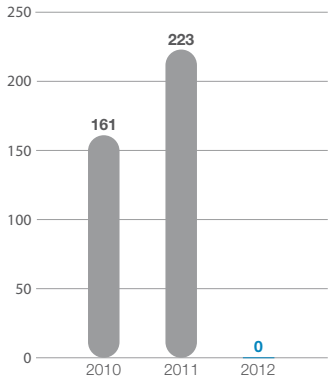
GROSS INDUSTRIAL INVESTMENTS

(in € millions)



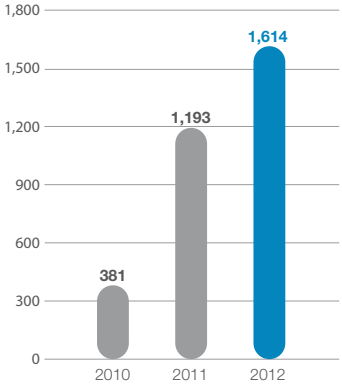
FINANCIAL INVESTMENTS

(in € millions)



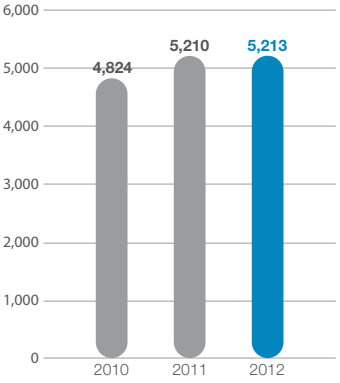
NET DEBT

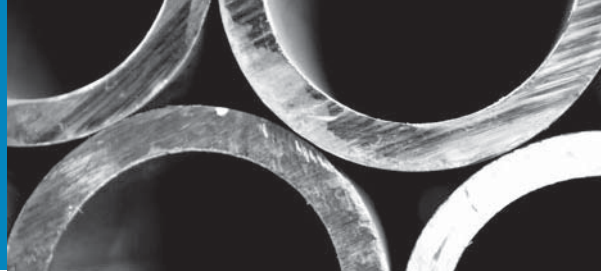
(in € millions)



EQUITY

(in € millions)





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1.1 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

Philippe Crouzet

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

1.2 STATEMENT BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

I certify that, having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.

To the best of my knowledge, I certify that the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, financial position and profit or loss of the Company and all consolidated companies, and that the management report, whose various headings are provided in the cross-reference table on pages 262 and 285 of this Registration Document (Sections 9.1.1. and 9.6.3), presents a true and fair view of the business trends, results and financial position of the Company and all consolidated companies, as well as a description of the main risks and uncertainties to which they are exposed.

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

The consolidated financial statements for the year ended 31 December 2010, presented in the 2010 Registration Document filed with the French Securities Regulator (*Autorité des Marchés Financiers* – AMF) 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 the matter set out in Note A-1 'Framework for the preparation and presentation of financial statements' of the consolidated financial statements regarding 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 filed with the French Securities Regulator (*Autorité des Marchés Financiers* – AMF) under no. D.12-0343 on 13 April 2012, were the subject of the Statutory Auditors' report on page 260, which does not contain any observations.

The consolidated financial statements for the year ended 31 December 2012 as presented in this 2012 Registration Document were the subject of the Statutory Auditors' report on page 276, which does not contain any observations.

Boulogne-Billancourt, France, 24 April 2013

Chairman of the Management Board

Philippe Crouzet

1.3 PERSONS RESPONSIBLE FOR THE FINANCIAL AUDIT

1.3.1 PRINCIPAL STATUTORY AUDITORS

KPMG S.A.

Represented by:

Ms Catherine Porta

1 Cours Valmy
92923 Paris-La Défense Cedex – France

Date on which first appointment commenced: 1 June 2006
Date appointment was most recently renewed: 31 May 2012

The Combined General Meeting of 31 May 2012 renewed KPMG S.A.'s appointment as Statutory Auditor for a period of six (6) years ending at the close of the Ordinary General Meeting convened to approve the financial statements for the year ended 31 December 2017.

Deloitte & Associés

Represented by:

Mr Jean-Marc Lumet

185 Avenue Charles-de-Gaulle
92524 Neuilly-sur-Seine Cedex – France

Date on which first appointment commenced: 1 June 2006
Date appointment was most recently renewed: 31 May 2012

The Combined General Meeting of 31 May 2012 reappointed Deloitte & Associés as Statutory Auditor for a period of six (6) years ending at the close of the Ordinary General Meeting convened to approve the financial statements for the year ended 31 December 2017.

1.3.2 ALTERNATE STATUTORY AUDITORS

KPMG AUDIT IS

Alternate auditor for KPMG S.A.

3 Cours du Triangle – Immeuble "Le Palatin"
92939 Paris-La Défense Cedex – France

Date on which first appointment commenced: 31 May 2012

The Combined General Meeting of 31 May 2012 appointed KPMG Audit IS to replace SCP Jean-Claude André & Autres as alternate auditor for KPMG S.A. for a period of six (6) years ending at the close of the Ordinary General Meeting convened to approve the accounts for the year ended 31 December 2017.

BEAS

Alternate auditor for Deloitte & Associés

7/9 Villa Houssaye
92524 Neuilly-sur-Seine Cedex – France

Date on which first appointment commenced: 11 June 2002

The Combined General Meeting of 31 May 2012 renewed the mandate of BEAS as alternate auditor for Deloitte & Associés for a period of six (6) years ending at the close of the Ordinary General Meeting convened 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 and Financial Communication 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

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2.1 GENERAL INFORMATION ON VALLOUREC

2.1.1 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*) that 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 APE code 7010Z.

2.1.3 DATE OF INCORPORATION AND TERM

Vallourec was formed in 1899.

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

2.1.4 COMPANY OBJECTIVE (ARTICLE 3 OF THE ARTICLES OF ASSOCIATION)

The Company's objective, in any country, either on its own account or on behalf of 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 might be subsequently discovered, 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 Articles of Association, minutes of General Meetings and other Company documents may be consulted at the registered office.

2.1.6 FINANCIAL YEAR

The financial year lasts twelve (12) months, from 1 January to 31 December.

2.1.7 MANDATORY BREAKDOWN OF NET PROFIT (ARTICLE 15 OF THE ARTICLES OF ASSOCIATION)

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

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

The General 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.

2.1.8 GENERAL MEETINGS (ARTICLE 12 OF THE ARTICLES OF ASSOCIATION)

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

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

Each shareholder attending the General 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 entitled to double voting rights compared with the voting rights conferred on other shares (Article 12 paragraph 4 of the Articles of Association).

2.1.9 DECLARATIONS OF THRESHOLDS CROSSED AND IDENTIFICATION OF SHAREHOLDERS (ARTICLE 8 OF THE ARTICLES OF ASSOCIATION)

The Extraordinary General Meeting of 1 June 2006 in its second resolution supplemented Article 8 of the Articles of Association 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 (natural person or legal entity) 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) percent 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 registered letter with return 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."

The penalties provided by law in the event of non-compliance with the legal obligation to declare the crossing of thresholds stipulated by the French Commercial Code also apply in the event of non-compliance with the statutory obligation to declare the crossing of the above-mentioned thresholds, at the request, recorded in the minutes of the Shareholders' Meeting, of one or more shareholders holding at least 5% of the Company's shares.

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 General Meetings and information regarding the quantities held, under the provisions of current legislation.

2.2 GENERAL INFORMATION CONCERNING THE SHARE CAPITAL

2.2.1 CONDITIONS PROVIDED BY THE ARTICLES OF ASSOCIATION FOR CHANGES TO THE SHARE CAPITAL AND RIGHTS IN THE COMPANY

An Extraordinary General 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 Articles of Association,), 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 General Meeting;
- any other issue of securities that could later give access to the capital, authorized by a General Meeting.

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

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

2.2.2 SHARE CAPITAL

On 1 January 2012, the start of the 2012 financial year, the fully paid-up share capital amounted to €242,868,818, divided into 121,434,409 shares with a par value of €2.00 each.

On 27 June 2012, the Management Board noted that, in accordance with the fourth resolution of the Combined General Meeting of 31 May 2012, a capital increase was made by means of the issue of 192,112 new shares (representing 0.16% of the share capital on that date) at a price of €31.10 per share in payment of the 2011 dividend of €1.30 per share. The issue of the said new shares resulted in a capital increase in the nominal amount of €384,224, which increased Vallourec's share capital on 27 June 2012 from €242,868,818 to €243,253,042, divided into 121,626,521 shares, each with a par value of €2.00.

At the end of the clearing period for subscriptions to the Value 12 international employee share ownership scheme (see chapter 7 hereafter), at its meeting on 6 December 2012 the Management Board recorded, under the terms of the fifteenth, sixteenth and seventeenth resolutions of the Combined General Meeting of 31 May 2012, the final completion of three capital increases of nominal amounts of €3,641,676, €2,386,904 and €611,090, respectively, via the respective issue of 1,820,838, 1,193,452 and 305,545 new shares for an aggregate of 3,319,835 new shares with a par value of €2.00 each and a price per share of €25.79. The combined effect of these operations was to raise the share capital from a total of €243,253,042 to €249,892,712. On 31 December 2012, the fully paid-up share capital thus totalled €249,892,712, divided into 124,946,356 shares with a par value of €2.00 each.

2.2.3 SHARE CAPITAL AUTHORIZED, BUT 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 December 2012

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

	Maximum nominal ceilings on capital increases *(in euros or as a percentage of share capital)*	Maximum nominal amount of debt securities *(in euros)*	Date of the General Meeting that authorized the transaction	Term of authorization	Expiry date
CAPITAL INCREASE WITH PREFERENTIAL SUBSCRIPTION RIGHTS (PSR)					
Capital increase with PSR (twelfth resolution)	117 million	1.5 billion	7 Jun 2011	26 months	7 Aug 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 Jun 2011	26 months	7 Aug 2013
Capital increase by capitalizing reserves, earnings and premiums (twentieth resolution).	70 million [a]	N/A	7 Jun 2011	26 months	7 Aug 2013
CAPITAL INCREASES WITHOUT PREFERENTIAL SUBSCRIPTION RIGHTS (PSR)					
Capital increase without PSR by means of public offer (s) [thirteenth resolution]	35 million [a]	1.5 billion	7 Jun 2011	26 months	7 Aug 2013
Capital increase without PSR by means of private placement(s) [fourteenth resolution]	35 million [a]	1.5 billion	7 Jun 2011	26 months	7 Aug 2013
Capital increase without PSR, carried out in accordance with the thirteenth and fourteenth resolutions, at a price freely set by the General Meeting (fifteenth resolution)	10% per year [a] [c]	1.5 billion	7 Jun 2011	26 months	7 Aug 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 Jun 2011	26 months	7 Aug 2013
Capital increase without PSR in consideration of contributions in kind, excluding the case of a share exchange offer initiated by the Company (seventeenth resolution)	10% [a] [c]	1.5 billion	7 Jun 2011	26 months	7 Aug 2013

	Maximum nominal ceilings on capital increases *(in euros or as a percentage of share capital)*	Maximum nominal amount of debt securities *(in euros)*	Date of the General Meeting that authorized the transaction	Term of authorization	Expiry date
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 Jun 2011	26 months	7 Aug 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 Jun 2011	26 months	7 Aug 2013
EMPLOYEE SHARE OWNERSHIP OFFER					
Capital increase reserved for members of a Company savings scheme under the terms of an employee share ownership offer (fifteenth resolution)	9.4 million [a] [e]	N/A	31 May 2012	18 months	30 November 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 offer (sixteenth resolution)	9.4 million [a] [e]	N/A	31 May 2012	18 months	30 November 2013
Capital increase reserved for credit institutions or other entities intending to hold, subscribe to or transfer shares under the terms of an employee share ownership offer (seventeenth resolution)	9.4 million [a] [e]	N/A	31 May 2012	18 months	30 November 2013
Allocation of free shares under the terms of an employee share ownership offer as a replacement for the contribution made to French employees (eighteenth resolution)	0.3% of the share capital [a]	N/A	31 May 2012	18 months	30 November 2013
SHARE SUBSCRIPTION, SHARE PURCHASE AND PERFORMANCE SHARE OPTIONS					
Share subscription or share purchase options for the Group's employees and corporate officers (fourteenth resolution)	3% of the share capital [a]	N/A	31 May 2012	38 months	31 July 2015
Allocations of performance shares to the Group's employees and corporate officers (nineteenth resolution)	2.5% of the share capital [a] [d]	N/A	31 May 2012	38 months	31 July 2015

(a) This amount or percentage is deducted from the overall €117 million cap for capital increases with preferential subscription rights retained.

(b) This percentage is limited by the cap on the authorization in accordance with which the initial issue was made.

(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 made under the terms of an employee share ownership offer 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 December 2012

Employee share ownership offer

In 2012, under the terms of authorizations relating to employee share ownership offers, the Management Board introduced, with the prior agreement of the Supervisory Board and for the fourth consecutive year, an international employee share ownership plan (for a description of the plans, see § 7.3.3 – Employee shareholding below) known as Value 12. Under the terms of the fifteenth, sixteenth and seventeenth resolutions of the Combined General Meeting of 31 May 2012, at its meeting of 6 December 2012 the Management Board recorded the final completion of three capital increases of nominal amounts of €3,641,676, €2,386,904 and €611,090, respectively, for an aggregate nominal amount of €6,639,670 representing 2.73% of the share capital on that date, by the respective issue of 1,820,838, 1,193,452 and 305,545 new shares, leading to an aggregate of 3,319,835 new shares with a par value of €2.00 each and a price per share of €25.79. The combined effect of these operations was to raise the share capital from a total of €243,253,042 to €249,892,712.

Instead of the contribution granted to employees and those with similar rights of Vallourec Group's French companies and to Group companies located in Germany, Brazil, Mexico, the United Arab Emirates and the United Kingdom that participate in the Value 12 plan, the Management Board implemented, at the same time and under the terms of the Value 12 offer, a free share allocation plan for existing shares involving a maximum of 4,395 shares, i.e. 0.004% of the share capital at that date, for the benefit of employees who are non-French residents for tax purposes of Vallourec Group companies with corporate headquarters located in Canada and the United States (excluding VAM USA LLC) and who participated in a share + SAR scheme under the terms of the Value 12 offer.

The conditions of this plan are set out in section 7.3.1.2.2 "Free share allocation".

Performance shares (1)

The delegation of authority relating to the allocation of performance shares granted by the General Meeting of 31 May 2012 to the Management Board (nineteenth resolution), reflected in the summary table of financial authorizations valid to 31 December 2012 (see above, paragraph 2.2.3.1 – Financial authorizations to issue shares and securities giving access to the Company's capital that remained in force on 31 December 2012), was not used during the year 2012.

As part of the twenty-sixth resolution on performance shares adopted by the Combined General Meeting of 7 June 2011, the Management Board decided, in agreement with the Supervisory Board on 30 March 2012:

- to allocate, subject to attendance and performance, a maximum number of 130,116 performance shares, representing 0.11% of the share capital at that date, at the rate of a maximum of six shares per beneficiary, to 21,686 employees of Vallourec Group entities in Germany, Brazil, Canada, China, the United Arab Emirates, the United States, France, The United Kingdom, India, Malaysia, Mexico, Norway, the Netherlands, Russia and Singapore (excluding Management Board members);
- to allocate, subject to attendance and performance conditions, a maximum number of 357,712 performance shares (1), representing 0.29% of the share capital on that date, to 1,588 executive managers and members of the Management Board.

The terms of these plans are set out in Section 7.3.1.2.1 – Allocation of performance shares.

Share subscription and share purchase options (1)

As part of the fourteenth resolution on stock and share purchase options adopted by the General Meeting of 31 May 2012, the Management Board established on 31 August 2012, by agreement with the Supervisory Board, a share subscription option plan, under attendance and performance conditions, consisting of the allocation of a maximum of 530,400 options1, i.e. 0.44% of the share capital at that date, to 387 managers (excluding Management Board members).

The terms of this plan are described in Section 7.3.1.1 – Stock and/or share subscription options.

2.2.4 SHARE REDEMPTION

2.2.4.1 Information on transactions carried out under the terms of the share buyback program during 2012

Share buybacks (outside the scope of the liquidity contract)

As of 1 January 2012, Vallourec held 756,231 of its own shares, each with a par value of €2.00, representing 0.62% 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 General Meetings of 7 June 2011 (eleventh resolution) and 31 May 2012 (thirteenth resolution), Vallourec conducted the following operations between 1 January 2012 and 31 December 2012:

- 400,000 shares were purchased at a gross weighted average price of €39.77 per share to cover free share and performance share allocation plans. Trading fees in respect of these purchases totalled €15,907, net of tax;
- 113,954 shares were transferred following the final allocation of shares under the terms of free share and performance share allocation plans.

(1) Information based on the highest performance coefficient.

The following table provides details of the total gross cash flows resulting from the share purchases, disposals and transfers (excluding those conducted under the liquidity contract) carried out between 1 January and 31 December 2012:

	Purchases	Transfers/Disposals
Number of securities	400,000	113,954
Average price per share (in euros)	39.77	67.45
CUMULATIVE AMOUNT IN EUROS	**15,906,862**	**7,686,019**

Own shares held directly (outside the scope of the liquidity contract) as of 31 December 2012

As of 31 December 2012, Vallourec held 1,042,277 of its own shares, representing 0.83% of its share capital on that date. All the shares have been allocated to cover free share allocation or performance share allocation plans. As of 31 December 2012, the book value of the portfolio was €44,105,281, the par value was €2,084,554 and the market value €41,159,519.

Liquidity contract

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

Vallourec and Crédit Agricole Cheuvreux terminated this contract with effect from 29 June 2012.

Effective from 2 July 2012, for a period of 12 months and automatically renewable for successive 12-month periods, Vallourec entrusted Rothschild & Cie Banque with the implementation of a liquidity contract in accordance with the *Association Française des Marchés Financiers* Charter of Ethics, approved by decision of the AMF on 21 March 2011.

In 2012, under the terms of these two liquidity contracts, a total of 1,801,300 shares were repurchased, representing 1.44% of the share capital as of 31 December 2012, for a total amount of €67,753,396 and a weighted average price per share of €37.61. As regards sales under the liquidity contract, a total of 2,057,300 shares were sold, representing 1.65% of the share capital as of 31 December 2012, for total sales proceeds of €78,483,766 and a weighted average price per share of €38.15.

In 2012, a capital loss of €395,716 was generated in respect of the two liquidity contracts.

As of 31 December 2012, the balance on the liquidity account comprised:

- 0 shares;
- €25,870,298.10.

The management fees for these two liquidity contracts for 2012 totalled €100,000, net of tax.

Cross-shareholding

None.

Open positions on derivatives as of 31 December 2012

None.

2.2.4.2 Description of 2013-2014 share buyback program submitted to the Combined General Meeting of 30 May 2013 (sixth resolution)

The aim of this program description is, in accordance with Article 241-1 et seq. of the French Securities Regulator (*Autorité des Marchés Financiers* – AMF), to describe the objectives, terms and conditions of Vallourec's own-share buyback program, which will be submitted for approval to the Combined General Meeting of 30 May 2013.

Allocation by objectives of Vallourec shares held by the Company as of 31 March 2013

As of 31 Mar 2013, Vallourec held 983,784 of its own shares, representing 0.79% of its share capital on that date. All the shares have been allocated to cover free share allocation or performance share allocation plans.

At the same time, moreover, 32,492 shares are included in the balance of the liquidity contract with Rothschild & Cie Banque, i.e. 0.03% of the share capital.

Objectives of the share buyback program submitted to the Combined General Meeting of 30 May 2013

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), the objectives of the share buyback program submitted for approval to the Combined General Meeting of 30 May 2013 are set out below:

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 Labor 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 offers;

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 a 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 possible 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 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 General Meeting held as an Extraordinary General 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 program.

Terms and conditions of the share buyback program submitted to the General Shareholders' Meeting of 30 May 2013

In the following table, details are provided on the maximum portion of the capital, the maximum number and characteristics of the securities that the Company proposes to acquire under the terms of its share buyback program, submitted for approval to the Combined General Meeting of 30 May 2013, as well as the maximum purchase price per share:

Security characteristics	Maximum portion of the capital [(a)]	Maximum number of securities [(b)]	Maximum purchase price *(per share)*
Ordinary shares	10%	12,494,635	€60

(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 General Meeting of 30 May 2013, 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 30 Mar 2013, i.e. €249,892,712, divided into 124,946,356 shares. Given the number of ordinary shares owned by Vallourec on that date (1,016,276 shares), Vallourec could acquire 11,478,359 of its own shares.

Term of the share buyback program submitted to the General Shareholders' Meeting of 30 May 2013

The authorization granted to the Management Board to implement the share buyback program will be for a term of 18 months as of the General Shareholders' Meeting of 30 May 2013, i.e. until 30 November 2014, subject to approval of the program by the Ordinary General 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 euros)*	Additional paid-in capital *(in euros)*	Total share capital after operation *(in euros)*
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 [(a)]	-	-	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
27/06/2012	-	192,112	121,626,521	384,224	5,590,459	243,253,042
06/12/2012	-	3,319,835	124,946,356	6,639,670	78,978,875	249,892,712

(a) Reverse stock split, as a result of which the par value was reduced from €4.00 to €2.00 and the number of shares was doubled.

2.2.6 SECURITIES NOT REPRESENTING SHARE CAPITAL

Transferable securities giving a right to allocation of debt securities

Subject to prior agreement by the Supervisory Board (see Section 2.2.1 above), the Combined General Meeting of 7 June 2011 granted the Management Board authority for a period of 26 months to issue securities giving a 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

For example, Vallourec issued a commercial paper issue program on 12 October 2011 to meet its short-term needs. This program, updated on 26 June 2012, has the following main features:

Maximum cap on the program	€1 billion
Duration	> 1 day < 365 days
Minimum unit amount	€150,000
Currency of issue	Euros (€)
Paying agent	Crédit Industriel et Commercial
Underwriters	Aurel BGC BNP Paribas BRED Crédit Agricole CIB CM – CIC Crédit du Nord GFI HSBC France HPC ING Natixis Newedge Société Générale CIB Viel Tradition IPC
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 issues

Vallourec has successfully issued:

- on 7 December 2011, a bond issue in the amount of €650 million at a fixed rate, maturing on 14 February 2017 (the **February 2017 bonds**). The February 2007 bonds have a unit par value of €100,000 and are listed for trading on the NYSE Euronext Paris. They bear interest at an annual fixed rate of 4.25%, payable in arrears on 14 February of each year, and are rated BBB+ by Standard & Poor's;
- on 30 July 2012, a bond issue in the amount of €55 million, at a fixed rate, maturing on 2 August 2027 (the **August 2027 bonds**). The August 2027 bonds have a unit par value of €100,000 and bear interest at an annual fixed rate of 4.125%, payable in arrears on 2 August of each year;
- on 31 July 2012, a bond issue in the amount of €400 million, at a fixed rate, maturing on 2 August 2019 (the **August 2019 bonds**). The August 2019 bonds have a unit par value of €100,000 and are listed for trading on the NYSE Euronext Paris. They bear interest at an annual fixed rate of 3.25%, payable in arrears on 2 August each year, and are rated BBB+ by Standard & Poor's.

The nominal amount and interest on the February 2017 bonds, August 2027 bonds and August 2019 bonds (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 bonds' maturity period, 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, to 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.

These three bond issues specifically include a changeof-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 bondholder 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 prospectuses for the February 2017 and August 2019 bond issues on the NYSE Euronext Paris market may be consulted on the websites of the Company (www.vallourec.com) and the French Securities Regulator (*Autorité des Marchés Financiers* – AMF) [www.amf-france.org].

Rating

On 1 January 2012, the date of the 2012 financial year's opening, the Vallourec debt was rated by the Standard & Poor's rating agency at BBB+/Stable/A-2. Accordingly, as at 31 December 2012, the Vallourec debt's credit rating is BBB+/negative/A-2.

2.3 BREAKDOWN OF SHARE CAPITAL AND VOTING RIGHTS

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

Year 2010 (on 31 December)

Shareholders	Number of shares	% of share capital	Theoretical number of voting rights	Theoretical % of voting rights	% of voting rights that could be exercised at General Meetings
FSI [(a)]	7,097,617	6.02%	7,097,617	6.01%	6.04%
Capital Research	5,906,563	5.01%	5,906,563	5.00%	5.02%
Bolloré Group	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 sector	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	555,114	0.47%	555,114	0.47%	0.00%
TOTAL	**117,944,082**	**100%**	**118,133,247**	**100%**	**100%**

Year 2011 (on 31 December)

Shareholders	Number of shares	% of share capital	Theoretical number of voting rights	Theoretical % of voting rights	% of voting rights that could be exercised at General Meetings
FSI [(a)]	8,427,464	6.94%	8,427,464	6.92%	6.98%
Capital Research	5,736,382	4.72%	5,736,382	4.71%	4.75%
Bolloré Group	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 sector	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	1,012,231	0.83%	1,012,231	0.83%	0.00%
TOTAL	**121,434,409**	**100%**	**121,781,425**	**100%**	**100%**

Year 2012 (on 31 December)

Shareholders	Number of shares	% of share capital	Theoretical number of voting rights	Theoretical % of voting rights	% of voting rights that could be exercised at General Meetings
FSI [(a)]	8,871,078	7.10%	8,871,078	6.90%	6.96%
Capital Research [(b)]	6,503,705	5.21%	6,503,705	5.06%	5.10%
Bolloré Group [(c)]	2,046,475	1.64%	2,046,475	1.59%	1.61%
Nippon Steel & Sumitomo Metal Corporation [(d)]	1,973,134	1.58%	1,973,134	1.54%	1.55%
Public sector	95,583,919	76.50%	97,977,729	76.27%	76.88%
Group employees	8,925,768	7.14%	10,060,911	7.83%	7.90%
Own shares [(e)]	1,042,277	0.83%	1,042,277	0.81%	0.00%
TOTAL	**124,946,356**	**100%**	**128,475,309**	**100%**	**100%**

(a) Jointly with Caisse des Dépôts et Consignations (CDC).

(b) By letter dated 25 July 2012, Capital Research and Management Company declared that, on 23 July 2012, it had exceeded the 5% thresholds for Vallourec share capital and voting rights and held 6,503,705 Vallourec shares with the same number of voting rights, representing 5.35% of the capital and 5.25% of the voting rights (AMF decision and prospectus no. 212C0961 of 25 July 2012).

(c) Including Compagnie de Cornouaille SAS and Bolloré SA (both companies controlled indirectly by Vincent Bolloré).

(d) In 2012, following the acquisition of Sumitomo Metal Industries by Nippon Steel, the new entity was named Nippon Steel & Sumitomo Metal Corporation (NSSMC).

(e) Own shares held directly include the shares shown on the balance of the liquidity contract managed by Rothschild & Cie Banque 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 between Vallourec and Nippon Steel & Sumitomo Metal Corporation (formerly Sumitomo Metal Industries) (1)

In recognition of their strengthened industrial collaboration, on 26 February 2009 Vallourec and Nippon Steel & Sumitomo Metal Corporation (NSSMC) 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 pre-emption 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 is automatically renewable for further one-year periods.

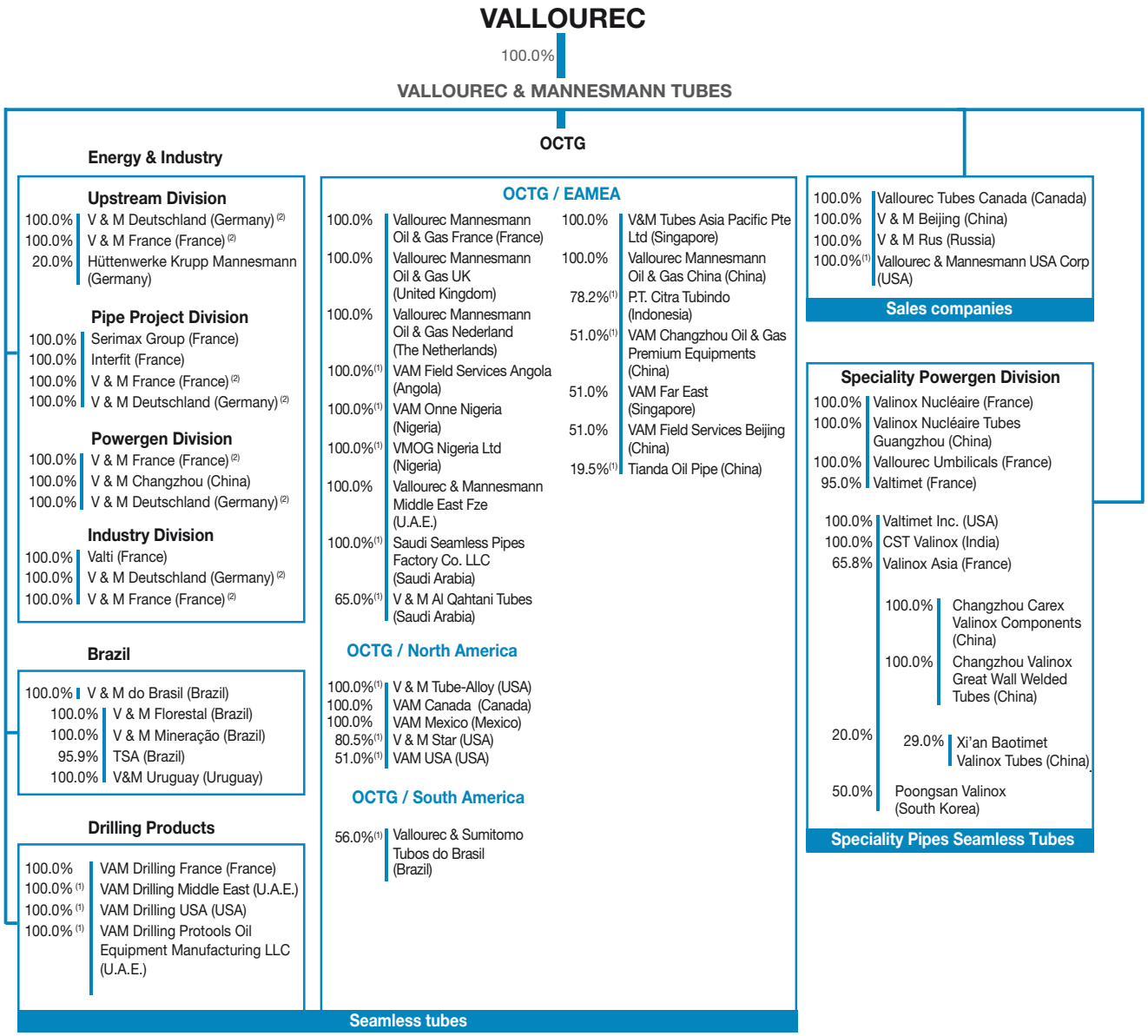
On 31 December 2012, NSSMC held 1,973,134 Vallourec shares, representing a stake of 1.58% in Vallourec's share capital; reciprocally, Vallourec held 34,687,590 NSSMC shares, representing a stake of 0.37% in NSSMC's share capital.

2.3.2 OTHER PERSONS EXERCISING CONTROL OVER VALLOUREC

none.

(1) Sumitomo Metal Industries merged with Nippon Steel on 1 October 2012. The new entity resulting from the merger has been named Nippon Steel & Sumitomo Metal Corporation (NSSMC).

2.3.3 VALLOUREC GROUP ORGANIZATION CHART AS OF 31 DECEMBER 2012



(1) Percentage of the Group's direct or indirect holding.

(2) V & M France and V & M Deutschland activities cover the Upstream, Industry, Pipe Project and Powergen Divisions.

2.4 MARKET FOR VALLOUREC'S SECURITIES

2.4.1 LISTING MARKET

The Company's shares are listed in subfund A of the 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 are part of the MSCI World Index, Euronext 100, CAC 40 and SBF 120 indices – FTSE classification: Engineering and industrial capital goods.

The February 2017 and August 2019 bonds are admitted to trading on the NYSE Euronext market in Paris under ISIN codes FR0011149947 and FR0011302793 respectively (see above, Section 2.2.6 – Securities not representing 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 custodian bank responsible for administering the ADR program. 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:

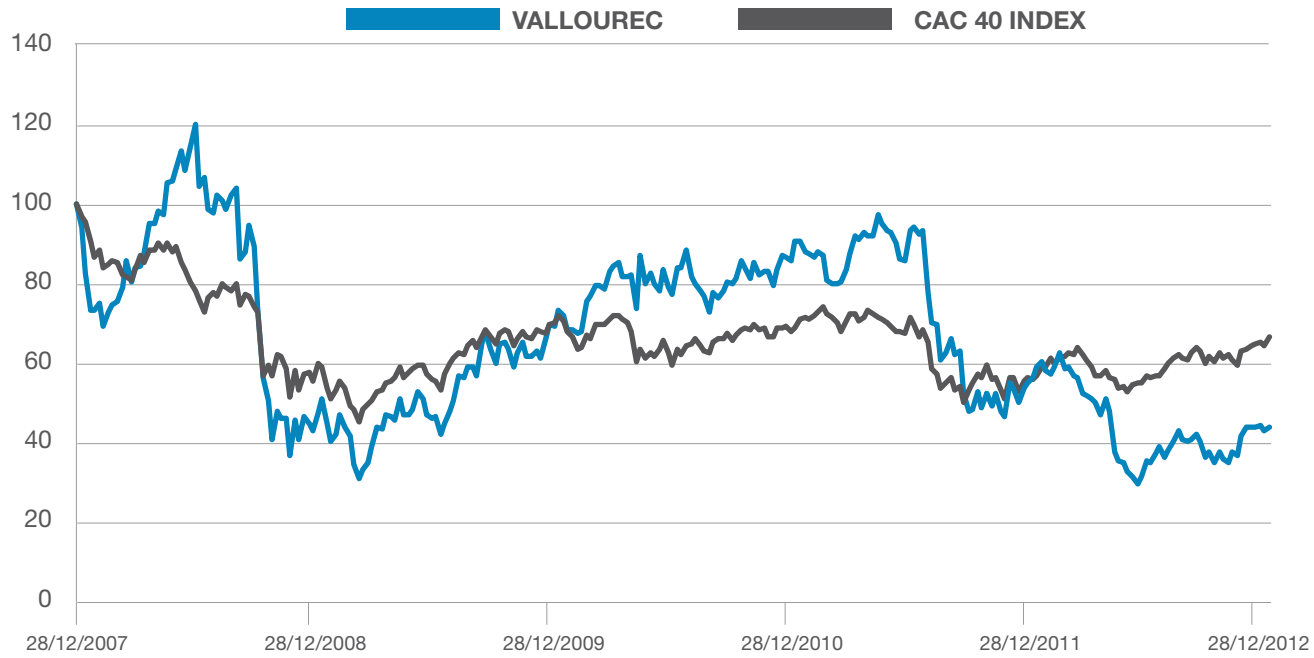
  JP Morgan Service Center
  JP Morgan Chase & Co.

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

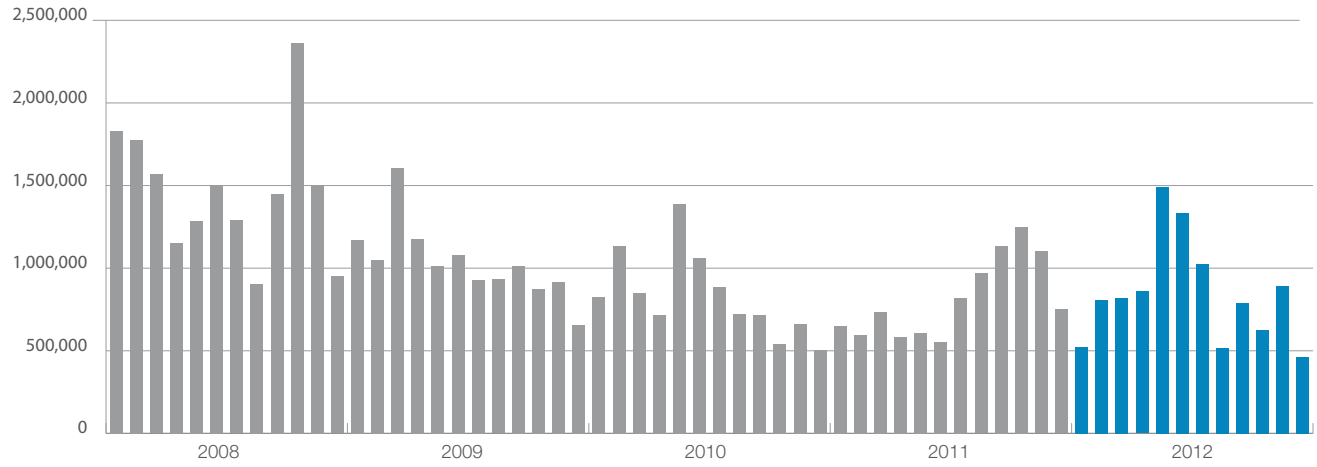
2.4.3 VOLUMES TRADED AND PRICE TRENDS

For clarity and consistency, all the data provided in this section has been adjusted to take into account the 2:1 reverse 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



Share price trend adjusted for reverse stock split and market capitalization over five years

In euros	2008	2009	2010	2011	2012
Adjusted number of shares (as at 31 December)	107,577,432	114,561,578	117,944,082	121,434,409	124,946,356
Highest price	112.23	64.25	81.61	89.58	58.24
Lowest price	32.09	26.26	60.35	38.34	25.69
Average (closing) price for the year	74.83	47.34	73.05	68.33	40.05
Year-end price	40.50	63.53	78.60	50.16	39.49
Stock market capitalisation (year-end price)	4,356,885,996	7,278,097,050	9,270,404,845	6,091,149,955	4,934,131,598

Source: Euronext.

Vallourec share price trend and trading volume from January 2012 to March 2013

	Price (in euros)			Transaction volume			
				Monthly total		Daily average	
	Highest	Lowest	Month-end	Number of securities	Amounts in billions of euros	Number of securities	Amounts in billions of euros
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
April	48.43	40.83	45.43	16,314,868	0.73	858,677	0.04
May	46.16	29.80	30.20	32,757,355	1.14	1,488,971	0.04
June	32.20	25.69	32.17	28,021,607	0.80	1,334,362	0.04
July	36.12	31.70	33.76	22,563,692	0.76	1,025,622	0.03
August	39.68	32.55	36.87	11,873,346	0.44	516,232	0.02
September	39.33	32.87	32.95	15,806,330	0.58	790,317	0.03
October	35.00	31.51	31.74	14,445,601	0.48	628,070	0.02
November	40.13	31.10	39.93	19,616,612	0.69	891,664	0.03
December	41.23	38.50	39.49	8,793,295	0.35	462,805	0.02
2013							
January	43.84	37.92	40.05	12,229,584	0.50	555,890	0.02
February	43.09	38.51	40.83	13,364,180	0.54	668,209	0.03
March	41.45	37.26	37.50	10,133,184	0,40	506.659	0.02

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 2:1 reverse stock split was carried out on 9 July 2010. The current par value of Vallourec's shares is €2.00.

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 General Meeting to be held on 30 May 2013 (third and fourth resolutions), shareholders will be asked to approve the payment of a net dividend of €0.69 per share in respect of the financial year 2012 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 statutory and regulatory provisions. The date of dividend payment and ex-dividend (ex-date) negotiation is 6 June 2013 (closing date [record date] on 5 June 2013).

Accordingly, each shareholder will be able to opt for payment of the entire net dividend in cash or shares between 6 June 2012 and 18 June 2012 inclusive. If the option is not exercised by the end of this time limit, the dividend will be paid in cash only. Payment in cash or delivery of shares will take place as of 25 June 2013.

This dividend corresponds to a payout ratio of 39.7% of the consolidated net profit, Group share. The average payout ratio in the last five years was 37.2%.

On the basis of the nominal value of Vallourec's shares as of 31 December 2012 and taking into account the 2:1 stock split on 9 July 2010, dividends per share have been, for the last five years:

In euros per share	Gross income	Tax credit	Net dividend	Payout ratio
2007	5.50	None	5.50 [(a)]	37.4% [(b)]
2008	3.00	None	3.00 [(c)]	33.2%
2009	1.75	None	1.75 [(c)]	38.6%
2010	1.30	None	1.30 [(c)]	37.3%
2011	1.30	None	1.30 [(c)]	39.4%

(a) Including an interim dividend of €2.00 per share distributed on 4 July 2007.

(b) Not including an interim dividend of €2.00 per share distributed on 4 July 2007.

(c) It should be noted that the Combined General 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 statutory and regulatory provisions.

2.6 FINANCIAL COMMUNICATIONS 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 Communications team is to facilitate shareholders' access to accurate, precise and true 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 via electronic means 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, Vallourec mini-brochure and letters to shareholders;
- all financial and strategic information issued to the financial markets, including quarterly results, press releases, presentations and audio and video conference transmissions;
- 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 French Securities Regulator (*Autorité des Marchés Financiers* – AMF),
  - documents relating to the General Shareholders' Meeting (notice of meeting, draft resolutions, voting slip, meeting brochure);
- all Group press releases, presentations and publications are available under the Media section.

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

2.6.2 RELATIONS WITH INSTITUTIONAL INVESTORS AND FINANCIAL ANALYSTS

The Investor Relations and Financial Communications Department organizes, with the contribution of various members of the Group's executive 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 and subsequently on the Group's website.
- **An Investor Day is organized on a regular basis**, where a presentation is made to the financial community on the Group's strategy, products and operations. In 2011, Vallourec held its Investor Day in Brazil, with a tour of the new VSB integrated plant. The next Investor Day is planned for 2013 in the United States.

In addition, **numerous meetings between the Group's executive management and the financial community are arranged throughout the year**. In 2012, Vallourec's top management and the Investor Relations and Financial Communications 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 & Gas sector, at the world's leading financial centers, particularly 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 General Meetings);
- dedicated communications media: the Shareholders' Guide and letters to shareholders;
- a program 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 Communications team that is always available to answer questions.

Annual General Meeting

The Annual General Meeting, which in 2012 was held at the Palais Brongniart, is a key opportunity for dialogue about the Group's performance over the year between individual shareholders and the Group's executive management. The Investor Relations and Financial Communications team is also available to advise shareholders on voting and attending General Meetings.

Registered shares

Vallourec offers its shareholders the opportunity to enjoy the benefits afforded by direct registration of their securities, including:

- **free management:** direct registered shareholders are totally exempt from custody fees as well as the other fees associated with management of their securities:
  - conversion to bearer shares and security transfers,
  - changes in the legal situation: transfers, gifts, inheritance etc,
  - securities transactions (capital increases, allocation of securities etc.),
  - dividend payments;
- **a guarantee of receiving personalized information:** direct registered shareholders are guaranteed to receive personalized information on:
  - notices of General 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, taxation of securities and organization of General 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 General Meetings is easier:** all registered shareholders are automatically invited to General Meetings and, in order to vote, need not go through the prior formality of requesting a certificate of holding.

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

- mailing address:

  CACEIS Corporate Trust
  Investor Relations
  92862 Issy-les-Moulineaux Cedex 09 – France
- by telephone: +33 (0)1 57 78 34 44
- by fax: +33 (0)1 49 08 05 80

2.6.4 CONTACT FOR INVESTOR RELATIONS AND FINANCIAL COMMUNICATIONS

Investor Relations and Financial Communications Department

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

2.6.5 2013 FINANCIAL CALENDAR (INDICATIVE)

2 May 2013	Release of first-quarter results
30 May 2013	General Shareholders' Meeting
(as of) 25 June 2013	Payment of dividend
30 July 2013	Release of second-quarter results
7 November 2013	Release of third-quarter results

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3.1 VALLOUREC AND THE VALLOUREC GROUP

The Vallourec Group is over 100 years old, with certain Group companies having been established in the last decade of the 19th century. The Group originated in two areas of France, both with long industrial traditions, where 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 Germany's North Rhine-Westphalia region and the Belo Horizonte region in Brazil's Minas Gerais state. V & M Tubes' acquisition of the seamless tubes business of North Star Steel Company, now named V & M Star, at the beginning of July 2002, supplemented in 2005 with the acquisition of Omsco (since renamed VAM Drilling USA) and, on 16 May 2008, of Atlas Bradford®, TCA® and Tube-Alloy™, significantly boosted the Group's presence in the United States.

Although "Vallourec" first appeared in 1930 as the name of 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 Louvroil et Recquignies, itself a company resulting from a 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, "Vallourec" was registered as a product name, but it was not until 1957, when the Valenciennes plant was bought from 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 2002 include:

- 1967: Usinor's contribution by Usinor of the Lorraine-Escaut tubes business, a company recently taken over by Usinor;
- 1975: Takeover of Compagnie des Tubes de Normandie;
- 1979: Contribution of the small welded tube business to Tubes de la Providence, a company that took the name Valexy (Vallourec: 64%, Usinor: 36%);
- 1982: Takeover of Entrepose, a 90%-owned Vallourec subsidiary, by Grands Travaux de Marseille, renamed GTM-Entrepose; with a 41% holding in GTM-Entrepose, Vallourec became its main shareholder;
- 1985: Contribution of the large welded tube business to GTS Industries;
  - withdrawal of Vallourec from the small welded tube business (Valexy) and large welded tube business (GTS Industries) in favor of Usinor, with Vallourec concentrating on seamless tube production and downstream processing activities,
  - sale of Société Industrielle de Banque (SIB);
- 1986: until then a holding and industrial company with many production units, Vallourec 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 a main Group' development area;
- 1991: Sale of the residual holding in Valinco to Dumez;
- 1997: Establishment of V & M Tubes, a joint subsidiary of Vallourec (55%) and Germany's Mannesmannröhren-Werke (45%);
- 2000: V & M Tubes' acquisition of the Brazilian subsidiary Mannesmann SA, now named V & M do Brazil SA; sale of the residual holding in Valinco to Dumez;
- 2002: V & M Tubes' acquisition of North Star Steel Company's seamless steel tube business (North Star Tubes), which thus increased Vallourec's share in the Energy sector's buoyant tube market and significantly boosting 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.

3.1.1 CHANGE IN GROUP STRUCTURE IN RECENT YEARS

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

- full control over the implementation of V & M Tubes' strategy (acquisitions, capital expenditure etc.);
- a clearer, more consistent 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. This unit specializes 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 and 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 specializes 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 via the acquisition of France's SMFI (Société de Matériel de Forage International), which also specializes in drill collars, heavyweight drill pipes and high-tech products for oil & gas drilling, as well as 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. Also in 2007, Sumitomo Metal Industries and Sumitomo Corp. acquired shareholdings of 34% and 15% respectively in this company via VAM Holding Hong Kong Limited.

On 16 May 2008, the Group acquired Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™ from Grant Prideco. The first two companies merged in 2009 with VAM USA LLC and V & M Star respectively, and the third was renamed V & M Tubes-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, 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 specializing 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 almost 3, enabling it to produce 5,000 km of tubular products per year. This plant was inaugurated in 2011.

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 PT Citra 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 that 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 boost 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 & Gas drilling industry in the Middle East, which is a significant market for drill pipes and which represents 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), This new pipe mill will initially produce 350,000 tonnes of tubes a year. It also includes heat-treatment and threading lines, which are due to be commissioned in the first half of 2013. The plant's capacity may be raised, if necessary, to 500,000 tonnes of seamless pipes a year. This new unit will extend the range produced by Vallourec in North America and consolidate its leadership position in premium tubular solutions on the American market. The plant was commissioned in October 2012 and the first sales were made in December 2012.

On 8 June 2010, Vallourec acquired 100% of Serimax, the world leader in integrated welding solutions for offshore line pipe. This acquisition is 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 optimize 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 China's V & M Changzhou plant. The extension project will enable the plant to produce an additional 60,000 metric tons per year of seamless tubes, using new, proprietary forging technology, to satisfy local demand from power plants. Production was 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 metric tons. 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 metric tons. TOP is a member of the Anhui Tianda Enterprise Co. Limited, 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 being built to support the rapid growth in Chinese nuclear facilities, forecast to extend to 2020. The project will supplement France's 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 programs in several world regions.

On 9 February 2011, Vallourec Umbilicals, a new Group subsidiary intended 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 components that combine tubes, cables and optical fibers and are used to connect seabed equipment to a control station on the surface. This innovative solution will extend the Group's premium offering. The new plant was certified by Bureau Veritas in 2012, and will therefore be able to fulfill its first orders in 2013. Through its Valmet subsidiary, the Group has acquired know-how in the production of extra-long welded tubes, which has made it possible to reduce the number of orbitally-welded points in these components. Umbilicals assembled with Vallourec tubes will provide better fatigue resistance – which is important at sea – for a lower given weight.

On 25 November 2011, the Group finalized the acquisition of Saudi Seamless Pipe Factory Company Limited (Zamil Pipes), the leading processing and finishing company for seamless OCTG tubes in Saudi Arabia. Based in Dammam, Zamil Pipes gives Vallourec significant finishing capacity, especially for already-operational heat-treatment facilities with a capacity of 100,000 metric tons of tubes per year. Vallourec has thus strengthened its local presence in Saudi Arabia and will be able to 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. Located at Jeceaba in the state of Minas Gerais (close to other Brazilian Vallourec Group entities), 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 specializing in iron-ore extraction and charcoal production. A unique manufacturing complex boasting the very latest technology, the plant covers 250 hectares and includes a steel mill, a high-end pipe mill and a heat-treatment, threading and finishing line complex. It will employ 1,600 people and have a production capacity of 1 million metric tons of steel (including 300,000 metric tons for Vallourec's own requirements, excluding VSB) and 600,000 metric tons of tubes (of which 300,000 metric tons 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.

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. This new unit will be located alongside the V & M Star pipe mill commissioned by the Group on 26 October 2012. 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). The first production lines will come into operation in 2014.

The Group did not make any acquisitions in 2012.

Other acquisitions made in recent years have concerned Valtimet, which was established 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 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 in Bupyung, Incheon, South Korea, to manufacture 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) at 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 specializes 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, specializing 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) specializing in the finishing (finning, in particular) of stainless steel and titanium tubes, thereby boosting 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, comprising 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 specializes in the assembly of rear-axle units for Renault do Brazil and Peugeot Citroën do Brazil, and the subsidiary Vallourec Argentina, which specializes 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 represented 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, Germany's Pfalz-Flugzeugwerke GmbH (PFW).
- Cerec, which specializes 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 specializes in the manufacture of cold-drawn precision tubes, was sold to the Salzgitter group early in July 2007. VPE, which generated 2006 sales 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.

The Group did not make any significant disposals in 2012.

Key events in 2012

Contracts

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 tubes for the steam generators of two 1,300-MW reactors. This contract relates to the EDF program announced in September 2011 to gradually replace large components of its 1,300-MW power plants, whereby the building of new steam generators for 11 reactors was awarded to Areva and Westinghouse. Each steam generator has a 122-km internal circuit of nickel alloy tubes. These tubes are designed to create steam, which is used to produce electricity via a high-power turbine.

On 27 July 2012, Vallourec announced that it had received an order earlier in the year from the Middle East for a series of latest-generation premium VAM® 21 threaded connections, representing a total of approximately 15,000 metric tons. Orders from major Oil & Gas operators were concentrated in three countries: Qatar, Saudi Arabia and Kuwait.

In September 2012, the Group was awarded a contract relating to the North Sea's Greater Stella project. The Group will supply seamless premium tubes and coating and welding services. The 96 kilometers of tubes for subsea pipes will be delivered during the first quarter of 2013 to Technip, which is in charge of engineering, the supply of equipment and the construction of the project (EPC). The Greater Stella zone, operated by Ithaca Energy, is located in the central section of the North Sea (Block 30/06a), 238 km south-east of Peterhead (United Kingdom) and 17 km from the United Kingdom/Norway median line. Submerged at a depth of approximately 85 meters, the premium Vallourec tubes will be used for Oil & Gas export pipes. To prevent corrosion of the pipes and avoid the formation of paraffin deposits, Vallourec will deliver the tubes with a three-layer coating of polypropylene.

At the end of 2012, the Group signed a contract with Siemens for the supply of 1,000 metric tons of steel VM12-SHC tubes, patented by Vallourec, for the boiler in Düsseldorf's combined-cycle power plant. The electricity output of this new plant will reach approximately 600 MW and its energy efficiency will be over 61%, which will make it one of the most effective and most environment-friendly plants in the world.

Strategic projects

On 13 September 2012, Vallourec inaugurated an extension to its tube manufacturing facility in Changzhou, China. This extension will enable the plant to expand its offering, which will now include large-diameter seamless premium tubes specially designed to meet the needs of the latest generation of supercritical and ultra-supercritical power plants and other industrial applications.

After the piercing of the first steel billet on 29 June 2012, Vallourec's new, latest-generation plant in Youngstown, Ohio, began the first continuous production of tubes on 26 October 2012. This plant will be dedicated to the production of small-diameter OCTG tubes to be used in the extraction of hydrocarbons from shale, which is a long-term growth sector in the United States. The first sales were made in December 2012.

Research

On 29 November 2012, the Group announced the extension of its VAM® connection test center in Houston. This center will enable Vallourec to develop ever-more-innovative products for its customers and meet their growing demand for existing product ranges to comply with the most exacting new standards and extreme well conditions. The performance of full-scale tests for customers is an integral part of the Group's R&D process, and the extension of the Houston test center will enable Vallourec to double its R&D capacity dedicated to

the design and testing of its premium connections in the United States.

The Boiler & Line Pipe Competence Center (BLCC), which is part of the Vallourec Research Düsseldorf R&D center, doubled its number of researchers in 2012. Located close to major German boiler and steam-generator manufacturers, the BLCC focuses specifically on the development and design of tubes and steels used in conventional and nuclear power plants as well as oil and gas pipelines.

Extension of production capacity

In 2012, the PT Citra Tubindo heat treatment and threading plant in Indonesia increased its production capacity to include accessories. VAM® TOP-accredited in September 2012, the Hymindo workshop in Batam is now involved in threading accessories and carrying out repairs.

Inaugurated on 5 July 2012, the new accessories unit of V & M do Brasil (VMB) in Rio das Ostras is now operational and is producing the premium accessories required for the finishing of oil wells. This new unit will enable VMB to provide a comprehensive local offering that combines seamless steel tubes, well accessories and management.

First quarter of 2013

In January 2013, V & M do Brasil, Vallourec's Brazilian subsidiary, and Petrobras, Brazil's national oil company, announced that they had renewed their main framework contract at the end of 2012 for a period of five years for the supply of premium OCTG products. These are seamless tubes with steel grades and connections that are at the leading edge of the latest technology. Such products will be used by Petrobras for its offshore oil and gas exploration and production operations, particularly those relating to the vast reservoir of pre-salt fields. With proven reserves in the region of 16 billion barrels, Petrobras is expected to see a 5-fold increase in its production in pre-salt reservoirs by 2017, from 200,000 to around a million barrels per day. In 2012, Brazil's national company announced an investment plan totaling USD 236.5 billion over the 2012-2016 period, i.e. one of the largest in the world, of which USD 141.8 billion will be allocated to exploration and production expenses.

In January 2013, Valinox Nucléaire, the Group subsidiary specializing in tubes for nuclear power plants, announced that it had won several substantial orders representing in total over one year's production at its plant in Montbard, France. Deliveries will be made between 2013 and 2015.

The Group's new finishing plant in Saudi Arabia was fully accredited. Located in Dammam, it is dedicated to the heat treatment and threading of the entire VAM® range of premium connections, and has an annual capacity of 100,000 metric tons. It will mainly supply Saudi Aramco, the Kingdom's national oil company, and other regional operators. The accreditation of this plant strengthens Vallourec's presence in the Middle East, where many Oil & Gas projects require high-value-added tubular solutions. The finishing plant consists of a heat treatment unit from the 2011 acquisition of Saudi Seamless Pipes Factory Company Limited and a threading unit and sleeve production workshop, both constructed by Vallourec. The whole plant is now accredited to perform all the operations required for the production of premium connections, with the exception of the hollows supplied by Vallourec's pipe mills.

In the first quarter of 2013, one of Vallourec's subsidiaries was the victim of international transfer fraud. The amount of the fraud, estimated at €23 million, should have a maximum impact on the Group's consolidated net income of approximately €16 million. Vallourec lodged a complaint immediately after it was discovered and a criminal investigation is ongoing. The Group has also brought an action before the administrative court to obtain compensation for the prejudice suffered.

Parent company-subsidiary organization

- Vallourec is a holding company that:
  - manages its participating 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,
  - and operating and brand-protection costs. In accordance with general Group policy, the Group's image 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 activities. 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 Setval's merger by absorption, 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 centralized 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 2012, the companies that were members of this centralized 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 2012, V & M Tubes had 175 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 VALLOUREC GROUP ACTIVITIES

The Group is a world leader in premium tubing solutions, primarily for the Energy market and other industrial applications. With over 23,000 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-value-added tubing products, including the world's most extensive range of seamless tubes of up to 1,500 mm in external diameter in a selection 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.

Specializing 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 the recently acquired companies Atlas Bradford® (USA 2008) and PTCT (Indonesia 2009) plus the commissioning of a new integrated plant in Brazil (2011) and a new rolling mill in the United States (2012), to aid in its continued expansion on booming Energy markets.

With more than 50 production units and finishing lines around the world, Vallourec has integrated sites combining steel mills and tube mills 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 amended 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 Orders of 21 November 2011 and 30 July 2012) concerning the imposition of restrictive measures against Iran and Syria.

The Group's activities differentiate between seamless and specialty tubes, and it also operates a number of sales companies.

3.1.2.1 Seamless tubes

The Group's seamless tube activities cover the following four sectors:

- Energy & Industry (E & I);
- Oil Country Tubular Goods (OCTG);
- Drilling Products; and
- Brazil.

3.1.2.1.1 Energy & Industry (E & I)

The Energy & Industry sector is organized into one Upstream Division and three Market divisions.

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

The Market divisions comprise:

- The Pipe Project Division, dedicated to the process and line pipe markets (Line Pipe Project);
- The Powergen Division, dedicated to the world market for thermal power plants;
- The Industry Division, which is in charge of the Mechanical Engineering, Structures (excluding Brazil) and Hollows markets.

The Market divisions are in charge of sales, marketing and promoting the development of their products around the world. They are responsible for their own profit and loss accounts.

A) UPSTREAM DIVISION

The objectives of the Upstream Division are:

- to continue to improve safety, quality and customer service;
- to provide the Market divisions with a broad product base at a competitive cost to allow the growth of the Group's activities in its various markets.

The strategy of the Upstream Division is based on:

- ongoing improvement initiatives, based on the participative introduction of lean production concepts;
- the optimization of production tools, researched and presented within the context of the European Industrial Plan;
- the development of new products and processes, in collaboration with the TRDI Department (see below, Section 3.3: Research and Development – industrial property).

In 2012, the Upstream Division completed the specialization of its production sites and continued the plan to optimize its critical heat treatment and finishing capacities to support the upgrading of its products.

The activities of the Upstream Division and of the Pipe Project, Powergen and Industry Divisions, are largely dependent on the following subsidiaries:

- **V & M France – France (100%)**

In France, 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.

A major investment plan for the steel mill in Saint-Saulve was initiated in 2012 and will continue in 2013 to modernize the liquid steel production tool and improve the plant's technical performance.

The Déville-lès-Rouen plant was refocused on oil activities, and supplies urgent casing-product orders to the OCTG Division. A new heat treatment furnace will be installed in 2013 to support the upgrading of its product range.

The forge in Aulnoye-Aymeries has reached its industrial production rate and is providing the Industrial Market Division with a wide range of products suited to the requirements of Europe's special Mechanical Engineering market.

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

This company operates four pipe mills in Germany, in Mülheim, Düsseldorf-Rath and Düsseldorf-Reisholz (North Rhine-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.

The Dusseldorf-Reisholz plant has been adapted to the structural decline in the large boiler pipes market accessible from Europe.

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.

B) PIPE PROJECT MARKET DIVISION

The Pipe Project Market Division is dedicated to the Oil & Gas markets, with a dual strategic position in the Exploration and Production sectors (upstream oil) and in downstream activities. It groups together all the products and services for engineering and oil companies that are used downstream of drilling, from the wellhead to the petrochemical refineries and plants. The range of products developed by the Pipe Project Market Division includes rigid subsea pipes (production and injection lines and risers), specialist tubes for umbilicals and process tubes and fittings for hydrocarbon conversion units. This range is supplemented by such innovative services as on-site offshore and onshore welding, coating, bending and complex project management. This offering also enables the Pipe Project Market Division to position itself in leading subsea Oil & Gas construction markets, both on- and off-shore, while strengthening ties with the Group's customers and maintaining sustainable relationships.

The activities of the Pipe Project Market Division are exercised, through V & M France and V & M Deutschland GmbH, described above, as well as the following two subsidiary companies:

- **Serimax – France (100%)**

Serimax is the world leader in integrated welding solutions for offshore line pipe. It supplements Vallourec's activities in the field of tubes for offshore pipelines and a service offering that includes comprehensive solutions for pipeline welding and manufacturing, on both land and sea and in the most extreme conditions. From planning to the implementation and management of a project, Serimax adapts each project to its customers' requirements (engineering, SURF [1] and onshore companies) and provides experienced personnel and state-of-the-art welding equipment to meet various project specifications and requirements.

- **Interfit – France (100%)**

This company manufactures and markets carbon steel fittings (bends, reducers, Ts and ends) for assembling tube networks for the transport of fluids (superheated water, steam, gas, oil products etc.).

Its production unit is located in Maubeuge (France).

C) POWERGEN MARKET DIVISION

The role of the Powergen Market Division is to market seamless tubes used in the construction of new power plants and the restoration and maintenance of existing plants, whatever their fuel type (coal, gas, fuel oil, biomass or nuclear).

Produced by the Upstream Division, the tubes cover all the steel grades required in power plants and the entire size range, from small diameters for boiler tubes to very-large diameters for steam connections.

Aside from its sales operations and corresponding technical assistance, the Powergen Market Division has since 2008 included marketing, research and development and business-development functions in order to fine-tune understanding of the constraints and requirements of Group customers, provide them with suitable solutions, strengthen and develop useful partnerships on the markets and translate technological challenges into research and development programs and innovative offerings.

The Group also focuses on continuing to improve the quality, operational excellence and range of the products and services it offers so as to meet customer requirements.

The Powergen Market Division also operates through V & M France and V & M Deutschland GmbH, described above, as well as China's V & M Changzhou.

- **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. On 13 September 2012, a new forging and heat treatment unit was inaugurated that will enable all the manufacturing operations for seamless large-diameter pipes to be integrated locally. The first orders were delivered during the second half of 2012.

D) INDUSTRY MARKET DIVISION

The Industry Division is in charge of the Mechanical Engineering, Structures (excluding Brazil) and Hollows markets. It is organized according to the following departments, located in Germany and France:

- Sales and Marketing departments dedicated to the Mechanical Engineering, Structures and Hollows sectors and export markets;
- an Industry Competence Center (R&D, technical customer support and product development);
- a Business Development Department; and
- a Business Unit.

(1) Subsea/Umbilicals/Risers/Flowlines.

Sales and marketing departments

The Mechanical Engineering sales and marketing Department is in charge of the sale of round tubes in line with various standards and customer specifications in Europe, Russia and the CIS. Most products are sold to distributors, not only for general mechanical engineering but also in the hydraulic cylinder, crane, oil industry accessory, offshore application, armature, micropile and axle segments and other Mechanical Engineering industries (such as chemistry and automotive). The activity of the Structures sales and marketing department involves selling square and rectangular tubes in Europe, Russia and the CIS. Most sales are concentrated on general-use distributors. Another major opening is in the Agricultural sector. The Hollows sales and marketing Department is responsible for selling hollows in Europe for redrawing, bearing tubes, gas cylinders and accumulators. The Export Market sales and marketing Department is responsible for the sale of all products (Mechanical Engineering, Structures, Hollows) outside Europe. It is also in charge of selling tubes for such international projects as for civil construction (stadiums, bridges) and offshore platform projects.

Industry Competence Center

The Industry Competence Center makes it possible to be close to customers, meet their requirements and anticipate developments in markets and technologies. It covers research and development (R&D) activities, technical customer support and product development. The Industry Competence Center is developing PREON® Marine, an innovative, eco-friendly tubular solution for anchoring wind farms at sea. Compared to the two solutions currently in use, this solution will enable wind-farm base structures to be built more easily, more quietly and at a lesser depth.

Business development

In close cooperation with the Industry Competence Center and the Sales and Marketing departments, this department is involved in marketing, development and project activities. One example is the new brand concept for premium steel grades. At the beginning of the year, the Industry Market Division restructured its range of proprietary materials for industrial applications. Six series of premium grades were designed to improve the Company's innovative portfolio.

This organizational 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 programs and new products.

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

Business Unit

The activities of the Industry Market Division are exercised through V & M France and V & M Deutschland GmbH, described above, as well as the Valti subsidiary.

- **Valti – France (100%)**

Valti is a historic European leader in seamless tubes and rings for the manufacture of ball-bearing races. In addition to this activity, Valti produces and supplies bespoke tubes for Mechanical Engineering and tubular hollows for the Oil & Gas markets.

To increase its competitiveness and responsiveness in the face of customers' increasingly demanding service requirements, Valti rationalized its production capacity in 2010. At present the company has two production units:

- the Montbard plant (Côte-d'Or, France): a hot-process pipe mill and a cold-process unit; and
- the La Charité-sur-Loire plant (Nièvre, France): machining and cold-rolling units.

To expand its offering, Valti commissioned two major facilities in 2012: an induction heat treatment furnace at Montbard and a cold-roller for large-diameter rings at La Charité-sur-Loire.

The induction heat treatment furnace has enabled Valti to expand its product offering in the Mechanical Engineering and Oil & Gas markets, particularly for:

- bespoke tubes for Mechanical Engineering and, specifically, mechanical tubes for the Oil & Gas segment;
- tubes for Oil & Gas sleeves; and
- tubes for drill pipes.

The new roller, which uses an innovative, competitive process, is helping Valti to grow in the large-diameter industrial ring market.

Through these activities and investments, Valti aims to improve its position as a supplier of bespoke tube and bearing ring products and services in the markets for bespoke mechanical engineering, Oil & Gas sleeves and accessories and drill pipes.

3.1.2.1.2 Oil Country Tubular Goods (OCTG)

The business of the OCTG Division is spread across Europe, Africa, the Middle East and Asia (OCTG EAMEA), North America (OCTG North America) and South America, to a certain extent, through the subsidiary Vallourec & Sumitomo Tubos do Brasil. These three 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. Vallourec & Sumitomo Tubos do Brasil is also an integrated production site fabricating its own steel and tubes, with the associated finishings, for export.

The OCTG EAMEA Division continued to strengthen its markets' regional approach in 2012 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, the Saudi Seamless Pipes Factory Company Limited, the leading processing and finishing company for seamless OCTG tubes in Saudi Arabia (acquired in 2011 and located in Dammam), carried out its first significant manufacturing operations in 2012 and is continuing the accreditation programs for its heat treatment facilities while increasing its premium threading capacity. In China, the Division is expanding through its subsidiary VAM Changzhou Oil & Gas Premium Equipment and Tianda Oil Pipe Company Limited (TOP). In the Asia-Pacific region, the main vector for growth is the PT Citra Tubindo TBK (Indonesia) heat treatment and threading plant.

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

OCTG North America concentrated its 2012 development through its main subsidiaries V & M Star, VAM USA LLC and V & M Tube-Alloy™. The small-diameter tube mill at Youngstown (construction of which began in 2010) started commercial production in the fourth quarter of 2012.

Vallourec & Sumitomo Tubos do Brasil (Brazil) continued to ramp up its equipment during 2012 through the industrialization of premium products and the progressive accreditation of the plant by major international customers. Semi-finished products were exported to finishing plants in Scotland and Indonesia, and finished VAM® threaded products were exported, particularly to Africa and the Middle East.

The three OCTG EAMEA, OCTG North America and Vallourec & Sumitomo Tubos do Brasil (Brazil) 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 centers 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. This expertise has been deployed in Mexico, Brazil and, since 2012, Indonesia to provide – in addition to its network of licensed partners – global coverage for requirements.

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 worldwide OCTG research and development, which is conducted in France, the United States and Japan (in partnership with Sumitomo Metal Industries). VAM® research and development also uses Vallourec's general research centers in Aulnoye-Aymeries (France) and 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 specializing in heat treatment and threading at Clydesdale Belshill (Scotland) to meet, in particular, the needs of the North Sea market. The company has been operating under a VAM® license 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 Ltd – Nigeria (100%)**

  This company was formed in February 2008 to operate the tube threading plant in the Onne free-trade zone at 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%)** (1)

  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 by 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 established in April 2010. The company sells V & M premium OCTG products on the Chinese domestic market.

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

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

  V & M Tubes Asia Pacific Pte Ltd operates in the OCTG tubes and accessories market in the Asia-Pacific region.

- **PT Citra 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.

(1) In % shareholding.

- **Vietubes Corporation Limited – Vietnam (49%)**

  This participating interest is held directly and indirectly via PT Citra 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%)**

  A service company formed in 2007 whose operating base is in Luanda.

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

  Established in 2007, VMOG Nigeria Limited is a service company with its operating base in 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 Saudi partner Al Qahtani & Sons. Initially established to accommodate industrial assets, this company has seen its business evolve into a trading activity marketing the Group's products in Saudi Arabia. This development followed the 2011 acquisition of Saudi Seamless Pipe Factory Company Limited (see below) and brought the whole of the Group's industrial activities in Saudi Arabia under the same umbrella.

- **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 finalized on 1 April 2011. 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 metric tons. 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 TOP shareholders 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 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 of selling to 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 Ltd – 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 provided Vallourec with already-operational heat treatment and threading facilities with a capacity of 100,000 metric tons of tubes per year. The company achieved its first significant production in 2012. The finishing plant consists of a heat treatment plant from the 2011 acquisition of Saudi Seamless Pipes Factory Company Limited, and a threading unit and sleeve production workshop, both constructed by Vallourec. In February 2013, Vallourec announced that the entity was accredited to perform all the operations required to produce premium connections from hollows supplied by Vallourec pipe mills.

- **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.

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

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

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 equipped with some of the latest technology and a heat treatment and threading unit. It dedicates 80% of its production range to the OCTG market. 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% of V & M TCA® respectively) prior to its absorption, which enabled V & M Star to integrate the heat treatment of high-grade tubular products (which had until then been developed by V & M TCA®) with a solid focus on urgent orders. V & M TCA® has thus provided V & M Star with additional premium capacity, specific expertise in sour services plus a beneficial geographical fit, enabling Vallourec to extend its North American footprint.

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

On 1 January 2012, V & M Star absorbed V & M Two, responsible for building the new small-diameter pipe mill in Youngstown, Ohio. This new pipe mill will initially produce 350,000 tonnes of tubes a year. It also includes heat-treatment and threading lines, which are due to be commissioned in the first half of 2013. The plant's capacity may be raised, if necessary, to 500,000 tonnes of seamless pipes a year. This new unit will extend the range produced by Vallourec in North America and consolidate its leadership position in premium tubular solutions on the American market. The plant was commissioned in October 2012 and the first sales were made in December 2012.

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

  This company specializes 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 license since 1981.

- **VAM Canada (100%)**

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

  It took over the threading activities of Atlas Bradford® 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 Nippon Steel & Sumitomo Metal Industries (NSSMC, previously Sumitomo Metal Industries [SMI] (1)), which has a 34% interest, and Sumitomo Corporation, which has a 15% interest – for the VAM® threading activities that 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 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. In order to meet growing demand for the compliance of existing product ranges with new standards relating to use in the most extreme well conditions, VAM USA LLC doubled the capacity of its test center in 2012. This center is specially dedicated to testing products for extracting hydrocarbons from shale and for offshore projects in the Gulf of Mexico. The construction of the building (which covers 8,400 sq.m) was completed in July 2012, and all of the facilities are now operational. The production units are located in Houston, Texas.

  A new plant alongside the V & M Star pipe mill commissioned on 26 October 2012 (Youngstown, Ohio) will supplement the VAM USA LLC threading plants and enable the Group to extend its packaged offering of finished products (premium tubes and connections). The first production lines will come into operation in 2014.

- **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 specializes in complex threading operations and in machining bespoke parts for both oil operators and component manufacturers.

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

SOUTH AMERICAN OCTG ACTIVITIES
(EXCLUDED FROM THE SCOPE OF THE BRAZIL DIVISION)
(SEE BELOW, SECTION 3.1.2.1.4 – BRAZIL)

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

  This company was incorporated in 2007 in association with Nippon Steel & Sumitomo Metal Corporation (NSSMC), previously Sumitomo Metal Industries (SMI)(1), as a vehicle for investment in a new state-of-the-art pipe mill integrating two blast furnaces, a steel mill, a rolling mill and a pelletization plant at Jeceaba, Minas Gerais. Its annual steel production capacity will be 1 million tons produced in the form of billets, 700,000 metric tons of which will be needed to supply the new rolling mill. The remaining 300,000 metric tons could be used by the Vallourec Group.

  The new rolling mill will have an annual seamless tube production capacity of 600,000 metric tons. Production will be shared equally between Vallourec and NSSMC, each having an annual capacity of 300,000 metric tons.

  Ground was broken on the new pipe mill in July 2008. The first billet was pierced at the end of 2010, and the first commercial deliveries were made in late 2011. Production continued to be increased in 2012 with the completion of the product accreditation plan and the progressive accreditation of the plant by international customers to enable the qualitative upgrading of sales.

  Vallourec & Sumitomo Tubos do Brasil is 56% (2) owned by the Group, 39% by NSSMC and 5% by Sumitomo Corporation.

3.1.2.1.3 Drilling products

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.

Drilling Products 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.

(1) Sumitomo Metal Industries merged with Nippon Steel on 1 October 2012. The new entity resulting from the merger has been named Nippon Steel & Sumitomo Metal Corporation (NSSMC).

(2) Percentage interest.

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 center.

The Drilling Products Division's R&D and Marketing departments are dedicated exclusively to the development of unique tubular solutions and services to improve drilling efficiency and optimize safety margins in extremely demanding drilling environments. These departments work closely with the operational companies and drilling contractors to develop high-performance new 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).

- **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 consist primarily of drill collars and heavyweight drill pipes.

  Its production unit is located in Houston, Texas.

- **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 Soconord. This company supplies a wide range of drill pipes for the Oil & Gas 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).

3.1.2.1.4 Brazil

Brazil's activities are carried out through the following five companies:

- **V & M do Brasil SA – Brazil (100%)**

  V & M do Brazil SA is located in the Barreiro district of Belo Horizonte, Minas Gerais state. It occupies an area of more than 300 hectares. This integrated unit groups together the full spectrum of production facilities, including a steel mill, hot-process rolling mills and tube finishing lines.

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

  V & M do Brazil SA produces seamless tubes for the Oil & Gas, Automotive, Construction, Petrochemical, 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.), a market that is mainly served by distributors working closely with V & M do Brazil SA to guarantee quality and technical support;
  - the Automotive industry sector (light vehicles, trucks and civil-engineering and agricultural equipment), with precision parts like tubes for diesel injectors, bearing rings and such forged parts as transmission shafts and axles;
  - the Civil Engineering sector: infrastructure and foundations for industrial and commercial assets, capital goods, ancillary machines and materials, and facilities connected with the Oil & Gas sector (offshore platforms and vessels) and the railways.

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

- **V & M Florestal Ltda – Brazil (100%),** which cultivates 112,300 hectares of eucalyptus (out of a total of 233,480 hectares of land) in order to produce charcoal used in the blast furnaces of V & M do Brazil SA and Vallourec & Sumitomo Tubos do Brasil. 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 Brasil by 2016.
- **V & M Mineração Ltda – Brazil (100%),** which produces nearly 4 million metric tons of iron ore per year from 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 Brasil blast furnaces and pelletization 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 to apply tube coatings and linings. In 2011, V & M do Brazil SA acquired Europipe GmbH's stake in TSA.

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

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

3.1.2.2 Specialty Products

The Specialty Products Division comprises companies specializing in the manufacture and processing of welded and seamless tubes in carbon steel, stainless steel and special alloys for the Power Generation market.

- **Valtimet – France (95%)**

  Vallourec controls 95% of Valtimet, with the remaining 5% being owned by Nippon Steel & Sumitomo Metal Corporation (NSSMC, previously Sumitomo Metal Industries [SMI] (1)).

  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 and superheaters as well as titanium, stainless steel and copper-alloy tubes for condensers. Valtimet also has a presence in the Desalination and Chemical markets and provides thin tubing for the Automotive industry.

  The production unit in Venarey-les-Laumes (Côte d'Or, France) is the original Valtimet site.

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

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

  - Changzhou Valinox Great Wall Welded Co. Ltd (65.8% owned through the sub-holding company Valinox Asia), with a plant in Changzhou, Jiangsu Province, China;
  - Xi'an Baotimet Valinox Tubes Co. Ltd (49% owned through various subsidiaries of Valtimet and through Valtimet itself), with a production unit in Xi'an, Shaan'xi Province, China;
  - Changzhou Carex Valinox Components Co. Ltd, a company specializing in the production of industrial parts for the Automotive industry, with a plant in Changzhou, Jiangsu Province, China;
  - CST Valinox Ltd (100% owned), located in Hyderabad (Andhra Pradesh, India), specializing in tubes for power-plant condensers;
  - Poongsan Valinox (a 50-50 joint-venture with Korea's Poongsan), which caters to the Korean market and operates a production facility in Bupyung, Incheon, near Seoul (South Korea).

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

Valinox Nucléaire is the world's leading producer of long, bent, seamless nickel-alloy tubes for use in the manufacture of steam generators for pressurized-water nuclear power stations, as well as various types of tube that it produces and markets for the nuclear environment. Its production unit is located in Montbard (Côte-d'Or, France).

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

Vallourec Umbilicals was established in September 2010 and is located in Venarey les Laumes (Côte d'Or, France). The company supplies welded stainless steel tubes for use in umbilicals. The term "umbilicals" relates to structures comprising tubes, cables and/or optical fibers that are used to connect seabed equipment to a control station on the surface for applications in the offshore oil industry. Certified by Bureau Veritas in October 2012, it provides the market with an innovative offering of extra-long welded tubes, which has made it possible to reduce the number of orbitally-welded points in these components.

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

Formed in November 2010 in the Chinese province of Guangdong, Vallourec Nucléaire Tubes Guangzhou will produce steam-generator tubes when the new plant in Nansha begins operation. It is scheduled to be inaugurated in mid-2013, and will produce tubes for the Chinese market as of 2014.

3.1.2.3 Sales and marketing companies

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

In the United States, Vallourec & Mannesmann USA Corporation markets all of 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, **sales and marketing companies** reporting to V & M Tubes are established in:

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

(1) Sumitomo Metal Industries merged with Nippon Steel on 1 October 2012. The new entity resulting from the merger has been named Nippon Steel & Sumitomo Metal Corporation (NSSMC).

3.1.3 RESULTS

3.1.3.1 Consolidated Group results

1 – Income statement

COMPARISON BETWEEN THE 2012 AND 2011 FINANCIAL YEARS

In millions of euros	Q4 2012	Q3 2012	Change Q4/Q3	Q4 2011	Change Q4/Q4	2012	2011	Change 2012/2011
Sales volume	**535**	**525**	**+2%**	**589**	**-9%**	**2,092**	**2,251**	**-7%**
Sales	1,465	1,334	+10%	1,553	-6%	5,326	5,296	+1%
Cost of sales	-1,072	-985	+9%	-1,135	-6%	-3,940	-3,745	+5%
(As a % of sales [a])	*73.2%*	*73.8%*		*73.1%*		*74.0%*	*70.7%*	
Selling, general and administrative costs	-146	-134	+9%	-149	-2%	-576	-577	-
(As a % of sales [a])	*10.0%*	*10.1%*		*9.6%*		*10.8%*	*10.9%*	
EBITDA/gross operating income	**235**	**207**	**+13%**	**254**	**-8%**	**786**	**940**	**-16%**
EBITDA/sales	16.1%	15.5%		16.4%		14.8%	17.7%	
Operating profit/(loss)	**142**	**133**	**+6%**	**196**	**-28%**	**474**	**693**	**-32%**
Net income, Group share	**70**	**62**	**+13%**	**117**	**-40%**	**217**	**402**	**-46%**

(a) Before depreciation and amortization.

Over the full year 2012, consolidated sales totaled €5.326 billion, up 1% compared with 2011. Sales benefited from a positive price/mix effect linked to strong sales growth in Oil & Gas, which offset a drop in sales in other activities.

The cost of sales rose to 74% of sales in 2012, compared with 71% in 2011. This increase is primarily due to the costs generated by the ramp-up of the two new plants, the drop in volumes in Europe and the weaker contribution of mining activities in Brazil. Selling, general and administrative and research (SG&A) costs remained stable at €576 million despite increased R&D efforts and sales initiatives, the Group having reduced its general and administrative costs.

During the second year of CAPTEN+, the three-year performance-improvement program, the Group generated gross annual savings of €103 million before inflation, in addition to the €83 million in savings recorded in 2011. Through the CAPTEN+ Safe program, the Group recorded a reduction in the number of accidents; the LTIR (1) was brought down from 2.8 to 2.6 and the TRIR (2) from 9.4 to 7.1. Unfortunately, the Group suffered two fatal accidents. Vallourec remains strongly committed to reducing the risk of work accidents and ensuring the safety of all employees.

Research and development costs rose to €93 million in 2012, up 19% over 2011 (€78 million). In 2012, Vallourec doubled the capacity of its VAM® research center in Houston.

EBITDA increased quarter-on-quarter to reach €786 million in 2012, i.e. 14.8% of sales (2.9 points down against 2011). The difference results primarily from a drop in volumes in Europe and the ramping up of the new plants.

Operating profit/(loss) totaled €474 million in 2012, a 32% decrease on 2011, a consequence of the drop in EBITDA and the rise in depreciation and amortization linked to the ramping up of new production capacity. Depreciation of industrial assets amounted to €238 million in 2012, up 19% compared with 2011. Other depreciation and amortization, depreciation of assets and restructuring costs totaled €74 million.

The result of financing operations amounted to -€98 million compared with -€49 million in 2011. This change is due to the increase in net debt, partially offset by a drop in the average cost of debt.

Earnings before tax reached €376 million in 2012, against €645 million in 2011. The effective income tax rate rose to 30%.

Net earnings of equity affiliates increased by €3 million in 2012. Total net profit reached €271 million. After minority interests of €54 million, net income, Group share, amounted to €217 million in 2012 compared with €402 million in 2011. Net earnings per share amounted to €1.80.

2 – Cash flow

Over the full year 2012, the ability to self-finance amounted to €541 million, compared with €638 million in 2011. The operating capital working requirement increased by €66 million. At the end of the year, the net operating capital working requirement represented 25% of annualized revenue, a level comparable with that at the end of 2011. Cash generated by operations totaled €475 million in 2012 compared with €301 million in 2011.

(1) Lost Time Injury Rate: number of accidents with stoppages per million hours worked.

(2) Total Recordable Injury Rate: number of reported accidents per million hours worked.

Capital expenditure amounted to €803 million in 2012, down €106 million against 2011, strategic projects being in the process of finalization. In 2013, capital expenditure should total about €650 million.

Dividends of €183 million were paid in 2012. Disposals of assets and other items include the effect of the capital increase reserved for employees, a total of €86 million.

Net debt increased by €420 million in 2012 to reach €1.614 billion at 31 December 2012, i.e. 31% of equity (€5.213 billion). In comparison, net debt totaled €1.194 billion (23% of equity) at 31 December 2011.

In accordance with its financial policy, Vallourec continued to diversify and optimize its financial resources, specifically by renewing and extending its bilateral bank credit facilities, increasing its commercial paper program and making two long-term bond issues. Consequently, at 31 December 2012, the Group had confirmed funding of approximately €3.2 billion, which included undrawn confirmed credit lines totaling €1.6 billion. Almost 70% of this confirmed funding has a maturity of over three years (December 2015).

3 – Strategic projects

In Brazil, the VSB plant, in partnership with Nippon Steel & Sumitomo Metal Corporation (NSSMC, previously Sumitomo Metal Industries [SMI] (1)), launched the production and sale of standard products. Both production and the accreditation process are proceeding according to schedule.

When finalizing the configuration **of the new plant in Youngstown, Ohio,** in 2012, it became apparent that the initial budget would need to be reassessed. Total capital expenditure provided for rolling milling and finishing lines now amounts to USD 1.050 billion, which is in line with comparable investment by other industry players. Due to the scale of the oil-shale revolution, the outlook for the small-diameter tube market in North America has continued to improve since the launch of the project, thereby confirming its high profit potential.

After the piercing of the first steel billet on 29 June and the commissioning of the various facilities in the rolling mill, the first continuous production was achieved on 26 October 2012, in line with the provisional schedule. The first sales were made at the end of 2012, and the sales rate should progressively increase throughout 2013. The Group is confident about the technical and commercial ramp-up of the plant in 2013. The finishing units are due to come into service during the second quarter of 2013.

3.1.3.2 Corporate results for Vallourec (parent company)

Vallourec posted a loss of €10.9 million compared with a loss of €24.5 million in 2011. 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 €308.6 million, compared with €478 million in 2011, primarily due to a dividend of €325.4 million received from V & M Tubes.

There was an exceptional loss for the year of €8.1 million compared with a loss of €2.9 million in 2011. Specifically, this includes an expense of €7.7 million on the delivery in France of the performance share allocation plan of 15 March 2010 and the 2-4-6 international performance share plan of 3 December 2010.

The income tax charge was negative and represents a net credit of €4.7 million (€8 million in 2011) 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 down at €294.3 million compared with net profit of €458.6 million in 2011.

On 1 January 2012, the start of the 2012 financial year, the fully paid-up share capital amounted to €242,868,818 divided into 121,434,409 shares with a par value of €2.00 each. On 27 June 2012, the Management Board noted that, in accordance with the fourth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, a capital increase had been carried out by means of the issue of 192,112 new shares (representing 0.16% of the share capital on that date) at the unit price of €31.10 per share in payment of the 2011 dividend of €1.30 per share. The issue of the new shares resulted in a capital increase in the nominal amount of €384,224, which increased Vallourec's share capital on 27 June 2012 from €242,868,818 to €243,253,042, divided into 121,626,521 shares with a par value of €2.00 each. At the end of the clearing period for subscriptions to the Value 12 international employee share ownership scheme, at its meeting of 6 December 2012 the Management Board recorded, under the terms of the fifteenth, sixteenth and seventeenth resolutions of the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, the full completion of three capital increases for nominal amounts of €3,641,676, €2,386,904 and €611,090, respectively, by the issue of 1,820,838, 1,193,452 and 305,545 new shares, for an aggregate of 3,319,835 new shares with a par value of €2.00 each and a price per share of €25.79. The combined effect of these operations was to raise the share capital from a total of €243,253,042 to €249,892,712. On 31 December 2012, the fully paid-up share capital thus totaled €249,892,712, divided into 124,946,356 shares with a par value of €2.00 each.

Equity rose by €229.5 million to a total of €2.7686 billion as of 31 December 2012. This increase is due to net profit for 2012 of €294.3 million, the distribution of a cash dividend of €1.30 per share on 27 June 2012 for a total of €150.3 million, the capital increase of €5.975 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 €85.6 million (including additional paid-in capital, but excluding issuance fees) generated by the Value 12 international employee share ownership scheme.

Financial debts was €1.7067 billion, €108.7 million higher than in 2011. Continuing its policy of diversifying its financing resources, Vallourec made two long-term private bond issues in August 2012, which totaled €455 million. It also implemented its commercial paper program, set up in October 2011, for a maximum of €1 billion. This was rated A-2 by Standard & Poor's. On 31 December 2012, €217 million were outstanding under this program, with a maturity of one to three months.

(1) Sumitomo Metal Industries merged with Nippon Steel on 1 October 2012. The new entity resulting from this merger has been named Nippon Steel & Sumitomo Metal Corporation (NSSMC).

To the best of the Company's knowledge, the 2012 financial year did not generate any of the expenses referred to in Article 39-4 of the French General Tax Code (CGI).

In accordance with Article D.441-4 of the French Commercial Code, the following tables provide a breakdown by due date of trade payables as at the balance sheet date in 2012 and 2011.

Due dates (D = 31/12/2012) *In thousands of euros*	**Trade payables due at closing**	**Maturity on D + 15**	**Maturity between D + 16 and D + 30**	**Maturity between D + 31 and D + 45**	**Maturity between D + 46 and D + 60**	**Maturity beyond D + 60**	**No due date**	**Total trade payables**
Trade payables	-	2,191	-	151	-	-	-	2,342
Suppliers' assets	-	-	-	-	-	-	-	-
Total payable	-	2,191	-	151	-	-	-	2,342
Accruals: invoiced, but not yet received		-	-	-	-	-	385	385
Other		-	-	-	-	-	-	-
TOTAL	**-**	**2,191**	**-**	**151**	**-**	**-**	**385**	**2,727**

Maturity (D = 31/12/2011) *In thousands of euros*	**Trade payables due at closing**	**Maturity on D + 15**	**Maturity between D + 16 and D + 30**	**Maturity between D + 31 and D + 45**	**Maturity between D + 46 and D + 60**	**Maturity beyond D + 60**	**No due date**	**Total trade payables**
Trade payables	-	2,592	-	637	-	-	-	3,229
Suppliers' assets	-	-	-	-	-	-	-	-
Total payable	-	2,592	-	637	-	-	-	3,229
Accruals: invoices not yet received		-	-	-	-	-	898	898
Other		-	-	-	-	-	-	-
TOTAL	**-**	**2,592**	**-**	**637**	**-**	**-**	**898**	**4,127**

3.1.3.3 Trends in Vallourec Group markets

Power Generation

OIL & GAS

Over the full year 2012, consolidated sales reached a record level of €3.233 billion, up 14% compared with 2011. This now represents 61% of total sales, as against 54% in 2011.

The number of active drilling rigs in the United States [(1)] dropped by 5% to 1,763 units in the fourth quarter of 2012. Throughout the year, the demand for OCTG tubes was sustained by the combined effect of a greater average number of drilling rigs, increased drilling effectiveness (more wells drilled per platform) and a greater length of horizontal wells, which represent over 60% of active rigs. Vallourec benefited from its strong market positions, premium offering and long-term partnerships with distributors to serve the most dynamic oil shale basins. Drilling activity in the Gulf of Mexico has also increased steadily throughout the year, which contributed to the rise in premium VAM® connection sales.

In the rest of the world, the number of internationally active drilling rigs [(2)] remained high in the fourth quarter at 1,253 units. Vallourec's sales increased in nearly all regions during the fourth quarter, reflecting a high level of deliveries to the Middle East, the North Sea and Asia. Sales progressed in Brazil, with Petrobras increasing its orders for premium-grade steel tubes and premium connections. In 2012, Vallourec benefited from stable selling prices and an improved product mix that reflects an increase in the demand for premium products.

The new plant in Youngstown, Ohio, delivered its first tubes before the end of the 2012 financial year, as planned, and the rate of its deliveries will increase progressively throughout 2013.

In the rest of the world, Vallourec's capacity will be increased via the commissioning of new premium installations: the finishing unit in Saudi Arabia has obtained its accreditations, while the ramping-up and accreditation of VSB in Brazil are going according to plan.

(1) Baker Hughes USA Rig Count – 28 December 2012.

(2) Baker Hughes International Rig Count (excluding USA and Canada) – December 2012.

POWER GENERATION

Over the full year 2012, consolidated sales decreased by 9% compared with 2011 to €644 million, which represents 12% of total sales.

Sales relating to equipment for **conventional power plants** rose during the fourth quarter of 2012, benefiting from increased volumes and an improved product mix due to deliveries for projects in India and the Far East and to maintenance activities in Europe. Despite a number of new power plant projects in Asia, sales were down in 2012 compared with 2011. The Group won fewer projects, and local competition in Asia for the supply of tubes intensified. Sales via European distributors also decreased due to the difficult economic climate.

Sales relating to **nuclear power plants** were generally higher in the fourth quarter of the year. These consisted mainly of orders for France, China and South Korea and represented over 20% of Power Generation sales over the full year.

PETROCHEMICALS

Over the full year 2012, consolidated sales totaled €358 million, down 4% compared with 2011 (€373 million), and accounted for 7% of total sales.

The Middle East, Asia and the United States accounted for the vast majority of sales, offsetting sluggish business in Europe.

Non-Energy

In Non-Energy markets (**Mechanical Engineering, Automotive, Construction and so on**), sales reached €1.091 billion over the full year (20% of total sales), 21% down compared with 2011 (26% of total sales).

Throughout the year, sales suffered from the global economy's weakness and, more precisely, the drop in industrial production in Europe and Brazil. After a year of strong growth in Mechanical Engineering sales to the German manufacturing industry, sales plummeted in Europe, affected by the drop in European industrial production and the economic slowdown in China and the rest of the world. Prices were under pressure due to low demand. In Brazil, Non-Energy sales were affected mostly by a decline in the Automotive market (heavy vehicles). Sales of iron ore decreased in 2012 due to the drop in prices.

3.1.4 EXCEPTIONAL EVENTS IN 2012

During the first half, the Group experienced a greater-than-expected decline in demand outside the Oil & Gas markets, particularly in Europe and Brazil, and a substantial drop in the price of the iron ore sold by its Brazilian mine.

In the same half-year, Vallourec also found itself obliged to redefine its plan to gain customer approval for the ramping-up of its new plant in Brazil.

When finalizing the configuration of the new plant in Youngstown, Ohio, it also emerged that capital expenditure had been underestimated.

These exceptional events caused the Group to adjust its sales and investment forecasts in its financial communications while maintaining an EBITDA margin objective of close to 15% for 2012.

These factors had a negative impact on the Company's share price.

3.1.5 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 Vallourec rolling mills, expressed in metric tons of hot-rolled seamless tubes:

In thousands of metric tons	2010	2011	2012	Comparison 2011/2012
First quarter	344.0	500.7	504.3	+0.7%
Second quarter	484.2	561.2	527.7	-6%
Third quarter	507.1	600.8	525.0	-12.6%
Fourth quarter	552.9	588.8	534.8	-9.2%
TOTAL	**1,888.2**	**2,251.3**	**2,091.8**	**-7.1%**

3.1.6 LOCATION OF MAIN FACILITIES

3.1.6.1 Main property, plant and equipment

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 of the Company's corporate officers.

As of 31 December 2012, the Group operated some 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 internationalization (see Section 3.1.1 above). The Group considers these plants an essential resource for conducting its various industrial businesses.

The Group's property, plant and equipment (including assets held under the terms of finance leases) and the biological assets held by consolidated companies had a net book value of €4.5162 billion at the end of 2012 (compared with €4.2506 billion at the end of 2011 and €3.4844 billion at the end of 2010). Property, plant and equipment mainly consists of property assets and industrial equipment:

- the Group's main property assets include the buildings at its plants and administrative 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 Section 6.1 of this Registration Document:

- analysis of property, plant and equipment by type and flow in Note 2.1;
- geographic distribution of industrial property, plant and equipment and intangible assets for the financial year (excluding changes in scope) in Note 2.1;
- Group commitments under the terms of finance leases (organized by main due date) in Note 21.

Details of capital investments made in 2012, which extended the Company's property, plant and equipment base, are provided hereinafter (see Section 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:

- 4 facilities are subject to a declaratory regime and are therefore run in accordance with standard operating requirements;
- 15 facilities are subject to authorization and are therefore run in accordance with specific operating requirements issued via a prefectoral order, following the submission of an operating license application, consultations with various organizations and a public enquiry; as of 31 December 2012, all of these facilities held valid prefectoral orders.

Vallourec facilities in other countries are subject to similar local legislation, requiring specific permits in the various areas relating to the environment, including water, air and waste. All of the Group's international locations hold the required permits, although some applications in respect of new industrial operations in China are currently being processed by the local authorities.

Environmental situation of disused industrial facilities

Following its closure, the Anzin plant in northern France was sold to the 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.

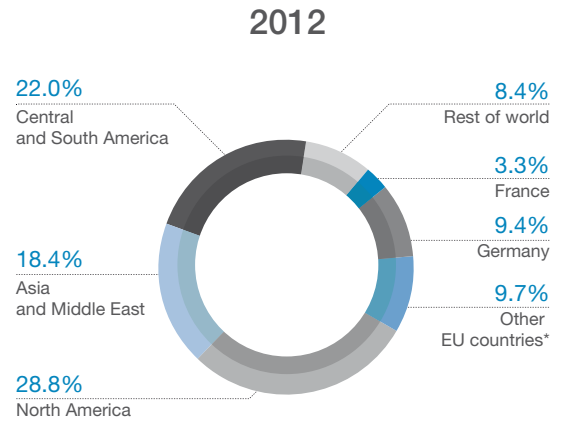
All of the other sites sold (VPE, VPS, VCAV, CEREC and Spécitubes plants) underwent full environmental investigations before sale and, as far as the Company is aware, no specific issues were raised during the disposal negotiations.

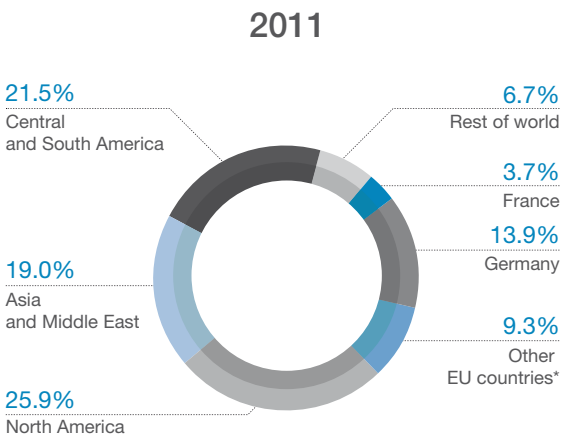
The situation of operational sites with regard to soil pollution is described in Chapter 4: Social and environmental information of this Registration Document.

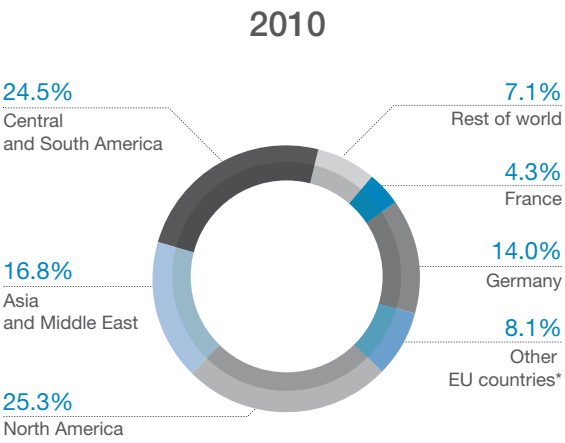
3.1.7 MAIN GROUP MARKETS

Due to the scale of the integrated industrial processes and the development of downstream activities, the breakdown of business activity according to markets and geographic segments is the only meaningful indicator.

3.1.7.1 Vallourec Group activities by geographic region







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

Consolidated sales totaled:

- €5.326 billion in 2012, of which 22% in Europe;
- €5.296 billion in 2011, of which 27% in Europe; and
- €4.491 billion in 2010, of which 26% in Europe.

The breakdown of sales by geographic region and product destination is as follows:

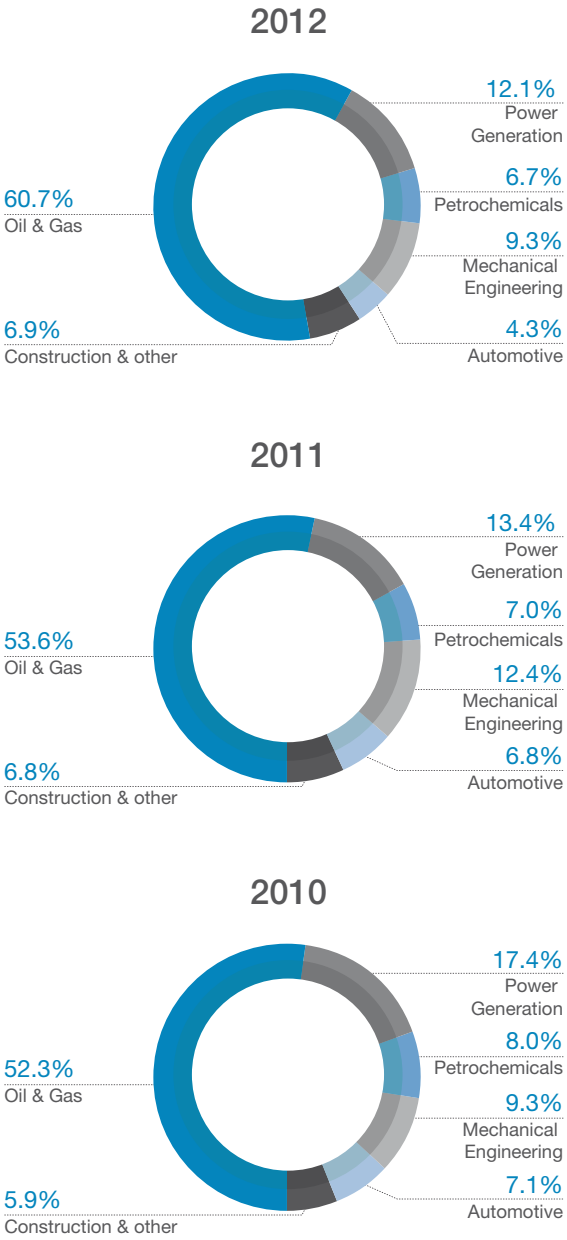
	France	Germany	Other EU countries [(a)]	CIS	North America	China	Other Asia and Middle East	Total Asia and Middle East	Brazil	Other Central & South America	Total South America	Rest of the world	Total 2012
TOTAL 2012 *(in thousands of euros)*	**176,581**	**501,740**	**517,755**	**37,678**	**1,532,836**	**147,962**	**830,767**	**978,729**	**1,080,799**	**88,848**	**1,169,647**	**412,051**	**5,326,017**
(as a %)	3.32	9.42	9.70	0.71	28.78	2.78	15.60	18.38	20.29	1.67	21.96	7.74	100,00

	France	Germany	Other EU countries [(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 of euros)*	**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 countries [(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 of euros)*	**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

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

3.1.7.2 Vallourec Group activities by market



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

As at 31 December 2012, the Group's sales in absolute value and as a percentage of sales was as follows:

Market	Sales *(in millions of euros)*	Sales *(as a %)*
Oil & Gas	3,233	60.7%
Power Generation	644	12.1%
Petrochemicals	358	6.7%
Mechanical Engineering	494	9.3%
Automotive industry	231	4.3%
Construction & other	366	6.9%
TOTAL	**5,326**	**100%**

3.1.7.3 Changes in scope

Over the past three years, the main changes in scope have been the following:

In 2010

On 8 June 2010, the Group acquired 100% of Serimax, the world leader in integrated welding solutions for offshore line pipe. This acquisition is a good fit with Vallourec's activities in the area of undersea line pipe.

In 2011

On 25 November 2011, the Group finalized the acquisition of 100% of the capital of Saudi Seamless Pipes Factory Company Limited (Zamil Pipes) in Saudi Arabia. This acquisition provided Vallourec with operational heat treatment and threading facilities with a capacity of 100,000 metric tons of tubes per year. In late 2011, the Group also acquired Europipe GmbH's stake in Tubos Soldados Atlântico Ltda (TSA), raising its holding in the capital of this Brazilian company from 24.7% to 95.9%.

In 2012

There was no change in scope through external growth in 2012. On the other hand, the new plants in Brazil, the United States and China resulting from strategic investments are continuing to build on those investments.

3.1.8 INFORMATION RELATING TO THE COMPANY'S COMPETITIVE STATUS

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

3.1.8.1 Oil & Gas

Vallourec operates 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 market, Vallourec is among the world's three leading suppliers of premium products in terms of volumes delivered:
  - in the market for premium connections that satisfy demanding technical performance criteria, the VAM® range, produced in cooperation with Nippon Steel & Sumitomo Metal Corporation (NSSMC, previously Sumitomo Metal Industries [SMI] (1)), is the world leader,
  - in Brazil, Vallourec is the leader in the OCTG market. It works in close collaboration with Petrobras, particularly with regard to the local development of products to meet the constraints and requirements of offshore pre-salt fields,
  - the Group's main competitors in the OCTG market are Tenaris, Nippon Steel & Sumitomo Metal Corporation (NSSMC), JFE, US Steel Tubulars, TMK, TPCO and Voest Alpine Tubulars;
- in drill pipes, Vallourec is No. 2 in the world by volume, after NOV (United States); most of the other competitors are Chinese companies;
- in the offshore line pipe market, Vallourec is No. 2 in the global market behind Tenaris, with a particularly strong position in very-deep (>500 m) and extra-deep (>1,500 m) wells, which require high-technology products;
- in the market for integrated welding solutions for offshore line pipe, Serimax, acquired in 2010, is the world leader.

(1) Sumitomo Metal Industries merged with Nippon Steel on 1 October 2012. The new entity resulting from the merger has been named Nippon Steel & Sumitomo Metal Corporation (NSSMC).

3.1.8.2 Power Generation

Vallourec is a supplier for several applications:

- seamless carbon and alloy steel tubes for thermal power plants: screen panels, header pipes, economizers, evaporators, superheaters, reheaters and piping. Vallourec is the leader in this global market. Its main competitors are Baosteel, Nippon Steel & Sumitomo Metal Corporation (NSSMC) and Chengde;
- nickel-alloy seamless tubes for steam generators at nuclear power plants; Vallourec is the leader in this technically very demanding global market. Its market share is substantially larger than those of its two main competitors, Nippon Steel & Sumitomo Metal Corporation (NSSMC) and Sandvik. In 2011, Vallourec completed the extension of its Valinox Nuclear plant in Montbard (France), enabling it to almost triple its annual production capacity;
- welded titanium tubes for power plant applications (condensers): through its subsidiary Valtimet, Vallourec is the world leader in this market;
- welded stainless steel tubes for power plant applications (low- and high-pressure feedwater heaters and condensers, driers and steam heating equipment): through 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.

3.1.8.3 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 using alternative techniques: welded tubes (particularly from Tata Steel), drilled steel bars, cold-drawn tubes, forged and formed tubes etc.

Vallourec is the European leader in seamless tubes for Mechanical Engineering applications.

3.1.8.4 Petrochemicals

Vallourec is a supplier for several applications:

- seamless tubes for refineries and petrochemical facilities: Vallourec is a significant market player, its main competitors being Tenaris and Arcelor Mittal;
- welded titanium tubes for heat exchangers in desalination and natural gas liquefaction plants: through its Valtimet subsidiary, Vallourec is among the global market leaders. Its main competitors are Nippon Steel & Sumitomo Metal Corporation (NSSMC) and new Chinese and Korean players.

3.1.8.5 Automotive industry

Through its Valti subsidiary, Vallourec 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 those in the Automotive industry. Its main competitors are Ovako and Maxhutte.

In Latin America, V & M do Brazil SA is the market-leading manufacturer of the following products made from forged tubes and 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.

3.1.9 DEPENDENCY ON THE ECONOMIC, INDUSTRIAL AND FINANCIAL ENVIRONMENT

3.1.9.1 Distribution of raw-material supplies as of 31 December 2012

Purchases consumed during 2012 included the following:

In thousands of euros	At 31/12/2011	At 31/12/2012
Scrap metal and ferrous alloys	466,679	408,477
Rounds/billets	1,033,454	826,019
Flat parts	84,525	66,826
Tubes	80,938	192,845
Miscellaneous [(a)]	189,678	304,737
TOTAL	**1,855,274**	**1,798,903**

(a) Including stock variations.

3.1.9.2 Main customers

The 20 main customers in terms of sales are as follows:

Name	Home country	Vallourec markets	Activity
Açotubo	Brazil	Mechanical Engineering/ Petrochemicals/Other	Distributor
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
Doosan	Korea	Power Generation	Power-plant construction
Hallmark	Canada	Oil & Gas	Distributor
Hunting	United Kingdom	Oil & Gas	Service provider
Marubeni	Japan	Oil & Gas	Oil company
Pemex	Mexico	Oil & Gas	Oil company
Petrobras	Brazil	Oil & Gas	Oil company
Pipeco Services	United States	Oil & Gas	Distributor
Premier Oil	United Kingdom	Oil & Gas	Oil company
Premier Pipe	United States	Oil & Gas	Distributor
Pyramid	United States	Oil & Gas	Distributor
Salzgitter	Germany	Automotive/Mechanical Engineering	Tube manufacturing
Technip	France	Oil & Gas	Engineering and construction
ThyssenKrupp	Germany	Mechanical Engineering/Other	Distributor
Toolpushers	United States	Oil & Gas	Distributor
Total	France	Oil & Gas	Oil company

In 2012, the five largest customers accounted for 27% of sales.

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 personnel and facilities safe and complying with legal obligations, in particular those relating to safety and the environment;
- developing Vallourec's activities through organic growth and acquisitions;
- optimizing production units' economic performance and enhancing the quality of Group 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 emphasized.

3.2.2 MAIN INVESTMENTS

3.2.2.1 Main investments over the 2010-2012 period

In recent years, capital expenditure programs have been directed mainly toward increasing capacity and streamlining production facilities, reorganizing 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 past three years, investments have been made as follows:

CAPITAL EXPENDITURE, EXCLUDING CHANGES IN SCOPE (PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE AND BIOLOGICAL ASSETS)

In millions of euros	31/12/2010	31/12/2011	31/12/2012
Europe	162.2	139.1	122.1
North America	163.7	337.9	359.8
Central & South America	672.3 (a)	371.6 (c)	190.7 (g)
Asia	66.1	79.4	96.7
Other	0.5	0.9	2.5
TOTAL CAPITAL EXPENDITURE	**1,064.8 (a)**	**928.9 (c)**	**771.7 (g)**
Of which capital expenditure payments during the year	872.6 (b)	909.1 (d)	803.1 (h)
ACQUISITIONS AND FINANCIAL INVESTMENTS	**98.5 (e)**	**80.3 (f)**	**0**

(a) Of which €42.6 million for biological assets.

(b) Of which €30.8 million for biological assets.

(c) Of which €41.2 million for biological assets.

(d) Of which €49.7 million for biological assets.

(e) In particular, Vallourec acquired the Serimax group on 8 June 2010.

(f) 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).

(g) Of which €28.8 million for biological assets.

(h) Of which €28.7 million for biological assets.

The most significant investment programs carried out in 2010, 2011 and 2012 are outlined below.

In 2010

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

The main investments during the year were as follows:

- a rolling competence center 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 Brasil;
- ongoing investment at the new Vallourec & Sumitomo Tubos do Brasil 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) with an annual capacity of 500,000 metric tons to satisfy strong growth in the North American OCTG market;
- expansion of the V & M Changzhou plant's capacity (located in China's Jiangsu province). This extension will enable the plant to produce an additional 60,000 metric tons per year of seamless tubes to satisfy local demand from thermal power plants;
- a major heat treatment renovation and development works program, 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);
- 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); and
- investment in lean manufacturing programs designed to enhance plant productivity and efficiency.

In 2011

Continuing the policy of 2010, the year was marked by a very solid investment program, three-quarters of which was dedicated to following through on programs initiated in previous years.

The main investments in 2011 were as follows:

- ongoing work to reconfigure the mine and build an ore concentration plant, which will enhance productivity and increase accessible reserves (Brazil);
- the creation of a threading workshop for premium joints in Youngstown and an increase in capacity for threaded sleeves in Houston, in order to respond to the growing OCTG tube needs for shale gas (United States);
- extension of the VAM USA LLC Research Center in Houston, allowing 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 Brasil'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 Brasil;
- 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 and Group information, news and reference data;
- ongoing investment at the new Vallourec & Sumitomo Tubos do Brasil pipe mill in Jeceaba, which began industrial operation in 2011;
- the continuing construction of the new pipe mill in Youngstown, Ohio (United States);
- Increase in the capacity of the V & M Changzhou plant (China);
- a major program of heat treatment renovation and development works, to increase available capacity while decreasing energy consumption and gaseous emissions (Germany and Brazil); and
- investment in lean manufacturing programs designed to further enhance plant productivity and efficiency.

In 2012

The year was marked by a very solid investment program (although down in comparison with 2011), three-quarters of which was dedicated to following through on programs initiated in previous years.

The main investments initiated in 2012 were as follows:

- two eucalyptus plantations (covering 1,240 and 707 hectares) were created to satisfy the respective requirements of V & M do Brasil SA and Vallourec & Sumitomo Tubos do Brasil;
- the launch of a major renovation program at the steel mill in Saint-Saulve (France);
- the start of a multi-year program to construct new carbonization furnaces for the production of wood charcoal; this involved 40 new furnaces in 2012 (V & M Florestal, Brazil);
- increased threading capacity for premium and integral joints at a number of sites (V & M Deutschland in Rath.Germany, V & M France in Aulnoye, France, V & M Star and VAM USA in Houston, United States, Vallourec & Sumitomo Tubos do Brasil in Jeceaba, Brazil);
- the replacement of a trimming machine to help improve product flow in the V & M Star Muskogee plant (United States); and
- the construction of a drill pipe coating line for VAM Drilling's plant in Abu Dhabi (United Arab Emirates).

3.2.2.2 Main capital expenditure projects planned for 2013

After the massive programs launched in the past three years, 2013 will see further significant capital expenditure, although less than in previous years; 75% of the budget will be allocated to the continuation of programs initiated in 2012 or earlier, as follows:

- continued renovation work at the steel mill in Saint-Saulve (France);
- final investment at the new Vallourec & Sumitomo Tubos do Brasil pipe mill in Jeceaba (Brazil) and the pipe mill in Youngstown, Ohio (United States);
- a major heat treatment renovation and development works program, to increase available capacity while decreasing energy consumption and gaseous emissions (Germany, France and Brazil);
- continuing to increase threading capacity for premium joints, particularly in Youngstown, in order to respond to the growing needs for OCTG tubes for shale gas (United States) and in France, Germany and Saudi Arabia; and
- concluding work on increasing V & M do Brasil's hot-forging capacity for car and truck axles.

In addition to the projects mentioned above, the Group will make substantial investments in 2013 to increase its research and development resources in Europe and Brazil, and will initiate a major IT project to create a customer portal.

In 2013, Vallourec will also invest in 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

On 1 January 2010, the Research and Development Department was amalgamated with the Technology Department to create a new Technology, Research and Development (R&D) and Innovation Department (TRDI). The objectives of this new department are as follows:

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

The missions of the TRDI Department are as follows:

- promotion of innovation and management of R&D and technology, to enable the emergence of disruptive 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 the best available technologies to produce premium solutions, driven by the R&D team in charge of the processes and a culture of ever-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 that combines knowledge acquisition and inductive learning.

3.3.1 RESEARCH AND DEVELOPMENT

3.3.1.1 Research and Development policy

Vallourec continues to increase its already significant R&D efforts, particularly in areas associated with the Energy sector. R&D efforts are focused on three areas:

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

Vallourec's R&D organization 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 these areas. Faced with a fiercely competitive global environment, the Group intends to strengthen its organization in order to anticipate customers' future needs effectively and respond with innovative solutions based on differentiated products and services.

This restructuring is organized around six competence centers specializing in particular products, processes or technologies:

1. the research complex in Aulnoye, France, houses:
   - Vallourec's long-established research center, Vallourec Research Aulnoye, which specializes in metallurgy, non-destructive testing, corrosion resistance, surface treatments, product and process simulations, OCTG products and Mechanical Engineering applications,
   - Three centers linked to VAM® threaded connections for the design of new connections, proprietary grades and the industrialization of threading lines;
2. In Düsseldorf, Germany, Vallourec Research Düsseldorf specializes in:
   - thermal power plant and oil & gas line pipe applications,
   - tube hot-rolling research. This long-established center, which is responsible for innovations involving Vallourec's core processes, is now supported by a new rolling laboratory;
3. Vallourec Research Riesa, the new hot-rolling laboratory in 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. Its versatile, state-of-the-art rolling and forging facilities will push back the current limits of steel and alloy rolling within the Group;
4. In Brazil, the teams of experts and test laboratories at the Vallourec Research Belo Horizonte unit adapt the Group's solutions and develop new ones for its Brazilian customers;
5. In Brazil, a new research center, Vallourec Research Rio de Janeiro, is being established within the University of Rio de Janeiro industrial park, close to CENPES, Petrobras' research center. The Vallourec Research Rio de Janeiro center was designed to align our Group research even more closely with that of Petrobras and its partners;
6. In the United States, a new VAM® threaded connection design and testing center has been set up in Houston (Texas). This center will focus on specific developments in the American market and will tap into the combined experience of the VAM USA LLC and Atlas Bradford® R&D teams. The center's testing capacity has recently been doubled. Five testing stations worldwide now conduct full-scale tests on the behavior of VAM® joints in wells under the most arduous usage conditions.

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

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

- the promotion of innovation;
- R&D and technological leadership, generating the necessary disruptive innovations;
  - technical advances that differentiate new Group products and bespoke solutions;
  - deployment of a culture of innovation, knowledge management, teamwork and network collaboration;
  - customer-supplier technical partnerships;
  - fundamental research programs conducted with assistance from university laboratories in Europe and elsewhere.

This cross-functional interaction, combined with reliable, flexible, competitive processes, enables the constant improvement of Vallourec's range of products, services and solutions.

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

- Nippon Steel & Sumitomo Metal Corporation (NSSMC, previously Sumitomo Metal Industries [SMI] [(1)]): 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 program, 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 deep water, thick salt strata, corrosion, CO_2 etc.);
- Total: premium joints delivering unmatched performance in difficult wells;
- Weatherford: development and industrialization of a special-purpose premium connection for innovative applications;
- British Petroleum: development of high-performance drill pipes for extended-reach drilling (ERD);
- Hitachi Power Europe, Alstom, Doosan, VGB [(2)]: development of high-performance steels for advanced ultra-supercritical coal-fired power plants.

Some 500 staff are involved in R&D activities within the Vallourec Group. To boost the Group's strategic position in terms of competitiveness and innovation, Vallourec has introduced the Expert Career program, which offers new career opportunities to the Group's Technology and R&D engineers. At each stage of their careers, they are now able to choose between management responsibilities and technical consulting, 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.

In 2012, Research and Development costs increased to €92.8 million.

3.3.1.2 Research and Development activities

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 program include scientific tree selection, improving forest nutrition programs and industrializing the continuous charcoal-making process.

The development and production of steels with a high level of chrome (>9%) 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 leading to increase its independence in terms of premium steel procurement.

Hot-process steel tube-making is a core technology for the Group, and many innovations have emerged in this area.

For example, a new Premium Forged Pipes (PFP®) process has been developed to produce very thick large-diameter tubes, in particular for the Mechanical Engineering and Power Generation markets. This patented technological solution was industrially deployed in Europe in 2008 and in China in 2012.

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 process communities have been rolled out across the Group. 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 testing.

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 via steam injection, shale gas and oil and Brazilian pre-salt reservoirs.

Many projects are underway, particularly in the North Sea, Brazil, the United States, the Gulf of Mexico, Alaska, West Africa, Malaysia and the Middle East.

(1) Sumitomo Metal Industries merged with Nippon Steel on 1 October 2012. The new entity resulting from the merger has been named Nippon Steel & Sumitomo Metal Corporation (NSSMC).

(2) European association of electricians, boilermakers and their suppliers.

Developing steel grades that are able to resist hydrogen-sulfide corrosion is an essential task for the Oil & Gas industry. This range of so-called 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 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 & Gas 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, particularly those requiring very cold conditions.

To facilitate operations in new shale gas or oil plays, a new threaded connection, VAM® SG, was developed in record time thanks to a close relationship with customers, enabling the Company to meet very specific performance criteria. Shale gas is extracted from wells with a long horizontal section (from 1,500 to 3,000 meters). This requires certain critical tubular connections since the ultra-high pressure fracturing 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 wells 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 Vallourec 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 Corrosion Resistant Alloy (CRA) solutions being developed via the Research and Development partnership with Tubacex are strengthening the Group's market position with regard to challenging wells.

In the five years since its establishment, 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 seabed equipment to the oil rig) that surpass the strictest requirements;
- the Hydroclean® range of well-cleaning products, which has been extended.

Demand in the Power Generation sector remained buoyant, 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.

The 12% chromium steel alloy VM12 SHC, designed by Vallourec 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 high performance power plants.

The innovative product offering extends to condensers and heat exchangers, which might be required to operate in a highly corrosive environment (seawater). Solutions using bi-material assemblies have been developed to extend the product range. Enhancing heat exchange processes is also a major innovation area (finned tubes etc.).

Solutions for future nuclear power plant generations are also under development, and research on materials is very well resourced.

The Group is constantly expanding its range of products for construction markets: bridges, stadiums, airports and more. 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 projects.

The development of new tubular foundations for offshore wind turbines is a new and promising area of application where the environmental constraints are very severe and tubes constitute an excellent solution.

Improving the performance of subsea pipes and lightening them is key to oil and gas extraction. New steels with advanced mechanical characteristics are the subject of joint efforts between partners and Serimax to optimize techniques for welding them.

Offshore welding equipment is undergoing intense development to improve its productivity, reliability and ease of use.

An innovation for the umbilicals market (stainless steel premium welded tubes) is under development, and will make significant performance gains possible.

3.3.2 INDUSTRIAL PROPERTY

The strengthening of the Group's organization in the area of industrial property continued with the monitoring of major Research and Development projects and the deployment of sessions to heighten industrial property awareness among Research and Development teams, in France and abroad.

The Group sustained its patent registration activities in 2012, registering 16 new basic patents, and proceeded with over 400 geographic patent extensions. The budget dedicated by the Group to protecting inventions via patents continued to increase in 2012.

The Industrial Property Department was also successful in overcoming several instances of opposition to major patents by competitors.

In 2012, Vallourec boosted its core brands via the extensive deployment of Kreutzer Ingopar registration protection.

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Vallourec's proactive approach to social and environmental matters is formalized in the Group's Sustainable Development Charter. The Group's three objectives to ensure that it acts responsibly and works with its clients over the long term are to safeguard the continuity of the business through competitive and innovative products, maintain lasting relations with stakeholders and protect the environment and use resources wisely. Vallourec's Sustainable Development Charter can be found on the Group's website: www.vallourec.com.

The French law of 12 July 2010 on national action on the environment, called the "Grenelle 2", and that of 16 June 2011 on combating discrimination and promoting diversity, led to the strengthening of published corporate standards on these issues. They encourage the coexistence of financial and extra-financial information, enabling the Company to illustrate how it integrates sustainable development issues in its short, medium and long-term action.

This chapter highlights Vallourec's commitments to social and environmental responsibility, and describes the Group's policy and guiding principles. It details actions taken on health and safety, Human Resources management, relations with neighboring communities and local authorities, and the efforts made to preserve the environment.

Vallourec is also determined to provide concrete reporting on the results of its approach by publishing information, collected worldwide, on the 42 subjects listed in Article R.225-105-1 of the French Commercial Code. These indicators contribute to describing the Company and showing the results of its priority actions. The Statutory Auditors performed verifications on these indicators to a moderate level of assurance as well as on the consistency of the policies described; this is covered in their report in Appendix 2 of this chapter.

Unless otherwise stated in the text, all the information in this chapter concerns Vallourec, its subsidiaries as defined by Article 233-1 of the French Commercial Code, and the companies it controls as defined by Article L.233-3 of the French Commercial Code.

4.1 WORKFORCE-RELATED INFORMATION

The scope of the workforce-related indicators detailed below for 2012 has increased since 2011 to take into account the workforce (i) of Tubos Soldados Atlântico Ltda (229 employees in Brazil) and Saudi Seamless Pipes Factory Company Ltd (124 employees in Saudi Arabia) and (ii) of the subsidiaries of PT Citra Tubindo TBK (Indonesia) which have not hitherto been counted.

4.1.1 WORKFORCE

At 31 December 2012, Vallourec had 23,177 employees at over 50 production and service sites working for Vallourec under contract (permanent employees and employees working on fixed-term contracts), compared with 22,204 employees at the end of 2011.

List of countries in which the Group has at least 100 employees:

	Number of employees	
Country	**2011**	**2012**
Brazil	7,964	8,151
France	5,220	5,260
Germany	4,182	4,138
United States	2,389	2,484
Indonesia	555	953
China	538	630
United Kingdom	453	468
Mexico	319	311
United Arab Emirates	117	148
Malaysia	210	184
India	120	110

4.1.1.1 Change in workforce by geographical area

Workforce registered at 31 December (permanent and fixed term contracts)	2011	2012	Change 2011-2012	2011 Breakdown	2012 Breakdown
Europe	9,888	9,904	0.16%	44%	43%
Brazil	7,964	8,151	2.35%	36%	35%
NAFTA (United States, Canada, Mexico)	2,765	2,859	3.40%	12%	12%
Asia	1,448	1,922	32.73%	7%	9%
Middle East	117	272	132.48%	1%	1%
Africa	22	69	213.64%	NS	NS
TOTAL	**22,204**	**23,177**	**4.38%**	**100%**	**100%**

The size of the Group's workforce has changed to meet new investments in Brazil, the United States and China, and to strengthen its local presence in the Middle East and Africa. The size of the workforce in Europe remained stable.

Part of the increase in Asia is due to the integration of the employees of the PT Citra Tubindo TBK (Indonesia) subsidiaries who did not hitherto form part of the consolidated Group.

4.1.1.2 Distribution of the workforce by professional category of permanent employees

	Production staff	Technical and supervisory staff	Executives
2010	68%	18%	14%
2011	68%	17%	15%
2012	67%	18%	15%

Despite a very slight shift in the distribution from production staff to technical and supervisory staff, the production staff category continues to account for two thirds of the workforce. The executives category was unchanged.

4.1.1.3 Breakdown of workforce by gender

The Group launched a program of actions designed to attract and retain women on its staff and give them greater responsibility.

At 31 December 2012, women accounted for 11% of the permanent workforce. They are concentrated on administrative, marketing and functional posts. Few women are employed as production staff, other than in China.

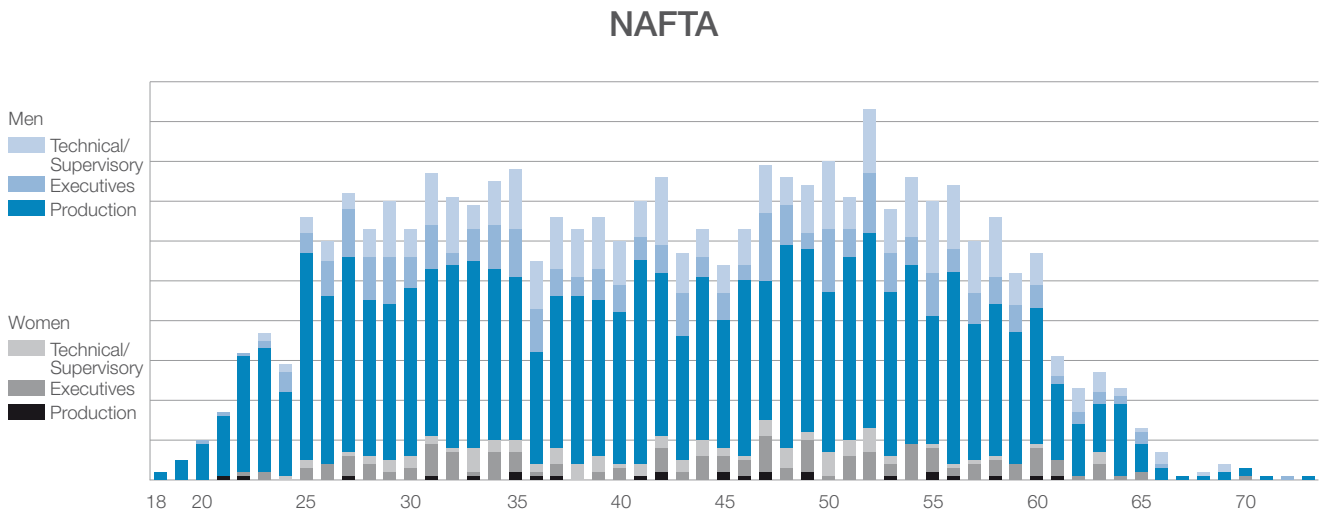
The proportion of women executives, although increasing in most areas of the world, remains modest.

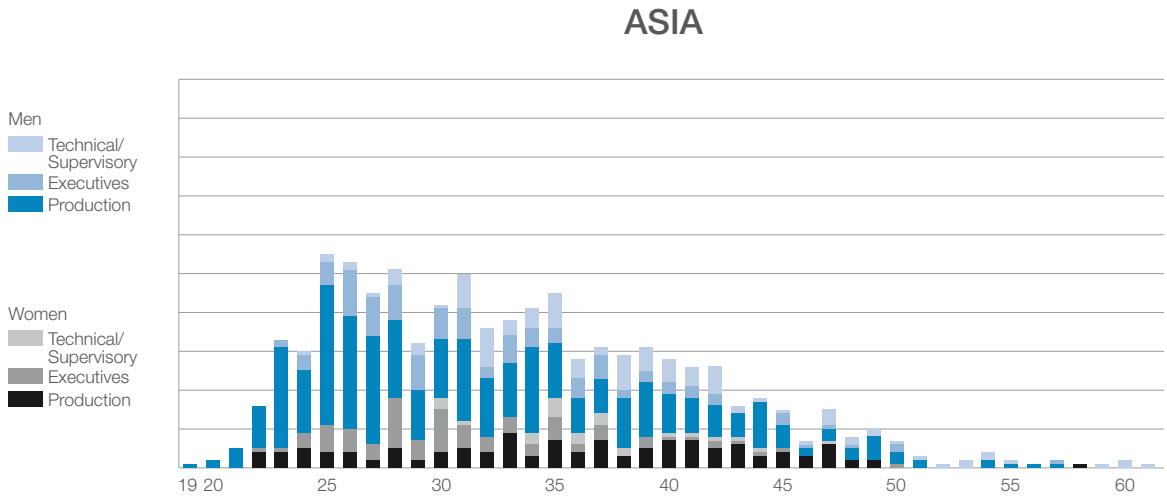
% of women (permanent employees)	Europe		Brazil		NAFTA		Asia		Total	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Production staff	2%	2%	5%	5%	1%	2%	16%	15%	4%	4%
Technical and supervisory staff	32%	33%	27%	27%	34%	34%	27%	26%	30%	30%
Executives	19%	20%	22%	23%	18%	18%	16%	17%	20%	21%
TOTAL	**11%**	**11%**	**9%**	**10%**	**11%**	**11%**	**19%**	**19%**	**11%**	**11%**

4.1.1.4 Breakdown of the workforce by age, gender and geographical area

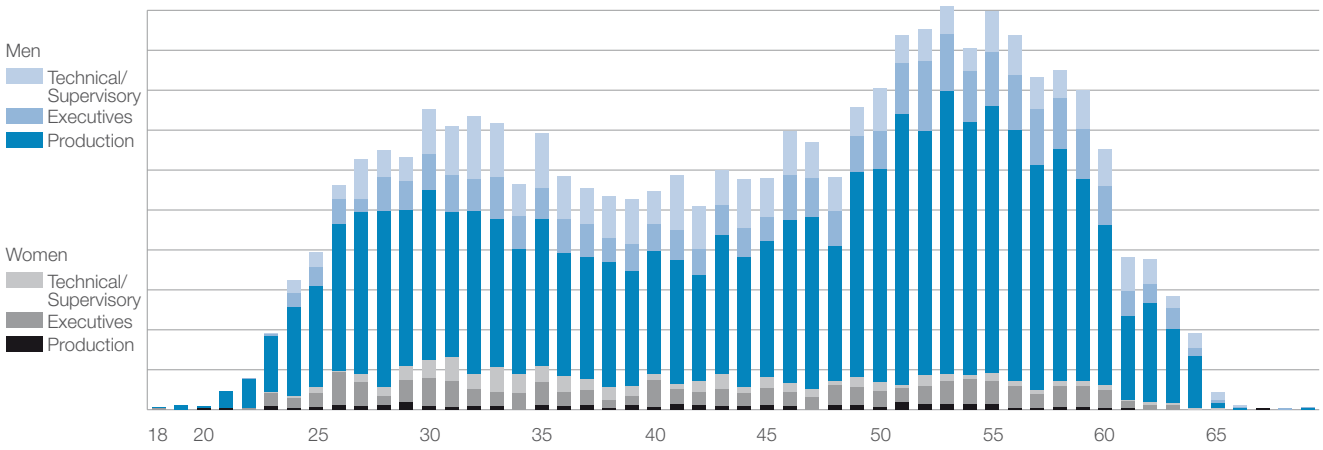
Age pyramids by geographical area show:

- in Brazil and Asia, the working population is young and mainly concentrated on the 25/35 years range, with an average age of 35 in Brazil and 34 in China;
- in NAFTA, there is a balanced breakdown across the 25 to 60 range, with an average age of 38 in Mexico and 43 in Canada and the United States;
- in Europe, there is an over-representation of employees over 50 and fewer between 36 and 49, with an average age of 43 in France and 46 in Germany.

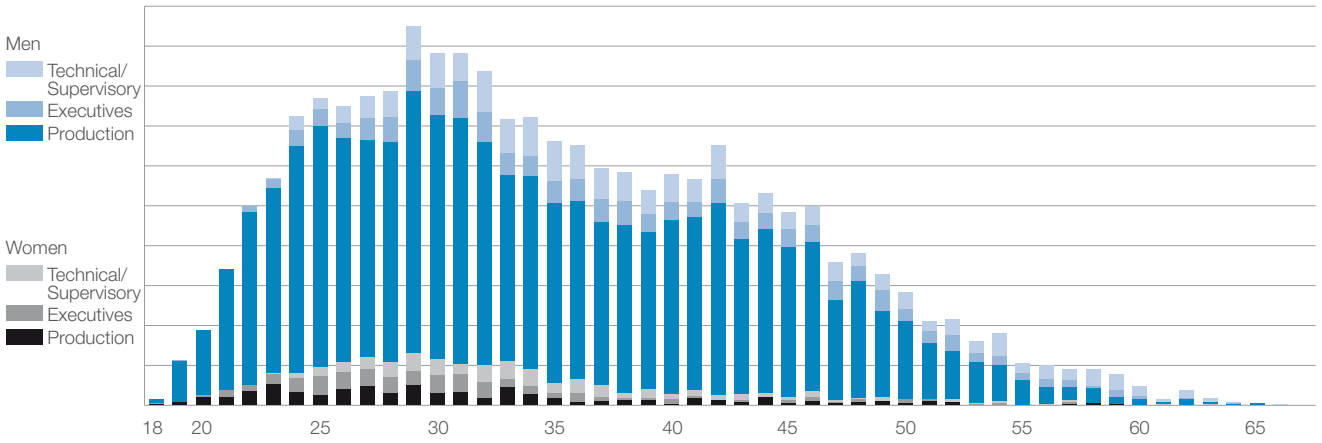




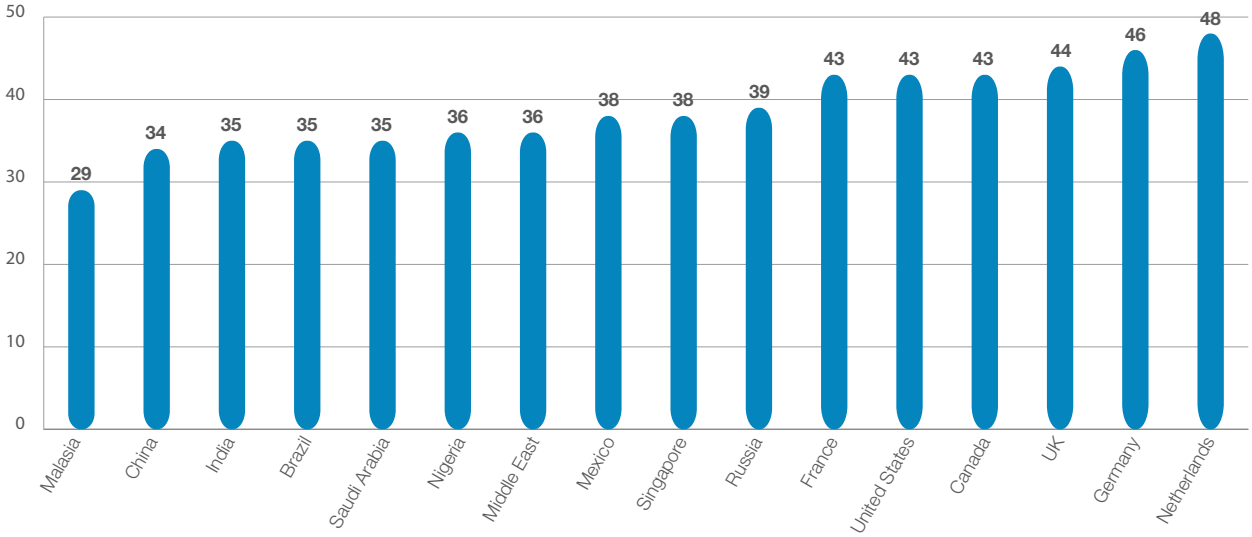
EUROPE



BRAZIL



AVERAGE AGE



4.1.1.5 New hires

In 2012, excluding intra-Group transfers, Group companies recruited 2,505 permanent employees. This figure is down compared to the previous year since it represents 11% of permanent staff at the end of 2012 compared with 15% in 2011.

The breakdown of all entries (aggregate of new hires and transfers) by professional category is as follows:

Breakdown of new employees and transfers, by professional category and by country

	Production staff				Technical and supervisory staff				Executives				Total			
	In number		As a %*		In number		As a %*		In number		As a %*		In number		As a %*	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Brazil	1,049	940	79%	86%	143	69	11%	6%	134	81	10%	7%	1,326	1,090	41%	41%
Europe	467	325	51%	52%	223	121	25%	19%	214	176	24%	28%	904	622	28%	23%
NAFTA	451	412	63%	73%	110	87	15%	16%	150	61	21%	11%	711	560	22%	21%
Asia	130	138	52%	47%	73	122	29%	42%	49	31	19%	11%	252	291	7%	11%
Other	11	77	40%	81%	10	8	37%	8%	6	10	22%	11%	27	95	NS	4%
TOTAL GROUP	**2,108**	**1,892**	**65%**	**71%**	**559**	**407**	**17%**	**15%**	**553**	**359**	**17%**	**14%**	**3,220**	**2,658**	**100%**	**100%**

* *This column reflects the percentage of entries in relation to the total number of entries in the geographic area.*

The entries include 153 voluntary transfers, down by comparison with the end of 2011 (298 transfers). Over two-thirds of transfers are in Europe.

Entries in 2012 decreased compared to those in 2011 in all categories but mainly for executives (-35%) and technical and supervisory staff (-27%). Production staff entries fell by 10%.

New hires in Brazil and the United States represented 22% and 13% respectively of their permanent staff, mainly in the production staff category for the development of Jeceaba (Brazil) and Youngstown (United States).

In Europe, new hires representing 6% of the workforce were mainly to cover replacements for retiring employees.

Women represented 14% of total new hires, excluding transfers, down one percentage point from the previous year. This decrease is explained by the greater proportion of production staff hires, a category in which the number of women is typically small.

As in 2011, one in five posts was filled by a woman in 2012.

Breakdown of new female employees and transfers by professional category

% of women recruited	Production staff		Technical and supervisory staff		Executives		Total	
Year	2012	2011	2012	2011	2012	2011	2012	2011
Europe	3%	2%	50%	33%	21%	23%	17%	15%
Brazil	8%	8%	46%	41%	30%	22%	12%	13%
NAFTA	3%	4%	31%	25%	18%	19%	9%	10%
Asia	11%	28%	24%	36%	13%	14%	12%	28%
TOTAL	**6%**	**7%**	**37%**	**33%**	**22%**	**20%**	**13%**	**14%**

4.1.1.6 Employees leaving the Group

10% of employees on permanent contract left the Group, a two-point increase over 2011. This is mainly due to Brazil, where employee turnover has gathered pace.

The percentage of departures by geographic region is as follows:

Departures (excluding transfers) of permanent staff	Brazil	China	Europe	United States	Total
2010	6%	11%	6%	18%	7%
2011	9%	10%	6%	15%	9%
2012	**13%**	**11%**	**5%**	**15%**	**10%**

4.1.1.7 Reasons for terminating employment contract

	Brazil		United States		Europe		China		Total	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Retirement	12%	11%	3%	4%	28%	37%	4%	3%	14%	15%
Resignation	16%	15%	25%	30%	25%	31%	76%	80%	24%	26%
Redundancy	70%	73%	39%	43%	28%	20%	19%	16%	47%	51%
Other reasons	1%	1%	33%	23%	19%	12%	2%	1%	14%	8%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Apart from China, where the level of resignations is traditionally and culturally very high in all companies, and in Europe, where the retirement rate is very high, dismissals were the main reason for contract termination. Dismissals refer to all departures instigated by the employer. In 2012, there were no collective redundancies for economic reasons.

4.1.1.8 Employees on fixed-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).

At Group level, temporary staff represented 10% of the workforce. This was a slight decrease (-10%), particularly in Europe.

Breakdown between permanent and temporary staff at 31 December

	Total		Of which Brazil		Of which NAFTA		Of which Asia		Of which Europe	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Permanent staff	21,065	21,996	7,877	8,098	2,572	2,717	1,297	1,683	9,183	9,195
Short-term (excluding apprentices)	656	655	6	3	193	142	151	239	303	236
Temporary staff	1,687	1,464	48	27	121	84	289	480	1,168	838
% flexibility	11%	10%	1%	0.4%	12%	8%	34%	43%	16%	12%

4.1.2 REMUNERATION

4.1.2.1 Payroll costs

In 2012, the Group's payroll costs, excluding temporary staff, totaled €1,147 million:

- €779 million for wages (€734 million in 2011);
- €42 million for employee profit sharing (€43 million in 2011);
- €20 million for charges associated with share subscription and share purchase options and performance shares (€20 million in 2011);
- €304 million for social security costs (€286 million in 2011).

The 6% increase in payroll costs compared with the previous year is due mainly to the increase in the workforce (+4.3%).

Breakdown of payroll costs by country:

	Breakdown of total payroll costs		Breakdown of average workforce	
	2011	2012	2011	2012
Germany	24%	23%	19%	19%
Brazil	24%	23%	35%	34%
China	1%	1%	2%	3%
United States	14%	16%	10%	10%
France	32%	31%	24%	24%
Mexico	1%	1%	1%	1%
United Kingdom	3%	3%	2%	2%
Other	1%	2%	7%	7%
TOTAL	**100%**	**100%**	**100%**	**100%**

4.1.2.2 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 executive management.

Average salaries including profit-sharing and social security charges	Average 2011 salaries including profit-sharing *(in euros)*	Average 2012 salaries including profit-sharing *(in euros)*	% of 2011 social security charges	% of 2012 social security charges
Germany	63,060	63,580	20%	20%
Brazil	35,040	36,010	67%	64%
Canada	72,210	81,320	16%	17%
China	13,360	16,320	20%	21%
United States	74,710	80,350	26%	27%
France	67,290	66,950	53%	52%
Mexico	29,990	30,230	15%	15%
United Kingdom	59,760	67,060	18%	27%

4.1.2.3 Employee profit sharing

Profit-sharing schemes enable employees to benefit from the Company's performance. In 2012, these accounted for €42 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.

4.1.2.4 Employee share ownership

In 2012, the Group announced:

- for the fifth consecutive year, a "Value" employee share ownership scheme, known as "Value 12", for the benefit of employees and those with similar rights of Vallourec's entities in France, Germany, Brazil, the United States, the United Arab Emirates, the United Kingdom, Mexico, China and Canada. Nearly 14,000 employees in these nine countries, i.e. 65% of eligible employees, chose to subscribe to the proposed share offering. This participation rate 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 7.14% of Vallourec's capital at 31 December 2012, compared with 4.97% at 31 December 2011;
- for the fourth consecutive year, a performance share allocation plan subject to the length of time worked for the Company, for a maximum number of 130,116 performance shares to a maximum of six performance shares per beneficiary, for 21,686 employees of Vallourec entities in Germany, Brazil, Canada, China, the United Arab Emirates, the United States, France, the United Kingdom, India, Malaysia, Mexico, Norway, the Netherlands, Russia and Singapore.

4.1.3 ORGANIZATION OF WORKING TIME

4.1.3.1 Work 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 duress of employees' working patterns, 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.

4.1.3.2 Work hours

France and Germany, which were faced with under-activity in 2012, with respectively 34,000 hours and 16,000 hours of partial lay-off, saw a decrease in hours worked.

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.

	Average number of hours worked per employee in 2011	Average number of hours worked per employee in 2012	Of which average number of hours of overtime worked per employee during the year	
			2011	2012
Germany	1,540	1,469	143	123
Brazil	2,020	2,029	102	104
China	2,165	2,100	268	233
United States	2,098	2,128	292	286
France	1,571	1,535	28	31
Mexico	2,527	2,701	124	179
United Kingdom	2,197	2,203	258	199

4.1.3.3 Individual and part-time work arrangements

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 their Department.

In addition, 77 employees (11 production staff, 40 technical and supervisory staff and 26 managerial staff) worked on a part-time basis in 2012 for personal or medical reasons (part-time work on health grounds) compared with 78 employees in 2011 (12 production staff, 40 technical and supervisory staff and 26 managerial staff).

4.1.3.4 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	
	2011	2012
Europe	5.1%	5.5%
Brazil	3.6%	3.9%
NAFTA	1.6%	1.6%
Asia	1.5%	1.4%
TOTAL	**3.7%**	**3.8%**

4.1.4 LABOR RELATIONS

4.1.4.1 Organization of the social dialogue

Over 19,000 Group employees in some 20 countries, representing 82% of the workforce, are covered by collective agreements for their business line or company.

The system ensuring dialogue between employees and employer 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. In December 2010, a member of the Vallourec Supervisory Board representing employee shareholders was appointed from among the members of the Supervisory Boards of the Company mutual funds.

- 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.). It is assisted by a professional accountant. It is also involved with the management of provident and employee savings schemes.

  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 plant. They participate in the management of budgets in respect of employment-related matters.

  The personnel representatives, who are elected by the employees of each plant, present employees' individual and collective claims in respect of salaries and working regulations.

  When collective bargaining take place at Group level, each of the trade unions represented within the Group appoints representatives and a Negotiation Committee is formed.

  In 2012, the three trade unions represented were the CGT, CFDT and CFE/CGC (unions receiving at least 10% of the votes on the consolidated results from all works' councils). After several discussion meetings, an agreement on preventing duress was signed with the CFDT and CFE/CGC. Discussions also took place on gender equality at work, leading to the drafting of "summary conclusions" which served as the basis for agreements and action plans at each plant.

  Collective bargaining at the level of each company covered wages, work time and organization, and gender equality.

  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 and continued in 2012.

- In Germany, labor 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. It is closely involved in matters that affect 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. It meets once a month in the presence of the employer.

  The Senior Managers' Committee (Sprecherausschuss) represents executives.

  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. No negotiations took place in 2012 as these agreements are effective for several years.

  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.

  In some cases, specific agreements for V & M Deutschland and its plants were signed with the works' council (*Betriebsrat*). For example, in 2012, an agreement was signed with the works' council of the Reisholz plant on safeguarding employment and skills management (*Personalkonzept zur Zukunftssicherung VMD-Reisholz*). Other local agreements concerned the updating of agreements at individual plants on working time.

  The V & M Deutschland works' council also signed agreements on changes to variable compensation, travel policy, deployment of the talent management information system "Talent 360", use of the internet and computer-based time management tools.

- 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 2012, negotiations covered wages and professional mobility from operative technician to production technician posts.
- 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 Brasil 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 Brasil SA. The unions have sole jurisdiction for collective bargaining on wages, profit-sharing and remuneration systems. These negotiations took place at branch level in 2012.

  For Vallourec & Sumitomo Tubos do Brasil, the representation system is identical to that for V & M do Brasil SA but negotiations are held at entity not branch level. In 2012, a significant agreement covering both working time and reduction in working hours per week was signed.
- In Mexico, the union mainly represents production workers and employees who come under the collective bargaining agreements. For this employee population, the list of which is established by agreement, the union to which payment of a subscription and membership are obligatory may propose candidates for recruitment. Negotiations relate to salaries and benefits in kind.
- In the United States, as required by law, employees voted, 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 and continued in 2012.

For the first year of implementation of the regulations arising from the "Grenelle 2" law, the Group did not have a comprehensive system of collective agreements. Consequently, the data on collective agreements, especially those covering health and safety at work, are only partial, and the collective agreements described above are only those recorded by the Group by the date on which the independent report for 2012 was drafted.

4.1.4.2 Group internal communication

Internal communication is designed to boost the commitment and motivation of all Group employees worldwide. Vallourec maintains dialogue with its employees and provides information through various channels:

- *Vallourec Inside* is the Group's intranet, launched in January 2012. It reaches some 10,000 employees across eighteen countries. It broadcasts in real time, providing information on strategy, targets and results, and showcasing the achievements of teams worldwide. A bi-monthly e-newsletter conveys on-site information. *Vallourec Inside* also offers individuals the opportunity to connect through employee networks, to promote collaborative work and enhance responses and performance. Some 2,500 individuals meet together in over 120 web forums dedicated to specific issues for the Group (manufacturing processes, functional lines, research and innovation).
- *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 specific projects makes employees aware of key issues for the Group – ethics and values (Vallourec Way), operating excellence (CAPTEN+), safety (CAPTEN+ Safe), and the environment – 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 or local meetings, the Group's management team visits local managers to convey information and hold discussions. There were six such meetings in 2012, attended by a total of around 2,000.

The Group's internal communication is also based on local resources in countries and companies, which relay messages, provide feedback from the field and raise interesting topics within their own channels of communication (newsletters, in-house intranets, etc.).

4.1.5 TALENT MANAGEMENT

The new talent management information system called "Talent 360" (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 annually. In 2012, harmonization of the executive management process continued with the systematic deployment of a talent review at each Group entity. Talent management software was extended to all Group executives, including Germany, Saudi Arabia and China, as well as to all technicians and supervisory staff in staff in France and certain countries which chose to pilot the scheme, particularly the United States, Canada and Mexico.

In countries where this program is in place, individual appraisals were held for over 90% of the target population.

In addition, new pilot projects were launched to extend the plan to production staff (France, US). They should be operational by 2013.

4.1.6 HEALTH AND SAFETY

4.1.6.1 Safety (1)

Safety is the No. 1 priority for the Group, which aims to be world class in this respect and a model for success.

In 2008, the Group launched an ambitious three-year safety improvement program known as "Cap Ten Safe". Driven by a determination to bring about change and act on all safety levers, this program has helped achieve a very marked improvement in the Group's performance in occupational safety, reflected in the lost time incident rate (LTIR), which was 9.2 in 2008 (per million hours worked), being 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 program called "CAPTEN+ Safe", aimed at an LTIR of less than 2. At the end of 2011 and 2012, the LTIR (2) came to 2.79 and 2.60 respectively. The severity rate for accidents (3) in 2012 was 0.11, stable compared to 2011 and down from 0.20 in 2010. Despite these results which show a 72% decrease in the LTIR between 2008 and 2012, the Group mourned two fatal accidents in 2012 (4), one involving a Group employee and one a temporary employee, (no fatal accident in 2011 (5)) and continues to be extremely vigilant on safety matters.

The Group also decided to monitor the total recordable injury rate (TRIR), which fell from 31 (per million hours worked) in 2008 to 7.1 in 2012.

The safety improvement program consists of deploying the following at all Group sites:

- establishing safety management committees at all levels of the Company;
- safety inspections (nearly 35,000 inspections in 2012);
- permanent risk assessment for safety matters and prevention actions;
- establishment of continuous improvement teams ("CITs") for safety matters (307 CITs were set up in 2012).

It is also aiming to gain OHSAS 18001 certification (*Occupational Health and Safety Assessment Series*) at all plants, and continuously improve working conditions by an ergonomic assessment of workstations.

For sites with below-average performance, the Group has introduced a specific action plan to strengthen the involvement of the site's management and including the following key measures:

- each manager is required to "address a major risk";
- the line manager for the Head of each site will make a personal safety inspection of the site accompanied by the safety manager, conduct an audit of the operation of local project groups, and ensure that the 12 "Golden Rules" for safety are known and complied with; and
- the safety managers organize cross-functional audits of the sites.

Safety training and awareness of the safety rules 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 program 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: communication campaigns on the issue of accidents affecting hands or eyes, cross-check audits between plants, and improvements to prevention plans when external companies are involved.

The "Safe Start" program, which is based on the individual attitude of employees and the capacity to take the initiative in a risk situation, was deployed in 2012 in 18 out of 40 projected sites. It will be extended to other sites in 2013.

4.1.6.2 Health

Hand in hand with safety, health is a major and constant concern for the Group.

Regulations on occupational illness vary greatly between countries, which makes it difficult to collect and consolidate data in this area. Nevertheless, the main risks associated with the Group's activities relate to deafness, musculoskeletal disorders and lung conditions.

The Group conducts various actions to address the following main concerns:

- prevention of psychosocial risks: with the support of the Group's occupational physicians, Vallourec helps employees manage stress at work generated by professional relationships and the difficulty of reconciling personal and working life (particularly in France, Germany and Brazil);
- improvement in working conditions and reducing the duress of work: the ergonomics of workstations, monitored by the ad hoc Committee on safety, are regularly examined and adjustments are made where necessary (particularly in France and Brazil). On 17 December 2012, an agreement was signed on the prevention of duress. This forms a concrete basis for the assessment and collaboration process that takes place throughout the year with the social partners. The aim is to define a methodology common to all plants in France, to map the various factors contributing to duress and to identify the employees most likely to be exposed to such risks. Based on this assessment, actions are underway concerning the following three priority themes: reduction of multiple exposures, improvement in working conditions and skills development, and enhancements to prevent duress.

(1) The results of the Brazilian subsidiaries Vallourec & Sumitomo Tubos do Brasil and Tubos Soldados Atlântico Ltda are not included in the calculation of safety indicators.

(2) Based on Group headcount (excluding Vallourec & Sumitomo Tubos do Brasil and Tubos Soldados Atlântico Ltda) and temporary staff.

(3) Based on Group headcount (excluding Vallourec & Sumitomo Tubos do Brasil and Tubos Soldados Atlântico Ltda) and excluding temporary staff.

(4) Based on Group headcount and temporary staff, excluding subcontractors.

(5) On a comparable base to 2012 (although two fatal accidents were recorded at subcontractors).

- prevention of chemicals risk: the safe use of chemical products and substances is of critical concern to Vallourec. The database containing their details is regularly updated to ensure rigorous monitoring of developments and reactions and thus prevent harmful effects. All products or substances entering production sites are monitored and authorized by local HSE managers. Medical services are regularly called in to provide a full risk assessment. Plans to substitute critical products have been defined and, in conjunction with R&D and the suppliers, the HSE teams have devised test and qualification programs for substitute products. These programs can sometimes take a long time, and in some cases require the manufacturing processes to be adapted or adjusted. Legally required checks on the atmosphere in the work environment have been conducted and this has contributed to the risk assessments.

At the end of 2012, nearly 40% of 300 substances identified as CMR [1] had been replaced, and the Group is continuing to deploy four specific action plans:

- refractory ceramic fibers: Vallourec has written and circulated a single set of instructions for all countries. The materials containing this type of fiber present in furnaces will be progressively disposed of during maintenance operations when an alternative solution is available;
- leaded grease: tests and qualifications are underway to replace grease containing lead used on threading that is not subjected to high temperature;
- chrome-plated mandrels: an industrial test is to be conducted to validate an alternative solution to chrome plating mandrels; and
- nickel phosphates: these will be progressively replaced once an alternative solution has been developed with a supplier.

4.1.7 PROMOTION AND RESPECT FOR THE FUNDAMENTAL AGREEMENTS OF THE INTERNATIONAL LABOR ORGANIZATION

In its "Agreement on the principles of responsibility applicable to Vallourec companies", approved by the European Works' Council on 9 April 2008, Vallourec affirmed its undertaking to abide by the fundamental principles of the international conventions of the International Labor Organization, and in particular:

- convention 029 on Forced Labor, 28 June 1930;
- convention 087 on Freedom of Association and Protection of the Right to Organize, 9 July 1948;
- convention 098 on the Right to Organize and Collective Bargaining, 8 June 1949;
- convention 100 on Equal Remuneration, 29 June 1951;
- convention 105 on the Abolition of Forced Labor, 25 June 1957;
- convention 111 on Discrimination (Employment and Occupation), 25 June 1958;
- convention 138 on the Minimum Age, 26 June 1973;
- convention 182 on Worst Forms of Child Labor, 17 June 1999.

This text is an integral part of Vallourec's Code of Ethics, which has been sent to all Group employees.

4.1.8 TRAINING [2]

The Group needs personnel who are well-trained, motivated and able to adapt to changes in the Group's business and markets. It endeavors to reconcile its changing requirements with the individual aspirations of its employees by ensuring that all employees benefit from proper career development.

In 2012, more than 597,000 hours were spent on professional training for employees, at a cost equivalent to 2.4% of total salaries (training costs + remuneration of staff attending training sessions versus remuneration excluding payroll costs). The slight decrease in the amount of training compared with 2011 (677,000 hours for a total representing 2.6% of employees) reflects the implementation of a global savings program which has impacted all expense items.

The proportion of employees trained during the year – i.e. receiving an aggregate of at least seven hours of training – was 69%.

(1) Chemical products and preparations can present various harmful effects for human health. They are classified in a category called "CMR". According to Article R.231-51 of the French Labor Code, CMR agents include all substances or preparations that are Carcinogenic (C), Mutagenic (M) or toxic for Reproduction (R).

(2) The results of the Brazilian company Tubos Soldados Atlântico Ltda, acquired at the end of 2011, have not been included in the calculation of indicators on training.

Employees trained for an aggregate of at least 1 day per year* in 2012	Europe	Brazil	United States	Asia	Total
Production staff	35%	54%	48%	31%	43%
Technical and supervisory staff	14%	11%	14%	24%	14%
Executives	10%	15%	15%	7%	12%
TOTAL EMPLOYEES TRAINED	**59%**	**80%**	**77%**	**62%**	**69%**

* *Percentages calculated on the total number of employees.*

Employees trained for an aggregate of at least 1 day per year* in 2011	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%**

* *Percentages calculated on the total number of employees.*

Type of training provided in 2012	Europe	Brazil	United States	Asia	Total
Average number of training hours per employee (temporary or permanent contract)	25 h	28 h	25 h	21 h	26 h
% of technical and professional training	32%	27%	36%	35%	30%
% of Health & Safety and Environment training	24%	29%	42%	19%	28%
% of other training (management, efficiency, personnel, IT, language)	44%	45%	22%	46%	42%

Type of training provided in 2011	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 Health & Safety and Environment training	21%	20%	26%	19%	22%
% of other training (management, efficiency, personnel, IT, language)	49%	56%	35%	45%	50%

These figures include training at Vallourec University.

4.1.8.1 Vallourec University

In 2012, Vallourec University's scope of activities was extended. Since its creation in 2011, Vallourec University's ambition is to be a center of excellence where employees and clients can meet to create and share a common culture and enhance their understanding by 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 programs for Vallourec employees worldwide. It is a center 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 2012, 201 employees took part in international programs and 3,008 in regional programs (respectively 530 and 2,100 in in 2011).

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 center 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 talent and strengthening Vallourec's reputation as an employer.

In 2012, Vallourec University was equipped with a *Learning Management System* (LMS), offering employees more direct access to training. LMS is intended to improve the management of and access to training and has been progressively deployed in the Group since May 2012. It provides close monitoring of training times and budgets, enables employees to see what training is available in the Group, to apply directly for their own or their reports' training, and to check their training history and that of their reports.

This new tool enables Vallourec University to offer customized or generic training, rolled out rapidly at Vallourec's different sites, for all employees connected to LMS. These offers all come under a *Blended Learning* strategy in which face-to-face training is prepared for or underpinned by e-learning sessions, leading to better acquisition of the lessons and reducing the time spent in the learning room. Over the next few years, Vallourec University will continue to develop a range of new face-to-face and e-learning training.

4.1.8.2 Other training programs

Every year, each Group company develops a training program in line with the Group's educational concerns. Special training programs 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.

4.1.8.3 Apprenticeship and work-study programs

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 program geared to the needs of its activities, the Group has been conducting a dynamic apprenticeship program in Germany, with 292 apprentices in 2012 (294 in 2011), and intends to expand this program in France, where 160 work-study apprentices have been undertaking training in 2012, representing a 100% increase versus the end of 2011.

4.1.9 EQUAL OPPORTUNITIES

4.1.9.1 Gender equality

Gender equality was discussed by Vallourec's Management and Supervisory Boards at the end of 2012. It has also been on the agenda in negotiations with the trade unions in France.

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.

4.1.9.2 Disabilities

At the end of 2012, 2.6% of the Group's employees had a disability or medical restriction requiring an adjustment to their job or workstation (3% at end 2011).

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 has signed a professional integration charter for people with a disability.

4.1.9.3 Fighting discrimination

In the context of deployment of the Code of Ethics (see Section 4.1.9 "Ethics" below), employee awareness is raised on the theme of discrimination based on everyday examples.

4.1.10 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 the rules published by Vallourec.

Management ensures that the Code of Ethics is circulated to all Group personnel. It has been translated into five languages. It has also been published on the Company's website to affirm the Group's values with regard to third parties.

In order to support the implementation of the Code of Ethics by all Vallourec personnel, in particular executives, a Code of Ethics Officer has been appointed 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 is backed by a network of local contacts.

The deployment of Vallourec's Code of Ethics among all employees was completed in 2012.

In addition, to incorporate ethics into a continuous progress approach, an Ethics Committee was created in 2012. Composed of representatives of the Legal Department and various functional departments (purchasing, HR etc.), it is expected to meet at least once per quarter to define the ethical guidelines under the leadership of the Code of Ethics Officer and ensure their effective deployment.

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 program of legal compliance.

This program 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 program will continue to be deployed in 2012 in Brazil and China.

An apprenticeship program via e-learning is currently being created to raise awareness and provide training on ethical values and legal compliance for all new recruits.

4.2 ENVIRONMENTAL INFORMATION

The nature of the activities of V & M Mineração Ltda (mining), which is not the Group's core business (manufacturing seamless pipes and tubes), and the expansion of the Vallourec & Sumitomo Tubos do Brasil plants, individually generate disproportionate environmental indicators to the Group's average environmental performance at its other sites. In order to provide consistency for the Group's consolidated data, the data for these two Brazilian companies have therefore been removed from the results but they are nevertheless communicated individually in Appendix 1 of this chapter. The Brazilian subsidiary Tubos Soldados Atlântico Ltda, acquired at the end of 2011, was not covered by the environmental data reporting system for 2012 and none of its results, either consolidated or individual, have been included in the calculation of environmental indicators detailed below.

4.2.1 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.

4.2.1.1 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. It is supported by environment managers at each production site, who are responsible for implementing Vallourec policy at local level:

- managing environmental performance, risks, projects, communication and sharing between all Group plants;
- encouraging plants to improve their environmental performance; and
- developing expertise in environmental matters.

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 contributing to progress throughout the Group by enabling comparison of the respective performances and solutions adopted by each country.

The Environment Department is also responsible for coordinating and managing this benchmarking, and, in particular, for gathering and collating all the Group's environmental data. The results are collated monthly and communicated quarterly to the sites and the Executive Committee.

4.2.1.2 Vallourec Management System

The Vallourec Management System (VMS) was introduced to provide a framework for implementing the quality, health and safety and environmental policies defined 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 the following 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.

4.2.1.3 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.

At 31 December 2012, all of Vallourec's main sites, accounting for more than 99% of total output, are now certified ISO 14001, in accordance with the goals set in 2006.

4.2.1.4 Compliance with legislation

Regular audits are conducted, to assess compliance of the production sites' activities with statutory and regulatory requirements.

In France, regulations are monitored via the intranet, using 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.

4.2.1.5 Training and raising awareness

Training and raising the awareness of employees on environmental issues and sustainable development are undertaken at the plants by a variety of means: poster campaigns, periodic publications, information meetings and compliance programs. The global program on Legal Compliance, designed and managed by the Group's Legal Department, has a section on raising awareness of compliance with environmental regulations (see paragraph 4.1.9 "Ethics" above, and paragraph "Report of the Chairman of the Supervisory Board" below, Appendix 1 to Chapter 7 of this Registration Document).

In 2012, training in health, safety and the environment totaled 166,000 hours (147,000 hours in 2011).

4.2.1.6 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 optimize 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 the quality by better operation of wastewater treatment plants and reduction in volumes of wastewater;
- waste management through better collection, sorting and recycling;
- reduction of noise inside and outside the plants by emphasis on cutting noise emissions at source.

In 2012, investments focused particularly on:

- 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.

The total provisions and guarantees for environmental risks are shown in Note 16 of the consolidated financial statements.

4.2.2 DISCHARGES INTO THE AIR, WATER AND GROUND

4.2.2.1 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:

a) Fumes

- NOx (nitrogen oxide) emissions from 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 2012, emissions totaled 650 tonnes of NO_x, corresponding to 0.12 kg/tonne produced (667 tonnes of NO_x, corresponding to 0.12 kg/tonne produced in 2011).
- 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, channeling 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. Measurements taken show that emissions comply with the applicable regulations.

  In 2012, VOC emissions, much reduced from 2011 (488 tonnes), were estimated at 453 tonnes.
- Emissions of oily vapors from laminating or cold rolling facilities and from tools and machinery: these vapors are channeled and filtered before discharge.
- Vapors from surface treatments: the facilities are equipped with a treatment and retention system in order to comply with the applicable regulations.

b) Particles

- The main potential sources of particle emission are steel mill furnaces. Every year, retention systems are improved to continuously reduce the corresponding emissions. The systems for dust-retention at French, American and Brazilian steel mills now meet the highest standards.
- 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 neighbors are not inconvenienced by dust clouds, the road surfaces are coated with concrete or polymers.

4.2.2.2 Soil

FRENCH ENTITIES

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 was 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 IN OTHER COUNTRIES

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 program of compliance work at a former solid industrial waste store (wood, plastic, scrap metal, etc.) was launched in 2004. Progress is in line with the undertaking made to the authorities.

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

4.2.2.3 Waste 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. It considers that the majority of waste should in future be considered as secondary products or by-products that generate added value.

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.

The main levers for progress are the following:

- reduction of waste volumes;
- increase in recovery and recycling rates;
- identification, consolidation and optimization of output such as slag from blast furnaces and steel mills, process sludge (laminating and surface treatment), metallic residues, slag and dust;
- identification of the best outlets, such as blast furnace slag in Brazil sold to the cement industry, or the disposal of metallic waste under multi-year contracts.

For example, in 2012, the local Brazilian teams opened new waste management channels and generated supplementary revenue by implementing the following initiatives:

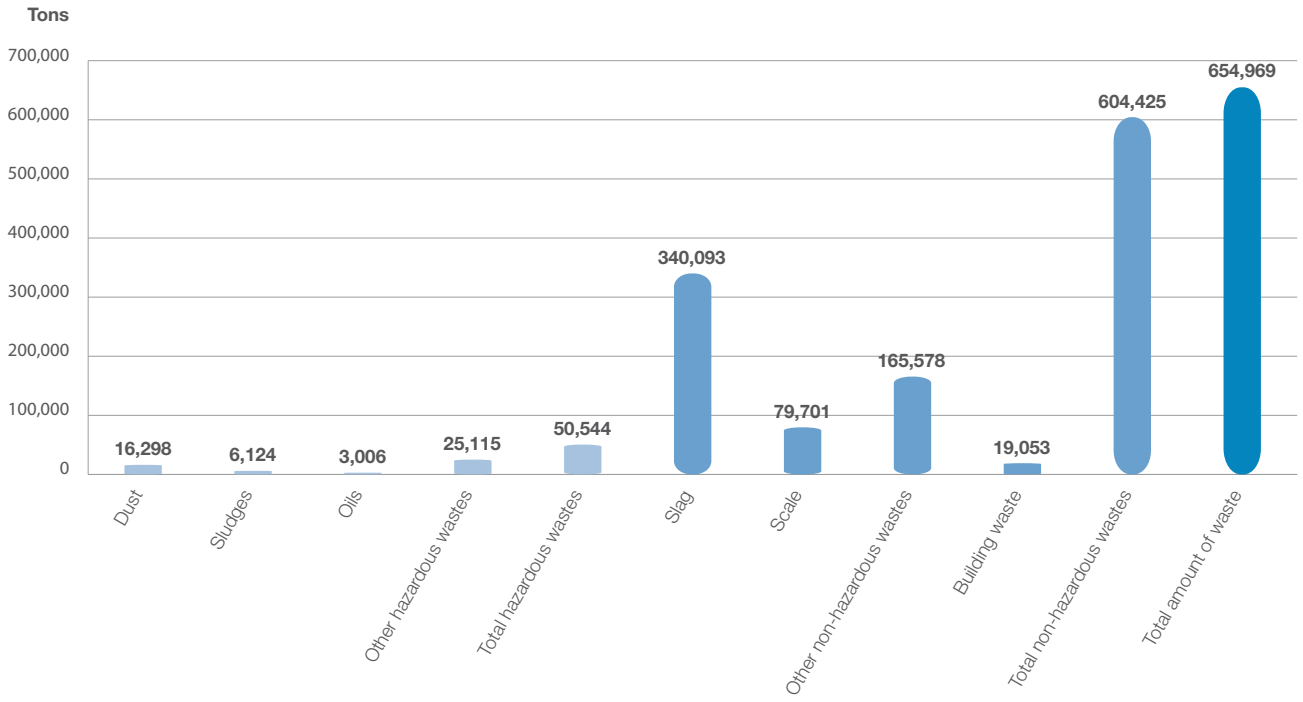
- combining and reorganizing storage facilities;
- choosing service providers according to type of waste (e.g. re-use of blast furnace slag in the cement industry);
- developing new techniques such as the use of sludge as fertilizer.

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 2012 has enabled the Group to identify and work on two main categories:

- organic waste (sludge, oils).
- solid mineral waste (dust).

In 2012, the Group's activities generated 654,969 tonnes of waste (665,813 in 2011), of which 7.7% was hazardous waste (7.4% in 2011). 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 determination should enable it to reach a target waste recovery rate of 95% by 2014. At the end of 2012, this rate was 91% (89% in 2011).

Quantity of waste in 2012



4.2.2.4 Noise nuisance

The Group's activities inevitably involve some noise. The noise arises from various sources: steel mill furnaces, the cutting and storage of steel bars, the impact between tubes and steel-rolling processes. 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 neighboring properties, if the plant is situated close to a residential area. On some sites, very elaborate systems are in place, enabling noise to be measured at very precise locations and to discover their 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. For greater comfort, the earplugs are custom-fitted. They allow certain frequencies to pass through so that individuals can communicate while substantially reducing the noise from machinery. Employees undergo regular medical checks for very early detection of any loss in auditory function.

Among actions to continue preventing noise nuisance, in January 2012 the Sustainable Development Committee defined a noise action plan including the following measures:

- establishing noise maps on the most critical and representative sites of sound levels reached in different workshops and exposure of the personnel based on their length of time spent and number in the areas concerned;
- analyzing and improving attitudes in the workshops;
- referring to best practice for new investments and restructurings;
- improving employees' work conditions;
- favoring collective over individual protection measures.

4.2.3 SUSTAINABLE USE OF RESOURCES

4.2.3.1 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.

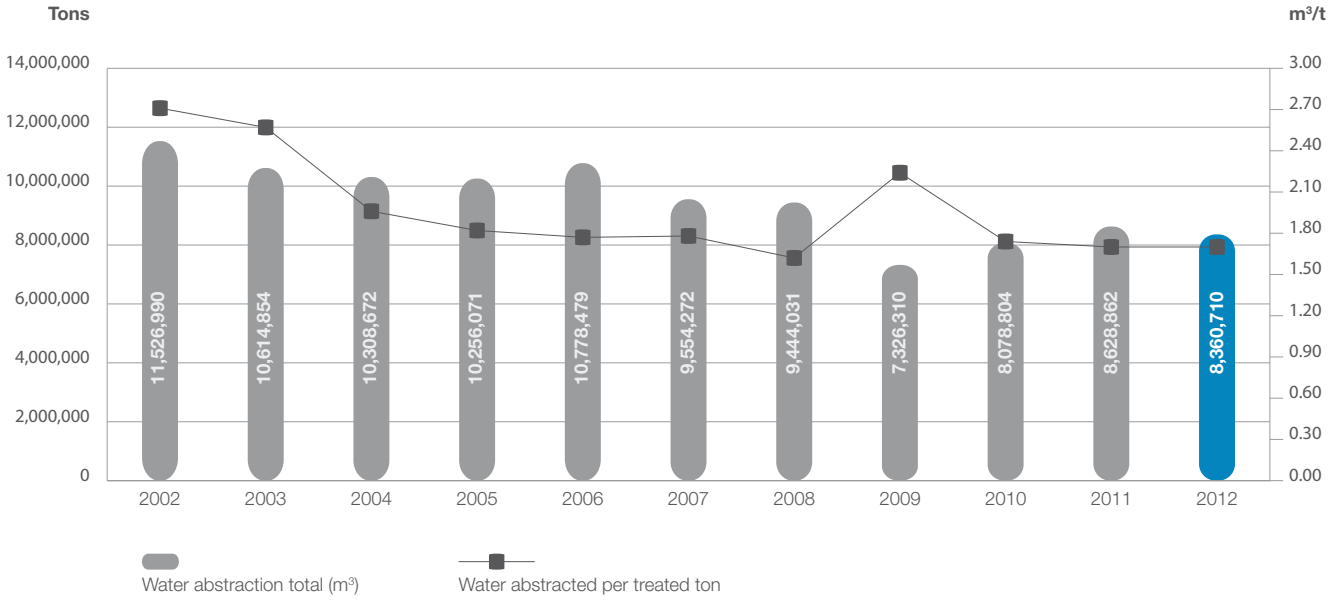
Water consumption has decreased in the last 10 years, mainly due to the establishment of measures to increase recycling. It decreased from 10.6 million m^3 in 2003 to 8.36 million m^3 in 2012. A key contributory action to this is the increase in water recycling internally. Regular monitoring of water meters also helps limit wastage from pipe leaks.

Relative consumption has also improved steadily (except in 2009 when activity was down). At the end of 2012, it represented 1.7 cu.m tonne compared to 2.6 cu.m per tonne in 2003, a 35% decrease.

The issue of water is not just limited to measuring water taken from the natural environment or public networks. Accordingly, the concept of a water footprint has been developed using a representative indicator called the Water Impact Index. A survey was conducted with an industrial partner at seven of the Group's plants in 2012, located in Brazil, the United States, France and Germany. The indicator takes account of the volume factor (intake, discharge), the quality factor (from intake to discharge) and the stress factor (scarcity of water and the hydrological context). It provides a better understanding of the impact and helps prioritize actions and investments. Its application has helped show that the most critical sites are not only those with the highest water intake.

The calculation of the indicator will be further refined and relate to other sites in the coming years, and take account of the risks associated with the water resource (changes in regulatory constraints, dependence, image risks etc.). At the same time, the Group has set itself the objective of reducing the total management cost of water.

Water consumption 2003-2012



Industrial water may be discharged into municipal networks (the majority of sites) or into the natural environment after passing through internal treatment units, the objective being to reduce the quantity of water discharged by increasing internal recycling.

To safeguard the quality of the water discharged and comply with applicable local regulations, the sites monitor the following parameters:

- SPM: Suspended particulate matter;
- COD: Chemical oxygen demand;
- TH: Total hydrocarbons;
- Metals (particularly iron, zinc, chrome and nickel).

Various improvements are also underway, such as the introduction of oil separators, the separation of water collection networks and the establishment of manually operated stopcocks, the pilot site being

the pipe mill at Saint-Saulve (France). Despite all the precautions undertaken, the Group unfortunately had to report an environmental incident in 2012 related to the quality of the industrial water discharged at the VAM Drilling plant in Cosne (France) which caused a small amount of oil pollution to the soil. Following this incident, which did not give rise to any financial penalty, the Group has undertaken to install system for water separation and settling.

4.2.3.2 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 (Belo Horizonte), through the blast furnace process (BOF – Basic Oxygen Furnace), 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.

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.

4.2.3.3 Energy consumption

In order to significantly reduce its overall energy consumption, the cost of which amounted to €255 million in 2012 (€240 million in 2011), in 2009 the Group set up the GreenHouse project. The objective of this project 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 – 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 practice in all energy-related fields (including thermal, electric, compressed-air and steam-production processes). Numerous "quick wins" have been put in place, and 50 continuous improvement teams have been working exclusively in the energy field to improve the Group's performance;
- establishment of thermal balances: 66 thermal balances have been carried out to date (representing 80% 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 2012, energy consumption per tonne came to 657 kWh/t for gas and 323 kWh/t for electricity (675 kWh/t and 309 kWh/t respectively in 2011). Although higher than in 2008, these figures show real progress is being made in energy performance for the following reasons:

- in 2012, the level of activity represented 85% of that in 2008;
- the proportion of premium products was significantly higher, 60% of products having been heat treated in 2012 compared to 50% in 2008;
- the share of alloy steel was significantly higher.

Consequently, at equivalent order books and volumes, performance has already improved by over 10% compared with 2008. The Rath plant also won the *Environment Award* in 2012 thanks to the establishment of new rotary hearth furnaces with regenerative burner systems. This new technology consumes 30% less energy and saves 8,000 tonnes of carbon dioxide emissions per annum. This facility has already enabled us to achieve a significant proportion of the objective defined for the *GreenHouse* project (20% reduction in total gas and electricity consumption by 2020 at the latest) and serves as an energy efficiency benchmark for all production sites.

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 2012 *(in GWh)*	**Renewable**	**Non-renewable**	**Total**
Electricity purchased	300	1,302	1,602
Electricity produced	83	-	83
Natural gas	-	3,257	3,257
Oil	-	221	221
Charcoal	2,370	-	2,370
Total	2,753	4,780	7,533
% of energy consumed	36.5%	63.5%	100%

Energy source 2011 *(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 in 2012, 79% of the energy consumed by V & M do Brazil SA in 2012 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 V & M do Brazil SA requirements.

4.2.4 CLIMATE CHANGE

4.2.4.1 Greenhouse gas emissions

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*	**Specific emissions** *kg CO_2/tonne*
BOF	Iron ore and biomass	511	500
EAF	Scrap iron		
	• Saint-Saulve	427	400
	• Youngstown	539	400
	Other electric steel mills (purchases)	291	400
BOF	HKM (purchases)	769	1,690
TOTAL		**2,537**	**811 ***

* *Weighted average*

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 2012, the quota allocated to the steel mill was 106,000 tonnes. Its emissions, amounting to 56,397 tonnes in 2012 (64,235 tonnes in 2011), are below this. This differential is due partly to the steel mill's production level being below its nominal capacity and partly to significant improvements in energy efficiency.

The Group also uses biomass as a source of energy for its blast furnaces in Brazil. It has around 240,000 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 the CO_2, with the CO_2 emitted from burning charcoal during iron-making being absorbed by the forest. The main CO_2 emissions from this process come from the emission of methane during the charcoal-making process.

The Group has conducted a comprehensive carbon assessment of its activities, with the aid of an external firm, "Carbone 4". This assessment distinguishes between direct emissions, indirect emissions from electricity and indirect electricity from other sources of energy (see table below). This assessment is much more comprehensive than those conducted in previous years for indirect emissions from other sources of energy, which explains some significant differences. It does not mean an increase in the Group's emissions but instead reflects a greater understanding of them and represents a basis for conducting improvement plans in the coming years.

Type of emissions	Component	2010 Tonnes of CO_2	2011 Tonnes of CO_2	2012 Tonnes of CO_2
	Combustion of natural gas (furnaces)	588,220	656,332	612,360
	Methane emissions (carbonization of wood)	250,362	270,933	271,663
	Emissions due to production of steel	90,048	81,680	85,078
	Internal transport and storage	32,634	41,833	38,866
Direct emissions	**TOTAL**	**961,264**	**1,050,778**	**1,007,968**
Indirect emissions (electricity)	Electricity purchased	451,320	462,931	507,754
	TOTAL	**451,320**	**462,931**	**507,754**
	Purchases of raw materials and services.	1,793,127	1,836,270	1,764,027
	External transport	561,495	625,999	601,897
	Waste treatment	238,177	239,225	242,652
	Losses related to energy transport (gas and electricity)	137,741	148,433	142,691
	Emissions due to our machinery (equipment in our plants)	100,832	115,872	137,942
	Transport of personnel	54,602	68,688	74,026
Indirect emissions (other)	**TOTAL**	**2,885,974**	**3,034,487**	**2,963,904**
TOTAL CARBON FOOTPRINT (COVERING ALL THREE FORMS OF EMISSION)		**4,298,558**	**4,548,196**	**4,479,635**
CARBON FOOTPRINT KG CO_2/TONNE OF TUBES		**926**	**879**	**900**

4.2.4.2 Adaptation to the consequences of climate change

The Group has not so far conducted a survey to identify the risks related to the consequences of climate change as no alert has to date required this to be done.

Nonetheless, some exceptional events could become more frequent (storms and hurricanes) and damage the Group's facilities. The conditions in which the sites are operated could also gradually evolve (capacity to have the necessary water for the tube manufacturing process, working conditions at the plants, operation of equipment during heatwaves, etc.). The unique forest ecosystem exploited by the Group could change or weaken over the long term.

It is therefore useful to identify these new risks and assess them carefully taking into account the diversity of the Group's geographical locations, manufacturing processes and the recommendations that emanate from the public authorities over time. It will then be possible to construct plans for adaptation should the need arise. This process, starting from a general approach and then focusing on situations deemed critical, will commence in 2013.

4.2.5 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 do Brasil SA runs an environmental education center at Barreiro. This 20-hectare center comprises three ecosystems: the "cerrado" (savanna), the transitional vegetation, and the "mata atlantica" (Atlantic forest). In 2012, the green belt marking the edge of the site has been enriched with 750 trees, contributing to maintaining biodiversity.

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 programs in conjunction with the University of Minas Gerais and Lavras. These programs 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 program, 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 kilometers from the Barreiro industrial complex. This is the area of transition between two ecosystems: "cerrado" (Savanna) and "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 neighboring 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 mof 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. However, a more in-depth assessment will be conducted in 2013.

4.3 CIVIC RESPONSIBILITY INFORMATION

4.3.1 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 historic or more recent, pays careful attention to the local impact of its activity, especially regarding recruitment, local development and using local suppliers.

Local purchases mainly relate to maintenance, production services, consumables and some raw materials. These purchase represented 1.7 billion in 2012, which is nearly 45% of the Group's expenditure. This proportion is quite similar from one region to another and relates to subcontracting and maintenance operations, purchasing scrap metal, and ordinary supplies and services to meet the production and general non-production needs.

4.3.2 RELATIONS WITH PEOPLE AND ORGANIZATIONS WITH AN INTEREST IN THE GROUP'S ACTIVITY

4.3.2.1 Actions undertaken

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. Although a methodical appraisal has not yet been carried out, these relationships are considered to be good and have not given rise to conflict.

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, and particularly some very poor populations, have for several years followed a structured process in close collaboration with the local authorities. In Indonesia, the subsidiary PT Citra Tubindo TBK has been involved for many years in educational and medical support programs for local people, in cultural investment and housing programs, and in environmental protection operations. In Europe and the United States, given the level of development of social infrastructures, corporate initiatives are for limited amounts and tend, in general, to support educational, cultural and sporting initiatives, to finance charitable work, renovate cultural centers or create social housing.

In general, it is noticeable that:

- few requests for support were expressed;
- apart from Brazil and Indonesia, the actions undertaken were quite limited.

In accordance with the recommendations of the Sustainable Development Committee, the local level has the autonomy to decide on actions to be undertaken, under the authority of the management line, by focusing on the following guidelines:

- 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.

In 2013, the community of local coordinators will be structured to enable best practice to be shared.

4.3.2.2 Resources used

The resources used to finance partnerships amounted to around €7.9 million in 2012. Partnership actions are mainly conducted in countries in which the expectations of the local residents are strongest and in which the social systems are not as developed as in western countries, such as in Brazil and Indonesia.

In Brazil, the regional and federal authorities encourage social actions, which are often tax deductible. An exceptional contribution was made in 2012 to renovate the historic cinema in the city center to enable it to become an important cultural hub, open to the public from 2013. Elsewhere in the Group, the actions are wholly financed by the Company alone.

4.3.2.3 "GoodPlanet" partnership

Given its strong concern for the impact of its activities on the environment, and although the level of its carbon emissions are relatively limited, in 2012 the Group continued to fund actions run by the "GoodPlanet" foundation, the objectives of which are to raise awareness among people in developed or undeveloped countries about the challenges of climate change and to implement programs to offset the action of greenhouse gases.

4.3.3 SUBCONTRACTING AND SUPPLIERS

Following a survey launched in 2011 among 450 suppliers considered to be critical, only 17 of them, representing less than 1% of all purchasing, appeared actually to be so. Mainly based in the United States and Brazil, they have been subject to a specific monitoring and audit process.

In 2012, the decision was taken to reorganize the Purchasing function to have better control over suppliers, stronger and more centralized governance, and deploy shared tools and processes throughout all the Group entities. This structure, which strengthens the teams of the Divisions and clarifies the processes, is based on an appraisal by type of purchase to facilitate the generation of synergies. It has been in operation since early 2013.

A Performance and Supplier Quality Department have already been established in this regard. All the common work tools and processes that have been (or are in the process of being) developed (especially general terms and conditions of purchase, supplier appraisal with a view to constructing purchasing strategies, risk assessment and award of contracts) will as a priority take account of the issues of sustainable development, ethics and safety.

At the same time, a list of so-called "important" suppliers, selected mainly on the criteria of impact on the safety and quality of products and their environment-friendly characteristics, was closely assessed within each division. This assessment was carried out using performance charts and regular audits.

At the beginning of 2013, the decision was taken to launch a new supplier risk assessment (production and non-production) in terms of corporate, social and environmental responsibility, aided by a specialist firm, and to formalize new questionnaires specifically for suppliers on ethical and sustainable development issues. The value of redrafting a Global Suppliers Charter aimed at specifying rules (especially ethical rules) on suppliers is also currently being assessed.

4.3.4 FAIR PRACTICE

4.3.4.1 Actions undertaken to prevent corruption

Actions undertaken to prevent corruption are described in Section 4.1.10 "Ethics" above.

In addition, there were no disputes related to compliance with the values set out in the Group's Code of Ethics in relations with local stakeholders and suppliers in 2012.

4.3.4.2 Measures taken for the health and safety of consumers

This subject is not applicable to Vallourec's activity as the products manufactured by the Group are intended for industrial companies which use them or transform them. They are sold either directly to the end client, or to distributors who sell them on for various applications. They are never supplied to individual consumers. Moreover, the products are made of steel, a metal that does not present any danger to public health. This is illustrated by the fact that steel is not concerned by the "Reach" Regulations.

APPENDICES

Appendix 1 - Individualized environmental indicators of companies excluded from the consolidated environmental indicators

Indicators	Units	Vallourec & Sumitomo Tubos do Brasil Ltda	V & M Mineração Ltda
Electricity consumption	kWh	276,129,974	32,526,182
Gas consumption	kWh	342,225,969	-
Consumption of tap water	m^3	-	-
Consumption of surface/ground water	m^3	886,778	3,669,187
Water discharged	m^3	227,703	-
Non-hazardous waste	Tonnes	2,020,419.23	221.78
Hazardous waste	Tonnes	1,746.65	102.39
Total waste	Tonnes	2,022,165.88	324.17
CO_2 emissions (scopes 1 and 2)	$TeqCO_2$	136,848.49	20,072.86

V & M Mineração operates the Pau Branco mine, situated in the towns of Nova Lima and Brumadinho, in the state of Minas Gerais. The Pau Branco mine has a total area of 1,373 hectares, 32% of which is industrial area, 20% environmental protection region, and 48% unexploited.

Appendix 2 – Verification of inclusion and moderate assurance report by the Statutory Auditors on the social and environmental information published in Vallourec's management report for the year ended 31 December 2012

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

In accordance with your request and in our capacity of Statutory Auditor of Vallourec, we hereby present our report on the consolidated social and environmental information published in the management report of Vallourec ("the Group") for the year ended 31 December 2012, pursuant to the provisions of Article L.225-102-1 of the French Commercial Code.

RESPONSIBILITY OF THE COMPANY

It is the responsibility of the Management Board to prepare a management report including the consolidated social and environmental information stipulated in Article R.225-105-1 of the French Commercial Code (the "Information"), prepared in accordance with guidelines (the "Guidelines") used by the Company and available upon request at the Group's head office.

INDEPENDENCE AND QUALITY CONTROL

Our independence is defined by law, our professional Code of Ethics, and the provisions of Article L.822-11 of the French Commercial Code. We have also put in place a quality control system which includes the policies and documented procedures designed to ensure compliance with ethical rules, professional standards and applicable laws and regulations.

RESPONSIBILITY OF THE STATUTORY AUDITORS

Our role, based on the procedures performed is:

- to attest whether the required Information is presented in the Group's management report or, if not presented, whether an appropriate explanation is given in accordance with the third paragraph of Article R. 225-105 of the French Commercial Code and Decree no. 2012-557 dated 24 April 2012 (Attestation of disclosure);
- to provide limited assurance on whether the other Information is fairly presented, in all material respects, in accordance with the Guidelines (limited assurance).

To assist us in our work, we have called on our experts in corporate social responsibility.

1. Attestation of disclosure

We conducted our work in accordance with professional standards applicable in France:

- We compared the Information presented in the Group's management report with the list set out in Article R.225-105-1 of the French Commercial Code;
- We verified that the Information covered the consolidated perimeter, namely the entity and its subsidiaries within the meaning of Article L. 233-1 and the controlled entities within the meaning of Article L. 233-3 of the French Commercial Code.
- If any consolidated information was missing, we verified that explanations were provided in accordance with the provisions of Decree No. 2012-557 dated 24 April 2012.

Based on this work, we attest that the required Information is presented in the Group's management report.

2. Limited assurance report

Nature and scope of work

We conducted our work in accordance with ISAE 3000 (International Standard on Assurance Engagements) and the applicable French professional guidance. We performed the following procedures to obtain a limited assurance that nothing has come to our attention that causes us to believe that the Information of the Group's management report is not fairly presented, in all material respects, in accordance with the Guidelines. A higher level of assurance would have required to perform more extensive work.

We conducted the following work:

- we assessed the appropriateness of the Guidelines with regard to their relevance, comprehensiveness, neutrality, understandability and reliability, taking into account, where applicable, best practice in the sector;
- we verified that the Group had set up a process for the collection, compilation, processing and control of the Information to ensure its completeness and consistency. We examined the internal control and risk management procedures relating to the preparation of the Information. We conducted interviews with those responsible for social and environmental reporting;
- we selected the consolidated Information to be tested and determined the nature and scope of the tests, taking into consideration their importance with respect to the social and environmental consequences related to the Group's business and characteristics, as well as its social commitments.
  - For the consolidated quantitative information that we considered to be the most important:
  - at the level of the consolidating entity and the controlled entities, we implemented analytical procedures and, on the basis of samples, verified the calculations and consolidation of this information;
  - at the level of the sites that we selected [1] based on their business, contribution to the consolidated indicators, location and a risk analysis, we conducted:
  - interviews to verify the correct application of the procedures,
  - tests of detail on the basis of samples, consisting in verifying the calculations made and reconciling the data with the supporting documents.

    The sample thus selected represents an average of 46% of the quantitative workforce and security information tested and 45% of the quantitative environmental information tested.
  - For the qualitative information that we considered to be the most important, we conducted interviews and reviewed the related documentary sources to corroborate this information and assess its fairness.
- for the other consolidated information published, we assessed its fairness and consistency in relation to our knowledge of the Group and, where applicable, through interviews or the consultation of documentary sources;
- we also assessed the relevance of the explanations given in the event of the absence of certain information.

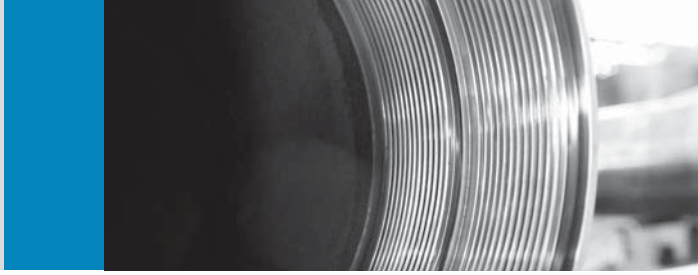
CONCLUSION

Based on our work, nothing has come to our attention that causes us to believe that the Information is not fairly presented, in all material respects, in accordance with the Guidelines.

Paris-La Défense and Neuilly-sur-Seine, 22 April 2013

KPMG Audit	**Deloitte & Associés**
Department of KPMG SA	
Catherine Porta	Jean-Marc Lumet
Partner	*Partner*

(1) V & M France Saint-Saulve – Steel plant in France, V & M Deutschand Rath – Pilger and V & M Deutschand Rath – Plug in Germany, V & M do Brasil – Barreiro, V & M Mineração, V & M Florestal and Tubos Soldados Atlântico in Brazil.



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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 unfavorable effect on the Group, its business, its financial position, 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 unfavorable effect on the Group, its business, its financial position, its earnings or its development.

5.1 MAIN RISKS

The Group operates in a rapidly changing environment that generates numerous risks, some of which are 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 adverse 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.

5.1.1 LEGAL RISKS

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 the 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.

5.1.2 INDUSTRIAL AND ENVIRONMENTAL RISKS

5.1.2.1 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 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 Environmental Code. 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, the Group in accordance with its sustainable development principles, endeavors 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 very 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 position.

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 (whether currently in use or obsolete), or ground water may have been polluted and 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.

5.1.2.2 Risk assessment

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. They are kept up to date on a regular basis. With the aim of harmonizing these analyses and strengthening risk control, Vallourec has devised a methodology adapted to local regulatory obligations. 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.

In addition, environmental impact studies are carried out before any industrial development including, in particular, an analysis of the initial state of the site, taking account of its vulnerabilities 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 neighboring 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 it 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 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 to the financial statements.

5.1.2.3 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, the strengthening of protective measures, the organization to be put in place, and even compensation for any 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 endeavors to limit the industrial and environmental risk inherent in its activities by setting up efficient organizational structures and quality, safety and environmental management systems, by obtaining certification or assessing its management systems, by performing stringent inspections and audits, by training the staff and heightening the awareness of all parties involved, as well as by implementing a policy of environmentally friendly investments that reduce industrial risk.

5.1.3 OPERATING RISKS

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

However, there are certain risks inherent to the activities of the Group and 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 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 know-how, 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, due to the decision of some customers 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 related to dependence on particular customers

In 2012, the Group generated 27% of sales from its five biggest clients (see Chapter 3, Section 3.1.9.2 "Main customers" above). Historically, customer loyalty has been strong (no sudden change to another supplier) thanks to good relations with the Group and the quality of its products. Furthermore, at the end of 2012, Vallourec signed a five-year contract with Petrobras for the supply of premium OCTG products.

Nevertheless, most customers are not generally required to purchase a fixed amount of products or services over a given period and could decide to terminate their contracts, not renew them, or renew them on terms, particularly pricing, that are less favorable for the Group. This could have a significant adverse effect on the Group's business, financial position and results.

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 the price of raw materials and energy 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 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 the revenue generated by the Group's licenses. 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 program for its products and services. However, the Group cannot totally exclude the possibility that some of its products may have production or manufacturing 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 and services that meet the most rigorous benchmark requirements in order to provide products and services without production defects or faults, defects or faults could occur in Group products or services. This could potentially require compensation to be paid by the Group, cause a fall in demand for these products and services or damage their reputation for safety and quality, resulting in a significant impact on the financial position, earnings and image of the Group's businesses.

Risks linked to failures Group equipment failures

The Group's success in meeting orders depends on a high level of reliability of its assets. The Group could nevertheless suffer breakdowns of equipment or unavailability for other reasons such as damage, fire, explosion or computer virus. 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 program in order to keep all of its assets in good working order, it cannot exclude the possibility of breakdowns occurring. All equipment failures are likely to lead to dissatisfaction on the part of the Group's customers, have an impact on the cost of orders and, therefore, significantly affect the financial position, earnings and image of the Group.

Risks related to weaknesses in internal control and/or risk of fraud

The Group's international profile requires complex administrative, financial and operational processes at entities with different levels of maturity in terms of internal control, evolving in a variety of legal environments, and running different information systems. In this context, Vallourec could suffer a risk of internal control, caused by inaccurate and/or inappropriate transactions or operations being carried out. Vallourec could also be the victim of fraud (theft, embezzlement, etc.). Nonetheless, Vallourec has developed a structured and formalized approach to permanently review its internal control (see "Report of the Chairman of the Supervisory Board – see Appendix 1 to Chapter 7 below). This approach is based on a set of rules and procedures circulated to all subsidiaries. Reviews and regular audits are conducted to make sure they adhere to them. These rules and procedures are regularly updated to ensure they are in line with changes in Vallourec's processes. Vallourec's fundamental values also incorporate an ethical behavior component, the requirements of which are set out in the Group's Code of Ethics, effective since 2009 and widely circulated to all staff. It applies to all company levels.

5.1.4 OTHER SPECIFIC RISKS

Risks linked to Human Resources

Vallourec's success depends on keeping key personnel within the Group and on recruiting qualified staff. It also depends to a large extent 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 license 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 license 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 programs designed to limit the possible impact of these risks, such as drawing up succession plans for key people in each Division and programs to develop high-potential profiles. These programs are monitored regularly by the Executive Committee.

Risks linked to occupational safety and health

The importance of the industrial labor force to the Group's business makes the management of employees' health and safety particularly vital.

In 2008, the Group launched an ambitious three-year safety improvement program known as "Cap Ten Safe". Driven by a determination to bring about change and act upon all safety levers, this program 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 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 program called "CAPTEN+ Safe". At the end of 2011 and 2012, the LTIR [1] was 2.79 and 2.60, respectively. Despite these results, which show a 72% decrease in the LTIR between 2008 and 2012, the Group unfortunately recorded two fatal accidents in 2012 [2], one concerning a Group employee and the other a temporary employee, and continues to be extremely vigilant on safety matters.

(1) Based on Group headcount (excluding Vallourec & Sumitomo Tubos do Brasil and Tubos Soldados Atlântico Ltda) and temporary staff.

(2) Based on Group headcount and temporary staff, excluding subcontractors.

The safety improvement program consists of deploying the following at all Group sites:

- establishing safety management committees at all levels of the Company;
- safety inspections (nearly 35,000 inspections in 2012);
- permanent risk assessment for safety matters and prevention actions;
- establishment of continuous improvement teams (CITs) for safety matters (307 CITs were set up in 2012).

It is also aiming to gain OHSAS 18001 certification (*Occupational Health and Safety Assessment Series*) at all plants, and continuously improve working conditions by an ergonomic assessment of workstations.

As regards health, the Group has also embarked on a number of measures to reduce the duress of work and prevent psychosocial and chemical risks (see above, Chapter 4 "Social and environmental information" Section 4.1.6 "Health and safety"). In France, some of the Group's subsidiaries have been involved in civil proceedings on the use of asbestos. These proceedings have been instigated by some of their employees or former employees who have contracted an occupational illness linked to asbestos, with the aim of obtaining a judgment that would give them supplementary compensation from Social Security. Although the outcome of all the current cases linked to asbestos cannot be predicted with reasonable certainty, the Group does not expect them to have significant adverse effects on its financial position. However, the Group cannot be sure that the number of existing cases linked to asbestos or new cases will not have significant adverse effects on its financial position. 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

The financial risks directly related to intellectual property are mainly due to disputes instigated by third parties against the Group or to the appropriation of its technology by competitors. To limit or avoid these risks, the Group has an Intellectual Property Department composed of qualified and experienced personnel who are responsible for taking the necessary measures to ensure its intellectual property rights are respected while complying with the rights of third parties.

Moreover, the laws and regulations in some countries in which the Group operates may not provide such extensive protection for intellectual property rights as other countries such as France, Germany or the United States.

In order to preserve its technological advance, the Group is strengthening its policy for the protection of its intangible assets worldwide.

Accordingly, the Group is continuing:

- to protect its innovative products by patents, and at the same time put in place procedures to safeguard manufacturing secrets (including protective contractual provisions) to cover expertise and innovations that are difficult to protect by patents;
- to register its commercial brands for products and services and undertake the necessary processes and procedures to safeguard its rights nationally and internationally in order to maintain the competitive advantage derived from their reputation.

Protecting the Group's intellectual property enables its research and development efforts to be rewarded and valued, and avoid any form of technological infringement through unfair competition or parasitism.

Despite all the actions undertaken, if the Group cannot successfully preserve, renew and assert its intellectual property rights and protect its associated expertise, it could lose its technological advance, which could have a significant adverse effect on its results.

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 PT Citra Tubindo TBK in Indonesia. PT Citra 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 considered 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 modernize and substantially strengthen its industrial resources in recent years. In 2007, in conjunction with Nippon Steel & Sumitomo Metal Corporation (NSSMC) (formerly Sumitomo Metal Industries – SMI [1]), it began the construction of a new seamless premium tube mill in Brazil's Minas Gerais region, which continued to be expanded in 2012, the first commercial deliveries having been made at the end of 2011.

(1) On 1 October 2012, Sumitomo Metal Industries merged with Nippon Steel. The newly merged organization was named Nippon Steel & Sumitomo Metal Corporation (NSSMC).

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. After successful drilling of the first steel billet on 29 June 2012, the plant commenced operations in October 2012;
- increased capacities of its V & M Changzhou plant in China by the construction of a new forging and thermal treatment unit enabling the local integration of all manufacturing operations for seamless large diameter tubes. This extension was inaugurated on 13 September 2012, and the first orders were delivered at the end of 2012; and
- the construction of a production plant for tubes for steam generators in Nansha, Guangdong province, south-east China. The inauguration of this new plant is due in mid-2013, for production for the Chinese market from 2014.

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. The first lines should be operational in 2014.

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. This would in turn lead to 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 realized under the expected timescales or to the expected extent, and this may affect the Group's financial position.

Call options stipulated in certain industrial cooperation agreements linking Vallourec to Nippon Steel & Sumitomo Metal Corporation (NSSMC) (formerly Sumitomo Metal Industries – SMI[(1)]) and Sumitomo Corporation

Certain industrial collaboration agreements linking Vallourec and Nippon Steel & Sumitomo Metal Corporation (NSSMC) (formerly Sumitomo Metal Industries – SMI[(1)]) 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.

NSSMC 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 Brasil and VAM Holding Hong Kong. Similarly, Vallourec has the right, in certain circumstances, to acquire the shares held by NSSMC (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 NSSMC or of its direct or indirect controlling shareholders.

Moreover, NSSMC 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 NSSMC 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 NSSMC. If NSSMC 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.

5.1.5 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 to the consolidated financial statements in Chapter 6, Section 6.1 of this Registration Document.

5.1.5.1 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: USD 300 million (maturing April 2013) were swapped at 4.36% excluding the spread.

(1) On 1 October 2012, Sumitomo Metal Industries merged with Nippon Steel. The newly merged organization was named Nippon Steel & Sumitomo Metal Corporation (NSSMC).

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 Brasil (VSB) drew down 318 million Brazilian real (about €130 million) of the fixed-rate loan contracted with BNDES and took out a new fixed-rate finance lease in 2010.

Vallourec issued:

- 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%;
- in August 2012, Vallourec also issued two long-term private placements for a total of €455 million. The respective amounts and terms of these two private placements are €400 million for seven years with an annual coupon of 3.25% and €55 million for fifteen years with an annual coupon of 4.125%.

Debt exposed to fluctuations in variable interest rates amounts to €335.7 million (approximately 15.5% of total gross financial debt) as of 31 December 2012. No other significant line of financing at a fixed rate will reach contractual maturity in the 12 months following the close at 31 December 2012, apart from the variable-rate loan converted to fixed rate of USD 300 million taken out by Vallourec in 2008, which will be repaid at maturity on 17 April 2012, and the outstanding amount, as of 31 December 2012, of €217 million in commercial paper with a maximum six-month maturity, and various lines of financing (for €34.1 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 €2.4 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 (with a maximum maturity of 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 €0.3 million in the value of the swaps at 31 December 2012 (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 position with regard to interest rate risk in 2012 and 2011:

Total debt at 31/12/2012

In € thousand	Other loans	Cash and cash equivalents
Fixed rate on date granted	1,594,546	-
Variable rate on date granted swapped to fixed rate	229,742	-
Fixed rate	1,824,288	-
Variable rate	335,738	546,160
TOTAL	**2,160,026**	**546,160**

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**

Exchange rate risk

TRANSLATION RISKS

The assets, liabilities, revenues and costs of the Group's subsidiaries are expressed in various currencies. 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 2012, 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 €27.4 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 recognized in equity (a loss of €64.5 million at 31 December 2012) 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	31/12/2011	31/12/2012
USD	74,997	45,123
GBP	-11,096	-10,384
BRL	111,834	-127,497
CNY	35,225	32,847
Other	-5,028	-4,539
	205,932	**-64,450**

As far as the Group is aware, foreign currency 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 36% of Group sales in 2012) is invoiced in US dollars by companies whose functional currency is not the US dollar. Fluctuations in the euro, Brazilian real and US dollar exchange rate could 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;
- some sales and purchases, even if they are denominated in euros, may be influenced by the US dollar exchange rate. They are therefore indirectly impacted, at long or short maturities, by shifts 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, Vallourec 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 of the last two years, forward foreign exchange contracts to hedge foreign currency-denominated purchases and sales amounted to the following:

Hedging contracts in respect of commercial transactions – Exchange rate risk *In € thousand*	31/12/2011	31/12/2012
Foreign exchange contract: forward sales	1,240,377	2,025,445
Foreign exchange contract: forward purchases	52,130	145,626
Currency options: sales	-	-
Currency options: purchases	-	-
Commodities and energy: call options	-	-
TOTAL	**1,292,507**	**2,171,071**

Contract maturities at 31/12/2012

Contracts in respect of commercial transactions *In € thousand*	Total	1 year	One to five years	> 5 years
Foreign exchange contracts: forward sales	2,025,445	1,775,892	249,553	-
Foreign exchange contracts: forward purchases	145,626	130,426	15,200	-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Commodities and energy: call options	-	-	-	-
TOTAL	**2,171,071**	**1,906,318**	**264,753**	

Forward sales (€2,025 million out of €2,171 million) corresponding mainly to the sale of US dollars made at an average EUR/USD forward rate of 1.30 and USD/BRL rate of 2.09. Hedges were generally made, in 2012 as in 2011, for an average duration of around ten months and mainly covered 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 USD 205 million (€155.4 million) currency swap, supplemented in 2011 by USD 95 million (€72 million). The currency swap matures in April 2013, when the hedged debt matures;
- since 2011, forward sales of USD 383.2 million (€290.4 million) and CNY 120 million (€14.6 million) and forward purchases for USD 5 million (€3.8 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 purchases and sales mature at various times between 2013 and 2015, as and when the hedged loans and debts 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 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),
  - 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 unfavorable, since the risk has already been assessed and a provision recognized in respect of these receivables and the funds have already been paid in full or in part,
  - for trade receivables, the Group's policy with regard to the amount of the provision 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 2012 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, totaled €46.9 million at 31 December 2012, i.e. 4.9% of the Group's total net trade receivables.

However, 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; and
- the commercial collection policy.

At 31 December 2012, trade receivables not yet due amounted to €732.7 million, or 77.1% of total net trade receivables. The following table provides an analysis by maturity of these trade receivables:

At 31/12/2012	0 to 30 days	30 to 60 days	60 to 90 days	90 to 180 days	> 180 days	Total
Trade receivables not yet due *(in millions of euros)*	560.81	124.70	23.78	18.23	5.33	732.75

SHARE PRICE RISKS

Own shares held by Vallourec at 31 December 2012 include shares assigned to cover the allocation of shares to certain Group employees, executives and corporate officers.

In this connection, Vallourec holds:

- 178,591 own shares acquired on 5 July 2001 after, specifically, the final allocation 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, 23,274 shares under the terms of the performance share plan of 31 July 2009, and the final allocation in 2012 of 4,484 shares under the performance share plan of 31 July 2010;
- 73,156 own shares acquired in 2008 under the terms of the share buyback program authorized by the General Meeting 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;
- 18,064 own shares acquired in 2010 under the terms of the share buyback program authorized by the General Meeting of 31 May 2010, after the final allocation of 81,936 shares under the terms of the performance share plan of 15 March 2010;
- 372,466 own shares acquired in 2011 under the terms of the share buyback program authorized by the General Meeting of 7 June 2011 after the final allocation of 27,534 shares under the terms of the performance share plan of 3 December 2010;
- 400,000 own shares acquired in 2012 under the terms of the share buyback program authorized by the General Meeting of 31 May 2012.

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

In consultation with the Supervisory Board, the Management Board decided to assign its own shares to cover the Group's performance share and employee shareholding plans.

With effect from 2 July 2012, Vallourec has set up a liquidity contract with Rothschild & Cie Banque. It is implemented under the share buyback program approved at the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 (13th resolution). To implement this contract, the following were allocated to the liquidity account.

- €9 million
- 490,500 shares

Vallourec also holds Nippon Steel & Sumitomo Metal Corporation (NSSMC) shares (see Chapter 6, Consolidated Financial Statements, Note 4 "Other non-current assets" below).

To the best of its knowledge, the Group had no other exposure to share price risks at 31 December 2012.

5.1.5.2 Liquidity risk

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 totaling €749,752,000 and non-current bank loans and other borrowings totaling €1,410,274,000 as of 31 December 2012 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 31/12/2011	**256,879**	**29,872**	**124,370**	**24,050**	**754,050**	**1,189,221**
• Finance leases	8,730	7,514	7,533	7,554	62,192	93,523
• Other non-current financial liabilities	52,499	14,938	113,764	657,884	477,666	1,316,751
AT 31/12/2012	**61,229**	**22,452**	**121,297**	**665,438**	**539,858**	**1,410,274**

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

The majority of long-term 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 (see below).

Market financing is exclusively put in place by Vallourec.

In Europe

In March 2005, a €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 and repaid on 23 March 2012.

In April 2008, Vallourec contracted a loan of USD 300 million over five years with a syndicate of seven banks. This financing contract also provided for a €350 million revolving credit line, which the Group closed in February 2011. As of 31 December 2012, Vallourec used the USD 300 million loan (€227.4 million), which is recorded under non-current liabilities. This loan is due to be repaid on 17 April 2013.

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, was used to refinance the credit line which matured in March 2012 and will be used to refinance the line maturing in April 2013. At 31 December 2012, this €1 billion credit line had not been drawn down.

In addition to the financing put in place by Vallourec, in July 2012, the Group negotiated five medium-term (3 years) bilateral credit lines for V & M Tubes, each for €100 million. Four of these lines were to refinance credits put in place in 2007 maturing in 2013. V & M Tubes has a sixth bilateral credit line for the same amount put in place in 2007 and maturing in 2014. At 31 December 2012, none of these lines had 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 position and ability to repay its borrowing.

In addition to this bank financing, Vallourec aims to diversify its source of financing by calling on the markets. For example, Vallourec issued a commercial paper program on 12 October 2011 to meet its short-term needs. The program is capped at €1 billion. At 31 December 2012, Vallourec had €217 million outstanding with a maturity of one to six months. This commercial paper program 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%.

In August 2012, Vallourec also issued two long-term private placements for a total of €455 million. The respective amounts and terms of these two private placements are €400 million for seven years with an annual coupon of 3.25% and €55 million for fifteen years with an annual coupon of 4.125%.

At 31 December 2012, factoring in changes in the interest rate swaps yield curve, the market values of these fixed-rate bonds were €686 million, €409.7 million and €55.9 million respectively.

These bond issues have diversified and increased the amount and maturity of the Group's financial resources. They specifically include 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 favor of a person or a group of people acting jointly), 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 a change in the Company's situation or tax regulations.

In Brazil

In December 2009, Vallourec & Sumitomo Tubos do Brasil, which is 56% owned by the Group, contracted a loan of 448.8 million Brazilian real from BNDES (Banco National de Desenvolvimento Econômico e Social). This fixed-rate loan at 4.5% is denominated in Brazilian reais and has a term of eight years. It has been amortizable since 15 February 2012.

At 31 December 2012, BRL 267.1 million of this loan had been used.

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

In the United States

The Group's US companies have a set of bilateral bank lines that were renewed in 2012 for a total of USD 288 million. The amount used at 31 December 2012 totaled USD 78.6 million. These programs, which mature within one year, contain gearing clauses relating to the indebtedness of each of the companies referred to above and a change of control clause.

At 31 December 2012, the Group complied with its commitments and the conditions for obtaining and maintaining all the financial resources referred to above.

All the facilities described above adequately covered the Group's liquidity requirements as of 31 December 2012.

5.2 RISK MANAGEMENT

5.2.1 OVERALL RISK MANAGEMENT MEASURES

To complement the internal control procedures issued by the functional departments, Vallourec has a formal risk management policy. A Risk Management Department is responsible for deploying this policy consistently throughout the Group. The Group Risk Manager assists the divisions in identifying and analyzing their risks, by 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, regulatory or

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 organizes centralized reporting on 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 Commercial Code (see below Appendix 1 to Chapter 7 of this Registration Document).

5.2.2 RISK MANAGEMENT MEASURES FOR THE MAIN OPERATING RISKS

5.2.2.1 Management of risks related to the cyclical nature of the tubes market

These risks carry a probability and impact that Vallourec aims to reduce through the following measures:

- the diversity of applications for its products in energy (hydrocarbon, nuclear and wind), petrochemicals, automotive mechanics and construction;
- the geographical diversity of its markets worldwide;
- the promotion of long-term partnerships with major customers; and
- flexibility, i.e.
  - the faculty of substitution developed between some of its over 50 production sites in more than 20 countries, and
  - reductions in fixed costs at each of its sites.

5.2.2.2 Management of risks related to competition

These risks carry a probability and impact that Vallourec aims to reduce through the following measures:

- a premium-positioning strategy, underpinned by growth, innovation, close relations with customers and competitiveness;
- a major focus on innovation and the development of tube and pipe solutions generating long-term partnerships with highly demanding customers; and
- defence of the Group's industrial expertise by patents and protection of trade secrets.

5.2.2.3 Management of risks related to an industry that consumes raw materials and energy

These risks carry a probability and impact that Vallourec aims to reduce through the following measures:

- owning some of its own sources of supply (iron ore mine, eucalyptus forest in Brazil), and maintaining a variety of external sources of supply whenever possible;
- continuously reducing consumption, particularly by computer-modeling of furnaces and making processes more reliable; and
- transmitting variations in supply prices on the Company's receipts by adjusting its sale prices.

5.2.2.4 Management of risks related to the Group's activities in emerging countries

These risks carry a probability and impact that Vallourec aims to reduce through the following measures:

- for personnel deployed on assignment or permanently: health and safety assessment procedures, and procedures for personal security and emergency protection put in place by the Group's Security Department backed by leading external service providers; and
- for the operation of activities exposed to political, economic, social or financial instability and foreign exchange risks: alternative means of production situated in other countries, and more recently, the development of business continuity plans designed to increase as far as possible the resilience of the business at local level.

5.2.2.5 Management of risks related to maintaining high technology on key products

These risks carry a probability and impact that Vallourec aims to reduce through the following measures:

- a major program of investment in new productive equipment and innovation, leading to the opening up in 2011 of new production centers, R&D units and test stations close to the Group's markets, especially in the United States and Brazil; and
- defence of industrial expertise by patents (coordinated by the Industrial Property Department) and by the protection of trade secrets (coordinated by the Security Department, which is backed by regional experts and a site security officer).

5.2.2.6 Management of risks related to defective or faulty production

These risks carry a probability and impact that Vallourec aims to reduce through the following measures:

- a product quality control process that takes account of the requirements of the most rigorous standards such as ISO 9001, ISO/TS, API, EN 102010, and ABNT in Brazil;
- obtaining qualification from the most demanding customers, especially on nuclear and oil markets;
- a continuous improvement approach driven by Vallourec Management System (VMS), and based on three pillars: Total Quality Management (TQM) plans, steering committees and teams working on continuous improvement (CITs); and

- additionally, since 2012: the CAPTEN+ Quality program, which uses pilot plants to create a set of "best practices", which can then be deployed in all plants.

5.2.2.7 Management of risks related to Group equipment failures

These risks carry a probability and impact that Vallourec aims to reduce through the following measures:

- a regular maintenance program to maintain all assets in good working order;
- the deployment of regular external audits to prevent damage, from a "machine breakdown", fire, explosion and natural disaster perspective; and
- additionally, since 2012: the main sites have had a Business Continuity Plan (BCP) to reduce the consequences of equipment failure for customers and on costs, by preparing rapid solutions to restore operations and/or alternative production processes.

5.3 INSURANCE: GROUP POLICY

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

The policy described below gives a picture of the historic 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 are covered by 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 contractual or legal constraints;
- to optimize thresholds and means of action on the insurance and reinsurance markets through suitably adapted deductibles.

In 2012, 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.

Key actions in 2012 focused mainly on:

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

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 if the claims materialized, help implement 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 for 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 Group divisions 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 USD 60 million in 2012.

Deductibles applied to material damages claims range from €15,000 to €800,000 according to the size of the risk concerned, and are borne by the subsidiaries concerned.

The main insurance programs 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 risk analysis,, 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.

The insured cap for third-party general liability and products was raised in 2009, 2011 and 2012, 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 provided for by law and company-level agreements, insurance programs covering employees against risks related to 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 duringperformance of their duties.

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6.1 CONSOLIDATED FINANCIAL STATEMENTS

6.1.1 VALLOUREC GROUP'S STATEMENT OF FINANCIAL POSITION

In € thousand	Notes	31/12/2011	31/12/2012
NON-CURRENT ASSETS			
Net intangible assets	1	276,950	223,467
Goodwill	1	519,803	511,382
Gross property, plant and equipment	2.1	5,394,514	5,833,970
Less: accumulated depreciation and amortization	2.1	-1,328,239	-1,513,858
Net property, plant and equipment	2.1	4,066,275	4,320,112
Biological assets	2.2	184,299	196,134
Investments in equity affiliates	3	146,713	161,977
Other non-current assets	4	289,014	408,098
Deferred tax assets	5	140,806	182,171
TOTAL		**5,623,860**	**6,003,341**
CURRENT ASSETS			
Inventories and work-in-progress	6	1,388,977	1,429,714
Trade and other receivables	7	1,057,871	968,957
Derivatives – assets	8	39,705	59,351
Other current assets	9	182,510	202,567
Cash and cash equivalents	10	901,886	546,160
TOTAL		**3,570,949**	**3,206,749**
TOTAL ASSETS		**9,194,809**	**9,210,090**

In € thousand	Notes	31/12/2011	31/12/2012
EQUITY	**12**		
Capital		242,869	249,893
Additional paid-in capital		732,568	817,137
Consolidated reserves		3,349,473	3,619,880
Reserves, financial instruments		-55,773	-249
Foreign currency translation reserve		205,932	-64,450
Earnings for the year		401,547	216,758
Own shares		-46,330	-43,426
Equity, Group share		**4,830,286**	**4,795,543**
Non-controlling interests	**14**	**380,022**	**417,019**
TOTAL EQUITY		**5,210,308**	**5,212,562**
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	15	1,189,221	1,410,274
Employee benefits	18	116,705	115,352
Provisions	16	9,929	12,872
Deferred tax liabilities	5	198,817	189,746
Borrowings and financial debts	17	92,113	196,835
TOTAL		**1,606,785**	**1,925,079**
CURRENT LIABILITIES			
Provisions	16	120,297	153,299
Overdrafts and other short-term bank borrowings	15	906,172	749,752
Trade payables		668,680	677,715
Derivatives – liabilities	8	115,697	15,402
Tax liabilities		62,485	42,542
Other current liabilities	19	504,385	433,739
TOTAL		**2,377,716**	**2,072,449**
TOTAL EQUITY AND LIABILITIES		**9,194,809**	**9,210,090**

6.1.2 VALLOUREC GROUP'S INCOME STATEMENT

In € thousand	Notes	2011	2012
Sales	22	5,295,861	5,326,018
Cost of sales [(a)]	23	-3,744,615	-3,940,424
Selling, general and administrative costs [(a)]	24	576,499	575,594
Other [(a)]	25	-35,028	-24,331
EBITDA		**939,719**	**785,669**
Depreciation of industrial assets	27	-200,538	-237,507
Other depreciation and amortization	27	-55,969	-65,709
Impairment of assets and goodwill	28	391	-1,766
Asset disposals and restructuring costs	28	9,599	-6,667
OPERATING PROFIT		**693,202**	**474,020**
Financial income		21,851	20,119
Interest expenses		-78,114	-104,138
Net financial costs		-56,263	-84,019
Other financial income and expenses		15,755	342
Other discounting expenses		-8,012	-13,933
NET FINANCIAL ITEMS	**29**	**-48,520**	**-97,610**
PROFIT BEFORE TAX		**644,682**	**376,410**
Income tax	30	-191,624	-112,394
Net profit of equity affiliates	3	3,765	6,503
NET PROFIT FROM CONTINUING OPERATIONS		**456,823**	**270,519**
CONSOLIDATED NET PROFIT		**456,823**	**270,519**
Profit attributable to non-controlling interests		55,276	53,761
Group share		**401,547**	**216,758**
Group share:			
Earnings per share	13	3.4	1.8
Diluted earnings per share	13	3.4	1.8

(a) Before depreciation and amortization.

6.1.3 STATEMENT OF COMPREHENSIVE INCOME

In € thousand		2011	2012
CONSOLIDATED NET PROFIT		**456,823**	**270,519**
Other consolidated income:			
Exchange differences arising on translating net assets of foreign operations	12 and 14	-85,096	-281,284
Change in fair value of hedging financial instruments		-42,165	85,348
Change in fair value of available-for-sale securities		-19,685	-1,822
Tax relating to the change in fair value of hedging financial instruments		14,004	-27,909
Tax relating to the change in fair value of available-for-sale securities		1,696	-
OTHER COMPREHENSIVE INCOME (NET OF TAX)		**-131,246**	**-225,667**
TOTAL COMPREHENSIVE INCOME		**325,577**	**44,852**
Profit attributable to non-controlling interests		72,819	42,952
Group share		**252,758**	**1,900**

6.1.4 STATEMENT OF CHANGES IN EQUITY, GROUP SHARE

In € thousand	Capital	Additional paid-in capital	Consolidated reserves	Foreign currency translation reserve	Reserves – changes in fair value of financial instruments – net of tax	Own shares	Net profit or loss for the period	Total equity, Group share	Total non-controlling interests	Total equity
POSITION AS 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*
PROFIT AND LOSS FOR 2011	-	-	-	-	-	-	**401,547**	**401,547**	**55,276**	**456,823**
Other comprehensive income	-	-	-	*-102,518*	*-46,271*	-	*401,547*	*252,758*	*72,819*	*325,577*
Profit and loss 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 [a]	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 AS 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**
Change in foreign currency translation reserve	-	-	-	270,382	-	-	-	270,382	-10,902	-281,284
Financial instruments	-	-	-	-	57,346	-	-	57,346	93	57,439
Available-for-sale financial assets	-	-	-	-	-1,822	-	-	-1,822	-	-1,822
Other comprehensive income	-	-	-	*-270,382*	*55,524*	-	-	*-214,858*	*-10,809*	*-225,667*
PROFIT AND LOSS FOR 2012	**-**	**-**	**-**	**-**	**-**	**-**	**216,758**	**216,758**	**53,761**	**270,519**
Comprehensive income	-	-	-	*-270,382*	*55,524*		*216,758*	*1,900*	*42,952*	*44,852*
Profit and loss for 2011	-	-	401,547	-	-	-	-401,547	-	-	-
Change in share capital and additional paid-in capital	6,640	78,979	-	-	-	-	-	85,619	-	85,619
Change in own shares	-	-	-5,299	-	-	2,904	-	-2,395	-	-2,395
Dividends paid [b]	384	5,590	-156,420	-	-	-	-	-150,446	-27,770	-178,216
Share-based payments	-	-	30,303	-	-	-	-	30,303	-	30,303
Changes in consolidation scope and other	-	-	276	-	-	-	-	276	21,815	22,091
POSITION AS AT 31 DECEMBER 2012	**249,893**	**817,137**	**3,619,880**	**-64,450**	**-249**	**-43,426**	**216,758**	**4,795,543**	**417,019**	**5,212,562**

(a) Amounts net of €1.4 million cash payment.

(b) Amounts net of €0.2 million cash payment.

6.1.5 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	Net profit or loss for the period	Non-controlling interests
POSITION AS 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*
Profit and loss for 2011	-	-	-	55,276	55,276
Comprehensive income	-	*17,422*	*121*	*55,276*	*72,819*
Profit and loss for 2010	43,235	-	-	-43,235	-
Dividends paid	-45,356	-	-	-	-45,356
Changes in scope and other	85,400	-	-	-	85,400
POSITION AS AT 31 DECEMBER 2011	**311,757**	**12,419**	**570**	**55,276**	**380,022**
Change in foreign currency translation reserve	-	-10,902	-	-	-10,902
Financial instruments	-	-	93	-	93
Available-for-sale financial assets	-	-	-	-	-
Other comprehensive income	-	*-10,902*	*93*	-	*-10,809*
Profit and loss for 2012	-	-	-	53,761	53,761
Comprehensive income	-	*-10,902*	*93*	*53,761*	*42,952*
Profit and loss for 2011	55,276	-	-	-55,276	-
Dividends paid	-27,770	-	-	-	-27,770
Changes in scope and other	21,815	-	-	-	21,815
POSITION AS AT 31 DECEMBER 2012	**361,078**	**1,517**	**663**	**53,761**	**417,019**

6.1.6 STATEMENT OF CASH FLOWS

In € thousand	2011	2012
Consolidated net profit (including non-controlling interests)	**456,823**	**270,519**
Net charges to amortization, depreciation and provisions	247,174	377,865
Unrealized gains and losses linked to changes in fair value	-36,897	-24,195
Income and expenses linked to share options and equivalent	29,961	30,303
Capital gains and losses on disposals	600	3,909
Share of profit (loss) of equity affiliates	-3,765	-6,503
Dividends reclassified as other flows linked to investing activities	-1,708	-1,349
Operating cash flow after cost of net financial debt and taxes	**692,188**	**650,549**
Cost of net financial debt	56,264	84,019
Tax charge (including deferred tax)	191,627	112,394
Operating cash flow before cost of net financial debt and taxes	**940,079**	**846,962**
Interest paid	-78,124	-104,138
Tax paid	-245,398	-221,505
Interest received	21,851	20,119
Cash flow from operating activities	**638,408**	**541,438**
Change in operating working capital requirement	-337,381	-66,453
NET CASH FLOW FROM OPERATING ACTIVITIES (1)	**301,027**	**474,985**
Cash outflows for acquisitions of property, plant and equipment and intangible assets	-859,431	-774,424
Cash outflows for acquisitions of biological assets	-49,706	-28,692
Cash inflows from disposals of property, plant and equipment and intangible assets	6,587	2,726
Impact of acquisitions (changes in consolidation scope)	-80,258	-
Cash of subsidiaries acquired (changes in consolidation scope)	8,820	-
Impact of disposals (changes in consolidation scope)	-	-
Cash of subsidiaries sold (changes in consolidation scope)	-	-1,627
Other cash flows from investing activities	4,272	-12,069
NET CASH FLOW FROM INVESTING ACTIVITIES (2)	**-969,716**	**-814,086**
Increase and decrease in equity	84,876	85,619
Dividends paid during the year		
• Dividends paid in cash to shareholders in the parent company	-67,582	-150,446
• Dividends paid to non-controlling shareholders in consolidated companies	-37,941	-32,923
• Movements in own shares	-28,344	-2,395
• Cash drawn down re: new loans	1,158,460	707,851
• Repayments of borrowings	-236,206	-557,421
• Change in percentage of interest in controlled companies	70,614	-
• Other cash flows from financing activities	-19,304	-14,474
CASH FLOW FROM FINANCING ACTIVITIES (3)	**924,573**	**35,811**
Impact of changes in exchange rates (4)	-21,952	-14,449
CHANGE IN CASH (1) + (2) + (3) + (4)	**233,932**	**-317,739**
Opening net cash	**611,484**	**845,416**
Closing net cash	**845,416**	**527,677**
Change	233,932	-317,739

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 2012

In € thousand	Notes	31/12/2011	Change	31/12/2012
Gross cash (1)	10	901,886	-355,726	546,160
Bank current accounts in debit and overdrafts (2)	15	56,470	-37,987	18,483
CASH (3) = (1) - (2)		**845,416**	**-317,739**	**527,677**
Gross financial debt (4)	15	2,038,923	102,621	2,141,544
NET DEBT = (4) - (3)		**1,193,507**	**420,360**	**1,613,867**

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 financial debt (4)	15	992,117	1,046,806	2,038,923
NET DEBT = (4) - (3)		**380,633**	**812,874**	**1,193,507**

6.1.7 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

A – Consolidation principles

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

The consolidated financial statements for the year ended 31 December 2012, including the related notes to the consolidated financial statements, were approved by Vallourec's Management Board on 18 February 2013 and will be submitted for approval at the Annual 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 2012. The financial statements are available on the Company's website: http://www.vallourec.com.

The IFRS framework includes the IFRS of the IASB (*International Accounting Standards Board*) and the IAS (*International Accounting Standards*), and their interpretations by the SIC (*Standing Interpretations Committee*) and IFRIC (*International Financial Reporting Interpretations Committee*).

The accounting principles and valuation 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 2012 having a significant impact on the consolidated financial statements at 31 December 2012.

New standards not applied early

The Group has not applied any of the other standards or interpretations early for which application will become mandatory only for financial years commencing on or after 1 January 2013. The primary deliverable of the revised IAS 19, mandatory with effect from 1 January 2013, concerns the recognition in "Equity" under "Other comprehensive income" of actuarial gains and losses and unrecognized past service costs, whose totals appear in Note 18.

2. ACCOUNTING PRINCIPLES AND METHODS

2.1 General valuation principles

Group consolidated financial statements are prepared in accordance with the historical cost principle, with the exception of biological assets, derivative financial instruments, which are valued at fair value, and financial assets, which are valued 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 expenses, as well as certain information disclosed in the notes to the financial statements.

Due to 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 valuation of property, plant and equipment, intangible assets, goodwill, financial assets, derivative financial instruments, inventories and work-in-progress, provisions for risks and expenses and deferred taxes.

2.3 Consolidation of subsidiaries

The Group's consolidated financial statements comprise the financial statements of Vallourec and its subsidiaries for the period from 1 January to 31 December 2012.

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 jointly controlled entities

The Group's interests in jointly controlled entities are accounted for in accordance with the proportionate consolidation method. A subsidiary is deemed to be a jointly controlled entity 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 Group 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 whose financial and operational policy the Group exerts significant influence, but does not have control.

The carrying amount of investments in equity affiliates as stated on the balance sheet 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 statement of comprehensive income 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 consolidated financial statements are presented is the euro.

Assets and liabilities of foreign subsidiaries, including goodwill, 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.

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

However, in accordance with the option authorized by IFRS 1 "First-time Adoption of International Financial Reporting Standards," the Vallourec Group has chosen to reclassify under "Consolidated reserves" the accumulated "Foreign currency translation reserve" resulting from the process of translating the financial statements of foreign subsidiaries as at 1 January 2004.

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

2.6.2 TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated to the Company's functional currency. Where transactions are hedged, they are translated 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 currencies are translated at the exchange rate on the day of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the balance sheet date at the exchange rate applicable on that date. Translation differences resulting from discrepancy 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 VALUATION AT COST NET OF DEPRECIATION AND IMPAIRMENT

Other than when they are acquired in connection with a business combination, property, plant and equipment are recorded at their acquisition or production cost and are not re-valued. At each balance sheet date, the acquisition cost is reduced by accumulated depreciation and any provisions for impairment 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 or equipment whose useful life 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 replacement of the component (i.e. the cost of the new component) is capitalized, provided that future economic benefits are still expected to be derived from the main asset.

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

2.7.3 MAINTENANCE AND REPAIR COSTS

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

2.7.4 DEPRECIATION

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

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

Changes to depreciation of new industrial sites in launch phase are calculated according to the production unit method for assets directly used in the production process and according to the straight-line depreciation method for other assets.

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 is 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 valued 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 value these assets at their fair value less selling costs, upon initial recognition as well as at each balance sheet date.

2.8 Leases

Assets financed by way of finance leases, which substantially transfer to the Group all of the risks and rewards of ownership, are capitalized as property, plant and equipment at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The corresponding liability is recorded under 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 their useful life in accordance with Group rules (see paragraph 2.7) or the lease term, whichever is shorter. They are tested for impairment in accordance with IAS 36 "Impairment of Assets" (see paragraph 2.11).

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

2.9 Goodwill

The Group values goodwill as the excess of:

- the total of:
  - the fair value of the consideration transferred;
  - the amount of any non-controlling interest in the acquiree (non-controlling interests valued either at fair value [total goodwill] or at carrying amount [partial goodwill]);
  - the fair value, on the acquisition date, of the participating interest previously owned by the acquirer in the acquiree in the case of a business combination achieved in stages.
- and 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 determined with the help of independent experts.

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

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

In accordance with the provisions of revised IFRS 3 and amended IAS 27, the Group recognizes under 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 capitalized as intangible assets as soon as the entity can demonstrate that:

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

The main Research and Development projects were reviewed on the basis of the information available from the central departments co-ordinating the work in order to identify and analyze those projects underway 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, whose aim is to improve product design and develop new or improved manufacturing processes, only fulfill the criteria for classification as assets and capitalization under IAS 38 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 plant and products with a view to preserving the Group's technological and competitive edge. As a result, in 2012 as in 2011, no costs incurred in connection with major projects were identified that met the standard's criteria.

2.10.2 OTHER INTANGIBLE ASSETS

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

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

Greenhouse gas emission quotas received free of charge are recognized at nil value (in accordance with IAS 20). When the quotas granted by the State are insufficient to cover actual emissions, a provision is recognized. Notes 16 and 21 to the financial statements contain information about the methods used to value 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 valuation of the Group below its consolidated net assets during a business cycle, or 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 per 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 whose continuing use generates cash inflows that are largely independent of the cash inflows generated by other asset groups. 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 adjusted, where appropriate, by a risk premium to take into account the geographical region concerned.

Where the recoverable amount (the higher of fair value less costs to sell and value in use) is less than the carrying amount of the CGU, an impairment is recognized on a specific line in the income statement. When a CGU includes goodwill, the impairment reduces the goodwill first and then, if necessary, 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 writedown of these assets.

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

2.12 Inventories and work-in-progress

Inventories are valued at the lower of cost or net realizable value, and provision is made for impairment if necessary.

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

The cost of raw materials, goods for resale and other supplies comprises the purchase price excluding taxes, less discounts, rebates and other payment deductions obtained, plus incidental costs of purchase (transportation, unloading charges, customs duties, buying commission etc.). These inventories are valued 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 labor and direct and indirect industrial overheads that may be allocated to processing and production on the basis of normal capacity. Administrative and general expenses are excluded from this valuation.

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 program 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 valued at the lower of their carrying amount and their fair value (estimated selling price), less selling costs. They are shown on a separate line within assets and liabilities on the balance sheet.

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

2.14 Provisions

A provision is recognized when, at the balance sheet date, the Group has a present obligation (legal or constructive) that arises from past events, and it is probable that an outflow of resources embodying 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 site clean-up costs). The increase in the provisions associated with the passage of time is recognized as a financial expense.

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

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

2.15 Retirement and similar obligations

The Group participates in the financing of supplementary retirement schemes or other long-term employee benefits, in accordance with constructive or legal requirements. The Group offers these benefits by means of either defined contribution or defined benefit plans.

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

Provisions are booked to cover retirement and similar obligations with regard to defined benefit plans. These provisions are determined on the basis of an actuarial calculation carried out at least once per 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 valued separately to build up the Group's employee benefit obligations.

The calculations take into account the specific features of the various plans as well as 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 obligation is discounted on the basis of the interest rates applicable to long-term bonds of first-rate issuers.

Where relevant, the obligation is stated on the balance sheet, net of plan assets valued at their fair value.

Actuarial gains and losses are generated by changes in assumptions or experience variances (difference between projected and actual values) with regard to obligations or plan financial assets. These variances are recognized in the income statement in accordance with the "corridor" method defined in IAS 19 "Employee Benefits." They are amortized over the employees' expected remaining working life for the portion exceeding by more than 10% the larger of the following values:

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

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

Net expenses for retirement and similar obligations are recognized in operating profit or loss, with the exception of the expense for discounting rights and income associated with the return on plan assets, which are recognized under financial income or loss.

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

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

Other employee benefits for which the Group recognizes provisions are:

- in the case of 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 Payments" requires benefits resulting from share option and performance share allocation plans, which are equivalent to remuneration paid to beneficiaries, to be valued and recognized; such benefits are recognized under 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 valuation of the option. The number of options taken into account in valuing the plan is adjusted at each balance sheet date to allow for 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-upon price.

  Options must be valued 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 valued using a binomial model to project share prices.
- Vallourec offers employee shareholding plans reserved for its employees. These plans are valued using a binomial model to project share prices.

2.17 Treasury shares

Treasury shares held by the Group are stated at their acquisition cost as a deduction from equity. Proceeds from the sale of these shares are booked directly as an increase in equity so that gains or losses 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 valuation and recognition of financial instruments are governed by IAS 39.

Changes in the fair value of derivatives are recognized in the financial statements. Changes in the fair value of hedged instruments are also recognized at each reporting date (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 buyback amount. The Group has recognized 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 the said non-controlling interests.

2.18.1 FINANCIAL ASSETS

Financial assets consist of:

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

Initial valuation

Non-derivative financial assets are initially recorded at fair value on the transaction date, including transaction costs, except for assets designated at 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 valuation at the end of the reporting period

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

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

Financial assets valued at fair value through profit or loss

This category of assets consists of:

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

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

Investment securities (French SICAV and FCP mutual funds etc.) are valued at their fair value at the balance sheet date, and changes in fair value are recognized in financial income or loss. They are therefore not tested for impairment. Fair value is 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 (valued 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 participation loans;
- accounts receivable and other trade receivables.

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

Staff loans are valued 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. In general, these are:

- unlisted shares whose fair value cannot be reliably estimated; these 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; the 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 recognized, in which case the corresponding loss is permanently booked in the income statement.

The significant or ongoing nature is defined case-by-case in Note 4, “Other non-current assets.”

Impairment testing of financial assets

Financial assets measured at amortized cost and available-for-sale financial assets valued 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 the borrower payment facilities 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 measured at amortized cost, the amount of the impairment is valued 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 thus determined is recognized in financial income or loss for 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 must be reversed, although the reversal must not result in a carrying amount that, on the date the impairment is reversed, exceeds what the amortized cost would have been had the impairment not been recognized.

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

2.18.2 CASH AND CASH EQUIVALENTS

This item consists of bank current account balances and investment securities (units in short-term cash UCITS and mutual and investment funds) that are immediately available (not pledged), risk-free and have a low volatility level.

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 that mature in less than three months.

The net debt referred to in the cash flow statement corresponds to total financial debts 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 12 months of the balance sheet date, and non-current liabilities, which are those amounts that mature more than 12 months after the balance sheet date.

Interest-bearing borrowings are initially recorded at 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 amortized cost in accordance with the effective interest rate method. They are recognized in financial income or loss on an actuarial basis over the life of the liability.

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

Variable rate borrowings for which interest rate swaps have been entered into are accounted for in accordance with the cash flow hedge method. Changes in the fair value of swaps, linked to movements in interest rates, are recognized in equity when they relate to the effective portion, with the balance being recognized in financial income or loss.

2.18.4 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

Group 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 currency sales.

To a lesser extent, the Group also enters into forward currency purchases to hedge its foreign currency purchase commitments.

Valuation and presentation of derivatives

Changes in the values of derivatives as compared with the values on the date of implementation are determined 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 on the balance sheet under current assets and current liabilities.

Hedge accounting

Hedging operations with regard to commercial transactions fall 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.;
- in the case of cash flow hedges, carrying out an effectiveness test on implementation of the derivative and updating the test at least once per quarter.

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 determined at fair value and recognized on the balance sheet in derivative accounts (asset or liability). The following are shown separately:

- the change in the intrinsic value of the hedging instrument (difference between the spot rate on the date of implementation of the hedge and the spot rate on the valuation date, i.e. the balance sheet date).

  If the hedge is effective, and as long as the sale (or purchase) hedged is not recognized, changes in the intrinsic value are recognized in 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 recognized in financial income or loss;
- the change in the time value (premium/discount). This change is systematically recognized in financial income or loss, since this component is not included in the hedging relationship.

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

At each balance sheet date, hedged foreign currency accounts receivable and accounts payable are determined and recognized at the exchange rate applicable 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 applicable on the last balance sheet date constitutes an exchange gain or loss recognized in financial income or loss for the period.

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

2.19 Income tax

Income tax comprises current and deferred tax.

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

The main types of deferred tax recognized are:

- long-term deferred tax assets (provisions for retirement obligations – 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 expenses 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.

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

Deferred taxes are not converted to current value.

Current and deferred tax charges are recognized as income or expenditure in the income statement unless they relate to a transaction or event that is recognized under other items of 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 on the balance sheet within non-current assets and non-current liabilities.

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

2.20 Sales

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

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

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

No income is recognized 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 recognized on delivery of the goods if the risks and rewards have been transferred to the buyer.

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

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 expenses other than those of a financial nature or relating to the profits or losses of equity-accounted investees 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 evaluate its recurring performance. It is calculated by taking operating profit before amortization and depreciation and excluding 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 expenses or those associated with staff retraining relating to events or decisions of major importance;
- capital gains or losses on disposals;
- revenues and expenses resulting from major litigation or significant roll-out or capital operations (e.g. costs of integrating a new activity etc.).

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 INFORMATION

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 plant dedicated to the Group's main activity, i.e. the production of hot-rolled seamless carbon and alloy steel tubes, both smooth and threaded, for the oil and gas industry. This activity is characterized by a highly integrated manufacturing process, from production of the steel and 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.);
- specialty products: this segment incorporates a number of activities whose characteristics are very different from those described above, but which are not presented separately due to their relative immateriality. Such treatment is authorized by IFRS 8. This activity 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).

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 financial years 2012 and 2011.

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 financial years 2012 and 2011.

B – Consolidation scope

	% interest 31/12/2011	% control 31/12/2011	% interest 31/12/2012	% control 31/12/2012
Fully consolidated companies				
Changzhou Valinox Great Wall Welded Tubes - 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 - China	80.8	100.0	95.0	100.0
Interfit S.A.S. - 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
PT Citra Tubindo - Indonesia	78.2	78.2	78.2	78.2
Saudi Seamless Pipes Factory Company Ltd - Saudi Arabia	100.0	100.0	100.0	100.0
V & M Tubes Asia Pacific Pte Ltd - Singapore	100.0	100.0	100.0	100.0
Serimax Angola Ltd - United Kingdom	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 S.A.S. – France	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 - Brazil	95.8	95.9	95.8	95.9
UMAX Service Ltd - United Kingdom	100.0	100.0	100.0	100.0
Valinox Asia S.A.S. - France	62.5	65.8	62.5	65.8
Valinox Nucléaire S.A.S. - 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	100.0	100.0
Vallourec & Mannesmann Oil & Gas France S.A.S. - 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 S.A.S. - 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 S.A.S. - France	100.0	100.0	100.0	100.0
Valti GmbH - Germany	100.0	100.0	0.0	0.0
Valtimet S.A.S. - France	95.0	95.0	95.0	95.0
Valtimet Inc. - United States	95.0	100.0	95.0	100.0
VAM Canada - Canada	100.0	100.0	100.0	100.0
VAM Drilling France S.A.S. - France	100.0	100.0	100.0	100.0

	% interest 31/12/2011	% control 31/12/2011	% interest 31/12/2012	% control 31/12/2012
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 Inc. - 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 - Mexico	100.0	100.0	100.0	100.0
VAM ONNE Nigeria Ltd - Nigeria	100.0	100.0	100.0	100.0
VAM USA - United States	51.0	51.0	51.0	51.0
VMOG China - 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 Brasil SA - Brazil	100.0	100.0	100.0	100.0
V & M France S.A.S. - France	100.0	100.0	100.0	100.0
V & M Florestal Ltda - Brazil	100.0	100.0	100.0	100.0
V & M Mineração Ltda - Brazil	100.0	100.0	100.0	100.0
V & M One S.A.S. - 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 - Uruguay	100.0	100.0	100.0	100.0
V & M Two - United States [a]	80.5	100.0	0.0	0.0
V & M Tube-Alloy LP - United States	100.0	100.0	100.0	100.0
V & M USA Corporation - United States	100.0	100.0	100.0	100.0
Proportionately consolidated companies				
Vallourec & Sumitomo Tubos do Brasil Ltda - 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 - China	37.1	49.0	37.1	49.0
Tianda Oil Pipe Co. Ltd - China	19.5	19.5	19.5	19.5
Special-purpose entities				
The Group does not control any special-purpose entities.				

(a) Merged with V & M Star - United States.

2012

There was no significant change in scope in financial year 2012.

2011

- In February 2011, the Vallourec Group created Vallourec & Mannesmann Middle East FZE, a commercial company serving 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 located in China) for €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, 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 the 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 Saudi Seamless Pipes Factory Co. Ltd ("Zamil Pipes") for €97 million. This acquisition gives Vallourec heat treatment and threading capability and thus strengthens Vallourec's local presence 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 USD 3.6 million capital increase 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 Brasil bought out all the shares in the Brazilian company Tubos Soldados Atlântico. This company was previously consolidated by the equity method and is fully consolidated from 31 December 2011.

C – Notes to the financial statements

NOTE 1 Intangible assets and goodwill

In € thousand	Concessions, patents, licenses and other rights	Other intangible assets	Intangible assets	Goodwill
GROSS VALUES				
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**
Acquisitions	2,455	2,329	4,784	-
Disposals	-502	-4,803	-5,305	-
Impact of changes in exchange rates	-1,623	-6,873	-8,496	-8,421
Changes in scope	-	-	-	-
Other changes	239	468	707	-
AT 31/12/2012	**84,280**	**420,046**	**504,326**	**511,405**
AMORTIZATION AND IMPAIRMENT				
At 31/12/2010	**-43,236**	**-135,296**	**-178,532**	**-23**
Net amortization charge for the financial year	-5,655	-45,367	-51,022	-
Disposals	108	51	159	-
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 amortization charge for the financial year	-6,208	-50,667	-56,875	-
Disposals	501	4,803	5,304	-
Impact of changes in exchange rates	1,390	4,060	5,450	-
Other changes		948	948	-
AT 31/12/2012	**-52,395**	**-228,464**	**-280,859**	**-23**
NET VALUES				
At 31/12/2011	**35,633**	**241,317**	**276,950**	**519,803**
AT 31/12/2012	**31,885**	**191,582**	**223,467**	**511,382**

INTANGIBLE ASSETS

- In 2011, the main increase was due to the sales agreement entered into 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 amortized over a five-year period.

Vallourec devotes significant efforts on an ongoing basis to Research and Development, particularly in the field of power generation. The 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 design, use and processing matters).

No costs were identified as being incurred in connection with major projects and meeting the capitalization criteria of the standard, and therefore no such costs were capitalized.

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 Brasil	V & M North America	V & M Europe	Serimax	Other	Total
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	3,161	-	454	13,382
Changes in scope	-	-	-	-	-	-
At 31/12/2011	3,208	309,288	164,690	36,316	6,301	519,803
Impact of changes in exchange rates	-31	-5,978	-2,253	-	-159	-8,421
Changes in scope	-	-	-	-	-	-
AT 31/12/2012	**3,177**	**303,310**	**162,437**	**36,316**	**6,142**	**511,382**

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, determined at their fair value on the acquisition date. This fair value assessment is carried out by independent experts.

In 2012 and 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 valuation of the Group below its consolidated net assets during a business cycle, or negative prospects associated with the economic, legislative or technological environment or a business sector, would constitute evidence of impairment.

FUTURE CASH FLOWS

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 generally 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 1.5% to 2%, depending on the CGU. This growth rate takes account of long-term inflation and growth forecasts for the Vallourec Group's main markets, particularly that of oil and gas.

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 market risk premium;
- a risk-free rate corresponding to an average of treasury bonds in each region; this rate, between 3% and 4%, is different in Europe, the United States and Brazil;
- a beta calculated on the basis of a sample of companies in the sector (generally between 1 and 1.4);
- a country risk specific to the activities carried out beyond Europe and the United States.

Implementation of these parameters results in a discount rate of 8.83% for Serimax, 8.33% for V & M Europe, 8.46% for V & M North America and 10.34% for V & M do Brasil.

SENSITIVITY ANALYSIS

Vallourec's primary source of revenue is the sale of products and services to the oil and gas industry, and the level of this revenue is dependent on international oil and natural gas prices. Vallourec uses the average number of active rigs (published by Baker Hughes) as a general indicator of oil and gas sector activity. These assumptions are more particularly oriented toward the primary market of each CGU: the United States for V & M North America, South America for V & M do Brasil, and the North Sea, Middle East and Asia-Pacific zone for V & M Europe.

For V & M Europe, V & M North America and V & M do Brasil, the key assumptions also include the prices of raw materials: scrap metal, coke, coal and iron ore. Exchange rates are also among the key assumptions used to determine future cash flows.

An analysis was carried out on the sensitivity of the calculation to a 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 significantly lower than its carrying amount. An increase of 50 basis points in the discount rate or a drop of 50 basis points in the rate of growth to infinity will not require the recognition of an impairment. An additional sensitivity analysis, taking the most recent year from the five-year forecast as the standard year, showed that the current calculation of the value in use of the Vallourec Group CGUs results in an extremely cautious assessment of their recoverable value.

The comparison of the carrying amounts of the CGUs with their value in use did not result in the recognition of any impairments as at 31 December 2012.

NOTE 2.1 Property, plant and equipment

In € thousand	Land	Buildings	Technical plant, industrial equipment and tools	Current property, plant and equipment	Other property, plant and equipment	Total
GROSS VALUES						
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**
Acquisitions	64	15,687	118,841	573,026	30,568	738,186
Disposals	-41	-343	-19,949	-1,794	-14,848	-36,975
Impact of changes in exchange rates	-9,988	-39,130	-174,165	-42,840	-15,849	-281,972
Changes in scope	-	-	-	-	-	-
Other changes	4,880	268,276	925,967	-1,173,518	-5,388	20,217
AT 31/12/2012	**118,860**	**846,591**	**3,945,960**	**633,277**	**289,281**	**5,833,970**
DEPRECIATION AND IMPAIRMENT						
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 depreciation charge for the financial year	-1,476	-28,740	-189,766	-284	-20,914	-241,180
Impairment losses	-	-	-	-	-	-
Disposals	-	192	16,102	-	14,629	30,923
Impact of changes in exchange rates	2,521	4,251	30,716	-	5,207	42,695
Other changes	-	-1,799	-2,301	-	-13,957	-18,057
AT 31/12/2012	**-27,069**	**-180,761**	**-1,189,048**	**-1,104**	**-115,876**	**-1,513,858**
NET VALUES						
At 31/12/2011	**95,831**	**447,436**	**2,051,467**	**1,277,583**	**193,957**	**4,066,275**
AT 31/12/2012	**91,791**	**665,830**	**2,756,912**	**632,173**	**173,405**	**4,320,112**

CAPITAL EXPENDITURE EXCLUDING CHANGES IN SCOPE

In € thousand	2011 Intangible and property, plant and equipment	2011 Biological	2012 Intangible and property, plant and equipment	2012 Biological (see Note 2.2)
Europe	139,115	-	122,081	-
North America	337,942	-	359,790	-
South America	330,354	41,192	161,903	28,767
Asia	79,441	-	96,724	-
Other	896	-	2,472	-
TOTAL	**887,748**	**41,192**	**742,970**	**28,767**
Note 1: acquisition of intangible assets	8,118	-	4,784	-
Note 2.1: acquisition of property, plant and equipment	879,630	-	738,186	-
Total industrial capital expenditure	**887,748**	**-**	**742,970**	**-**
Changes in fixed asset liabilities and partner contributions [(a)]	-28,317	8,514	31,454	-75
Statement of cash flow: the capital expenditure payments during the year totalled:	859,431	49,706	774,424	28,692
	909,137		803,116	

(a) The share of the V & M Star capital increase subscribed to by our partner Nippon Steel Sumitomo Metal Corp. (formerly Sumitomo) is presented as a decrease in cash outflow for the acquisition of intangible assets amounting to €21.2 million.

LEASES

The finance lease signed in 2010 by Vallourec & Sumitomo Tubos do Brasil for the construction of a water treatment facility had a net carrying amount of €211 million at 31 December 2012.

No significant new finance contracts were entered into in 2012.

NOTE 2.2 Biological assets

In € thousand	2011	2012
Net value at 31 December	184,299	196,134

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 Brasil SA and Vallourec & Sumitomo Tubos do Brasil.

At 31 December 2012, the Company had some 113,925 hectares of eucalyptus under cultivation in a total land area of 233,907 hectares.

V & M Florestal's sales amounted to €111.6 million in 2012 compared with €108.8 million in 2011.

CHANGES IN BIOLOGICAL ASSETS

At 31/12/2011	**184,299**
Capital expenditure	28,767
Movements: revaluation	12,343
Movements: reductions	-7,210
Movements: exchange rate differences	-22,065
AT 31/12/2012	**196,134**

NOTE 3 Investments in equity affiliates

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

In € thousand	HKM Germany	PT Citra Tubindo subsidiaries [(a)]	Tianda Oil Pipe	Other	Total
At 31/12/2011	**46,088**	**32,685**	**55,297**	**12,643**	**146,713**
Changes in scope	-	-	-	-	-
Capital increase	12,000	632	-	-	12,632
Impact of changes in exchange rates	-	-2,055	-558	330	-2,283
Dividends paid	-6	-	-610	-1,074	-1,690
Other	-	-	-	102	102
Contribution to net profit of the period	7	5,589	776	131	6,503
AT 31/12/2012	**58,089**	**36,851**	**54,905**	**12,132**	**161,977**

(a) These are long-term investments held by PT Citra Tubindo in unlisted companies not controlled directly by Vallourec.

Key figures for equity affiliates

In € thousand		Equity	Sales	Net profit
	2012	**290,440**	**2,755,704**	**33**
HKM – Germany	2011	230,437	3,105,420	30
	2012	**281,561**	**486,763**	**3,977**
Tianda Oil Pipe – China	2011 (9 months)	283,572	386,828	4,356

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

In € thousand	2011	2012
HKM	6	7
Poongsan Valinox	1,308	1,002
PT Citra Tubindo subsidiaries	3,811	5,589
Tubos Soldados Atlântico (consolidated end-2011)	-2,253	-
Tianda Oil Pipe	850	775
Xi'an Baotimet Valinox Tubes	43	-870
TOTAL	**3,765**	**6,503**

NOTE 4 Other non-current assets

In € thousand	Other investments in equity instruments	Loans	Other financial assets	Other	Total
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**
Gross value	69,314	7,138	39,103	293,746	409,301
Provisions	-700	-	-503	-	-1,203
AT 31/12/2012	**68,614**	**7,138**	**38,600**	**293,746**	**408,098**

As at 31 December 2012, available-for-sale equity securities related almost exclusively to Nippon Steel & Sumitomo Metal Corp. In 2012, 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), were converted into Nippon Steel Sumitomo Metal Corporation equity securities following the merger of the two groups on the basis of an exchange ratio of one Sumitomo Metal Industries share to 0.735 of a Nippon Steel & Sumitomo Metal Corporation share.

On 31 December 2009, Vallourec and Sumitomo (now Nippon Steel & Sumitomo Metal Corp.) signed a seven-year partnership agreement including a reciprocal investment agreement in their capital totalling approximately USD 120 million. Nippon Steel & Sumitomo Metal Corp. and Vallourec are partners in VSB and are cooperating in the development of the VAM joint-venture. This partnership and the related investment in Nippon Steel & Sumitomo Metal Corp. are strategic to Vallourec.

In this context and in view of the strategic and ongoing nature of the investment, Vallourec has set thresholds above which a drop in the net asset value of Nippon Steel & Sumitomo Metal Corp. securities would constitute a significant or extended event requiring the recognition of an impairment in the income statement:

- three years for the extended nature of a drop;
- 40% for the significant nature of a drop.

The fair value of these securities at 31 December 2012, based on their net value, is €64.1 million. In the absence of a significant or extended loss, the impairment has been recognized in equity. For information, the impairment in Nippon Steel & Sumitomo Metal Corp. securities recognized in equity was €20.9 million in 2011 and €1.8 million in 2012.

Loans consist mainly of long-term construction-effort participation loans. These loans are determined 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 2012 was 3.36%, the same as that at 31 December 2011.

Other financial investments consist mainly of interest-bearing security deposits, mainly paid in connection with tax disputes in Brazil (€22.9 million at 31 December 2012; see also Note 16).

Other non-current assets consist primarily of tax credits of more than one year in Brazil and the United States (€111.9 million and €12.0 million, respectively, in 2012) and a shareholders' loan granted to Vallourec & Sumitomo Tubos do Brasil, consolidated proportionally, totalling €157.4 million.

Maturities of other non-current assets *In € thousand*	**1 to 5 years**	**5 years or more**	**Total**
GROSS VALUES AT 31/12/2011			
Loans	1,667	2,774	4,441
Other investments in equity instruments	-	68,526	68,526
Other financial assets	201,832	16,148	217,980
TOTAL	**203,499**	**87,448**	**290,947**
GROSS VALUES AT 31/12/2012			
Loans	4,910	2,228	7,138
Other investments in equity instruments	-	69,314	69,314
Other financial assets	317,021	15,828	332,849
TOTAL	**321,931**	**87,370**	**409,301**

NOTE 5 Deferred tax

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

- recurring; provisions for paid holidays, solidarity social security contributions etc.;
- non-recurring; cancellation of regulated provisions, employee profit-sharing, non-tax deductible provisions for liabilities and expenses and any restatements to ensure the conformity of the parent company or consolidated financial statements to Group practices;
- recurring long-term; non-tax deductible provisions for retirement benefit obligations, and changes in revaluation of assets acquired during a business combination.

Deferred tax liabilities are recognized in accordance with the liability method.

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 2011 Finance Act No. 2011-1978 of 28 December 2011 introduced an exceptional contribution of 5% of the amount of corporation tax payable by companies with sales of more than €250 million. This contribution is temporary, but France's 2013 Finance Act extended its period of application by two years in Article 30; it therefore applies to financial years 2011-2014.

The deferred tax rates used for the French companies in 2012 were unchanged from 2011 at 34.43% for current tax and 0% for long-term capital gains and losses.

The other deferred tax rates used in 2012, unchanged from 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 recognized as operating expenses.

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**

At 31/12/2012 *In € thousand*	**Assets**	**Liabilities**	**Net deferred tax liabilities**
Non-current assets	-	254,503	
Other assets and liabilities	18,130	-	
Inventories	42,626	-	
Employee benefits	32,143	-	
Derivatives	-	11,410	
Distributable reserves and foreign currency translation reserves	130	-	
NET BALANCE	**93,029**	**265,913**	**172,884**
Recognition of tax losses	165,309	-	-165,309
TOTAL	**258,338**	**265,913**	**7,575**

The following table provides an analysis of the Group's deferred tax balances (gross values) as at 31 December 2011 and 31 December 2012:

At 31/12/2011 *In € thousand*	**Gross value**	**Corresponding deferred tax liabilities**	**Recognized deferred tax liabilities**	**Unrecognized deferred tax liabilities**
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**

At 31/12/2012 *In € thousand*	Gross value	Corresponding deferred tax liabilities	Recognized deferred tax liabilities	Unrecognized deferred tax liabilities
Tax losses carried forward	571,388	186,655	165,309	21,346
Other tax assets	-	94,158	93,029	1,129
TOTAL TAX ASSETS	**-**	**280,813**	**258,338**	**22,475**
Tax liabilities			-265,913	
TOTAL TAX LIABILITIES			**-265,913**	
TOTAL			**-7,575**	**22,475**

The tax losses carried forward in 2012 relate mainly to Vallourec & Sumitomo Tubos do Brasil, the French tax consolidation group, CST Valinox Ltd (India), Changzhou Carex Valinox Components (China), VAM Changzhou Premium Oil & Gas Equipments (China), V & M Changzou (China), Serimax Ltd (United Kingdom), Serimax North America LLC (United States) and Saudi Seamless Pipes Factory Company Ltd (Saudi Arabia).

Deferred tax assets were recognized on all losses carried forward, and an impairment was noted when there was no reasonable assurance of recovery of these deferred tax assets in the foreseeable future, or when it was estimated that the allocation of these deficits to future taxable income was uncertain.

The analyses performed concluded that there was reasonable assurance of the recovery of net deferred tax assets in the foreseeable future, particularly for VSB (€94 million of deferred tax assets for the share held by Vallourec), offering a recovery horizon of over 10 years, but one that remains less than the average lifetime of the industrial assets.

These analyses are based on the most recent management-approved forecasts available, in line with the Group's latest strategic review and, in the case of VSB (a structure dedicated to our partner Nippon Steel & Sumitomo Metal Corp. and ourselves), on the predictability of the sales and results of this structure.

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

Net tax liability *In € thousand*	2011	2012
BALANCE AS AT 1 JANUARY	**76,808**	**58,011**
Impact of changes in exchange rates	6,293	6,637
Recognized in profit or loss	-19,748	-83,049
Recognized in reserves	-11,601	28,551
Change in scope and other	6,259	-2,575
BALANCE AS AT 31 DECEMBER	**58,011**	**7,575**

The amount of the deferred tax recognized in reserves corresponds mainly to the change in deferred tax calculated on the derivative instruments.

NOTE 6 Inventories and work-in-progress

	Raw materials and goods for resale	Goods in production	Intermediate and finished goods	Total
GROSS VALUES				
At 31/12/2010	**551,958**	**379,844**	**353,372**	**1,285,174**
Changes in inventories recognized 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
Other changes	-1,103	1	5,538	4,436
At 31/12/2011	**603,170**	**461,786**	**420,133**	**1,485,089**
Changes in inventories recognized in the income statement	-45,190	33,824	90,814	79,448
Changes in scope	-	-	-	-
Impact of changes in exchange rates	-12,951	-5,761	-21,819	-40,531
Other changes	1,166	-	8,833	9,999
AT 31/12/2012	**546,195**	**489,849**	**497,961**	**1,534,005**
IMPAIRMENT				
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**
Impact of changes in exchange rates	1,273	73	2,698	4,044
Charges	-21,104	-8,510	-23,556	-53,170
Reversals of provisions	27,215	3,990	10,909	42,114
Other changes	1,885	798	-3,850	-1,167
AT 31/12/2012	**-43,091**	**-16,745**	**-44,455**	**-104,291**
NET VALUES				
At 31/12/2011	**550,810**	**448,690**	**389,477**	**1,388,977**
AT 31/12/2012	**503,104**	**473,104**	**453,506**	**1,429,714**

NOTE 7 Trade and other receivables

	Advances and deposits paid on orders	Trade and other receivables (gross) [a]	Impairment provisions	Total
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**
Changes in scope	-7	317	23	333
Impact of changes in exchange rates	-1,587	-27,919	301	-29,205
Changes in gross values	-5,195	-52,892	-	-58,087
Charges to provisions	-	-	-11,853	-11,853
Reversals of provisions	-	-	7,655	7,655
Other changes	3	892	1,348	2,241
AT 31/12/2012	**18,887**	**963,890**	**-13,820**	**968,957**

(a) Please refer to paragraph 2.18.1 "Accounting Principles and Methods" for details of the recognition and valuation methods.

NOTE 8 Financial instruments

Financial assets and liabilities

Financial assets and liabilities are valued and presented on 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 with regard to its commercial purchase and sale transactions in foreign currencies and the accounting treatment of available-for-sale financial assets. The Group has also swapped part of its variable rate debt to a fixed rate. The other effects of the transition to IAS 32 and IAS 39 have had little impact on the financial statements (valuation of housing loans granted to staff in accordance with the effective interest rate method and valuation at fair value of investment securities).

As regards exchange rate hedges, the hedging relationship is based on the spot rate for the currency. Premiums and discounts on derivatives are systematically regarded as ineffective and recognized in the income statement (financial income or loss). Currency receivables and payables were revalued at the spot rate at 31 December.

With regard to hedging instruments, the position changed from net liabilities of €76.0 million at 31 December 2011 to net assets of €44.0 million at 31 December 2012.

The movement of the euro against the US dollar in 2012 mainly explains the €76.7 million fall in the intrinsic value of hedges with regard to currency purchase and sale forecasts and the €40.8 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 recognized in the income statement mainly concerns the premium/discount, changes in the value of which gave rise to a loss of €9.1 million at the balance sheet date compared with financial year 2012.

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 31/12/2011	At 31/12/2012	Changes in 2012		
			Total	Reserves	Profit or loss
1 - Derivatives recognized on the balance sheet [a]					
Changes in the intrinsic value of forward sales of currencies and forward purchases [b] associated with order books and commercial tenders	-51,558	25,185	76,743	76,598	145
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with trade receivables (and accounts payable [b])	-39,765	1,071	40,836	-	40,836
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with finance receivables (and financial debts)	10,508	12,055	1,547	-	1,547
Changes in the intrinsic value of hedges of raw material and energy purchases associated with order books and commercial tenders	-	-	-	-	-
Changes in the intrinsic value of hedges of raw material and energy purchases associated with accounts payable	-	-	-	-	-
Recognition of premium/discount	9,884	735	-9,149	-	-9,149
Recognition of changes in fair value of interest rate swaps	-12,442	-2,657	9,785	9,785	-
Changes in values linked to hedging instruments implemented under the terms of the employee share-ownership schemes	7,380	7,559	179	-	179
Changes in value associated with derivatives not classified as such	1	1	-	-	-
SUBTOTAL: DERIVATIVES	**-75,992**	**43,949**	**119,941**	**86,383**	**33,558**
• Of which derivatives – assets	39,705	59,351			
• Of which derivatives – liabilities	115,697	15,402			
2 - Receivables (payables [b]) hedged in currencies – translation gain/loss					
Valuation at the closing date exchange rate (finance payables [b] and accounts receivable)	37,194	-713	-37,907	-	-37,907
Valuation at the closing date exchange rate (finance payables and accounts receivable)	-17,904	-19,877	-1,973	-	-1,973
IMPACT OF HEDGING OPERATIONS	**-56,702**	**23,359**	**80,061**	**86,383**	**-6,322**
3 – Valuation of receivables (payables [b]) not hedged in currencies – translation gain/loss [c]	**26**	**-85**	**-111**	**-**	**-111**
4 – Valuation of construction loans at the effective interest rate	**-889**	**-622**	**267**	**-**	**267**
5 – Valuation of securities at fair value	**5**	**8**	**3**	**-**	**3**
6 – Valuation of other investments in equity instruments at fair value	**-12,681**	**-14,482**	**-1,801**	**-1,801**	**-**
7 – Deferred tax	**24,701**	**-4,078**	**-28,779**	**-27,909**	**-870**
TOTAL	**-45,540**	**4,100**	**49,640**	**56,673**	**-7,033**
Counterparty – see Statement of changes in equity					
Revaluation differentials – financial instruments:	-55,203	414	55,617	55,617	
• Of which Group share	-55,773	-249	55,524	55,524	
• Of which attributable to non-controlling interests	570	663	93	93	
Other consolidation reserves	5,511	10,719	5,208	5,208	
Net profit	4,152	-7,033	-11,185	-4,152	-7,033
TOTAL	**-45,540**	**4,100**	**49,640**	**56,673**	**-7,033**

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

(b) Immaterial amounts.

(c) The €0.1 million reduction in the revaluation difference is related to an exchange gain realized during 2012.

The negative change in the fair value of financial instruments hedging the exchange rate risk, which affected equity as at 31 December 2011, was €51.6 million. During 2012, around 93% of the negative change in fair value allocated to the order book and commercial tenders at the end of 2011 was transferred from equity to the income statement, under Group foreign exchange gain or loss. This amount represents the impact of the changes in the value of exchange rate hedges with regard to the order book and commercial tenders at 31 December 2011, which were fully or partially unwound or converted into receivables during 2012.

This corresponds mainly to the hedges of receivables in US dollars, which represent nearly 95% of the hedges with an impact on equity as at 31 December 2011.

Balance sheet items concerned *In € thousand*	At 31/12/2010	At 31/12/2011	Changes in 2011		
			Total	Reserves	Profit or loss
1 - Derivatives recognized on the balance sheet [a]					
Changes in the intrinsic value of forward sales of currencies and forward purchases [b] associated with 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 trade receivables (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 accounts payable)	11,756	10,508	-1,248	-	-1,248
Changes in the intrinsic value of hedges of raw material and energy purchases associated with order books and commercial tenders	-	-	-	-	-
Changes in the intrinsic value of hedges of raw material and energy purchases associated with 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 associated with derivatives not classified as such	-1	1	2		2
SUBTOTAL: 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 (finance payables [b] and accounts receivable)	-5,791	37,194	42,985	-	42,985
Valuation at the closing date exchange rate (finance payables and accounts receivable)	-12,161	-17,904	-5,743	-	-5,743
IMPACT OF HEDGING OPERATIONS	**-11,966**	**-56,702**	**-44,736**	**-42,125**	**-2,611**
3 – Valuation of receivables (payables [b]) not hedged in currencies – translation gain/loss [c]	**-1,552**	**26**	**1,578**	**-**	**1,578**
4 – Valuation of construction loans at the effective interest rate	**-1,360**	**-889**	**471**	**-**	**471**
5 – Valuation of securities at fair value	**48**	**5**	**-43**	**-**	**-43**
6 – Valuation 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**
Counterparty – see Statement of changes in equity					
Revaluation differentials – 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) Immaterial amounts.

(c) The €1.6 million increase in the revaluation difference is related to an exchange gain realized during 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, under Group foreign exchange gain or loss. This amount represents the impact of the changes in the value of exchange rate hedges with regard to 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.

TOTAL LIABILITIES

At 31/12/2012 *In € thousand*	**Other loans**	**Cash and cash equivalents**
Fixed rate on date granted	1,594,546	
Variable rate on date granted swapped to fixed rate	229,742	
Fixed rate	**1,824,288**	
Variable rate	**335,738**	**546,160**
TOTAL	**2,160,026**	**546,160**

The amount of loans at a fixed rate on the date granted includes €1,094.3 million in bonds issued on 7 December 2011 for a nominal amount of €650 million and two private bond issues in August 2012 for a total of €455 million, adjusted for estimated financial charges using the amortized cost of capital method, and for €217 million in outstanding commercial paper, which was issued at a fixed rate but has a maturity of over six months.

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**

Part of the variable rate debt was swapped to a fixed rate. Accordingly, USD 300 million (maturity: April 2013) was swapped at 4.36%, excluding the spread.

In addition, a €100 million loan granted by Crédit Agricole 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 Brasil also drew down BRL 318 million (around €130 million) of the fixed rate loan contracted in 2010 with BNDES, and took out a new fixed rate finance lease in 2010.

On 7 December 2011, Vallourec made a bond issue of €650 million, maturing in February 2017, with a fixed annual coupon of 4.25%.

Lastly, Vallourec also issued two long-term private bonds in August 2012, for an aggregate of €455 million. The amounts and terms of these two private bond issues are €400 million for seven years with an annual coupon of 3.25% and €55 million for 15 years with an annual coupon of 4.125%, respectively.

Financial debt exposed to changes in variable interest rates amounted to €335.7 million (about 15.5% of total gross financial debt) at 31 December 2012.

No significant line of fixed rate financing will reach contractual maturity during the 12 months following the balance sheet date of 31 December 2012, except for:

- the variable rate loan of USD 300 million swapped to a fixed rate in 2008 by Vallourec, which will be reimbursed at maturity on 17 April 2013;

8.2 INFORMATION ON THE TYPE AND EXTENT OF MARKET RISK AND THE WAY IT IS MANAGED BY THE GROUP

Market risks involve 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 centralized at Vallourec and the sub-holding company V & M Tubes.

- outstanding commercial paper of €217 million with maturity of more than six months;
- various lines of financing in Brazilian subsidiaries (totalling €34.1 million).

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 €2.4 million increase in the Group's annual financial expenses, 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 six months or on cash in short-term investments (of no more than three months).

In addition, based on the Group's simulations, a 0.5% point rise (fall) in interest rates applied to all yield curves would result in an increase (decrease) of approximately €0.3 million in the value of the swaps at 31 December 2012 (within Vallourec).

Foreign currency translation risk

The assets, liabilities, revenues and expenses of the Group's subsidiaries are expressed in various currencies. The Group financial statements are presented in euros. The assets, liabilities, revenues and expenses 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 expenses 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 expenses not denominated in euros, even if the value of these items in their original currency has not changed.

In 2012, 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 the Brazilian real). A 10% change in exchange rates would have had an upward or downward impact on net income, Group share, of around €27.4 million.

In addition, the Group's sensitivity to 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 loss of €64.5 million as at 31 December 2012) 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*	**31/12/2011**	**31/12/2012**
USD	74,997	45,123
GBP	-11,096	-10,384
Brazilian real (BRL)	111,834	-127,497
Chinese yuan (CNY)	35,225	32,847
Other	-5,028	-4,539
	205,932	**-64,450**

Transaction risk

The Group is subject to exchange rate risks due to its business exposure linked to sales and purchase 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 involved is the US dollar (USD): a significant proportion of Vallourec's operations (approximately 36.0% of Group sales in 2012) is invoiced in US dollars by companies whose functional currency is not the US dollar.

Exchange rate fluctuations between the euro, the Brazilian real (BRL) and the US dollar may therefore affect 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 and purchases, even though they are denominated in euros, are influenced by the level of the US dollar. They are therefore affected indirectly and at some time in the future 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 with regard to these cancelled hedges in the consolidated income statement.

We estimate that a 10% rise or fall in the currencies used in all hedges implemented by the Group would result in a €112.1 million decrease or increase in the intrinsic value recognized in consolidated equity at 31 December 2012. Most of these amounts would be due to changes in the US dollar against the euro, and to a lesser extent the BRL 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 2012, the following amounts were outstanding under forward foreign exchange contracts to hedge purchases and sales denominated in foreign currencies:

Hedging contracts with regard to commercial transactions – exchange rate risk In € thousand	2011	2012
Forward exchange contract: forward sales	1,240,377	2,025,445
Forward exchange contract: forward purchases	52,130	145,626
Currency options: sales	-	-
Currency options: purchases	-	-
Commodities: call options	-	-
TOTAL	**1,292,507**	**2,171,071**

CONTRACT MATURITIES AT 31 DECEMBER 2012

Contracts with regard to commercial transactions *In € thousand*	Total	< 1 year	1 to 5 years	> 5 years
Exchange contracts: forward sales	2,025,445	1,775,892	249,553	-
Exchange contracts: forward purchases	145,626	130,426	15,200	-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Commodities: call options	-	-	-	-
TOTAL	**2,171,071**	**1,906,318**	**264,753**	

Forward sales correspond mainly to sales of US dollars (€2.025 billion of the €2.171 billion total). These contracts were transacted at an average forward EUR/USD rate of 1.30 and an average forward USD/BRL rate of 2.09.

In 2012, as in 2011, the hedges entered into generally covered an average period of about 10 months 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 USD 205 million (€155.4 million) currency swap, which was supplemented in 2011 with USD 95 million (€72.0 million). The currency swap matures in April 2013, when the hedged debt matures;
- since 2011, forward sales of USD 383.2 million (€290.4 million) and CNY120.0 million (€14.6 million) and forward purchases of USD 5 million (€3.8 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 2013 and 2015, 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 or liabilities in its consolidated balance sheet (foreign currency translation risks).

Credit risks

Vallourec is subject to credit risk with regard to its financial assets against 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 receivable 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 and other 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 determined according to 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 with regard to these receivables, even if the outcome of the disputes is unfavorable, since the risk has already been assessed and a provision booked with regard to these receivables and the funds already paid in full or in part;
3. trade and other receivables:
   - the Group's policy with regard to the amount of the provision for trade and other 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 value 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 with regard to its receivables against 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 €46.9 million at 31 December 2012, i.e. 4.9% 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 longstanding nature of the Group's commercial relations with major customers;
- the commercial collection policy.

Moreover, at 31 December 2012, trade receivables not yet due amounted to €732.7 million, or 77.1% of total net trade receivables.

The following table provides an analysis by maturity of these trade receivables (in € million):

At 31 December 2012	0 to 30 days	30 to 60 days	60 to 90 days	90 to 180 days	> 180 days	Total
Trade receivables not yet due	560.8	124.7	23.7	18.2	5.3	732.7

Share price risks

The shares held by Vallourec at 31 December 2012 consist of those allocated to various share ownership plans for certain of the Group's employees, managers and corporate officers.

Within this framework, Vallourec holds:

- 178,591 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, 23,274 shares under the terms of the performance share plan of 31 July 2009, and the final allocation in 2012 of 4,484 shares under the terms of the performance share plan of 31 July 2010;
- 73,156 own shares in 2008 under the terms of the share buyback program 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;
- 18,064 own shares in 2010 under the terms of the share buyback program of 31 May 2010, after the final allocation in 2012 of 81,936 shares under the terms of the performance share plan of 15 March 2010;
- 372,466 own shares in 2011 under the terms of the share buyback program of 7 June 2011, after the final allocation in 2012 of 27,534 shares under the terms of the performance share plan of 3 December 2010;
- 400,000 own shares acquired in 2012 under the terms of the share buyback program of 31 May 2012.

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

The Management Board, in consultation with the Supervisory Board, has decided to allocate these own directly-held shares to hedge the Group's performance and employee share ownership plans.

With effect from 2 July 2012, Vallourec implemented a liquidity contract with Rothschild & Cie, implemented under the annual general authorization for the share buyback program approved by the Shareholders' Meeting of 31 May 2012 (13th resolution). To implement this contract, the following resources have been allocated to the liquidity account:

- €9,000,000;
- 490,500 shares.

Classification and valuation of financial assets and liabilities

The amounts stated on the balance sheet are valued in accordance with the valuation procedures used for each financial instrument.

2012 *In € thousand*		Category [a]	Gross value at 31/12/2012	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed participating interests		AFS	64,118	-	64,118	-
Other investments in equity instruments		AFS	5,196	-	5,196	-
Loans		L&R	7,138	7,138	-	-
Other financial assets		LHR/AHM [b]	39,103	39,103	-	-
Trade and other receivables	**7**	**L&R**	**963,890**	**963,890**	**-**	**-**
Derivatives – assets	**8**					
Hedging financial instruments [f]		CFH	59,351	-		59,351
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	**9**	**L&R**	**202,567**	**202,567**	**-**	**-**
Cash and cash equivalents	**10**	**A-FVTPL**	**546,160**	**-**	**-**	**546,160**
LIABILITIES						
Bank loans and other financial debt [c] [e]	**15**	**AC-EIR**	**528,031**	**528,031**	**-**	**-**
Other	**15**	**AC-EIR**	**425,702**	**425,702**	**-**	**-**
Overdrafts and other short-term bank borrowings [d] [e]	**15**	**AC-EIR**	**18,483**	**18,483**	**-**	**-**
Trade payables		**AC**	**677,715**	**677,715**	**-**	**-**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	15,402	-		15,402
Speculative financial instruments		L-FVTPL	2	-	-	2
Other current liabilities	**19**	**AC**	**433,739**	**433,739**	**-**	**-**

(a) A-FVTPL — Financial assets valued at fair value through profit or loss
AHM — Assets held to maturity
L&R — Loans and receivables
AFS — Available-for-sale financial assets
CFH — Cash flow hedge
L-FVTPL — Financial liabilities valued at fair value through profit or loss
AC — Amortized cost
AC-EIR — Amortized 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 recognized in equity to the extent of their effectiveness. Otherwise, they are recognized under financial income.

(f) Including the Value 08, Value 09, Value 10, Value 11 and Value 12 warrants, whose fair value was €7.6 million at 31 December 2012.

The financial instruments valued at fair value are classified by category on the basis of their valuation method. Fair value is determined as follows:

(A) The main method is based on listed prices on an active market; participating interests are valued in this manner.

(B) Valued on the basis of observable methods and data and with reference to the financial markets (yield curve, forward prices etc.).

2012 Balance sheet headings and classes of instruments *In € thousand*	Category	Total fair value on balance sheet	Fair value		
			Listed prices (A)	Internal model with observable parameters (B)	Internal model with non-observable parameters
ASSETS					
Listed participating interests	AFS	64,118	64,118	-	-
Other investments in equity instruments	AFS	5,196	-	5,196	-
Derivatives – assets					
Hedging financial instruments	CFH	59,351	-	59,351	-
Speculative financial instruments	L-FVTPL	-	-	-	-
Cash and cash equivalents	**A-FVTPL**	**546,160**	**546,160**	**-**	**-**
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	15,400	-	15,400	-
Speculative financial instruments	L-FVTPL	2	-	2	-

2011 *In € thousand*	Notes	Category [a]	Gross value at 31/12/2011	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed participating interests		AFS	65,940	-	65,940	-
Other investments in equity instruments		AFS	2,586	-	2,586	-
Loans		L&R	4,441	4,441	-	-
Other financial assets		LHR/AHM [b]	42,605	42,605	-	-
Trade and other receivables	**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 financial debt [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 valued at fair value through profit or loss*
AHM — *Assets held to maturity*
L&R — *Loans and receivables*
AFS — *Available-for-sale financial assets*
CFH — *Cash flow hedge*
L-FVTPL — *Financial liabilities valued at fair value through profit or loss*
AC — *Amortized cost*
AC-EIR — *Amortized 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 recognized in equity to the extent of their effectiveness. Otherwise, they are recognized under financial income.

(f) Including the Value 08, Value 09, Value 10 and Value 11 warrants, whose fair value was €7.6 million at 31 December 2011.

The financial instruments valued at fair value are classified by category on the basis of their valuation method. Fair value is determined as follows:

(A) The main method is based on listed prices on an active market; participating interests are valued in this manner.

(B) Valued 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 on balance sheet	Fair value		
			Listed prices (A)	Internal model with observable parameters (B)	Internal model with non-observable parameters
ASSETS					
Listed participating interests	AFS	65,940	65,940	-	-
Other investments in equity instruments	AFS	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	-

NOTE 9 Other current assets

In € thousand	Employee-related receivables and recoverable payroll taxes	Tax receivables excluding income taxes	Prepayments	Statement, income tax	Other receivables	Total
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**
Impact of changes in exchange rates	-171	-1,797	-1,536	-673	-1,313	-5,490
Other changes	-962	3,091	10,980	-7,147	19,585	25,547
AT 31/12/2012	**4,284**	**68,495**	**36,828**	**18,355**	**74,605**	**202,567**

NOTE 10 Cash and cash equivalents

In € thousand	Investment securities (gross)	Cash and cash equivalents	Total
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**
Impact of changes in exchange rates	-10,750	-4,695	-15,445
Changes in scope	-	-1,627	-1,627
Other changes	-334,263	-4,391	-338,654
AT 31/12/2012	**293,140**	**253,020**	**546,160**

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

NOTE 11 Business combinations

This note presents the business combinations with a balance sheet total of over €100 million.

2012

There were no business combinations in 2012.

2011

Saudi Seamless Pipes Factory is the leading processing 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 finalize the valuation 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
Property, plant and equipment	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 expenses	1,149
Employee benefits	147
Trade payables	592
Other operating liabilities	103
TOTAL LIABILITIES	**103,487**
CONSIDERATION PAID IN CASH [(b)]	**4,947**

(a) The acquisition of Saudi Seamless Pipes Factory generated negative goodwill of €0.5 million.

(b) Cash paid with regard to 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 amortized as follows:

- land-use right: 25 years.

NOTE 12 Equity

CAPITAL

The capital of Vallourec is composed of 124,946,356 ordinary shares with a par value of €2.00 fully paid up at 31 December 2012, compared with 121,434,409 shares with a par value of €2.00 at 31 December 2011.

2012

On 27 June 2012, the option for payment of the dividend in shares, which was approved by the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, resulted in the creation of 192,112 new shares issued at a price of €31.10, giving a capital increase of €6 million, including additional paid-in capital net of expenses.

On 6 December 2012, under the terms of the Value 12 employee share ownership scheme, 3,319,835 new shares were subscribed at a price of €25.79, giving a capital increase of €85.6 million, including additional paid-in capital net of expenses.

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.

RESERVES, FINANCIAL INSTRUMENTS

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

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

FOREIGN CURRENCY TRANSLATION RESERVE

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	Brazilian real	Chinese yuan	Other	Total
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**
Changes	-29,877	712	-239,331	-2,378	492	-270,382
AT 31/12/2012	**45,120**	**-10,384**	**-127,497**	**32,847**	**-4,536**	**-64,450**

PRINCIPAL EXCHANGE RATES USED (EURO/CURRENCY): TRANSLATION OF BALANCE SHEET ITEMS (CLOSING RATE) AND INCOME STATEMENT ITEMS (AVERAGE RATE)

For €1.00	USD	GBP	Brazilian real	Chinese yuan
2011				
Average rate	1.39	0.87	2.33	8.99
Closing rate	1.29	0.84	2.42	8.15
2012				
Average rate	**1.28**	**0.81**	**2.51**	**8.11**
Closing rate	**1.32**	**0.82**	**2.70**	**8.22**

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	2011	2012
Net income attributable to ordinary shareholders for basic earnings per share	**401,547**	**216,758**
Weighted average number of ordinary shares for basic earnings per share	118,685,868	121,797,523
Weighted average number of own shares for basic earnings per share	-700,878	-869,091
Weighted average number of shares for basic earnings per share	117,984,990	120,928,432
EARNINGS PER SHARE *(in euros)*	**3.4**	**1.8**
Earnings per share comparable to 2012 *(in euros)*	3.4	
Dilution effect – share purchase and share subscription options and performance shares	405,929	355,560
Adjusted weighted average number of ordinary shares for diluted earnings per share	118,390,919	121,283,992
DILUTED EARNINGS PER SHARE *(in euros)*	**3.4**	**1.8**
Earnings per share comparable to 2012 *(in euros)*	3.4	

Dividends paid during the year	2011	2012
• With regard to the previous period *(in euros)*	1.30	1.30
• Interim dividend with regard to the current period *(in euros)*	-	-

NOTE 14 Non-controlling interests

In € thousand	Reserves	Translation difference	Net profit	Total
At 31/12/2011	312,327	12,419	55,276	380,022
AT 31/12/2012	**361,741**	**1,517**	**53,761**	**417,019**

Non-controlling interests relate mainly to the Sumitomo group.

NOTE 15 Bank loans and other financial debt

LIQUIDITY RISKS

The Group's financial resources are composed of bank financing and market financing.

The majority of long-term 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 (see below).

Market financing is arranged exclusively by Vallourec.

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 banking syndicate 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 and was repaid on 23 March 2012.

In April 2008, Vallourec contracted a loan of USD 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 2012, Vallourec used the USD 300 million loan (€227.4 million), which is recorded under non-current liabilities. This loan is due to be repaid on 17 April 2013.

In November 2008, Vallourec contracted a credit line of €100 million from Crédit Agricole for a six-year period (maturing at the end of October 2015). This loan was drawn down at the end of January 2009.

Lastly, in February 2011 Vallourec contracted a multi-currency revolving credit line in the amount of €1 billion, maturing in 2016. This line has already enabled the Group to close two revolving credit lines put in place in 2005 and 2008. It was used to refinance the credit line that reached maturity in March 2012 and will also be used to refinance the line due for repayment in April 2013. At 31 December 2012, this €1 billion credit was not used. In addition to the financing arranged by Vallourec, in July 2012 the Group negotiated five medium-term (three-year) bilateral lines of €100 million each on behalf of V & M Tubes. Four of these were used to refinance credits arranged in 2007, reaching maturity in 2013. V & M Tubes has a sixth bilateral credit line of the same amount, set up in 2007 and maturing in 2014. Each of these lines includes the same undertakings as those for the facilities put in place by Vallourec. At 31 December 2012, none of these lines had 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. The loan will become immediately repayable if the Group fails to make a repayment with regard to one of its other borrowings (cross default), or if a significant event occurs, affecting the Group's business or financial position and its ability to repay its borrowing.

In addition to this bank financing, the Vallourec Group aims to diversify its sources of financing by calling on the markets. For example, Vallourec issued a commercial paper program on 12 October 2011 to meet its short-term needs. The program is capped at €1 billion.

At 31 December 2012, Vallourec had €217.0 million outstanding with maturities of one to six months. This commercial paper program is rated A-2 by Standard & Poor's.

On 7 December 2001, Vallourec issued a primary bond for €650 million, maturing in February 2017, with a fixed annual coupon of 4.25%.

In August 2012, Vallourec also made two long-term private bond issues totalling €455 million. The amounts and terms of these two private bond issues are €400 million for seven years with an annual coupon of 3.25% and €55 million for 15 years with an annual coupon of 4.125%, respectively.

The market values of these fixed rate bond issues are €686.0 million, €409.7 million and €55.9 million.

These bond issues were intended to diversify and increase the amount and extend the maturity of the financial resources available to the Group.

These bond issues specifically include 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 favor of a person or a group of people acting jointly) entailing a reduction in Vallourec'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 Vallourec's position or fiscal situation.

At 31 December 2012, the Group respected its commitments and conditions concerning obtaining and maintaining all of the above financial resources and, at 31 December 2012, all the above-mentioned provisions were sufficient for the Group's liquidity requirements.

In Brazil

In December 2009, Vallourec & Sumitomo Tubos do Brasil, which is 56% owned by the Group, contracted a loan of BRL 448.8 million from BNDES (*Banco Nacional de Desenvolvimento Econômico e Social*). This fixed rate loan at 4.5% is denominated in Brazilian reals and has a term of eight years. It is amortizable from 15 February 2012. BRL 267.1 million of this loan was used as at 31 December 2012.

During the course of the 2010 financial year, this same company in Brazil concluded a finance lease agreement with a nominal value of BRL 570 million relating to equipment required for operation of the Jeceaba site's plant.

In the United States

The Group's US companies benefit from a series of bilateral bank lines that were renewed in 2012 for a total of USD 288 million. The amount used at 31 December 2012 totalled USD 78.6 million. The terms of these lines with maturities of less than one year contain clauses relating to the indebtedness of each of the companies concerned and a change-of-control clause.

The carrying amount of these borrowings is a reliable 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 lease debt	Bond issue	Other borrowings	Total
At 31/12/2010	**684,212**	**127,654**	**-**	**1,823**	**813,689**
New loan issues	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**
New loan issues	57,550	1,332	451,171	1,035	511,088
Repayments	-28,191	-7,833	-	-103	-36,127
Reclassifications	-230,427	-140	-	-1,194	-231,761
Impact of changes in exchange rates	-11,142	-10,959	-	-46	-22,147
Changes in scope	-	-	-	-	-
Other changes	-	-	-	-	-
AT 31/12/2012	**221,005**	**93,524**	**1,094,286**	**1,459**	**1,410,274**

FINANCIAL DEBTS – CURRENT LIABILITIES

In € thousand	Bank overdrafts	Accrued interest not yet due on bank overdrafts	Bank borrowings (< 1 year)	Accrued interest not yet due on bank borrowings	Bank loans and other financial debt (< 1 year)	Total
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**
Reclassifications	4,119	-	231,621	-	1,338	237,078
Impact of changes in exchange rates	-823	-	-5,931	3	-17,637	-24,388
Changes in scope	-	-	-	-	-	-
Other changes	-41,242	-41	-294,089	34,221	-67,959	-369,110
AT 31/12/2012	**18,479**	**4**	**307,026**	**38,291**	**385,952**	**749,752**

DEBT BY CURRENCY

	USD	EUR	BRL	Other	Total
At 31/12/2011 – in thousands of currency	514,640	1,375,243	712,618	n/a	n/a
At 31/12/2011 – thousands of euros	397,743	1,375,243	294,970	27,437	2,095,393
At 31/12/2012 – in thousands of currency	**621,477**	**1,461,239**	**590,374**	**n/a**	**n/a**
AT 31/12/2012 – THOUSANDS OF EUROS	**471,030**	**1,461,239**	**218,366**	**9,391**	**2,160,026**

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 31/12/2011	**256,879**	**29,872**	**124,370**	**24,050**	**754,050**	**1,189,221**
Finance leases	8,730	7,514	7,533	7,554	62,192	93,523
Other non-current financial debts	52,499	14,938	113,764	657,884	477,666	1,316,751
AT 31/12/2012	**61,229**	**22,452**	**121,297**	**665,438**	**539,858**	**1,410,274**

ANALYSIS BY MATURITY OF CURRENT FINANCIAL DEBTS

2012 *In € thousand*	< 3 months	> 3 months and < 1 year	Total
Bank borrowings	17,857	289,169	307,026
Other borrowings	265,660	112,056	377,716
Finance lease debt	188	8,048	8,236
Accrued interest on borrowings	32,018	6,273	38,291
Bank overdrafts (negative cash and cash equivalents)	18,483	-	18,483
AT 31/12/2012	**334,206**	**415,546**	**749,752**

DEBT BY INTEREST RATE

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

In € thousand	Rate < 3%	Rate 3 to 6%	Rate 6 to 10%	Rate > 10%	Total
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**
At 31/12/2012					
Fixed rate on date granted	234,217	1,306,911	53,418	-	1,594,546
Variable rate on date granted swapped to fixed rate	-	229,742	-	-	229,742
Fixed rate	234,217	1,536,653	53,418		1,824,288
Variable rate	150,432	81,865	97,668	5,773	335,738
TOTAL	**384,649**	**1,618,518**	**151,086**	**5,773**	**2,160,026**

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

Debt at a fixed rate of less than 3% on the date granted relates mainly to commercial paper.

NOTE 16 Provisions

Non-current liabilities *In € thousand*	Provisions for environmental risks
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**
Provisions allocated for the year	554
Provisions used	-45
Impact of changes in exchange rates	-1,347
Other	3,781
AT 31/12/2012	**12,872**

This provision relates to the cost of treating industrial land; provision has been made for the full amount of the likely costs.

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

Current liabilities *In € thousand*	Disputes and commercial commitments	Unfilled orders – losses on completion	Reorganization measures	Tax risks (income and other taxes, inspections etc.)	Other	Total
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**
Provisions allocated for the year	36,889	45,712	-	6,220	14,036	102,857
Provisions used	-18,547	-14,949	-681	-5,398	-6,862	-46,437
Other reversals	-8,561	-	-4	-4,213	-2,322	-15,100
Impact of changes in exchange rates	-2,005	-521	-250	-3,315	-2,228	-8,319
Changes in scope and others	-598	2,834	-	-4,764	2,529	1
AT 31/12/2012	**50,675**	**42,607**	**2,001**	**30,110**	**27,906**	**153,299**

PROVISIONS FOR DISPUTES, COMMERCIAL COMMITMENTS AND LOSSES ON UNFILLED ORDERS

Provisions are booked with regard to disputes if the Group has an obligation to a third party at the balance sheet date. They are determined on the basis of the best estimate of the expenditure likely to be required to settle the obligation.

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 in 2006 resulted in the Group obtaining reimbursement of BRL 137 million worth of IPI taxes (BRL 202 million, interest included, at the end of 2012). This was the final Court of Appeals judgment. Since the Group believed that a favorable outcome was more likely than not in this case, no provision was booked with regard to it.

OTHER CURRENT PROVISIONS

This heading comprises various provisions with regard to customer discounts, penalties for delays and other risks identified at the balance sheet date.

For 2012 and 2011, actual annual greenhouse gas emissions were lower than the quotas granted by the State, and therefore no provision has been recognized with regard to them.

NOTE 17 Other long-term liabilities

Other long-term liabilities
In € thousand

At 31/12/2010	**50,961**
Impact of changes in exchange rates	-7,025
Other changes	48,177
At 31/12/2011	**92,113**
Impact of changes in exchange rates	-18,448
Other changes	123,170
AT 31/12/2012	**196,835**

Other long-term liabilities are primarily composed of other non-operating liabilities of more than one year and a shareholders' loan granted to Vallourec & Sumitomo Tubos do Brasil, consolidated proportionally, totalling €157.4 million.

The change in this item in 2012 is due to the loan granted by Nippon Steel & Sumitomo Metal Corp to Vallourec & Sumitomo Tubos do Brasil and to the decrease in debt on capital expenditure acquisitions.

NOTE 18 Employee benefits

In € thousand	Germany	France	United Kingdom	Other	Total
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 recognized	-	-6,711	-	-21	-6,732
Actuarial gains and losses not recognized	-30,470	-1,424	-18,301	-9,004	-59,199
PROVISION	**53,390**	**32,541**	**-8,225**	**38,999**	**116,705**
At 31/12/2012					
Discounted value of the commitment	**241,076**	**53,243**	**106,454**	**77,195**	**477,968**
Retirement	215,612	48,973	106,454	71,054	442,093
Early retirement commitments	10,255	-	-	-	10,255
Long-service awards and medical benefits	15,209	4,271	-	6,142	25,622
Fair value of the plan assets	-134,544	-3,635	-105,019	-20,136	-263,334
Past service costs not recognized	-	-6,197	-	-19	-6,216
Actuarial gains and losses not recognized	-53,606	-7,992	-15,079	-16,391	-93,068
PROVISION	**52,926**	**35,420**	**-13,644**	**40,650**	**115,352**

The main actuarial assumptions used to value 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 31/12/2011				
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%
At 31/12/2012				
Discount rate	3.20%	3.20%	4.45%	From 4.05% to 10.56%
Long-term return on plan assets	4.00%	3.50%	5.80%	From 6.25% to 9.51%
Rate of salary increase	2.75%	2.87%	3.25%	From 3.5% to 10.00%

An exhaustive review of the defined benefit schemes was carried out in 2003 on the entire scope of the Group, and was updated in 2010.

For the financial years 2011 and 2012:

- the amount of payments into plan assets was €13.3 million in 2011 and €12.6 million in 2012;
- the return on plan investments was €6.7 million in 2011 and €20.8 million in 2012.

The commitments are valued 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 2012 represent a gain of €10 million for the Group (a loss of €4 million in 2011).

In 2013, the Group forecasts payment of €30.5 million with regard to defined benefit schemes, including €20.3 million to German schemes, €3.6 million to UK schemes, €2.6 million to French schemes and €1.9 million to Brazilian schemes.

The schemes that are fully or partially outsourced represent a total commitment of €378 million at 31 December 2012 on assets of €263 million.

In the eurozone, the discount rate was based on the iBoxx index (AA-rated corporate bonds with a maturity or more than 10 years, estimated on the date the commitments are valued). This index uses a basket of bonds composed of financial and non-financial stocks. In 2012, a substantial fall in discount rates resulted in an overall increase in commitments generating actuarial losses over the financial year.

The plan assets performed better than forecast, to the extent of €9 million.

FRANCE

Commitments in France correspond mainly to retirement gratuities, additional retirement schemes and long-service award schemes.

At 31 December 2012, a sensitivity test was performed: a 1% change in the discount rate would result in a change of about €5 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 valued on an actuarial basis and recognized in accordance with IAS 19 in the case of active employees. At 31 December 2012, the commitment was €10 million for an asset of €3.5 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 performed on the main German pension plans: a 1% change in the discount rate would result in a change of about €25.6 million in these commitments.

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 (€13.6 million at 31 December 2012 and €8.2 million at 31 December 2011), 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 performed on the plan: a 1% change in the discount rate would result in a change of about €20.3 million in these commitments.

Actuarial gains of €3.2 million were generated over the financial year. They are partly linked to gains on assets (€1 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 €1.2 million in 2012 (identical to 2011). €0.5 million was paid out this year (identical to 2011).

MEXICO/INDONESIA

The commitments in Mexico and Indonesia are not material for the Group.

UNITED STATES

Employees are entitled to retirement benefits and health-care insurance once they have retired.

It is assumed that the cost of medical services will decrease progressively from 2013 to 2019: from 8.4% to 5% for active employees and from 8.1% to 5.0% for retired employees.

No significant events occurred during 2012 that would have had a material impact on benefit obligations.

OTHER COUNTRIES

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

The expenses recognized during the year comprise additional rights acquired with regard to a further year's service, the change in existing rights at the beginning of the year due to discounting, past service costs recognized during the period, the expected return on plan assets, the impact of reductions in or liquidations of plans and the amortization of actuarial gains and losses. The portion relating to the discounting of rights is recognized within financial income or loss and the return on plan assets is recognized within financial income. An analysis of these expenses is provided in the following table:

EXPENSES FOR THE FINANCIAL YEAR

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 expenses 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 (-) recognized 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**

In € thousand	Germany	France	United Kingdom	Other	Total
At 31/12/2012					
Cost of services rendered	5,669	2,714	2,148	3,099	13,630
Interest expenses on the commitment	8,999	2,091	5,035	3,740	19,865
Expected return on plan assets	-4,696	-123	-5,623	-1,267	-11,709
Net actuarial losses (+)/gains (-) recognized during the financial year	2,826	563	522	4,979	8,890
Past service costs	-	541	-	3	544
Impact of any reduction or liquidation	-	-	-	-	-
NET CARRYING AMOUNT	**12,798**	**5,786**	**2,082**	**10,554**	**31,220**
ACTUAL RETURN ON PLAN ASSETS	**11,608**	**128**	**6,707**	**2,309**	**20,752**

The following table provides a breakdown of commitments not recognized (actuarial gains and losses and past service costs):

2011 *In € thousand*	Germany	France	United Kingdom	Other	Total
Commitments not recognized at 31/12/2010 – losses (+)/gains (-)	42,399	11,641	8,537	8,951	71,528
Commitments not recognized 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**
Amortization of commitments not recognized during the financial year – losses (-)/gains (+)	3,559	-23	-	493	4,029
Commitments not recognized generated during the year – experience adjustments and plan amendments	-5,713	165	-934	2,543	-3,939
Commitments not recognized generated during the year – changes in assumptions	14,083	3,364	-8,214	-2,846	6,387
Exchange and other gains or losses	-	-	-616	-264	-880
CHANGE	**11,929**	**3,506**	**-9,764**	**-74**	**5,597**

2012 *In € thousand*	Germany	France	United Kingdom	Other	Total
Commitments not recognized at 31/12/2011 – losses (+)/gains (-)	30,470	8,135	18,301	9,025	65,931
Commitments not recognized at 31/12/2012 – losses (+)/gains (-)	53,606	14,189	15,079	16,410	99,284
CHANGE	**23,136**	**6,054**	**-3,222**	**7,385**	**33,353**
Amortization of commitments not recognized during the financial year – losses (-)/gains (+)	2,826	1,104	522	4,982	9,434
Commitments not recognized generated during the year – experience adjustments and plan amendments	6,665	-206	2,422	723	9,604
Commitments not recognized generated during the year – changes in assumptions	-32,627	-6,952	732	-13,528	-52,375
Exchange and other gains or losses	-	-	-454	438	-16
CHANGE	**-23,136**	**-6,054**	**3,222**	**-7,385**	**-33,353**

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

Changes in associated assets *In € thousand*	Germany	France	United Kingdom	Other	Total
At 31/12/2010	**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**
Value of assets	122,921	3,507	91,921	16,220	234,569
Return on assets	11,608	128	6,707	2,309	20,752
Contributions	15	-	8,196	2,892	11,103
Benefits paid	-	-	-3,901	-722	-4,623
Acquisitions, disposals, liquidations	-	-	-	-	-
Impact of changes in exchange rates	-	-	2,096	-563	1,533
AT 31/12/2012	**134,544**	**3,635**	**105,019**	**20,136**	**263,334**

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 expenses 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	-	-	-	-	-
Movements: 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**

Changes in the commitment *In € thousand*	Germany	France	United Kingdom	Other	Total
At 31/12/2011	**206,781**	**44,183**	**101,997**	**64,244**	**417,205**
Cost of services rendered	5,669	2,714	2,148	3,099	13,630
Interest expenses on the commitment	8,999	2,091	5,035	3,740	19,865
Employee contributions	-	-	858	-	858
Actuarial losses (+)/gains (-) generated during the year	32,968	7,175	-2,070	13,751	51,824
Acquisitions/disposals	-	-	-	-	-
Payment of benefits	-12,237	-2,920	-3,901	-2,379	-21,437
Scheme amendments	-	-	-	-	-
Movements: exchange rate differences	-	-	2,388	-5,260	-2,872
Other	-1,104	-1			-1,105
AT 31/12/2012	**241,076**	**53,242**	**106,455**	**77,195**	**477,968**

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

Change in the provision *In € thousand*	Germany	France	United Kingdom	Other	Total
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**
Total charge for the period	12,798	5,786	2,082	10,554	31,220
Benefits or contributions to the funds	-12,252	-2,920	-7,338	-4,549	-27,059
Impact of changes in exchange rates	-	-	-163	-4,354	-4,517
Change in scope and other	-1,010	13	-	-	-997
PROVISION/(ASSET) AT 31/12/2012	**52,926**	**35,420**	**-13,644**	**40,650**	**115,352**

The following table provides a breakdown of the plan assets:

United Kingdom *In € thousand*	31/12/2012		31/12/2011	
	Proportion	Yield	Proportion	Yield
Equities (UK and overseas)	49.00%	8.00%	48.00%	8.00%
Bonds	32.00%	3.39%	29.00%	2.80%
Property	13.00%	2.80%	16.00%	4.70%
Other (cash & index-linked gilts)	6.00%	-	7.00%	0.50%

United States *In € thousand*	31/12/2012		31/12/2011	
	Proportion	Yield	Proportion	Yield
Equities	50.00%	7.00%	41.30%	10.00%
Bonds	39.00%	7.00%	47.40%	6.00%
Property	8.00%	7.00%	11.30%	10.00%
Other	3.00%	7.00%	-	-

France *In € thousand*	31/12/2012		31/12/2011	
	Proportion	Yield	Proportion	Yield
Equities	-	-	-	-
Bonds	-	-	-	-
Property	-	-	-	-
Other	100.00%	3.50%	100.00%	3.52%

In Germany, 80% of the funds are invested in bonds and the expected yield is 4%.

Amounts written off with regard to defined contribution plans *In € thousand*	Production staff	Directors, management and technical, clerical and supervisory staff	Total
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**
At 31/12/2012			
Employer's share of retirement contributions	7,981	9,524	17,505
Life insurance paid by the employer	8,709	4,517	13,226
Other retirement contributions	452	6	458
TOTAL	**17,142**	**14,047**	**31,189**

The application of the revised standard IAS 19, "Employee Benefits," will be mandatory for financial years beginning on or after 1 January 2013. The new measures introduced in the revised IAS 19 will be applied retrospectively by the Group. The main impacts on the Group's consolidated balance sheets at 1 January 2012 and 31 December 2012 have been estimated as follows:

- increases in provisions for retirement commitments of €66 million at 1 January 2012 and €100 million at 31 December 2012, with corresponding adjustments in equity;
- a detailed analysis of the revised standard's impact on the consolidated financial statements for the 2012 financial year is underway.

OTHER EMPLOYEE BENEFITS (OPTIONS AND PERFORMANCE SHARES)

Share subscription plans

CHARACTERISTICS OF THE PLANS

Vallourec's Management Board authorized the setting up of share subscription plans in 2007, 2008, 2009, 2010, 2011 and 2012 for the benefit of certain Vallourec Group directors and corporate officers.

The plans' characteristics are as follows (the 2007, 2008 and 2009 plan figures have been recalculated to take into account the 2:1 reverse stock split on 9 July 2010 and the subsequent multiplication of the number of shares by two):

	2007 plan	2008 plan	2009 plan	2010 plan	2011 plan	2012 plan
Date awarded	03/09/2007	01/09/2008	01/09/2009	01/09/2010	01/09/2011	31/08/2012
Maturity date	03/09/2011	01/09/2012	01/09/2013	01/09/2014	01/09/2015	01/04/2017
Expiry date	03/09/2014	01/09/2015	01/09/2019	01/09/2020	01/09/2021	31/08/2020
Number of beneficiaries at the outset	65	9	303	349	743	387
Strike price in euros	95.30	91.77	51.67	71.17	60.71	37.00
Number of options granted	294,600	143,600	578,800	512,400	684,521	530,400

CHANGE IN NUMBER OF UNEXPIRED OPTIONS

The following table shows the change in the number of unexpired options for all of these plans:

In number of options	2011	2012
Total at start of year	1,501,200	2,151,887
Options distributed	684,521	530,400
Options exercised	-	-
Options not exercised at expiry date	-	-
Options delisted [(a)]	-33,834	-27,200
TOTAL AT END OF YEAR	**2,151,887**	**2,655,087**
Of which options remaining to be exercised	277,600	421,200

(a) Beneficiaries who have left the Group.

The following table provides a breakdown by plan of the number of unexpired options:

	2011	2012
2007 plan	277,600	277,600
2008 plan	143,600	143,600
2009 plan	547,600	536,800
2010 plan	499,200	491,200
2011 plan	683,887	677,287
2012 plan	-	528,600

Valuation of plans [a] *In € thousand*	2007 plan	2008 plan	2009 plan	2010 plan	2011 plan	2012 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	-
Charge for financial year 2012	-	768	1,493	638	1,175	176
Accumulated charge as at 31 December 2012	**8,078**	**4,565**	**5,215**	**3,585**	**2,028**	**176**
Assumptions						
Share price on allocation date	€99.00	€95.42	€50.65	€70.34	€62.93	€36.87
Volatility [b]	35.00%	35.00%	43.00%	35.00%	35.00%	35.00%
Risk-free rate [c]	4.20%	4.40%	2.39%	2.60%	3.01%	1.92%
Exercise price	€95.30	€91.77	€51.67	€71.17	€60.71	€37.00
Dividend rate [d]	3.75%	3.50%	5.00%	3.00%	3.00%	3.00%
Fair value of the option	€29.10	€31.79	€17.11	€24.05	€18.50	€9.36

(a) The binomial model of projecting share prices has been used to determine the fair value of the options granted.

(b) Volatility corresponds to 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 authorized the setting up of performance share allocation plans for the benefit of certain Vallourec Group employees and corporate officers in 2008, 2009, 2010, 2011 and 2012.

The plans' characteristics are as follows (the 2008 and 2009 plan figures have been recalculated to take into account the 2:1 reverse stock split on 9 July 2010 and the subsequent multiplication of the number of shares by two):

	Date awarded	Acquisition period	Holding period	Number of beneficiaries at the outset	Theoretical number of shares allocated
Value 08 plan	16/12/2008	4.5 years	-	8,697	67,712
2009 plan [(a)]	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 [(b)]	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 [(c)]	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 [(d)]	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 [(e)]	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 [(f)]	30/03/2011	2 years (French residents and members of the Management Board) or 4 years (non-French residents)	2 years (French residents and members of the Management Board) or none (non-French residents)	1,157	214,271
Value 11 plan	15/12/2011	4.6 years	-	841	6,462
2-4-6 plan 2011 [(g)]	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
2012 plan [(h)]	30/03/2012	2 years (French residents and members of the Management Board) or 4 years (non-French residents)	2 years (French residents and members of the Management Board) or none (non-French residents)	1,591	292,350
2-4-6 plan 2012 [(i)]	30/03/2012	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	21,686	130,116
Value 12 plan	06/12/2012	4.6 years	-	737	4,395

(a) The final allocation, in terms of numbers of shares, will be made in 2011 for French residents and in 2013 for non-French residents, and will be based on the Vallourec Group's performance in terms of consolidated EBITDA 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 may range from 0 to 1.33. The theoretical 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 2011 for French residents and in 2013 for non-French residents, and will be based on the Vallourec Group's performance in terms of consolidated EBITDA 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 may range from 0 to 6.

(c) The final allocation, in terms of numbers of shares, will be made in 2012 for French residents and in 2014 for non-French residents, and will be based on the Vallourec Group's performance in terms of consolidated EBITDA 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 may 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.

(d) The final allocation, in terms of numbers of shares, will be made in 2012 for French residents and in 2014 for non-French residents, and will be based on the Vallourec Group's performance in terms of consolidated EBITDA in 2010, 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 may 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.

(e) The final allocation, in terms of numbers of shares, will be made in 2012 for French residents and in 2014 for non-French residents, and will be based on the Vallourec Group's performance in terms of consolidated EBITDA 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 may range from 0 to 6.

(f) The final allocation, in terms of numbers of shares, will be made in 2013 for French residents and members of the Management Board and in 2015 for non-French residents. The allocation for all beneficiaries (except members of the Management Board) 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 two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.25. For members of the Management Board, the final allocation (which will be made in 2013) will be based on the three following criteria assessed over 2011 and 2012: 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 Paris regulated market compared with a reference 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 may 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.

(g) The final allocation, in terms of numbers of shares, will be made in 2013 for French residents and in 2015 for non-French residents, and will be based on the Vallourec Group's performance in terms of consolidated EBITDA 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 may range from 0 to 6.

(h) The final award, in terms of numbers of shares, will be made in 2014 for French residents and members of the Management Board and in 2016 for non-French residents. The allocation for all beneficiaries (except members of the Executive Committee) will be based on the Vallourec Group's performance in terms of consolidated EBITDA compared to consolidated sales in 2012 and 2013. It will be made by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.25. For members of the Executive Committee, the final allocation will be based on the three following criteria assessed over 2012 and 2013: 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 Paris regulated market compared with a reference 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 may 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 2014 for French residents and in 2016 for non-French residents, and will be based on the Vallourec Group's performance in terms of consolidated EBITDA for the period from 1 January 2012 to 31 December 2013. The number of shares actually acquired by each beneficiary at the end of the acquisition period may range from 0 to 6.

CHANGE IN NUMBER OF SHARES

The characteristics of the plans are as follows (the 2008 and 2009 plan figures have been recalculated to take into account the 2:1 reverse stock split on 9 July 2010 and the subsequent multiplication of the number of shares by two):

	Theoretical number of shares allocated	Number of shares cancelled	Theoretical number of shares acquired or in the process of acquisition	Number of shares delivered
Value 08 plan	67,712	-8,928	58,784	-
2009 plan	26,668	-1,266	25,402	23,274
Value 09 plan	69,400	-3,602	65,798	-
1-2-3 plan	104,424	-6,810	97,614	26,844
03/2010 plan	190,540	-8,780	181,760	81,936
07/2010 plan	4,280	-	4,280	3,680
Value 10 plan	83,462	-3,139	80,323	-
2-4-6 plan	72,588	-3,720	68,868	27,534
2011 plan	214,271	-6,432	207,839	-
Value 11 plan	6,462	-	6,462	-
2011 2-4-6 plan	78,318	-1,968	76,350	-
2012 plan	292,350	-3,538	288,812	-
2012 2-4-6 plan	130,116	-2,184	127,932	-
Value 12 plan	4,395	-	4,395	-

Valuation of plans [a] *In € thousand*	Value 08 plan	2009 plan	Value 09 plan	1-2-3 plan	03/2010 plan	07/2010 plan
Charge for 2008 financial year	17	-	-	-	-	-
Charge for 2009 financial year	414	271	83	63	-	-
Charge for 2010 financial year	411	459	692	1,671	3,544	58
Charge for 2011 financial year	412	290	657	1,639	3,368	128
Charge for 2012 financial year	366	14	689	865	1,648	28
Accumulated charge as at 31 December 2012	**1,620**	**1,034**	**2,121**	**4,238**	**8,560**	**214**
Assumptions						
Share price on allocation date	€41.08	€46.15	€59.50	€60.50	€72.65	€74.71
Volatility [b]	40%	40%	40%	40%	40%	40%
Risk-free rate [c]	3.03%	2.37%	2.40%	2.24%	2.01%	1.67%
Dividend rate [d]	7.3%	5%	5%	5%	5%	3%
Fair value of the share	€28.12	€37.32 (French residents) or €35.71 (non-French residents)	€46.04	€52.07 (French residents) or €49.28 (non-French residents)	€62.22 (French residents) or €59.18 (non-French residents)	€66.94 (French residents) or €66.14 (non-French residents)

Valuation of plans [a] *In € thousand*	Value 10 plan	2-4-6 plan	2011 plan	Value 11 plan	2011 2-4-6 plan	2012 plan
Charge for 2010 financial year	136	127	-	-	-	-
Charge for 2011 financial year	1,088	1,654	3,673	-	-	-
Charge for 2012 financial year	1,134	1,530	2,560	51	1,095	2,994
Accumulated charge as at 31 December 2012	**2,358**	**3,311**	**6,233**	**51**	**1,095**	**2,994**
Assumptions						
Share price on allocation date	€72.77	€72.87	€78.98	€41.01	€45.53	€47.50
Volatility [b]	40%	40%	35%	35%	35%	35%
Risk-free rate [c]	1.93%	1.78%	2.69%	2.07%	2.13%	1.36%
Dividend rate [d]	3%	3%	3%	3%	3%	3%
Fair value of the share	€62.49	€65.44 (French residents) or €64.51 (non-French residents)	€70.81 (French residents) or €69.92 (non-French residents)	€36.31	€40.32 (French residents) or €40.31 (non-French residents)	€41.34 (French residents) or €42.05 (non-French residents)

Valuation of plans [a] *In € thousand*	2012 2-4-6 plan	Value 12 plan
Charge for 2012 financial year	1,267	7
Accumulated charge as at 31 December 2012	**1,267**	**7**
Assumptions		
Share price on allocation date	€47.50	€34.15
Volatility [b]	35%	30%
Risk-free rate [c]	1.36%	0.91%
Dividend rate [d]	3%	3%
Fair value of the share	€41.34 (French residents) or €42.05 (non-French residents)	€29.33

(a) The binomial model of projecting share prices has been used to determine 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 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 employee share ownership schemes' impact on the income statement.

NOTE 19 Other current liabilities

In € thousand	Social security liabilities	Tax liabilities	Liabilities associated with the acquisition of assets	Deferred income	Other current financial liabilities	Total
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**
Impact of changes in exchange rates	-7,296	-1,958	-5,221	-12	-506	-14,993
Other changes	18,722	3,569	-54,641	-5,623	-17,680	-55,653
AT 31/12/2012	**244,142**	**59,114**	**71,609**	**6,182**	**52,692**	**433,739**

The changes in "Other current liabilities" relate mainly to liabilities with regard to capital expenditure.

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	Related party receivables	Related party payables
At 31/12/2011				
HKM	2,865	548,389	789	39,028
Rothschild & Cie [(a)]	-	33	-	-
Proportionately consolidated companies	12,110	4,879	1,737	41,857
At 31/12/2012				
HKM	5,127	500,052	37	33,260
Rothschild & Cie [(a)]	-	-	-	-
Proportionately consolidated companies	21,779	40,448	4,505	53,476

(a) Rothschild & Cie is deemed to be a related party because the Chairman of the Rothschild group's merchant bank is a member of the Group's Supervisory Board.

Purchases mainly concern the acquisition of steel rounds from HKM, which are used as raw manufacturing materials by the European rolling mills of V & M Deutschland GmbH and V & M France.

The transactions carried out in 2011 with Rothschild & Cie relate to a financial consultancy agreement to assist the Management Board.

On 2 July 2012, Vallourec entered into a liquidity contract with Rothschild & Cie, which is implemented under the annual general authorization for the share buyback program approved by the Shareholders' Meeting of 31 May 2012 (13th resolution). To implement this contract, the following resources have been allocated to the liquidity account:

- €9,000,000;
- 490,500 shares.

Vallourec & Sumitomo Tubos do Brasil, which is proportionately consolidated, has total assets of €1.5599 billion. In 2012, the Group made no capital investments (€159.6 million in 2011) and the company generated sales of €35.2 million for the Group.

REMUNERATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The total remuneration paid to members of the Executive Committee at 31 December (15 people in 2012 as opposed to 11 in 2011) and retirement commitments at year-end were as follows:

In € thousand	2011	2012
Remuneration and benefits in kind	6,012	7,146
Share-based payments (a)	3,379	2,302
Retirement commitments	559	1,176
Supplementary pension commitments	4,648	6,887

(a) Information provided based on the 2012, 2011, 2010 and 2009 share subscription option plans, performance share plans and employee share-ownership schemes.

Share purchase and share subscription options (Note 18) granted to members of the Executive Committee as at 31 December:

	2011 (a)	2012 (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 members of the Executive Committee	-	-
Number of shares subscribed during the year (1 option = 1 share) by 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 members of the Executive Committee	-	-
Number of shares subscribed during the year (1 option = 1 share) by 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	124,800
Options exercised at 31 December (1 option = 1 share) by members of the Executive Committee	-	-
Number of shares subscribed during the year (1 option = 1 share) by members of the Executive Committee	-	-
Number of options that could be exercised at 31 December	116,000	124,800
Subscription options granted on 1 September 2010 and exercisable between 1 September 2014 and 1 September 2020	104,400	113,400
Options exercised at 31 December (1 option = 1 share) by members of the Executive Committee	-	-
Number of shares subscribed during the year (1 option = 1 share) by members of the Executive Committee	-	-
Number of options that could be exercised at 31 December	104,400	113,400
Subscription options granted on 1 September 2011 and exercisable between 1 September 2015 and 1 September 2021	103,616	113,216
Options exercised at 31 December (1 option = 1 share) by members of the Executive Committee	-	-
Number of shares subscribed during the year (1 option = 1 share) by members of the Executive Committee	-	-
Number of options that could be exercised at 31 December	103,616	113,216
Subscription options granted on 31 August 2012 and exercisable between 1 September 2016 and 1 September 2022	-	55,500
Options exercised at 31 December (1 option = 1 share) by members of the Executive Committee	-	-
Number of shares subscribed during the year (1 option = 1 share) by members of the Executive Committee	-	-
Number of options that could be exercised at 31 December	-	55,500

(a) The plan figures have been recalculated to take into account the 2:1 reverse stock split on 9 July 2010 and the subsequent 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:

	2011 [a]	2012 [a]
16 December 2008 Value 08 plan		
Theoretical number of shares allocated	42	42
17 December 2009 Value 09 plan		
Theoretical number of shares allocated	24	24
15 March 2010 plan		
Theoretical number of shares allocated	23,300	25,380
Number of shares acquired during the year	-	23,095
31 July 2010 plan		
Theoretical number of shares allocated	4,000	4,000
Number of shares acquired during the year		3,080
3 December 2010 Value 10 plan		
Theoretical number of shares allocated	24	42
3 December 2010 2-4-6 plan		
Theoretical number of shares allocated	36	54
30 March 2011 plan		
Theoretical number of shares allocated	28,837	31,777
15 December 2011 Value 11 plan		
Theoretical number of shares allocated	-	-
15 December 2011 2-4-6 plan		
Theoretical number of shares allocated	36	60
30 March 2012 plan		
Theoretical number of shares allocated	-	35,095
30 March 2012 2-4-6 plan		
Theoretical number of shares allocated	-	72
18 November 2012 Value 12 plan		
Theoretical number of shares allocated	-	-

(a) The plan figures have been recalculated to take into account the 2:1 reverse stock split on 9 July 2010 and the subsequent multiplication of the number of shares by two.

As regards retirement benefits granted to senior management, there is no specific scheme; they do benefit from the Vallourec Group's supplementary pension scheme (Article 39 type) introduced in 2005 (see Note 18).

As at 31 December 2012, 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 metric tons for 2012.

OFF-BALANCE-SHEET COMMITMENTS RECEIVED (EXCLUDING FINANCIAL INSTRUMENTS)

In € thousand	2011	2012
Firm non-current asset orders	146,808	74,690
Guarantees and commitments received	150,030	111,104
Other commitments received	63,754	58,409
TOTAL	**360,592**	**244,203**
OFF-BALANCE-SHEET COMMITMENTS GIVEN (EXCLUDING FINANCIAL INSTRUMENTS)	**750,459**	**700,052**

COMMITMENTS GIVEN BY MATURITY

In € thousand	2012	< 1 year	> 1 year	> 5 years
Balance sheet				
Long-term financial debts	2,160,026	749,752	870,416	539,858
Off-balance-sheet				
Market guarantees and letters of credit given	153,302	81,279	71,986	37
Other securities, mortgages and pledges given	118,047	9,648	10,070	98,329
Long-term leasing contract	79,870	9,670	25,828	44,372
Pensions and retirement gratuities (actuarial gains and losses)	99,281	-	66,352	32,929
Firm non-current asset orders given	74,690	74,690	-	-
Other commitments	174,862	59,674	30,995	84,193
TOTAL	**700,052**	**234,961**	**205,231**	**259,860**

In € thousand	2011	< 1 year	> 1 year	> 5 years
Balance sheet				
Long-term financial debts	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 securities, 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**

The firm non-current asset orders relate mainly to Vallourec & Sumitomo Tubos do Brasil and V & M Changzhou.

The joint-venture agreement signed by the two shareholders, Vallourec and Sumitomo, provides that each will benefit from an option to purchase the interest of the other shareholder in the event of a change in control of the latter.

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	2011	2012
France	196,541	176,581
Germany	736,162	501,740
Other EU countries	493,677	516,756
North America (NAFTA)	1,372,225	1,532,836
South America	1,138,215	1,169,647
Asia	1,006,505	978,729
Rest of the world	352,536	449,729
TOTAL	**5,295,861**	**5,326,018**

For the full year 2012, sales increased by 0.6% to €5.326 billion (a decrease of 0.3% on a comparable basis after adjusting 2011 sales to make them comparable with 2012 sales).

NOTE 23 Cost of sales

In € thousand	2011	2012
Direct cost of sales	-348,114	-379,355
Cost of raw materials consumed	-1,629,751	-1,574,813
Labor costs	-781,987	-867,476
Other manufacturing costs	-1,036,323	-1,152,618
Change in non-raw-material inventories	51,560	33,838
TOTAL	**-3,744,615**	**-3,940,424**
Depreciation and amortization	-200,538	-237,507
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**-3,945,153**	**-4,177,931**

NOTE 24 Administrative, selling and research costs

In € thousand	2011	2012
Research and Development costs	-77,819	-92,820
Selling and marketing costs	-104,022	-120,666
General and administrative costs	-394,658	-362,108
TOTAL	**-576,499**	**-575,594**
Depreciation and amortization	-55,969	-65,709
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**-632,468**	**-641,303**

PAYROLL COSTS AND AVERAGE NUMBER OF STAFF IN CONSOLIDATED COMPANIES

Payroll costs *In € thousand*	**2011**	**2012**
Wages and salaries	-734,390	-779,470
Employee profit-sharing	-43,431	-42,448
Charges with regard to share subscription and share purchase option plans and performance shares	-29,960	-30,303
3 September 2007 share subscription option plan	*-1,082*	*-*
1 September 2008 share subscription option plan	*-847*	*-768*
1 September 2009 share subscription option plan	*-1,321*	*-1,493*
1 September 2010 share subscription option plan	*-2,253*	*-638*
1 September 2011 share subscription option plan	*-853*	*-1,175*
30 August 2012 share subscription option plan	*-*	*-176*
3 May 2007 performance share allocation plan	*-225*	*-*
1 September 2008 performance share allocation plan	*-42*	*-*
December 2008 Value 08 employee share ownership scheme, including 16 December 2008 share allocation plan	*-412*	*-366*
31 July 2009 performance share allocation plan	*-320*	*-15*
12 December 2009 Value 09 employee share ownership scheme, including 12 December 2009 share allocation plan	*-657*	*-689*
17 December 2009 1-2-3 performance share allocation plan	*-1,639*	*-865*
15 March 2010 performance share allocation plan	*-3,368*	*-1,648*
31 July 2010 performance share allocation plan	*-128*	*-28*
17 November 2010 Value 10 employee share ownership scheme, including 17 November 2010 share allocation plan	*-1,088*	*-1,134*
3 December 2010 2-4-6 performance share allocation plan	*-1,654*	*-1,530*
30 March 2011 performance share allocation plan	*-3,673*	*-2,560*
18 November 2011 Value 11 employee share ownership scheme, including 18 November 2011 share allocation plan	*-10,398*	*-51*
18 November 2011 2-4-6 performance share allocation plan	*-*	*-1,095*
30 March 2012 performance share allocation plan	*-*	*-2,994*
30 March 2012 2-4-6 performance share allocation plan	*-*	*-1,267*
18 November 2012 Value 12 employee share ownership scheme, including 12 November 2012 share allocation plan	*-*	*-11,811*
Social contributions	-276,288	-294,867
TOTAL	**-1,084,069**	**-1,147,088**

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

2012

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: 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 of 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;
- classic company mutual fund: employees subscribe by means of a company mutual fund (FCPE) to Vallourec shares at a price discounted by 20%, and receive any dividends;
- share and stock appreciation rights (SAR) employees, by means of the acquisition of a share at a price discounted by 20%, benefit from the 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 the SAR (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 valued 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 plan, the discount on the share held by the employee and the value of the option protecting his/her initial investment are added.

Characteristics of Value plans	2011	2012
Date awarded	18 November 2011	12 November 2012
Maturity date of plans	1 July 2016	3 July 2017
Reference price	€44.88	€32,23
Subscription price	€35.90	€25.78
Discount	20%	20%
Total amount subscribed	84,365	85,617
Total number of shares subscribed	2,349,993	3,319,835
Total discount	21,338	21,413
Multiple per share		
• Leveraged company mutual fund plan	8.1	7.2
• Share + SAR plan	6.2	6.2
• Cash + SAR plan	7.2	7.2
Valuation assumptions		
Volatility [(a)]	35%	30%
Risk-free rate [(b)]	2.07%	0.91%
Annual dividend rate [(c)]	3.00%	3.00%
Consolidated IFRS 2 charge [(d)]	**10,398**	**11,804**

(a) Volatility corresponds to 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 €11.8 million in 2012 compared with €10.4 million in 2011.

The IFRS 2 charge resulting from the stock appreciation rights (SAR) is valued 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 determining the fair value of SAR	Value 08	Value 09	Value 10	Value 11	Value 12
Valuation date	31 December 2012	31 December 2012	31 December 2012	31 December 2012	31 December 2012
Maturity date	1 July 2013	1 July 2014	1 July 2015	1 July 2016	1 July 2017
Share price on valuation date	€39.49	€39.49	€39.49	€39.49	€39.49
Multiple per share					
• Share and SAR plan	5.1	4.7	4.8	6.2	6.06
• Cash and SAR plan	6.1	5.9	6.0	7.2	7.2
Valuation assumptions					
Volatility [(a)]	35%	35%	35%	38%	42%
Risk-free rate [(b)]	0.01%	0.09%	0.22%	0.40%	0.70%
Annual dividend rate [(c)]	3.00%	3.00%	3.00%	3.00%	3.00%
IFRS 2 charge for the financial year [(d)]	**-1,028**	**-217**	**-315**	**-878**	**2,473**

(a) Volatility corresponds to 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 SAR resulted in a charge included in the payroll costs of €0.1 million in 2011.

The income resulting from the warrants is valued again at each quarter-end by reference to the fair value of the derivative determined in accordance with IAS 39.

Parameters for determining the fair value of warrants	Value 08	Value 09	Value 10	Value 11	Value 12
Valuation date	31 December 2012	31 December 2012	31 December 2012	31 December 2012	31 December 2012
Maturity date	1 July 2013	1 July 2014	1 July 2015	1 July 2016	1 July 2017
Share price on valuation date	€39.49	€39.49	€39.49	€39.49	€39.49
Multiple per share					
• Share and SAR plan	5.1	4.7	4.8	6.2	6.06
• Cash and SAR plan	6.1	5.9	6.0	7.2	7.2
Valuation assumptions [(a)]					
Implied volatility	35%	34%	35%	38%	42%
Interest rate	0.33%	From 0.33% to 0.38%	From 0.33% to 0.47%	From 0.33% to 0.62%	From 0.52% to 1.29%
Annual dividend (in euros)	€1.30	€1.30	€1.30	€1.30	€1.30
IAS 39 income in the year	**-1,091**	**-195**	**-186**	**-819**	**2,477**

(a) Hypothesis of the bank organising the operation.

The expense corresponding with the warrants paid by the bank to the employer was added to the employees' investment and recognized in payroll costs at an amount of €0.1 million in 2012 since it is intended to cover the income associated with the SAR (see above).

Average number of staff in consolidated companies [a]	2011	2012
Management	2,980	3,115
Technical, clerical and supervisory staff	3,679	3,975
Production staff	14,347	14,914
TOTAL	**21,006**	**22,004**

(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 22,196 at 31 December 2012 compared with 21,822 at 31 December 2011.

NOTE 25 Other

In € thousand	2011	2012
Employee profit-sharing	-43,431	-42,448
Fees for concessions and patents	24,750	29,210
Other income and expenses	-16,347	-11,093
TOTAL	**-35,028**	**-24,331**

NOTE 26 Statutory Auditors' fees

	KPMG		Deloitte	
	Amount (excl tax)			
	2011	2012	2011	2012
Audit				
Statutory audit, certification, examination of Company and consolidated financial statements				
Issuer	242	214	253	206
%	22%	20%	15%	12%
Fully consolidated subsidiaries	760	785	1,322	1,412
%	68%	73%	82%	86%
Other services directly associated with the statutory audit				
Issuer	88	70	55	31
%	8%	6%	3%	2%
Fully consolidated subsidiaries	32	12	0	-
%	3%	1%	0%	0%
SUBTOTAL	**1,122**	**1,081**	**1,630**	**1,649**
%	100%	100%	100%	100%
Other services provided by audit networks 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	0
%	4%	0%	0%	0%
SUBTOTAL	**49**	**0**	**0**	**0**
%	4%	0%	0%	0%
TOTAL	**1,171**	**1,081**	**1,630**	**1,649**

NOTE 27 Depreciation and amortization

In € thousand	2011	2012
By function		
Depreciation of industrial assets	-200,538	-237,507
Depreciation and amortization of assets allocated to Research and Development	-4,425	-7,186
Depreciation and amortization – Sales and Marketing Departments	-32,063	-36,937
Depreciation and amortization – general and administrative costs	-19,481	-21,586
TOTAL	**-256,507**	**-303,216**
By type		
Charges to amortization of intangible assets (see Note 1)	-51,022	-56,875
Charges to depreciation of property, plant and equipment (see Note 2)	-206,216	-246,582
Reversals of depreciation and provisions on property, plant and equipment (see Note 2)	731	241
TOTAL	**-256,507**	**-303,216**

Charges to depreciation of new industrial sites in launch phase are calculated according to the production unit method for assets directly used in the production process and according to the straight-line depreciation method for other assets.

NOTE 28 Impairment of assets and goodwill, asset disposals and restructuring costs

In € thousand	2011	2012
Reorganization measures (net of expenses and provisions)	-2,300	-744
Gains and losses on disposals of non-current assets and other	11,899	-5,923
TOTAL	**9,599**	**-6,667**

In € thousand	2011	2012
Impairment of assets and goodwill	-321	-1,799
Impairment of inventories specific to discontinued operations	712	33
TOTAL	**391**	**-1,766**

NOTE 29 Net financial items

In € thousand	2011	2012
Financial income		
Income from investment securities	20,805	17,423
Income from disposals of investment securities	1,046	2,696
TOTAL	**21,851**	**20,119**
Interest expenses	**-78,114**	**-104,138**
Other financial income and expenses		
Income from securities	1,708	1,349
Income from loans and receivables	11,158	2,578
Exchange losses (-) and gains (+) and changes in premiums/discounts	10,909	-3,741
Charges to provisions, net of reversals	452	104
Other financial income and expenses	-8,472	52
TOTAL	**15,755**	**342**
Other discounting expenses		
Financial expenses: discounting of retirement commitments	-8,367	-14,100
Financial income: discounting of certain assets and liabilities	355	167
TOTAL	**-8,012**	**-13,933**
NET FINANCIAL ITEMS	**-48,520**	**-97,610**

NOTE 30 Reconciliation of theoretical and actual tax expense

Breakdown of tax expense *In € thousand*	2011	2012
Current tax charge	-211,373	-195,443
Deferred taxes (see Note 5)	19,749	83,049
NET CHARGE	**-191,624**	**-112,394**
Net profit or loss of consolidated companies	453,058	264,016
Tax charge	-191,624	-112,394
INCOME FROM CONSOLIDATED COMPANIES BEFORE TAX	**644,682**	**376,410**
Statutory tax rate of consolidating company (see Note 5)	34.43%	34.43%
Theoretical tax charge	-221,963	-129,598
Impact of main losses carried forward	-62	-2,265
Impact of permanent differences	26,947	27,600
Other effects	-42	-3,905
Impact of differences in tax rates	3,496	-4,226
NET CHARGE	**-191,624**	**-112,394**
ACTUAL TAX RATE	**30%**	**30%**

The permanent differences consist mainly of the net profit attributable to non-controlling interests, withholding taxes and the change in the share of costs and expenses with regard to dividend distributions, including those involving future dividends, and the impact of free share allocations, including those involving future dividends, and the impact of free share allocations, performance shares and «Value» plans.

The differences in tax rates mainly reflect the diverse tax rates applied in each country (France 34.4%, Germany 31.6%, the United States 36.5%, Brazil 34.0% and China 25.0%).

NOTE 31 Segment information

OPERATING SEGMENTS

The following tables provide information on the revenues and results for each operating segment, as well as certain information on the assets, liabilities and investments for the financial years 2011 and 2012.

INFORMATION ON PROFIT OR LOSS, ASSETS AND LIABILITIES BY OPERATING SEGMENT

2012 *In € thousand*	Seamless tubes	Specialty products	Holdings & miscellaneous [a]	Inter-sector operations	Total
Income statement					
Sales to external customers	5,099,426	225,499	1,093	-	5,326,018
EBITDA	813,349	14,317	-41,485	-512	785,669
Depreciation and amortization	-288,204	-14,621	-826	435	-303,216
Impairment of assets and goodwill	-1,808	42	-	-	-1,766
Asset disposals and restructuring costs	-7,442	-67	842	-	-6,667
OPERATING PROFIT/(LOSS)	**515,895**	**-329**	**-41,469**	**-77**	**474,020**
Unallocated income					20,461
Unallocated expenses					-118,071
Profit before tax					376,410
Income tax					-112,394
Net profit of equity affiliates					6,503
Net income from the consolidated entity					270,519
Balance sheet					
Non-current assets	5,660,869	190,204	4,410,623	-4,258,355	6,003,341
Current assets	2,512,044	117,520	167,056	-136,031	2,660,589
Cash and cash equivalents	387,539	39,285	916,513	-797,177	546,160
TOTAL ASSETS	**8,560,452**	**347,009**	**5,494,192**	**-5,191,563**	**9,210,090**
Equity	4,456,518	140,271	3,616,018	-3,417,264	4,795,543
Non-controlling interests	408,938	8,105		-24	417,019
Long-term liabilities	1,540,474	17,352	1,203,664	-836,411	1,925,079
Current liabilities	2,154,522	181,281	674,510	-937,864	2,072,449
TOTAL LIABILITIES	**8,560,452**	**347,009**	**5,494,192**	**-5,191,563**	**9,210,090**
Cash flows					
Property, plant and equipment, intangible and biological assets	732,582	37,321	1,834	-	771,737
Other information					
Average number of employees	20,675	1,136	193	-	22,004
Payroll costs	-1,042,550	-46,730	-64,711	6,903	-1,147,088

(a) Vallourec, V & M Tubes.

2011 *In € thousand*	Seamless tubes	Specialty products	Holdings & miscellaneous [(a)]	Inter-sector operations	Total
Income statement					
Sales to external customers	4,906,629	320,467	68,765	-	5,295,861
EBITDA	967,109	22,570	-43,817	-6,143	939,719
Depreciation and amortization	-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/(LOSS)	**738,645**	**6,024**	**-46,190**	**-5,277**	**693,202**
Unallocated income					37,606
Unallocated expenses					-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	4,428,399	170,635	3,350,064	-3,118,812	4,830,286
Non-controlling interests	371,266	8,809	-	-53	380,022
Long-term 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	**8,249,664**	**436,222**	**5,149,311**	**-4,640,388**	**9,194,809**
Cash flows					
Property, plant and 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 subsidiaries Vallourec Tubes Canada.

GEOGRAPHICAL ZONES

The following tables provide information by geographic zone on sales (by geographic location of the Group's customers) and capital expenditure as well as certain information on assets (by zones in which the companies operate).

2012 *In € thousand*	Europe	North America	South America	Asia	Rest of the world	Total
Sales						
Sales to external customers	1,195,077	1,532,836	1,169,647	978,729	449,729	5,326,018
Balance sheet						
Property, plant and equipment, intangible assets, biological assets and goodwill (net)	1,061,002	1,582,131	1,977,911	627,312	2,739	5,251,095
Cash flows						
Property, plant and equipment, intangible assets and biological assets	122,079	359,790	190,670	96,724	2,474	771,737
Other information						
Average number of employees	9,856	2,634	7,477	1,972	65	22,004
Payroll costs	-645,738	-196,096	-269,317	-34,397	-1,540	-1,147,088

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 and 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 and 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

NOTE 32 Events subsequent to the balance sheet date

None.

6.2 STATUTORY FINANCIAL STATEMENTS OF VALLOUREC

6.2.1 COMPANY BALANCE SHEET

Assets

In € thousand	31/12/2011	31/12/2012
NON-CURRENT ASSETS		
Intangible assets	79	414
Property, plant and equipment	93	93
Equity interests	2,056,410	2,056,410
Own shares	12,089	940
Long-term investments	65,304	59,400
Receivables, loans and other financial investments	1,000,000	1,000,000
TOTAL I	**3,133,975**	**3,117,257**
CURRENT ASSETS		
Receivables	479	1,310
Other receivables	1,014,489	1,389,283
Investment securities	43,287	46,165
Cash and cash equivalents	552	5
Prepayments	658	163
Deferred expenses	6,899	10,685
Translation differences – premium/discount	26,904	22,920
TOTAL II	**1,093,258**	**1,470,531**
TOTAL ASSETS (I+II)	**4,227,233**	**4,587,788**

Liabilities

In € thousand	31/12/2011	31/12/2012
EQUITY		
Capital	242,869	249,893
Additional paid-in capital	736,258	820,827
Revaluation differential	634	634
Reserves	82,338	83,037
Retained earnings carried forward	1,018,461	1,319,897
Interim dividend		
Earnings for the year	458,554	294,316
TOTAL I	**2,539,114**	**2,768,604**
Provisions for risks and expenses	15,857	24,344
Financial debts	1,597,940	1,706,670
Payables	6,723	4,185
Other liabilities	66,153	83,985
Translation differences – premium/discount	1,446	0
TOTAL II	**1,688,119**	**1,819,184**
TOTAL LIABILITIES (I+II)	**4,227,233**	**4,587,788**

6.2.2 COMPANY INCOME STATEMENT

In € thousand	2011	2012
Sales	6,334	10,508
Provision reversals and charges transferred	3,953	8,392
Other revenues	920	993
External services	-19,166	-10,112
Taxes, duties and similar payments	-558	-578
Payroll costs	-4,557	-3,163
Other operating expenses	-814	-761
Amortization, depreciation and provisions	-10,609	-16,176
OPERATING PROFIT/(LOSS)	**-24,497**	**-10,897**
Financial income	**532,525**	**398,254**
Income from equity interests	509,777	372,301
Other long-term securities and receivables	802	457
Other interest and similar income	7,535	1,343
Provision reversals and financial charges transferred	6,334	21,718
Exchange gains	7,894	2,335
Net income on disposal of investment securities	183	100
Financial charges	**-54,550**	**-89,626**
Financial depreciation and provisions	-16,695	-24,152
Interest and similar charges	-35,402	-65,410
Exchange losses	-2,453	-64
Net expense on disposal of investment securities		
NET FINANCIAL INCOME	**477,975**	**308,628**
INCOME BEFORE EXCEPTIONAL ITEMS AND TAX	**453,478**	**297,731**
Exceptional income	4,850	2,651
Exceptional charges	-7,796	-10,733
EXCEPTIONAL ITEMS	**-2,946**	**-8,082**
Income tax	8,022	4,667
NET PROFIT	**458,554**	**294,316**

6.2.3 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of euros (€ thousand) unless stated otherwise

Notes to the balance sheet (before allocation) for the year ended 31 December 2012, which totals €4,587.8 million, and to the income statement, which shows a net profit of €294.3 million.

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

Vallourec prepares consolidated financial statements.

A – Significant events, valuation methods and comparability of financial statements

On 27 June 2012, the option for payment of the dividend in shares, which was approved by the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, resulted in the creation of 192,112 new shares issued at the price of €31.10, giving a capital increase of €6 million, including additional paid-in capital net of expenses.

On 6 December 2012, under the terms of the "Value 12" employee share ownership scheme, 3,319,835 new shares were subscribed at a price of €25.79 resulting in a capital increase of €85.6 million, including additional paid-in capital net of expenses.

The presentation and valuation 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.

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 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.

OWN SHARES

Own shares included in intangible assets on the balance sheet comprise:

- shares allocated to the Group's various share ownership plans for certain employees, managers and corporate officers;
- 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 recognized as a liability on the balance sheet – please refer to the paragraph below on provisions for risks and expenses.

As regards 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).

Own shares are presented in the balance sheet as follows:

- own shares acquired before 2008 and available to be allocated to employees are classified as intangible assets;
- own shares acquired since 2008 and available to be allocated to employees are classified as investment securities;
- own shares acquired for the liquidity contract are classified as intangible assets.

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.

INVESTMENT 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 are classified as investment securities.

TRANSLATION OF TRANSACTIONS IN FOREIGN CURRENCIES 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 currencies appear in the balance sheet as equivalents at the end of the financial year.

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

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

PROVISIONS FOR RISKS AND EXPENSES

Retirement pensions

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

Retirement gratuities

Commitments in respect of gratuities paid to retiring employees are measured based on an actuarial calculation and provisioned 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 arrangements of the Company's retirement plans and collective agreements.

The following assumptions have been used:

- discount rate of 3.2% (including inflation);
- inflation rate of 2%;
- staff turnover rate variable according to age and category;
- INSEE 2006/2008 mortality table.

Commitments in respect of retirement gratuities and supplementary pension agreements are measured by an independent actuary based on an actuarial calculation (projected credit method) and provisioned as a liability in the balance sheet. At 31 December 2012, 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 amortized using the corridor rule over the average residual period of service of the 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 recognized by the Company. This provision is measured on the basis of the product of:

- 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;
- the number of shares that are expected to be allocated given the provisions of the allocation scheme (satisfaction of conditions regarding continuing employment and performance) as assessed on the balance sheet date.

A provision for risks and expenses has been recognized at each balance sheet date, 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 estimated probable cost 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

Non-current assets *In € thousand*	31/12/2011	Acquisition Charge	Disposals Reversals	31/12/2012	Of which revaluation reserve	Of which affiliated companies
INTANGIBLE ASSETS	**79**	**335**		**414**		
Trademarks	79	335		414		
PROPERTY, PLANT AND EQUIPMENT	**93**			**93**	**23**	
Land	93			93	23	
Buildings	113			113		
Depreciation of buildings	*-113*			*-113*		
EQUITY INTERESTS	**2,056,410**			**2,056,410**		**2,056,410**
Equity interests	2,056,410			2,056,410		2,056,410
Provisions on equity interests						
LONG-TERM INVESTMENTS & OWN SHARES	**77,393**	**-10,437**	**39,902**	**60,340**		
Long-term investments & own shares	94,036	12,110	23,259	82,887		
Provisions Other Long-Term Investments	*-16,643*	*-22,547*	*16,643*	*-22,547*		
RECEIVABLES, LOANS, OTHER INVESTMENTS	**1,000,000**			**1,000,000**		**1,000,000**
Other financial investments	1,000,000			1,000,000		1,000,000
TOTALS	**3,133,975**	**-10,102**	**39,902**	**3,117,257**	**23**	**3,056,410**

Long-term investments & own shares

Sumitomo Metal Industrie shares, listed on the Tokyo stock exchange, were acquired in 2009 at an average price per share of 230.8 yen (for a total amount of €81.9 million). They were converted to Nippon Steel Sumitomo Metal Corporation shares following the merger of the two groups based on an exchange ratio of one Sumitomo Metal Industries share to 0.735 of a Nippon Steel Sumitomo Metal Corporation share.

As Nippon Steel & Sumitomo Metal Corp. and Vallourec are partners in VSB and the development of the joint-venture VAM, this partnership and the interest in Nippon Steel & Sumitomo Metal Corp. linked to it are strategic for Vallourec.

The value of these shares at 31 December 2012, based on their average price in December 2012 was €59.4 million (compared to €65.3 million at the end of 2011). The loss of value was recognized as an impairment provision in financial income in the amount of €22.5 million in 2012 (compared to €16.6 million at the end of 2011).

The liquidity contract concluded with Crédit Agricole Cheuvreux was terminated with effect from 29 June 2012.

With effect from 2 July 2012, Vallourec assigned to Rothschild & Cie Banque the implementation of a liquidity contract in accordance with the Ethics Charter of the *Association Française des Marchés Financiers*, approved by a decision of the Autorité des Marchés Financiers on 21 March 2011. It is implemented under the annual general share buyback program authorization approved by the Shareholders' Meeting of 31 May 2012 (13th resolution).

Own shares held in connection with the liquidity contract were sold on 31 December 2012 (€11.1 million at 31 December 2011).

Shares acquired before 2008 and available to be allocated to mployees are classified as non-current assets and amounted to €0.9 million at 31 December 2012. In 2012, Vallourec definitively allocated 4,484 shares (€23,000) under the performance share plan of 31 July 2010 at the end of a two-year acquisition period.

Receivables, loans and other financial investments

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 and maturing on 31 December 2014.

2. INVESTMENT SECURITIES

In € thousand	31/12/2011	31/12/2012	Measurement 31/12/2011	Loss provisioned	Unrealized gain
Mutual and investment funds	8,366	2,999	3,002		3
TOTAL	8,366	**2,999**	**3,002**	**0**	**3**

Vallourec joins in euro and US dollar cash management centralization with its main European companies and centralized currency hedging operations in respect of its US dollar sales within Vallourec & Mannesmann Tubes (V & M Tubes).

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

In € thousand	31/12/2011	Acquisition charge	Disposal Reversal	31/12/2012
Own shares	34,921	15,907	7,662	43,166
Impaiement provision				
TOTAL	**34,921**	**15,907**	**7,662**	**43,166**

In 2012, Vallourec acquired 400,000 of its own shares for a total value of €15.9 million.

These own shares are classified as investment securities: they were allocated to the Group's employees, managers and corporate officers under the terms of the performance share allocation and bonus stock option plans for Vallourec employees.

In 2012, Vallourec definitively allocated:

- 81,936 shares (€5.86 million) under the performance share plan of 15 March 2010 at the end of a two-year acquisition period;
- 27,534 shares (€1.80 million) under the 2-4-6 share plan of 3 December 2010.

As of 31 December 2012, Vallourec held 1,042,277 own shares (of which 178,591 classified under long-term investments & own shares).

3. STATEMENT OF RECEIVABLES AND PAYABLES

Receivables *In € thousand*	Gross value	Of which accrued receivables	Of which affiliated companies	Gross value -1 year	Gross value +1 year
RECEIVABLES AND LONG-TERM LOANS	**1,000,000**		**1,000,000**		**1,000,000**
RECEIVABLES	**1,310**			**1,310**	
Advances and deposits paid to suppliers	9			9	
Accounts receivable	996			996	
Other trade receivables	305			305	
OTHER RECEIVABLES	**1,389,283**		**1,365,554**	**1,389,283**	
Receivables relating to fiscal integration	5,261		5,261	5,261	
Income tax	23,729			23,729	
Intra-Group cash advance	1,352,124		1,352,124	1,352,124	
Sundry receivables	8,169		8,169	8,169	
TOTALS	**2,390,593**		**2,365,554**	**1,390,593**	**1,000,000**

Loans granted during the year: None.

Loans repaid during the year: None.

Receivables represented by commercial paper: None.

Debts *In € thousand*	Gross value	Of which accrued payables	Of which affiliated companies	-1 year	+1 year	+5 years
FINANCIAL DEBTS	**1,706,670**	**38,267**	**19,004**	**501,652**	**100,018**	**1,105,000**
Bond issue	1,105,000					1,105,000
Loans and debt from banks	365,644	38,267		265,644	100,000	
Commercial paper	217,000			217,000		
Sundry borrowings and financial debts	22			4	18	
Intra-Group cash advance	19,004		19,004	19,004		
PAYABLES	**4,185**	**1,229**	**1,259**	**4,185**		
Accounts payable	2,727	385	1,259	2,727		
Tax and social security liabilities	1,458	844		1,458		
OTHER LIABILITIES	**83,985**	**308**	**33,758**	**83,985**		
Tax liabilities (corporation tax)						
Sundry liabilities	83,985	308	33,758	83,985		
TOTALS	**1,794,840**	**39,804**	**54,021**	**589,822**	**100,018**	**1,105,000**

Financial debts

BOND ISSUES

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%.

In August 2012, Vallourec also issued two long-term private placements for a total of €455 million. The respective amounts and terms of these two private placements are €400 million for seven years with an annual coupon of 3.25% and €55 million for fifteen years with an annual coupon of 4.125%.

The market values of these three fixed-rate bond issues are respectively €686.0 million, €409.7 million and €55.9 million.

These bond issues have diversified and increased the amount and maturity of the Group's financial resources.

These bond issues specifically include 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 favor 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 financial position or tax situation.

BANK LOANS & DEBTS

In March 2005, a €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 and repaid on 23 March 2012.

In April 2008, Vallourec contracted a loan of USD 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 2012, Vallourec used the USD 300 million loan (€227.4 million), which is recorded under non-current liabilities. This loan is due to be repaid on 17 April 2013.

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, was used to refinance the credit line which matured in March 2012 and will be used to refinance the line maturing in April 2013.

At 31 December 2012, this line had not been drawn down.

COMMERCIAL PAPER

In addition to this bank finance, Vallourec aims to diversify its source of finance by calling on the markets. For example, Vallourec issued a commercial paper program on 12 October 2011 to meet its short-term needs. The program is capped at €1 billion.

At 31 December 2012, Vallourec had €217.0 million outstanding with a maturity of one to three months. This commercial paper program is rated A-2 by Standard & Poor's.

4. TRANSLATION DIFFERENCES ON DEBTS AND RECEIVABLES DENOMINATED IN FOREIGN CURRENCIES

The translation of the USD 300 million debt taken out in May 2008 (paragraph 3.3) generated an unrealized translation loss of €22.4 million. This debt was hedged by exchange rate hedging instruments in the amount of USD 300 million.

No provision for foreign exchange losses was recognized in respect of the unrealized translation loss as at 31 December 2012.

5. BOND ISSUE COSTS

In accordance with the preferred method recommended by the French national accounting body, the *Conseil National de la Comptabilité,* bond issue costs are spread in a straight line over the life of the bonds concerned.

In € thousand	31/12/2011	Increase	Decrease	31/12/2012
Bond issue costs	6,899	5,401	1,615	10,685

6. EQUITY

Changes in equity are shown below:

In € thousand	Number of shares	Capital	Earnings for the year	Additional paid-in capital and reserves	Equity
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 differential					
Dividend paid				-152,764	-152,764
Interim dividend					
Profit and loss for 2011			458,554		458,554
Change	*3,490,327*	*6,981*	*-56,932*	*525,799*	*475,848*
As at 31/12/2011	**121,434,409**	**242,869**	**458,554**	**1,837,691**	**2,539,114**
Allocation of profit and loss for 2011			-458,554	458,554	
Capital increase	*3,511,947*	*7,024*		*84,570*	*91,594*
Revaluation differential					
Dividend paid				-156,420	-156,420
Interim dividend					
Profit and loss for 2012			294,316		294,316
Change	*3,511,947*	*7,024*	*-164,238*	*386,704*	*229,489*
AS AT 31/12/2012	**124,946,356**	**249,893**	**294,316**	**2,224,395**	**2,768,604**

The capital of Vallourec is composed of 124,946,356 ordinary shares with a par value of €2 fully paid up at 31 December 2012, compared with 121,434,409 at 31 December 2011 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 €31.10, led to the issue of 192,112 new shares, i.e. a capital increase of €6 million, including additional paid-in capital net of expenses.

In accordance with the Group's employee share ownership policy, in 2012 Vallourec offered to its employees in nine 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 10 October and 6 November 2012, i.e. €25.79.

The capital increase reserved for employees and the bank guaranteeing the leverage effect of the share ownership plan resulted in the issue of 3,319,835 new shares, giving a capital increase of €85.6 million, including additional paid-in capital net of expenses.

7. EMPLOYEE SHARE OWNERSHIP

Share subscription plans

CHARACTERISTICS OF THE PLANS

Vallourec's Management Board authorized the setting up of share subscription plans in 2007, 2008, 2009, 2010, 2011 and 2012 for the benefit of certain staff members and corporate officers of Vallourec.

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	2012 plan
Date awarded	03/09/2007	01/09/2008	01/09/2009	01/09/2010	01/09/2011	31/08/2012
Maturity date	03/09/2011	01/09/2012	01/09/2013	01/09/2014	01/09/2015	01/04/2017
Expiry date	03/09/2014	01/09/2015	01/09/2019	01/09/2020	01/09/2021	31/08/2020
Number of beneficiaries at the outset	65	9	303	349	743	387
Strike price in euros	95.30	91.77	51.67	71.17	60.71	37.00
Number of options granted	294,600	143,600	578,800	512,400	684,521	530,400

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	2011	2012
Total at start of year	1,501,200	2,151,887
Options distributed	684,521	530,400
Options exercised	-	
Options not exercised at expiry date	-	
Options cancelled [(a)]	-33,834	-27,200
TOTAL AT END OF YEAR	**2,151,887**	**2,655,087**
Of which options remaining to be exercised	277,600	421,200

(a) Beneficiaries who have left the Group.

The following table provides a breakdown by plan of the number of unexpired options:

	2011	2012
2007 plan	277,600	277,600
2008 plan	143,600	143,600
2009 plan	547,600	536,800
2010 plan	499,200	491,200
2011 plan	683,887	677,287
2012 plan	-	528,600

Performance share allocation plans

CHARACTERISTICS OF THE PLANS

Vallourec's Management Board authorized the setting up of performance share allocation plans for the benefit of certain employees and corporate officers of Vallourec in 2008, 2009, 2010, 2011 and 2012.

The characteristics of these plans are as follows (the figures for the 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 the outset	Theoretical number of shares allocated
"Value 08" plan	16/12/2008	4.5 years	-	8,697	67,712
2009 plan [a]	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 [b]	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 [c]	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 [d]	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 [e]	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 [f]	30/03/2011	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	1,157	214,271
"Value 11" plan	15/12/2011	4.6 years	-	841	6,462
2-4-6 plan 2011 [g]	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
2012 plan [h]	30/03/2012	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	1,591	292,350
2-4-6 plan 2012 [i]	30/03/2012	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	21,686	130,116
"Value 12" plan	06/12/2012	4.6 years	-	737	4,395

(a) Allocation shall become final, in number of shares, in 2011 for French residents and in 2013 for non-French residents, based on Vallourec's performance in terms of consolidated EBITDA 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 may range from 0 to 1.33. The theoretical number of shares awarded as shown in the above table corresponds to applying a performance factor of 1.

(b) Allocation shall become final, in number of shares, in 2011 for French residents and in 2013 for non-French residents, based on Vallourec's performance in terms of consolidated EBITDA 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 may range from 0 to 6.

(c) Allocation shall become final, in number of shares, in 2012 for French residents and in 2014 for non-French residents, based on Vallourec's performance in terms of consolidated EBITDA 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 may range from 0 to 1. The theoretical number of shares awarded as shown in the above table corresponds to applying a performance factor of 1.

(d) Allocation shall become final, in number of shares, in 2012 for French residents and in 2014 for non-French residents, based on Vallourec's performance in terms of consolidated EBITDA in 2010, 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 may range from 0 to 1. The theoretical number of shares awarded as shown in the above table corresponds to applying a performance factor of 1.

(e) Allocation shall become final, in number of shares, in 2012 for French residents and in 2014 for non-French residents, based on Vallourec's performance in terms of consolidated EBITDA 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 may range from 0 to 6.

(f) Allocation shall become final, in number of shares, 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 a function of Vallourec'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 may range from 0 to 1.25. For members of the Management Board, allocation shall become final in 2013, and will be a function of the following three criteria assessed for years 2011 and 2012: 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. It will be made by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may 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.

(g) Allocation shall become final, in number of shares, will be made in 2013 for French residents and in 2015 for non-French residents, based on Vallourec's performance in terms of consolidated EBITDA 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 may range from 0 to 6.

(h) Allocation shall become final, in number of shares, in 2014 for French residents and members of the Management Board and in 2016 for non-French residents. For all beneficiaries (except members of the Executive Committee), it will be a function of Vallourec's performance in terms of consolidated EBITDA compared to consolidated sales in 2012 and 2013. It will be made by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.25. For members of the Executive Committee, allocation shall become final in 2014, and will be a function of the following three criteria assessed for the years 2012 and 2013: 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. It will be made by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may 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) Allocation shall become final, in number of shares, will be made in 2014 for French residents and in 2016 for non-French residents, based on Vallourec's performance in terms of consolidated EBITDA for the period from 1 January 2012 to 31 December 2013. The number of shares actually acquired by each beneficiary at the end of the acquisition period may range from 0 to 6.

CHANGE IN NUMBER OF SHARES

The characteristics of these plans are as follows (the figures for the 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
"Value 08" plan	67,712	-8,928	58,784	-
2009 plan	26,668	-1,266	25,402	23,274
"Value 09" plan	69,400	-3,602	65,798	-
1-2-3 plan	104,424	-6,810	97,614	26,844
03/2010 plan	190,540	-8,780	181,760	81,936
07/2010 plan	4,280	-	4,280	3,680
"Value 10" plan	83,462	-3,139	80,323	-
2-4-6 plan	72,588	-3,720	68,868	27,534
2011 plan	214,271	-6,432	207,839	-
"Value 11" plan	6,462	-	6,462	-
2-4-6 plan 2011	78,318	-1,968	76,350	-
2012 plan	292,350	-3,538	288,812	-
2-4-6 plan 2012	130,116	-2,184	127,932	-
"Value 12" plan	4,395	-	4,395	-

8. PROVISIONS FOR RISKS AND EXPENSES

The change in provisions for risks and expenses is shown below:

	31/12/2011	Charges	Reversals used	Reversals of provisions no longer needed	31/12/2012
Retirement provisions	120	62			182
Provisions for additional retirement commitments	1,197	531			1,728
Provisions for performance shares expenses	14,540	15,583	-7,689	0	22,434
TOTALS	**15,857**	**16,176**	**-7,689**	**0**	**24,344**
• Of which, recognized in operating profit		16,176	-7,689	0	
• Of which, recognized in exceptional income				0	

Disputes are provisioned to the extent of the estimated probable cost at the balance sheet date of each year, in application of CRC Regulation no. 2000-06 on liabilities.

The balance of the provision for expenses relating to the performance share plans (2008, 2009, 2010, 2011 and 2012 plans) totalled €22.4 million (see paragraph 3.6).

Retirement provisions

Retirement commitments, net of plan assets, totalled €2.3 million at 31 December 2012.

Actuarial losses and past service costs not recognized totalled €0.85 million. The commitments not recognized in the balance sheet correspond to changes in or the non-crystallization of assumptions, the effect of which is amortized over time using the corridor 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.

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 debt of USD 300 million was a negative amount of €2.6 million at 31 December 2012.

Information on exchange rate risk

At 31 December 2012, the USD 300 million loan was hedged in full through a foreign exchange swap.

D – Notes to the income statement

1. OPERATING INCOME

Sales totalling €10.5 million mainly correspond to the Group's reinvoicing of the costs of the employee performance share allocation plans to the subsidiaries.

Other operating income: Vallourec invoiced fees totalling €0.9 million for the use of its brand name.

2. FINANCIAL INCOME AND EXPENSES CONCERNING AFFILIATED COMPANIES

Financial charges: €586 thousand

Financial income: €372,707 thousand

3. EXCEPTIONAL PROFIT

The net exceptional profit for the year amounted to €8.1 million.

It included results linked to the exercise of the 2010 performance share allocation plans and 2010 2-4-6 plan at a cost of €7.7 million (see paragraph 3.1) and the result of the liquidity contract representing an expense of €0.4 million.

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

Tax consolidation

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* – French General Tax Code).

This agreement has been renewed automatically for five-year periods since 1999.

In 2012, three new entities – VAL27, VAL28, and VAL29 – were added to the tax group which already consisted of Vallourec, Assurval, Interfit, Valti, Valtimet, Vallourec Université France (ex Valsept), 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 tax consolidation agreement requires subsidiaries of the tax group to record a tax charge equivalent to the amount they would have borne in the absence of tax consolidation.

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

Any profits resulting from tax consolidation that are recorded by Vallourec correspond mainly to the allocation to the overall profit of the losses generated by Vallourec itself and the tax losses carried forward definitively acquired by Vallourec.

In respect of 2012:

The amount of tax income recognized on the income statement of €4,667,000 corresponds to tax income attributable to Vallourec as head of the tax group.

At 31 December 2012, the saving recognized by Vallourec, as head of the tax group in France, totalled €49.9 million, which was recognized as a liability in the balance sheet.

The Vallourec tax group reported a loss in 2012 and its tax loss carryforward was 161.4 million at the end of 2012.

Increase in, and relief of, future tax liabilities

Nature of temporary differences *In € thousand*	Amount at 31/12/2012 (base)
Increase	
Relief	
Provision for retirement commitments	1,910
Provision for employee share ownership arrangements	10,698
Provision for paid holidays	15
Solidarity social security contribution provision	4
Unrealized gains on UCITS	3

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

In € thousand	Profit before tax	Tax due	Net profit
Operating profit	297,731		297,731
Exceptional items	-8,082		-8,082
SUBTOTAL	**289,649**	**0**	**289,649**
Charge specific to Vallourec		0	0
Income relating to fiscal integration		4,667	4,667
TOTAL VALLOUREC	**289,649**	**4,667**	**294,316**

COMPENSATION OF MEMBERS OF ADMINISTRATIVE AND MANAGEMENT BODIES

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 COMMITMENTS

Off balance sheet commitments are as follows:

- Retirement gratuities €312,000 (actuarial loss)
- Long-term vehicle lease €29,000

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

EVENTS SUBSEQUENT TO THE CLOSE

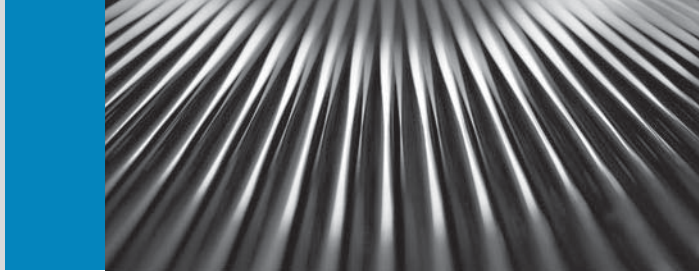
None.

Notes to the financial statements of Vallourec — Allocation of the results for the year ended 31 December 2012 and dividend distribution

The Management Board will make a proposal to the General Shareholders' Meeting on 30 May 2013 for allocation of the results for the year ended 31 December 2012 and for distribution of a dividend according to the following terms:

(in euros)	2012
Net profit for the year	294,316,535.60
Allowance to legal reserve	702,389.40
Retained earnings	1,319,897,277.17
DISTRIBUTABLE PROFIT	**1,613,511,423.37**
DIVIDEND	**86,212,985.64**
Balance allocated in its entirety to retained earnings account	1,527,298,437.73

The dividend, in the amount of €86,212,985.64 payable to Vallourec shareholders — based on the number of shares outstanding on 31 December 2012 — corresponds to a distribution of €0.69 per share with a nominal value of €2.



7 Corporate governance

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7.1 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 that management, which is the responsibility of the Supervisory Board, 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 the management. It receives the necessary information to enable it to fulfill its duties.

7.1.1 COMPOSITION OF THE MANAGEMENT AND SUPERVISORY BOARDS AT 31 MARCH 2013

7.1.1.1 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 [(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 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 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 a 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 [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*

Nationality: *French*

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 2009) ● Chairman of Vallourec & Mannesmann Tubes (since 2009) **Positions held in foreign companies** ● Director of V & M do Brasil SA (Brazil) (since 2009)	**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 2009) ● Chairman and member of the Supervisory Board of V & M France (up to 2012) ● Director of VMOG France (up to 2012) **Positions held in foreign companies** ● Director of Finalourec (Luxembourg) (up to 2010)	**Positions held in French companies** ● Chairman of Saint-Gobain Distribution Bâtiment (up to 2009) ● Chairman of the Supervisory Board of Point P (up to 2009) ● Chairman of the Supervisory Board of Lapeyre (up to 2009) ● Chairman of Aquamondo (up to 2009) ● Chairman of Partidis (up to 2009) ● Chairman of Projeo (up to 2009) **Positions held in foreign companies** ● Chairman of Saint-Gobain Distribution (Switzerland) (up to 2009) ● Chairman of Saint-Gobain Distribution Nordic (Sweden) (up to 2009) ● Chairman of the Board of Directors of Dahl International (Sweden) (up to 2009) ● Member of the Supervisory Board of Raab Karcher Baustoffe (Germany) (up to 2009) ● Director of Saint-Gobain Cristaleria (Spain) (up to 2009) ● Director of Norandex Distribution (United States) (up to 2009) ● Director of Saint-Gobain Building Distribution (United Kingdom) (up to 2009) ● Director of Jewson (United Kingdom) (up to 2009) ● Director of Meyer Overseas Investment (United Kingdom) (up to 2009)

Mr Philippe Crouzet does not receive any compensation as a corporate officer of Vallourec's direct or indirect subsidiaries.

(1) At its meeting on 25 February 2009, the Supervisory Board appointed Mr Philippe Crouzet as Chairman of the Management Board 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.

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*

Nationality: *French*

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 COO of Vallourec since 2006 and 2009 respectively. ● Director and CEO of Vallourec & Mannesmann Tubes (since 2006) ● Director of Valtimet (since 2006) ● Director of V & M Services (since 2006) ● Director of Valinox Asia (since 2004) ● Manager of V & M One (since 2004) **Positions held in foreign companies** ● Director of V & M do Brasil SA (Brazil) (since 2008) ● Director of Vallourec & Sumitomo Tubos do Brasil (Brazil) (since 2007) ● Director of Vallourec Industries Inc. (United States) (since 2001) ● Director of V & M Holdings (United States) (since 2004) ● Director of VAM USA LLC (United States) (since 2009) ● Chairman of the Supervisory Board of V & M Deutschland GmbH (since 2009) ● Member of the Executive Committee of V & M Star (United States) (since 2002) ● Director of V & M USA Corp (United States) (since 2000) ● Director of Vallourec Inc. (United States) (since 2007) ● Director of VAM Drilling USA (United States) (since 2005) ● Director of VMOG UK (United Kingdom) (since 2000)	None

(1) At its meeting on 7 March 2006, the Supervisory Board appointed Mr Jean-Pierre Michel as a member of the Management Board 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)
Positions expired within the last five years	**Positions held in French companies** ● Member of the Supervisory Board of V & M France (since 2012) ● Director of VMOG France (up to 2012) ● Director of Valti (up to 2012) ● Director of Interfit (up to 2012) ● Director of Valinox Nucléaire (up to 2012) ● Director of VAM Drilling France (up to 2012) ● Chairman of Valtimet (up to 2008) **Positions held in foreign companies** ● Chairman of the Supervisory Board of V & M do Brasil SA (Brazil) (up to 2008) ● Chairman of the Board of Directors of Vallourec Industries Inc. (United States) (since 2009) ● Director of V & M Atlas Bradford® (United States) (up to 2009) ● Director of V & M TCA (United States) (up to 2009) ● Member of the Supervisory Board of V & M Deutschland GmbH (Germany) (up to 2009) ● Chairman of the Board of Directors and Director of Finalourec (Luxembourg) (up to 2010)	None

Mr Jean-Pierre Michel does not receive any compensation as a corporate officer of Vallourec's direct or indirect subsidiaries.

Information about Mr Olivier MALLET, member of the Management Board (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*

Nationality: *French*

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)*
- *Deputy CFO (2004-2006) then Senior Vice-President of the Mining, Chemistry and Enrichment sector of the Areva group (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 2008) ● Chairman and CEO of V & M Services (since 2008) ● CEO and Director of Vallourec & Mannesmann Tubes (since 2008) ● Director of Valtimet (since 2008) **Positions held in foreign companies** ● Chairman of V & M Holdings (United States) (since 2009) ● Member of the Supervisory Board of V & M Deutschland GmbH (Germany) (up to 2008) ● Director of V & M do Brasil SA (Brazil) (since 2008) ● Director of Vallourec Tubes Canada Inc. (Canada) (since 2008) (a) ● Director of V & M Holdings (since 2008) ● Director of V & M USA Corp (since 2008) ● Director of V & M Tube-Alloy™ (since 2008) ● Chairman (since 2009) and Director (since 2008) of Vallourec Industries Inc. ● Director of VAM Drilling USA (United States) (since 2008) ● Member of the Executive Committee of VAM USA LLC (since 2009) ● Member of the Executive Committee of V & M Star (United States) (since 2008)	None

(a) Vallourec Tubes Canada Inc. was merged into Vallourec Canada Inc. (formerly VAM Canada Inc.) on 1 January 2013.

(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)
Positions expired within the last five years	**Positions held in foreign companies** ● Member of the Supervisory Board of V & M France (since 2012) ● Director of Vallourec Mannesmann Oil & Gas France (up to 2012) ● Director of Interfit (up to 2012) ● Director of Valti (up to 2012) ● Director of V & M Atlas Bradford® (United States) (up to 2009) ● Director of V & M TCA (United States) (up to 2009) ● Director of Finalourec (Luxembourg) (up to 2010)	**Positions held in French companies** ● Chairman & CEO of CFMM (up to 2008) ● Chairman & CEO of CMM (up to 2008) ● Chairman of ANC Expansion 1 (up to 2008) ● Chairman of SET (up to 2008) ● Member of the Supervisory Board of Eurodif (up to 2008) ● Permanent representative of Areva NC on the Board of Directors of Comurhex and Sofidif (up to 2008) ● Director of SGN, TN International (up to 2008) **Positions held in foreign companies** ● Director of Songaï Mining Corp. (South Africa) (up to 2008) ● Chairman of the Board of Directors of UG GmbH (Germany) (up to 2008) ● Director of Areva NC Australia (Australia) (up to 2008) ● Director of La Mancha Resources (Canada) (up to 2008) ● Director of Areva Resources Canada (Canada) (up to 2008) ● Chairman of the Board of Directors of PMC Inc. and of Comin (United States) (up to 2008) ● Director of Areva NC Inc. (United States) (since 2008) ● Director of CRI USA (United States) (up to 2008) ● Director of Katco (Kazakhstan) (up to 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 2008)

Mr Olivier Mallet does not receive any compensation as a corporate officer of Vallourec's direct or indirect subsidiaries.

7.1.1.2 Composition of the Supervisory Board at 31 March 2013

	Year of birth	Date first appointed	Date appointment most recently renewed	Date of end of term	Other main appointments held
Chairman					
Jean-Paul Parayre[a]	1937	13/06/1989	AGO 07/06/2011	2013 OSM to approve financial statements as of 31/12/2012	Director of Bolloré, and la Société Financière du Planier 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 as of 31/12/2014	Chairman and CEO, DCNS
Members					
Olivier Bazil[c]	1946	31/05/2012	-	2016 OSM to approve financial statements as of 31/12/2015	Director of Legrand, Château Palmer and Firmenich International
Pascale Chargrasse	1960	13/12/2010	OSM 07/06/2011	2015 OSM to approve financial statements as of 31/12/2014	Business Development Manager, Valinox Nucléaire
Jean-François Cirelli[d]	1958	13/05/2009	-	2016 OSM to approve financial statements as of 31/12/2015	Vice-Chairman, Executive Vice-President GDF SUEZ
Vivienne Cox[e]	1959	31/05/2010	-	2014 OSM to approve financial statements as of 31/12/2013	Director of BG Group Plc. Pearson Plc. and Rio Tinto Plc.
Michel de Fabiani[f]	1945	10/06/2004	-	2014 OSM to approve financial statements as of 31/12/2013	Director of BP France and Valeo
José Carlos Grubisich[g]	1957	31/05/2012	-	2016 OSM to approve financial statements as of 31/12/2015	Chairman of Eldorado Brasil Papel S.A., Director of Halliburton
Anne-Marie Idrac	1951	07/06/2011	-	2015 OSM to approve financial statements as of 31/12/2014	Director of Saint-Gobain Bouygues, Total and Mediobanca
Edward G. Krubasik[h]	1944	06/03/2007	OSM 31/05/2012	2016 OSM to approve financial statements as of 31/12/2015	Member of the Central Advisory Board of Commerzbank Member of the Supervisory Board of Asahi Tec
Alexandra Schaapveld	1958	31/05/2010	-	2014 OSM to approve financial statements as of 31/12/2013	Member of the Supervisory Board of Casino Holland and Bumi Armada Berhad
Bolloré group	NA	13/11/2008	OSM 31/05/2010	2014 OSM to approve financial statements as of 31/12/2013	
represented by Cédric de Bailliencourt	1969	01/01/2011	-	2014 OSM to approve financial statements as of 31/12/2013	CFO of Bolloré group
Non-voting Board Member ("Censeur")					
François Henrot	1949	13/12/2010	OSM 07/06/2011	2015 OSM to approve financial statements as of 31/12/2014	President of Investment Banking Activities, Rothschild group

(a) The term of office of Mr. Jean-Paul Parayre as Chairman of the Supervisory Board will end following the Annual General Meeting of 30 May 2013. Vallourec's Supervisory Board that met on 27 March 2013 appointed Ms. Vivienne Cox as Board chairman, effective as of the close of the 30 May 2013 Annual General Meeting. Ms Vivienne Cox, a member of the Supervisory Board since 2010, will therefore replace Mr. Jean-Paul Parayre.

(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) The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 appointed Mr Olivier Bazil as a member of the Supervisory Board, in accordance with Article 10 paragraph 1 of the by-laws, 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) The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 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-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.

(e) The Supervisory Board that met on 27 March 2013 appointed Ms. Vivienne Cox as Board chairman, effective as of the close of the 30 May 2013 Annual General Meeting. Ms Vivienne Cox, a member of the Supervisory Board since 2010, will therefore replace Mr. Jean-Paul Parayre.

(f) 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 on Vallourec's Supervisory Board.

(g) Mr José Carlos Grubisich was appointed Non-voting Board member ("Censeur") 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. This Shareholders' Meeting appointed 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.

(h) The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 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 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.

7.1.1.2.1 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 a société anonyme with 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*

Nationality: *French*

Business address:

None

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** ● Director of Bolloré ● Director of Société Financière du Planier ● Member of the Supervisory Board of Peugeot SA ● 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 2009)

(a) Position held within the Stena group.

(1) The appointment of Jean-Paul Parayre as member and Chairman of the Supervisory Board will expire the end of the Annual General Meeting of 30 May 2013. The Supervisory Board, at its meeting on 27 March 2013, appointed Vivienne Cox, a member of the Board since 2010, Chair of this Council with effect from the end of the Annual General Meeting of this Council. She will take over from Jean-Paul Parayre.

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*

Nationality: *French*

Business address:

DCNS
40-42, rue du Docteur Finlay
75732 Paris Cedex 15

Expertise and managerial experience

- *Graduate of École Polytechnique*
- *Thirty years' managerial experience with industrial companies in the metallurgy, 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 ● Member of the Board of Directors of the National Maritime Museum
Positions expired within the last five years	None	**Positions held in French companies** ● CEO of Cegelec (up to 2008) ● Chairman and CEO of Chantiers de l'Atlantique (up to 2008) ● Director of Sperian Protection (up to 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 Mr Olivier BAZIL [1]

Member of the Supervisory Board
Chairman of the Supervisory Board's Finance and Audit Committee [2]
Member of the Supervisory Board's Strategy Committee

Date of first appointment: *31 May 2012*

Date appointment most recently renewed: *None*

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2015*

Date of birth: *22 September 1946*

Nationality: *French*

Business address:

Vallourec
27, avenue du Général-Leclerc
92100 Boulogne-Billancourt, France

Expertise and managerial experience

- *Graduate of the École des Hautes Études Commerciales (HEC) and Harvard Business School*
- *Assistant to the Secretary General, responsible for financial information and development of the growth strategy for the Legrand group (1973)*
- *CFO of Legrand (1979)*
- *Deputy CEO and Vice Chairman of the Board of Directors of Legrand (1994)*
- *COO of Legrand (from 2000 to 2011)*

Positions held by Mr Olivier BAZIL

	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 Legrand ● Director of Château Palmer **Positions held in foreign companies** ● Director of Firmenich International
Positions expired within the last five years	None	**Positions held in French companies** ● COO and Vice Chairman of the Board of Directors of Legrand (up to 2011) ● Director of Legrand France (up to 2011) **Positions held in foreign companies** ● Chairman of the Board of Directors of TLC Legrand Electrical Technology (up to 2011) ● Director of Dipareena Electricals (up to 2011) ● Director of Legrand Elektrik Sanayi (up to 2011) ● Director of Eltas (up to 2011) ● Director of Estap Dis Ticaret (up to 2011) ● Director of Estap Elektrik (up to 2011) ● Director of Estap Middle East Fzc (up to 2011) ● Director of Parkfield Holdings Limited (up to 2011) ● Director of Legrand SNC FZE Dubai (up to 2011) ● Member of the Supervisory Board of Legrand ZRT (up to 2011) ● Director of O.A.O. Kontaktor (up to 2011) ● Manager of Rhein Vermogensverwaltung (up to 2011) ● Chairman of the Board of Directors of TCL Legrand International Electrical (Hu He Hao Te) Co. Ltd. (up to 2011) ● Director of TCL Wuxi (up to 2011) ● Chairman of the Supervisory Board of PT Legrand Indonesia (up to 2011) ● Chairman of the Board of Directors of Inform Elektronikt (up to 2011)

(1) The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 appointed Mr Olivier Bazil as a member of the Supervisory Board, in accordance with Article 10 paragraph 1 of the by-laws, 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.

(2) The Supervisory Board Meeting on 31 May 2012 appointed Mr Olivier Bazil as Chairman of the Finance and Audit Committee and member of the Strategy Committee.

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*

Nationality: *French*

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: *31 May 2012* [(1)]

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2015*

Date of birth: *9 July 1958*

Nationality: *French*

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 & CEO of Gaz de France (2004-2008)*
- *Vice-Chairman, President 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, President of GDF SUEZ [(a)] ● Chairman of the Board of Directors of GDF SUEZ Trading [(a)] ● Director of GDF SUEZ Energy Services [(a)] ● Director of Suez Environnement Company [(a)] **Positions held in foreign companies** ● Vice-Chairman of the Board of Directors of Electrabel (Belgium) [(a)] ● Director of International Power (UK) [(a)] ● Director of GDF Suez Energy Management Trading (Belgium) [(a)]
Positions expired within the last five years	None	**Positions held in French companies** ● Chairman and CEO of Gaz de France (up to 2008) ● Chairman of Fondation d'entreprise Gaz de France (up to 2009) ● Director of Neuf Cegetel (up to 2009) ● Member of the Supervisory Board of Atos Origin (up to 2009) **Positions held in foreign companies** ● Director of Suez-Tractebel (Belgium) [(a)]

(a) Position held within the GDF SUEZ group.

(1) The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 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-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 (1)

Member of the Supervisory Board
Chairman of the Supervisory Board's Strategy Committee (2)
Member of the Supervisory Board's Finance and Audit Committee

Date of first appointment: *31 May 2010*

Date appointment most recently renewed: *None*

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2013*

Date of birth: *29 May 1959*

Nationality: *British*

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)*
- *Non-executive Chairman of the advisory and investment firm Climate Change Capital Ltd. (2009-2012)*
- *Director and member of the Appointments Committee and Sustainable Development Committee of Rio Tinto Plc (since 2003)*
- *Lead Independent Director on the Board of the UK Department for International Development (since 2010)*
- *Commissioner of the Airport Commission of the UK Department for Transport (since 2012)*
- *Director and member of the Sustainable Development Committee of BG group Plc (since 2012)*
- *Director and Member of the Audit Committee and the Appointments and Remunerations Committee (since 2012) and Senior Independent Director (since 2013) 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 and Appointment and Remunerations Committee of INSEAD (since 2009) **Positions held in foreign companies** ● Director of Pearson Plc. (since 2012) and Senior Independent Director (since 2013) of Pearson Plc. ● Director of BG Group Plc. (since 2012) ● Director of Rio Tinto Plc. (since 2003) ● Lead Independent Director of the Department for International Development of the British government (since 2010)
Positions expired within the last five years	None	**Positions held in French companies** ● None **Positions held in foreign companies** ● Director of Climate Change Organization (up to 2012) ● Non-executive Chairman and Director of Climate Change Capital Limited (up to March 2012) ● Member of the Offshore Advisory Committee of Mainstream Renewable Power (up to 2012) ● Executive Vice-President of BP Plc (up to 2009)

(1) The Supervisory Board, at its meeting on 27 March 2013, appointed Vivienne Cox, a member of the Board since 2010, Chair of this Council with effect from the end of the Annual General Meeting of this Council. She will take over from Jean-Paul Parayre.

(2) 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.

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*

Nationality: *French*

Business address:

Chambre de Commerce Franco-britannique
10, rue de la Bourse
75001 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 French companies** ● Director of Rhodia (up to 2011) **Positions held in foreign companies** ● Director of Star Oil (Mali) (up to 2009) ● Director of SEMS (Morocco) (up to 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 Mr José Carlos GRUBISICH [1]

Member of the Supervisory Board
Member of the Supervisory Board's Strategy Committee [2]

Date of first appointment: *31 May 2012*

Date appointment most recently renewed: *Not applicable*

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2015*

Date of birth: *19 February 1957*

Nationality: *Brazilian*

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 Brasil Celulose S.A. (since 2012)*
- *Director of Halliburton (since 2013)*

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** ● 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 Brasil Celulose S.A. (since 2012) ● Director of Halliburton (since 2013)
Positions expired within the last five years	● Chairman of the Supervisory Board of Lapeyre (up to March 2012)	**Positions held in foreign companies** ● Chairman & CEO of Brazilian company ETH Bioenergia S.A. (bioenergy) (up to February 2012) ● Member of the Board of Braskem, S.A. (up to 2012)

(1) The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 appointed José Carlos Grubisich as a member of the Supervisory Board, 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.

(2) The Supervisory Board Meeting on 31 May 2012 appointed Mr José Carlos Grubisich as a member of the Strategy Committee.

Information about Ms Anne-Marie IDRAC

Member of the Supervisory Board
Appointments, Remuneration and Governance Committee (1)

Date of first appointment: *7 June 2011*

Date appointment most recently renewed: *None*

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2014*

Date of birth: *27 July 1951*

Nationality: *French*

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 Bouygues (since 2012) ● Director of Total (since 2012) ● 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 of the Board of Directors of SNCF (2006-2008) **Positions held in foreign companies** None

(1) The Supervisory Board of 26 July 2012 appointed Ms Anne-Marie Idrac as a member of the Appointments, Remuneration and Governance Committee.

Information about Mr Edward-Georg KRUBASIK

Member of the Supervisory Board [1]

Date of first appointment: *6 March 2007*

Date appointment most recently renewed: *31 May 2012*

Date on which appointment ceases: *Shareholders' Meeting called to approve the financial statements for the financial year 2015*

Date of birth: *19 January 1944*

Nationality: *German*

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 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 2008) ● Chairman of Honsel AG (Germany) (up to 2010)

(1) The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 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 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*

Nationality: *Dutch*

Business address:

Jacob Obrechtstraat 67
1067 KJ 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 FMO ● 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** ● Member of the Supervisory Board of the University of Amsterdam and University Medical Centre (up to 2012)

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 Énergie (since 2012) [a], Havas [a], 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** None
Positions expired within the last five years	None	**Positions held in French companies** ● Director of Bolloré Media (up to 2012) ● Director of Bolloré Média Digital (formerly Direct Soir up to 2012) ● Director of Euro Média (up to 2011) ● Director of Direct 8 (up to 2011) ● Director of IER (up to 2010) ● Director of SAGA (up to 2010) **Positions held in foreign companies** ● Director of SDV Mauritanie SA (up to 2012) ● Director of Abidjan Terminal (formerly SETV up to 2011)

(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 Bolloré

Permanent representative of Bolloré, member of the Supervisory Board (since 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*

Nationality: *French*

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*
- *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 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 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], Compagnie des Glénans [a] • Manager of Socarfi [a], 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], Société Industrielle et Financière de l'Artois [a], Financière de l'Odet [a], Société des Chemins de Fer et Tramways du Var et du Gard [a] • Member of the Supervisory Board of Sofibol • 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 Hottinguer

	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)], de 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, Socfin (ex-Socfinal), Induservices SA, Centrages, Immobilière de la Pépinière, Socfinco, 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 and Director of Sofibol (up to 2012) ● Manager of Financière du Loch (up to 2012) ● Chairman of the Board of Directors and Director of Financière de Kéréon [(a)] (up to 2011) ● Chairman of Financière de Port La Forêt [(a)] (up to 2008) ● Director of Saga [(a)] (up to 2010) ● Permanent representative of Bolloré Participations on the Boards of Compagnie des Glénans [(a)] (up to 2009) and Sogescol (up to 2012) ● Permanent representative of Plantations des Terres Rouges on the Board of Compagnie du Cambodge [(a)] (up to 2008) **Positions held in foreign companies** ● Director of Arlington Investissements SA [(a)] (up to 2010) ● Director of Dumbarton Invest SA [(a)] (up to 2010) ● Director of Elycar Investissements SA [(a)] (up to 2010) ● Director of Latham Invest SA [(a)] (up to 2010) ● Director of Peachtree Invest SA [(a)] (up to 2010) ● Director of Renwick Invest SA [(a)] (up to 2010) ● Director of Swann Investissements SA [(a)] (up to 2010) ● Permanent representative of Sofimap on the Board of SHAN [(a)] (up to 2009) ● Permanent representative of Bolloré Participations on the Board of Plantations des Terres Rouges [(a)] (up to 2010) ● Permanent representative of Bolloré Participations on the Board of Red Lands Roses [(a)] (up to 2008)

(a) Position held within the Bolloré group.

7.1.1.2.2 Non-voting Board Member ("Censeur") 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*

Nationality: *French*

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 2010)*
- *Member of the Vallourec Supervisory Board's Strategy Committee (up to 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 [(a)] ● 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 (up to 2010)	**Positions held in French companies** ● Managing Partner of Rothschild & Cie Banque (up to 2011) [(a)]

(a) Position held within the Rothschild group.

7.1.1.2.3 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*
- *43 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** ● Non-voting member of the Supervisory Board of Vallourec (up to 2010)	**Positions held in French companies** ● Member of the Supervisory Board of Fives (formerly Fives-Lille) (up to 2011) ● Member of the Supervisory Board of ODDO et Cie (up to 2009) ● Director of AON France (up to 2008)

7.1.1.3 Executive Committee

At 31 March 2013, Vallourec's Executive Committee was composed of the following members:

- Philippe Crouzet — Chairman of the Management Board
- 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 Brasil SA and Vallourec & Sumitomo Tubos do Brasil
- Dirk Bissel — Director of the Drilling Products Division
- Philippe Carlier — Director of the Upstream Division
- François Curie — Head of Human Resources
- Nicolas de Coignac — Head of Powergen and Speciality Powergen Divisions
- Andreas Denker — Director of the Industry Division
- Pierre Frentzel — Director of Strategic Projects
- Didier Hornet — Director of the OCTG Division
- Alexandre Lyra — CEO of V & M do Brasil SA
- Jean-Yves Le Cuziat — Director of Strategic Marketing and Sourcing
- Dominique Richardot — Director of the Pipe Project Division
- Philippe Roch — Chief Performance Officer

The Executive Committee meets twice per month.

7.1.2 OPERATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

7.1.2.1 Operation of the Supervisory Board

The term of office of members of the Supervisory Board is set at four years in the Company's by-laws. The terms of office of members of the Supervisory Board are renewed on a staggered basis to ensure that the Supervisory Board benefits from a seamless flow of renewals and new appointments.

At its meeting on 17 April 2003, the Vallourec Supervisory Board drew up internal regulations designed to formalize 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.

Apart from the legal obligations to give prior authorization (sureties and guarantees – the disposal of properties or equity interests – constitution of sureties), the following actions also require prior authorization from the Supervisory Board:

- any capital increase in cash or by capitalization of reserves authorized by a Shareholders' Meeting;
- any issue of securities, that could give eventual access to the capital, authorized by a Shareholders' Meeting;
- 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 free shares 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 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 Commercial Code, 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 program 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 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, an item on the agenda of the Supervisory Board is dedicated to the formal assessment of the operation of the Supervisory Board, (see below, Report of the Chairman of the Supervisory Board, Appendix 1 of Chapter 7).

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 the Group's activities. At the request of members, visits are arranged to plants in France and abroad. In 2011, a Supervisory Board meeting was held at Belo Horizonte in Brazil, enabling members to visit the plants of V & M do Brasil and Vallourec & Sumitomo Tubos do Brasil, 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 organization, and to meet the Operational Executive Directors.

At the request of members, the Group may also organize 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 organization specializing in training for company Directors.

7.1.2.2 Meetings of the Supervisory Board in 2012

The Supervisory Board met eight times in 2012. The rate of absenteeism is extremely low and the absent members generally provide a proxy in order to be represented. The average length of its meetings was approximately 3 hours 45 minutes. However, since 2011, one meeting a year has been held for an entire day to give the members more time to discuss the strategic plan with the Management Board (see below, Report of the Chairman of the Supervisory Board, Appendix 1 of Chapter 7).

7.1.2.3 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 7.1.2.5 below).

As in preceding years, all the necessary steps have been taken to ensure that the Board includes 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 2012, in the light of the aforementioned AFEP-MEDEF Corporate Governance Code:

- the following can be deemed independent members: Vivienne Cox, Anne-Marie Idrac, Alexandra Schaapveld, Patrick Boissier, Olivier Bazil, Jean-François Cirelli, Michel de Fabiani, José Carlos Grubisich, Edward G. Krubasik, and Bolloré, represented by Cédric de Bailliencourt;
- the following can be considered associated with the Company:
  - Jean-Paul Parayre, who was first appointed as a Director more than 12 years ago, on 13 June 1989,
  - Pascale Chargrasse, an employee of the Group since 1985.

At 31 December 2012, ten out of the twelve members of the Supervisory Board were independent, representing 83% 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.

7.1.2.4 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 2012, the composition of the Supervisory Board was as follows (excluding non-voting Board members):

- four women (Vivienne Cox, Pascale Chargrasse, Anne-Marie Idrac and Alexandra Schaapveld) and eight men, i.e. a proportion of women above 33%. 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 members of the Supervisory Board of each gender may not be lower than 20% at the close of the first Shareholders' Meeting after 1 January 2014;
- four people of foreign nationality – Vivienne Cox (British), Alexandra Schaapveld (Dutch), Edward G. Krubasik (German) and José-Carlos Grubisich (Brazilian) – i.e. a proportion of foreign nationals of 33%.

In the formal self-assessment conducted in 2012, it was recommended that the efforts to diversify in order to increase the proportion of women and, where relevant, foreign national members should be continued (see below, Report of the Chairman of the Supervisory Board, Appendix 1 of Chapter 7).

7.1.2.5 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 fulfill 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 earlier 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 also 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 to the Committee 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.

At 31 March 2013, the Finance and Audit Committee was composed of Olivier Bazil (Chairman), Vivienne Cox and 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 Olivier Bazil, has spent over 35 years in the Legrand group, in finance and management control (for a description of the expertise and experience of members of the Finance and Audit Committee: see Section 7.1.1.2.1 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 2012, with an attendance rate of 90%. In particular, the Committee conducted a review of the financial statements for 2012, the interim financial statements at 30 June 2012 and the quarterly financial statements at 31 March and 30 September 2012. It met on 18 February 2013 to review the financial statements for 2012. 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 2012. They presented a report on their work and pointed out the essential items of the results and the accounting principles used.

In 2012, the Committee also examined and formed opinions on the following issues:

- forecasts 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;
- dividend policy;
- the accounting policies used for preparing the year-end 2012 financial statements;
- the budget for 2013;
- the internal audit plan;
- risk mapping;
- the operation of management control within the Group;
- the organization of risk management and internal control within the Group;
- the information systems consolidating the Group's accounting and financial information;
- the Group's tax affairs; and
- off-balance-sheet commitments.

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 2013, the Appointments, Remuneration and Governance Committee was composed of Michel de Fabiani (Chairman), Patrick Boissier, and Anne-Marie Idrac, all of whom are independent. The Chairman of the Management Board is involved in the appointments and governance processes.

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, 28 July 2010 and 26 July 2012.

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, as well as the Group's development and international strategy.

- 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.

    In addition, 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 seven times in 2012 with an average effective attendance rate of 95%. In particular, it reviewed and drew up recommendations on the following subjects:

- determining the fixed and variable monetary remuneration of Management Board members;
- the overall amount and number of performance shares allocated to each member of the Management Board, and their vesting obligations for some of the shares allocated;
- Vallourec's policy on remuneration and enabling the personnel to share in the Group's profits (the "Value 12" international employee shareholding plan, the "2-4-6" global plan for the allocation of performance shares, and stock options for executives (including members of the Executive Committee);
- the management of conflicts of interest leading to amendments to the internal regulations of the Supervisory Board and the Appointments, Remunerations and Governance Committee;

- the payment of attendance fees to Supervisory Board members, Committee members and *Censeurs* (Non-voting Board members);
- the composition of the Supervisory Board and the search for new members, leading to the appointment on 31 May 2012, of Mr Olivier Bazil as a member of the Supervisory Board;
- the composition of the Supervisory Board Committees, which led to the appointment, on 31 May 2012, of Mr Olivier Bazil as Chairman of the Finance and Audit Committee and member of the Strategy Committee, of Mr José Carlos Grubisich as a member of the Strategy Committee, and, on 26 July 2012, of Ms Anne-Marie Idrac as a member of the Appointments, Remuneration and Governance Committee.

Strategy Committee

The Strategy Committee, created in 1999 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 formalize 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 2012, the Committee was composed of Vivienne Cox (Chairman), Olivier Bazil, Jean-François Cirelli and José-Carlos Grubisich, all of whom are independent.

The Committee met five times in 2012 with an average effective attendance rate of 90%.

7.1.2.6 Non-voting Board Member ("Censeur")

The Extraordinary Shareholders' Meeting of 1 June 2006 decided in its sixth resolution on the creation of the position of *Censeur*, a non-voting Board member. 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 2013, Mr François Henrot held the office of *Censeur.* In 2012, he played an active part in preparations for the succession of the Chairman of the Supervisory Board whose term of office will expire on 30 May 2013.

7.1.3 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
Mr Philippe Crouzet	19,675
Mr Jean-Pierre Michel	13,123
Mr Olivier Mallet	8,746

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 non-voting Board Member ("Censeur") is as follows:

Members of the Supervisory Board		Number of Vallourec shares held
Mr	Jean-Paul Parayre (Chairman)	242,346
Mr	Patrick Boissier (Vice Chairman)	601
Mr	Olivier Bazil	200
Mr	Pascale Chargrasse	140
Mr	Jean-François Cirelli	665
Ms	Vivienne Cox	50
Mr	Michel de Fabiani	575
Ms	Anne-Marie Idrac	308
Mr	José Carlos Grubisich	100
Mr	Edward G. Krubasik	1,016
Ms	Alexandra Schaapveld	700
Company	Bolloré [a]	2,046,475
Mr	François Henrot (Censeur)	531

(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.

7.1.4 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.

7.1.5 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.

(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).

7.1.6 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.

7.1.7 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.

In 2012, the internal regulations of the Supervisory Board and the Appointments, Remuneration and Governance Committee were amended to strengthen prevention of the risk of conflicts of interest. In future, a member cannot accept another position or appointment, or make a significant investment in any company or business in competition with Vallourec or operating upstream or downstream of Vallourec, without the Board's prior approval. As an exception, this rule does not apply to legal entities that are members of the Board, but if they take new positions or similar appointments, each case will be discussed with the Board in order to eliminate any risk of conflicts of interest. Members of the Board, *Censeurs* and members of the Management Board must inform the Chairman of the Board before accepting a new appointment in other companies. The Chairman of the Board will give an opinion after consulting with the Appointments, Remuneration and Governance Committee.

7.1.8 DECLARATION ON CORPORATE GOVERNANCE

The Supervisory Board decided, in 2008, to adopt the AFEP-MEDEF Corporate Governance Code as applied to a limited company managed by a Supervisory Board and a Management Board. Vallourec complies with all the recommendations prescribed in the Code under the conditions set out in the summary table in Appendix 3 of Chapter 7.

In view of the above, Vallourec believes that it complies with the Corporate Governance Regulations currently in force in France.

7.2 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 Commercial Code, 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 AMF. It is specified that the variable portion of the monetary remuneration of executive 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. The maximum number of performance shares and stock options detailed below corresponds to the application of the highest performance coefficient.

7.2.1 COMPENSATION AND BENEFITS OF ALL KINDS PAID TO EXECUTIVE CORPORATE OFFICERS

The general principles and rules for determining Management Board compensation are detailed in the report of the Chairman of the Supervisory Board (see Appendix 1 of this chapter below).

7.2.1.1 Remuneration of members of the Management Board

The following tables show the compensation paid to members of the Management Board at 31 December 2012.

a) Summary of remuneration and stock options and performance shares allocated to each member of the Management Board (according to the format of Table 1 recommended by the AFEP-MEDEF Code and the AMF)

The following table summarizes the remuneration due in respect of the years ended 31 December 2011 and 31 December 2012 and the valuation of the share subscription options and performance shares allocated during the financial year.

In €	Financial year 2011	Financial year 2012
Philippe Crouzet, Chairman of the Management Board		
Remuneration due for the year (see b) below in paragraph 7.2.1.1)	1,319,344	1,040,280
Valuation of options allocated during the year (see c) below in paragraph 7.2.1.1) [(a)]	630,300	0
Valuation of performance shares allocated during the year (see e) below in paragraph 7.2.1.1) [(b)]	849,720	496,080
TOTAL	**2,799,364**	**1,536,360**
Jean-Pierre Michel, Chief Operating Officer		
Remuneration due for the year (see b) below in paragraph 7.2.1.1)	708,894	582,949
Valuation of options allocated during the year (see c) below in paragraph 7.2.1.1) [(a)]	286,500	0
Valuation of performance shares allocated during the year (see e) below in paragraph 7.2.1.1) [(b)]	417,779	243,906
TOTAL	**1,413,173**	**826,855**
Olivier Mallet, Chief Financial Officer		
Remuneration due for the year (see b) below in paragraph 7.2.1.1)	628,420	526,073
Valuation of options allocated during the year (see c) below in paragraph 7.2.1.1) [(a)]	229,200	0
Valuation of performance shares allocated during the year (see e) below in paragraph 7.2.1.1) [(b)]	339,888	198,432
TOTAL	**1,197,508**	**724,505**

(a) No option was granted to members of the Management Board in 2012. All the share subscription options allocated to them in 2011 were subject to performance conditions. 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) All the performance shares allocated to members of the Management Board in 2011 and 2012 were subject to performance conditions. The valuation of the performance shares shown in the table is theoretical and results from the application of the binomial model used for the consolidated financial statements.

b) Summary of remuneration to each member of the Management Board (according to the format of Table 2 recommended by the AFEP-MEDEF Code and the AMF)

	Financial year 2011		Financial year 2012	
In €	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	759,996	759,996
Variable compensation	555,000	620,000	275,000	555,000
Extraordinary compensation	-	-	-	-
Attendance fees	-	-	-	-
Benefits in kind	4,344	4,344	5,284	5,284
TOTAL	**1,319,344**	**1,384,344**	**1,040,280**	**1,320,280**
Jean-Pierre Michel, Chief Operating Officer				
Fixed compensation	430,000	430,000	445,908	445,908
Variable compensation	275,000	285,000	132,000	275,000
Extraordinary compensation	-	-	-	-
Attendance fees	-	-	-	-
Benefits in kind	3,894	3,894	5,041	5,041
TOTAL	**708,894**	**718,894**	**582,949**	**725,949**
Olivier Mallet, Chief Financial Officer				
Fixed compensation	375,000	375,000	394,893	394,893
Variable compensation	247,000	250,000	125,000	247,000
Extraordinary compensation	-	-	-	-
Attendance fees	-	-	-	-
Benefits in kind	6,420	6,420	6,180	6,180
TOTAL	**628,420**	**631,420**	**526,073**	**648,073**

The main principles and rules for determining the variable monetary remunerations of members of the Management Board are set out out in the Report of the Chairman of the Supervisory Board (see Appendix of Chapter 7 below).

c) Subscription or purchase options allocated during the financial year to each member of the Management Board by Vallourec and each Group company

No option was granted to members of the Management Board in 2012.

d) Subscription or purchase options exercised during 2012 by each member of the Management Board

No members of the Management Board exercised share subscription or purchase options in 2012 under the stock option plans created in previous years.

e) Performance shares allocated in 2012 to each member of the Management Board by Vallourec and each Group company (according to the format of Table 6 recommended by the AFEP-MEDEF Code and the AMF)

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	30/03/2012 Plan	12,000 *which represents 0.01% of the share capital on the allocation date*	496,080	30/03/2014	30/03/2016	Yes
Jean-Pierre Michel	30/03/2012 Plan	5,900 *which represents 0.005% of the share capital on the allocation date*	243,906	30/03/2014	30/03/2016	Yes
Olivier Mallet	30/03/2012 Plan	4,800 *which represents 0.004% of the share capital on the allocation date*	198,432	30/03/2014	30/03/2016	Yes
TOTAL		**22,700**	**938,418**			

The final allocation of performance shares to members of the Management Board under the 30 March 2012 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 2012 and 2013 and measured on the basis of the following three quantified criteria: the ratio of consolidated EBITDA to consolidated sales, growth of consolidated sales, and the stock market performance of the Vallourec share on the regulated market of NYSE Euronext in Paris compared with a reference panel. For the first two criteria, Vallourec will communicate, at the end of the performance assessment period, the target and minimum and maximum thresholds between which a linear progression will be applied.

Performance share allocations to other members of the Executive Committee are subject to strictly identical conditions.

The performance shares that are allocated are taken from existing shares such that their vesting does not lead to any dilution.

f) Performance shares that became available in 2012 for each member of the Management Board (according to the format of Table 7 recommended by the AFEP-MEDEF Code and the AMF)

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	-	-	-
Olivier Mallet	1st tranche of the 2008 plan of 01/09/2008	693	231
TOTAL	**-**	**693**	**231**

(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.

The performance share allocation plan of 30 March 2011 made the vesting of the performance shares to members of the Management Board subject to three performance conditions assessed over 2011 and 2012: the ratio of consolidated EBITDA to consolidated sales (40% weighting), consolidated sales growth (30% weighting), and the stock market performance of the Vallourec share on the regulated market of NYSE Euronext in Paris compared with a reference panel (30% weighting). The performance assessment period for this plan ended on 30 March 2013. The number of performance shares effectively acquired by each of the members of the Management Board after applying the performance conditions was as follows:

30 March 2011 performance share plan Members of the Management Board	Philippe Crouzet	Jean-Pierre Michel	Olivier Mallet	Total
Maximum number of performance shares allocated on 30 March 2011	12,000	5,900	4,800	22,700
Number of performance shares acquired on 30 March after performance conditions applied	1,696	834	678	3,208
Percentage of performance shares acquired on 30 March against the maximum number of performance shares initially allocated on 30 March 2011	14.1%	14.1%	14.1%	14.1%

g) Historical allocations of share subscription or purchase options to members of the Management Board (according to the format of Table 8 recommended by the AMF)

No option was granted to members of the Management Board in 2012.

Information about share subscription and 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] *which represents 0.04% of the share capital on the allocation date*	33,000 *which represents 0.03% of the share capital on the allocation date*	33,000 *which represents 0.03% of the share capital on the allocation date*
• Jean-Pierre Michel	22,000 [b] *which represents 0.02% of the share capital on the allocation date*	24,000 [b] *which represents 0.02% of the share capital on the allocation date*	20,000 [a] *which represents 0.02% of the share capital on the allocation date*	15,000 *which represents 0.01% of the share capital on the allocation date*	15,000 *which represents 0.01% of the share capital on the allocation date*
• Olivier Mallet	-	46,000 [b] *which represents 0.04% of the share capital on the allocation date*	16,000 [a] *which represents 0.01% of the share capital on the allocation date*	12,000 *which represents 0.01% of the share capital on the allocation date*	12,000 *which represents 0.01% of the share capital on the allocation date*
Potential dilution of allocations to members of the Management Board [c]	0.02%	0.06%	0.06%	0.05%	0.05%
Date from which options may be exercised	3 September 2011	1 September 2012	1 September 2013	1 September 2014	1 September 2015
Expiry date	3 September 2014	1 September 2015	1 September 2019	1 September 2020	1 September 2021
Subscription or purchase price *(in €)* [a]	95.30 [b]	91.77 [b]	51.67 [b]	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	0	42,000	21,200	7,234
Share subscription or purchase options remaining at the end of the financial year	277,600	143,600	536,800	491,200	677,287

(a) Average price of the Vallourec share in the 20 trading days preceding the allocation date, without discount.

(b) The figures have been restated to take into account the 2:1 stock split on 9 July 2010.

(c) On the basis of the 124,946,356 shares making up the share capital at 31.12.12.

h) Share subscription or purchase options allocated to the top ten employees who are not beneficiary executive corporate officers and options exercised by them (according to the format of Table 9 recommended by the AMF)

	Total number of options allocated/shares subscribed or purchased	Weighted average exercise price *(in €)*	Share subscription or purchase option plans
Options allocated during the year to the ten Group employees to whom the largest number of options was allocated	53,800	37	31 August 2012 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	-	-	-

The entire final allocation of the subscription options from the share subscription option plan put in place on 31 August 2012 is subject to performance conditions and continued employment in the Company.

For allocations to employees (other than members of the Executive Committee), performance is assessed over financial years 2013, 2014, 2015 and 2016 and depends on achievement of a ratio of the Group's EBITDA to consolidated sales.

For allocations to members of the Executive Committee, performance is assessed for financial years 2013, 2014, 2015 and 2016 and measured according to the following four quantified criteria: the expected rate of return on capital invested on a consolidated basis, the growth of consolidated sales on a like-for-like basis, the relative stock market performance of the Vallourec share, and the performance of consolidated EBITDA against a panel of comparable companies.

i) Summary of elements of remuneration of members of the Management Board (according to the format of Table 10 recommended by the AMF)

	Contract of employment	Complementary retirement scheme	Payments or benefits due or likely to become due as a result of 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	No
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)]	No	No
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)]	No	No

(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. The Supervisory Board of 22 February 2012 renewed his term of office as Chairman of the Management Board with effect from 15 March 2012 to 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 employment contracts.

7.2.1.2 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

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.

However, in order to keep within this budget of €520,000 authorized 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.

Director's fees received by the members and Censeurs of the Supervisory Board (according to the format of Table 3 recommended by the AFEP-MEDEF Code and the AMF)

Members and Censeurs (Non-voting Board members) of the Supervisory Board *In €*		Amounts paid in 2011	Amounts paid in 2012
Mr	Jean-Paul Parayre	33,000	33,000
Mr	Luiz-Olavo Baptista (Censeur up to 09/11/2011)	25,929	-
Mr	Olivier Bazil (member since 31/05/2012)	-	32,542
Mr	Patrick Boissier	40,500	36,857
Ms	Pascale Chargrasse	33,000 (a)	30,643 (b)
Mr	Jean-François Cirelli	38,143	36,286
Ms	Vivienne Cox	49,143	49,786
Mr	Michel de Fabiani	43,500	47,000
Mr	José Carlos Grubisich (Censeur from 09/11/2011 to 31/05/2012 and member since 31/05/2012)	4,125	32,073
Mr	François Henrot	21,214	25,929
Ms	Anne-Marie Idrac (member since 7 June 2011)	19,250	35,857
Mr	Edward G. Krubasik	56,000	42,000
Ms	Alexandra Schaapveld (member since 31 May 2010)	45,500	45,500
Mr	Jean-Claude Verdière (member up to 31 May 2012)	65,500	30,464
	Bolloré, represented by Cédric de Bailliencourt	30,643	33,000
TOTAL		**517,821**	**510,937**

(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.*

(b) *This amount is additional to the fixed and variable compensation and the value of the 65 performance shares received in 2012 by Ms Pascale Chargrasse under her employment contract with the Group, for a total of €55,552.*

7.2.2 COMPENSATION AND RETIREMENT BENEFITS FOR THE GROUP'S SENIOR MANAGEMENT

7.2.2.1 Compensation of the Group's senior management

The total amount of direct and indirect compensation of all kinds paid in 2012 by the Group's French and foreign companies in respect of all the Group's senior managers (i.e. the twelve members of the Group's Executive Committee at 31 December 2012 excluding the members of the Management Board) amounted to €4,451,209. The variable portion represented 21.6% 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 recognized in the 2012 income statement was €923,000.

7.2.2.2 Retirement benefits

As regards pensions, the members of the Management Board, like all the Group's senior managers, benefit from a supplementary pension scheme, the terms of which are set out in the Report of the Chairman of the Supervisory Board which appears in Appendix 1 to Chapter 7. Beneficiaries may retain their benefits under the scheme if they are over 55 and are unable to find other employment after termination of their employment by 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.

The potential benefits on an individual basis for each of the three members of the Management Board at 31 December 2012 are as follows:

Members of the Management Board	Reference salary at 31 December 2012	Potential annual benefits for 2012 (as a percentage of the reference salary)	Aggregate potential annual benefits at 31 December 2012 (as a percentage of the reference salary)	Cap on potential benefits (capped at 20% of the average basic salary over the last three years, excluding the variable portion and not exceeding 4 times the legal limit)	Length of service conditions
Philippe Crouzet	759,996	2%	6%	20%	36 months
Jean-Pierre Michel	445,908	2%	13.34%	20%	36 months
Olivier Mallet	394,893	1.71%	6.81%	20%	36 months

The determination of the overall remuneration of senior executive corporate officers took into account the benefits under the supplementary pension scheme.

Details of retirement benefits for members of the Executive Committee are provided in Note 20 to the consolidated financial statements in Section 6.1 of this Registration Document.

7.3 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 2012, this policy was implemented at the Supervisory Board's meetings of 22 February (plan to allocate performance shares to all employees and plan to allocate performance shares to 1,588 executives, excluding members of the Management Board), and 26 July ("Value 12" employee shareholding plan and plan to allocate share subscription options to 387 beneficiaries, excluding members of the Management Board). The Supervisory Board also determined, at its meetings on 28 March and 26 July 2012, 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 3 April and 31 July 2012 (www.vallourec.com), thereby supplementing the information relating to executive corporate officers' compensation posted on the Company's website in 2009, 2010 and 2011.

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 2012 the Group therefore renewed:

- for the fifth consecutive year (see Section 7.3.3 below "Employee shareholding"), a "Value" employee share ownership scheme, called "Value 12", for the benefit of employees and those with similar rights from most companies of the Vallourec Group in Brazil, Canada, China, France, Germany, Mexico, the United Arab Emirates, the United Kingdom and the United States;

- for the fourth consecutive year (see Section 7.3.3 below "Employee shareholding"), an international performance share allocation plan subject to a period of time worked for the Company, for a maximum of six performance shares per beneficiary, for 21,686 employees of Vallourec entities in Brazil, Canada, China, France, Germany, India, Malaysia, Mexico, Norway, the Netherlands, Russia, Singapore, the United Arab Emirates, the United Kingdom, and the United States (excluding members of the Management Board).

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 fulfillment of objective and predefined performance requirements.

Beneficiaries are thus encouraged to make greater efforts to improve earnings and help the Group achieve its targets.

7.3.1 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.

The maximum number of performance shares and options mentioned in paragraph 7.3.1.1 and 7.3.1.2 below correspond to the application of the highest performance coefficient. Some figures have been adjusted, where necessary, to take account of the stock split on 9 July 2010.

7.3.1.1 Share subscription and/or purchase options

SHARE SUBSCRIPTION OPTIONS: 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 price of the Vallourec share in the 20 trading days preceding the allocation date, without discount.

(b) On the basis of the 124,946,356 shares making up the share capital at 31/12/2012.

SHARE SUBSCRIPTION OPTIONS: 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	0.11% [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 price of the Vallourec share in the 20 trading days preceding the allocation date, without discount.

(b) On the basis of the 124,946,356 shares making up the share capital at 31/12/2012.

SHARE SUBSCRIPTION OPTIONS: 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	0.46% [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)	42,000

(a) Average price of the Vallourec share in the 20 trading days preceding the allocation date, without discount.

(b) On the basis of the 124,946,356 shares making up the share capital at 31/12/2012.

SHARE SUBSCRIPTION OPTIONS: 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	0.41% [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)	21,200

(a) Average price of the Vallourec share in the 20 trading days preceding the allocation date, without discount.

(b) On the basis of the 124,946,356 shares making up the share capital at 31/12/2012.

SHARE SUBSCRIPTION OPTIONS: 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	0.54% [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)	7,234

(a) Average price of the Vallourec share in the 20 trading days preceding the allocation date, without discount.

(b) On the basis of the 124,946,356 shares making up the share capital at 31/12/2012.

SHARE SUBSCRIPTION OPTIONS: 31 AUGUST 2012 PLAN

Date of Shareholders' Meeting	31 May 2012
Date of Management Board meeting	31 August 2012
Number of beneficiaries when plan implemented	387
Total number of options granted	530,400
• of which total number of options granted to members of the Management Board (as at 31.08.12)	0
• number of members of the Management Board concerned	0
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	53,800
Potential dilution	0.42% [b]
Strike price [a]	€37
Date from which options may be exercised	1 April 2017
Expiry date of exercise period	31 August 2020
Number of options cancelled since their allocation (option holders who have left the Group)	1,800

(a) Average price of the Vallourec share in the 20 trading days preceding the allocation date, without discount.

(b) On the basis of the 124,946,356 shares making up the share capital at 31/12/2012.

The entire final allocation of the subscription options from the share subscription option plan put in place on 31 August 2012 is subject to performance conditions and continuing employment in the Company.

For allocations to employees (other than members of the Executive Committee), performance is assessed over financial years 2013, 2014, 2015 and 2016 and is a function of achieving a ratio of the Group's EBITDA to consolidated sales.

For allocations to members of the Executive Committee, performance is assessed on financial years 2013 to 2016 and measured according to the following four quantified criteria: the expected rate of return on capital invested on a consolidated basis, the growth of consolidated sales on a like-for-like basis, the relative stock market performance of the Vallourec share, and the performance of consolidated EBITDA against a panel of comparable companies.

The value of the stock option plan is included i Notes 18 and 20 of the consolidated financial statements, which are found in section 6.1 of this registration document.

7.3.1.2 Performance share and free share allocation plans

7.3.1.2.1 Performance share allocation plans

ALLOCATION PLANS FOR PERFORMANCE SHARES TO MEMBERS OF THE MANAGEMENT BOARD

	2007 Plan	2008 Plan	2009 Plan	2010 Plan	2011 Plan	2012 Plan
Date of Shareholders' Meeting	07/06/2005	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	15/03/2010 and 31/07/2010	30/03/2011	30/03/2012
Number of beneficiaries when plan implemented	280	41	53	850	1,157	1,591
Maximum total number of performance shares	295,260	30,829	35,468	194,820	269,204	357,712
• 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	17,000	22,700	22,700
• number of members of the Management Board concerned	4	0	3	3	3	3
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	11,900	9,994	10,505
Potential dilution	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
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)
Number of performance shares cancelled since their allocation	21,856	2,100	1,266	8,780	6,432	3,538

The vesting of all the performance shares from the performance share allocation plan to executives and members of the Management Board put in place on 30 March 2012 is subject to time worked in the Company and performance conditions.

For allocations to executives (other than members of the Executive Committee), performance is assessed over two financial years (2012 to 2013) and is a function of achieving a ratio of the Group's EBITDA to consolidated sales.

For allocations to members of the Management Board and other members of the Executive Committee, performance is assessed on two financial years (2012 and 2013) and measured according to the following three quantified criteria: the ratio of consolidated EBITDA to consolidated sales, growth of consolidated sales, and the stock market performance of the Vallourec share on the regulated market of NYSE Euronext in Paris compared with a reference panel. At the end of the performance assessment period, for the first two criteria, Vallourec will communicate the target and minimum and maximum thresholds between which a linear progression will be applied.

INTERNATIONAL PLANS FOR THE ALLOCATION OF PERFORMANCE SHARES TO EMPLOYEES [(a)]

	1-2-3 plan (2009)	2-4-6 plan (2010)	2-4-6 plan (2011)	2-4-6 plan (2012)
Date of Shareholders' Meeting	04/06/2008	04/06/2008	07/06/2011	07/06/2011
Date of allocation by the Management Board	17/12/2009	03/12/2010	18/11/2011	30/03/2012
Number of beneficiaries when plan implemented	17,404	12,098	13,053	21,686
Maximum total number of performance shares	104,424	72,588	78,318	130,116
• of which maximum total number of performance shares allocated to members of the Management Board (as composed when plan implemented)	0	0	0	0
• number of members of the Management Board concerned	0	0	0	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	60	60	60	60
Potential dilution	0	0	0	0
Acquisition period	2 or 4 years	2 or 4 years	2 or 4 years	2 or 4 years
Holding period	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	6,810	8,780	1,968	2,184

(a) For a description of these plans, see Section 7.3.3 below "Employee shareholding".

The vesting of all the performance shares from the international performance share allocation plan to employees put in place on 30 March 2012 is subject to time worked in the Company and performance conditions. Performance was assessed on two financial years (2012 to 2013) and was a function of achieving a ratio of the Group's EBITDA to consolidated sales.

7.3.1.2.2 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 7.3.3 below "Employee shareholding"), implemented in 2008, 2009, 2010, 2011 and 2012, 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	"Value 12" plan
Date of Shareholders' Meeting	04/06/2008	04/06/2009	04/06/2009	07/06/2011	31/05/2012
Date of allocation by the Management Board	16/12/2008	17/12/2009	03/12/2010	15/12/2011	06/12/2012
Number of beneficiaries when plan implemented	8,697	8,097	9,632	841	737
Total number of free shares	67,712	69,400	83,462	6,462	4,395
• of which total number of free shares allocated to members of the Management Board (when plan implemented)	0	0	0	0	0
• number of members of the Management Board concerned	0	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	60
Potential dilution	0	0	0	0	0
Acquisition period	4.5 years	4.6 years	4.6 years	4.5 years	4.5 years
Holding period	0	0	0	0	0
Number of free shares cancelled since their allocation	8,928	3,602	3,139	0	0

The value of the performance share allocation and free share allocation plans is included in Notes 18 and 20 of the notes to the consolidated financial statements in Section 6.1 of this Registration Document.

7.3.2 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	2008	2009	2010	2011	2012
	12.30	4.70	3.23	3.22	2.40

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	2008	2009	2010	2011	2012
	46.58	36.60	46.28	10.23	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:

	2008		2009		2010		2011		2012	
In € million	PEE	PERCO	PEE	PERCO	PEE	PERCO	PEE	PERCO	PEE	PERCO
	2.19 [a]	1.37 [a]	2.95 [b]	1.04 [b]	2.4 [c]	0.4 [c]	3.1 [d]	0.6 [d]	3.6 [e]	0.7 [e]

(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.

(e) Including €2,077,757.23 in respect of the "Value 12" employee share ownership scheme.

7.3.3 EMPLOYEE SHAREHOLDING

7.3.3.1 International employee share ownership offerings

Since 2008, the Group has offered an international shareholding plan in its main countries of operation, called "Value" followed by the last two figures of the year of its deployment (for a description of the plans from 2008 to 2011, see Section 6.3.3 "Employee shareholding" in the 2011 Registration Document).

In 2012, the "Value 12" plan was offered in nine countries (Brazil, Canada, China, France, Germany, Mexico, the United Arab Emirates, the United Kingdom and the United States) and resulted in a capital increase on 6 December 2012, for a gross total of €85.6 million through the issue of 3,319,835 new shares at a subscription price per share of €25.79, in accordance with the authorizations granted to the Management Board by the Shareholders' Meeting of 31 May 2012 in its fifteenth, sixteenth and seventeenth resolutions. Nearly 14,000 employees in the nine countries concerned, i.e. 65% of eligible employees, chose to subscribe to the Group's share offering. The shares owned by employees as a result of the offering represented 7.14% of Vallourec's share capital at 31 December 2012 compared with 4.97% at 31 December 2011.

In place of the contribution granted to employees and those with similar rights of the Group's French companies situated in Brazil, Germany, Mexico, the United Arab Emirates and the United Kingdom and participating in the "Value 12" plan, the Management Board at the same time implemented, under the terms of the "Value 12" offering, a free share allocation plan for existing shares, involving 4,395 shares, i.e. 0.004% of the share capital on that date, 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 employees of VAM USA LLC), who took part in a +SAR share formula under the "Value 12" plan.

The five international employee shareholding plans offered since 2008 have proved highly successful given their average subscription rate of 68% and raised employee shareholding from 0.16% at 31 December 2007, to 1.53% at the end of 2008, 2.60% at the end of 2009, 3.41% at the end of 2010, 4.97% at the end of 2011 to stand at 7.14% at 31 December 2012. This success is all the more significant given that it has taken place in a context dominated by 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", "Value 11" and "Value 12" plans are provided in Note 24 to the consolidated financial statements in Section 6.1 of this Registration Document.

7.3.3.2 International plans for the allocation of performance shares to employees

Since 2009, the Group has conducted an annual international performance share allocation plan for all employees (excluding members of the Management Board) in the majority of Group entities.

Called "Plan 1-2-3" at its launch in 2009 then "Plan 2-4-6" in 2010 to take account of the two for one split in the par value of the Vallourec share in July 2010, these plans enable each of the employees in the allocation scope to receive zero, two, four or six Vallourec shares depending on the Group's performance over two years. In 2012, the 2-4-6 plan resulted in the allocation, subject to conditions of the beneficiary continuing to be employed within the Group and performance, of a maximum number of 130,116 performance shares, representing 0.11% of the share capital on the date of the operation on 18 November 2012, of a maximum of six shares per beneficiary, for 21,686 employees of Vallourec entities in Brazil, Canada, China, France, Germany, India, Malaysia, Mexico, Norway, the Netherlands, Russia, Singapore, the United Arab Emirates, the United Kingdom and the United States (for a summary of the international performance share allocation plays deployed from 2009 to 2012, see above Section 7.3.1.2.1 "Performance share allocation plans").

APPENDICES

Appendix 1 – 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 Commercial Code, 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 Commercial Code 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).

Vallourec has based the drafting this report on the AMF's reference framework, supplemented by its application guidelines, dated 22 July 2010, and the final report of the Audit Committee on 22 July 2010, issued by a working party constituted by the 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 meetings on 20 February and 27 March 2013.

A – CONDITIONS GOVERNING 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 Chapter 7 of the Registration Document for the year ended 31 December 2012 dealing with corporate governance, which is an integral part of this report.

In 2012, the Board met eight times. The average length of its meetings was approximately 3 hours 45 minutes. The meeting on 7 November 2012 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. The schedule for meetings in 2012 was adopted by the Board of 11 May 2011, and that for meetings in 2013 by the Board on 28 March 28 2012, based on 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 90% on average for the meetings held in 2012.

Dates of Board meetings (financial year 2012)	Attendance rate
22 February	10/11 (91%)
28 March	9/11 (82%)
10 May	9/11 (82%)
30 May	11/11 (100%)
31 May	12/12 (100%)
26 July	12/12 (100%)
7 November	11/12 (92%)
12 December	9/12 (75%)

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 2012 for each Board member, was as follows:

Members of the Supervisory Board in 2012	Attendance rate [(a)]
Jean-Paul Parayre	8/8 (100%)
Olivier Bazil [(a)]	3/4 (75%)
Patrick Boissier	6/8 (75%)
Pascale Chargrasse	7/8 (87,5%)
Jean-François Cirelli	6/8 (75%)
Vivienne Cox	6/8 (75%)
Michel de Fabiani	8/8 (100%)
José Carlos Grubisich [(a)]	3/4 (75%)
Anne-Marie Idrac	8/8 (100%)
Edward G. Krubasik	8/8 (100%)
Alexandra Schaapveld	8/8 (100%)
Jean-Claude Verdière [(a)]	4/4 (100%)
Bolloré, represented by Cédric de Bailliencourt	8/8 (100%)

(a) On a time pro-rated basis, until expiry of the term of office or from date of appointment, depending on the case.

When absent, members of the Supervisory Board were represented.

In 2012, 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. Supervisory Board members are invited to submit any comments they have in advance of Board meetings.

A few days before the Supervisory Board meeting, the Management Board sends papers to each participant, including (apart from special cases) all supporting documents for the issues on the Board's agenda. For meetings at which the quarterly results are reviewed, these papers also contain 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 Commercial Code. 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 Commercial Code, he/she leaves the meeting while the matter concerned is being discussed.

In 2012, Vallourec's Statutory Auditors attended the Supervisory Board Meetings at which the financial statements and half-year financial statements were reviewed.

Since 2008, the Supervisory Board has carried out a formal annual assessment of its operation. The latest self-assessment was conducted in 2012 using a detailed questionnaire, which contained seven subjects for assessment with one subject devoted exclusively to the Committees. 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. The diversity and complementary backgrounds of the members was deemed satisfactory and the composition of the Board adequate. The addition of Olivier Bazil and José Carlos Grubisich to the Board was appreciated by all the members. It was recommended that efforts to ensure greater diversity and strengthen the proportion of women members and, where relevant, foreign nationals should be strengthened. Following a recommendation resulting from the assessment in 2012, the duration of Board meetings will be increased to carry out a more thorough review of the issues presented and ensure optimum breadth and depth of discussions. This assessment also confirmed the concern of members to reserve a significant portion of certain meetings for major subjects such as Group strategy and analysis of the competition, technology and innovation. The documentation presented as background information for these meetings is judged to be sufficiently detailed and constantly improving.

Regarding the running of the business, in 2012 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, and the dividend policy; and monitoring strategic projects, financing policy, the conduct of major projects, the strategic plan, the 2013 budget, the Group's policy on gender equality at work and in wages, and current ongoing negotiations.

As regards corporate governance, the Supervisory Board examined the following subjects in particular:

- the setting of remuneration for members of the Management Board for 2011 and 2012 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 especially with regard to the succession of the Chairman whose term of office will expire at the end of the Annual General Meeting of 30 May 2013; and
- the composition of the Committees.

B – SHAREHOLDER PARTICIPATION IN THE COMPANY'S SHAREHOLDERS' MEETINGS

Every 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 allocated 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 endeavors, whenever it can, to improve shareholder participation at its Shareholders' Meetings by making shareholders aware of the 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 attendance register at the Ordinary and Extraordinary Shareholders' Meeting on 31 May 2012 shows that 1,928 shareholders were present, represented or had voted by post, owning a combined total of 68,997,325 shares with voting rights out of 120,373,914, i.e. 57.32% of shares with voting rights, and 70,980,552 voting rights out of 122,616,351, i.e. 57.89% of voting rights. In this analysis, the *Caisse des Dépôts et Consignations* (CDC) and the *Fonds Stratégique d'Investissement* (FSI) accounted for a combined number of 8,871,078 shares representing the same number of voting rights, which is 7.31% of the capital and 7.23% of net voting rights.

C – INFORMATION REFERRED TO IN ARTICLE L.225-100-3 OF THE FRENCH COMMERCIAL CODE

In accordance with Article L.225-100-3 of the French Commercial Code, 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 Commercial Code

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 Commercial Code is presented in Section 2.3 of the 2012 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 Monetary and Financial Code, 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.

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 Vallourec and Nippon Steel & Sumitomo Metal Corporation (NSSMC) (formerly Sumitomo Metal Industries) [1] 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 30 May 2013 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 Commercial Code. No draft resolution in this regard is due to be put to the Shareholders' Meeting on 30 May 2013.

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 Nippon Steel & Sumitomo Metal Corporation (NSSMC) (formerly Sumitomo Metal Industries) [1] 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 (see Section 5.1.5.2 above – "Liquidity risks"), and the bonds issued in December 2011 and August 2012 (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

For FY 2012, the Chairman of the Management Board was entitled to a termination package, the conditions of which are described in section E of this report. The Supervisory Board meeting of 2 May 2013 will re-examine the terms of this termination package and will make them public on this date.

(1) On 1 October 2012, Sumitomo Metal Industries merged with Nippon Steel. The newly merged organization was named Nippon Steel & Sumitomo Metal Corporation (NSSMC).

D – INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

1. Objectives of internal control

The Group's internal control system was developed and implemented with significant involvement from the Group's staff. It aims to provide reasonable assurance that the following four objectives can 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. However, like any system of control, it cannot give an absolute guarantee that the Group's objectives will be achieved or that all the risks, in particular, of error or fraud, will be totally eliminated or contained.

The internal control process is constantly evolving in order to adapt to changes in the economic and regulatory environment, and the Group's structure and strategy. Independently of these circumstantial developments, the key control activities for internal control processes and risk management are regularly reviewed.

It is deployed in all companies in which Vallourec directly or indirectly holds the majority of the share capital. For companies whose shares are listed or under joint control, an appropriate system and internal control organization, consistent with legislation in force locally.

All the entities within the scope of the Group's internal control are reviewed at least every three years, in accordance with the internal audit plan. Newly acquired entities are incorporated into the internal control system in the year following their acquisition. Saudi Seamless Pipes Factory Company Limited and Tubos Soldados Atlântico Ltda, acquired at the end of 2011, were incorporated in the internal control system in 2012.

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 set of procedures which constitute the basis of the internal regulations 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, the procedure for relations with the media 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 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.

In addition, to incorporate ethics into a continuous progress approach, an Ethics Committee was created in 2012. Composed of representatives of the Legal Department and various functional departments (purchasing, HR etc.), it is expected to meet at least once per quarter to define the ethical guidelines under the leadership of the Code of Ethics Officer and ensure their effective deployment.

Global program 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 program of legal compliance.

This program, 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 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 program will continue to be deployed in 2012, particularly 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.

This procedure was revised in December 2012 and now includes, for specific cases, tools to mark each step in the validation of a decision requiring authorization and thus ensure traceability in the decision-making process.

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 in the face of competition and, on the other hand, of protecting people working for Vallourec by informing them in as much detail 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.

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).

The procedure for relations with the media

Vallourec has defined a procedure for relations with the media which is aimed at safeguarding the development of the Group's image and promotion of its activities, and at the same time ensuring the consistency of the messages and protecting its reputation.

All information for the media, whether proactive or requested from outside, and whether it concerns a press release, conference, interview or telephone call, is subject to an internal validation 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 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 Commercial Code, the Finance and Audit Committee monitors the financial information preparation process and the effectiveness of the internal control and risk management systems.

Vallourec'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 annual financial statements and a limited review of the half-year financial statements. They do not audit the quarterly financial information.

3.2.3 CASH POSITION 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. In 2012, it renewed part of the banking liquidity facility, increased the amount of the commercial paper program from €750 million to €1 billion, and issued two long-term debt private placements for a total of €455 million.

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.

To this end, 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 COSO report (Committee of Sponsoring Organizations of the Treadway Commission) and complies with the provisions of the AMF reference framework application guidelines 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 analyzed

3.3.1 INDUSTRIAL INVESTMENT

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 on all projects which were authorized in earlier years and involve mass production. In addition, project management audits may be carried out during the project implementation phase.

In 2012, Vallourec also decided to review its practices for the management of major projects. A project team, supported by a consultancy well known for its expertise in this area, conducted an analysis of recent projects, particularly in light of external best practice.

3.3.2 ORGANIZATION OF SUSTAINABLE DEVELOPMENT – QUALITY – SAFETY – ENVIRONMENT

The Group's sustainable development policy is led by a member of the Executive Committee to whom the Sustainable Development Department reports. This Department was created in 2010 and has the following responsibilities:

- identification of the issues, constraints and risks associated with sustainable development and formalization of the policy in this respect;
- the development of a culture and awareness of the sustainable development issues in the Group;
- the establishment of action plans in the operational and functional departments;
- coordination of the Sustainable Development Committee and application committees;
- collection, consolidation and communication of the results; and
- introduction and oversight of good practices.

The sustainable development strategy, projects and programs 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 Health & Safety and Environment managers ("HSE managers") of each of the divisions, and 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 Vallourec's Sustainable Development Charter, which was drawn up in 2004 and redesigned 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.

The information required pursuant to French Law No. 2010-788 of 12 July 2010 on national action for the environment, called the "Grenelle", is provided in Chapter 4 of the 2012 Registration Document. The "Sustainable development" report, previously published separately, will be included in the business activity report. The new integrated report will describe the corporate commitment to sustainable development issues and combine, in a dedicated chapter, the HR, environmental, civic responsibility and ethical issues, highlighting the Group's undertakings and actions in these areas and the progress made in all the entities.

The Vallourec Group's main sites, which account for more than 98% of the Group's production, now have certification under ISO 14001. Some of the smaller sites are expected to be certified in 2013.

Under the *GreenHouse* project launched in 2009, which was continued in 2012, Vallourec put in place a 20% by 2020 improvement program for its energy performance, by developing best practice and behaviors as well as investing in new equipment. These actions were also aimed at reducing greenhouse gas emissions as part of a "low-carbon economy" approach.

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 has been structured around 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.

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 programs 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 program called "Cap Ten Safe". Driven by a determination to bring about change and act on all safety levers, this program 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 program called "CAPTEN+ Safe".

Like "Cap Ten Safe", this program 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.

In 2012, the LTIR came to 2.60, a 7% decrease against 2011 and 72% since the first "Cap Ten Safe" program.

Sharing the Management Board's concern regarding safety, the Supervisory Board starts each of its meetings with a progress review of safety performance.

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 programs 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 PURCHASES

The Purchasing Department operates a proactive internal control system both in terms of the initial purchase (product assessment, supplier selection and contract-signing) and in terms of processing (receiving the necessary quantities at the agreed price and according to delivery and fixed payment conditions).

At the initial purchase stage, the Purchasing Department determines the strategic goods and services and organizes strategic purchases based on the purchasing policy, breaking them down on a "Make or Buy Policy", into goods produced by the Group (purchase of raw materials or semi-finished materials) and those purchased on the market (purchases of finished products). Coordinating with internal clients, the department assesses various potential suppliers and checks, particularly for strategic goods and services, the availability of other suppliers ("second sourcing"). Taking commercial practices into account, it focuses on formalizing contracts to avoid later disputes.

To ensure competitive procurement without denting the quality of the products or services delivered by the Group, suppliers are selected on the base of an analytical matrix that takes account of the quality of the goods or service and the financial or commercial conditions. This process may be accompanied by a competitiveness survey, especially by establishing benchmarks with the market or internal parties, to ensure a fair price.

The Purchasing Department safeguards compliance with the specifications (quality risk) by creating, with its internal client, a summary table of the technical and commercial proposals of potential suppliers meeting the specifications.

To ensure optimum operation of the production capacity and avoid late delivery or potential logistics or storage difficulties caused by early delivery, the Purchasing Department also monitors the reliability of deliveries. Reliability is a measurement included in the "vendor rating".

At the end of the purchasing process, accounts payable checks the correspondence between the order, the receipt of the good or service, and the invoice; a quality control process is also conducted on certain products or services. It analyses any discrepancies and differences between price and quantities.

In order to prevent any risks of inappropriate relations between the Purchasing Department and suppliers, every major purchase has to be passed by an ad hoc Committee, composed of representatives of the Purchasing Department and the internal client, which is required to approve it against an analysis of comparative offers. The Group's Code of Ethics which has been in force since 2009 and is very widely deployed among all the staff is applied at all levels.

3.3.5 INFORMATION SYSTEMS

The audit and IT safety plan, initiated in 2009, has been deployed or is in the process of finalization (Germany) at all Group sites.

New procedures on the security of production IT systems and mobile equipment (Smartphones and tablets) have been put in place and circulated among users. In France, the IT charter has also been updated and circulated to the relevant parties.

For better control of IT systems, a specific Risk Committee for IT and a Group-wide Committee convening all the functional representatives for IT security, risk management, Human Resources, internal control and quality was set up in 2012.

Further actions were conducted throughout 2012 to raise the awareness of employees about data security and a variety of projects to enhance it were conducted:

- the project to separate access rights to computer applications (the GRC project) continued, and its penetration is now 80%;
- phase 2 of the introduction of the SAP application at V & M Star and V & M Two began; SAP was also deployed in the Saudi Seamless Pipes Factory Company Limited (Middle East), acquired in November 2011, and V & M Changzhou (China). The Chinese company also underwent a risk analysis and data classification analysis. This is due to be extended to all Group sites to facilitate control of the workstations' compliance with the Group's IT procedures, and a new remote audit system for workstations was put in place at all Group sites, except for the United States where it will be deployed in 2013; and
- a new wi-fi network security architecture has been developed and is now in place to cover head office. It is in the process of being deployed at all the Group's other sites.

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.

This also enables best practice to be identified and implemented on a Group-wide basis.

In 2012, "Pay" and "Personnel administration" database securitization checks were conducted in France. A corrective action plan will be deployed in 2013, and discussions on the value of extending this type of control to other countries using integrated HR management software programs.

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 Department 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. Ongoing Developments

In the first quarter of 2013, one of Vallourec's subsidiaries was the victim of international transfer fraud. The amount of the fraud, estimated at €23 million, should have a maximum impact on the Group's consolidated net income of approximately €16 million. Vallourec lodged a complaint immediately after it was discovered and a criminal investigation is ongoing. The Group has also brought an action before the administrative court to obtain compensation for the prejudice suffered.

Vallourec conducted checks of all its security measures to make sure that they were relevant. These checks did not show any systemic deficiency of the internal control system, but confirmed the isolated nature of this incident. It nevertheless carried out an awareness reinforcement campaign with all employees of the Group's financial community and its banks.

5. Risk management

The main risks facing the Group are described in Chapter 5 of the 2012 Registration Document.

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 cross-company approach to ensure consistent and comprehensive risk management and monitoring, detailed in the "Group Risk Management Policy" document.

The Management Board delivers a specific report to the Audit and Finance Committee on the major risks that could have an impact on accounting and financial information.

To implement this policy, Vallourec's Risk Management Department coordinates a top-down approach whereby senior managers collect sets of data from the operational staff, enabling them to evaluate major risks and create a risk map in order to put measures in place to reduce the probability and impact of these risks or transfer them. The method establishes priorities according to the nature of the risks, taking into account the controls' "potential for improvement". 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 at each of Vallourec's Divisions and at Group level so that the Management Board can monitor and manage risk. 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 these Committee meetings 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 particular 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. Risk management complements the Group's internal control and internal audit functions. It collaborates with them and helps to draw up the internal audit program. It methodically tests the robustness of the above-mentioned internal control procedures, and where necessary steps them up to best practice.

Risk management is thus based on an increasingly comprehensive and customized internal control process. In return, it helps improve internal control by anticipating risks, benchmarking procedures and directing action plans from divisional senior management and the Management Board.

Additional information, especially on management measures for the main operating risks, is provided in Chapter 5, Section 5.2 "Risk management" of the 2012 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

Vallourec complies with the recommendations regarding remunerations and pensions of the Management Board members stated in the AFEP-MEDEF Corporate Governance Code, under the conditions set out in the summary table in Appendix 3 of the 2012 Registration Document.

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 Chapter 7 of the 2012 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 2012, 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 consolidated net profit, 45% as a function of consolidated EBITDA and operating working capital, and 45% as a function of the achievement of objectives set by the Board and relative to safety, 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 27 March 2013, the Supervisory Board set the variable portion of remuneration in respect of 2012 at €275,000 for Philippe Crouzet (i.e. 36% of the fixed portion), €132,000 for Jean-Pierre Michel (29% of the fixed portion) and €125,000 for Olivier Mallet (31% of the fixed portion).

For 2012, the target and maximum variable portions of Philippe Crouzet's remuneration were 90% and 120% respectively of the fixed portion of his remuneration and were conditional upon consolidated net income (30%), consolidated EBITDA and PRI (45%) and the achievement of the objectives (45%) relating to security, cost cutting, strategic development and the Group's international expansion. The target and maximum variable portions of Jean-Pierre Michel and Olivier Mallet's remuneration were 75% and 100% respectively of their fixed remuneration and were conditional upon consolidated net income (25%), consolidated EBITDA and PRI (37.5%) and the achievement of the objectives (37.5%) relating to security, cost cutting, strategic development and the Group's international expansion. On these bases, at its meeting on 27 March 2013, the Supervisory Board set the variable portion of remuneration pertaining to 2012 at €275,000 for Philippe Crouzet (i.e. 36% of the fixed portion), €132,000 for Jean-Pierre Michel (29% of the fixed portion) and €125,000 for Olivier Mallet (31% of the fixed portion).

For the 2013 financial year, the Supervisory Board has maintained the fixed portions of the monetary remuneration of members of the Management Board and, on the recommendation of the Appointments, Remuneration and Governance Committee, raised the target variable and maximum portions of Philippe Crouzet's remuneration to 100% and 135% respectively, while those of Jean-Pierre Michel and Olivier Mallet remained unchanged. Consequently, the fixed and variable monetary remuneration determined was as follows:

2013	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	100%	75%	75%
Maximum variable portion as % of the fixed portion	135%	100%	100%

The maximum variable portion of Philippe Crouzet's remuneration will be based on the Group's consolidated net income (33.5%), performance objectives (50.6%) relating to consolidated EBITDA and debt, operational objectives (50.9%) relating to security, competitiveness, strategic investments and the Group's strategic development. These percentages have been set at 25%, 37.5% and 37.5% respectively for Jean-Pierre Michel and 25%, 42.5% and 32.5% for 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. In 2012, no options were granted to the members of the Management Board.

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. For the plans set up in 2011 and 2012, performance is assessed on 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 for the period, the ratio of consolidated EBITDA to consolidated sales on a like-for-like basis for the period, and the stock market performance of the Vallourec share compared with a reference panel. From 2013, performance will be assessed over three consecutive financial years and measured on the basis of the following four quantified criteria: the expected rate of return on capital invested on a consolidated basis, the growth of consolidated sales on a like-for-like basis, the relative stock market performance of the Vallourec share, and the performance of consolidated EBITDA against a panel of comparable companies.

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. From 2013, the performance conditions to be met for the granting of options will be comparable to those described for performance shares and assessed over a period of four consecutive financial years.

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.

For pensions, members of the Management Board, in common with all Group senior executives, benefit from a supplementary pension scheme whose beneficiaries may retain the benefit after the age of 55 if they do not take up other employment after termination of their employment by the Company.

This scheme, which does not give any specific advantage to members of the Management Board compared with other Group senior executives and is applied when gross basic compensation (excluding the variable portion and exceptional bonuses) is greater than four annual social security ceilings for a consecutive period of three years, appears to be moderate, as the supplementary scheme is capped at 20% of the average basic salary over three years, excluding the variable portion, and limited to four annual social security ceilings. 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: $C = \sum c$ where c (for each full year) = $(0.25 \times (B/P) - 1) / 100$ [1].

(1) C = annual rights capped at 2%; B = annual base salary (gross remuneration excluding variable portion); P = annual social security ceiling.

The Chairman of the Management Board does not have an employment contract with the Group. The terms of his termination package, determined by the Supervisory Board when he took up office on 1 April 2009, will be reexamined by the Supervisory Board at its meeting of 2 May 2013. The decision taken will be published on the Company's website in accordance with the law and the AFEP-MEDEF Corporate Governance Code (see 2011 Registration Document, pages 258 and 262 for a description of the conditions of the termination package defined in 2009). For 2012, he was entitled to a termination package in the event that he was removed from office and in the event of a significant change in the Group's capital structure that could 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. The termination package was limited to twice the fixed portion of the remuneration increased by a target variable portion as determined by the Supervisory Board and corresponding to 80% of the fixed portion ("the reference remuneration"). Payment of this indemnity depended upon performance conditions based on three criteria: (i) EBITDA expressed as a percentage of sales, (ii) the comparison of actual EBITDA of the financial period ended expressed in euros with budgeted EBITDA and (iii) the achievement of personal improvement objectives determined by the Supervisory Board for the financial period under examination. Each of these three criteria expressed as a percentage of the fixed portion of the remuneration was limited to 30. The performance conditions were met if the total of the three criteria determining the Performance Criteria (hereinafter "PC") was, on average over the last three financial periods, equal to or higher than half of the target variable portion of the remuneration. If the PC were lower than this threshold, no indemnity was paid. If the PC were equal to half the target variable portion, the indemnity paid was 1.5 times the reference remuneration: it varied on a straight line between PC = 40 and PC = 80. Furthermore, stock options as well as stocks based on performance conditions were definitively attributed even in the case of termination of office under the circumstances as described above, if PC were equal to or higher than 40 in 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. The conditions in which the Company applies these recommendations are detailed in the summary table in Appendix 3 of Chapter 7 of the 2012 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).

Appendix 2 – Summary of individual declarations relating to transactions in Vallourec's shares by persons referred to in Article L.621-18-2 of the French Monetary and Financial Code in 2012

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 €)*
Edward G. Krubasik, Member of the Supervisory Board	Shares	Acquisition	14/05/2012	18/05/2012	Frankfurt stock exchange	34.13	10,341.39
Jean-Paul Parayre, Chairman of the Supervisory Board	Other types of financial instruments	Acquisition	15/05/2012	23/05/2012	Euronext Paris	19.06	1,333,885.00
Jean-Paul Parayre, Chairman of the Supervisory Board	Other types of financial instruments	Disposal	15/05/2012	23/05/2012	Euronext Paris	19.54	1,367,530.26
Jean-Yves Le Cuziat, Member of the Executive Committee	Shares	Acquisition	06/06/2012	02/07/2012	Euronext Paris	28.88	38,422.00
Jean-Pierre Michel, Member of the Management Board and Chief Operating Officer	Shares	Acquisition	25/06/2012	26/06/2012	Euronext Paris	27.78	27,780.00
Olivier Mallet, Member of the Management Board	Shares	Acquisition	25/06/2012	27/06/2012	Euronext Paris	27.91	19,955.65
Gérard Terneyre, Director of Strategy and Development	Shares	Disposal	07/12/2012	09/12/2012	Euronext Paris	40.19	25,721.60

Appendix 3 – Compliance with the recommendations of the AFEP-MEDEF Code

In accordance with AMF recommendation No. 2012-14 of 11 October 2012, the following table summarizes the recommendations of the AFEP-MEDEF Code that Vallourec has chosen not to apply and the circumstantial explanations for this.

Recommendations of the AFEP-MEDEF Code (April 2010)	Application by Vallourec
Section 20.2.3 of the AFEP-MEDEF Code recommends "making the allocation of performance shares to executive corporate officers conditional, on terms set by the Board and made public on their allocation, upon the purchase of a defined quantity of shares when the allocated shares are vested".	Vallourec considers that the requirement for the members of the Management Board to hold, until termination of their functions, one quarter of the performance shares allocated to them under a plan, is an effective mechanism equivalent to the recommendation of the AFEP-MEDEF Code to make the allocation of performance shares to executive corporate officers conditional upon the purchase of a defined quantity of shares when the allocated shares are vested.
Section 20.2.4 of the AFEP-MEDEF Code recommends that the existence of performance conditions required by the French Commercial Code must be such that they do not authorize "compensation except in the case of forced departure related to a change of control or strategy".	Vallourec considers that the cases of payment of compensation on departure of the Chairman of the Management Board applicable to 2012 comply with the essential requirements of the AFEP-MEDEF Code recommendation 20.2.4 and that, as the effective excess payment of this is a function of the required performance conditions, the realization of which has to be recognized by the Supervisory Board, these measures offer the precautions sought by the Code. The Supervisory Board meeting of 2 May 2013 will, however, re-examine the amount of a termination package for the Chair of the Management Board and will make it public on this date.
Section 20.2.5 of the AFEP-MEDEF Code recommends that the supplementary pension schemes for executive corporate officers must meet the following conditions: presence in the Company at the time the beneficiary claims his or her pension rights and the group of potential beneficiaries must be considerably larger than just the executive corporate officers; the beneficiaries must meet reasonable conditions regarding length of service in the Company; the increase in potential rights must only represent each year a limited percentage of the beneficiary's remuneration; the reference period used for the calculation of the benefits must be several years.	The supplementary pension scheme for members of the Management Board meets all these conditions except the condition of presence in the Company at the time the beneficiary claims his or her pension rights, as the Group's supplementary pension scheme stipulates that the beneficiaries can maintain their right if, after the age of 55, they do not take up other employment after their departure from the Company following termination of their office by the Company. Vallourec considers that this scheme is conditional on the completion of the employee's career in the Company since it is based on not taking up other employment after departure from the Company. In addition, given the length of service of some beneficiaries of this plan, especially those who have worked for the Group for their entire career, it would be unjustified to make them lose their benefit solely due to a sudden departure.

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In 2012, Vallourec's Oil & Gas markets saw robust growth, while growth in other markets (particularly industrial) had slowed down since the summer of 2011, due largely to the European recession and the decline in industrial production in Brazil.

8.1 OIL & GAS

The Oil & Gas market is described in Section 3.1.8.1 of this Registration Document ("Information relating to the Company's competitive status – Oil & Gas").

In 2012, global operation and production expenditure amounted to USD 604 billion [1], an increase of 9% over 2011.

Demand for oil [2] remained relatively stable worldwide compared with 2011, at 89.6 mb/d over the year. Stable high oil price levels [3], which reached an average of USD 112/bbl in 2012 compared with USD 111/bbl in 2011, allowed for increased spending on exploration and production.

Exploration and production were particularly active in the United States, where the strong increase in oil drilling, especially in shale basins, partly offset the drop in gas drilling, which was largely due to the low gas price [4]. The number of active drilling rigs in the United States [5] fell 12% in 2012 to 1,763 units at the end of December 2012 compared with 2,007 units at the end of December 2011. However, the average number of rigs was up by more than 2% compared with 2011 at 1,919 units. The proportion of rigs drilling for oil rose from 59% at the beginning of 2012 to about 75% at the end of the year, reflecting the change in mix in shale-basin operation. The increasing proportion of horizontal wells is noteworthy: at year-end, they accounted for 63% of wells as against 58% at the beginning of 2012.

The decrease in the number of US drilling units was partly offset by their increased effectiveness, which allowed more wells to be drilled per platform, and greater well lengths, which boosted tube consumption. The growth in horizontal drilling also means higher demand for premium products, an area in which Vallourec is very well positioned.

The Gulf of Mexico benefited from an increase in activity during 2012, with a 40% rise in the number of new drilling permits. The number of rigs was up to 48, seven more than in December 2011, which generated more premium-product orders for Vallourec.

Benefiting from the quality of its product offering and sales and marketing activities, Vallourec's North American plants operated at capacity throughout fiscal year 2012, supplemented by tube imports from other Vallourec plants, particularly those in Europe.

Outside of the United States and Canada, the active drilling-rig count continued to rise, up 6% [4] in 2012 against 2011 for a total of 1,253 units at the end of December 2012, with particularly sustained growth in Africa and the Middle East.

In the North Sea, many HP/HT [6] projects require products of extremely high quality.

The development of gas fields by national oil companies in the Middle East boosted demand for products specifically designed for corrosive environments. The granting of new offshore development licenses in West Africa led to high demand for tubes from Total and independent oil companies. The development of new projects in the Middle East also boosted demand for Vallourec premium tubes.

Brazilian sales were driven by heavy demand from Petrobras and international oil companies. In Brazil, the state-owned oil company Petrobras revised its investment plan upwards to USD 236.5 billion [7] for the 2012-2016 period, including requirements relating to the operation of promising pre-salt fields, drilling in very deep water (over 2,000 meters), far offshore and in highly corrosive environments.

8.2 POWER GENERATION

For conventional power generation, new equipment needs in Europe and the United States remained low in 2012. Although some new projects were launched in Eastern Europe, they represent only modest new capacity. A number of power plant projects have been postponed in Europe, primarily as a result of uncertainties about environmental policies. Low gas prices in the United States resulting from an abundance of shale gas and environmental policies have given the use of combined-cycle gas power plants a competitive advantage over the construction of new coal-fired facilities. Elsewhere, use of coal is likely to decrease as a result of low natural gas prices.

(1) Barclays Capital – Global 2012 E&P Spending Outlook.

(2) IEA.

(3) Brent price.

(4) Gas price – Henry Hub.

(5) Baker Hughes.

(6) HP/HT: High Pressure, High Temperature.

(7) Petrobras – 2012-2016 Business Plan.

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. Global electricity production looks set to increase by over 70% between 2010 and 2035 (or 32% between 2010 and 2020), an average of over 2% per year, particularly in Asia. The percentage of electricity produced by India and China is expected to rise from 24% in 2010 to 36% in 2035 (or 33% in 2020) [(1)]. South Korea is now positioning itself as another dynamic player in the development of new capacity in Asia. However, all of these projects are taking place within a fiercely competitive environment for international players.

For several years, the nuclear-generated electricity market had seen an upturn as many countries looked to reduce their CO_2 emissions, but the March 2011 Fukushima incident led some countries to review their nuclear energy policy. Sixteen countries remain committed to developing already-approved projects, including France and China, which account for the bulk of steam generator tube sales.

During the second half of 2012, the Chinese State Council officially approved the Nuclear Safety Plan, so investment in China's nuclear electricity sector should pick up, taking its production capacity to 60-70 GW by 2020 as against 15 GW in 2012 [(2)]. In France, Vallourec benefited from the program to replace EDF's steam generator plants in order to extend the life of its 1,300-MW reactors.

8.3 OTHER APPLICATIONS

The petrochemicals market held up well in 2012, with solid performance from the Middle East, North America and Asia-Pacific contrasting with the sluggish situation in European markets. In the Middle East, Vallourec is involved in some major projects, such as the Shaiba gas project in Saudi Arabia and Amal steam project in Oman.

In Europe, Vallourec's Non-Energy markets (Mechanical Engineering, Automotive and Construction) suffered from the economic slowdown, which led to reduced orders for industrial products.

The Brazilian economy experienced a slowdown in 2012, with economic growth below 2% (as opposed to 3% in 2011) and industrial-production growth down by almost 3%. Non-Energy activities in Brazil dropped off in Automotive (particularly industrial vehicles), Mechanical Engineering and Construction, where the sector also suffered from imports linked to a strong Brazilian real.

8.4 OUTLOOK FOR 2013

As we begin 2013, demand for seamless premium tubes for the Oil & Gas market is sustained, while demand in the other markets remains slow, with limited visibility.

Spending on exploration and production should increase in 2013, led mainly by the international markets, and Brazil and the Middle East in particular. In the United States, the number of active drilling rigs is expected to rise compared with the current level. These factors, supplemented by the ramping up of its new plants in the United States and Brazil, will support Vallourec's growth in the Oil & Gas sector.

The Group is actively engaging in its program to reduce costs and improve operational efficiency.

Based on current market conditions, the Group anticipates an overall increase in revenue and an improvement in its EBITDA margin in 2013.

(1) IEA – World Energy Outlook 2012.

(2) IAEA.

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9.1 MANAGEMENT BOARD REPORTS

9.1.1 MANAGEMENT BOARD REPORT FOR FY 2012

This Registration Document includes all elements from the Board's management report as required by law and the regulations. The table below identifies the sections and pages of this Registration Document constituting the management report.

	Management report	Registration Document Chapters/Sections	Pages
1.	Group activities and business development – Progress and challenges	3.1.2	37-44
2.	Group results – Financial position and performance indicators	3.1.3/3.1.4/3.1.5	45-48
3.	Changes to the presentation of the financial statements and the valuation methods used in prior years	6.1	116-125
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5.	Foreseeable developments and the Company's outlook	8	257-259
6.	Payment periods for suppliers and customers	3.1.3.2	47
7.	Amount of dividends paid during the past three years	2.5	27
8.	Vallourec results table for the last five financial years	9.5	281
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10.	Use of financial instruments by the Group where relevant for the assessment of its assets, liabilities, financial position and profit or loss	2.2.6/5.1.5	19-20/ 99-104
11.	Significant equity stakes in companies headquartered in France	N/A	N/A
12.	Injunctions or monetary penalties for anti-competitive practices	N/A	N/A
13.	Research and Development activities	3.3	58-61
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24.	Share transfers made to regularize cross-shareholdings or takeovers of such companies	N/A	N/A
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26.	Adjustments of the rights of holders of transferable securities giving access to capital or stock options	N/A	N/A
27.	Report by 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 the Company	7 (Appendix 1)	241-253

9.1.2 ADDITIONAL MANAGEMENT BOARD REPORT ON THE USE OF THE FIFTEENTH, SIXTEENTH AND SEVENTEENTH RESOLUTIONS OF VALLOUREC'S ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF 31 MAY 2012 IN CONNECTION WITH THE IMPLEMENTATION OF THE "VALUE 12" INTERNATIONAL EMPLOYEE SHARE OWNERSHIP SCHEME

This additional report has been drawn up pursuant to Article R.225-116 of the French Commercial Code regarding the use of the fifteenth, sixteenth and seventeenth resolutions of Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 in connection with the implementation of the "Value 12" international employee share ownership scheme.

I. Presentation of the "Value 12" international employee share ownership scheme

In a bid to involve its employees more in the Group's business and results, Vallourec sought to offer its staff the opportunity to invest in Vallourec shares.

Pursuant to the fifteenth, sixteenth, seventeenth and eighteenth resolutions passed by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, after obtaining authorization from the Supervisory Board, on 31 July 2012, Vallourec's Management Board agreed in principle to put in place a share subscription offering ("Value 12") 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 31 May 2012 under the terms of the fifteenth, sixteenth and seventeenth resolutions with a view to issuing shares at a 20% discount, subject to an overall maximum nominal amount of €7,200,000 (i.e. 3,600,000 shares); and
- the authorization granted by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 under the terms of the eighteenth resolution, with a view to allocating a maximum of 20,000 free 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 relating to the Company's capital).

The main features of the "Value 12" offering can be summarized as follows:

Beneficiaries of the offering

The "Value 12" 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 corporate headquarters 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 12" offering:

- employees (as well as corporate officers as defined in Article L.3332-2 of the French Labor Code) 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 or the Group international savings scheme 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 12" offering comprises two sets of arrangements:

- a leveraged offering open to all employees and those with similar rights eligible for the "Value 12" offering, the aim of which is to guarantee employees their initial investment (subject to exchange rate movements, taxation and deductions for social security charges and possible termination of the exchange transaction) and enable them 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 3 July 2017;
- a traditional offering open to employees and those with similar rights eligible for the "Value 12" offering, allowing them to subscribe for shares at a 20% discount, together with an employer's contribution through the Vallourec Value Relais 12 company mutual fund (*fonds commun de placement d'entreprise* – FCPE).

Except in the case of early redemption, employees' investment will be unavailable until 3 July 2017.

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 favorable for subscriptions by employees, while ensuring that all employees eligible to participate in the offering receive a comparable economic benefit (particularly 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 12 company mutual fund and a cash contribution from the employer via the Vallourec savings scheme 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 12 segment of the Vallourec Value France Germany UK company mutual fund and a cash contribution from the employer via the Group savings scheme for the amounts invested, excluding arbitrage. The company mutual fund segment 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 segment 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 12 segment of the Vallourec Value France Germany UK company mutual fund. The company mutual fund segment 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 segment 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 Brasil Mexico UAE 12 segment of the Vallourec Value Brasil Mexico UAE company mutual fund offered outside a savings scheme. The company mutual fund segment 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 segment 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. 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 stock appreciation rights actually allocated under the "cash + stock appreciation rights" arrangements, rounded down to the nearest whole number.

Shareholding method

Share subscriptions are made via a temporary company mutual fund (*fonds commun de placement d'entreprise relais*) and a company mutual fund, with segments offered in connection with the Group savings scheme or the Group international savings scheme, a company mutual fund with segments 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 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 open to French, English and German employees.

Individual subscription limit

OFFERING UNDER THE GROUP SAVINGS SCHEME

Pursuant to Article L.3332-10 of the French Labor Code, the amount of the annual payments (including profit-sharing) made by employees to the savings schemes in which they participate may not exceed one-quarter of their gross annual remuneration or retirement pension received for 2012. For the purposes of calculating this limit, the banking top-up from which the leveraged company mutual fund benefits is taken into account.

OFFERING UNDER AN INTERNATIONAL GROUP SAVINGS SCHEME VIA A COMPANY MUTUAL FUND

Pursuant to Article L.3332-10 of the French Labor Code, 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 2012. For the purposes of calculating this limit, the banking top-up from which the leveraged company mutual fund benefits is taken into account.

OFFERING UNDER AN INTERNATIONAL GROUP SAVINGS SCHEME VIA THE "SHARES + SAR" SCHEME

In view of the limit stipulated in Article L.3332-10 of the French Labor Code and the leverage mechanism, the subscription to the offering is limited to 2.5% of the gross annual remuneration for 2012.

OFFERING UNDER A COMPANY MUTUAL FUND NOT INCLUDED IN THE SCHEME

Subscription is capped at 100% of the gross annual remuneration for 2012. For the purposes of calculating this limit, the banking top-up from which the leveraged company mutual fund benefits is taken into account.

OFFERING UNDER THE "CASH + SAR" SCHEMES

In view of the leverage mechanism, the amount of the deposit is limited to 2.5% of the gross annual remuneration for 2012 for employees working at VAM USA LLC and to 10% of the gross annual remuneration for 2012 for employees working in 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.

Performance of the capital increase – reduction procedures

The capital will be increased by the number of shares subscribed for by the Vallourec Value Brasil Mexico UAE 12 segment of the Vallourec Value Brasil Mexico UAE company mutual fund, the Vallourec Value France 12 and Vallourec Value Germany UK 12 segments of the Vallourec Value France Germany UK company mutual fund, the Vallourec Value Relais 12 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 31 July 2012, i.e. 3,600,000 shares, these commitments will be reduced as follows:

- the total number of shares allocated will be divided by the number of subscribers 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;
- beyond this threshold, a reduction will be made in proportion to the fraction of the surplus demand;
- in countries where 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, 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.

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 on 7 November 2012.

Allocations of free shares will not exceed 20,000 shares.

Mandatory holding period

Shares subscribed for directly, together with units in the aforementioned company mutual funds or the deposit made by employees, will be blocked for a period ending on 3 July 2017, except in the case of early release.

Timetable

22 February and 26 July 2012	Authorization of the "Value 12" offering by the Supervisory Board
31 July 2012	Management Board makes decision on the principle and procedures of the offering
From 17 September to 5 October 2012 (inclusive)	Reservation period
7 November 2012	Setting of dates and subscription price
From 8 to 12 November 2012 (inclusive)	Subscription/retraction period open to the beneficiaries of the "Value 12" offering
6 December 2012	Recognition of completion of the capital increase

II. Context of capital increases carried out for the purpose of implementing the "Value 12" employee share ownership scheme

(a) Decisions of the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012

The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 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 involve them more closely with the Company's development. Each of these resolutions included the cancellation of shareholders' preferential subscription rights.

Fifteenth resolution: general resolution authorizing a **capital increase reserved for members of a company savings scheme** established in the Vallourec Group (where applicable, through a company mutual fund) or the sale of securities, in both cases at a discount of up to 20% (in consideration of a mandatory holding period of five years).

Sixteenth 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 a company mutual fund) but who are not members of a company savings scheme**, at a discount of 20% (in consideration of a mandatory holding period equivalent to that applicable to employees who are members of a company savings scheme).

Seventeenth 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.

Eighteenth 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 applies to the fifteenth, sixteenth and seventeenth 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 immediately or in the future pursuant to 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 immediately or in the future pursuant to 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 resolutions' validity.

To date, these delegations have not been used by the Management Board.

The term of the delegations granted pursuant to the fifteenth, sixteenth, seventeenth and eighteenth resolutions is 18 months from the date of the Meeting.

(b) Decisions of the Supervisory Board on 22 February and 26 July 2012

After approval at its meeting on 22 February 2012, the principle of an international employee share offer ("Value 12"), the Supervisory Board, at its meeting of 26 July 2012, authorized the Management Board to use:

- the delegations of authority granted by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, under the terms of the fifteenth, sixteenth and seventeenth resolutions, for the issue of shares at a 20% discount; and
- the authorization granted by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, under the terms of the eighteenth resolution, for the allocation of free shares.

(c) Decisions of the Management Board on 31 July 2012

During its meeting of 31 July 2012, the Management Board approved in principle the implementation of the "Value 12" international employee share ownership scheme, the main characteristics of which were presented in Section I above and, to that effect, authorized in principle the use of the delegations granted by the fifteenth, sixteenth, seventeenth and eighteenth resolutions of the General Shareholders' Meeting of 31 May 2012:

- with a view to the issue of new shares at a 20% discount, within the limit of a maximum nominal amount of €7,200,000, in respect of the fifteenth, sixteenth and seventeenth resolutions;
- with a view to the allocation of a maximum of 20,000 free shares under the eighteenth 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 relating to the Company's capital).

(d) Decisions of the Management Board on 7 November 2012

The Management Board, in its meeting of 7 November 2012, approved the definitive terms and conditions for the "Value 12" offer, the main characteristics of which were presented in Section I above.

In order to implement the "Value 12" offering, the Management Board decided to use the delegations granted by the fifteenth, sixteenth, seventeenth and eighteenth resolutions of the General Shareholders' Meeting of 31 May 2012:

- with a view to the issue of new shares at a 20% discount, within the limit of a maximum nominal amount of €7,200,000, in respect of the fifteenth, sixteenth and seventeenth resolutions;
- with a view to the allocation of a maximum of 20,000 free shares under the eighteenth 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 relating to the Company's capital).

The Management Board also set the dates of the subscription/retraction period for employees and those with similar rights (from 8 November to 12 November 2012 inclusive) and the subscription price for the new shares required to be issued under the fifteenth, sixteenth and seventeenth resolutions.

III. Conditions for the use of the fifteenth, sixteenth and seventeenth resolutions

III.1 Conditions for the use of the fifteenth resolution

BENEFICIARIES OF THE CAPITAL INCREASE MADE PURSUANT TO THE FIFTEENTH RESOLUTION

The issue carried out pursuant to the fifteenth resolution is reserved for employees (and corporate officers treated as employees pursuant to Article L.3332-2 of the French Labor Code) of Vallourec Group companies who are members of the Group savings scheme or of the Group international savings scheme on the date the reservation period opens, provided that such employees and corporate officers meet the three-months' 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 12 company mutual fund for the traditional scheme and through the Vallourec Value France 12 segment 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 12, a segment of the Vallourec Value France Germany UK company mutual fund. In other countries, within the Group international savings scheme, subscriptions will take the form of a direct share offering within the context of the "Shares + SAR" schemes.

PURPOSE

The purpose of this capital increase is to implement the "Value 12" offering described in Section I above in Canada, France, Germany, the United Kingdom and the United States (for all subsidiaries except VAM USA LLC).

AMOUNT OF THE ISSUE

The maximum nominal amount of the capital increase carried out pursuant to the fifteenth resolution is €7,200,000 (i.e. a maximum of 3,600,000 new shares), it being specified, however, that the combined use of the fifteenth, sixteenth and seventeenth resolutions for the purpose of implementing the "Value 12" offering is subject to an overall cap of €7,200,000 (nominal amount).

The number of shares effectively issued in the context of use of the fifteenth 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 12 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 12 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 (x) of the subscriptions through personal contributions made by the beneficiaries to whom the Vallourec Value France 12 segment 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 12 segment 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 (x) of the subscriptions through personal contributions made by the beneficiaries to whom the Vallourec Value Germany UK 12 segment 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 into euros on the basis of exchange rates set in the decisions of the Management Board of 7 November 2012) and (ii) the Discounted Subscription Price. The definitive number of shares reserved for the Vallourec Value Germany UK 12 segment 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, 7 November 2012, 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 10 October 2012 to 6 November 2012 inclusive. The average opening price of the Vallourec share recorded during this period was €32.23 and the Discounted Subscription Price was €25.79.

SUBSCRIPTION TERMS

The subscription/retraction period for employees and those with similar rights was from 8 to 12 November 2012 inclusive. The Vallourec Value Relais 12 company mutual fund and the Vallourec Value France 12 and Vallourec Value Germany UK 12 segments of the Vallourec Value France Germany UK company mutual fund will subscribe on 6 December 2012.

The subscription terms and conditions were approved in principle on 31 July 2012 by the Management Board, which ratified them on 7 November 2012. 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 upon issue and will immediately carry dividend rights; they will be fully assimilated with the existing shares.

The difference between the share subscription price and the par value will be recognized as additional paid-in capital. The costs of the capital increase will be charged 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 deducted from additional paid-in capital.

III.2 Conditions for the use of the sixteenth resolution

BENEFICIARIES OF THE CAPITAL INCREASE MADE PURSUANT TO THE SIXTEENTH RESOLUTION

The issue made pursuant to the sixteenth resolution is reserved for the Vallourec Value Brasil Mexico UAE 12 segment of the Vallourec Value Brasil 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 a Vallourec Group company at the end of the subscription/retraction period is met.

PURPOSE

The purpose of this capital increase is to implement the "Value 12" 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 made pursuant to the sixteenth resolution is €7,200,000 (i.e. a maximum of 3,600,000 new shares), with the understanding, however, that the combined use of the fifteenth, sixteenth and seventeenth resolutions for the purpose of implementing the "Value 12" offering is subject to an overall cap of €7,200,000 (nominal amount).

The number of shares effectively issued under the sixteenth 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 Brasil Mexico UAE 12 segment of the Vallourec Value Brasil Mexico UAE company mutual fund is open (translated into euros using the exchange rate set on 7 November 2012 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 Brasil Mexico UAE 12 segment of the Vallourec Value Brasil 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. €25.79.

SUBSCRIPTION TERMS

The subscription/retraction period for employees and those with similar rights was from 8 to 12 November 2012 inclusive. The Vallourec Value Brasil Mexico UAE 12 segment of the Vallourec Value Brasil Mexico UAE company mutual fund will subscribe on 6 December 2012.

The subscription terms and conditions were approved in principle on 31 July 2012 by the Management Board, which ratified them on 7 November 2012. 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 upon issue and will immediately carry dividend rights; they will be fully assimilated with the existing shares.

The difference between the share subscription price and the par value will be recognized as additional paid-in capital. The costs of the capital increase will be charged 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 deducted from additional paid-in capital.

III.3 Conditions for the use of the seventeenth resolution

BENEFICIARY OF THE CAPITAL INCREASE MADE PURSUANT TO THE SEVENTEENTH RESOLUTION

The issue made pursuant to the seventeenth 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, France, 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 "Cash + SAR" schemes of the "Value 12" 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 "Cash + SAR" schemes.

As a counterpart, Crédit Agricole CIB guarantees fulfillment of the commitments given by Group companies participating in the "Value 12" 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 made pursuant to the seventeenth resolution is €7,200,000 (i.e. a maximum of 3,600,000 new shares), it being specified, however, that the combined use of the fifteenth, sixteenth and seventeenth resolutions for the purpose of implementing the "Value 12" offering is subject to an overall cap of €7,200,000.

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 "Cash + 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' actual subscriptions (and of those with similar rights), after any reduction.

SUBSCRIPTION PRICE

The unit subscription price of the shares is equal to the Discounted Subscription Price, i.e. €25.79.

SUBSCRIPTION TERMS

The Crédit Agricole CIB Vehicle will subscribe to the capital increase on 6 December 2012.

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 upon issue and will immediately carry dividend rights; they will be fully assimilated with the existing shares.

The difference between the share subscription price and the par value will be recognized as additional paid-in capital. The costs of the capital increase will be charged 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 deducted from additional paid-in capital.

III.4 Overall cap

The use of each of the three resolutions above is subject to an individual cap of €7,200,000 (nominal amount), i.e. 3,600,000 shares. Furthermore, the cumulative use of the three resolutions cannot exceed the overall cap of €7,200,000, i.e. 3,600,000 shares.

In other words, the "Value 12" offer will have a cap, such that the sum (Total Number) of:

- the number of shares actually subscribed for by the Vallourec Value Relais 12 company mutual fund;
- the number of shares actually subscribed for by the Vallourec Value France 12 and Vallourec Value Germany UK 12 segments of the Vallourec Value France Germany UK company mutual fund;
- the number of shares actually subscribed for by the Vallourec Value Brasil Mexico UAE 12 segment of the Vallourec Value Brasil 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 "Cash + SAR" schemes [1].

does not exceed 3,600,000 shares.

If, following the subscription/retraction period and in light of the subscription forms collected in all the countries included in the scope, it appears that the total number would exceed 3,600,000, the subscriptions by beneficiaries of the "Value 12" 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 12" international employee share ownership scheme, the execution of which was approved in principle by the Management Board on 31 July 2012. The main features are described in Section I. above.

More specifically:

- the capital increase made pursuant to the fifteenth 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 12 segment of the Vallourec Value France Germany UK company mutual fund, and in Germany and the United Kingdom through the Vallourec Value Germany UK 12 segment 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 made pursuant to the sixteenth 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 context of a segment 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 pursuant to the seventeenth 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 "Cash + 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 guarantees fulfillment of the commitments (excluding social security contributions, tax deductions and foreign exchange effects) given by Vallourec companies participating in the "Value 12" 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 12" offering (directly or through a company mutual fund) and the Crédit Agricole CIB Vehicle was determined in accordance with the provisions of the fifteenth, sixteenth and seventeenth resolutions of the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012.

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 7 November 2012) for the capital increase made pursuant to the fifteenth 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 10 October 2012 to 6 November 2012 inclusive. The average opening price of the Vallourec share recorded during this period was €32.23 and the Discounted Subscription Price was €25.79.

(1) The number of SAR granted to each participant in a "Cash + SAR" scheme will be equal to the number (rounded down to two decimal places) of the resulting quotient of its deposit (converted into euros at the exchange rate set by the Management Board meeting on 7 November 2012) by the Discounted Subscription Price.

VI. Theoretical impact on the shareholders' position of capital increases resulting from the use of the fifteenth, sixteenth and seventeenth resolutions

As of 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.

As an indication, and assuming that all of the 3,600,000 shares offered jointly in the context of the capital increases carried out pursuant to the fifteenth, sixteenth and seventeenth 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. 121,626,521 shares), would be as follows:

(1) Impact of the issue of 3,600,000 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. 121,626,521 shares:

	Shareholder's interest as a percentage of the share capital
Before the capital increase	1.00%
After the issue of 3,600,000 shares	0.97%

(2) Impact of the issue of 3,600,000 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 consolidated equity as of 30 June 2012 and the number of shares comprising the capital as of the date of this report, i.e. 121,626,521 shares):

	Proportion of consolidated equity based on consolidated equity as of 30 June 2012*
Before the capital increase	€38.55
After the issue of 3,600,000 shares	€38.18

* *Excluding non-controlling interests.*

VII. Theoretical impact of the capital increases resulting from the use of the fifteenth, sixteenth and seventeenth resolutions on the current stock-market price of the Vallourec share

As of 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.

As an indication, and assuming that all of the 3,600,000 shares offered jointly in the context of the capital increases made pursuant to the fifteenth, sixteenth and seventeenth 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: 121,626,521.
- Average opening price during the 20 trading sessions preceding the setting of the Discounted Subscription Price: €32.23.
- Based on this average:

  The theoretical price of the Vallourec share after the issue of 3,600,000 shares, based on the share capital at the date of this report, would be €32.04 (1).

There are no other securities giving access to the Company's share capital.

This report will be amended when the number of shares actually subscribed for following the capital increases resulting from the use of the fifteenth, sixteenth and seventeenth 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 General Shareholders' Meeting.

7 November 2012

The Management Board

(1) This theoretical price is equal to: $\frac{121{,}626{,}521 \times 32.23 + 3{,}600{,}000 \times 25.79}{121{,}626{,}521 + 3{,}600{,}000}$

9.1.3 ADDITIONAL REPORT BY THE MANAGEMENT BOARD ON 7 NOVEMBER 2012 ON THE USE OF THE FIFTEENTH, SIXTEENTH AND SEVENTEENTH RESOLUTIONS OF VALLOUREC'S ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF 31 MAY 2012 IN CONNECTION WITH THE IMPLEMENTATION OF THE "VALUE 12" INTERNATIONAL EMPLOYEE SHARE OWNERSHIP SCHEME

This report supplements the additional report prepared pursuant to Article R.225-116 of the French Commercial Code in the context of the use of the fifteenth, sixteenth and seventeenth resolutions of Vallourec's Ordinary and Extraordinary Shareholders' Meeting, approved on 31 May 2012 by the Management Board within the context of implementing the "Value 12" international employee share ownership scheme ("Value 12" offering).

At its meeting on 6 December 2012, the Management Board:

- set the number of shares to be issued under the use of each of the above three resolutions as follows:
  - the issue of 1,820,838 new shares at a unit price of €25.79 in the context of the fifteenth resolution, of which 28,844 shares subscribed for by the Vallourec Value Relais 12 company mutual fund, 708,044 shares subscribed for by the Vallourec Value France 12 segment of the Vallourec Value France Germany UK company mutual fund, 1,060,798 shares subscribed for by the Vallourec Value Germany UK segment of the Vallourec Value France Germany UK company mutual fund and 23,152 shares subscribed for by employees and those with similar rights who participated in a "Shares + SAR" scheme,
  - the issue of 1,193,452 new shares at a unit price of €25.79 in the context of the sixteenth resolution, subscribed for by the Vallourec Value Brasil Mexico UAE 12 segment of the Vallourec Value Brasil Mexico UAE company mutual fund,
  - the issue of 305,545 new shares at a unit price of €25.79 in the context of the seventeenth 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, France, registered in the Nanterre Trade and Companies Registry under No. 422 551 093 (the Crédit Agricole CIB Vehicle);
- noted the definitive carrying out of the following capital increases and amended the by-laws accordingly:
  - the definitive carrying out, under the fifteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, of a capital increase in the gross amount of €46,959,412.02 (forty-six million, nine hundred and fifty-nine thousand, four hundred and twelve euros and two cents) through the issue of 1,820,838 new shares at a unit price of €25.79, subscribed for by the Vallourec Value Relais 12 company mutual fund (28,844 shares), the Vallourec Value France 12 segment of the Vallourec Value France Germany UK company mutual fund (708,044 shares) and the Vallourec Value Germany UK 12 segment of the Vallourec Value France Germany UK company mutual fund (1,060,798 shares) on behalf of unitholders and directly by beneficiaries of the "Shares + SAR" scheme who have participated in "Value 12" under the international employee shareholding plan (23,152 shares). The issue of 1,820,838 new shares through a capital increase in the nominal amount of €3,641,676 (three million, six hundred and forty-one thousand, six hundred and seventy-six euros) and via the recognition of additional paid-in capital of €43,317,736.02 (forty-three million, three hundred and seventeen thousand, seven hundred and thirty-six euros and two cents), representing the difference between the total amount of the subscription price and the total nominal amount of the capital increase,
  - the definitive carrying out, under the sixteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, of a capital increase in the gross amount of €30,779,127.08 (thirty million, seven hundred and seventy-nine thousand, one hundred and twenty-seven euros and eight cents) through the issue of 1,193,452 new shares at a unit price of €25.79, subscribed for by the Vallourec Value Brasil Mexico UAE 12 segment of the Vallourec Value Brasil Mexico UAE company mutual fund. The issue of 1,193,452 new shares through a capital increase in the nominal amount of €2,386,904 (two million, three hundred and eighty-six thousand, nine hundred and four euros) and the recognition of additional paid-in capital of €28,392,223.08 (twenty-eight million, three hundred and ninety-two thousand, two hundred and twenty-three euros and eight cents), representing the difference between the total amount of the subscription price and the total nominal amount of the capital increase,
  - the definitive carrying out, in the context of the seventeenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, of a capital increase for a gross amount of €7,880,005.55 (seven million, eight hundred and eighty thousand, five euros and fifty-five cents) by the issue of 305,545 new shares at a unit price of €25.79, subscribed for by Value Plan International Employees SAS. The issue of 305,545 new shares through a capital increase in the nominal amount of €611,090 (six hundred and eleven thousand, ninety euros) and by the recognition of additional paid-in capital of €7,268,915.55 (seven million, two hundred and sixty-eight thousand, nine hundred and fifteen euros and fifty-five cents), representing the difference between the total amount of the subscription price and the total nominal amount of the capital increase,

    The new shares thus issued immediately carry dividend rights, and 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 with the free allocation of 4,395 existing shares under the eighteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, for employees who are not French residents for tax purposes of Vallourec Group companies with corporate headquarters 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 12" offering.

With achievement of the above capital increases resulting in the issue of 3,319,835 shares, the information on the impact of capital increases contained in the report of 7 November 2012 should be updated, since the latter noted the theoretical impact on the basis of an issue of 3,600,000 new shares.

I. Theoretical impact on shareholders' position of capital increases resulting from the use of the fifteenth, sixteenth and seventeenth resolutions

Given a subscription corresponding to 3,319,835 new shares altogether in the fifteenth, sixteenth and seventeenth resolutions adopted by the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, the impact of the capital increase on the interest in the capital of a shareholder holding 1% of the share capital of the Company prior to capital increases (to which the shareholder does not subscribe), calculated based on the number of shares outstanding at the date of this report (i.e. 121,626,521 shares), is:

(1) Impact of the issue of 3,319,835 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. 121,626,521 shares:

	Shareholder's interest as a percentage of the share capital
Before the capital increase	1.00%
After the issue of 3,319,835 shares	0.973%

(2) Impact of the issue of 3,319,835 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 consolidated equity as of 30 June 2012 and the number of shares comprising the capital as of the date of this report, i.e. 121,626,521 shares):

	Proportion of consolidated equity based on consolidated equity as of 30 June 2012*
Before the capital increase	€38.55
After the issue of 3,319,835 shares	€38.21

* *Excluding non-controlling interests.*

II. Theoretical impact on the current stock-market price of the Vallourec share of the capital increases resulting from the use of the fifteenth, sixteenth and seventeenth resolutions

Given a subscription corresponding to 3,319,835 new shares altogether in the fifteenth, sixteenth and seventeenth resolutions adopted by the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, the theoretical impact of the above capital increases on the current market value of the Vallourec share as a result of the average of the 20 trading days preceding the date of the Discounted Subscription Price is as follows:

- Number of shares comprising the share capital: 121,626,521.
- Average opening price during the 20 trading sessions preceding the setting of the Discounted Subscription Price: €32.23.
- Based on this average:

  The theoretical price of the Vallourec share after the issue of 3,319,835 shares, based on the share capital at the date of this report, would be €32.06.

There are no other securities giving access to the Company's share capital.

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 their attention during the next General Shareholders' Meeting.

6 December 2012

The Management Board

9.2 SUPERVISORY BOARD REPORT TO THE ORDINARY AND EXTRAORDINARY GENERAL MEETING OF 30 MAY 2013

I. Group Activity in 2012

For Vallourec, 2012 was marked on the one hand by a highly mixed outlook in its markets – oil and gas markets posting vigorous growth, other markets, especially the industrial markets, having contracted since the summer of 2011 particularly due to the recession in Europe and the decline in Brazil's industrial production, on the other, by the completion and ramp up of its two large strategic development projects in the US and Brazil.

Sales remained stable compared with 2011 at €5.326 billion. They benefitted from the positive price/mix effect associated with the sharp growth in sales in the area of oil and gas, which has offset the drop in sales in other activities.

Cost of industrial goods sold came in at 74% of sales (versus 71% in 2011), due to costs generated by the ramping up of the two new plants, the decline in volumes in Europe and the lower contribution from mining activities in Brazil. Selling, general and administrative (SG&A) costs remained stable at €576 million despite increased R&D efforts and sales initiatives, since the Group has reduced its general and administrative costs. EBITDA experienced quarter-on-quarter growth, settling at €786 million, or 14.8% of sales, with the -2.9 difference over 2011 resulting primarily from lower volumes in Europe and the ramping up of the new plants.

During the second year of the "CAPTEN+" three-year performance improvement program, the Group generated €103 million in gross annual savings, which were added to the €83 million in savings recorded in 2011. With the CAPTEN+ Safe program, the Group posted a reduction in the number of accidents; LTIR fell from 2.8 to 2.6 and TRIR from 9.4 to 7.1. The Group however deplored two fatal accidents. Vallourec remains staunchly committed to reducing the risks of workplace accidents and guaranteeing the safety of all of its employees.

Research and Development costs totaled €93 million in 2012, up 19% compared with 2011 (€78 million). In 2012, Vallourec doubled the capacity of its VAM research center in Houston.

Increased depreciation, leading to financial results of -€98 million (versus -€49 million in 2011) related to the increase in net debt, partially offset by the average cost of debt, after taking into account taxes and non-controlling interests, net income Group share was at €217 million compared with €402 million in 2011, or a net income per share of €1.8.

At the end of the year, net working capital requirement represented 25% of annualized sales, which was comparable to the level at the end of 2011. Cash generated by the activity reached €475 million versus €301 million in 2011.

Gross industrial investments for the fiscal year totaled €803 million, down €106 million compared with 2011, as strategic projects are currently being completed. In 2013, gross industrial investments are expected to represent some €650 million. There were no financial investments in 2012.

Dividends paid represented €183 million in 2012. Disposals of assets and other elements included profit from the capital increase reserved for employees for a total of €86 million.

Net debt increased by €420 million to stand at €1.614 billion as of 31 December 2012, i.e., 31% of equity (€5.213 billion). To compare, net debt was €1.194 billion (23% of equity) as of 31 December 2011.

In keeping with its financial policy, Vallourec has continued to diversify and optimize its balance sheet, particularly by renewing and extending bilateral banking credit lines, increasing its commercial paper program, and by completing two long-term bond issues. As of 31 December 2012, the Group had approximately €3.2 billion in confirmed financing, including undrawn lines of credit totaling €1.6 billion, with nearly 70% of this confirmed financing maturing beyond 3 years.

As we begin 2013, demand for seamless oil and gas tubes continues to sustain Vallourec's sales, while demand in other markets remains sluggish with low visibility.

Exploration and production expenses are expected to rise in 2013, driven essentially by international markets, which will stimulate Vallourec's growth in oil and gas, especially in Brazil and the Middle East. In the United States, the number of active drilling rigs is expected to grow compared with current levels, but should nevertheless remain on average below that of 2012.

The Group is continuing its efforts to cut costs and improve operating efficiency. Vallourec will also benefit from the ramping up of its new plants in the US and Brazil.

All in all, based on current market conditions, the Group is forecasting growth in sales and improved EBITDA in 2013.

The Board would like to thank the Management Board and all of the Group's staff for their work and achievements in 2012.

II. Governance

The Supervisory Board met eight times in 2012, and was kept informed of the Company's and Group's ongoing business and activity pursuant to the legal provisions and by-laws. As part of its supervisory role, it carried out the reviews and audits it deemed necessary, in order to ensure an appropriate level of governance. The Supervisory Board received reports from the Chairs of the Board's Committees (Finance and Audit Committee, Appointments, Remuneration and Governance Committee, Strategy Committee), on all the topics these Committees have considered.

The Supervisory Board has reviewed the management report from the Management Board and the 2012 statutory and consolidated financial statements, as well as the various accompanying documents. The Board has no additional comments on these documents.

The Board also approved the Report from the Chairs of the Supervisory Board's Committees on the conditions governing the preparation and organization of the Supervisory Board's work and the internal control and risk management procedures implemented by the Company.

The 30 May 2013 Shareholders' Meeting marks the end of Mr. Jean-Paul Parayre's last term of office. A member of Vallourec's Supervisory Board since 1989, he went on to succeed Arnaud Leenhardt as Chairman in 2000. Under his guidance, the Board oversaw the seamless integration of Mannesmann do Brasil into the Group, and then assisted in the development of a strategy to develop internationally, focusing on energy markets. Implementation began in 2002 with the acquisition in the United States of North Star, and then of Atlas Bradford, thereby building strong American positions.

As early as 2001, the Board began reviewing the Group's capital structure, a legacy of the 1997 merger of the Vallourec and Mannesmannröhren-Werke hot-rolled and OCTG tube activities. This led, at the start of 2005, to the acquisition of the German partner's non-controlling shares in Vallourec & Mannesmann. This enabled Vallourec to determine its own strategy, at a time when a number of growth opportunities were presenting themselves.

The Supervisory Board has been unwavering in its support of an organic growth strategy with a modernized European foundation, which today makes Vallourec a technological global leader capable of serving its customers in rapidly growing oil and gas markets, namely by creating industrial plants in China, Brazil, and the United States, the latest being the startup of the integrated plant in the State of Minas Gerais at the end of 2011, and a new pipe mill in Ohio at the end of 2012, which will continue to ramp up production in 2013. The Supervisory Board would like to express its gratitude to Mr. Jean-Paul Parayre for the action taken under his chairmanship, which has created exceptional value for the Group and its shareholders.

Ms. Vivienne Cox, a member of the Board since 2010, will replace Jean-Paul Parayre as Chairman of the Board at the end of the 30 May 2013 Annual General Meeting. Vivienne Cox spent her entire career at the BP Group, first in sales, after which she acquired an expertise in finance, trading and management. In 2004, she became Executive Vice-President in charge of one of BP Group's three operating divisions, Gas, Electricity, and Renewable Energy. Her profound knowledge of the energy sector, gained at a major international company, enriches the quality of the work performed by the Board, and the Strategy Committee which she has chaired since 2011. Her international managerial experience will also improve the quality of governance of Vallourec's Supervisory Board.

III. Resolutions

The resolutions presented to you by the Management Board have been deliberated and approved by the Board.

Resolutions of the Ordinary Shareholders' Meeting:

- the Supervisory Board seconds the Management Board's proposal to set the dividend for the fiscal year at €0.69 per share, and to give each of the Company's shareholders a choice between receiving dividend payments in cash or in shares in accordance with the statutory and regulatory provisions. This dividend corresponds to a payout ratio of 39.7% of the consolidated net profit, Group share for the 2012 fiscal year. The average payout ratio in the last five years was 37.2%;
- in addition, pursuant to Article L. 225-90-1 of the French Commercial Code, you are asked to approve the commitments regarding compensations, indemnities or benefits owed or that may be owed pursuant to Mr. Philippe Crouzet's termination of office as Chairman of the Management Board;
- lastly, you are asked to renew the Management Board's authorization to purchase Vallourec shares as part of a share buyback program, under terms and conditions similar to those in 2012, specifying that this authorization may not be used during periods when the Company's shares are subject to a takeover bid.

Resolutions of the Extraordinary Shareholders' Meeting to be implemented only on the approval of the Supervisory Board:

- by the seventh to sixteenth resolutions, you are asked to authorize the Management Board to increase the share capital with the retention or cancellation of preferential subscription rights, or to issue securities representing debt securities. All of these authorizations would afford the Management Board the flexibility and speed of execution to undertake the issues necessary to achieve the Group's projects and to choose the most well suited means to finance them, particularly under current market conditions;
- the purpose of the seventeenth to the twentieth resolutions is to allow the Management Board to carry out an incentive policy aimed at strengthening employees' stake in the Group's results by authorizing it to undertake employee shareholding offers Group-wide, in France and abroad, similar to those carried out each year since 2008 allowing those employees that so wish to have a greater stake in the Group's development.

No comment is called for on the other resolutions, and we invite you to approve all of the resolutions presented to you.

The Supervisory Board

9.3 STATUTORY AUDITORS' REPORTS FOR FY 2012

9.3.1 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

Year ended 31 December 2012

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 2012, 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 2012 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 Commercial Code ("*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 Commercial Code ("*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, 22 April 2013

The statutory auditors,

Deloitte & Associés

Jean-Marc Lumet

KPMG Audit

Department of KPMG SA

Catherine Porta

9.3.2 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2012

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in the French language 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 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 31 December 2012, 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 Executive 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 31 December 2012 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 Commercial Code ("*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 31 December 2012, we considered that these significant assumptions and estimates concern goodwill and intangible 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 goodwill and intangible 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 note C-1 and C-2.1 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-18 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, 22 April 2013

The statutory auditors,

Deloitte & Associés

Jean-Marc Lumet

KPMG Audit

Department of KPMG SA

Catherine Porta

9.3.3 STATUTORY AUDITORS' REPORT ON REGULATED AGREEMENTS AND COMMITMENTS

The statutory auditors' special report on regulated agreements and commitments is available on the Vallourec website (www.vallourec.com > Finance > Shareholders' corner > General Meetings > 2013) as from 3 May 2013.

9.3.4 STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE ("*CODE DE COMMERCE*"), ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Year ended 31 December 2012

*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 Commercial Code ("*Code de commerce*") 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 Commercial Code ("*Code de commerce*"), we hereby report on the report prepared by the Chairman of your company in accordance with Article L.225-68 of French Commercial Code ("*Code de commerce*") for the year ended 31 December 2012.

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 Commercial Code ("*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 Commercial Code ("*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 Commercial Code ("*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 Commercial Code ("*Code de commerce*").

Neuilly-sur-Seine and Paris La Défense, 22 April 2013

The statutory auditors,

Deloitte & Associés

Jean-Marc Lumet

KPMG Audit

Department of KPMG SA

Catherine Porta

9.3.5 SUPPLEMENTARY STATUTORY AUDITORS' REPORT ON CAPITAL INCREASES WITH CANCELLATION OF PREFERENTIAL SUBSCRIPTION RIGHTS

Decision of the Management Board of 7 November 2012

To the Shareholders,

In our capacity of Statutory Auditors of your Company and in accordance with Article R.225-166 of the French Commercial Code ("*Code de commerce*") , we hereby issue our supplementary report to our report dated 10 April 2012 on capital increases with cancellation of preferential subscription rights authorized by your Extraordinary General Meeting of 31 May 2012 in the 15th, 16th and 17th resolutions.

This general meeting delegated to your Management Board the ability to decide such operations for a period of eighteen months (15th, 16th and 17th resolutions) 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 7 November 2012, to proceed with capital increases for a maximum nominal global amount of €7,200,000 by issuing a maximum of 3,600,000 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 (15th resolution);
- The capital increase reserved for employees of foreign companies of the Vallourec Group outside of a corporate savings plan (16th resolution);
- The capital increase reserved for Value Plan International Employees SAS, controlled by Credit Agricole CIB, as part of a transaction reserved for employees (17th 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 Commercial Code ("*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 at 30 June 2012 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 31 May 2012 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.

Neuilly-sur-Seine and Paris La Défense, 21 November 2012

The Statutory Auditors,

Deloitte & Associés

Jean-Marc Lumet

KPMG Audit

Department of KPMG SA

Catherine Porta

9.4 SUBSIDIARIES AND DIRECTLY-HELD PARTICIPATING INTERESTS AT 31 DECEMBER 2012

In thousands of euros Companies	Capital	Other equity before allocation of profit (loss)	Percentage of capital held *(%)*	Accounting value of the securities held		Loans and advances granted by the Company and not yet repaid	Total securities and guarantees given by the Company	Sales excluding taxes for the last financial year	Profit (loss) for the last financial year	Dividends received by the Company during the year
				Gross	Net					
A) Subsidiaries and participating interests with a carrying amount in excess of 1% of Vallourec's capital (i.e. €2.358 billion)										
I. Subsidiaries (at least 50%-owned)										
French companies	-	-	-	-	-	-	-	-	-	-
Vallourec & Mannesmann Tubes – 27 Avenue du Général-Leclerc 92100 Boulogne-Billancourt	762,709	2,102,292	100	2,056,403	2,056,403	1,352,124	-	48,165	334,994	325,442
B) Subsidiaries and participating interests with a carrying amount of less than 1% of Vallourec's capital (i.e. €2.358 billion)										
I. Subsidiaries (at least 50%-owned)										
French companies	-	-	-	-	-	-	-	-	-	-
Assurval – 27 Avenue du Général-Leclerc 92100 Boulogne-Billancourt	10	227	99	8	8	-	-	599	24	113
II. Participating interests (10%- to 50%-owned)										
a) French companies										
b) Foreign companies										
c) Long-term investments										
French companies	-	-	-	-	-	-	-	-	-	-
Foreign companies	-	-	-	-	-	-	-	-	-	-
Sumitomo Metal Industries	-	-	0.98%	81,947	59,400	-	-	-	-	-

9.5 FINANCIAL RESULTS FOR THE LAST FIVE FINANCIAL YEARS

In euros	2008	2009	2010	2011	2012
CAPITAL					
Share capital	**215,154,864**	**229,123,156**	**235,888,164**	**242,868,818**	**249,892,712**
Number of ordinary shares in issue	53,788,716	57,280,789	117,944,082	121,434,409	124,946,356
Number of existing preference dividend shares (without voting rights)	-	-	-	-	-
Maximum number of new shares to be issued:					
• By conversion of bonds	-	-	-	-	-
• By exercise of subscription rights	212,100	500,000	1,511,800	2,151,887	2,651,387
• By bond redemptions	-	-	-	-	-
OPERATIONS AND COMPREHENSIVE INCOME					
Sales excluding taxes	4,093,551	108,188	3,938,925	6,334,458	10,507,997
Profit (loss) before tax, employee profit-sharing, depreciation and provisions	715,270,552	413,810,495	505,369,693	475,723,170	305,645,524
Income tax	-15,892,775	-11,559,643	-15,030,740	-8,022,363	-4,666,973
Employee profit-sharing for the financial year	-	-	-	-	-
Profit (loss) after tax, employee profit-sharing, depreciation and provisions	730,835,635	427,376,831	515,485,566	458,554,435	294,316,536
Income paid out	**322,732,296**	**200,482,762**	**153,327,307**	**157,864,732**	**86,212,986**
EARNINGS PER SHARE					
Profit (loss) after tax and employee profit-sharing, but before depreciation and provisions	13.59	7.43	4.41	3.98	2.48
Profit (loss) after tax, employee profit-sharing, depreciation and provisions	13.59	7.46	4.37	3.78	2.36
Dividend allotted to each share	**6**	**3.50**	**1.30**	**1.30**	**0.69**
Adjusted dividend per share [(a)]	**3**	**1.75**	**1.30**	**1.30**	**0.69**
STAFF					
Average number of employees during the financial year	7	7	6	7	7
Payroll during the financial year	1,633,803	2,566,640	3,220,974	3,149,976	3,163,542
Payroll-related costs (social security, commitments to employees etc.)	903,538	929,471	1,746,856	1,406,613	1,150,021

(a) The adjustment is intended to take into account the 2:1 reverse stock split on 9 July 2010.

9.6 CONCORDANCE TABLES AND INFORMATION INCORPORATED BY REFERENCE

9.6.1 CONCORDANCE TABLE BETWEEN THE REGISTRATION AND APPENDIX I OF EC REGULATION NO. 809/2004 OF 29 APRIL 2004

		Vallourec Registration Document	
Appendix I of European Regulation		**Chapters/Sections**	**Pages**
1.	**Persons responsible**	**1.1/1.2**	**8**
2.	**Statutory auditors**	**1.3**	**9**
3.	**Selected financial information**	**Profile/3.1.3/6.1/6.2**	**4-5/45/110-116 181-182**
4.	**Risk factors**	**5**	**93-107**
5.	**Information about the issuer**		
5.1.	History and development of the Company	3.1.1	32-35
5.2.	Capital expenditure	3.2	55-57
6.	**Business overview**		
6.1	Principal activities	3.1.2/3.1.5	37-44/48
6.2	Principal markets	3.1.7	50-53
6.3	Exceptional events	3.1.3/3.1.4	47-48/48
6.4	Possible dependency	3.1.9	54-55
6.5	Group's competitive position	3.1.8	53-54
7.	**Organizational chart**		
7.1	Brief description of the Group	2.3.3	23
7.2	List of significant subsidiaries	3.1.2/6.1	37-44/126-127
8.	**Property, plant and equipment**		
8.1	Main tangible assets	3.1.6/6.1 (Notes 2.1 and 21)	49/131/170
8.2	Environmental issues that may affect the Group's utilization of its property, plant and equipment	3.1.6/4.2	49/79-86
9.	**Operating and financial review**	**3.1.3**	**45-48**
10.	**Capital resources**		
10.1	Information on capital resources	6.1.4	113
10.2	Sources and amounts of cash flows	6.1.6	115-116
10.3	Borrowing requirements and financial structure	6.1 (Note 15)	151-154
10.4	Information regarding any restrictions on the use of capital resources	6.1 (Note 15)	151-154
10.5	Information regarding expected sources of financing	6.1 (Note 15)	151-154
11.	**Research and development, patents and licenses**	**3.3**	**58-60**
12.	**Trend information**	**8**	**257-259**
13.	**Profit forecasts or estimates**	**N/A**	**N/A**
14.	**Management and supervisory bodies**		

Appendix I of European Regulation		Vallourec Registration Document Chapters/Sections	Pages
14.1	Composition of the supervisory and management bodies	7.1.1/7.1.4	196-218/224
14.2	Conflicts of interest in supervisory and management bodies	7.1.4/7.1.5/7.1.6/7.1.7	224-225
15.	**Remuneration and benefits of corporate officers**		
15.1	Remuneration and benefits in kind	7.2/7 (Appendix 1)	226-233/251-253
15.2	Provisions for payment of pensions, retirement provision and other benefits	6.1 (Note 18)/7.2.2	156-166/233
16.	**Practices of management and supervisory bodies**		
16.1	Date of expiry of current terms	7.1.1	196/202
16.2	Service agreements binding members of the Company's supervisory and management bodies	7.1.6	225
16.3	Information about the Supervisory Board's Committees	7.1.2.5	220-223
16.4	Declaration of compliance with the corporate governance regime in force	7.1.8/7 (Appendix 3)	225-255
17.	**Employees**		
17.1	Employees	4.1.1	64-69
17.2	Shareholdings, stock and performance shares	6.1 (Note 20) 7.1.3/7.2.1	167-168/ 223-224/ 228-230
17.3	Arrangements for involving employees in the share capital	7.3	233-241
18.	**Major shareholders**		
18.1	Shareholders owning more than 5% of the capital	2.3.1	21
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	21/22
18.4	Arrangements whose operation may result in a change of control	N/A	N/A
19.	**Related-party transactions**	**6.1 (Note 20)**	**167**
20.	**Financial information concerning the issuer's assets and liabilities, financial condition and profits and losses**		
20.1	Historical annual financial information	6	110-193
20.2	Pro forma financial information	N/A	N/A
20.3	Financial statements	6/9.5	110-193/281
20.4	Auditing of the historical annual financial information	9.3.1/9.3.2	275/276
20.5	Age of latest financial information	6	110-193
20.6	Interim and other financial information	N/A	N/A
20.7	Dividend policy	2.5	27
20.8	Legal and arbitration proceedings	6 (Note 16)	155
20.9	Significant changes in the Group's financial or trading position	3.1.1	36
21.	**Additional information**		
21.1	Share capital	2.2.2	13-20
21.2	Memoranda and bylaws	2.1/2.2.1/7.1.2	12-13/13/219
22.	**Material contracts**	**3.1.1/3.1.2/3.3.1/ 5.1.4/6.1**	**34/40/41/43/ 59/99/152**
23.	**Third-party information, statements by experts and declarations of any interest**	**N/A**	**N/A**
24.	**Documents on display**	**2.1.5/2.6**	**12/27-29**
25.	**Information on holdings**	**9.4**	**280**

9.6.2 CONCORDANCE TABLE BETWEEN THE VALLOUREC REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT

		Vallourec Registration Document	
Annual financial report		**Chapters/Sections**	**Pages**
1.	Separate annual financial statements	6.2	181-193
2.	Group's consolidated financial statements	6.1	110-180
3.	Statutory auditors' report on the annual financial statements	9.3.1	275
4.	Statutory auditors' report on the consolidated financial statements	9.3.2	276
5.	Management report comprising at 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 Commercial Code	9.1.1	262
6.	Statement by the person in charge of the annual financial report	1.2	8
7.	Statutory auditors' remuneration (Article 222-8 of the AMF's General Regulations)	6.1 (Note 26)	175
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)	7 (Appendix 1)	241-253
9.	Statutory auditors' report on the report of the Chairman of the Supervisory Board (Article 222-9 of the AMF's General Regulations)	9.3.4	278

9.6.3 CONCORDANCE TABLE BETWEEN THE REGISTRATION DOCUMENT AND THE MANAGEMENT BOARD REPORT

This Registration Document includes all elements from the Board's management report as required by law and the regulations. The table below identifies the sections and pages of this Registration Document constituting the management report.

		Registration Document	
Management report		**Chapters/Sections**	**Pages**
1.	Activities and business development of the Group – progress and challenges	3.1.2	37-44
2.	Results of the Group – financial position and performance indicators	3.1.3/3.1.4/3.1.5	45-48
3.	Changes to the presentation of the annual financial statements or the valuation methods applied in prior years	6.1	116-125
4.	Material events between the balance sheet date and the date the report was prepared	3.1.1	36
5.	Foreseeable developments and the Company's outlook	8	257-259
6.	Payment periods for suppliers and customers	3.1.3.2	47
7.	Amount of dividends paid during the past three years	2.5	27
8.	Vallourec results table for the last five financial years	9.5	281
9.	Description of the principal risks and uncertainties the Group faces – exposure to interest rate, credit, liquidity and cash risks – financial risk-management policy	5	93-107
10.	Use of financial instruments by the Group, where it is relevant for the assessment of its assets, liabilities, financial position and profit or loss	2.2.6/5.1.5	19-20/99-104
11.	Significant equity stakes in companies headquartered in France	N/A	N/A
12.	Injunctions or monetary penalties for anti-competitive practices	N/A	N/A
13.	Research and development activities	3.3	58-61
14.	Environmental and social information	4	63-91
15.	Mandates and functions of corporate officers	7.1.1	196-218
16.	Compensation of corporate officers	7.2.1	226-233
17.	Allocation of stock options	7.3.1.1	234-237
18.	Allocation of free shares or performance shares	7.3.1.2	238-239
19.	Summary of securities transactions made by executives	7 (Appendix 2)	254
20.	Composition of share capital	2.3.1	21
21.	Employee share ownership	2.3.1/4.1.2.4/7.3.3	21/70/240-241
22.	Redemption of shares	2.2.4.1	16-17
23.	Measures having an impact in the event of a public offer	7 (Appendix 1)	244
24.	Share transfers made to regularize cross-shareholdings or takeovers of such companies	N/A	N/A
25.	Summarizing authorizations valid for capital increases and use made of these authorizations during FY 2012	2.2.3	14-16
26.	Adjustments of the rights of holders of transferable securities giving access to capital or options	N/A	N/A
27.	Report by 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 the Company	7 (Appendix 1)	241-253

9.6.4 INFORMATION INCORPORATED BY REFERENCE

In accordance with Article 28 of European Commission Regulation no. 809/2004 of 29 April 2004, this Registration Document incorporates the following information by reference:

- the statutory and consolidated financial statements for the financial year ended 31 December 2011, the related Statutory Auditors' reports and the management report presented, respectively, in Section 5.2 (pages 142 to 155), Section 5.1 (pages 70 to 141), Sections 8.3.1 to 8.3.4 (pages 259 to 263) and Section 8.1.1 (pages 206 to 233) of the 2011 Registration Document, filed with the French Securities Regulator (*Autorité des Marchés Financiers* – AMF) on 13 April 2012 under number D.12-0343; and
- 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 French Securities Regulator (*Autorité des Marchés Financiers* – AMF) on 19 April 2011 under number D.11-0332.

9.7 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 some of the periodic information required under the terms of the AMF's General Regulations. The following table provides details of the pages of this Registration Document on which this information appears.

	Registration Document	
	Section	**Page**
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)	7 – Appendix 1	241-253
Statutory auditors' report on the report of the Chairman of the Supervisory Board (Article 222-9 of the AMF's General Regulations)	9.3.4	278
Statutory auditors' remuneration (Article 222-8 of the AMF's General Regulations)	6.1 (Note 26)	175
Description of share buyback program (Article 241-2 of the AMF's General Regulations)	2.2.4.2	17-18

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Registered office
27 avenue du Général Leclerc
92100 Boulogne-Billancourt
(FRANCE)
552 142 200 RCS Nanterre

Tel.: +33 (0)1 49 09 35 00
Fax: +33 (0)1 49 09 36 94

www.vallourec.com

A French limited liability company
(société anonyme) with Management
and Supervisory Boards and issued
capital of €249,892,712