vallourec

2013 REGISTRATION DOCUMENT

and annual financial report



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Registration Document
and Annual Financial Report
Year ended 31 December 2013



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 14 April 2014 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.

Profile

World leader in premium tubular solutions serving primarily the energy markets (Oil & Gas, Power Generation), Vallourec also provides its expertise to the industry sector.

➜ OIL & GAS



Tubes, connections and premium solutions for the exploration and exploitation of oil & gas deposits:

- OCTG*: tubes and connections for equiping oil and gas wells (casing, tubing, VAM® premium connections, accessories)
- Drill pipe, bottom hole assembly, VAM® premium connections and accessories for drill strings
- Line pipe and accessories for transporting hydrocarbons offshore and onshore
- Super duplex welded tubes for umbilicals
- Pipe and fittings for hydrocarbon processing units
- Vallourec Global Solutions: products and services offer (well design, training, logistics, repair and field services…)
- Welding solutions and service for offshore and onshore projects

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

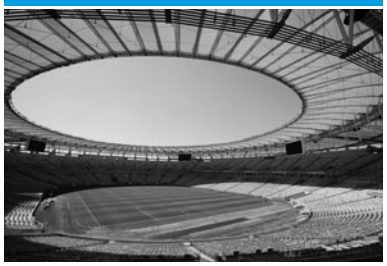
➜ POWER GENERATION



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

- Seamless tubes and pipe for boiler applications
- Seamless tubes for nuclear power plants
- Welded tubes for heat exchangers

➜ INDUSTRY



Hollow sections, tubes and hollow bars for:

- mechanical engineering: cranes, hydraulic cylinders, agricultural machinery, OCTG* mechanical parts, etc.
- automotive: light and heavy vehicles
- construction: bridges, stadiums, airport terminals, exhibition halls, offshore structures, etc.

** Oil Country Tubular Goods (OCTG).*

➜ KEY EVENTS IN 2013

January 2013

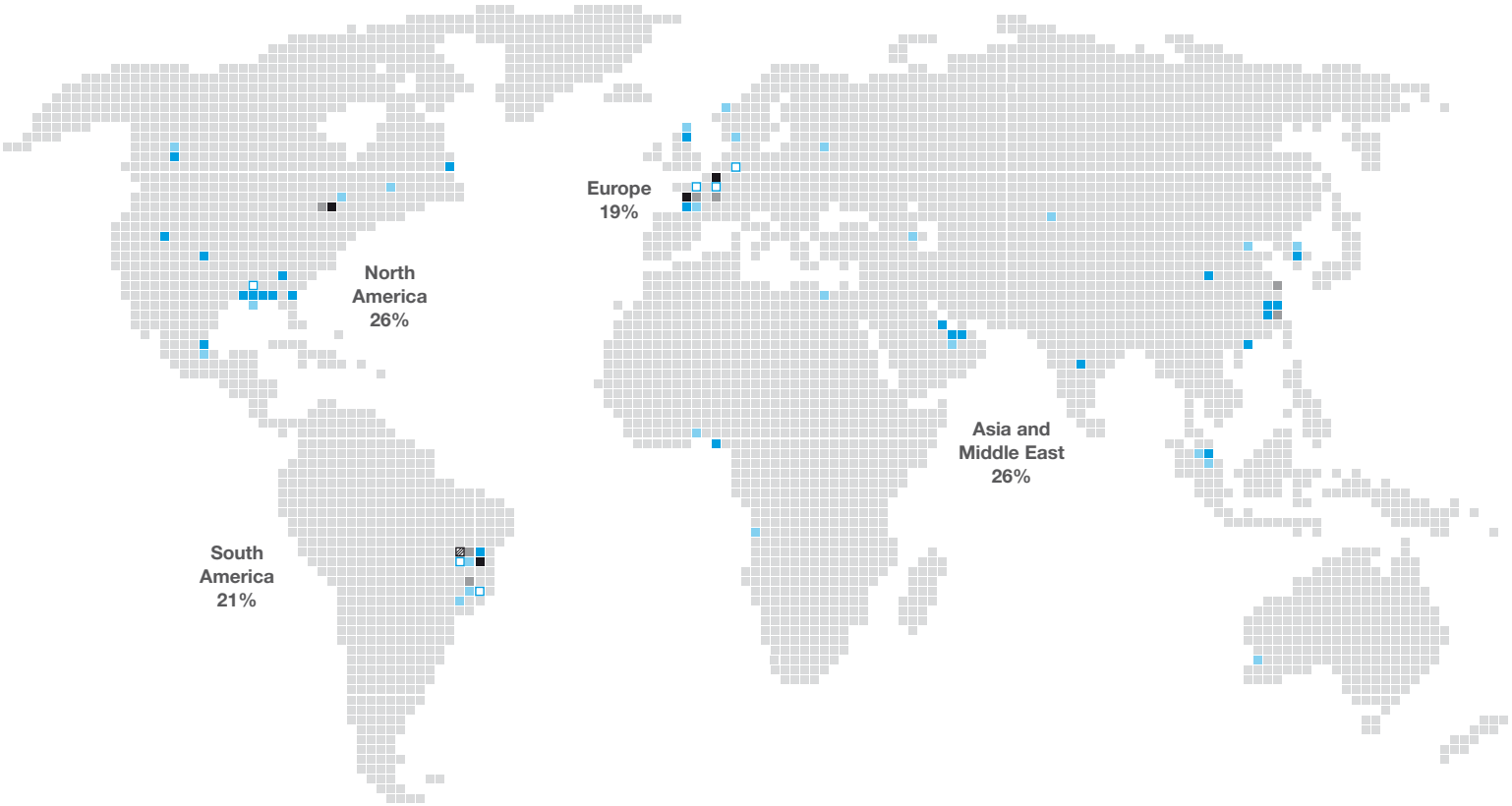
Vallourec's **main frame agreement with the Brazilian national oil company Petrobras** to supply premium OCTG products was renewed for a period of 5 years.

February 2013

Located in Dammam, **Saudi Arabia, Vallourec's new finishing unit** which is dedicated to the heat treatment and threading of the entire range of premium VAM® connections, was qualified to supply Saudi Aramco, the national oil company.

May 2013

Vallourec adopted a **single brand** and **a new visual identity** to strenghten its world leadership and accompany its growth strategy.



Main Vallourec locations

Finishing lines | Tube mills | Sales offices and services | % Breakdown of sales by geographic region

Steel mills | Plantation and Mine | R&D Centers

➜ 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.

➜ OPERATIONS WORLDWIDE

With over 24,000 employees, sales of €5.6 billion in 2013, 81% 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 2013

Vallourec strengthened its R&D capacities, inaugurating a **new research center** in Rio de Janeiro **dedicated to drilling in a pre-salt environment.**

October 2013

The **Vallourec Group's new plant in China,** specialized in the manufacture of tubes for nuclear plants, produced its first tubes.

December 2013

Vallourec finalized its employee share ownership plan "Value 13". Nearly 15,000 employees, representing 68% of the eligible staff, subscribed for **this sixth worldwide employee share ownership operation**. As at 31 December 2013, employee shareholders held 7.37 % of the share capital.

2013 Highlights

Sales volume

2,159 kt

Sales

€5,578 million

EBITDA

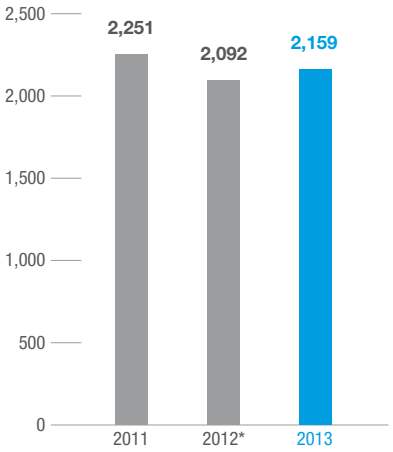
€920 million

Employees

24,053

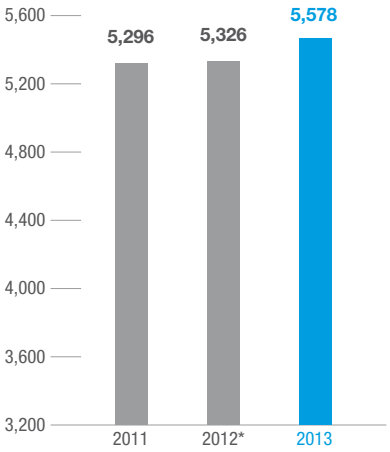
SALES VOLUME

(in Kt)



SALES

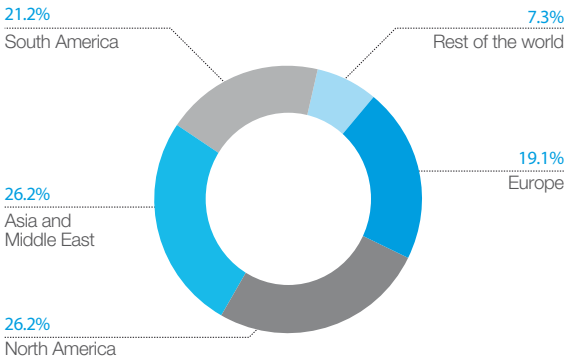
(in € million)





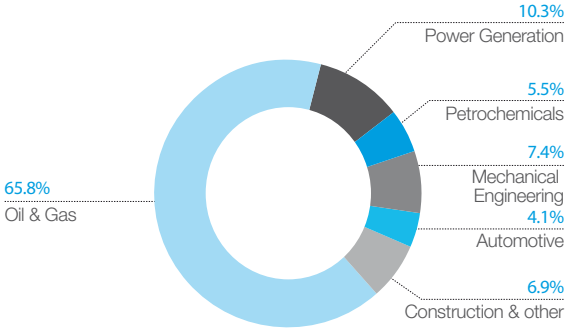
SALES BY GEOGRAPHIC REGION IN 2013

(in %)



SALES BY ACTIVITY IN 2013

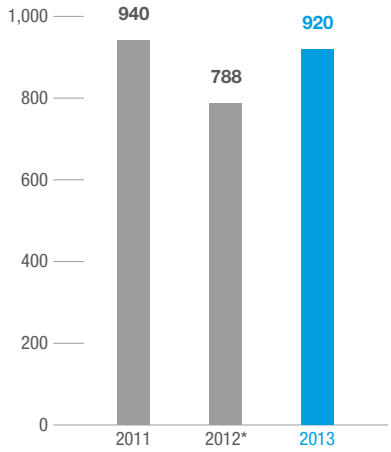
(in %)



** Figures for the year 2012 have been restated with the impact of the change in method of accounting for actuarial gains and losses on employee benefits (revised standard IAS 19).*

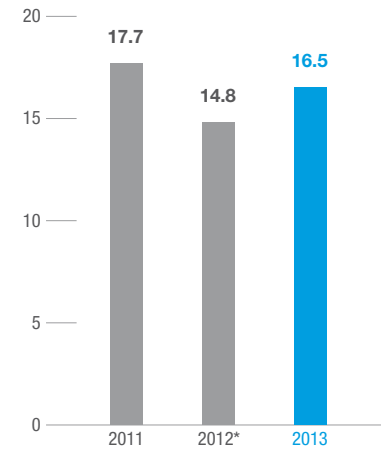
EBITDA

(in € million)



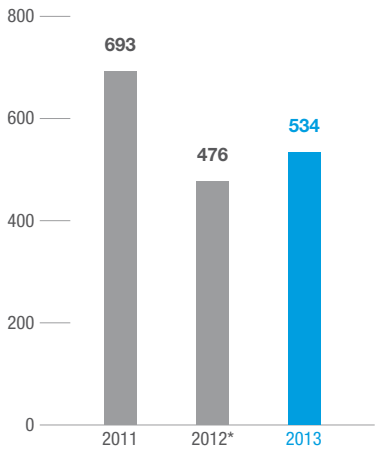
EBITDA MARGIN

(in %)



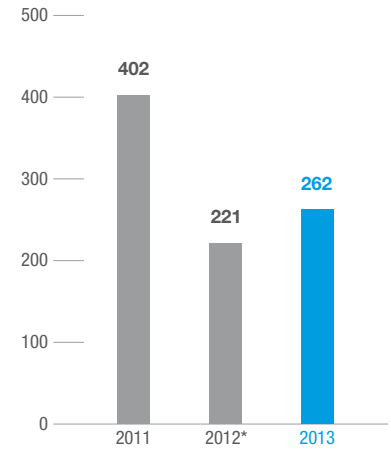
OPERATING INCOME

(in € million)



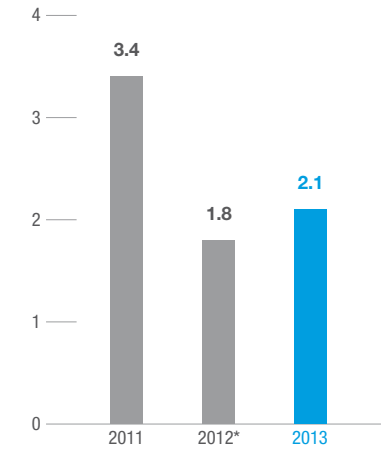
NET INCOME - GROUP SHARE

(in € million)



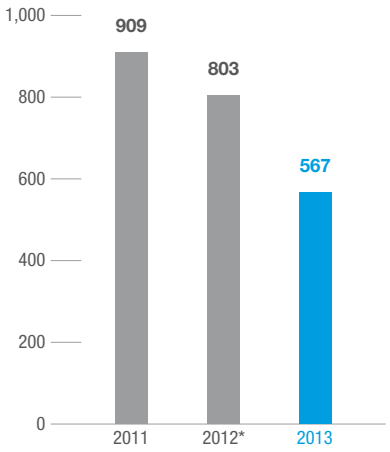
EARNINGS PER SHARE

(in €)



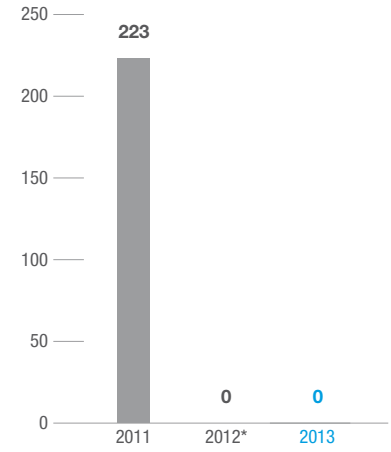
GROSS CAPITAL EXPENDITURES

(in € million)



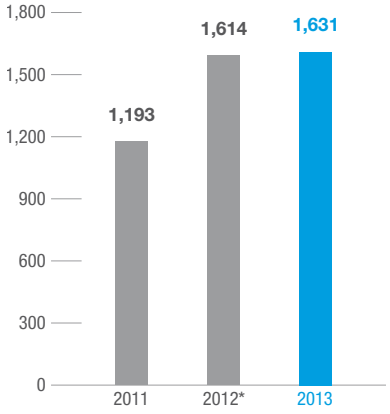
FINANCIAL INVESTMENTS

(in € million)



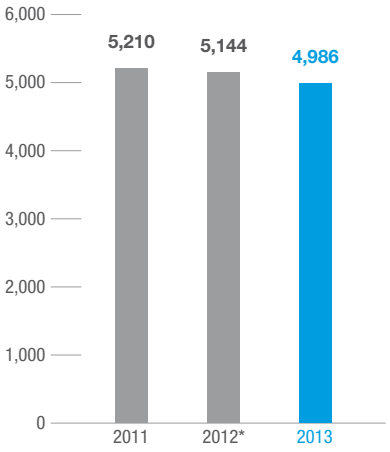
NET DEBT

(in € million)



EQUITY

(in € million)



** Figures for the year 2012 have been restated with the impact of the change in method of accounting for actuarial gains and losses on employee benefits (revised standard IAS 19).*



1

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1.1 Person responsible for the Registration Document

Mr. Philippe Crouzet

Chairman of the Management Board of Vallourec (hereafter "Vallourec" or the "Company")

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.

I certify that, to the best of my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and results of the Company and all consolidated companies, and that the management report, the various headings of which are provided in the cross-reference table on pages 304 and 328 of this Registration Document (Sections 9.1.1 and 9.5.3), 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 a completion letter from the Statutory Auditors in which they indicate that they have verified the information relating to the financial position 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 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 contains no comment.

The consolidated financial statements for the year ended 31 December 2012, presented in the 2012 Registration Document filed with the French Securities Regulator (*Autorité des Marchés Financiers* – AMF) under No. D. 13-0419 on 24 April 2013, were the subject of the Statutory Auditors' report on page 276, which contains no comment.

The consolidated financial statements for the year ended 31 December 2013, presented in this 2013 Registration Document, were the subject of the Statutory Auditors' report on page 316, which contains the following comment: "Without qualifying our opinion above, we draw your attention to Note A-4 of the consolidated financial statements, which sets out the change in accounting method introduced by the application of the revised IAS 19 'Employee Benefits' as from 1 January 2013".

Boulogne-Billancourt, France, 14 April 2014

Chairman of the Management Board

Philippe Crouzet

1.3 Persons responsible for the financial audit

1.3.1 Statutory Auditors

KPMG S.A.

Represented by:

Ms. Catherine Porta

1, Cours Valmy
92923 Paris - La Défense Cedex – France

Date of first appointment: 1 June 2006
Date of most recent reappointment: 31 May 2012

The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 reappointed KPMG SA as Statutory Auditor for a term of six (6) years expiring at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending 31 December 2017.

Deloitte & Associés

Represented by:

Mr. Jean-Marc Lumet

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

Date of first appointment: 1 June 2006
Date of most recent reappointment: 31 May 2012

The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 reappointed Deloitte & Associés as Statutory Auditor for a term of six (6) years expiring at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending 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 of first appointment: 31 May 2012

The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 appointed KPMG AUDIT IS as alternate auditor for KPMG S.A., replacing SCP Jean-Claude André & Autres, for a term of six (6) years expiring at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending 31 December 2017.

BEAS

Alternate auditor for Deloitte & Associés

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

Date of first appointment: 11 June 2002

Date of the most recent reappointment: 31 May 2012

The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 reappointed BEAS as alternate auditor for Deloitte & Associés for a term of six (6) years expiring at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending 31 December 2017.

1.4 Person responsible for the Group's legal affairs

Ms. Stéphanie Fougou

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: stephanie.fougou@vallourec.com

1.5 Person responsible for the 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.com

Vallourec website: www.vallourec.com



2

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2.1 General information on Vallourec

2.1.1 Company name and registered office

Vallourec

27, avenue du Général Leclerc

92100 Boulogne-Billancourt (France)

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

2.1.2 Legal form – Legislation – Trade and Companies Register

Vallourec is a French limited liability company (*société anonyme*) that opted on 14 June 1994 for a governance 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 Corporate purpose (Article 3 of the bylaws)

Vallourec's purpose, in any country, acting on its own behalf or for a third party, or directly or indirectly with or through third parties includes:

- 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 Company bylaws, minutes of Shareholders' Meetings and other Company documents may be consulted at the registered office.

2.1.6 Fiscal year

The fiscal year is a period of twelve (12) months, beginning on 1 January and ending on 31 December.

2.1.7 Distribution of profits (Article 15 of the bylaws)

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

Unless otherwise required by law, the Shareholders' Meeting decides how the net profit should be allocated.

The Shareholders' Meeting may also decide to grant each shareholder, for all or part of the dividend to be distributed, the choice between payment of the dividend in cash or in shares [(1)], in accordance with the laws and regulations in force.

2.1.8 Shareholders' Meetings (Article 12 of the bylaws)

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

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

Each shareholder attending the Shareholders' Meeting has as many votes as shares owned or represented, unless otherwise provided by law. However, fully paid-up shares duly registered in the name of the same shareholder for four (4) consecutive years carry twice as many voting rights as other shares (Article 12 paragraph 4 of the bylaws).

2.1.9 Disclosure of thresholds crossed and identification of shareholders (Article 8 of the bylaws)

The Extraordinary Shareholders' Meeting of 1 June 2006 in its second resolution amended Article 8 of the bylaws to set an additional disclosure requirement for threshold crossings other than those provided by the legal provisions in force.

Consequently:

"In addition to the disclosure of thresholds crossed expressly provided for in Article L.233-7-I and II of the French Commercial Code, any individual or legal entity who, directly or indirectly through companies he or it controls within the meaning of Article L.233-3 of the French Commercial Code, alone or in concert, acquires a number of bearer shares in the Company equal to at least three percent (3%), four percent (4%) six percent (6%) seven percent (7%), eight percent (8%), nine percent (9%) or twelve and a half percent (12.5%) of the total number of shares comprising the share capital shall, within five (5) trading days after crossing said threshold, disclose to the Company the total number of shares held thereby, via registered letter with acknowledgment of receipt sent to the Company's registered office.

The information mentioned in the previous paragraph shall also be disclosed within the same time frame and under the same conditions when the shareholding falls below the thresholds referred to therein."

The penalties provided by law for failure to comply with the legal obligation to disclose thresholds crossed under the French Commercial Code shall also apply in case of non-compliance with the obligation set out in the bylaws to disclose the above threshold crossings at the request of one or more shareholders holding at least 5% of the Company's shares, as recorded in the minutes of the Shareholders' Meeting.

In addition, under current regulations the Company is entitled to request the identification of holders of securities conferring immediate or future voting rights at its shareholders' meetings, as well as quantities held.

2.2 General information about the share capital

2.2.1 Conditions in the bylaws for changes in the capital or rights in the Company

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

However, under the Company's internal structure (Article 9, paragraph 3 of the bylaws), the Management Board may not carry out the following transactions without the prior approval of the Supervisory Board:

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

The shares are freely negotiable and transferable in accordance with applicable laws and regulations.

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

2.2.2 Share capital

On 1 January 2013, the first day of the 2013 fiscal year, the subscribed, fully paid-up share capital amounted to €249,892,712 divided into 124,946,356 shares with a par value of €2.00 each.

On 25 June 2013, under the fourth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, the Management Board recorded the completion of a capital increase through the issue of 1,338,791 new shares (representing 1.07% of the share capital at that date) at a price per share of €36.69 in payment of the 2012 dividend of €0.69 per share. The issue of the new shares resulted in a capital increase by a nominal amount of €2,677,582, which raised Vallourec's share capital at 25 June 2013 from €249,892,712 to €252,570,294, divided into 126,285,147 shares with a par value of €2.00 each.

At the end of the clearing period for subscriptions to the Value 13 international employee share ownership plan (see chapter 7 below), at its meeting on 10 December 2013, the Management Board, under the terms of the seventeenth, eighteenth and nineteenth resolutions of the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, recorded the final completion of three capital increases in the nominal amounts of €1,961,684, €1,429,760 and €357,462, or an aggregate nominal amount of €3,748,906, through the respective issue of 980,842, 714,880 and 178,731 new shares for an aggregate total of 1,874,453 new shares with a par value of €2.00 each and a price per share of €34.78 for the standard plan and €36.95 for the leveraged scheme. These transactions had the cumulative effect of increasing the share capital by €252,570,294 to €256,319,200. As at 31 December 2013, the subscribed, fully paid-up share capital amounted to €256,319,200, divided into 128,159,600 shares with a par value of €2.00 each.

2.2.3 Authorized capital not issued

2.2.3.1 Financial authorizations to issue shares and securities giving access to capital unexpired at 31 December 2013

Unexpired authorizations to issue shares and securities giving access to the Company's capital as at 31 December 2013 were as follows:

	Maximum nominal ceilings on capital increases *(in euros or as a percentage of share capital)*	Maximum nominal amounts of debt securities *(in €)*	Date of the Shareholders' Meeting that authorized the transaction	Term of authorization	Expiration date
CAPITAL INCREASES WITH SHAREHOLDERS' PRE-EMPTIVE RIGHTS					
Capital increases with pre-emptive rights (7th resolution)	99.95 million	1.5 billion	30 May 2013	26 months	30 July 2015
Increase in the amount of the initial issue with pre-emptive rights ("greenshoe") (11th resolution)	15% of the initial issue [a] [b]	15% of the initial issue [a] [b]	30 May 2013	26 months	30 July 2015
Capital increases through the capitalization of reserves, profit or additional paid-in capital (15th resolution)	75 million [a]	NA	30 May 2013	26 months	30 July 2015
CAPITAL INCREASES WITHOUT SHAREHOLDERS' PRE-EMPTIVE RIGHTS					
Capital increases without pre-emptive rights through a public offering or offerings (8th resolution)	24.980 million [a]	1.5 billion	30 May 2013	26 months	30 July 2015
Capital increases without pre-emptive rights through one or more private placements (9th resolution)	24.980 million [a] [c]	1.5 billion	30 May 2013	26 months	30 July 2015
Capital increases without pre-emptive rights, carried out under the 8th and 9th resolutions at a price set by the Shareholders Meeting (10th resolution)	10% per year for up to 24.980 million over 26 months [a] [b] [c]	1.5 billion	30 May 2013	26 months	30 July 2015
Increase in the amount of the initial issue without pre-emptive rights (11th resolution)	15% of the initial issue [a] [b] [c]	15% of the initial issue [b]	30 May 2013	26 months	30 July 2015
Capital increases without pre-emptive rights in consideration for contributions in kind, except in the case of a public exchange offer initiated by the Company (12th resolution)	10% [a] [c]	1.5 billion	30 May 2013	26 months	30 July 2015

	Maximum nominal ceilings on capital increases *(in euros or as a percentage of share capital)*	Maximum nominal amounts of debt securities *(in €)*	Date of the Shareholders' Meeting that authorized the transaction	Term of authorization	Expiration date
Capital increases without pre-emptive rights in consideration for securities contributed in public exchange offer initiated by the Company (13th resolution)	24.980 million [(a) (c)]	1.5 billion	30 May 2013	26 months	30 July 2015
Capital increases without pre-emptive rights, carried out as a result of the issue by the Company's subsidiaries of securities giving access to the Company's share capital (14th resolution)	24.980 million [(a) (c)]	1.5 billion	30 May 2013	26 months	30 July 2015
EMPLOYEE SHARE OWNERSHIP OFFER					
Capital increase reserved for members of a Employee savings plan as part of an employee share ownership offer (17th resolution)	6.6 million [(a) (e)]	NA	30 May 2013	18 months	30 November 2014
Capital increase reserved for employees and those with similar rights of Vallourec Group companies outside France as part of an employee share ownership offer (18th resolution)	6.6 million [(a) (e)]	NA	30 May 2013	18 months	30 November 2014
Capital increase reserved for credit institutions and all entities whose purpose is to hold, acquire or dispose of shares as part of an employee share ownership offer (19th resolution)	6.6 million [(a) (e)]	NA	30 May 2013	18 months	30 November 2014
Allocation of shares free of charge as part of an employee share ownership offer to replace the employer matching contributions given to French employees (20th resolution)	0.2% of the share capital [(a)]	NA	30 May 2013	18 months	30 November 2014
SHARE SUBSCRIPTION OR SHARE PURCHASE OPTIONS AND PERFORMANCE SHARES					
Share subscription or share purchase options granted to employees and corporate officers of the Group (14th resolution)	3% of the share capital [(a)]	NA	31 May 2012	38 months	31 July 2015
Performance shares granted to employees and corporate officers of the Group (19th resolution)	2.5% of the share capital [(a) (d)]	NA	31 May 2012	38 months	31 July 2015

(a) This amount or percentage is deducted from the €99.95 million cap on capital increases with retention of shareholders' pre-emptive rights.

(b) This percentage is limited by the cap on the authorization pursuant to which the initial issue was made.

(c) This amount or percentage is deducted from the overall €24.98 million cap for capital increases with cancellation of shareholders' pre-emptive rights.

(d) This percentage is deducted from the 3% cap on the share capital set aside for share subscription and share purchase options.

(e) The aggregate capital increases carried out as part of an employee share ownership offer may not exceed €6.6 million.

2.2.3.2 Use of financial authorizations to issue shares and securities giving access to the Company's capital at 31 December 2013 were as follows:

Employee share ownership offer (seventeenth to twentieth resolutions of the Shareholders' Meeting of 30 May 2013)

Under the authorizations for employee share ownership offers, the Management Board, with the approval of the Supervisory Board, extended the Value 13 international employee share ownership plan in 2013, for the sixth year running (for a description of this plan, see section 7.3.3 Employee Share Ownership, below). Using the terms of the seventeenth, eighteenth and nineteenth resolutions of the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, the Management Board, at its meeting of 10 December 2013, recorded the final completion of three capital increases in the nominal amounts of €1,961,684, €1,429,760 and €357,462, or an aggregate nominal amount of €3,748,906 representing 1.48% of the share capital at that date, through the respective issue of 980,842, 714,880 and 178,731 new shares, for an aggregate total of 1,874,453 new shares with a par value of €2.00 each and a price per share of €34.78 for the standard plan and €36.95 for the leveraged scheme. These transactions had the cumulative effect of increasing the share capital by €252,570,294 to €256,319,200.

In place of the matching contribution benefiting employees and those with similar rights in French companies of the Vallourec Group and Group companies headquartered in Germany, Brazil, Mexico, the United Arab Emirates and the United Kingdom, and invested in the Value 13 plan, the Management Board, using the twentieth resolution of the Shareholders' Meeting of 30 May 2013, implemented a free share allocation plan for existing shares for a maximum of 4,028 shares, or 0.003% of the share capital at that date, for employees of the Vallourec Group, headquartered in Canada and the United States (excluding employees of VAM USA LLC), who are invested in a "Shares + SARs" offer under the Value 13 plan.

The terms of this plan are set out in section 7.3.1.2.2 "Bonus share plan".

Performance shares (nineteenth resolution of the Shareholders' Meeting of 31 May 2012)

Under the nineteenth resolution on performance shares adopted by the Shareholders' Meeting of 31 May 2012, the Management Board decided, on 29 March 2013 and in agreement with the Supervisory Board, to:

- allocate a maximum of 130,464 performance shares [(1)] (subject to continuous presence and performance conditions), representing 0.10% of the share capital as at 31 December 2013, for a maximum of six shares per beneficiary, to 21,744 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 and Russia (excluding members of the Management Board);
- the allocation, subject to continuous service and performance conditions, of 295,225 performance shares [(2)], i.e. 0.23% of the share capital as at 31 December 2013, to 1,644 managers and executives, and three members of the Management Board.

The terms and conditions of these plans are set out in 7.3.1.2.1 "Allocation of performance shares".

Share subscription or purchase options (fourteenth resolution of the Shareholders' Meeting of 31 May 2012)

Under the fourteenth resolution on share subscription or purchase option adopted by the Shareholders' Meeting of 31 May 2012, on 2 September 2013 the Management Board, in agreement with the Supervisory Board, set up a share subscription option plan, subject to continuous service and performance conditions, which provides for the allocation of up to 602,465 options [(3)] or 0.47% of the share capital at 31 December 2013 to 403 managers and executives, and three Board members.

The terms of this plan are set out in section 7.3.1.1 "Share purchase and/or subscription options."

2.2.3.3 Potential dilution at 31 December 2013

Vallourec has not issued any securities giving access to capital.

Performance share (see section 7.3.1.2.1 below) and bonus share award plans (see section 7.3.1.2.2 below) are covered by existing shares so they have no dilutive impact on capital.

Only the award of share subscription options (see section 7.3.1.1 below) could, if the options were to be exercised, result in a dilution of shareholders. Based on the number of options currently outstanding, net of those that were canceled or have lapsed, potential dilution to shareholders at 31 December 2013 is 2.42%.

2.2.4 Repurchase of shares

2.2.4.1 Information on transactions under the share buyback program during fiscal year 2013

Repurchase of shares (excluding liquidity contract)

At 1 January 2013, Vallourec held 1,042,277 Vallourec shares with a nominal value of €2.00, or 0.83% of its share capital at that date, all assigned to cover free share or performance share allocation plans.

From 1 January to 31 December 2013, Vallourec transferred 222,551 shares under its free share and performance share allocation plans.

(1) This number corresponds to the highest performance factor.

(2) i.e. 371,389 performance shares based on the highest performance factor: 1.25 or 1.33, as appropriate.

(3) Based on the highest performance factor of 1.

Total gross cash flows relating to purchases and sales/transfers of shares (excluding liquidity contract) from 1 January to 31 December 2013 were as follows:

	Purchases	Transfers/Sales
Number of shares	0	222,551
Average price per share (in euros)	0	43.34
AGGREGATE AMOUNT IN EUROS	**0**	**9,646,397**

Treasury shares (excluding liquidity contract) at 31 December 2013

As at 31 December 2013, Vallourec held 819,742 Vallourec shares, or 0.64% of its share capital at that date, all assigned to cover bonus share or performance share allocation plans. The carrying amount of the portfolio at 31 December 2013 was €34,418,645, including a nominal value of €1,639,484 and a market value on the same date of €32,461,783.

Liquidity contract

Vallourec has a liquidity contract with Rothschild & Cie Banque, which has been in effect since 2 July 2012. The contract has a term of 12 months and is automatically renewable for successive 12-month terms. It complies with the Code of Conduct (*Charte de déontologie*) issued by the French Association of Financial Markets (*Association Française des Marchés Financiers*) and approved by the French Securities Regulator (*Autorité des Marchés Financiers* – AMF) on 21 March 2011.

In 2013, under the liquidity contract, total purchases involved 2,632,759 shares, representing 2.05% of the share capital at 31 December 2013, for a total €107,651,908 and a weighted average price of €40.89 per share. Total sales involved 2,157,759 shares, representing 1.68% of the share capital as at 31 December 2013, for a total of €87,120,049 and a weighted average price of €40.38 per share.

In 2013, the liquidity contract generated a capital gain of €177,786.

As at 31 December 2013, the balance on the liquidity account comprised:

- 475,000 shares;
- €5,344,924.

The management fee for the liquidity contract in 2013 was €100,000 (excluding VAT).

Treasury shares

None.

Open derivative positions as at 31 December 2013

None.

2.2.4.2 Description of the 2014-2015 share buyback program, submitted to the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014 (14th resolution)

This description of the program's purpose, under Articles 241-1 and following of the General Regulations of the French Securities Regulator (*Autorité des Marchés Financiers* – AMF), is to explain the objectives and the terms and conditions of Vallourec's share buyback program, which will be submitted to the Ordinary and Extraordinary Shareholders' Meeting convened on 28 May 2014.

Allocation of Vallourec shares held by the Company as at 31 March 2014

As at 31 March 2014, Vallourec held 652,291 Vallourec shares, or 0.51% of its share capital at that date, all assigned to cover bonus share or performance share allocation plans.

Moreover, on the same date 522,500 shares are included in the balance of the liquidity contract with Rothschild & Cie Banque, or 0.41% of the share capital.

Objectives of the share buyback program submitted to the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014

In accordance with the provisions of European Regulation No. 2273/2003 of 22 December 2003 implementing the European Directive 2003/6/EC of 28 January 2003, and with the market practices accepted by the French Securities Regulator (*Autorité des Marchés Financiers* – AMF), the objectives of the share buyback program submitted for the approval of the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014 are as follows:

1. to implement any Company share purchase options plan or any similar plan, in accordance with the provisions of Article L.225-177 et seq. of the French Commercial Code;
2. to award or transfer shares to employees for their investment in the Company's development and/or to implement any company or group savings plan (or similar plan) as provided by law, in particular Articles L.3332-1 et seq. of the French Labor Code;
3. to award shares free of charge or performance shares under the provisions of Articles L.225-197-1 of the French Commercial Code;
4. to cover all awards of shares to employees and/or corporate officers of the Company, particularly in the context of international employee share ownership plans or variable compensation;
5. for market making or to increase the liquidity of Vallourec's shares through an investment services provider, under the terms of a liquidity contract that complies with the Code of Conduct (*Charte de déontologie*) issued by the French Association of Financial Markets (*Association Française des Marchés Financiers*), approved by the French Securities Regulator (*Autorité des Marchés Financiers* – AMF) and in accordance with the market practices accepted thereby;

6. to hold and subsequently deliver shares (in payment, exchange or otherwise) in connection with any later transactions involving acquisitions, and, in particular, mergers, split-offs or contributions, in accordance with the market practices accepted by the 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 so repurchased, provided that the Management Board has a valid authorization from the Extraordinary Shareholders' Meeting allowing it to reduce the share capital by cancellation of shares acquired as part of a share buyback program.

Terms of the share buyback program submitted to the Shareholders' Meeting on 28 May 2014

The table below shows the maximum number, the characteristics and the maximum purchase price of the shares that the Company may acquire under its share buyback program as submitted to the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014, as well as the maximum percentage of capital that the shares may represent:

Characteristics of the shares	Maximum percentage of capital [(a)]	Maximum number of shares [(b)]	Maximum purchase price *(per share)*
Ordinary shares	10%	12,815,960	€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 Shareholders' 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 31 March 2014, i.e. €256,319,200, divided into 128,159,600 shares. Based on the number of ordinary shares owned by Vallourec at that date of 1,174,791, Vallourec could acquire 11,641,169 of its own shares.

Term of the share buyback program submitted to the Shareholders' Meeting of 28 May 2014

The authorization given to the Management Board to implement the share buyback program will be granted for a term of 18 months from the date of the Shareholders' Meeting of 28 May 2014, until 28 November 2015, subject to the program's approval by the Ordinary Shareholders' Meeting.

2.2.5 Changes in capital over the past five years

Transaction date	Exercise of subscription options	Number of shares subscribed in cash	Total number of shares after transaction	Nominal amount of capital increase *(in €)*	Additional paid-in capital *(in €)*	Total share capital after transaction *(in €)*
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
25/06/2013	-	1,338,791	126,285,147	2,677,582	46,442,660	252,570,294
10/12/2013	-	1,874,453	128,159,600	3,748,906	65,474,830	256,319,200

(a) 2:1 stock split, as a result of which the par value was halved from €4.00 to €2.00 and the number of shares was doubled.

2.2.6 Non-equity instruments

Securities entitling the allocation of debt securities

Subject to prior agreement by the Supervisory Board (see section 2.2.1 above), the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013 granted the Management Board authority for a period of 26 months to issue securities entitling the allocation of debt securities that do not result in a Company capital increase, such as bonds with bond warrants, within a maximum nominal amount of €1.5 billion (sixteenth resolution). The Management Board has not used this delegation since its adoption by the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013.

Commercial paper issue program

On 12 October 2011 Vallourec established a commercial paper issue program to meet its short-term requirements. This program was updated on 26 June 2013 has the following main characteristics:

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 €650 million fixed-rate bond maturing on 14 February 2017, (the "**February 2017 Bonds**"). These bonds have a unit par value of €100,000 are admitted to trading on Euronext Paris stock market. They bear interest at an annual fixed rate of 4.25%, payable in arrears on 14 February each year, and are rated BBB+ by Standard & Poor's;
- on 30 July 2012, a €55 million fixed-rate bond maturing on 2 August 2027 (the "**August 2027 Bonds**"). These 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;
- on 31 July 2012, a €400 million fixed-rate bond maturing on 2 August 2019, (the "**August 2019 Bonds**"). These bonds have a unit par value of €100,000 are admitted to trading on Euronext Paris stock market. 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 bond 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 change-of-control clause that would trigger the mandatory prepayment 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) leading to a downgrade of Vallourec's financial rating.

In addition, prepayment of the Bonds may be requested by the bondholder or the Company, depending on the case, should any of the common default scenarios for this type of transaction arise or in respect of a change in the Company's position or in tax regulations.

The prospectuses for listing the February 2017 Bonds and the August 2019 Bonds on the Euronext Paris stock market may be consulted on the websites of the Company (www.vallourec.com) and the AMF (www.amf-france.org).

Rating

On 1 January 2013, the opening date of the 2013 fiscal year, Vallourec's debt was rated BBB+/negative/A-2 by Standard & Poor's. On 9 August 2013, the agency restored the BBB+ rating with a stable outlook. Accordingly, at 31 December 2013, the credit rating of Vallourec's debt was BBB+/stable/A-2.

2.3 Distribution of capital and voting rights

2.3.1 Changes in the distribution of capital in the last three years

FY 2011 (at 31 December)

Shareholders	Number of shares	% of share capital	Theoretical number of voting rights	Theoretical % of voting rights	% of exercisable voting rights at Shareholders' Meetings
Public	96,202,505	79.22%	96,288,050	79.07%	79.73%
BPI[a]	8,427,464	6.94%	8,427,464	6.92%	6.98%
Group employees	6,036,218	4.97%	6,297,689	5.17%	5.21%
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%
Treasury shares	1,012,231	0.83%	1,012,231	0.83%	0.00%
TOTAL	**121,434,409**	**100.00%**	**121,781,425**	**100.00%**	**100.00%**

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

FY 2012 (at 31 December)

Shareholders	Number of shares	% of share capital	Theoretical number of voting rights	Theoretical % of voting rights	% of exercisable voting rights at Shareholders' Meetings
Public	95,583,919	76.50%	96,238,059	74.91%	75.52%
Group employees	8,925,768	7.14%	10,060,911	7.83%	7.90%
BPI[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%	3,786,145	2.95%	2.97%
Nippon Steel & Sumitomo Metal Corporation[d]	1,973,134	1.58%	1,973,134	1.54%	1.55%
Treasury shares[e]	1,042,277	0.83%	1,042,277	0.81%	0.00%
TOTAL	**124,946,356**	**100.00%**	**128,475,309**	**100.00%**	**100.00%**

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

(b) By letter dated 25 July 2012, Capital Research and Management Company disclosed that on 23 July 2012 it had crossed the 5% thresholds of Vallourec capital and voting rights and held 6,503,705 Vallourec shares, with the same number of voting rights, i.e. 5.35% of the capital and 5.25% of voting rights (AMF Decision and Information No. 212C0961 of 25 July 2012).

(c) Including Compagnie de Cornouaille S.A.S. and Bolloré S.A. (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. As a result, the number of treasury shares is subject to change at any time.

FY 2013 (at 31 December)

Shareholders	Number of shares	% of share capital	Theoretical number of voting rights	Theoretical % of voting rights	% of exercisable voting rights at Shareholders' Meetings
Public[(a)]	106,305,548	82.94%	108,468,169	82.93%	83.77%
Group employees	9,441,826	7.37%	9,910,381	7.58%	7.65%
EPIC BPI-Groupe[(b)]	9,144,350	7.14%	9,144,350	6.99%	7.06%
Nippon Steel & Sumitomo Metal Corporation	1,973,134	1.54%	1,973,134	1.51%	1.52%
Treasury shares[(c)]	1,294,742	1.01%	1,294,742	0.99%	0.00%
TOTAL	**128,159,600**	**100.00%**	**130,790,776**	**100.00%**	**100.00.%**

(a) By letter received by the AMF on 3 December 2013, The Capital Group Companies, Inc. disclosed that on 29 November 2013, it had crossed the 5% thresholds of Vallourec's capital and voting rights and held 6,157,216 Vallourec shares.

(b) Bpifrance Participation (former FSI), jointly with Caisse des Dépôts et Consignations (CDC). By letter received by the AMF on 18 July 2013, the CDC disclosed that it held, directly and indirectly, through Bpifrance Participations SA, which it controls through the BPI Group SA, 9,144,350 Vallourec shares representing 9,144,350 voting rights.

(c) 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. As a result, the number of treasury shares is subject to change at any time.

To the Company's best knowledge, there are no other shareholders who, directly or indirectly, alone or together, hold more than 5% of the capital or voting rights.

As at 31December 2013, the floating portion of Vallourec's capital stood at 83.95%.

Agreement between Vallourec and Nippon Steel & Sumitomo Metal Corporation (formerly Sumitomo Metal Industries[(1)])

Symbolizing their stronger industrial cooperation, Vallourec and Nippon Steel & Sumitomo Metal Corporation (NSSMC) announced on 26 February 2009 that each party had agreed to acquire an approximately US$120 million stake in the other, as from 31 December 2009 (hereinafter "the Agreement").

The provisions of the Agreement provide preferential terms of sale, whose key feature is a reciprocal right of first refusal in the event that either partner indicates its intent to sell its shareholding to a third party. The Agreement may be viewed on the AMF's website: http://inetbdif.amf-france.org/inetbdif/viewdoc/affiche.aspx?id=46519&txtsch

The Agreement was entered into for a term of seven years and is automatically renewable for successive one-year terms.

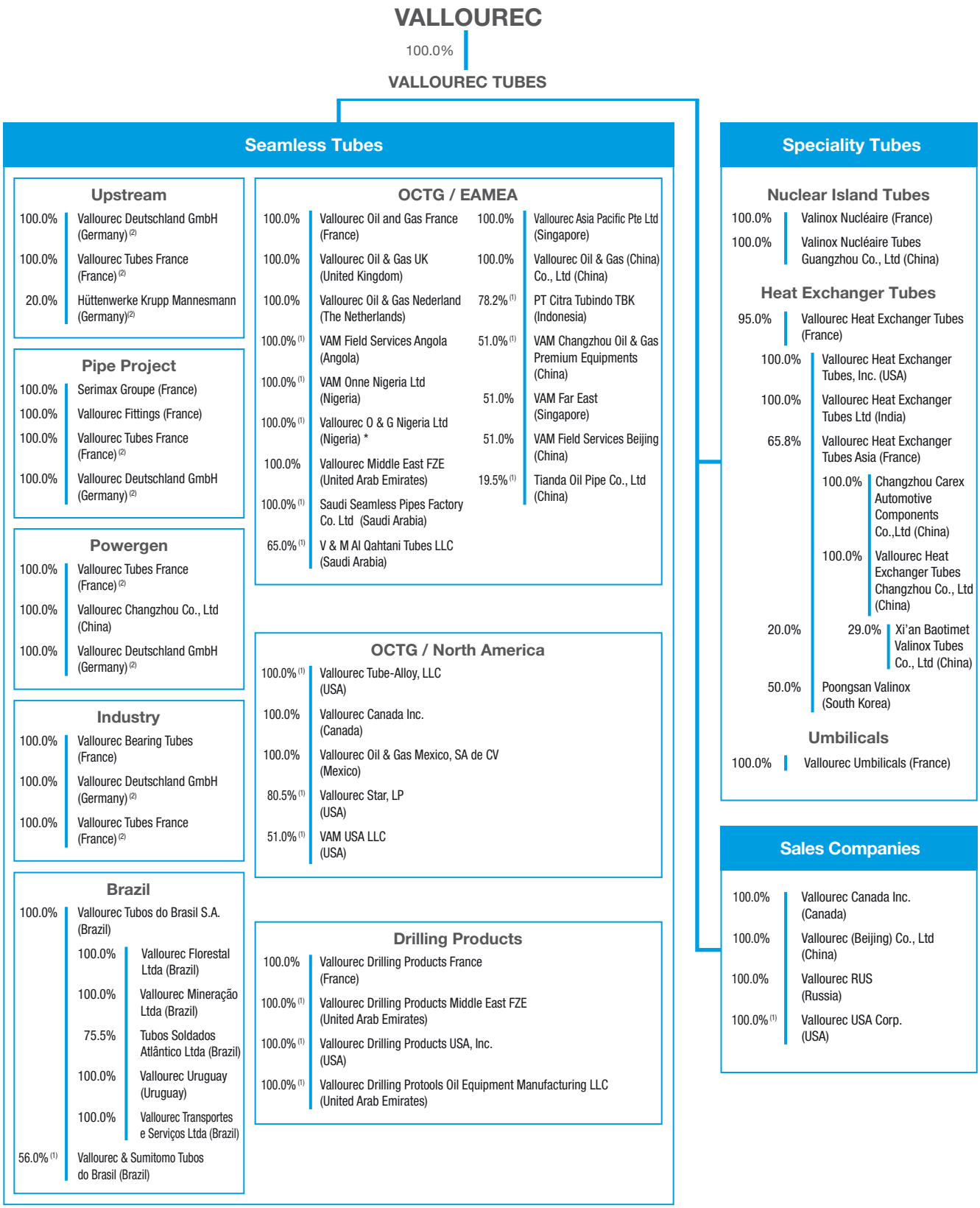
At 31 December 2013, Nippon Steel & Sumitomo Metal Corporation held 1,973,134 Vallourec shares, representing 1.54% of Vallourec' share capital. At the same date, Vallourec held 34,687,590 shares of Sumitomo Metal Industries, representing 0.37% of NSSMC's share capital.

2.3.2 Other persons exercising control over Vallourec

None.

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

2.3.3 Vallourec Group organization chart as at 31 December 2013



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

(2) The activities of Vallourec Tubes France and Vallourec Deutschland GmbH cover Upstream, Industry, Pipe Project and Powergen divisions.

* *New name effective from 10 September 2013, formely VMOG Nigeria Ltd.*

2.4 Market for Vallourec's shares

2.4.1 Listing market

The Company's shares are listed in sub fund A of the Euronext Paris regulated market (ISIN code: FR0000120354-VK). They are eligible for deferred settlement and are a qualifying investment under French laws on equity savings plans (*Plan d'Epargne en Actions* – PEA).

The Vallourec share is included in the following indices: MSCI World Index, Euronext 100, CAC 40, SBF 120, Euronext Vigeo France 20 and Euronext Vigeo Europe 120.

FTSE classification: engineering and industrial capital goods.

The February 2017 and August 2019 bonds are admitted to trading on the Euronext Paris stock market under ISIN codes FR0011149947 and FR0011302793, respectively (see above section 2.2.6 – Non-equity instruments).

2.4.2 Other potential markets

In October 2010, Vallourec set up a sponsored Level 1 American Depositary Receipt (ADR) program in the United States. This 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 development.

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 mail at the following address:

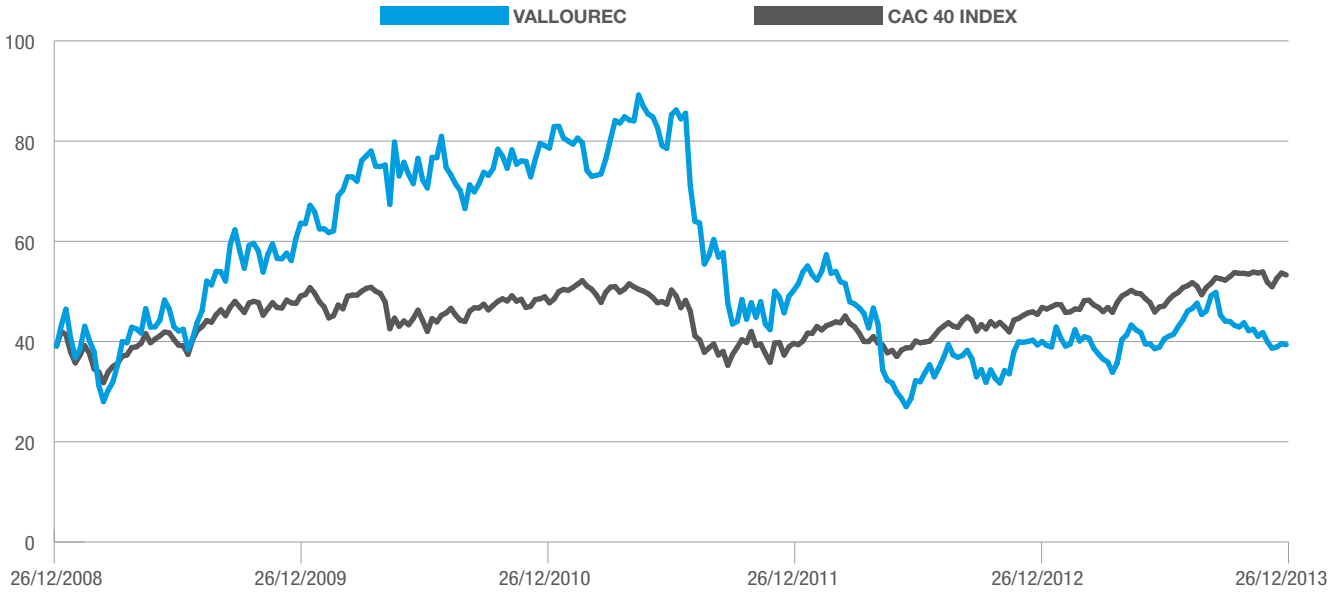
  JP Morgan Service Center
  JP Morgan Chase & Co.

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

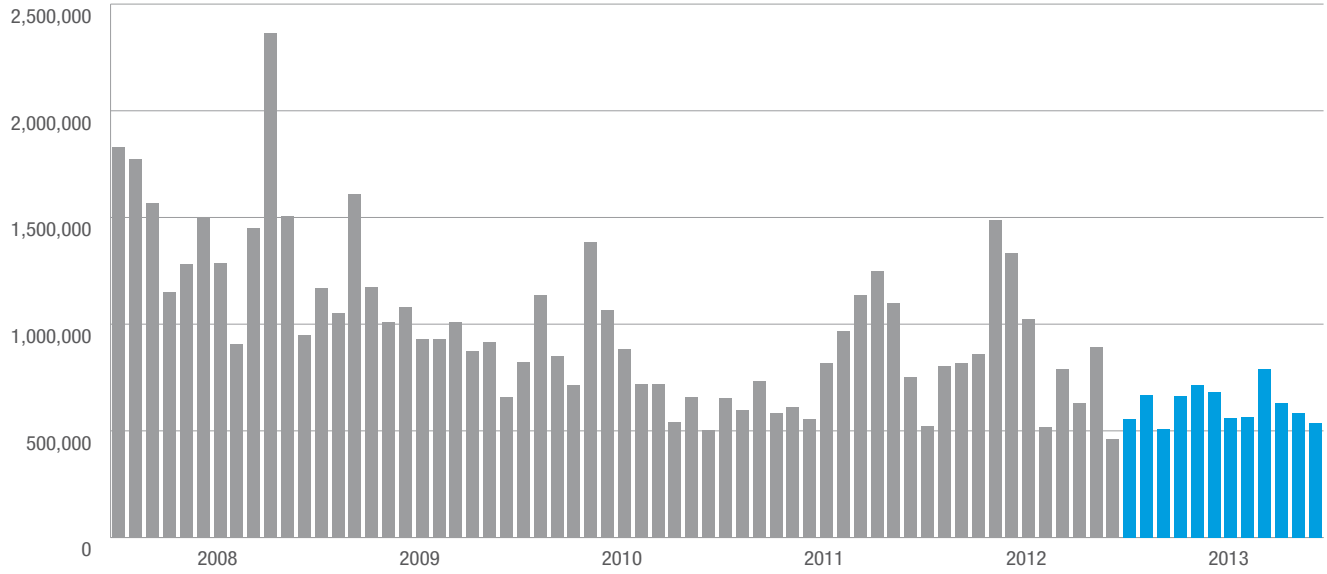
2.4.3 Volumes traded and price performance

For clarity and consistency, all the data provided in this section have been restated to reflect the 2:1 stock split on 9 July 2010.

ADJUSTED VALLOUREC SHARE PRICE PERFORMANCE IN THE LAST FIVE YEARS COMPARED TO THE CAC 40 INDEX



ADJUSTED MONTHLY AVERAGE VOLUMES TRADED PER DAY



MOVEMENTS IN THE ADJUSTED SHARE PRICE AND MARKET CAPITALIZATION IN THE LAST FIVE YEARS

In €	2009	2010	2011	2012	2013
Adjusted number of shares (as at 31 December)	114,561,578	117,944,082	121,434,409	124,946,356	128,159,600
Highest price	64.25	81.61	89.58	58.24	51.01
Lowest price	26.26	60.35	38.34	25.69	33.05
Average (closing) price for the year	47.34	73.05	68.33	40.05	41.55
Year-end price	63.53	78.60	50.16	39.49	39.60
Market capitalization (year-end price)	7,278,097,050	9,270,404,845	6,091,149,955	4,934,131,598	5,075,120,160

Source: Euronext

MOVEMENTS IN SHARE PRICE AND TRADING VOLUME FROM JANUARY 2013 TO MARCH 2014

				Transaction volume			
	Price (in euros)			Monthly total		Daily average	
	Highest	Lowest	Last	Number of shares	Capital in € billion	Number of shares	Capital in € billion
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
April	37.83	33.05	36.50	13,892,577	0.50	661,551	0.02
May	43.81	35.62	41.80	15,734,559	0.65	715,207	0.03
June	41.92	37.11	38.88	13,596,029	0.53	679,801	0.03
July	44.85	38.66	44.37	12,879,780	0.54	559,990	0.02
August	48.28	43.67	45.39	12,447,205	0.57	565,782	0.03
September	51.01	43.83	44.27	16,601,135	0.79	790,530	0.04
October	45.05	42.24	43.83	14,447,930	0.63	628,171	0.03
November	44.95	40.20	41.81	12,286,280	0.52	585,061	0.02
December	42.32	37.27	39.60	10,761,314	0.42	538,066	0.02
2014							
January	40.99	36.21	37.05	13,752,937	0.54	625,134	0.02
February	40.46	36.01	38.94	15,779,822	0.60	788,991	0.03
March	39.77	36.06	39.41	12,568,908	0.47	598,519	0.02

Source: Euronext

2.4.4 Pledging of issuer's shares

None.

2.5 Dividend policy

For a clear understanding of the following paragraphs, you are reminded that due to the 2:1 stock split on 9 July 2010, the share's par value is now €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.

The Shareholders' Meeting of 28 May 2014 (third and fourth resolutions) are asked to approve the payment of a net dividend of €0.81 per share for fiscal 2013 and to grant each shareholder of the Company, for all or part of the dividend to be distributed, the choice between payment of the dividend in cash or in shares, in accordance with the laws and regulations in force. The dividend payment date and the ex-dividend trading date are set for 4 June 2014 (record date of 3 June 2014).

Accordingly, each shareholder may opt for payment of the entire net dividend in cash or in shares between 4 and 17 June 2014 inclusive. If the option is not exercised within this period, the dividend shall be paid in cash only. Cash payment or delivery of the shares will be on 25 June 2014.

This dividend corresponds to a payout ratio [(1)] 39.6% of consolidated net income, Group share. The average payout ratio of the last five years is 37.6%.

Based on the par value of the Vallourec's share as at 31 December 2012 and taking into account the 2:1 stock split on 9 July 2010, dividends per share for the last five years are as follows:

In euros per share	Gross income	Tax credit	Net dividend	Payout ratio [(a)]
2008	3.00	none	3.00 [(b)]	33.2%
2009	1.75	none	1.75 [(b)]	38.6%
2010	1.30	none	1.30 [(b)]	37.3%
2011	1.30	none	1.30 [(b)]	39.4%
2012	0.69	none	0.69 [(b)]	39.7%

(a) The payout ratio is calculated based on the total number of shares outstanding at 31 December.

(b) Note that Ordinary and Extraordinary Shareholders' Meetings of 4 June 2009, 31 May 2010, 7 June 2011, 31 May 2012 and 30 May 2013 gave each of the Company's shareholders the option to receive payment of the dividend in cash or in shares, in accordance with the laws and regulations in force.

2.6 Financial disclosure policy

The Group's priority is to maintain lasting, trustworthy relations with all its shareholders, whether 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 sincere 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.

(1) The payout ratio is calculated based on the total number of shares outstanding at 31 December 2013.

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 (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 rebroadcasts;
- 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 annual Shareholders' Meeting (notice of meeting, draft resolutions, voting form, meeting brochure);
- all Group press releases, presentations and publications are available under the Media heading.

Information may be sent by mail upon request made on the Group website or addressed to the Investor Relations and Financial Communications Department via e-mail, phone call or letter.

2.6.2 Relations with institutional investors and financial analysts

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

- **Each quarter, a conference call is organized** when the financial results are released. Members of the Management Board present the results and answer questions from analysts and investors. The conference call is broadcast live and rebroadcast on the Group's website;
- **Each year, a conference is held in Paris** on release of the Group's annual results;
- **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 2013, Vallourec held its Investor Day in the United States with a tour of the new plant in Youngstown, Ohio.

Moreover, **many events are organized throughout the year between the Group's executive management and the financial community.** In 2013, Vallourec's executive management and the Investor Relations and Financial Communications team took part in nearly 200 meetings and conference calls and devoted some 50 days to roadshows and conferences, mostly dedicated to the oil and gas sector, at the world's leading financial centers, mainly in Europe and the United States.

2.6.3 Relations with individual shareholders

Separate communications resources have been developed to respond to the needs of individual shareholders, including:

- a dedicated Individual Shareholders space under the Finance heading of the Group's website (www.vallourec.com);
- regular posting of financial notices in the national press (release of results, notice of shareholders' meetings);
- dedicated communication 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 Communication team that is always available to answer questions.

Annual Shareholders' Meeting

The Annual Shareholders' Meeting, which in 2013 was held at the former Paris Stock Exchange (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 Communication team is also available to assist shareholders in their efforts to vote and participate in the Shareholders' Meeting.

Registered shares

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

- **free management:** direct registered shareholders are totally exempt from custody fees as well as other fees associated with management of their shares:
  - conversion to bearer shares and share transfers,
  - changes to legal status: transfers, gifts, inheritance, etc.,
  - securities transactions (capital increases, share allocations, etc.),
  - dividend payments;
- **a guarantee of receiving personalized information:** the registered shareholder is certain to receive personalized information on:
  - shareholders' meetings, with systematic sending of the notice of meeting, a single form for voting by correspondence or by proxy, request for an admission ticket and legal documentation,
  - securities management, taxation of securities and organization of Shareholders Meetings. A team of operators is available to shareholders from 9 a.m. to 6:00 p.m., Monday through Friday, at +33 (0)1 57 78 34 44;
- **easy access to the Shareholders' Meeting:** all registered shareholders are automatically invited to Shareholders Meetings and, to vote, need not go through the prior formality of requesting a certificate of shareholding.

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
- 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 Communication Department

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

2.6.5 2014 Financial Calendar (dates subject to change)

7 May 2014	Release of results for Q1 2014
28 May 2014	Annual Shareholders' Meeting
25 June 2014	Payment of dividend
30 July 2014	Release of results for Q2 2014
6 November 2014	Release of results for Q3 2014



3

Information on Vallourec Group activities

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On 28 May 2013, Vallourec adopted a single brand name and a new visual identity to reinforce its global leadership and support its growth strategy. This marks a new milestone in the history of the Group, which has developed since the late nineteenth century through successive mergers of numerous companies. Since the creation of the joint venture Vallourec & Mannesmann Tubes in 1997, many Group entities have operated under the V & M trademark. The decision to combine all these identities under the single Vallourec brand reflects the successful integration of the many companies acquired by the Group throughout the world. With this move, Vallourec creates a true premium label, which guarantees the same high level of excellence and quality to its customers worldwide. To reflect this change, each company described below is introduced under its new name, followed by its former name in parentheses.

3.1 Presentation of Vallourec and its Group

The Vallourec Group is over 100 years old, with some Group companies having been established in the last decade of the nineteenth century. The Group originated in two regions of France, both with long manufacturing traditions, where the Group still has a significant presence: the Nord region, around Valenciennes and Maubeuge, and the Burgundy region around Montbard, in the Côte-d'Or. Since the creation of Vallourec Tubes (formerly Vallourec & Mannesmann Tubes) in 1997 (see Section 3.1.1 below) and the acquisition of Vallourec Tubos do Brasil S.A. (formerly V & M do Brasil SA) in 2000, the Group is also widely established in the regions of Düsseldorf, North Rhine-Westphalia (Germany) and Belo Horizonte in the state of Minas Gerais, Brazil. In early July 2002, Vallourec Tubes acquired the seamless tubes business of North Star Steel Company, now called Vallourec Star, LP (formerly V & M Star). Further acquisitions in 2005, of Omsco (now called Vallourec Drilling Products USA, Inc. (formerly VAM Drilling USA)), and on 16 May 2008, of Atlas Bradford®, TCA® and Vallourec Tube-Alloy LLC (formerly 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 tube mills in Valenciennes, Denain, Louvroil and Recquignies, the Group of today has other, much earlier roots. It originated in Société Métallurgique de Montbard, which was created 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 founding in 1899, in 1907 it was renamed Société Métallurgique de Montbard-Aulnoye, which changed to Louvroil Montbard Aulnoye in 1937 after the takeover of Louvroil et Recquignies, itself a company resulting from a merger between Société Française pour la Fabrication des Tubes de Louvroil, founded in 1890, and Société des Forges de Recquignies, established in 1907.

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

Major events in the Group's history between 1957 and 2002 include:

- 1967: contribution by Usinor of the tubes activity of Lorraine-Escaut, a company it had just absorbed;
- 1975: takeover of Compagnie des Tubes de Normandie;
- 1979: contribution of the small welded tubes activity of Tubes de la Providence, which took the name of 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 tubes activity to GTS Industries;
  - disinvestment of Vallourec from the small welded tubes activity (Valexy) and the large welded tube activity (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: transformation of Vallourec, until then a holding and manufacturing company with many production units, into a pure holding company with three fields of activity:
  - tubes activity: Vallourec Industries, renamed Valtubes in 1987,
  - other metalworking activities: Sopretac,
  - construction and civil engineering-related activities, including a holding in GTM-Entrepose: Valinco;
- 1988: transfer of control of Valinco to Dumez, as construction and civil engineering-related activities were no longer deemed a development priority for the Group;
- 1991: sale of the residual holding in Valinco to Dumez;
- 1997: creation of Vallourec Tubes (formerly Vallourec & Mannesmann Tubes), a joint subsidiary of Vallourec (55%) and the German company Mannesmannröhren-Werke (45%);
- 2000: acquisition by Vallourec Tubes (formerly Vallourec & Mannesmann Tubes) of Brazilian subsidiary Mannesmann SA, now called Vallourec Tubos do Brasil S.A. (formerly V & M do Brasil SA). Sale of the residual holding in Valinco to Dumez;

- 2002: acquisition by Vallourec Tubes (formerly Vallourec & Mannesmann Tubes) of North Star Steel Company's seamless steel tubes activity (North Star Tubes), increasing Vallourec's share of the buoyant energy pipeline market and significantly boosting its presence in the United States, the largest market for oil country tubular goods (OCTG). Now called Vallourec Star, LP (formerly V & M Star), this company is 80.5% controlled by Vallourec Tubes (formerly Vallourec & Mannesmann 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 Vallourec Tubes (formerly Vallourec & Mannesmann Tubes) through the acquisition of the 45% stake held by Mannesmannröhren-Werke for €545 million. This major transaction gave Vallourec:

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

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

To continue its growth in the production of tubes for the power generation market, in 2005 Vallourec Tubes created a subsidiary in Changzhou, China: Vallourec (Changzhou) Co., Ltd (formerly V & M Changzhou), which began doing business in late September 2006. This unit specializes in the cold-finishing of large-diameter seamless alloy steel tubes produced in Germany for power generation plants.

In the field of tubes for the oil and gas industry, following the 2002 acquisition of North Star, in 2005 Vallourec Tubes (formerly Vallourec & Mannesmann Tubes) acquired the assets of the Omsco division of ShawCor (Canada). Located in Houston, Texas (USA) Omsco specialized in the manufacture of drill collars and heavyweight drill pipe. This acquisition enabled Vallourec Tubes (formerly Vallourec & Mannesmann Tubes) to become the world's number two in the market for oil and gas drill pipe. This position was strengthened early in 2006 with the acquisition of French company SMFI (Société de Matériel de Forage International), which also specializes in drill collars, heavyweight drill pipes and high-tech products for oil and gas drilling. This was complemented by the purchase of a forging and machining workshop for such products from GIAT. Located in Tarbes, France, this activity was integrated into Vallourec Oil and Gas France (formerly Vallourec Mannesmann Oil & Gas France) and transferred to SMFI in 2007; Omsco now operates under the name of Vallourec Drilling Products USA, Inc., and SMFI is now Vallourec Drilling Products France.

In addition, VAM Changzhou Oil & Gas Premium Equipments was created at the end of September 2006 to operate a plant in Changzhou, China, for threading tubing to equip oil and 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 through 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, respectively, VAM USA LLC and Vallourec Star, LP (formerly V & M Star). The third was renamed Vallourec Tubes-Alloy (formerly V & M Tubes-Alloy™). At the same time, Sumitomo Metal Industries and Sumitomo Corporation maintained their respective 34% and 15% shareholdings in VAM USA, LLC as well as a 19.5% stake in Vallourec Star, LP.

In addition, Sumitomo Corporation, which already held a 19.5% stake in Vallourec Star, LP (formerly V & M Star), a U.S. company owned 80.5% by Vallourec, acquired a 19.5% stake in V & M TCA® on 27 February 2009. This company, a heat treatment specialist located in Muskogee, Oklahoma (USA), was acquired by Vallourec in May 2008 from the Grant Prideco group and absorbed on 1 July 2009 by Vallourec Star, LP (formerly V & M Star). This followed the latter's acquisition of the entire share capital of V & M TCA® from Vallourec Industries Inc. (80.5%) and Sumitomo Corporation (19.5%).

On 16 March 2009, the Group announced its decision to invest in new production capacities at Montbard to meet the growing needs of the nuclear power industry. Its subsidiary Valinox Nucléaire nearly tripled the annual capacity of its Montbard plant, enabling it to produce 5,000 km of tubular products per year. This plant was inaugurated in 2011.

In 2011, Vallourec Heat Exchanger Tubes (formerly 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 serve the oil and gas industry in 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 and 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 Vallourec Drilling Products Middle East FZE (formerly 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 strengthened Vallourec Drilling Products' 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 tube mill for small-diameter tubes in Youngstown, Ohio (USA), which will initially produce 350,000 metric tons of tubes per year. The plant's capacity could be raised, if required, to 500,000 metric tons of seamless tubes per year. This new unit will extend the range produced by Vallourec in North America and strengthen its leadership position in premium tubular solutions on the U.S. market. The plant was commissioned in October 2012 and the first sales were made in December 2012. Finishing capabilities (heat treatment, threading and inspection), were commissioned in the first half of 2013. With the scalability of this new plant, the Group now offers a full range of products and services necessary for the production of all hydrocarbons, especially those relating to oil shale.

On 8 June 2010, Vallourec acquired 100% of Serimax, the world leader in integrated welding solutions for offshore line pipe. This acquisition rounded out Vallourec's activities in offshore line pipe, which is used to connect wellheads on the ocean floor to production platforms at the surface or to onshore facilities. 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 in China at its Vallourec (Changzhou) Co., Ltd. plant (formerly V & M Changzhou). The purpose of the extension was to 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 started in the second half of 2012. The Vallourec Changzhou plant, located in the province of Jiangsu and commissioned in 2006, was already a high-end finishing unit (capacity: 15,000 metric tons per year) for large-diameter seamless tubes used in power plants. Extending the plant made 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 on 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) for the oil and gas market 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 the Anhui province (China). With this acquisition, Vallourec has strengthened and enhanced its presence in the Chinese market. Under the terms of a cooperation agreement with TOP, VAM Changzhou Oil & Gas Premium Equipment threads 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 (southeast China). The new plant, commissioned on 6 June 2013, was built to support the strong growth of Chinese nuclear power projected until 2020. The project adds to the production of the Valinox Nucléaire plant in Montbard, France, whose capacity was raised in 2011. With the commissioning of the new Nansha plant, Vallourec's total supply of steam generator tubes will increase from 5,000 km to almost 7,000 km per year. This plant will employ 200 people. With this development, Vallourec will be ideally positioned to meet the needs of its key Chinese customers and to continue supporting nuclear programs in several regions around the world.

On 9 February 2011, Vallourec Umbilicals, a new Group subsidiary aimed at meeting the growing demand for offshore oil field operation, launched the construction of a plant at Venarey-Les Laumes, France, to produce seamless stainless steel tubes to be fitted into umbilicals. The product of high-tech processes, these umbilicals are components that combine tubes, cables and optical fibers. They are used to connect seabed equipment to a control station at the surface. This innovative solution expands the Group's premium offering. Initial testing took place in 2012 and 2013 and the new facilities were commissioned in 2013. The know-how acquired by the Group through its subsidiary Vallourec Heat Exchanger Tubes (formerly Valtimet) in the production of extra-long welded tubes reduces the number of orbital welds required on these components. Umbilicals assembled with Vallourec tubes will provide better fatigue resistance for a lower given weight – a critical factor at sea.

On 25 November 2011, the Group finalized the acquisition of Saudi Seamless Pipes Factory Company Limited, the leading processing and finishing company for seamless OCTG tubes in Saudi Arabia. Located in Dammam, Saudi Seamless Pipes Factory Company Limited gave Vallourec significant finishing capacity, especially for already-operational heat treatment facilities with a capacity of 100,000 metric tons of tubes per year. Vallourec thereby strengthened its local presence in the U.K., while allowing it to reduce its production times to better serve the premium OCTG market in Saudi Arabia.

On 1 September 2011, the Group commissioned its new plant in Brazil, where construction had begun in 2007. 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 the production of charcoal. A unique manufacturing complex boasting the very latest technology, the plant covers 250 hectares and includes a steel mill, a high-end tube mill and group of heat treatment, threading and finishing lines. It employs 1,600 people and has a production capacity of one million metric tons of steel (including 300,000 metric tons for Vallourec's requirements, excluding VSB) and 600,000 metric tons of tubes, mainly for the oil and gas markets (including 300,000 metric tons for Vallourec). It will enable the Group to increase its tube production capacity by over 10%.

On 30 November 2011, Vallourec announced its decision to build a new premium threading plant at Youngstown, Ohio (USA). This decision was driven by the development of unconventional oil and gas drilling in shale plays, which is generating increased demand for premium connections. This new unit will be located alongside the Vallourec Star, LP (formerly V & M Star) tube mill commissioned by the

Group on 26 October 2012. It will add to the capacity of the VAM USA, LLC threading plants in Houston, Texas, and will enable the Group to expand its packaged range of finished products (premium tubes and connections). The first lines will be operational in 2015.

The Group saw no M&A activity in 2013.

Other acquisitions in recent years involved Vallourec Heat Exchanger Tubes, Inc. (formerly Valtimet), which was founded in 1997. In late 2006, Vallourec Tubes (formerly Vallourec & Mannesmann Tubes) purchased the 43.7% stake in Vallourec Heat Exchanger Tubes held by its longstanding partner, Timet, and now owns 95% of the capital, with the remaining 5% held by NSSMC.

- In December 2002, Vallourec Heat Exchanger Tubes, Inc., a wholly-owned subsidiary of Vallourec Heat Exchanger Tubes (formerly Valtimet), acquired the assets of International Tubular Products (ITP), the main US specialist in stainless steel tubes for condensers.
- In May 2004, Vallourec Heat Exchanger Tubes entered into a joint-venture with the South Korean company Poongsan in Bupyung, Incheon, South Korea, to make welded stainless steel and titanium tubes mainly for the power generation and seawater desalination markets.
- In November 2005, Vallourec Heat Exchanger Tubes 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 Vallourec Heat Exchanger Tubes and various 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, Vallourec Heat Exchanger Tubes acquired 75% of CST, now called Vallourec Heat Exchanger Tubes Ltd (formerly CST Valinox Ltd). Located in Hyderabad, India, the company specializes in the production of tubes for power plant cooling circuits for the Indian market. The shareholding in Vallourec Heat Exchanger Tubes Ltd. was raised to 90% in 2007.
- In late 2006, Changzhou Carex Automotive Components Co., Ltd. (formerly Changzhou Carex Valinox Components) was created to make welded stainless steel tubes for the automotive industry.
- In March 2008, Vallourec Heat Exchanger Tubes, Inc. acquired the assets of High Performance Tubes, a company based in Georgia (USA) specializing in the finishing (including finning) of stainless steel and titanium tubes, thereby strengthening the position of Vallourec Heat Exchanger Tubes in the steam generation market.

The main disinvestments in recent years were carried out by the two sub-holding companies of Valtubes and Sopretac and, as at 2005, by ValTubes, which resulted from the merger of those two sub-holding companies, ValTubes having itself been absorbed by Vallourec Tubes (formerly Vallourec & Mannesmann Tubes) in late 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' shareholding (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, did not have critical mass, and no longer served 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 group Calvi, well known to Vallourec as it had gradually taken over Cefival since 1999.
- Vallourec Précision Étirage (VPE), specialized in the manufacture of cold-drawn precision tubes, was sold to the Salzgitter group early in July 2007. At the time of sale, VPE, which had generated sales of €220 million in 2006, two thirds from the automotive sector, owned five production plants in France and employed some 1,200 people. At the same time, Vallourec Tubes (formerly Vallourec & Mannesmann Tubes) sold a hot-rolled tube 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 ArcelorMittal. These companies, suppliers to the automotive industry, generated sales of €100 million and €45 million respectively.

The Group had no significant disposals in 2013.

Key events in 2013

Contracts

On 9 January 2013, Vallourec Tubos do Brasil S.A. (formerly V & M do Brasil), Vallourec's Brazilian subsidiary, and Petrobras, Brazil's national oil company, announced that they had renewed their main master agreement at the end of 2012 for a period of five (5) years for the supply of premium OCTG products. These are seamless tubes with steel grades and connections that are at the forefront 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 to the tune of 16 billion barrels, Petrobras is expected to see a quintupling of its production in pre-salt reservoirs by 2017, which will go from 200,000 to around 1,000,000 barrels per day. In 2012, the Brazilian national oil company announced a US$236.5 billion investment plan over the 2012-2016 period. It is one of the most ambitious plans worldwide, and includes US$141.8 billion for exploration and production expenditure.

On 25 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 until 2015.

On 6 May 2013, Vallourec provided the tubes for the recently installed spire on the top of One World Trade Center in New York. The spire, which measures 124 meters, was built with 500 metric tons of seamless steel tubes, specially designed and manufactured in Vallourec's French and German plants, and is the final touch on the tallest tower in the United States. Its symbolic height of 1776 feet is a reference to the year of the signing of the United States Declaration of Independence. Thanks to the strength and resistance of the steel hollow sections manufactured by Vallourec, which provide the needed stability to the structure, the top of the skyscraper can withstand all weather conditions. Because the spire also serves as an antenna, the tubes also provide high-quality radio coverage for the city's media services.

On 10 June 2013, the Group announced its participation in renovating Brazil's main soccer stadiums for the 2014 FIFA World Cup in that country. The Vallourec plant in Belo Horizonte provided 10,500 metric tons of seamless structural steel tubing to equip nine stadiums, which will host the official matches of the FIFA World Cup or be used during the competition as training centers. Compared to conventional solutions, structures made of Vallourec's hollow sections are both stronger and 30% lighter. In most cases, Vallourec's steel tubes, with their limited number of joints and welds, helped to reduce installation times as well as overall costs.

On 14 October 2013, Vallourec Tubos do Brasil S.A., a wholly-owned subsidiary of Vallourec in Brazil, was selected to supply premium tubes for the Xerelete offshore field, operated by Total since June 2012. The Xerelete field is located in the Campos Basin, about 250 kilometers off the coast of Rio de Janeiro and 2,400 meters below sea level. Vallourec's products will be used in the exploration and appraisal wells for additional oil and gas resources. In addition to premium products, Vallourec Tubos do Brasil will be able to offer several types of services, such as storage, inspection, preparation and monitoring of the tubes during installation. It will also offer inspection after the products have been installed, ensuring greater security and speed of execution for Total. This contract extends the existing cooperation between the two groups, as Vallourec is already a supplier of Total in over 25 countries worldwide.

On 14 November 2013, Vallourec supplied Total with a wide range of premium offshore solutions off the Angolan coast, for water depths ranging from 1,100 to 1,400 meters. Production is expected to start in the second quarter of 2014. The Group equipped the 34 subsea wells with about 15,000 metric tons of OCTG products featuring VAM® premium connections. The solution package provided by Vallourec also includes a wide range of services, such as the application of about 150 km of anticorrosion coating on the pipes and the supply of approximately 700 hot induction bends. To ensure flow assurance requirements, production flow-lines include a pipe-in-pipe solution. They will be pre-assembled directly in Angola.

Strategic projects

On 21 February 2013, the Group announced the full qualification of its new finishing plant in Saudi Arabia. Located in Dammam, the plant provides heat treatment and threading for the full range of VAM® premium connections, with an annual capacity of 100,000 metric tons. It mainly supplies Saudi Aramco, the Kingdom's national oil company, and other regional operators. 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 built by Vallourec. The complex is now qualified to carry out all operations for the production of premium connections using hollows supplied by Vallourec's tube mills. The facility was inaugurated in January 2014.

On 24 September 2013, Vallourec expanded its premium offering for the offshore oil and gas market with the production of welded stainless steel tubes to be fitted into umbilicals, which are used to connect equipment on the seabed to their control station at the surface. Thanks to an innovative manufacturing process, tubes for umbilicals produced at the new Vallourec Umbilicals plant in Venarey-Les Laumes (Côte-d'Or, France) offer superior strength and mechanical properties compared to products currently available on the market. Developed with Total as technical sponsor, this new product widens Vallourec's offer of premium solutions for offshore operations. This new product completes the range of integrated solutions offered by Vallourec for subsea construction – which also includes line pipe, risers and welding services – and gives the Group access to a new, highly premium market.

On 12 June 2013, Vallourec inaugurated its new plant in Youngstown (Ohio, USA), designed to meet the growing needs of the North American oil and gas market. This site now offers a full range of products and services necessary for the production of all hydrocarbons, especially those relating to oil shale.

Research

On 9 July 2013, Vallourec strengthened its R&D capabilities, inaugurating a new research center in Rio de Janeiro, dedicated to pre-salt drilling. The site began operating in October 2013. Located next to Petrobras' CENPES research center in the Technological Park of Rio de Janeiro, this new center will allow Vallourec to work even more closely with the Brazilian national oil company on the needs for pre-salt fields, which are characterized by extreme conditions of pressure, temperature, and corrosion. The new unit will benefit from synergies with the Federal Universities of Rio de Janeiro and Minas Gerais among others, in areas such as the environment, robotics, and energy use.

Extension of production capacity

On 6 June 2013, Vallourec inaugurated its new plant specializing in tubes for nuclear power plants in Nansha, China. It will allow the Group to keep pace with the fast-growing Chinese nuclear fleet, whose operating capacity is expected to jump from 15 GW in 2013 to 58 GW in 2020. Complementing the 2011 extension of Valinox Nucléaire's French plant in Montbard, the new Nansha facility will enable Vallourec to increase its annual production capacity of steam generator tubes by 2,000 km per year. Thanks to investments made in France and China, the Group's total capacity for steam generator tube production has quadruple in five years, to almost 7,000 km per year.

New identity

On 28 May 2013, Vallourec adopted a single brand name and a new visual identity to reinforce its global leadership and support its growth strategy. This marks a new milestone in the history of the Group, which has developed since the late nineteenth century through successive mergers of numerous companies. Since the creation of the joint venture Vallourec & Mannesmann Tubes in 1997, many Group entities have operated under the V & M trademark. The decision to combine all these identities under the single Vallourec brand reflects the successful integration of the many companies acquired by the Group throughout the world. With this move, Vallourec creates a true premium label, which guarantees the same high level of excellence and quality to its customers worldwide.

First quarter 2014

On 7 March 2014, Vallourec was awarded a US$100 million contract for the supply of premium tubes with VAM® 21 connections for the offshore ML-South Project, operated by Total's affiliate Total E&P Borneo in Brunei. Vallourec will equip the wells with premium tubes, the majority of which are composed of high alloyed, corrosion-resistant grades, threaded with its latest premium VAM® 21 connection. Casing and tubing will be manufactured in Vallourec's European & Indonesian plants. The tubes are expected to be delivered to Total E&P Borneo for drilling operations scheduled to start in the second half of 2015.

On 26 February 2014, Vallourec announced the signing of two new service contracts with its customer Petrobras, the Brazilian national oil company. Under these five-year contracts, Vallourec will provide Petrobras with an extensive range of services to meet the challenges faced by the oil company in terms of logistics and ultra-deep offshore applications. It will provide these services through a dedicated subsidiary, Vallourec Transport and Services.

On 20 February 2014, Vallourec announced the signing, on 7 February 2014, of a "Generational Contract" with two French trade unions confederations (CFDT and CFE CGC), which will remain in force until June 2016. This agreement, which applies to all French entities of the Group, underscores Vallourec's commitment to fostering the employment of young people and older workers, and focuses on the transfer of knowledge and skills. Implementation of the agreement will include an annual review of indicators to check that its objectives are achieved.

Following its full qualification on 21 February 2013, Vallourec Saudi Arabia, the Group's premium finishing plant for oil and gas tubes (OCTG) in the Middle East, was inaugurated in January 2014. Located in Dammam, the plant provides heat treatment and threading for the full range of VAM® premium connections, with an annual capacity of 100,000 metric tons. Resulting from the acquisition in 2011 of Saudi Seamless tubes Factory Company Limited, the finishing plant includes heat treatment and finishing lines, which were upgraded by Vallourec and supplemented by an additional premium threading line and a coupling shop. The total investment came to approximately US$200 million.

In January 2014, the Group announced the expansion of its VAM® connection testing center in Aulnoye-Aymeries, in France. This center will enable Vallourec to develop ever more innovative products for the oil and gas industry, to meet the needs of increasingly complex drilling operations. This expansion will double Vallourec's R&D capacity in this field. Starting in the first quarter of 2014, receiving areas for the new test equipment will be installed and construction will begin on a new building that will house all VAM® connection development and testing capabilities from 2017.

Parent-subsidiary structure

- Vallourec is a holding company that:
  - manages its shareholdings. 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;
  - covers operating and brand-protection costs. In accordance with general policy, the Group's image belongs to Vallourec. In return for its use by its manufacturing subsidiaries and Vallourec Tubes (formerly Vallourec & Mannesmann Tubes), Vallourec charges royalties;
  - has no industrial activity.
- Vallourec Tubes is a sub-holding company that manages its shareholdings and has no 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 the Setval merger by absorption, Vallourec Tubes took over part of Setval's service activities, including the Group's management and its administrative departments.

  In 2007, the Group centralized the euro and US dollar cash management for its European companies and the currency hedging operations for its sales in foreign currencies at Vallourec Tubes. As at 31 December 2013, the companies participating in centralized cash management are Vallourec, Vallourec Tubes, Vallourec Tubes France (formerly V & M France), Vallourec Oil and Gas France (formerly Vallourec Mannesmann Oil & Gas France), Vallourec Deutschland GmbH (formerly V & M Deutschland GmbH), Vallourec Drilling Products France (formerly VAM Drilling France), Vallourec Heat Exchanger Tubes (formerly Valtimet), Vallourec Bearing Tubes (formerly Valti), Valinox Nucléaire, Assurval, Vallourec Fittings (formerly Interfit), Vallourec Umbilicals, VAM Onne Nigeria Ltd, Serimax Holdings S.A.S. and Vallourec University.

  The following services were introduced in 2013:
  - centralized cash management in Chinese yuan for the main Chinese companies at Vallourec Beijing. At 31 December 2013, companies participating in centralized cash management are Vallourec (Beijing) Co., Ltd, Vallourec (Changzhou) Co., Ltd, Vallourec Oil & Gas (China) Co., Ltd, VAM Changzhou Oil & Gas Premium Equipments, Vallourec Carex Automotive Components (Changzhou) Co., Ltd, Valinox Nucléaire Tubes Guangzhou Co., Ltd, Vallourec Heat Exchanger Tubes (Changzhou) Co., Ltd and VAM Field Services Beijing;
  - centralized cash management in U.S. dollars for some American companies at Vallourec Holding, Inc. At 31 December 2013, companies participating in centralized cash management are Vallourec Holding, Inc., Vallourec Tube-Alloy, LLC, Vallourec USA Corporation, Vallourec Industries Inc., Vallourec Heat Exchanger Tubes, Inc. and Vallourec Drilling Products USA, Inc.

3.1.2 Vallourec Group activities

The Group is a world leader in premium tubular solutions, primarily for the energy markets and other industrial applications. With over 24,000 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 twenty-first century.

Originally based in France and Germany, Vallourec now has frontline positions in the United States, Brazil, Europe, the Middle East and Asia. 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.

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 U.S. 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 has two main activities: seamless tubes and specialty products. It also has sales and marketing companies.

3.1.2.1 Seamless tubes

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.

In 2013, to clarify its offering and create a true premium label identifiable by customers around the world, the Group adopted a single brand name: Vallourec.

Through its seamless tubes segment, the Group serves three main markets:

- **Oil & Gas and Petrochemicals.** For this market, the Group designs and develops a complete line of products, including seamless tubing and premium connections for drilling operations, line pipe, and for operating wells in extreme conditions such as the high pressure, high temperature and corrosive environments of deviated and deepwater wells. Vallourec also offers a wide range of tubes for petrochemical facilities (refineries).

  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. This local presence is buttressed by a network of approximately 200 VAM® licensees and on-site support teams (VAM® Field Services).

- **Power Generation.** In this market, Vallourec offers a range of premium tubes resistant to the highest temperatures and pressure. Its solutions enable power companies to meet the challenges of energy efficiency and managing CO_2 emissions from power plants, whether conventional or nuclear.

- **Industry.** In this market, Vallourec offers tubular products for these and other industries: mechanical engineering (hydraulic cylinders, machine tools, etc.); automotive; and construction (stadiums, buildings and other complex structures).

To serve its core markets closer to its customers, the Group has organized the Seamless Tubes segment around seven operating divisions:

- Upstream;
- Pipe Project;
- Powergen;
- Industry;
- OCTG;
- Drilling Products; and
- Brazil.

3.1.2.1.1 Upstream

The Upstream Division consists of all of the Group's rolling mills and steel mills in Europe.

The objectives of the Upstream Division are:

- to continue to improve safety, quality and customer service;
- to provide the other six 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:

- continuous improvement initiatives based on the participatory implementation of "lean manufacturing" principles;
- 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 2013, the Upstream Division continued the plan to optimize its critical heat treatment and finishing capacities to support the upgrading of its products, and commissioned a new electric scrap melting furnace at the Saint-Saulve (France) steel mill.

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

Vallourec Tubes France (formerly V & M France) – France (100%)

In France, Vallourec Tubes France operates an electric steel mill in Saint-Saulve (Nord) and three tube 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.

The new electric furnace at the Saint-Saulve steel mill and the upgrading of the liquid steel production unit are improving the plant's technical performance.

Renovation of the continuous-process rolling mill at Saint-Saulve started in 2013 and will continue over the next five years.

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 was installed in 2013 and will be commissioned in the first half of 2014 to support the upgrading of its product range.

The Aulnoye-Aymeries forge continued to upgrade and to streamline its production flows to meet Industry demand.

Vallourec Deutschland GmbH (formerly V & M Deutschland GmbH) – Germany (100%)

Vallourec Deutschland GmbH operates four tube mills in Germany, in Mülheim, Düsseldorf-Rath and Düsseldorf-Reisholz (North Rhine-Westphalia). The tube 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 Mülheim plant now specializes in the OCTG, Line Pipe and Industry markets. Investments to streamline production flows and optimize finishing lines continued in 2013.

The Rath plant also started a program to streamline its finishing flows based on lean manufacturing principles.

All French and German tube mills are mostly supplied with raw materials by the steel mills of Saint-Saulve, Huckingen, belonging to Hüttenwerke Krupp Mannesmann (HKM) in which Vallourec Tubes holds a 20% stake, and Bous, belonging to Georgsmarienhütte Group (GMH).

3.1.2.1.2 Pipe Project

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 used by engineering and oil companies, from the wellhead to the petrochemical refineries and plants. The range of products developed by the Pipe Project 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 thus enables the Pipe Project Division to position itself in the high-growth Oil & Gas project markets, both onshore and offshore, while strengthening ties with the Group's customers and maintaining long-term relationships.

The activities of the Pipe Project Division are carried out through Vallourec Tubes France and Vallourec Deutschland GmbH, described above, as well as through the following three 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 line pipe 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 and onshore companies) and provides experienced personnel and state-of-the-art welding equipment to meet various project specifications and requirements.

Serimax Field Joint Coating – United Kingdom (60% owned by Serimax)

In addition to the welding solutions offered by Serimax, Serimax Field Joint Coating carries out its field joint coating activities both onshore and offshore on installation vessels.

Vallourec Fittings (formerly Interfit) – France (100%)

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

3.1.2.1.3 Powergen

The role of the Powergen 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 carbon steel grades required in power plants and the entire size range, from small diameters for boiler tubes to very large diameters for steam pipes.

Aside from its sales operations and corresponding technical assistance, the Powergen Division has since 2008 included marketing, research and development, and business development functions in order to finetune 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 the continuous improvement of the quality, operational excellence and range of the products and services it offers to satisfy its customers' needs.

The activities of the Powergen Division are carried out through Vallourec Tubes France, Vallourec Deutschland GmbH, and Vallourec (Changzhou) Co., Ltd (China).

Vallourec (Changzhou) Co., Ltd – China (100%)

Vallourec (Changzhou) Co., Ltd 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 hot-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.

3.1.2.1.4 Industry

The Industry Division includes the following Departments, located in Germany and France:

- Sales and Marketing; Mechanical Engineering, Structures, Hollows and Export Markets;
- an Industry Competence Center (R&D, technical customer support and product development);
- Business Development; and
- Vallourec Bearing Tubes (Business Unit).

Mechanical Engineering Sales and Marketing Department

This 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 chemicals and automotive).

Structures Sales and Marketing Department

The activity 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. Structural tubes are also sold for the manufacture of cranes, axles and for many other mechanical engineering industries.

Hollows Sales and Marketing Department

Located in Boulogne-Billancourt in France, this Department is responsible for selling hollows in Europe for redrawing, bearing tubes, gas cylinders and accumulators.

Export Markets Department

This Department is responsible for the sales of all products (mechanical engineering, structures, hollows) outside of Europe. It is also in charge of selling tubes for international projects such as civil engineering (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), technical customer support and product development. It 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, the Business Development Department is involved in marketing, development and project activities. One example is the new brand concept for premium steel grades. At the beginning of 2012, the Industry Division restructured its range of proprietary materials for industrial applications. Six series of premium grades with easy-to-remember names were designed to improve the readability of the Company's innovative portfolio and to establish highly evocative brand names at the international level.

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 the continuous improvement of the quality and range of the products and services it offers.

Improving the transparency of trade, better meeting customer expectations and anticipating the needs of tomorrow are the challenges being tackled by the Industry Division to ensure long-term growth.

The activities of the Industry Division are carried out through Vallourec Tubes France and Vallourec Deutschland GmbH, described above, as well as Vallourec Bearing Tubes (formerly Valti).

Vallourec Bearing Tubes (formerly Valti) – France (100%)

This company is a historic European leader in seamless tubes and rings for the manufacture of ball-bearing races. In addition to this activity, Vallourec Bearing Tubes produces and supplies made-to-measure tubes for mechanical engineering and tubular hollows for the oil and gas markets.

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

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

To expand its offering, in 2012 Vallourec Bearing Tubes set up two major facilities: 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 Vallourec Bearing Tubes to expand its product offering in the mechanical engineering and oil and gas markets, particularly for:

- made-to-measure tubes for mechanical engineering and, in particular, mechanical tubes for the Oil & Gas segment;
- tubes for Oil and Gas sleeves; and
- tubes for drill pipes.

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

Through these activities and investments, Vallourec Bearing Tubes 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 and Gas sleeves and accessories and drill pipes.

3.1.2.1.5 Oil Country Tubular Goods (OCTG)

OCTG activities are found in Europe, Africa, the Middle East and Asia (OCTG EAMEA) as well as in North America (OCTG North America). Each region provides a structure comprising all of the Group's tubing and casing heat treatment facilities and oil and 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 Vallourec Star, LP, which operates facilities that include an electric steel mill and two rolling mills.

OCTG EAMEA is stepping up its regional approach to the markets through trade hubs and operations dedicated to local growth. In Europe-Africa, activity is centered on the long-established plants in France and Germany, but also includes local development, such as a threading unit in Nigeria. It covers the North Sea through its plants in Glasgow, Aberdeen and Stavanger (Norway), and is prospering in Russia and the Caspian Sea 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), is continuing the qualification process for its heat treatment facilities while increasing its premium threading capacity, particularly for Saudi Aramco. In China, the Division is expanding through its subsidiary VAM Changzhou Oil and 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 for the global market.

OCTG North America continued to expand in 2013 through its main subsidiaries Vallourec Star, LP, VAM USA LLC, and Vallourec Tube-Alloy LLC. The new small-diameter tube mill in Youngstown (Ohio), which started commercial production in the fourth quarter of 2012, continued its industrial development in 2013.

The OCTG EAMEA and OCTG businesses in North America handle 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 and gas wells.

To make the VAM® range the leader in premium joints, Vallourec consolidated coordination of the Research and Development departments involved with this product line under Vallourec Oil & Gas France, and 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, Vallourec has also produced petroleum accessories related to the VAM® joint through its subsidiary Vallourec Tube-Alloy, LLC (USA). This expertise is deployed in Mexico, Brazil and Indonesia to provide, as a complement to its network of licensed partners, global coverage for accessories requirements to meet customer needs for the VAM® joint.

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

Vallourec Oil and Gas France (VOGFR) (formerly Vallourec & Mannesmann Oil & Gas France) – France (100%)

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

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

VOGFR also coordinates worldwide OCTG research and development, which is conducted in France, the United States and in Japan in partnership with NSSMC. VAM® research and development also uses Vallourec's general research centers in Aulnoye-Aymeries (France) and the United States, Brazil and Germany.

Vallourec Oil & Gas UK Ltd (formerly Vallourec & Mannesmann Oil & Gas UK Ltd) – 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. It has operated under a VAM® license since 1970.

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

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 tube threading plant for oil and 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 NSSMC. Under the terms of a cooperative agreement with Tianda Oil Pipe Company Limited (TOP), VAM Changzhou Oil & Gas Premium Equipments will thread premium tubes manufactured locally by TOP for the Chinese premium OCTG market.

NSSMC and Sumitomo Corporation are joint shareholders of the subsidiary.

Vallourec Oil & Gas (China) Co., Ltd. (formerly Vallourec & Mannesmann Oil & Gas (China) Trading Co., Ltd) – China (100%)

VOG (China) Co., Ltd was established in April 2010. The company sells Vallourec Premium OCTG products on the Chinese domestic market, markets Tianda Oil Pipe Company Limited (TOP) "API" product exports, and provides technical support and quality control services.

(1) % interest.

Vallourec Asia Pacific Corp. Pte Ltd (formerly V & M Tubes Asia Pacific Pte Ltd) – Singapore (100%)

Vallourec Asia Pacific Corp. 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. It has a sales office in Jakarta and has opened an office in Australia.

Vietubes Corporation Limited – Vietnam (49%)

This shareholding 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 line for operational purposes:

VAM Field Services Angola – Angola (100%)

A service company formed in 2007 with its operating base in Luanda.

Vallourec O & G Nigeria Limited (formerly Vallourec & Mannesmann Oil & Gas Nigeria Ltd) – Nigeria (100%)

Established in 2007, VOG Nigeria Limited is a service company located in Lagos, which operates with a Nigerian operations partner, Charles Osezua.

VAM Far East – Singapore (51%)

This company, which was formed in association with NSSMC, has provided customer service and E&P platform consulting in Southeast Asia and Oceania since 1992.

It operates in Singapore.

VAM Field Services Beijing – China (51%)

This company was formed in August 2006 in association with Sumitomo Corporation and NSSMC to promote premium joints from the VAM® range in China and to 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 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 transaction was completed on 1 April 2011. TOP has been manufacturing OCTG tubes for the oil and gas market since 1993, and in January 2010 began operating a new PQF® seamless tube continuous-process 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 the Anhui province (China). By acquiring a stake in TOP, Vallourec has consolidated and enhanced its position in the Chinese market. Under the terms of a cooperation agreement with TOP, VAM Changzhou Oil & Gas Premium Equipment China threads premium tubes manufactured locally by TOP for the Chinese premium OCTG market.

Concurrently with this shareholding, 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 amended to allow foreign companies to control Chinese companies. The exercise price of the option is equal to the average TOP share stock market price over the six months preceding the date of notification of the exercise of the call option, plus a 9% premium. Upon exercise of the option by Vallourec and for a period of 18 months following it, Tianda Holding, the majority shareholder in TOP, will have an option to sell all the TOP shares it holds to Vallourec. The exercise price of the sales option price is equal to the exercise price of the purchase option.

Saudi Seamless Pipes Factory Company Limited – Saudi Arabia (100%)

In November 2011, the Group acquired Saudi Seamless Pipes Factory Company Limited, 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. In 2013, the complex was qualified to carry out all operations for the production of premium connections using hollows supplied by Vallourec's tube mills.

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

Formed in March 2011, Vallourec Middle East FZE sells OCTG products in the Middle East.

Vallourec Oil & Gas Nederland (VOGNL) (formerly Vallourec & Mannesmann Oil & Gas Nederland) – 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

Vallourec Star, LP (formerly V & M Star) – United States (80.5%)

Vallourec Star, LP is an integrated manufacturer of seamless tubes for the oil and gas industry. Its facilities include an electric steel mill, two rolling mills equipped with the latest technology and heat treatment and threading units. It dedicates 80% of its production range to the OCTG market. Sumitomo Corporation is a partner, with a 19.5% stake in Vallourec Star, LP.

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

On 1 July 2009, Vallourec Star, LP acquired the entire share capital of V & M TCA® (a company acquired in May 2008 from the Grant Prideco group) from Vallourec Industries Inc. and Sumitomo Corporation (which owned 80.5% and 19.5% of V & M TCA®, respectively) prior to its absorption. This allowed Vallourec Star, LP to integrate the heat treatment of high-grade alloy steel tubular products (which had until then been done by V & M TCA®) with specific expertise in urgent orders. V & M TCA® thus brought to Vallourec Star, LP additional premium capacity, specific expertise for services in corrosive environments, plus a veritable geographical fit, enabling Vallourec to extend its North American footprint.

On 1 January 2012, Vallourec Star, LP absorbed V & M Two, responsible for building the new small-diameter tube mill in Youngstown, Ohio. The new tube mill has an initial capacity of 350,000 metric tons of tubes per year, which could be raised, if needed, to 500,000 metric tons of seamless tubes. This new unit extends the range produced by Vallourec in North America and consolidates its leadership position in premium tubular solutions on the U.S. market. The plant was commissioned in October 2012 and the first sales were made in December 2012. Finishing capabilities (heat treatment, threading and inspection), were commissioned in the first half of 2013. With the ramping up of this new plant, the Group now offers a full range of products and services necessary for the production of all hydrocarbons, especially those relating to oil shale.

Vallourec Oil & Gas Mexico SA, de CV (formerly VAM Mexico SA de CV) – Mexico (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.

Vallourec Canada Inc. (formerly VAM Canada) – Canada (100%)

On 1 January 2013, Vallourec Tubes Canada Inc., Vallourec's tube import company in Canada, and VAM Canada Inc. a specialist in threading VAM® premium joints in Canada since 1983, merged to create Vallourec Canada Inc.

The new entity has production units in Nisku (Alberta) and St. John's (Newfoundland), as well as sales offices in Calgary (Alberta), and Burlington (Ontario).

This merger has generated industrial and commercial synergies while enhancing service to Canadian customers.

In May 2008, Vallourec Canada Inc. took over the threading activities of Atlas Bradford® in Canada during the acquisition of Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™.

VAM USA LLC – United States (51%)

Since 27 February 2009, VAM USA LLC – in association with NSSMC, which has a 34% interest, and Sumitomo Corporation, which has a 15% interest – has included the VAM® threading activities 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 specifically dedicated to testing products for extracting hydrocarbons from shale and for offshore projects in the Gulf of Mexico. Construction on the building (which covers 8,400 m^2) 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 Vallourec Star, LP tube mill commissioned in 2012 (Youngstown, Ohio) will supplement the VAM USA LLC threading plants and extend the Group's packaged offering of finished products (premium tubes and connections).

Vallourec Tube-Alloy, LLC (formerly V & M Tube-Alloy™) – United States (100%)

Acquired in May 2008 from the Grant Prideco group, Vallourec Tube-Alloy, LLC produces and repairs accessories used inside oil and 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.

3.1.2.1.6 Drilling Products

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

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

It supplies high-quality, high-performance products that are used all over the world. The six main production facilities are located in France, the United States, the United Arab Emirates and the Netherlands. Sales locations around the world, combined with the VAM® service providers network, ensure strong customer relations at local level, backed by a specialized support center.

Drilling Products' Research and Development and Marketing departments are dedicated exclusively to the development of innovative 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.

Vallourec Drilling Products France (formerly VAM Drilling France) – France (100%)

Acquired in March 2006, Vallourec Drilling Products France (formerly Société Matériel de Forage International – SMFI) manufactures tubular products suited to the requirements of the oil and gas drilling industry. In 2007, VMOGF contributed its drilling products business to it.

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

Vallourec Drilling Products USA, Inc. (formerly VAM Drilling USA) – United States (100%)

Formed in September 2005 following acquisition of the assets of the Omsco division of ShawCor Ltd (Canada), Vallourec Drilling Products USA, Inc. manufactures tubular products – mainly drill collars and heavyweight drill pipes – for the oil and gas drilling industry.

Its production unit is located in Houston, Texas.

Vallourec Drilling Products Middle East FZE (formerly VAM Drilling Middle East FZE) – Dubai, United Arab Emirates (100%)

Acquired in September 2009 from Soconord, Vallourec Drilling Products Middle East FZE is a drill pipe supplier. It supplies a wide range of drill pipes for the oil drilling industry in the Middle East, and has an annual production capacity of 25,000 drill pipes.

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

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

Acquired in February 2010, Vallourec Drilling Protools Oil Equipment Manufacturing LLC is the largest producer of drill pipe accessories in the Middle East. This activity allows the Vallourec Group to offer a complete solution for the entire drill string.

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

3.1.2.1.7 Brazil

The activities of the Brazilian companies are aimed at markets in Brazil and Uruguay as well as the Oil and Gas Export markets (Vallourec & Sumitomo Tubos do Brasil).

The activities of the Brazil Division are carried out through the following six companies:

Vallourec Tubos do Brasil S.A. (formerly V & M do Brasil SA) – Brazil (100%)

Vallourec Tubos do Brasil S.A. is located in the Barreiro district of Belo Horizonte (state of Minas Gerais). 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.

Vallourec Tubos do Brasil S.A. 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 Vallourec Tubos do Brasil S.A. to ensure quality and technical support;
- the automotive industry (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 sector (offshore platforms and vessels) and railways.

In July 2013, Vallourec SA Tubos do Brasil inaugurated an Industry Competence Center dedicated to the pre-salt fields in Rio de Janeiro. The center began operating in October 2013.

Vallourec Tubos do Brasil S.A. was selected to supply premium tubes for the Xerelete offshore field, operated by Total since June 2012. The Xerelete field is located in the Campos Basin, about 250 kilometers off the coast of Rio de Janeiro and 2,400 meters below sea level. Vallourec's products will be used in the exploration and appraisal wells for additional oil and gas resources.

Vallourec Florestal Ltda (formerly V & M Florestal Ltda) – Brazil (100%)

Vallourec Florestal Ltda cultivates 112,823 hectares of eucalyptus on 232,777 hectares of land to produce the charcoal used in the blast furnaces of Vallourec Tubos do Brasil S.A. and soon, of Vallourec & Sumitomo Tubos do Brasil.

Vallourec Mineração Ltda (formerly V & M Mineração Ltda) – Brazil (100%)

Vallourec Mineração Ltda produces nearly four million metric tons of iron ore per year from its Pau Branco mine, primarily for the Vallourec Tubos do Brasil S.A. steel mill and other manufacturers operating in Brazil, the largest of which are Vale (formerly CVRD) and Gerdau. This subsidiary also supplies the Vallourec & Sumitomo Tubos do Brasil pelletization plant.

Tubos Soldados Atlântico Ltda (TSA) – Brazil (75.5%)

Formed in 2005 in association with Europipe GmbH and Interoil, Tubos Soldados Atlântico Ltda produces large-diameter welded spiral tubes and applies tube coatings and linings.

Vallourec Uruguay (formerly V & M Uruguay) – Brazil (100%)

Founded in 2011, Vallourec Uruguay, wholly-owned by Vallourec Tubos do Brasil S.A., markets tubes exported from Brazil in Uruguay.

Vallourec Transportes e Serviços Ltda – Brazil (100%)

Created in 2013, Vallourec Transportes e Serviços Ltda, wholly-owned by Vallourec Tubos do Brasil, will sell accessories and services aimed at the oil and gas market in 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), as a vehicle for investment in a new state-of-the-art tube mill integrating two blast furnaces, a steel mill, a rolling mill and a pelletization plant in Jeceaba, Minas Gerais. Its annual steel production capacity will be one million metric 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 ramped up in 2012 with the completion of the product qualification plan and the plant's progressive qualification by international customers enabling an increase in premium sales. In February 2013, the first pellets were produced from iron ore mined at Pau Branco. These pellets will be fed into the blast furnaces of Vallourec Tubos do Brasil and Vallourec & Sumitomo and Tubos do Brasil starting in 2014.

Vallourec & Sumitomo Tubos do Brasil is an industrial supplier to all OCTG markets, with a focus on the EAMEA region. This company is also an integrated production site fabricating its own steel and tubes, with the associated finishings, for export. It continues to ramp up capacity with the industrialization of premium products and progressive qualification of the plant by major international customers. Semi-finished products were exported to finishing plants in Scotland, Saudi Arabia and Indonesia, and finished VAM® threaded products were exported to Africa and the Middle East, among other destinations.

The OCTG EAMEA business of Vallourec & Sumitomo Tubos do Brasil (Brazil) handles 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 and gas wells.

Vallourec & Sumitomo Tubos do Brasil is owned 56% [(1)] by the Group, 39% by NSSMC and 5% by Sumitomo Corporation.

3.1.2.2 Specialty Products

The Specialty Products activity brings together companies specialized in the manufacture and processing of welded and seamless tubes in stainless steel and special alloys, primarily for the energy markets.

3.1.2.2.1 Heat Exchanger Tubes

Vallourec Heat Exchanger Tubes (formerly Valtimet) – France (95%)

As the world leader in the production of stainless steel and titanium welded tubes for secondary systems in conventional and nuclear power plants, Vallourec Heat Exchanger Tubes 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. It also has a presence in the desalination and chemicals markets and provides thin tubing for the automotive industry.

Vallourec Heat Exchanger Tubes is 95% controlled by Vallourec, with the remaining 5% held by NSSMC.

The production unit in Venarey-Les Laumes (Côte d'Or, France) is the original site of Vallourec Heat Exchanger Tubes.

The company has a wholly-owned subsidiary in the United States, Vallourec Heat Exchanger Tubes, Inc. (formerly Valtimet, Inc.), which has plants in Morristown, Tennessee, and Brunswick, Georgia.

In Asia, Vallourec Heat Exchanger Tubes operates through the following companies:

- **Vallourec Heat Exchanger Tubes Changzhou Co., Ltd** (owned 65.8% via the sub-holding company Vallourec Heat Exchanger Tubes Asia – formerly Valinox Asia), with a production plant in Changzhou (Jiangsu Province, China);
- **Xi'an Baotimet Valinox Tubes Co., Ltd** (a joint venture 49% owned by Vallourec Heat Exchanger Tubes and various subsidiaries), with a production unit in Xi'an (Shaan'xi Province, China);
- **Changzhou Carex Automotive Components Co., Ltd** (formerly Changzhou Carex Valinox Components Co., Ltd) (100%), a company that specializes in the manufacturing of welded tubes for EGR coolers on the automotive market, with a plant in Changzhou (Jiangsu Province, China);
- **Vallourec Heat Exchanger Tubes Ltd** (formerly CST Valinox Ltd) (100%), with a production unit in Hyderabad (Andhra Pradesh, India), specializes in tubes for power plant cooling systems;
- **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).

3.1.2.2.2 Nuclear Island Tubes

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.

The production unit in Montbard (Côte-d'Or, France) is the original site of Valinox Nucléaire. Production capacity was significantly strengthened in recent years to meet the growing needs of the nuclear industry.

(1) % interest.

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

Formed in November 2010 in the Guangdong Province of China, Vallourec Nucléaire Tubes Guangzhou produces steam generator tubes. Inaugurated on 6 June 2013, the plant is designed to produce seamless nickel alloy tubes for the manufacture of steam generators used in pressurized water reactors on the Chinese market. It will allow the Group to keep pace with the fast-growing Chinese nuclear fleet, whose operating capacity is expected to jump from 15 GW in 2013 to 58 GW in 2020.

3.1.2.2.3 Umbilicals

Vallourec Umbilicals – France (100%)

Vallourec Umbilicals, located in Venarey-Les Laumes (Côte d'Or, France), was established in September 2010. 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 at the surface for applications in the offshore oil industry. ISO 9001 certified by Bureau Veritas in October 2012, it supplies the market with an innovative offering of extra-long welded tubes, which require fewer orbital welds. In April 2013, Vallourec Umbilicals became an approved supplier for Total; it is currently undergoing qualification by its customers, the leading manufacturer of umbilicals. The plant is already working on a prototype order, pending a ramping up of manufacturing capacity in 2014.

3.1.2.3 Sales and Marketing companies

Vallourec USA Corporation (formerly Vallourec & Mannesmann USA Corporation) – United States (100%)

In the United States, Vallourec USA Corporation markets all of the tubular goods produced by Vallourec Tubes' various subsidiaries. It also carries a stock of tubes intended for U.S. oil and gas 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 Vallourec Tubes are established in:

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

3.1.3 Results

3.1.3.1 Consolidated Group results

1 – Income statement

COMPARISON OF FY 2013 WITH FY 2012

Consolidated data *In € million*	Q4 2013	Q4 2012 restated [a]	Change Q4/Q4	2013	2012 restated [a]	Change 2013/2012
Sales volume *(in thousands of metric tons)*	**584**	**535**	**+9.2%**	**2,159**	**2,092**	**+3.2%**
Sales	**1,609**	**1,465**	**+9.8%**	**5,578**	**5,326**	**+4.7%**
Cost of sales [b]	-1,173	-1,071	+9.5%	-4,035	-3,938	+2.5%
(as % of sales)	*72.9%*	*73.1%*	*-0.2 pt*	*72.3%*	*73.9%*	*-1.6 pt*
Industrial margin	**436**	**394**	**+10.7%**	**1,543**	**1,388**	**+11.2%**
(as % of sales)	*27.1%*	*26.9%*	*+0.2 pt*	*27.7%*	*26.1%*	*+1.6 pt*
Administrative, selling and research costs [b]	-149	-146	+2.1%	-560	-576	-2.8%
(as % of sales)	*9.3%*	*10.0%*	*-0.7 pt*	*10.0%*	*10.8%*	*-0.8 pt*
EBITDA	**259**	**237**	**+9.3%**	**920**	**788**	**+16.8%**
(as % of sales)	*16.1%*	*16.2%*	*-0.1 pt*	*16.5%*	*14.8%*	*+1.7 pt*
Operating profit	**146**	**143**	**+2.1%**	**534**	**476**	**+12.2%**
Net income, Group share	**85**	**74**	**+14.9%**	**262**	**221**	**+18.6%**

(a) Figures for the year 2012 have been restated with the impact of the change in method of accounting for actuarial gains and losses on employee benefits subsequent to employment (revised standard IAS 19).

(b) Before depreciation and amortization.

In 2013, Vallourec recorded full-year sales of €5,578 million, up 4.7% from 2012 (+9.8% at constant exchange rates). Higher volumes and a positive product mix effect were partially offset by lower OCTG prices in the United States and the negative currency effect related to the weakening of both the Brazilian real and the U.S. dollar against the euro.

Full-year EBITDA amounted to €920 million, up 16.8% compared with 2012. EBITDA margin rose 170 basis points year-on-year, to 16.5% of sales. This improvement reflects the solid performance of Oil & Gas activities in EAMEA and Brazil, as well as lower ramp up costs for new plants, despite a lower contribution from US Oil & Gas activities. Other markets were affected by price pressure and a deterioration of the product mix.

Moreover, the Group pursued and improved its continuous cost control program, CAPTEN+, through several actions, including a reduction in energy use, savings on overheads, adjustment to a lower load in Brazil, and the launch of new actions to streamline processes and project management. In total, the Group generated €293 million in savings, more than offsetting cost inflation over the 2011 to 2013 period.

Financial performance in FY 2013 resulted in:

- industrial margin up by €155 million to €1,543 million, or 27.7% of sales;
- sales, general and administrative costs (SG&A) down 2.8% to €560 million, or 10% of sales, against 10.8% in 2012.

The 2013 operating profit was €534 million, up 12.2% year-on-year. The improvement in EBITDA was partly offset by higher depreciation of industrial assets and an increase in other depreciation and amortization.

Financial income (loss) in 2013 was negative at -€91 million, largely unchanged from last year. Higher interest expenses were offset by an increase in other financial income.

Net income, Group share was €262 million, up 18.6% versus last year. The effective tax rate was 33.3% in 2013.

2 – Cash Flow

For the full year, Vallourec generated a negative free cash flow of -€41 million versus -€328 million in 2012, with a positive free cash flow generation of €85 million in the fourth quarter of 2013. This improved performance reflects the following factors:

- **cash flow from operating activities** was up €168 million in 2013 to €709 million, largely due to improved EBITDA numbers;
- **operating working capital requirements** increased by €183 million in 2013, including €80 million for payables, receivables and inventories. Its level as at 31 December 2013 was reduced to 23% of annualized fourth quarter sales compared with 25% at the end of 2012, partly explained by positive non-recurring items;
- **gross industrial capital expenditure** stood at €567 million in 2013, down 29% year-on-year as a result of the completion of Vallourec's major strategic investments and strict control of investment spending. Looking forward, Vallourec targets a maximum level of capex of €500 million in 2014 and €450 million on average from 2015 onwards.

Total **dividends paid** by the Group in 2013 were €63 million, including €36.5 million for cash dividends paid by the holding company to its shareholders for the 2012 fiscal year.

At 31 December 2013, net debt stood at €1,631 million, broadly stable compared to 31 December 2012 (up €17 million), with a consolidated debt-to-equity ratio of 32.7%.

At 31 December 2013, Vallourec had close to €3 billion in confirmed financing, including undrawn confirmed credit lines of €1.6 billion.

In February 2014, Vallourec signed a multi-currency revolving credit facility for an amount of €1.1 billion, maturing in February 2019, plus two one-year extension options. This facility replaced the existing €1 billion credit line maturing in February 2016, enabling the Group to increase its financial flexibility and extend the maturity of its financial resources.

3 – Strategic projects

In Brazil, the VSB plant, in association with Nippon Steel & Sumitomo Metal Corporation (NSSMC) continued to ramp up production. Major customers completed their qualification procedures on schedule. The sustained level of demand in EAMEA [(1)] allowed VSB to run at two-thirds of its capacity in the fourth quarter of 2013.

In the United States, the gradual ramp up of the new plant in Youngstown, Ohio, was carried out according to plan. Commissioning of the finishing units (heat treatment and standard threading) took place as expected in the second quarter of 2013, which enabled Vallourec to extend its offering of product (API, semi-premium, premium) and services destined mainly for the oil shale market.

3.1.3.2 Corporate results for Vallourec (parent company)

In 2013, Vallourec posted an operating loss of €8.5 million, compared to a loss of €10.9 million in 2012. This loss stems from the costs incurred by the holding company (personnel costs, legal fees and communications).

Financial income/(loss) was positive at €270.4 million, versus €308.6 million in 2012, and mainly reflects a dividend of €268.7 million received from Vallourec Tubes (formerly Vallourec & Mannesmann Tubes).

Exceptional items for the year showed a loss of €9.4 million, against a loss of €8.1 million in 2012, and mainly reflects an expense of €9.6 million related to the delivery in France and internationally of vested performance shares.

Corporate income tax resulted in a tax benefit of €10.8 million (vs. €4.7 million in 2012) resulting from the tax loss carryforwards of consolidated companies, which are available to be used by Vallourec as head of the tax group.

(1) EAMEA: Europe, Africa, Middle East, Asia.

Vallourec posted net income of €263.3 million in 2013, down from €294.3 million in 2012.

On 1 January 2013, the start of the 2013 fiscal year, the subscribed, fully paid-up share capital amounted to €249,892,712 divided into 124,946,356 shares with a par value of €2.00 each. On 25 June 2013, under the fourth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, the Management Board recorded the completion of a capital increase through the issue of 1,338,791 new shares (representing 1.07% of the share capital at that date) at a price per share of €36.69 in payment of the 2012 dividend of €0.69 per share. The issue of the new shares resulted in a capital increase by a nominal amount of €2,677,582, which raised Vallourec's share capital at 25 June 2013 from €249,892,712 to €252,570,294, divided into 126,285,147 shares with a par value of €2.00 each.

At the end of the clearing period for subscriptions to the Value 13 international employee share ownership plan, at its meeting on 10 December 2013, the Management Board, under the terms of the seventeenth, eighteenth and nineteenth resolutions of the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, recorded the final completion of three capital increases in the nominal amounts of €1,961,684, €1,429,760 and €357,462, or an aggregate nominal amount of €3,748,906, through the respective issue of 980,842, 714,800 and 178,731 new shares for an aggregate total of 1,874,453 new shares with a par value of €2.00 each and a price per share of €36.95 for the leveraged offering and €34.78 for the traditional offering. These transactions had the cumulative effect of increasing the share capital from €252,570,294 to €256,319,200.

At 31 December 2013, the subscribed, fully paid-up share capital amounted to €256,319,200, divided into €128,159,600 shares with a par value of €2.00 each.

Equity rose by €296 million to a total of €3,065 million as at 31 December 2013. This increase is due to net profit for 2013 of €263 million, the distribution of a cash dividend of €0.69 per share on 25 June 2013 for a total of €86 million, the capital increase of €49 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 €69 million (including additional paid-in capital, but excluding issuance fees) carried out as part of the Value 13 international employee share ownership plan.

Financial debt amounted to €1,561 million, down €146 million year-on-year. This decrease is mainly due to the repayment of the US dollar loan of $300 million. Continuing its policy of diversifying its sources of funding, Vallourec continued its commercial paper program, set up in October 2011, for a maximum amount of €1 billion, rated A-2 by Standard & Poor's. At 31 December 2013, €325 million were outstanding under this program, with a maturity of one to 12 months.

To the best of the Company's knowledge, the 2013 fiscal 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 2013.

Due dates (D=31/12/2013) *In € thousand*	**Amounts due at year-end**	**Due on D + 15**	**Due between D + 16 and D + 30**	**Due between D + 31 and D + 45**	**Due between D + 46 and D + 60**	**Due after D + 60**	**No due date**	**Total trade payables**
Trade payables			319	26				345
Suppliers of fixed assets	-	-	-	-	-	-	-	-
Total payable	**-**		**319**	**26**				**345**
Accruals: invoices not yet received			941					941
Other		-	-	-	-	-	-	-
TOTAL		**-**	**1,260**	**26**	**-**	**-**	**-**	**1,286**

Due dates (D=31/12/2012) *In € thousand*	**Amounts due at year-end**	**Due on D + 15**	**Due between D + 16 and D + 30**	**Due between D + 31 and D + 45**	**Due between D + 46 and D + 60**	**Due after D + 60**	**No due date**	**Total trade payables**
Trade payables		2,191		151				2,342
Suppliers of fixed assets	-	-	-	-	-	-	-	-
Total payable	**-**	**2,191**	**-**	**151**	**-**	**-**	**-**	**2,342**
Accruals: invoices not yet received							385	385
Other		-	-	-	-	-	-	-
TOTAL		**2,191**	**-**	**151**	**-**	**-**	**385**	**2,727**

3.1.3.3 Trends in Vallourec Group markets

Oil & Gas

In 2013, Oil & Gas sales were up 13.5% from 2012 (up 19.3% at constant exchange rates) to €3,669 million and represented 66% of the Group's total sales, compared with 61% in 2012.

- **In the United States**, 2013 sales benefited from higher volumes, especially in the fourth quarter, thanks to an expanded offering supported by the new rolling mill, which enabled us to better meet customer needs in terms of product range, lead times and services. After a downward adjustment made in the first quarter of 2013, prices remained broadly stable throughout 2013. Following the preliminary decision of the Department of Commerce on anti-dumping, the pricing environment is expected to remain competitive in the short term.

  Product mix was progressively affected by the increasing sales of semi-premium and standard API products resulting from a demand for tubular products essentially driven by shale oil activity. The total average number of active drilling rigs fell in 2013 compared to 2012, mainly due to the sharp decline in gas drilling. However, this decrease was partially offset by an improvement in rig efficiency, permitting more and deeper wells drilled per rig.
- **In the EAMEA region** [(1)] sales rose strongly in 2013, especially in the fourth quarter, thanks to an improved product mix driven by high advanced premium needs, notably in the Middle East (Saudi Arabia, Abu Dhabi). This sustained level of demand allowed VSB in Brazil to run at two-thirds of its capacity in the fourth quarter of 2013 and achieve EBITDA breakeven. The large backlog recorded in the fourth quarter of 2013 in EAMEA will contribute positively to sales in 2014. The new premium finishing plant in Dammam, Saudi Arabia, inaugurated in January 2014, will enable the Group to further take advantage of the growing demand for premium products in the Middle East.
- **In Brazil,** despite the temporary decline in deliveries of OCTG casing tubes (for the equipment of new wells) on the domestic market in the fourth quarter of 2013 and the negative currency translation effects linked to the Brazilian real, Group sales increased in 2013, due to the implementation of the long-term agreement signed with Petrobras in 2012. This agreement enables Vallourec to further strengthen its relationship with its largest customer in Brazil, and to provide Petrobras with the high value-added products required by the very demanding Brazilian offshore market. As an illustration, VAM®21 connections are becoming the reference for pre-salt operation needs.

Petrochemicals

In 2013, Petrochemicals sales were €308 million, down 14% year-on-year (down 9.8% at constant exchange rates) in a very competitive environment. They represented 6% of the Group's total consolidated sales, compared with 7% in 2012).

Power Generation

Power Generation sales came to €572 million in 2013, down 11.2% year-on-year (down 10.6% at constant exchange rates), representing 10% of the Group's total consolidated sales compared with 12% in 2012.

Nuclear power sales in 2013 relating to the equipment of nuclear power plants were affected negatively by some rescheduling over 2014. The conventional power generation market continued to suffer from pricing pressure and lack of new projects.

Industry & Other

Industry & Other sales were €1,029 million in 2013, down 5.7% year-on-year (flat at constant exchange rates), and represented 18% of the Group's total sales compared with 20% in 2012.

- **In Europe,** Industry sales were affected by pricing pressure throughout the year. In addition, the gloomy outlook for the mining sector had a negative impact on the product mix.
- **In Brazil,** the Group benefited from a recovery in the automotive and agricultural markets. Iron ore sales were up in Brazilian currency, due to an improved price mix effect compared with 2012, but flat in euros.

3.1.4 Exceptional events in 2013

At its Investor Day in late September 2013 (Pittsburgh, USA), the Group announced that in Brazil, in a context where the Brazilian real weakened significantly during the summer, Petrobras is prioritizing cash generation and increasing oil production in the short term. For Vallourec, this should result, from the fourth quarter of 2013 until mid-year 2014, in more tubing (tubes for oil production) and less casing (tubes for the equipment of new wells), consequently temporarily reducing delivered tonnages of OCTG tubes on the domestic market.

(1) EAMEA: Europe, Africa, Middle East, Asia.

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	2011	2012	2013	Comparison 2012/2013
First quarter	500	504	487	-3.4%
Second quarter	561	528	543	+2.8%
Third quarter	601	525	545	+3.8%
Fourth quarter	589	535	584	+9.2%
TOTAL	**2,251**	**2,092**	**2,159**	**+3.2%**

3.1.6 Location of main facilities

3.1.6.1 Property, plant and equipment

The Group's registered 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.

At 31 December 2013, 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 activities and a primary concern in its manufacturing resource planning.

The Group's property, plant and equipment (including assets held under finance leases) and biological assets held by consolidated companies had a net carrying amount of €4,328.7 million at the end of 2013 (compared with €4,516.2 million at the end of 2012 and €4,250.6 million at the end of 2011). Property, plant and equipment mainly consists of property assets and industrial equipment:

- the Group's property assets mainly include factory buildings and administrative offices;
- 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;
- geographical distribution of industrial property, plant and equipment and intangible assets for the fiscal year (excluding changes in consolidation 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 2013, which extended the Company's property, plant and equipment base, are provided below (see Section 3.2.2).

3.1.6.2 Environmental considerations relating to the Company's property assets

Operational facilities and environmental regulation

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 prefectural order, following the submission of an operating license application, consultations with various organizations and a public enquiry; as at 31 December 2013, all of these facilities held valid prefectural 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, waste and noise. 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 former industrial sites

Following its closure, the Anzin plant in northern France was sold to the Valenciennes urban community 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 groundwater at the site continues to be monitored using piezometric sensors.

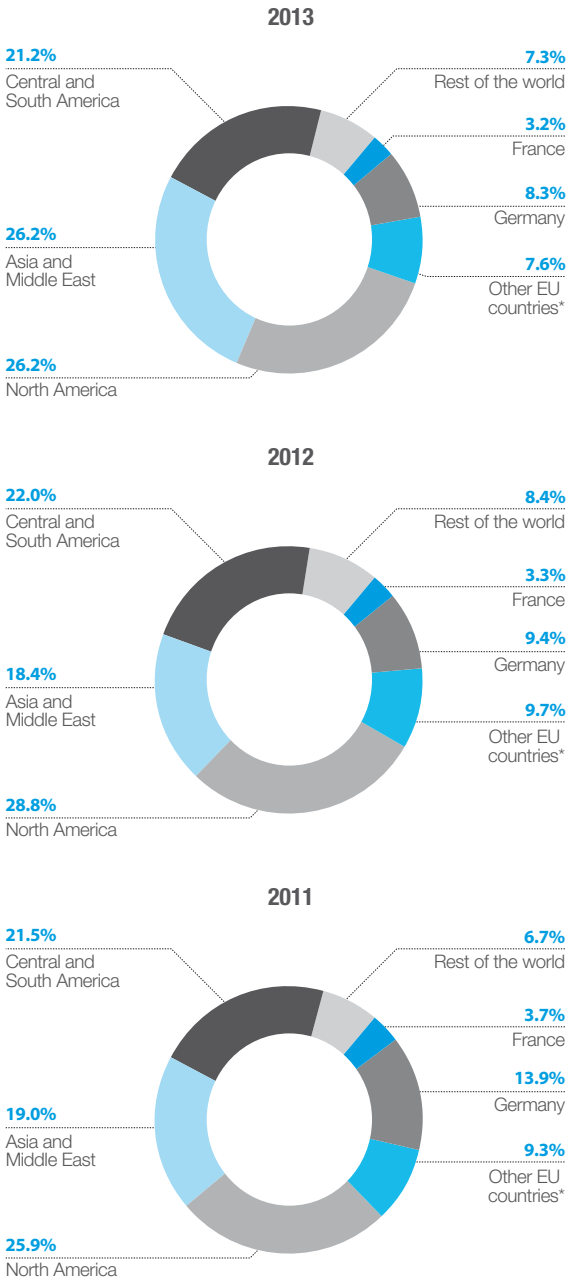
All of the other sites sold (VPE, VPS, VCAV, CEREC, Spécitubes and Valti Krefeld plants) underwent full environmental investigations before sale and, as far as the Company is aware, no specific issues were raised during the disposal negotiations.

The situation of operational sites with regard to soil pollution is described in Section 4 "Corporate social responsibility" 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 geographical segments is the only meaningful indicator.

3.1.7.1 Vallourec Group activities by geographical segment



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

Consolidated sales totaled:

- €5,578 million in 2013; 19% in Europe;
- €5,326 million in 2012; 22% in Europe; and
- €5,296 million in 2011; 27% in Europe

The breakdown of sales by geographical segment 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 2013
TOTAL 2013 *(in € thousand)*	**180,715**	**461,538**	**423,018**	**53,160**	**1,462,206**	**222,556**	**1,239,591**	**1,462,147**	**1,105,206**	**79,315**	**1,184,521**	**351,009**	5,578,314
(as %)	3.24	8.27	7.58	0.95	26.21	4.00	22.22	26.21	19.81	1.42	21.23	6.30	100.00

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

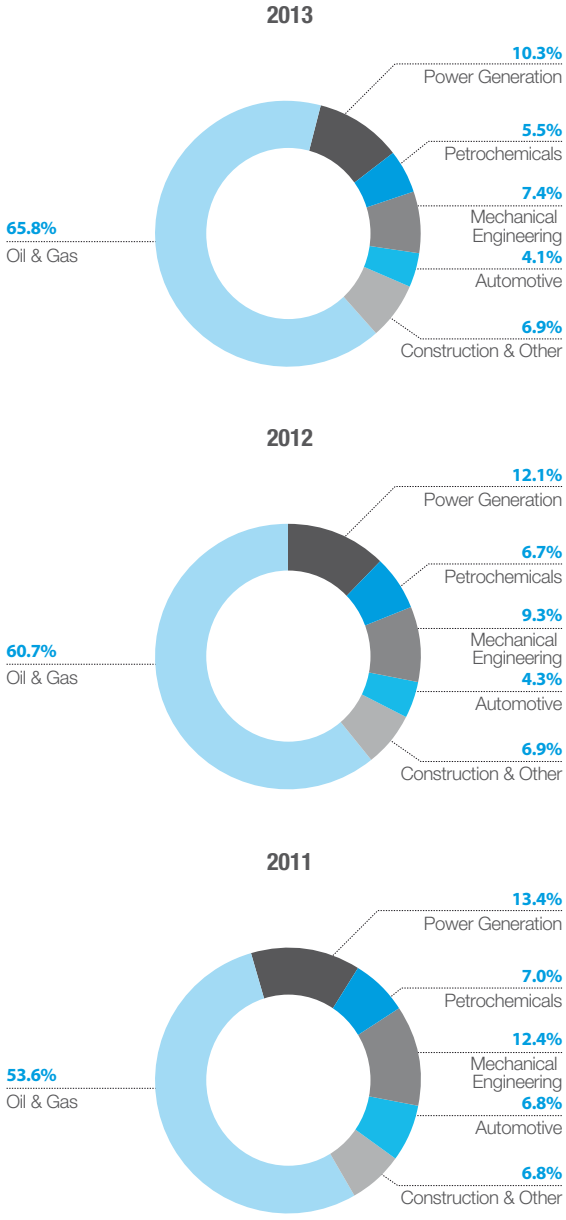
	France	Germany	Other EU countries [(a)]	CIS	North America	China	Other Asia and Middle East	Total Asia and Middle East	Brazil	Other Central & South America	Total South America	Rest of the world	Total 2012
TOTAL 2012 *(in € thousand)*	176,581	501,740	517,755	37,678	1,532,836	147,962	830,767	978,729	1,080,799	88,848	1,169,647	412, 051	5,326,017
(as %)	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

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

	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 € thousand)*	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 %)	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

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

3.1.7.2 Vallourec Group activities by market



As at 31 December 2013, the Group's sales in absolute value and as a percentage of sales by market was as follows:

Markets	Sales *(in € million)*	Sales *(as %)*
Oil & Gas	3,669	65.8%
Power Generation	572	10.3%
Petrochemicals	309	5.5%
Mechanical Engineering	415	7.4%
Automotive	231	4.1%
Construction & Other	382	6.9%
TOTAL	**5,578**	**100%**

3.1.7.3 Changes in consolidation scope

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

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 for oil and gas drilling tubes 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 and 2013

In 2012 and 2013, there was no change in the consolidation scope through acquisitions.

3.1.8 Information on the competitive position of the Company

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

3.1.8.1 Oil & Gas

Vallourec operates in three markets: threaded seamless tubes for the equipment of oil and gas wells used for exploration and production (OCTG), drill pipe, onshore line pipe and offshore transmission lines for oil and gas:

- 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 NSSMC, is the world leader,
  - in Brazil's OCTG market, Vallourec is the leader. 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, 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 Grant Prideco (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 and ahead of NSSMC.
  - The Group has a very strong position in deep (over 500 meters) and extra deep (over 1,500 meters) wells, which require high-tech products.
  - Vallourec has also positioned itself as the world leader in welding solutions for offshore pipelines through its subsidiary Serimax, which now offers welding solutions for onshore pipelines.
  - In late 2013, Vallourec launched a new premium line of welded stainless steel tubes that can be fitted into umbilicals at offshore oil and gas fields.

3.1.8.2 Power Generation

Vallourec is global leader of this segment, offering the largest range of tubes, product dimensions and steel grades (including patented grades) in the world. The Group is a supplier for several applications:

- seamless carbon and alloy steel tubes, mainly for thermal power plants: screen panels, header pipes, economizers, evaporators, superheaters, reheaters and piping. Its main competitors are Baosteel, Chengde and NSSMC;
- nickel-alloy seamless tubes for steam generators at nuclear power plants: in these very technically demanding markets, Vallourec's market share far outdistances those of its two main competitors, NSSMC and Sandvik;
- welded titanium and stainless steel tubes for power plant applications (low- and high-pressure feedwater heaters and condensers, driers and steam heating equipment): through its subsidiary, Vallourec Heat Exchanger Tubes, Vallourec is the world leader in this market; Its main competitors are Shinhan, NSSMC and Schoeller.

3.1.8.3 Mechanical Engineering

Vallourec is the European leader in seamless tubes for Mechanical Engineering applications. This market is characterized by:

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

3.1.8.4 Petrochemicals

Vallourec is a supplier for several applications:

- seamless tubes for refineries, petrochemical facilities, land-based and floating liquefied natural gas (LNG) plants, and production, storage and offloading units (FPSO): Vallourec is a significant market player, its main competitors being Tenaris, Arcelor Mittal NSSMC and Chinese groups;
- welded titanium tubes for heat exchangers in desalination and LNG plants: Vallourec is a world leader in this market through its subsidiary Vallourec Heat Exchanger Tubes. Its main competitors are NSSMC and new Chinese and Korean players.

3.1.8.5 Automotive

Through its subsidiary Vallourec Bearing Tubes, 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 Fomas.

In Latin America, Vallourec Tubos do Brasil S.A. 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. Vallourec Tubos do Brasil S.A. 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 Breakdown of raw material supplies at 31 December 2013

Purchases consumed during 2013 included the following:

In € thousand	At 31/12/2012	At 31/12/2013
Scrap metal and ferrous alloys	408,477	377,964
Rounds/billets	826,019	846,775
Flat parts	66,826	38,795
Tubes	192,845	295,718
Other [(a)]	304,737	230,889
TOTAL	**1,798,903**	**1,790,141**

(a) Including change in inventories.

3.1.9.2 Main customers

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

Name	Home country	Vallourec markets	Activity
Ados	United Arab Emirates	Oil & Gas	Oil services company
Aramco	Saudi Arabia	Oil & Gas	Oil company
Areva	France	Power Generation	Power plant construction
Champions Pipe & Supply	United States	Oil & Gas	Distributor
CNOOC	China	Oil & Gas	Oil company
DongFang	China	Power Generation	Power plant construction
Doosan	Korea	Power Generation	Power plant construction
Exxon	United States	Oil & Gas	Oil company
Hoberg & Driesch	Germany	Mechanical Engineering/Other	Distributor
Lukoil	Russia	Oil & Gas	Oil company
Petrobras	Brazil	Oil & Gas	Oil company
Pipeco Services	United States	Oil & Gas	Distributor
Premier Pipe	United States	Oil & Gas	Distributor
Pyramid	United States	Oil & Gas	Distributor
Salzgitter	Germany	Automotive/Mechanical Engineering	Tube manufacturing
Shell	Netherlands	Oil & Gas	Oil company
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 2013, the five largest customers accounted for 25% of sales.

3.2 Investment policy

3.2.1 Investment decisions

Investment 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.

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

In all its investment projects, Vallourec attaches great importance to ensuring that environmental impacts and energy savings receive special focus.

3.2.2 Main investments

3.2.2.1 Main investments in 2011-2013

In recent years, industrial 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:

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

In € million	31/12/2011	31/12/2012	31/12/2013
Europe	139.1	122.1	182.5
North America	337.9	359.8	191.7
Central & South America	371.6 [(a)]	190.7 [(d)]	205.5 [(f)]
Asia	79.4	96.7	42.9
Other	0.9	2.5	0.7
TOTAL INDUSTRIAL CAPITAL EXPENDITURE	**928.9** [(a)]	**771.7** [(d)]	**623.3** [(f)]
Capital expenditure payments during the year	909.1 [(b)]	803.1 [(e)]	567.0 [(g)]
ACQUISITIONS AND FINANCIAL INVESTMENTS	**80.3** [(c)]	**0**	**0**

(a) Including €41.2 million for biological assets.

(b Including €49.7 million for biological assets.

(c) Mainly Vallourec's acquisition of 100% of Saudi Seamless Pipes Factory Company Limited (Saudi Arabia) and 19.5% of Tianda Oil Pipe Company Limited (China).

(d) Including €28.8 million for biological assets.

(e) Including €28.7 million for biological assets.

(f) Including €23 million for biological assets.

(g) Including €23.2 million for biological assets.

The most significant investment programs carried out in 2011, 2012 and 2013 are outlined below.

In 2011

The year was marked by a very solid investment program, 75% of which was dedicated to continuing 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 to enhance productivity and increase accessible reserves (Brazil);
- construction of a threading facility for premium joints in Youngstown and an increase in capacity for threaded sleeves in Houston to respond to the growing OCTG tube needs for shale gas (United States);
- extension of the VAM USA LLC Research Center in Houston to accelerate the development of premium threaded products 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 Brasil SA to meet the growing needs of Petrobras for high premium grades (Brazil);
- increase in V & M do Brasil's hot-forging capacity for car and truck axles to meet a strong increase in demand;
- the planting of 1,912 and 7,694 hectares of eucalyptus, to meet the needs of V & M do Brasil SA and Vallourec & Sumitomo Tubos do Brasil, respectively;
- start of construction of a new steam generator tube production plant in Nansha, Guangdong Province, southeast China, to keep pace with the fast-growing Chinese nuclear fleet;
- 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 tube mill in Jeceaba;
- continuing construction of the new tube mill in Youngstown, Ohio (United States);
- increase in plant capacity of V & M Changzhou (China);
- a major program of renovation and development to increase available heat treatment capacity while reducing energy consumption and 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), 75% of which was dedicated to continuing programs initiated in previous years.

The main investments initiated in 2012 were as follows:

- the planting of 1,240 and 707 hectares of eucalyptus, to meet the needs of V & M do Brasil SA and Vallourec & Sumitomo Tubos do Brasil, respectively;
- the launch of a major renovation program at the steel mill in Saint-Saulve (France);
- the start of a multi-year program to build new carbonization furnaces for the production of 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).

In 2013

The year saw a reduction of the investment program (-29% compared to 2012) due to the phasing out of major strategic projects undertaken in Brazil, the United States and China. Programs initiated in 2012 and previously nevertheless still represented 53% of expenditure in 2013.

Investments made were in:

- acquisition of the assets of Lupatech Tubular Services-Rio das Ostras Unit, an Oil & Gas services company located in Rio das Ostras, RJ, Brazil;
- the renovation of the Saint-Saulve steel mill (France);
- the new Vallourec & Sumitomo Tubos do Brasil tube mill in Jeceaba (Brazil) and the tube mill in Youngstown, Ohio (United States);
- the new production unit of steam generator tubes intended for nuclear power plants in Ghangzhou (China);
- the new plant making large diameter tubes for Powergen and Industry applications in Changzhou (China);
- the planting of 2,300 and 3,900 hectares of eucalyptus, to meet the needs of Vallourec Tubos do Brasil S.A. and Vallourec & Sumitomo Tubos do Brasil, respectively;
- 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;
- increased R&D budgets in Europe and Brazil;
- increasing finishing capabilities and lean manufacturing programs at the rolling mill in Stiefel Rath (Germany);
- the initiation of an IT project to develop a customer portal; and
- more generally, improvements in employee and facility safety, cost savings programs and maintenance of existing facilities.

3.2.2.2 Main investments planned for 2014

The 2014 investment program will again be significantly reduced, to around €500 million, with 50% of the budget allocated to the continuation of programs initiated in 2013 or earlier, as follows:

- final investment in the new pipe mill in Youngstown, Ohio (United States);
- completion of the renovation and development program to increase heat treatment capacity in Brazil;
- continued increase in the premium threading capacity at Youngstown;
- continued increase in R&D budgets in Europe and Brazil;
- continued increase in the finishing capacity of the Stiefel Rath rolling mill.

New investments will also be made in 2014 to increase the production capacity of steel alloy at the Saint Saulve steel mill, to increase the capacity of the Pèlerin de Rath rolling mill, and on capacity building for large diameter tube threading and accessories for the OCTG markets in the United States, Europe and Asia. Finally, a significant portion of the investments will be allocated to improving the safety of employees and facilities, cost savings programs, the maintenance of existing facilities and reducing the Group's environmental impact.

From 2015, gross industrial capital expenditure is expected to average €450 million per year.

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 Department are as follows:

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

The role of the TRDI Department is to:

- promote the innovation and steering of R&D and Technology to allow the emergence of incremental and breakthrough advances to stay ahead of the competition by differentiating through new products and bespoke solutions;
- to deploy a culture of innovation (through Vallourec University), knowledge management, teamwork within and between Divisions, collaboration, and expert networks – key factors to ensure that innovation is a process of learning and inductive reasoning;
- to develop and promote best practices and the best available technologies in order to produce premium solutions, driven by process communities and technology experts.

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. The efforts are focused on three areas:

- manufacturing processes (charcoal, steelmaking, 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 research and development 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 structure is organized around six competence centers specializing in specific products, processes or technologies:

- in France, the Aulnoye research complex houses:
  - the long-established "**Vallourec Research Center France**," which specializes in metallurgy, non-destructive testing, corrosion resistance, surface treatments, product and process simulations, OCTG products and Mechanical Engineering applications,
  - the "**Vallourec Research Center Connections"** notably in charge of VAM® threaded connections;
- in Düsseldorf, Germany:
  - the "**Vallourec Research Center Germany"** is dedicated to applications for thermal power plants and oil and gas pipelines,
  - the "**Vallourec Research Center Technology"** is responsible for tube hot-rolling research. This long-established center in Düsseldorf, which is responsible for innovations involving Vallourec's core processes, is now supported by a new rolling laboratory. The "Vallourec Competence Center Riesa" is equipped with the most advanced facilities, enabling Vallourec to increase the pace of development of innovations in process methodologies and equipment. Its versatile t rolling and forging facilities will push back the current limits of steel and alloy rolling within the Group;
- in Brazil:
  - the "**Vallourec Research Center Brazil"** has teams of experts and test laboratories to adapt the Group's solutions and develop new ones for its Brazilian customers,
  - the new "Vallourec Competence Center Rio" is located in the Industrial Park of the University of Rio de Janeiro in closer proximity to CENPES, the Petrobras research center;
- in Houston, Texas (USA):
  - the "**Vallourec Competence Center USA"** focuses on specific VAM® developments for the U.S. market by tapping 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 center" 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 breakthrough innovations;
  - technical advances that differentiate new Group products and bespoke solutions,
  - the deployment of a culture of innovation, knowledge management, teamwork and network collaboration,
  - strong customer-supplier technical partnerships,
  - more fundamental research programs conducted with university laboratories in Europe and around the world.

This structure, combined with reliable, flexible and 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 [(1)]: collaboration since 1976 on the development of premium joints for the Oil & Gas industry (VAM® product range). The launches of the new VAM® 21 premium threaded connection, and the Cleanwell Dry® grease-free dry lubrication solution meet the most stringent industry specifications (ISO CAL IV);
- Tubacex: collaboration on the development of seamless tubes made of stainless steel and innovative alloys, thereby enhancing the Group's offering for the oil and 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 and gas deposits (ultra deep water, thick salt strata, corrosion, CO_2, etc.);
- Total: premium joints delivering unmatched performance in high pressure high temperature wells;
- BHP: connections developed specifically for shale 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 and ultra-supercritical power plants.

Some 500 employees are involved in research and development in 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 make this possible, the corporate Human Resources Department developed horizontal gateways between the two career paths.

In 2013, research and development costs amounted to €87.4 million, a slight decrease from the previous year.

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

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

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 improving 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 (over 9%) using continuous-casting processes forms the basis of the Group's range of high-tech solutions.

Extensive research is being done on 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.

A key example is the patented Premium Forged Pipes (PFP®) process, developed for the manufacture of very-thick, large diameter tubes, particularly for the mechanical engineering and energy sectors, which has been deployed commercially in Europe since 2008 and in China since 2012.

The rolling laboratory that opened in Riesa, Germany in 2010 allows Vallourec to develop its own innovative technologies and accelerate its progress in tooling and heat production processes, including for the latest tube heat-rolling technologies, such as PQF and PFP®.

Significant developments in the area of non-destructive tests ensure that the Group's products are extremely reliable. The innovations in this sector are major differentiating factors. The process communities have been deployed across the Group. They promote rapid, continuous progress by sharing best practices for the Group's main processes: threading, steelmaking and continuous casting, heat treatment, heating rounds, heat rolling and non-destructive testing.

A new process community has been set up for tube finishing (coating, marking, machining, etc.).

The most difficult oil and gas operating conditions require the development of more resistant steels 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.

Developing steel grades that are able to resist hydrogen-sulfide corrosion is essential for the oil and gas industry. This range of so-called sour service grades was extended with the introduction of the "VM125SS" grade which, being specially designed for high-temperature and high-pressure applications, is a continued success.

VAM® 21, the next-generation premium threaded connection, is now being marketed in a wide range of sizes. This innovative connection is the only one to offer performance that complies with ISO 13679 CAL IV (latest revision), the technical specifications required by oil and gas customers for the most demanding applications. It has been adopted by many customers (majors and independents) worldwide. Versions with high torque capacity and versions dedicated to thick tubes have recently been added to the range.

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 the new so-called "shale gas or oil plays," specific threaded connections are under development. A new threaded connection, VAM® SG, was developed in record time thanks to a close relationship with customers, enabling the Company to meet their very specific performance criteria. Shale gas is extracted from wells with a long horizontal section (from 1,500 to 3,000 meters), which requires higher-grade connections to avoid over-torqueing under the heavy stress that ultra-high pressure fracturing puts on them.

Launched on the market this year for long lateral-section horizontal wells, the VAM® EDGE range of high-performance products maximize well production by making it possible to extend the well's reservoir contact length.

For the most difficult applications, such as deviated wells with long horizontal sections, the VAM® HTF high-performance connection has also been developed and won commercial success. 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 seabed 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 and corrosive wells.

In the five years since its establishment, Vallourec Drilling Products has become a leader in the technology, especially by developing drilling accessories (including drill pipes, heavyweight drill pipes, landing strings, etc.):

- 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;
- very 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. Improving heat exchange processes is also a major focus of innovation (finned tubes, etc.).

Solutions for next-generation nuclear power plants are also being developed, with robust research being done on materials.

The Group is constantly expanding its range of products for construction markets, including for 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 highly advanced mechanical characteristics are the subject of joint efforts between partners and Serimax to optimize welding techniques.

Offshore welding equipment is undergoing intense development to improve its productivity, reliability and ease of use. "Saturnax 09" has recently been selected and validated for a large project in West Africa.

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 holding of sessions to heighten industrial property awareness among Research and Development teams, in France and abroad.

The Group sustained its patent registration activities in 2013, registering 19 new basic patents, and proceeded with over 400 geographical patent extensions. The budget dedicated by the Group to protecting inventions via patents continued to increase in 2013.

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

In 2013, Vallourec continued its efforts to protect its core brands through trademark registration.



4

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Vallourec's proactive approach to Corporate Social Responsibility is formalized in the Group's Sustainable Development Charter. As a responsible Group that supports its customers as a long-term partner, Vallourec's policy has three key objectives: to ensure the sustainability of its business with competitive and innovative products; to maintain sustainable relationships with stakeholders; and to protect the environment and use its resources wisely. Vallourec's Sustainable Development Charter can be found on the Group's website: www.vallourec.com.

This section outlines Vallourec's commitments in the area of Corporate Social Responsibility (CSR). It is intended to describe the policies implemented by the Group and the principles that guide it. It details actions taken on health and safety, Human Resources management, relationships with neighboring communities and local authorities, and actions to protect the environment.

In 2013, Vallourec introduced its first Group-wide employee satisfaction survey with 75 questions designed to measure, among other things, employees' views on the Group's values and accountability, their own level of commitment and their opinion on the working conditions, compensation, benefits and management style within the organization.

The survey had a high participation rate, with 80% of employees responding. The summary of their relatively consistent responses shows that the Group has a true culture that overrides local cultural differences. Of the respondents, 76% describe themselves as committed, with a good opinion of the Group's image. They consider themselves well-informed, and they are satisfied with their working conditions. On the other hand, they would like more recognition for their performance and stronger collaboration between teams. Finally, nearly 80% of employees believe that Vallourec is a responsible company and is respectful of environmental concerns.

These lessons will form the basis of a multitude of action plans that will be rolled out locally, accompanied by appropriate communications.

The Act of 12 July 2010 on France's commitment to the environment, known as "Grenelle II", and the Act of 16 June 2011 on combating discrimination and promoting diversity have led to the strengthening of institutional and standardized reporting on these subjects. The concurrent reporting of financial and non-financial information is encouraged to allow companies to show how they integrate sustainable development concerns into their short, medium and long-term plans.

Vallourec is committed to providing detailed information on the results of its actions. It therefore reports, on a global scope, on the 42 topics listed in Article R.225-105-1 of the French Commercial Code. A concordance table between the information required under this Article and the information presented herein can be found in Appendix 4 of this chapter. This information demonstrates the Group's commitment to Corporate Social Responsibility and highlights the results of its key actions. The way that this information was gathered and the limitations of this type of data collection are described in the methodological notes found in Appendix 3 of this chapter. The Statutory Auditors have audited the reporting indicators, with a moderate level of assurance, as well as the coherence of the policies laid out. Their report is in Appendix 1 of this chapter.

Unless otherwise specified in the text, all information contained in this chapter refers to Vallourec, all of 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. The individual indicators of companies excluded from the consolidated indicators are presented in Appendix 2 of this chapter.

Risk factors, risk management and the internal control procedures relating to CSR issues are described in Chapter 5 "Risk Factors" and the Report of the Chairman of the Supervisory Board set out in Appendix 1 of Chapter 7, "Corporate governance" of the 2013 Registration Document.

4.1 Social information

Social indicators cover the companies included in the tax consolidation group, which has not changed since 2012.

4.1.1 Workforce

At 31 December 2013, Vallourec had 24,053 employees working at more than 50 production or service sites under short-term or permanent contracts, against 23,177 employees at the end of 2012, an increase of 3.8%.

In each of 12 countries Vallourec employs at least 100 permanent workers.

These countries, in descending order by total number of employees are:

	Number of employees	
Country	**2012**	**2013**
Brazil	8,151	8,429
France	5,260	5,280
Germany	4,138	4,014
United States	2,484	2,756
Indonesia	953	980
China	630	713
United Kingdom	468	559
Mexico	311	319
Saudi Arabia	124	238
United Arab Emirates	148	174
Malaysia	184	173
India	110	107

4.1.1.1 Breakdown of workforce by geographical segment

Workforce at 31 December (permanent and short-term contracts)	2012	2013	Change 2012/2013	Breakdown in 2012	Breakdown in 2013
Europe	9,904	9,891	-0.13%	43%	41%
Brazil	8,151	8,429	3.41%	35%	35%
NAFTA (United States, Canada, Mexico)	2,859	3,154	10.31%	12%	13%
Asia	1,922	2,098	9.15%	9%	9%
Middle East	272	412	51.47%	1%	2%
Africa	69	69	0%	NS	NS
TOTAL	**23,177**	**24,053**	**3.77%**	**100%**	**100%**

The Group's workforce is expanding to support Vallourec's growth in the United States and China and to reinforce its local presence in the Middle East. The European workforce remained stable year-on-year.

4.1.1.2 Breakdown of the workforce by occupational category (permanent employees)

	Production staff	Technical and supervisory staff	Managers and executives
2012	67%	18%	15%
2013	66%	18%	16%

Production staff continued to represent two-thirds of the workforce.

Technical and supervisory staff include technicians and field supervisors.

The higher proportion of managers and executives in France (20.36% of the French workforce) compared to the rest of the world is due to the headquarters in Boulogne-Billancourt (France), where the Group's management teams and support functions are based.

4.1.1.3 Breakdown of the workforce by gender

At 31 December 2013, the number of women with permanent contracts was 2,562, a 5% increase compared to 2012, and representing 11% of the total permanent workforce. Few women are employed as production staff; rather, they are concentrated primarily in administrative, marketing and functional positions.

The proportion of women managers and executives, although rising in most geographical segments, remains modest. In this context, the Group launched a program of measures in 2012 to attract and retain women among its ranks, and to give them greater responsibilities.

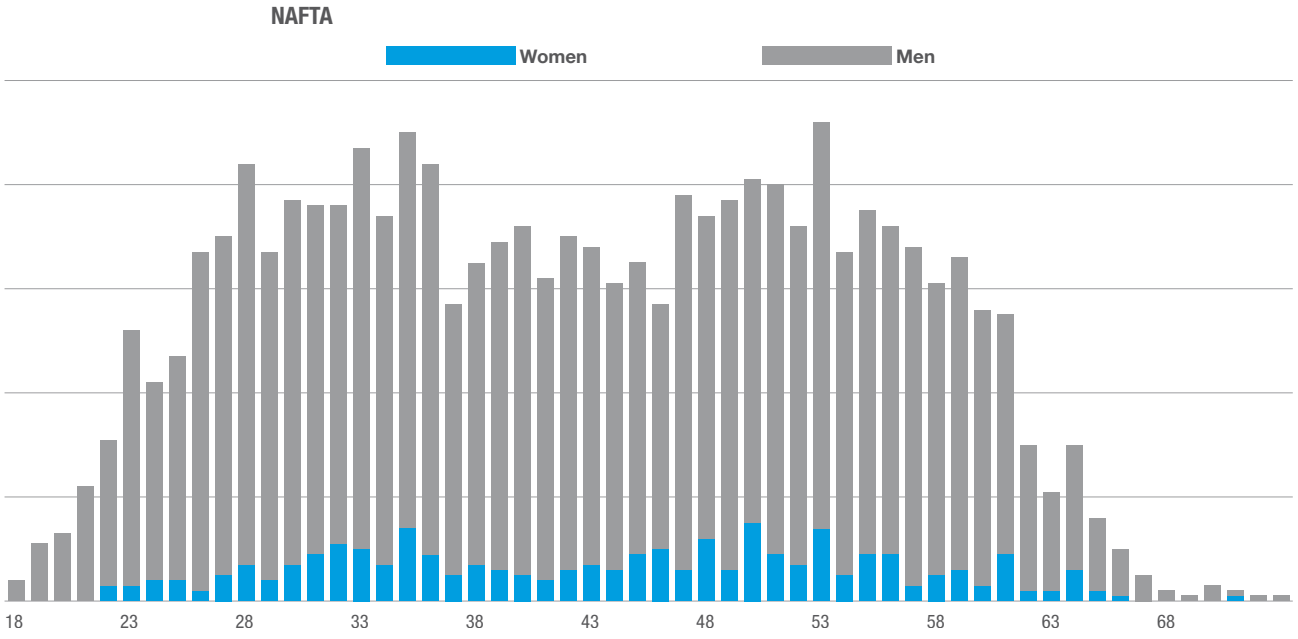
% of women (permanent employees)	Europe		Brazil		NAFTA		Asia		World	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Production staff	2%	2%	5%	5%	2%	1%	15%	15%	4%	4%
Technical and supervisory staff	33%	33%	27%	29%	34%	29%	26%	26%	30%	30%
Managers and executives	20%	21%	23%	23%	18%	19%	17%	19%	21%	21%
TOTAL	**11%**	**11%**	**10%**	**10%**	**11%**	**10%**	**19%**	**19%**	**11%**	**11%**

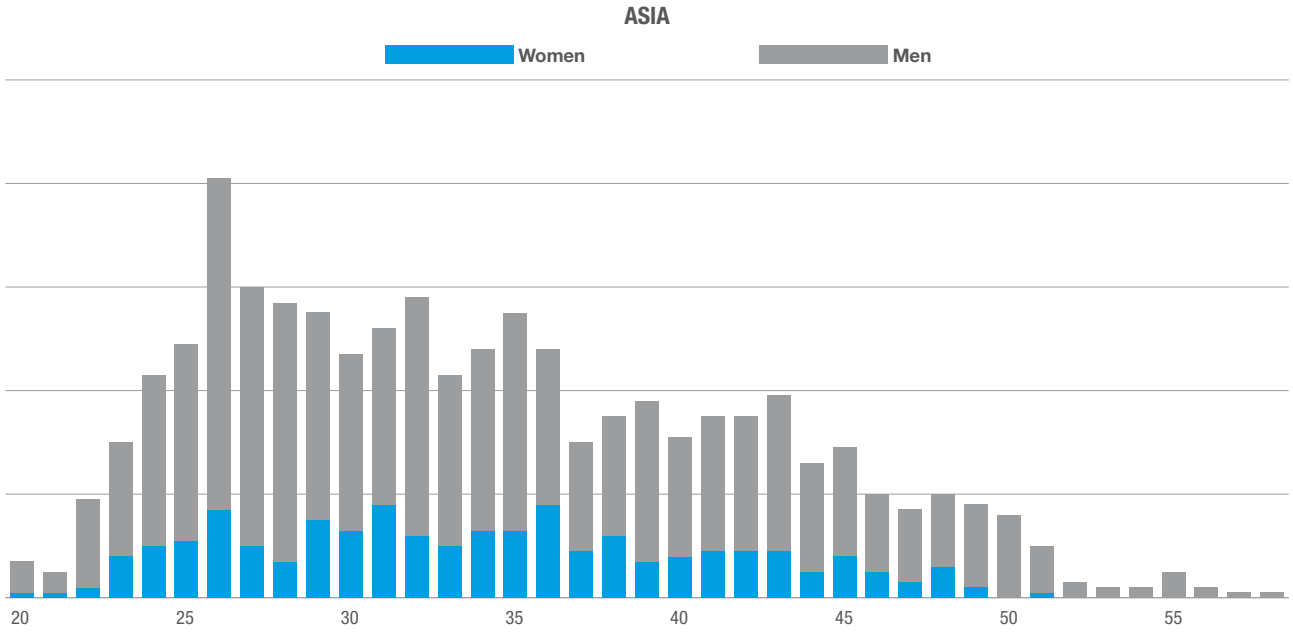
4.1.1.4 Breakdown of the workforce by age, gender and geographical segment

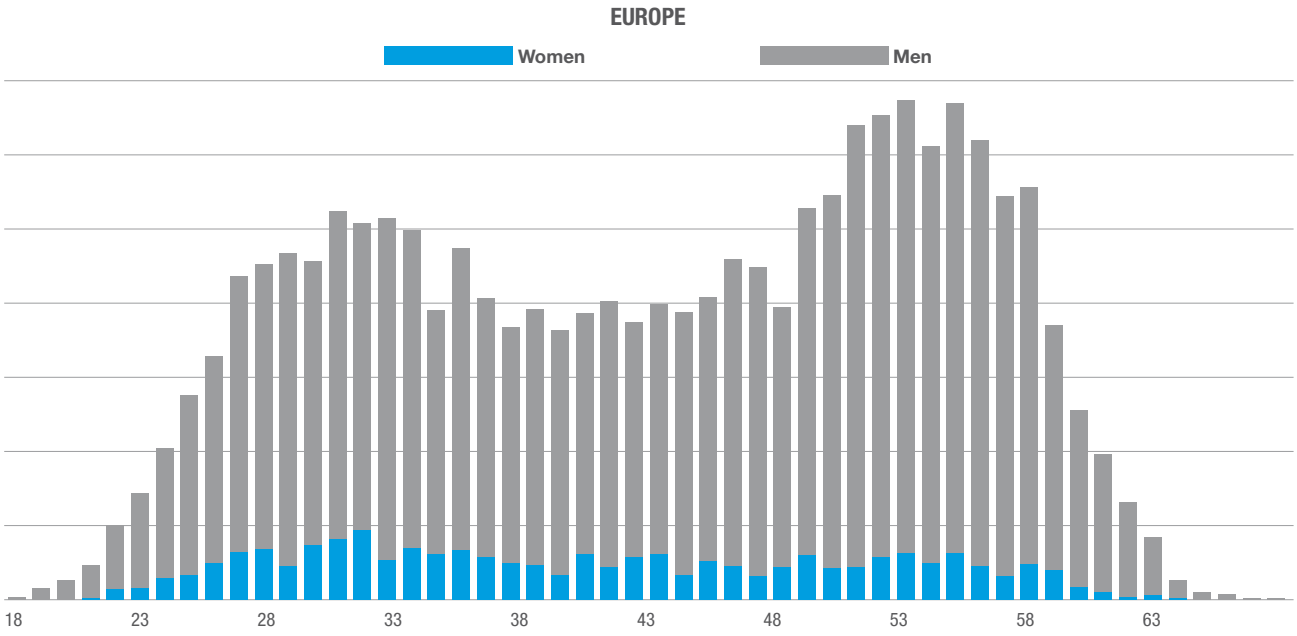
Age pyramids by geographical segment show that:

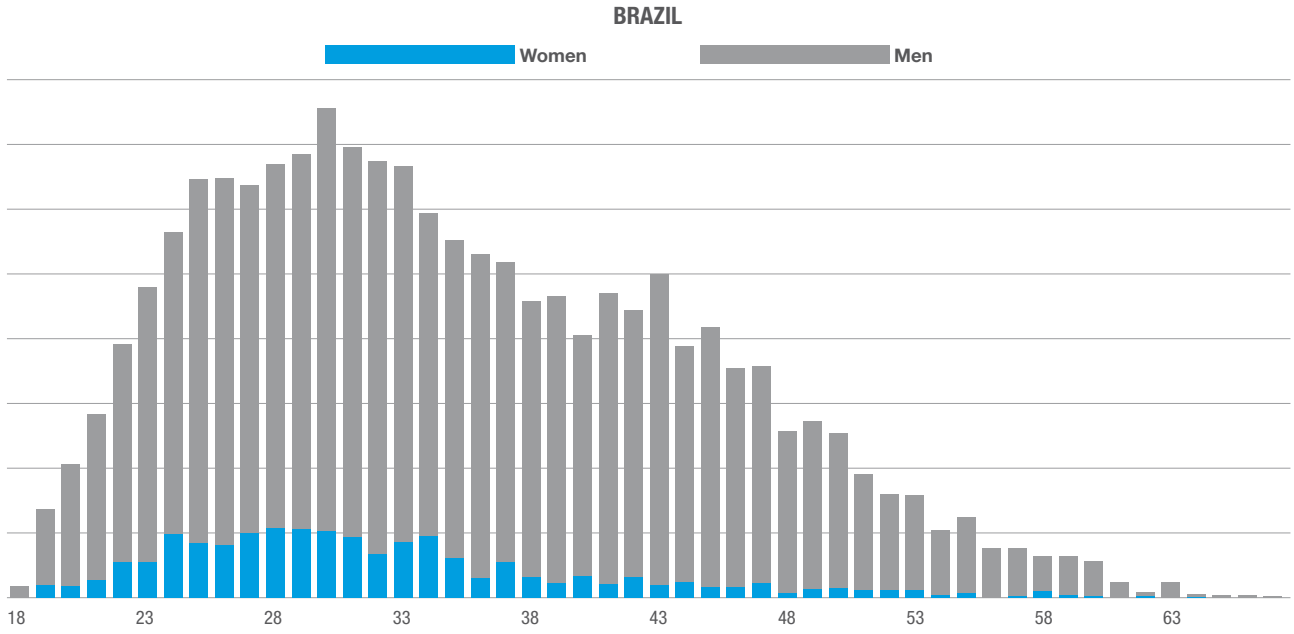
- in Brazil and Asia, the working population is young and mainly concentrated in the 25-35 years range, with an average age of 35 in Brazil and 34 in China;
- in NAFTA, the distribution is even across the 25-60 years range, with an average age of 38 in Mexico and 43 in the United States and Canada;
- in Europe, over-50 employees are overrepresented and those in the 36-49 years range are underrepresented, with an average age of 43 years in France and 46 years in Germany.

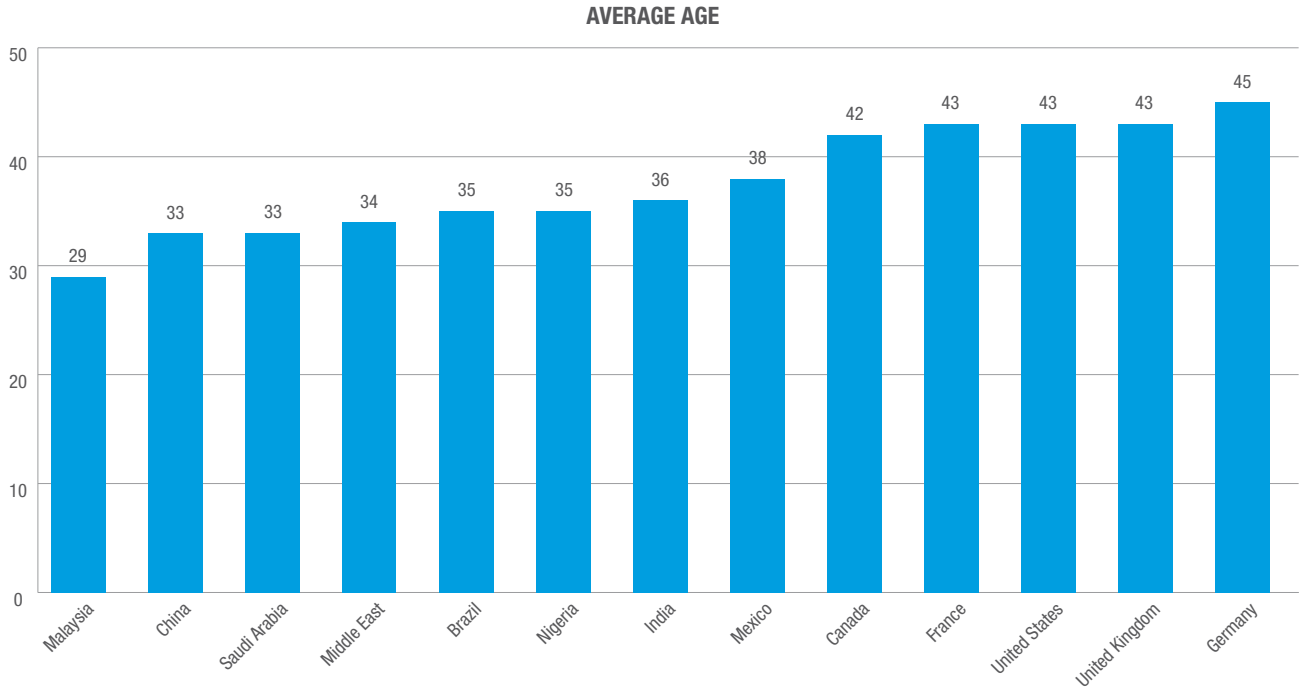
Women are a small minority and are evenly represented across all age groups, except in Brazil, which has a high concentration of women under 30 years of age.




ASIA
Women
Men
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25
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55


EUROPE
Women
Men
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28
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38
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53
58
63


BRAZIL
Women
Men
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AVERAGE AGE
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Malaysia
China
Saudi Arabia
Middle East
Brazil
Nigeria
India
Mexico
Canada
France
United States
United Kingdom
Germany

4.1.1.5 New hires and transfers

In 2013, excluding intra-Group transfers, Vallourec companies hired 2,638 permanent employees, representing 12% of the permanent workforce, a stable hiring rate compared to 2012 (11%).

At the end of 2013, the number of voluntary transfers was 292, a sharp increase compared to the end of 2012 (153 transfers). More than half of these were in France (92 transfers) and Germany (68 transfers), with the balance divided mainly between Brazil (42 transfers), China (44 transfers) and the United States (25 transfers).

Brazil accounted for 36% of total new hires and transfers, mainly at Vallourec & Sumitomo Tubos do Brasil, where the ramping up of production requires a significant mobilization of resources.

Europe accounted for 28% of entries (228 in Germany, 366 in France, 216 in the United Kingdom); NAFTA accounted for 21%.

The breakdown of all entries (aggregate of new hires and transfers) by occupational category is below:

Breakdown of new hires and transfers by occupational category and country

	Production staff				Technical and supervisory staff				Managers and executives				Total			
	Number		As % [(a)]		Number		As % [(a)]		Number		As % [(a)]		Number		As % [(b)]	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Brazil	940	807	86%	77%	69	120	6%	11%	81	125	7%	12%	1,090	1,052	41%	36%
Europe	325	468	52%	58%	121	121	19%	15%	176	224	28%	28%	622	813	23%	28%
NAFTA	412	423	73%	67%	87	94	16%	15%	61	112	11%	18%	560	629	21%	21%
Asia	138	152	47%	55%	122	77	42%	28%	31	45	11%	16%	291	274	11%	9%
Other	77	143	81%	88%	8	15	8%	9%	10	4	11%	2%	95	162	4%	5%
TOTAL GROUP	**1,892**	**1,993**	**71%**	**68%**	**407**	**427**	**15%**	**15%**	**359**	**510**	**14%**	**17%**	**2,658**	**2,930**	**100%**	**100%**

(a) Entries in the geographical segment as a percentage of all entries worldwide.

(b) Entries in the occupational category as a percentage of all entries in the geographical segment.

New hires in Brazil and the United States represented 22% and 13%, respectively, of their permanent workforces, mainly production staff for the ramping up of the Youngstown, Ohio (United States) and Jeceaba (Brazil) tube mills.

In Europe, new hires represented 9% of the permanent workforce; they were mainly hired to replace retiring workers and to reinforce the functional departments (28% of new hires were for manager or executive positions).

In 2013, 344 women were hired.

Breakdown of new hires and transfers of women by occupational category

	Production staff		Technical and supervisory staff		Managers and executives		Total	
Year	2012	2013	2012	2013	2012	2013	2012	2013
Europe	3%	3%	50%	40%	21%	19%	17%	13%
Brazil	8%	8%	46%	49%	30%	17%	12%	13%
NAFTA	3%	2%	31%	20%	18%	16%	9%	7%
Asia	11%	13%	24%	31%	13%	18%	12%	19%
TOTAL	**6%**	**5%**	**37%**	**36%**	**22%**	**18%**	**13%**	**12%**

4.1.1.6 Departures

In 2013, an average of 9% of employees under permanent contracts left the Group, a slightly lower rate than in 2012 (10%). This decline in departures compared to 2012 was in all countries and continents where the Group operates, with the exception of Europe, where the average rate of departures rose by 2 points.

Rate of departure by geographical segment 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%
2013	**10%**	**8%**	**7%**	**14%**	**9%**

4.1.1.7 Reasons for termination of employment contract (permanent contracts)

	Brazil		United States		Europe		China		Total	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Retirement	11%	14%	4%	5%	37%	47%	3%	5%	15%	21%
Resignation	15%	12%	30%	46%	31%	21%	80%	75%	26%	25%
Dismissals	73%	72%	43%	41%	20%	20%	16%	18%	51%	47%
Other reasons	1%	2%	23%	8%	12%	12%	1%	2%	8%	7%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

In Brazil, because short-term contracts are rarely used, the termination rate for permanent employees initiated by the employer is high.

In China, the resignation rate is traditionally and culturally very high.

In the United States, resignations and dismissals account equally for departures.

In Europe, retirement is the leading cause of departure. In France, Vallourec Heat Exchanger Tubes (formerly Valtimet) underwent reorganization in 2013, which included a jobs protection plan to mitigate layoffs. Through retirements (including some early retirements) and transfers to other Group companies locally, the workforce reduction (32 positions) was achieved without layoffs.

4.1.1.8 Employees on short-term and temporary contracts

Due to the highly cyclical nature of its markets, Vallourec has to adapt rapidly to changes in activity. As a matter of policy it maintains a permanent workforce to meet the needs of its ongoing operations and relies on temporary workers (under short-term and temporary contracts) to cope with surges in activity. For planning purposes, the permanent staff is managed on the basis of a model workforce involved in a standard activity for three to five years. Changes in peak or trough activity are handled via flexible local solutions (e.g., loans between plants, working-time adjustments in Europe, temporary staff and short-term contracts).

At Group level, the temporary staff is maintained at 10% of the total workforce, with Brazil remaining far below the average due to the rarity of temporary contracts.

Breakdown between permanent and temporary staff at 31 December

	Brazil		NAFTA		Asia		Europe		Total	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Permanent	8,098	8,255	2,717	2,921	1,683	1,792	9,195	9,251	21,996	22,664
Short-term (excluding apprentices)	3	30	142	233	239	906	236	97	655	702
Temporary	27	18	84	98	480	500	838	849	1,646	1,503
% flexibility	0,4%	1%	8%	11%	43%	45%	12%	10%	10%	10%

4.1.2 Compensation

4.1.2.1 Payroll costs

In 2013, the Group payroll costs, excluding temporary staff, totaled €1,186 million (vs. €1,147 million in 2012) and included:

- €809 million for wages and salaries (€779 million in 2012);
- €56 million for employee profit-sharing (€42 million in 2012);
- €15 million for charges associated with share subscription and purchase options and performance shares (€20 million in 2012);
- €302 million in social security costs (€304 million in 2012).

The 3.3% increase in payroll costs year-on-year is due to the combined effects of wage policies and changes in foreign currencies against the euro.

Breakdown of payroll costs by country:

	Breakdown of total payroll costs		Breakdown of average workforce	
	2012	2013	2012	2013
Germany	23%	23%	19%	18%
Brazil	23%	22%	34%	33%
China	1%	1%	3%	3%
United States	16%	17%	10%	11%
France	31%	30%	24%	24%
Mexico	1%	1%	1%	1%
United Kingdom	3%	3%	2%	2%
Other	2%	3%	7%	8%
TOTAL	**100%**	**100%**	**100%**	**100%**

4.1.2.2 Average salaries

Vallourec's compensation policy is based on fair and motivating pay levels (taking into account local labor market conditions) and profit-sharing arrangements.

The average salary in France is based on total salaries, including those of the Group's executive management.

Average salaries including profit-sharing and social security costs	Average 2012 salary including profit-sharing *(in euros)*	Average 2013 salary including profit-sharing *(in euros)*	% of 2012 social security costs	% of 2013 social security costs
Germany	63,580	66,440	20%	21%
Brazil	36,010	35,950	64%	65%
China	16,320	16,930	21%	21%
United States	80,350	87,150	27%	29%
France	66,950	67,780	52%	48%
Mexico	30,230	29,200	15%	15%
United Kingdom	67,060	68,240	27%	19%

4.1.2.3 Employee profit-sharing

Profit-sharing plans serve to associate employees with the Company's performance. In 2013, they had a value of €56 million.

In France, a Company collective savings plan (PEE) and retirement savings plan (PERCO) allow employees to invest the money they receive from profit-sharing in order to build up savings with a favorable tax status and to benefit from employer contributions.

4.1.2.4 Employee share ownership

In 2013, the Group announced:

- for the sixth year in a row, a "Value" employee share ownership plan, called Value 13, for the benefit of employees and those with similar rights at Vallourec's entities in France, Germany, Brazil, the United States, the United Arab Emirates, the United Kingdom, Mexico, China and Canada. Nearly 15,000 employees in these nine countries, i.e. 67.5% 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 represent 7.37% of Vallourec's share capital as at 31 December 2013, against 7.14% at 31 December 2012;
- for the fifth year in a row, a performance share plan to award up to 130,464 performance shares (subject to continuous service and performance conditions), with no more than six shares per beneficiary, to 21,744 employees of Group entities in Germany, Brazil, Canada, China, the United Arab Emirates, the United States, France, Great Britain, India, Malaysia, Mexico, Norway, the Netherlands, Russia and Singapore.

4.1.3 Organization of working time

4.1.3.1 Working patterns – specific arrangements

The Group's policy is designed to provide maximum flexibility so that working patterns can be adapted to customer demand.

Working patterns enable the Group to adjust plant operations to production requirements. Most production sites have adopted a system of continuous shift work (24 hours a day), five or six days per week using three, four or five rotating teams.

In order to minimize the physical hardships of working patterns, research is being done in conjunction with occupational physicians and employees into the structuring of working patterns to coincide with physiological rhythms.

Innovative solutions have been implemented, which depend heavily on cultural factors and applicable national laws.

4.1.3.2 Work hours

As in 2012, France and, to a lesser extent, Germany were faced with below-normal activity, respectively 61,000 hours and 3,000 hours of partial layoffs.

The following table shows the number of hours worked and the average number of hours of overtime worked in the last two years. It is based, for each country, on the number of hours worked by the permanent workforce. Although overtime hours do not apply to managers and executives, the average number of hours of overtime has been calculated for the entire permanent workforce including this category.

	Average number of hours worked per employee		Average number of overtime hours worked per employee during the year	
	2012	2013	2012	2013
Germany	1,469	1,480	123	116
Brazil	2,029	2,022	104	117
China	2,100	2,173	233	255
United States	2,128	2,154	286	315
France	1,535	1,515	31	29
Mexico	2,701	2,674	179	167
United Kingdom	2,203	2,158	199	162

4.1.3.3 Individual working arrangements and part-time work

In France, virtually all technical and supervisory staff benefit from individual working arrangements, enabling them to set their arrival and departure times based on personal needs and the requirements of their department.

In addition, 84 employees in France worked part-time in 2013 for personal reasons or on medical prescription (therapeutic part-time), Specifically, this involved 18 production staff, 37 technical and supervisory staff and 29 managers and executives.

4.1.3.4 Absenteeism

The rate of absenteeism is calculated by comparing the aggregate of all compensated absences (including for illness, maternity and occupational accidents or while travelling to and from work) with the total number of hours actually worked. In every country, it is below average of the rates of comparable industries.

	Rate of absenteeism	
	2012	2013
Europe	5.5%	5.5%
Brazil	3.9%	3.6%
NAFTA	1.6%	1.3%
Asia	1.4%	1.1%
TOTAL	**3.8%**	**3.5%**

4.1.4 Employee relations

4.1.4.1 Dialogue between employers and employees

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 governing employer-employee dialogue is organized in each country according to applicable local regulations.

- At European level:

  A European Works Council (EWC), composed of 30 French, German and British employee representatives, is informed about Vallourec's activities, results and strategy in Europe and the rest of the world. The Committee meets in full session each year with Vallourec's senior management following the release of the Group's results. A preparatory meeting is held the previous day to allow the representatives to prepare for the discussions. In addition, an Executive Committee of the EWC, composed of two German representatives, two French representatives and one Scottish representative, meets five times a year in one of the countries. The Executive Committee meets with the Chairman of the Management Board and the Director of Human Resources twice a year and on an ad hoc basis 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 employee share ownership fund, set up for the employee share ownership plan 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 employee share ownership funds.

- In France, employees are represented at several levels:

  The Group Works Council is the representative body for all French companies. It has 20 representatives chosen by the trade unions from among those serving on the Company works councils and meets once a year with the Management Board. It receives general information on the Group (review of financial statements, activity, investments, etc.) and is assisted by a certified public accountant. It is also involved in managing employee benefits and savings plans.

  In each company, the works councils, central works councils and elected consultative committees are informed and consulted on the economic activity of the company or establishment. They participate in managing budgets set aside for employee activities.

  Employee representatives, who are elected at each establishment, present the employees' individual and collective demands on salaries and work rules to the management.

  When collective bargaining takes place at Group level, each of the trade unions represented within the Group appoints representatives to form a Negotiating Committee.

  In 2013, the three trade unions represented were the CGT, CFDT and CFE/CGC (unions receiving at least 10% of the votes based on the consolidated results of all works councils). The Group signed a "generational" agreement on proactive jobs management at the end of 2013. The agreement sets specific targets for youth and older workers, and supplements the provisions of an agreement on physical hardships signed in 2012.

  In each company, discussions were held on wages, working time and organization, and professional gender equality.

  Issues relating to health and safety and working conditions are addressed by the Committees for Health, Safety and Working Conditions (*Comités d'hygiène, de sécurité et des conditions de travail*, or CHSCT).

  Following the satisfaction survey of all employees of French companies in 2010, action plans to strengthen the teams' commitment and efficiency were implemented in 2011. These actions were continued in 2012 and 2013.

- In Germany, employee relations are organized according to the principles of co-determination, in accordance with the Law on Works Councils of 15 January 1972 (*Betriebsverfassungsgesetz*).

  The works council (*Betriebsrat*) represents the employees, who elect its members. It is included in decisions concerning the Company's internal affairs and must give its prior agreement in a number of areas related to personnel management. It is closely involved in safety-related matters. The employer only attends meetings if invited to do so or if such meetings are held at its request.

  An Economic Committee (*Wirtschaftsausschuss*) assists the works council and meets once a month with employer representatives.

  The Senior Managers Committee (*Sprecherausschuss*) represents managers and 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. In 2009, the signing of an agreement on partial layoffs helped to raise the partial layoff benefit to 90% of net pay.

  As agreements are multi-year, a new agreement on wage policy was signed on 1 March 2013.

  In some cases, specific agreements for Vallourec Deutschland GmbH and its plants were signed with the works council (*Betriebsrat*). For example, in 2013, an agreement was signed with the central works council of Vallourec Deutschland GmbH concerning the rules on bonuses for employees covered by a collective salary grid. The agreement focused on guaranteed interest rates for voluntary deposits in retirement savings funds.

  At company level, an agreement on the adaptation of working time and part-time work for older workers was updated.

  A new agreement was signed with the works council of the Reisholz plant on the implementation of CCTV devices to improve safety and the prevention of property damage and personal injury. Other local agreements concerned the updating of working time agreements at individual plants.

- 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 2013, negotiations focused on wages, the introduction of a lump-sum exceptional bonus and a productivity and results bonus for plant personnel at Bellshill. Agreements also focused on standardizing the paid leave entitlement for the different categories of staff. Finally, another agreement focused on winter work clothes for production staff.
- In Brazil, most employees are represented by a trade union. A specific body, the *Conselho Representativo dos Empregados* (CRE), was set up in 1999 to represent the employees of Vallourec Tubos do Brasil S.A. at the Barreiro plant. 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 Vallourec Tubos do Brasil S.A.. The unions have sole jurisdiction for collective bargaining on wages, profit-sharing and compensation systems. These negotiations, particularly on wage policy, took place at business line level in 2013. Agreements on compensation specific to mining and forestry activities have also been signed.

  For Vallourec & Sumitomo Tubos do Brasil, the representation system is identical to that for Vallourec Tubos do Brasil S.A. but negotiations are held at the entity level instead of the business line. In 2013, the agreement focused on wage policy.
- In Mexico, the union mainly represents production workers and employees who are covered by collective bargaining agreements. For this employee population, a list of which is established by agreement, the union for which dues and membership are mandatory can propose candidates for hire. Negotiations are related to wages and benefits in kind.
- In the United States, as required by law, employees regularly vote on the type of employee representation they prefer and have consistently voted against having a trade union. A new employee consultation held in January 2014 further confirmed this choice. Employer-employee dialogue is thus carried out in frequent meetings in the field between the management and personnel.
- In China, the national union is represented at the plant by an employee who is the management's contact on all personnel matters. If there is no union representative, employer-employee dialogue occurs through direct contact between the production staff and management via ad hoc forums.

4.1.4.2 Group internal communications

Internal communications are 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, which reaches around 10,000 employees in 20 countries. It delivers information, in real time, on strategy, targets and results, and showcases the achievements of our teams worldwide. A bi-monthly e-newsletter presents site news. Vallourec Inside also gives everyone the opportunity to connect through employee networks where they can work together and enhance responsiveness and performance. Some 3,000 individuals have connected via 170 web forums dedicated to specific Group issues (manufacturing processes, business activities, research and innovation);
- Vallourec Info, the magazine for all employees, provides everyone with an overview of the latest Group news in their country's language. Key information is also rapidly communicated by notices displayed on Group premises;
- communication on specific projects seeks to educate employees about key issues in the Group – ethics and values (Vallourec Way), operating excellence (CAPTEN+), safety (CAPTEN+ Safe), and the environment – or involves them in important matters such as subscribing to "Value" employee share ownership plans, or the launch of "Opinion", the employee satisfaction survey;
- at annual conventions or local meetings, the Group's management team visits local managers to share information and gather feedback. There were six such meetings in 2013, attended by some 2,000 managers.

The Group's internal communications are also based on local resources in the countries and companies, which relay messages, provide feedback from the field and raise topics of interest within their own channels (magazines, intranets, etc.).

4.1.5 Talent management

"Talent 360", the software package for talent management (management of objectives, competency framework, employee performance reviews, management of future leaders, succession planning) was deployed by the Group in early 2011. Implementation of this tool, supported by the strong involvement of all managers, enabled performance reviews to be structured on an annual basis.

In countries where this tool is in place, the rate of completion of annual performance interviews among managers and executives is over 95%.

In 2013, the harmonization of talent management processes continued with the integration of new countries and the extension of these methods to non-management employees.

4.1.6 Health and safety

4.1.6.1 Safety [1]

Safety is the Group's No. 1 priority, and it aims to become a benchmark and a model for success in this area. By the end of 2013 all Group sites, except for two secondary sites, were certified OHSAS 18001-compliant.

In 2008, the Group launched an ambitious three-year safety improvement program, called "CAPTEN Safe". Motivated by a desire for a breakthrough in safety management, this program addresses every aspect of the issue. The result was a sharp improvement in the Group's performance in occupational safety, reflected by the lost time injury rate (LTIR), which fell from 9.2 in 2008 (per million hours worked), to 5.3 in 2009 and to 3.16 in 2010. Building on this success and aiming for continuous improvement of 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 2012 and 2013, the LTIR [2] was down to 2.60 and 2.26, respectively. The accident severity rate [3], which stood at 0.12 in 2013, was stable compared to 2012 (0.11), but down significantly from 2010 (0.20). Despite these results, which show a 75% decrease in the LTIR between 2008 and 2013, the Group mourned three fatal accidents in 2013 [4] (against two in 2012 and none in 2011 [5]), all involving Group employees, and it continues to be extremely vigilant on safety matters.

The Group also decided to monitor the total recordable injury rate (TRIR) [2], which has fallen from 31 (per million hours worked) in 2008 to 5.51 in 2012. At each site, "near miss" situations are thoroughly documented, analyzed and reported by supervisory staff.

Whenever an accident involving lost time or a potentially serious incident occurs, the Executive Committee is informed immediately.

The safety improvement program includes the following measures at all Group sites:

- safety management committees at all levels of the Company;
- safety inspections (nearly 34,000 inspections in 2013);
- ongoing risk assessment for safety concerns and preventive actions;
- continuous improvement teams (CITs) on safety issues (367 CITs were set up in 2013).

In addition to the safety improvement program, a specific action plan to prevent fatalities was launched in 2013. Its main points include:

- risk analysis;
- lockout-tagout of hazardous power sources during maintenance or servicing;
- setup of barriers and enclosures around machines;
- measures to eliminate complacent behavior.

For sites with below-average performance or where the risk of fatal accidents is high, the Group has introduced a monitoring plan that more closely involves the site's line management and includes the following key measures:

- observation of the risk management system and assessment of performance in the field;
- on-site safety inspection by the direct manager of the head of each site, accompanied by the safety manager, including a review of how local project groups operate, and ensuring that the 12 "Golden Rules" of safety are understood and strictly followed.

Education and training about safety rules is mandatory for all new employees of the Group and includes frequent follow-up. 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 the Group uses to regularly test employees' knowledge and understanding of the safety rules.

Major efforts are made to ensure that employees are familiar with safety procedures: communication campaigns on accidents affecting the hands or eyes, cross-check audits between plants, and improvements to prevention plans when external companies are involved.

The "Safe Start®"program, which concerns the individual attitudes of employees and their ability to take the initiative in a risk situation, was launched in 2012 and continued to be rolled out in 2013.

To mark its commitment to safety issues, for several years the Supervisory Board has included safety targets in the variable compensation criteria for members of the Management Board.

4.1.6.2 Health

Along with safety, health is a major and constant concern for the Group. In 2013, several training actions were carried out on this topic, involving a total of 12,000 hours and 2,560 participants.

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 hearing impairment, musculoskeletal disorders and lung conditions.

The Group conducts the following actions in addressing key concerns:

- establishment of multidisciplinary health services on-site, to conduct prevention activities among employees;

(1) For 2012, the results of 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 employees and temporary workers.

(3) Based on Group employees, excluding temporary workers.

(4) Based on Group employees and temporary workers, excluding subcontractors.

(5) On a comparable basis to 2012 (two fatalities were, however, reported among subcontractors).

- improvement in working conditions and reducing physical hardships: ergonomics is integrated both in the design and installation of workstations. In France, following the agreement on the prevention of physical hardships signed in 2012, members of management committees, technicians and project managers, as well as employees who participate in continuous improvement working groups, receive training in ergonomics. The Group-wide employee satisfaction survey (Opinion 2013) conducted at the end of the year asked targeted questions about how employees view their working conditions. Their responses allow progress to be measured against previous surveys and provide insights as to where improvements are needed;
- prevention of psychosocial risks: with the support of the Group's occupational physicians, and calling on specialists where needed, Vallourec helps employees manage stress at work generated by professional relationships and the difficulty of reconciling their personal and professional lives. In France, an agreement was signed with employee representatives on this issue;
- 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 were conducted and this information is included in risk assessments.

At the end of 2013, over 57% (vs. 40% in 2012) of 357 substances identified as CMR [(1)] had been replaced [(2)]. Vallourec has deployed four specific action plans across the Group in this area, involving:

- 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. In 2013, Vallourec Star and Vallourec Fittings sites replaced RCF materials and eliminated the corresponding fibers;
- 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 will be performed to validate an alternative solution to chrome-plated 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 No. 29 on Forced Labor, 28 June 1930;
- convention No. 87 on Freedom of Association and Protection of the Right to Organize, 9 July 1948;
- convention No. 98 on the Right to Organize and Collective Bargaining, 8 June 1949;
- convention No. 100 on Equal Remuneration, 29 June 1951;
- convention No. 105 on the Abolition of Forced Labor, 25 June 1957;
- convention No. 111 on Discrimination (Employment and Occupation), 25 June 1958;
- convention No. 138 on the Minimum Age, 26 June 1973; and
- convention No. 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

The Group needs staff who are well-trained, committed and able to adapt to changes in the Group's activities and markets. It strives to reconcile its changing requirements with the individual aspirations of its employees by ensuring that they all benefit from personal career development.

In 2013, more than 582,000 hours were spent on professional training for employees, for an amount equivalent to 1.74% of payroll costs (training costs and compensation of trainees as a percentage of compensation excluding charges). The slight decrease in training hours compared to 2012 (597,000 hours for an amount representing 2.4% of payroll costs) partly reflects the results of a comprehensive cost savings program that has affected all cost items, but also the progress of a Learning Management System (LMS) approach that optimizes costs.

62% of employees received at least seven hours of aggregate training in 2013.

(1) Chemicals or preparations that may have various adverse effects on human health. These are classified into "CMR" categories. Within the meaning of Article R.231-51 of the French Labor Code, substances or preparations are considered CMR agents when they are carcinogenic (C), mutagenic (M) and/or toxic for reproduction (R).

(2) Some sites reported their inventory. New substances have also been officially classified as CMR.

Employees trained at least one day per year (aggregate) [(a)] in 2013	Europe	Brazil	United States	Asia	Total
Production staff	30%	49%	46%	32%	40%
Technical and supervisory staff	12%	9%	11%	9%	11%
Managers and executives	11%	13%	14%	5%	11%
TOTAL	**53%**	**70%**	**71%**	**46%**	**62%**

(a) Percentages calculated on the total number of employees.

Employees trained at least one day per year (aggregate) [(a)] in 2012	Europe	Brazil	United States	Asia	Total
Production staff	35%	54%	48%	31%	43%
Technical and supervisory staff	14%	11%	14%	24%	14%
Managers and executives	10%	15%	15%	7%	12%
TOTAL	**59%**	**80%**	**77%**	**62%**	**69%**

(a) Percentages calculated on the total number of employees.

Type of training provided in 2013	Europe	Brazil	United States	Asia	Total
Average number of training hours per employee (short-term or permanent contract)	24 hrs	28 hrs	19 hrs	17 hrs	25 hrs
% of technical and professional training	54%	18%	34%	36%	36%
% of Health & Safety and Environment training	20%	34%	46%	18%	28%
% other training (management, personal effectiveness, computer, language)	26%	48%	20%	46%	36%

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

These figures include training at Vallourec University.

4.1.8.1 Vallourec University

Since its creation in 2011, Vallourec University's ambition is to be a center of excellence where employees and customers can meet to create and share in a common culture and build on their knowledge through continuous learning. Its purpose is to strengthen the values that are most important to Vallourec today: focus on the customer, creativity, innovation and respect for people and their cultures. Vallourec University offers training programs for Group employees worldwide. It is a center of excellence where employees can learn, share and develop their skills in areas like creativity, innovation and customer service.

In 2013, 256 employees participated in international programs, and 4,844 employees in regional programs.

The past year also saw the introduction of e-Learning, which allowed 1,193 participants to train on learning modules tailored to the Group's specific needs (innovation, project management, business knowledge, risk management).

The University has two key objectives:

- to ensure a shared understanding of Vallourec's values and corporate culture;
- to encourage strategic, managerial and technical excellence in order to boost the Group's competitive edge.

To achieve these objectives, Vallourec University has developed four principles – experiment, share, learn and apply – as the basis of all its training. Participants have the opportunity to discuss their experiences and gain new knowledge by alternating theoretical and practical modules and by applying and adapting the methods they have learned to their specific needs. 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 learning center is based on four key pillars:

- leadership, which prepares for the management of specific challenges encountered in management and leadership roles;
- on-demand training on topics of special interest to Vallourec today, 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;
- training for operational excellence, which provides expertise on processes and technologies in the context of the Group's priorities and principles, in particular to contribute to the development of a unified corporate culture.

Vallourec University's activities focus on three branches: the Learning Center, Think Tanks and External Stakeholders. The Learning Center is the main branch; it covers all training activities. Its modules are implemented at national and international level, aimed at the continuous development and improvement of employee skills to meet the specific requirements of each level of responsibility and geographical segment.

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. Innovation Workshops are designed to develop innovative and creative ways of thinking using problem-solving methods.

Activities geared to External Stakeholders aim to improve the brand's image among customers and suppliers by offering them "Business Knowledge" and "Tubular Essentials" courses. Such measures also help to attract new talent and enhance Vallourec's employer brand.

In 2012, Vallourec University adopted a Learning Management System (LMS) that offers employees more direct access to training. Intended to improve training management and access, the LMS has been gradually rolled out in the Group since May 2012. The tool offers close monitoring of training times and budgets, enables employees to see what training is available in the Group, and allows them to enroll in courses and review training histories for themselves and their direct reports.

This new tool allows Vallourec University to offer customized or standard training to be deployed quickly at the Group's various sites for all employees connected to the LMS. These offers are part of a "blended learning" strategy in which live training is prepared for or reinforced by e-learning sessions, leading to better understanding of the lessons and reducing time spent in the training room. Over the next few years, Vallourec University will continue to develop a range of new live and e-learning training courses

4.1.8.2 Other training programs

Every year, all Group companies develop a training plan in line with the Group's educational concerns. Special training programs have been set up for employees hired in Brazil, the United States, France and China to prepare for the launch of major strategic investments.

4.1.8.3 Apprenticeship and work-study vocational training

To ensure the transfer and enhancement of know-how in the context of Europe's demographic imbalance, and to attract more young talent with a training program geared to the needs of its activities, the Group operates a dynamic apprenticeship program in both Germany, with 299 apprentices in 2013 (292 in 2012), and France, where 213 work-study trainees pursued their vocational curriculum in 2013, up 33% from 2012. Brazil has 144 apprentices and the United Kingdom has 31.

4.1.9 Equal opportunity

4.1.9.1 Gender equality

The Group's policy is defined by the Management Board with two key objectives:

- increasing the number of women in line management positions, especially in production; and
- improving women's access to leadership roles.

Indicators are in place to ensure follow-up and accountability in the actions led by the Group. Monitored by a special Committee, which is chaired by a member of the Executive Committee, these include:

- the percentage of women in line management positions in production, sales and Research and Development: at 31 December 2013, 14% of these positions were held by women;

- the percentage of women identified in succession planning processes (GPEC) [1] as ready to step into a leadership role on short notice: at 31 December 2013, this figure was 9%;
- the number of women who currently hold a leadership position: 31 December 2013, 9% of leadership roles were filled by women.

Action plans are underway in France as a result of negotiated agreements on this topic. They include communications campaigns aimed at educational institutions to attract female candidates and awareness efforts among current managers, as well the proper equipment of some facilities (e.g., women's locker rooms). Compensation surveys, carried out on a regular basis, have shown no difference in treatment between men and women.

4.1.9.2 Disabilities

At the end of 2013, 2.51% of the Group's employees had a disability or a medical restriction requiring an adjustment of their job or workstation (2.6% at end 2012).

Policies and actions are in place in the following countries:

- in Germany and Brazil: priority is given to maintaining employment for employees with a disability;
- in the United Kingdom: a company-wide agreement on disability has been established;
- in France: Vallourec signed the *Charte de l'insertion professionnelle des personnes handicapées*, a government-sponsored Charter on hiring people with disabilities.

4.1.9.3 Fighting against discrimination

As part of the introduction of the Code of Ethics (see Section 4.1.10 "Ethics" below), everyday examples were used in communications to raise employee awareness on discrimination.

In France, training for executive managers includes a specific module on this topic.

In the satisfaction survey conducted in 2013, 76% of employees said that they agree or strongly agree with the statement that "Vallourec understands and encourages diversity among its employees (e.g., in terms of gender, ethnic or geographical origin, religion, age, nationality, disability, etc.)".

4.1.10 Ethics

The Group's ethical standards are formalized in its Code of Ethics.

The Code of Ethics is a set of core values that includes integrity and transparency, excellence and professionalism, performance and responsiveness, respect for others and mutual commitment.

It provides a framework for conducting the day-to-day activities of each employee through behavioral guidelines based on the aforementioned values. These guidelines reflect the way that Vallourec seeks to manage its relationships with all of its partners and stakeholders, including its employees, customers, shareholders and suppliers, and constitute the Group's reference in implementing its sustainable development and corporate social responsibility plans.

The Code of Ethics also prescribes rules of conduct on a variety of subjects, such as conflicts of interest, relationships with third parties and the safeguarding of assets; these are intended to protect the Group's reputation and image in all circumstances.

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 it sets out.

The various reporting lines ensure that it is communicated to all employees of the Group. The Code has been translated into five languages and is published on the corporate website, affirming the Group's values vis-à-vis third parties.

To support the application of the Code of Ethics by all Vallourec personnel, especially managers and executives, the Group has appointed an Ethics Officer, who has the following duties:

- assisting Group companies in communicating the Code of Ethics;
- coordinating actions to educate new employees on the Code of Ethics;
- helping to design the procedures for implementing the Code of Ethics;
- responding to any concerns about interpreting or applying the Code of Ethics raised by an employee; to this end, the Ethics Officer should be fully informed about any breach of accountability; and
- preparing an annual Report for the Chairman of the Management Board on the Code of Ethics' implementation.

The Ethics Officer reports to the Chairman of the Management Board and is supported by a network of local contacts organized by geographical segment. These contacts report back to the Ethics Officer periodically on the duties delegated to them.

An Ethics Committee chaired by the Ethics Officer and comprised of representatives from the functional departments (Legal, Purchasing, Human Resources, etc.) meets at least once per quarter to define the ethics guidelines and ensure their effective deployment.

Consistent with the principles set out in the Code of Ethics and with the commitments of the Global Compact of the United Nations to which the Group acceded in 2010, Vallourec seeks to prevent specific risks relating to competition, the fight against corruption and respect for the environment within the framework of a global compliance program.

(1) Provisional management of positions and expertise.

Developed and coordinated by the Group's Legal Department, this program aims to educate the Group's managers, mainly through internal training, on the applicable laws and regulations in these areas. It is designed to respond effectively to the risks they may face in their activities through detailed, informative and practical recommendations that can be understood by all.

While training continued internationally in 2013, an e-learning program will be implemented from the first quarter of 2014 to educate all of the Group's technical and supervisory staff, managers and executives about the laws and regulations concerning competition, the fight against corruption and environmental protection.

4.2 Environmental information

The mining activities of Vallourec Mineração Ltda, which are not the Group's core business (i.e. the manufacture of seamless pipes and tubes), on their own generate environmental indicators that are out of proportion to the average environmental performance of the Group's sites. To ensure the consistency of the Group's consolidated information, the results of this company are not included, but are reported separately in Appendix 2 of this chapter.

All environmental data for the Brazilian subsidiary Tubos Soldados Atlântico Ltda, acquired in late 2011, and 56% of the environmental data of the Vallourec & Sumitomo Tubos do Brasil plant (corresponding to Vallourec's shareholding) are included in the environmental reporting for fiscal 2013.

4.2.1 General environmental policy

Vallourec's manufacturing policy is to minimize the impact of its activities on the environment. This commitment is detailed in the Sustainable Development Charter issued by the Group in 2011.

In 2013, Vallourec created an environmental roadmap for each of the following three activities: Upstream, OCTG and Vallourec Tubos do Brasil. These roadmaps constitute a strategic plan for the 2013-2018 period for targeted environmental projects (energy, water, waste, noise and chemical hazards) whose purpose is to minimize the Group's environmental footprint. They focus on defining objectives, determining the necessary resources (including capital expenditure), promoting progress and cost savings, and setting priorities.

4.2.1.1 Environmental management

In accordance with Group rules and guidelines, the Director of each site is responsible for setting up an effective environmental management system that is tailored to the local context and the site's activity. The Director also appoints an environment manager who heads up all actions in this area.

The Environment Department, reporting to the Sustainable Development Department, coordinates all environmental initiatives. It is supported by the environment managers at each production site who are responsible for implementing Vallourec's policies locally:

- uniform management of environmental performance, risks, projects, communications and sharing between all Group entities;
- incentives for entities to improve their environmental performance; and
- development of environmental competencies.

These structures exist in all countries; on a Group-wide scale, this means that there are over 110 environmental specialists working at the production sites in every country.

Contacts have developed between the countries, fostering mutual progress through the benchmarking of performances and solutions, particularly during environmental conferences.

The Environment Department is also responsible for coordinating and managing these internal benchmarking initiatives, as well as for gathering and consolidating all of the Group's environmental data.

The results are consolidated monthly and communicated quarterly to the sites and to the Executive Committee.

4.2.1.2 Vallourec Management System (VMS)

The Vallourec Management System (VMS) was introduced as a framework for implementing the quality, health and safety and environmental policies defined by senior management, with the key objective of improving 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 the requirements for managing quality (ISO 9001, ISO/TS 16949, API and ASME), health and safety (OHSAS 18001), the environment (ISO 14001) and energy (ISO 50001) are taken into account.

The Vallourec Management System has three main focuses:

- Total Quality Management (TQM) action plans;
- steering committees;
- continuous improvement teams (CITs).

It relies on the three pillars of:

- risk prevention;
- control of process fluctuations; and
- efficiency gains.

4.2.1.3 Audits and certifications

Internal environmental audits are regularly organized in each country to assess compliance with regulations. Specifically, the Performance & Risk audit evaluates performance and risk levels for each environmental concern as well as the environmental management system (EMS) in place. The results are used to identify priorities and corresponding action plans.

At 31 December 2013, the Group's main sites were all ISO 14001 certified, representing more than 96% of production, down slightly compared to the end of 2012 (99%) due to changes in the scope of environmental indicators, which now includes Vallourec & Sumitomo Tubos do Brasil. Brazilian subsidiary Tubos Soldados Atlântico Ltda, acquired in late 2011, was certified in 2013, and Vallourec & Sumitomo Tubos do Brasil is expected to be certified in 2015.

4.2.1.4 Legal compliance

Regular audits are performed by outside specialists to assess compliance of the production sites' activities with statutory and regulatory requirements.

In France, an environmental regulatory watch has been set up on a dedicated intranet portal accessible by all production sites. Through the regular and systematic review of regulatory developments, actions implemented in the context of continuous improvement, new investments or organizational changes can be developed or updated. The architecture of the intranet portal was revised in 2013 to facilitate the sites' access to important information.

4.2.1.5 Training and education

Employee training and education on the environment, sustainable development and energy efficiency are carried out in the plants through poster campaigns, periodical publications, briefings and compliance programs, among other measures. The global compliance program, developed and coordinated by the corporate Legal Department, has an educational component on compliance with environmental regulations (see Section 4.1.10 "Ethics" above and the Report of the Chairman of the Supervisory Board below in Appendix 1 of Chapter 7 of this Registration Document).

A total of 164,000 hours of training on health, safety and the environment were provided in 2013 (vs. 166,000 hours in 2012).

With the help of an external provider, the Saint-Saulve tube mill has developed an innovative e-learning tool: an interactive environment-themed game designed to train all employees, in the space of two hours, on the basics of environmental protection. It focuses on the following topics:

- the importance of compliance with environmental policy and procedures and the requirements of the environmental management system;
- environmental risks;
- the rules to follow in specifying the roles and responsibilities of everyone;
- consequences in the case of any breach of policy.

4.2.1.6 Investments

The Group thoroughly incorporates sustainable development concerns in designing its investment projects. In particular, a health, safety and environment (HSE) analysis is conducted at the beginning of every project to assess the potential impacts and anticipate environmental risks. Actions resulting from these analyses are based on the best practices and techniques available and cover the following areas:

- optimization of working conditions by evaluating the ergonomics, lighting, heating and ventilation of workstations;
- energy savings by optimizing performance when choosing the type of energy used, recovery of available energy (use of process gases emitted by power generation, recovery of process heat, recovery of energy from engine braking etc.), better insulation of furnace walls for heat treatment of tubes and installation of sensors to optimize energy use (heating and lighting);
- reduction of atmospheric emissions via continuous improvement of capture systems;
- water management through recycling and recovery of rainwater using storage basins, and better quality through the improved functioning of wastewater treatment plants and a reduction in the volumes of water discharged;
- waste management through improvements in collection, sorting and recycling;
- reduction of noise inside and outside the plants by emphasis on cutting noise emissions at source.

In 2013, investments focused particularly on:

- improvement in working conditions (noise reduction, heating and lighting);
- ensuring environmental compliance of work equipment (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;
- improved water management;

- layout and safety of plants in terms of roofing, roads and parking;
- renewal of operating permits.

In 2013, investments amounting to €8.4 million were carried out for projects promoting the intelligent use of natural resources and concern for the effects of climate change (energy efficiency and clean development, reduction of water consumption, substitution of dangerous chemicals, noise suppression and remediation of environmental liabilities). In one such project, €1.5 million were invested to equip the Déville plant with a system that enabled water consumption to be cut in half, saving 1.25 million m^3 per year in water abstraction.

Total provisions and guarantees for environmental risks are presented in Note 16 of the consolidated financial statements.

4.2.2 Sustainable use of resources

In 2013, the Group conducted an analysis of all mass flows necessary for tube production at all its industrial sites [(1)]. The results showed that producing 2.16 million metric tons of tubes requires 13.8 million metric tons of different types of inputs, 64% of which is water. However, 85% of the resources consumed are renewable (scrap and steel made from scrap, charcoal, water and oxygen), demonstrating the limited nature of the Group's environmental footprint according to the principles of the Sustainable Development Charter. The analysis also pointed up the need for concern about wastewater treatment, industrial waste disposal and CO_2 emissions, areas in which the Group has taken action for several years.

For the first time in 2013, the Group also performed a life cycle analysis in collaboration with an end customer of two typical products in the Oil & Gas activity: tubing and casing. Ten key impacts were measured, including CO_2, energy, water, resource depletion, toxicity and eutrophication. The LCA, designed to point up the differences in impact between each of the steel production channels, showed that about 90% of impacts stem from the internal production phase, and 10% from the customers' conditions of usage. It also showed the importance of the product's useful life and the efficiency of recycling conditions. The key results of this analysis will be published in 2014.

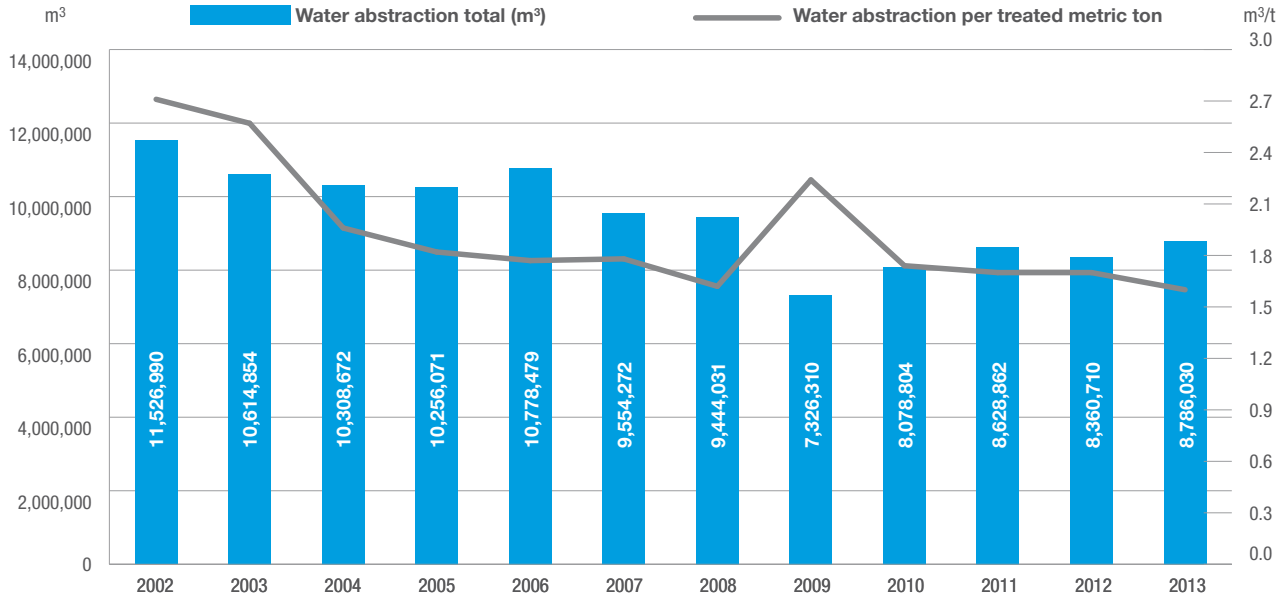
4.2.2.1 Water management

Vallourec considers water management to be a key issue of sustainable development. In recent years, the amount of water withdrawn by the Group has decreased and the quality of industrial process water has improved. Water is essential for the plants' manufacturing processes. It is mainly used for:

- cooling hot machinery (steel manufacturing and rolling tubes), representing approximately 50% of requirements;
- cooling tubes after heat treatment, representing approximately 25% of requirements;
- surface treatments, hydraulic operations, non-destructive tube tests and cooling of other tools in the manufacturing process.

Water abstraction has fallen over the last decade, from 10.6 million m^3 in 2003 to 8.79 million m^3 in 2013 (including Vallourec & Sumitomo Tubos do Brasil), mainly through the introduction of tools to increase reuse. Raising the water reuse rate internally is a major goal, underlining the importance of metering and of monitoring the networks to limit the risk of leaks. Relative water consumption has also improved steadily, from 1.61 m^3/metric ton treated at the end of 2013 compared 2.6 m^3/processed metric ton at the end of 2003, a 38% decrease.

WATER ABSTRACTION



(1) With the exception of Vallourec Mineração Ltda (mining) and Vallourec Florestal Ltda (forestry), which are not tube makers.

Various improvements are in the works, including the introduction of oil separators, the separation of water collection systems and the installation of manually operated stopcocks. The pilot site for these measures is the Saint-Saulve (France) tube mill. Despite every precaution, the Group reported an environmental incident in 2012 related to the quality of the process water discharge at the Vallourec Drilling Products plant in Cosne (France) which caused minor soil contamination from oil. As a result of this incident, which led to no fines, the Group will a install water separation and settling system in 2014.

After several wastewater discharge incidents in recent years, the Vallourec Tubes Déville France plant has launched a €1.5 million investment plan for 2013 and 2014. The targets include a reduction of over 50% in the site's specific water abstraction (from 14 m^3 per metric ton to less than 7 m^3 per metric ton), a 70% reduction in the tonnage of total suspended solids (TSS) discharged per year, and a 100% increase in the time water is retained before being discharged, in order to better buffer the water and create more time for resolving any issues. To this end, a system has been installed to separate process water discharge from rainwater runoff, along with a stilling basin and new cooling towers to raise the water recycling rate. The Group's specific consumption should fall 15% by mid-2014.

Vallourec Mineração Ltda also adopted a responsible water management approach. The water used by the mine comes from two sources: groundwater wells and surface water from a stream. For the mine's operation, groundwater has to be pumped to an elevated reservoir and mixed with withdrawn surface water. Most of the pumped groundwater is discharged directly into the natural environment and for this reason is not treated as abstraction. The rest is used in the manufacturing process and for human consumption, and then discharged after treatment.

The water issue is not limited to measuring abstraction from natural environments or municipal networks. The aim is rather to measure the "water footprint" through the use of a representative indicator, such as the Water Impact Index. A study was carried out in 2012 with an industrial partner at seven of the Group's sites in Brazil, the United States, France and Germany. This indicator takes into account the volumes withdrawn and discharged, the quality of the withdrawn and discharged water, and stress factors including water scarcity and the hydrological context. A better understanding of the impacts improves the prioritization of actions and investments. Application of this index shows that the most critical sites are not only those with the highest abstraction.

Calculation methods for the indicator will be detailed in the first half of 2014 and applied to other sites. In addition, the Group set a specific target to reduce the overall cost of water management following a thorough audit of the four sites consolidated in mid-2014.

Process water can be discharged into municipal networks (most sites) or into the natural environment after being treated at internal plants. The Group aims to reduce the quantity of discharged wastewater by increasing internal reuse. To ensure wastewater quality and comply with local regulations, the sites monitor the following factors:

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

The Vallourec Drilling Products plant at Tarbes upgraded its wastewater treatment plant in 2013 and increased the frequency of facilities cleaning. Chemical oxygen demand (COD) values are again within acceptable limits and are now better managed. Objectives for 2014 are to reduce emissions at source and to finalize an agreement with the city on channeling wastewater to the municipal treatment plant.

In 2013, Vallourec made a significant investment in a wastewater treatment facility next to its new tube mill in Youngstown, Ohio (United States). This fully automated plant produces water that is close to drinking water in terms of quality, while achieving a recirculation rate of 99%. Solids and waste generated by the process are recycled. The system is able to clarify a flow of 10,000 m^3/hour.

4.2.2.2 Consumption of raw materials

Most of the steel that Vallourec uses in tube-making is produced at the Group's steel mills in Brazil (Belo Horizonte, with the basic oxygen furnace (BOF) process, and Jeceaba, with the electric arc furnace (EAF) process), in the United States and in France. For the EAF process, the Group favors the use of recycled scrap over the manufacture of new quantities of steel or cast iron. Continuous improvement groups have been set up to maximize the effectiveness of each process, focusing on the following key areas:

- precisely documenting the steel mills' internal rules and requirements so as to obtain the different steel grades while maximizing the furnaces' energy efficiency;
- recovering the most scrap possible by tailoring the tube mills' sorting systems to the steel mills' requirements;
- adapting logistics channels.

4.2.2.3 Energy consumption

Energy consumption costs were down slightly in 2013, to €246 million from €255 million in 2012, mainly due to the multi-week shutdown of the Saint-Saulve steel mill, as well as to foreign currency translation adjustments.

In 2009, Vallourec developed the GreenHouse project to achieve significant energy savings, targeting a 20% reduction in total gas and electricity consumption by 2020 (on a like-for-like basis of product mix and business activity, reference year 2008). With this project Vallourec is also preparing for a "low-carbon" economy by helping to reduce greenhouse gas emissions.

The GreenHouse project is rigorous in its approach and supported by Vallourec Management System tools and methodologies (see Section 4.2.1.2 above). It focuses on the following elements, in particular:

- the sharing of best practices in all energy-related fields (including thermal, electric, compressed-air and steam-production processes). Numerous quick wins have been identified, and the continuous improvement groups have worked exclusively on energy issues to improve the Group's performance. Seven objectives on the different aspects of energy efficiency have been drafted and issued as a working document for the continuous improvement groups;

- the introduction of thermal balances and energy audits: thermal balances have been ongoing, covering over 80% of the Group's furnaces. These performance analyses help to identify areas for improvement and to propose investments to increase energy efficiency, such as the installation of regenerative burners, steam heat recovery systems and better insulation. Energy audits at the Group's major sites identify the equipment or workshops that use the most energy and prioritize future actions.

In 2013, energy consumption per processed ton totaled 680 kWh/t for gas, and 332 kWh/t for electricity (against 634 kWh/t and 289 kWh/t, respectively in 2008). On a like-for-like basis with 2012 (i.e. excluding Vallourec & Sumitomo Tubos do Brasil and the new tube mill in Youngstown, Ohio (USA)), consumption totaled 643 kWh/t for gas (657 kWh/t in 2012) and 311 kWh/t for electricity (323 kWh/t in 2012).

Factoring in the level of activity (85% of 2008's level), the higher proportion of premium products (60% of products were heat treated in 2013 against 44% in 2008), and the sharp rise in the use of alloy steels, the Group's energy performance has improved by 14% over the 2008-2013 period.

The Group developed the Vallourec Energy Management System based on the methodology of the GreenHouse project and international energy efficiency standard ISO 50001. Three Vallourec sites were certified in 2013: Vallourec Tubes France (Saint-Saulve tube mill: Level 1 certification in June 2013); Vallourec Oil & Gas UK Ltd (certification in September 2013); and Vallourec Tubos do Brasil S.A. (certification in November 2013). The latter site is the first Brazilian steelworks to be ISO 50001-certified. Other high-energy sites are engaged in the same process and working groups are in place in Germany, France, the United States, China and Indonesia.

Other initiatives implemented in 2013 have helped to increase energy efficiency:

- energy efficiency training: more than 150 people were trained in dedicated energy efficiency sessions in partnership with EDF in France and with experts from each site in Brazil and Scotland;
- a real time metering system, "Advanced Metering Management", implemented at the largest sites in Brazil, France, Germany, Scotland and the United States;
- sharing of best practices based on internal and external benchmarks.

The table below shows the energy sources used by the Group:

Energy source *(GWh)*	**Renewable**	**Non-renewable**	**Total**
Electricity purchased	587	1,193	1,780
Electricity produced	69	-	69
Natural gas	-	3,708	3,708
Fuel	-	193	193
Charcoal	2,155	-	2,155
TOTAL	**2,812**	**5,094**	**7,905**
Energy consumed *(%)*	36%	64%	100%

Renewables account for 36% of the energy consumed on a group scale. Within the Group, renewable energy accounted for 84% of the energy consumed at the plants of Vallourec Tubos do Brasil S.A.. This exceptional performance is the result of using charcoal produced by Vallourec Florestal and blast furnace gas and tar derived from the carbonization of charcoal to generate power.

4.2.3 Discharges into the air, water and ground

4.2.3.1 Air quality

To preserve the quality of the air surrounding its plants, the Group systematically measures the levels of atmospheric emissions and implements appropriate solutions to limit each type of emission. Emissions from our plants are as follows:

a) Vapors

- NO_x (nitrogen oxide) emissions from furnaces for steel billets and heat treatment of tubes: to limit these emissions, all furnaces are fired by natural gas, which is low in emissions, and every year some of the older boilers are replaced by low-NO_x boilers that meet the highest technical specifications for this type of emission. In 2013, NO_x emissions totaled 702 tons, or 0.13 kg/ metric ton (versus 650 metric tons of NO_x or 0.12 kg/metric ton 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 in the coming years will be focused on the corresponding facilities. Measurements taken show that emissions comply with the applicable regulations. In 2013, VOC emissions were estimated at 464 metric tons (506 metric tons in 2012).
- Emissions from oil vapors released from rolling or cold-forming facilities and machine tools: such vapors are channeled and filtered before discharge.
- Vapors from surface treatments: facilities are equipped with a treatment and retention system in compliance with 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 equipment circulating 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.

4.2.3.2 Soil

French facilities

In view of the sites' ages, all soil studies have been completed at Group's 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.

As part of a new investment that required moving some machines, and in order to protect the environment, soil characterization was carried out at the Vallourec Drilling Products site in Villechaud. As total hydrocarbon contamination was identified, 71 metric tons of contaminated soil were sent to treatment process, at a cost of €20,000. One last area will be treated in 2014.

Vallourec Drilling Products in Cosne-sur-Loire continues to treat the areas of soil and groundwater contamination identified on the site. In 2013, eight new surveys and a series of tests were carried out to identify the extent of the contamination and identify its source. The cost of all these procedures was €45,000. A mechanical skimmer will be used in 2014 to recover hydrocarbon products floating on top of the aquifer.

As part of the extension of the Aulnoye test station, a soil survey was performed to determine the soil's condition before construction and determine whether decontamination was necessary.

Facilities in other countries

After analyses, and with permission from the local authorities, groundwater monitoring systems were set up at two facilities in Germany. As far as the Group is aware, there is no contamination at the other sites.

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 by-product of the steelmaking process) and a former sludge depot were upgraded and a piezometric sensor-based groundwater monitoring system was introduced. A 10-year program to upgrade a former solid industrial waste storage site (wood, plastic, scrap, etc.) was launched in 2004; progress is in line with the commitment 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 contamination risks.

4.2.3.3 Waste recycling and elimination

As with all industrial activities, the Group generates significant quantities of various types of waste. Waste management is a major economic and environmental concern for the Group, which considers that most such waste should now be treated as value-added by-products and generate operating revenue.

The costs of eliminating waste are relatively high. In a spirit of continuous improvement, all waste categories are monitored monthly by each site with the aim of reducing volumes.

Under the "By-Products" project, waste is understood as a resource to be exploited rather than an unfortunate consequence of production. Depending on its origin and type, it is managed and treated differently in accordance with local regulations, with maximum emphasis on recycling or energy recovery.

The main improvement actions taken are as follows:

- 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 (from rolling and surface treatment), metallic residues, scale and dust;
- identification of the best channels for by-products, such as blast furnace slag in Brazil sold to the cement industry, or the sale of metallic waste under multi-year contracts.

As an example, in 2013 the local Brazilian teams opened new waste management channels and generated additional revenue by:

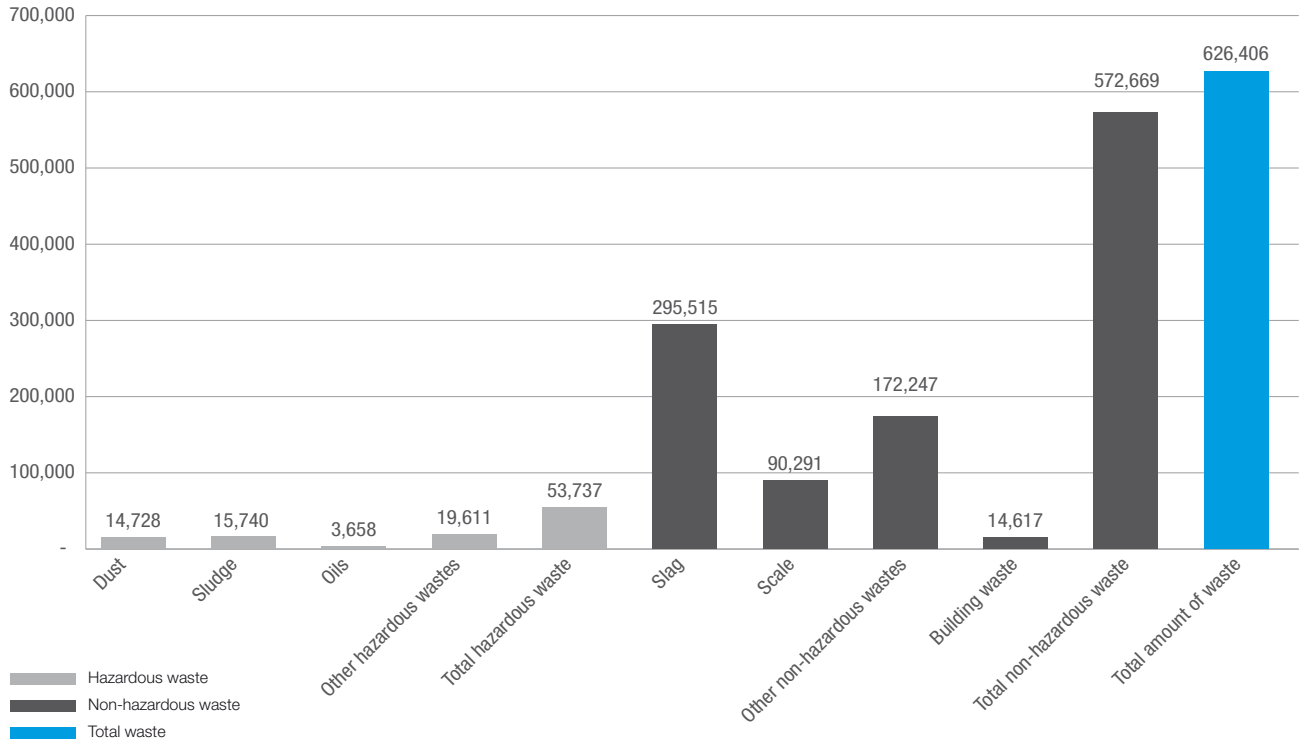
- consolidating storage locations;
- choosing service providers according to type of waste (e.g. reuse of blast furnace slag in the cement industry);
- developing new techniques such as the use of sludge as fertilizer. The method involves reusing blast furnace sludge – a steel by-product obtained from the cleaning of blast-furnace gas. Use of this by-product as a fertilizer and soil preparation solution was tested at a Vallourec eucalyptus plantation under the supervision of academic experts and in close liaison with the environmental authorities. Vallourec gave Brazil the "*Environment Award*" for the implementation of this new process.

Posing a risk to health and the environment, hazardous waste is subject to special treatment. The study begun in 2010 and continued in 2012 and 2013 enabled the Group to identify and work on two major categories of hazardous waste:

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

In 2013, the Group generated 626,406 metric tons of waste (654,969 metric tons in 2012), 8.6% of which was hazardous (7.7% in 2012). 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 2013, this rate was 92.7%. On a like-for-like basis with 2012 (i.e. excluding Vallourec & Sumitomo Tubos do Brasil and the new tube mill in Youngstown, Ohio (USA)), it was 93% (91% in 2012).

QUANTITY OF WASTE IN 2013



To mark its commitment to the environmental issue of waste management, the Supervisory Board, on the recommendation of the Appointments, Compensation and Governance Committee, introduced a waste recovery target in the 2014 variable compensation of the members of the Management Board.

4.2.3.4 Noise

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 task 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 sophisticated systems are in place, enabling noise to be measured at very precise locations and to determine their source. Simulation software is often used to assess the reduction of noise levels that various insulating systems might provide.

The most effective actions are those that allow noise to be reduced at its source. 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-type 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 filter certain frequencies to allow people to communicate while substantially reducing the noise from machinery. Employees at risk undergo regular medical checks for very early detection of any hearing loss.

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 in different workshops and staff exposure based on their number and the length of time spent working in the areas concerned;
- analyzing and improving behaviors in the workshops;
- referring to best practices for new investments and refittings;
- improving employees' work conditions;
- favoring group protection over individual protection measures.

In 2013, the Group commissioned an external provider specializing in acoustics to carry out noise dosimetry and mapping for the physical environment and the workshops, to analyze and rank the sources of noise, and to propose solutions and assist the continuous improvement groups as needed. This partnership covers only French sites, but could be extended to all Group entities. To benefit from the lessons learned, a best practices database is being developed to share significant achievements in noise reduction with all concerned communities. All Group sites will be able to access the database in real time.

A questionnaire on noise sent to all Group sites has highlighted the following conclusions:

- in the area of workshop measurement, 80% of sites are developing noise maps (measurements at fixed points during a specified period);
- 55% of workshop measurements are done by operators wearing dosimeters during their working time;
- 50% of sites have an action plan to reduce noise at source in the workshops;
- at about 40% of the sites, measurements of the workshops and the physical environment are conducted on an annual and triennial basis, respectively.

In 2013, major work was done on the production halls of the Rath (Germany) plant, including the replacement of 600 m^2 of roofing and 1,100 m^2 of siding in plastic materials with laminated glazing and installation of automated greasing systems for railways), which resulted in noise reductions around the site of two to five decibels.

4.2.4 Climate change

4.2.4.1 Greenhouse gas emissions

The reduction of greenhouse gas emissions is a high priority for Vallourec.

The Group uses the EAF (electric arc furnace) manufacturing process, which emits little CO_2, at three of its steel mills: Saint-Saulve (France), Youngstown (United States) an Jeceaba (Brazil).

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 2013, the steel mill's allowance was 69,130 metric tons (106,000 metric tons in 2012). Estimated emissions in 2013 of 50,000 metric tons were lower than the allowances for the year (69,130 metric tons) as well as those of 2012 (56,397 metric tons). This latest improvement is related to the steel mill producing below its nominal capacity, major gains in energy efficiency and the stoppage of the electric arc furnace during expansion works.

As from 2013, both French and German tube mills and the Vallourec Drilling Products site in Aulnoye fall within the scope of Directive No. 2003/87/EC of the European Parliament and of the Council of 31 October 2003 establishing the European Community Emissions Trading Scheme. In 2013, allowances for all tube plants totaled 380,000 metric tons, while emissions during the period were estimated at 306,000 metric tons.

The Group also uses biomass as a source of energy for its blast furnaces in Brazil. The Group owns 237,000 hectares of eucalyptus plantations there, dedicated to the production of charcoal. Native forest, composing about one-third of the surface area, 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, trees absorb CO_2: the CO_2 emissions from burning coal in the cast iron manufacturing process are then reabsorbed by the forest. The main CO_2 emissions from this process come from the emission of methane during the charcoal-making process. A detailed analysis of the carbon cycle, conducted with the help of academic and institutional experts, is currently underway and will determine, over a long period, the amount of carbon put into play.

In Brazil, the "Clean Development Mechanism" (CDM) project for power generation from natural gas-fired blast furnaces, which generated more than 170,000 metric tons of CO_2 in carbon credits between 2006 and 2012, was renewed by the relevant UN bodies. Another CDM project to reduce methane emissions in the wood carbonization process at Vallourec Florestal was also approved in 2013. With these new technologies, it is possible to produce more coal and reduce methane emissions from the same quantity of wood.

In 2011, the Group updated the comprehensive carbon assessment of its activities, with the help of an external firm, "Carbone 4", which distinguishes between direct and indirect emissions from electricity and indirect emissions from other sources of energy (see table below). This assessment did not show any increase in the Group's emissions. This improved understanding of these emissions will guide the development of improvement plans in the coming years.

Type of emissions	Component	2011 Metric tons CO_2	2012 Metric tons CO_2	2013 Metric tons CO_2
Direct emissions	Combustion of natural gas (furnaces)	656,332	612,360	695,743
	Methane emissions (wood carbonization)	270,933	271,663	306,811
	Emissions linked to steel production	81,680	85,078	75,489
	Internal transportation and handling	41,833	38,866	49,549
	TOTAL	**1,050,778**	**1,007,967**	**1,127,592**
Indirect emissions (electricity)	Electricity purchased	462,931	507,754	580,311
	TOTAL	**462,931**	**507,754**	**580,311**
Indirect emissions (other)	Purchases of raw materials and services	1,836,270	1,764,027	1,918,842
	External transportation	625,999	601,897	659,952
	Waste treatment	239,225	242,652	224,417
	Losses related to energy transmission (gas and electricity)	148,433	142,691	160,716
	Emissions related to property, plant and equipment (factory equipment)	115,872	137,942	157,322
	Transportation of personnel	68,688	74,026	73,764
	TOTAL	**3,034,487**	**2,963,235**	**3,195,013**
TOTAL CARBON FOOTPRINT (COVERING THE THREE TYPES OF EMISSIONS)		**4,548,196**	**4,478,956**	**4,902,916**
CARBON FOOTPRINT (KG CO_2/METRIC TON OF TUBES)		**879**	**903**	**899**

Vallourec's objective is to better understand its emissions sources in order to better control them. To this end, the corporate Logistics Department commissioned an outside firm to collect European land and maritime logistics data at Group level. These data were included in the calculation of emissions from freight in order to better understand the flows. With a direct emissions ratio of 206.7 kg of CO_2 per metric ton and 202.2 grams of CO_2 per euro, Vallourec is a low emitter relative to industrial groups of comparable size. In 2014, it will determine and publish its emission targets for the coming years.

In 2013, Vallourec sought to improve its relations with the "Carbon Disclosure Project" (CDP [1]). The Group achieved major improvements in its ratings in 2013, with a score of 85 for transparency (up from 63 in 2012) and a B for performance (against a D in 2012).

4.2.4.2 Adaptation to the impacts of climate change

To date, the Group does not have a study that identifies the risks associated with climate change impacts.

It appears that 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 worsen (availability of water for the tube manufacturing process, working conditions at the plants, operation of equipment during heat waves, production chain stoppages). In addition, the unique ecosystem of Group-operated forests 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 issued by public authorities over time. It will then be possible to create plans for adaptation should the need arise. This process, starting from a general approach and then focusing on situations deemed critical, was decided in 2013 and will begin in 2014.

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 Vallourec Tubos do Brasil S.A. coordinates the Barreiro environmental education center, whose 20 hectares include three ecosystems: the "cerrado" (savanna), transition vegetation, and the "Mata Atlantica" (Atlantic Forest).

Brazilian subsidiary Vallourec Florestal Ltda has forestry and carbonization activities for the production of 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. With the help of cameras, a monitoring program has identified hundreds of bird species and dozens of mammal species, some of which are endangered.

(1) See www.cdp.net

Vallourec Mineração Ltda operates mining activities in the city of Brumadinho, 50 kilometers from the Barreiro industrial complex. It is in the transition area between the two ecosystems of the "cerrado" (savanna) and the "Mata Atlantica" (Atlantic Forest). In order to better control its activities' impact on the natural environment, Vallourec Mineração Ltda regularly monitors the biodiversity of its site as well as neighboring areas. A 200-hectare reserve has also been established in the Atlantic forest to serve as a conservation area for numerous animal species, including the 148 different bird species that have been counted there. The company also pays special attention to the environmental rehabilitation of mining areas. In 2008, 167,000 m^2 of land used for mining was rehabilitated with the planting of species native to the region. These areas are now covered with a wide variety of trees, grasses and legumes.

Surveys have also been conducted at other Vallourec sites to study the impact of their activities on biodiversity. No major risk has been identified.

In France, the proposed extension of the Aulnoye research center led to a study of the surrounding fauna and flora, aided by an outside consultancy. An action plan, approved by the authorities, will be deployed in 2014 to preserve protected species on the site, and to implement the project without disrupting the existing ecosystem.

4.3 Civic responsibility

4.3.1 Regional economic and social impact of the activity

In 2013, the Group's purchases were distributed geographically as follows: 35% in Europe 22%, in North America, 29% in South America and 14% in the rest of the world.

Local purchases are mainly for scrap metal, subcontracting and maintenance services, supplies and ordinary services to meet production and non-production needs. The distance between suppliers' locations and the plants they serve is not over 80 km, so they can usually respond to requests the same day if needed.

Local purchases, which totaled an estimated amount of €1.7 billion in 2013 (equivalent to the amount for 2012), represented approximately 45% of purchases (a share that is analogous to 2012) and directly contributed to supporting the local economy. The proportion of local purchases is fairly consistent across the various geographic zones. However, it was 48% in the United States, compared to 35% in China.

4.3.2 Relationships with persons or organizations with a stake in the Group's activities

4.3.2.1 Actions taken

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 its sites' activity. Although no overall systematic evaluation has yet been done, relationships are considered good and no conflicts have arisen. Social actions are mainly conducted in countries such as Brazil and Indonesia where the expectations of the local residents are strongest and where social systems are less-developed than in western countries. With the exception of these two countries, the Group receives few requests for support.

In accordance with the recommendations of the Sustainable Development Committee, the local level has the autonomy to determine the actions to be taken, with the approval of the line management, and focusing on the following guidelines:

- consistency of 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 education, health care and local development.

In Brazil, for historic, cultural and regulatory reasons, and because the Barreiro site is situated in the midst of a very urbanized district in Belo Horizonte, 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. A special effort was made for several years to renovate a historic theater downtown, to turn it into a major cultural center. The center was opened to the public in October 2013. Since its inception, Vallourec & Sumitomo Tubos do Brasil has also implemented programs that offer economic and cultural support to local populations.

In Indonesia, the subsidiary PT Citra Tubindo TBK has for many years been involved in programs that provide educational and medical assistance to the people, projects for facilities and cultural investments, and environmental protection actions.

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 social and charitable causes, to renovate cultural centers or support the local economy.

In 2013, the community of local leaders was informed of the main initiatives of each site to enable the sharing of best practices and to generate new ideas.

4.3.2.2 Funding

Approximately €8.7 million were donated to fund local partnerships in 2013, up from €7.9 million in 2012.

4.3.2.3 GoodPlanet partnership

Although the level of its carbon emissions is relatively limited, in 2013 the Group continued to fund actions by the GoodPlanet Foundation, whose objectives are to educate people about the issues of climate change and to implement programs to offset the impact of greenhouse gases.

4.3.3 Subcontracting and suppliers

Since 2013, Vallourec's Purchasing function has been completely reorganized to achieve better supplier management, stronger and more centralized control, and to deploy tools and processes shared by all Group entities. This structure, which supports the line management teams and clarifies processes, is based on an analysis by type of purchase to facilitate the implementation of synergies.

In this context, a Supplier Performance and Quality Department has been operational since January 2013. During the year it introduced many tools and processes to better manage its suppliers, their decisions and performance: the implementation of procurement strategies by category; a formal contracting process; measurement of supplier performance; and supplier risk analysis. These new processes directly emphasize criteria such as Corporate Social Responsibility (CSR), sustainable development, ethical conduct and safety.

Under this policy, in 2013 Vallourec:

- carried out over 700 supplier risk analyses across all its sites, a process that will be repeated in 2014 with the same objective; and
- conducted a formal and systematic evaluation of suppliers (production and non-production) based on CSR criteria with help of a specialized firm. Starting with the Group's largest suppliers, 315 in all were evaluated as part of this project. This assessment showed that 70% of the suppliers evaluated publish a formal report on their energy consumption and greenhouse gas emissions, 81% publish a report on their health, safety and environment indicators, and 59% are ISO 14001 certified.

Vallourec requirements for sustainable development, ethics and safety were part of the main messages delivered to suppliers during the first Vallourec Supplier Day held in October 2013 with the Group's 60 largest suppliers representing 15% of its mass purchases.

In accordance with new regulations in the United States, Vallourec has begun looking for potential "conflict minerals" from the Democratic Republic of Congo. In 2013, this search focused mainly on suppliers delivering to the Group's U.S. factories. The summary of responses to 700 questionnaires sent out and analyzed using special software did not show that Group products contained any conflict minerals from the Democratic Republic of Congo. The investigation will continue in 2014 on suppliers of the procurement categories concerned, with the aim of global coverage in the first half of the year.

4.3.4 Fair practices

4.3.4.1 Actions to prevent corruption

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

All suppliers are aware of and have access to the Group's Code of Ethics. Vallourec's systematic evaluation of suppliers based on CSR criteria, initiated in 2013 (see above Section 4.3.3), showed that 54% of its suppliers have also formally established a Code of Ethics or a Business Ethics Charter.

Moreover, in relations with local stakeholders and suppliers in 2013, there were no comments or complaints related to respect for the values set out in the Group's Code of Ethics.

4.3.4.2 Measures for consumer health and safety

This topic is not applicable to Vallourec's activities. Indeed, the products manufactured by the Group are designed for other manufacturers who use them or transform them. They are sold either directly to the end customer, 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. It should be noted that steel is not affected by the "REACH" rules and that the results of a life cycle analysis conducted on two types of tubes showed a very low level of toxicity throughout the value chain.

APPENDICES

Appendix 1 – Report by the statutory auditors, appointed as independent third parties, on the consolidated labor, environmental and civic responsibility information presented in the management report

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 readers. 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 our capacity as statutory auditors of Vallourec S.A. appointed as independent third parties and whose certification request was approved by COFRAC on 12 September 2013 for Deloitte & Associés and on 28 October 2013 for KPMG, we hereby present to you our report on the consolidated labour, environmental and civic responsibility information (hereinafter the "CSR Information") for the year ended 31 December 2013, presented in the management report. This report has been prepared in accordance with Article L.225-102-1 of the French Commercial Code ("*Code de commerce*").

RESPONSIBILITY OF THE COMPANY

The Management Board is responsible for preparing the company's management report including CSR Information in accordance with the provisions of Article R.225-105-1 of the French Commercial Code and with the guidelines used by the company (hereinafter the "Guidelines"), summarized in the management report and available on request from the company's head office.

INDEPENDENCE AND QUALITY CONTROL

Our independence is defined by regulations, the French code of ethics governing the audit profession and the provisions of Article L.822-11 of the French Commercial Code. We have also implemented a quality control system comprising documented policies and procedures for ensuring compliance with the codes of ethics, professional auditing standards and applicable law and regulations.

RESPONSIBILITY OF THE STATUTORY AUDITORS

On the basis of our work, it is our responsibility to:

- attest that the required CSR Information is presented in the management report or, in the event that any CSR Information is not presented, that an explanation is provided in accordance with the third paragraph of Article R.225-105 of the French Commercial Code (Statement of completeness of CSR Information);
- express a limited assurance on the fact that the CSR Information, taken as a whole, is, presented fairly, in all material respects, in accordance with the Guidelines (opinion on the fairness of CSR Information).

Our work was carried out between October 2013 and February 2014. We were assisted in our work by our specialists in corporate social responsibility.

We performed the procedures below in accordance with professional auditing standards applicable in France, with the decree dated 13 May 2013 determining the manner in which the independent third party should carry out his work, and with ISAE 3000[(1)] concerning our opinion on the fairness of CSR Information.

1. Statement of completeness of CSR Information

On the basis of interviews with the individuals in charge of the relevant departments, we reviewed the company's sustainable development strategy with respect to the social and environmental impact of its activities and its civic responsibility commitments and, where applicable, any initiatives or programmes it has implemented as a result.

We compared the CSR Information presented in the management report with the list provided for by Article R.225-105-1 of the French Commercial Code.

For any consolidated information that was not disclosed, we verified that the explanations provided complied with the provisions of the third paragraph of Article R.225-105 of the French Commercial Code.

(1) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information

We verified that the CSR Information covers the scope of consolidation, i.e. the company, its subsidiaries as defined by Article L.233-1 of the French Commercial Code and the entities it controls as defined by Article L.233-3 of the French Commercial Code, within the limitations set out in the methodological note as disclosed in Appendix 3 of the management report.

Based on this work and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

2. Opinion on the fairness of CSR Information

Nature and scope of our work

We conducted around fifteen interviews with the individuals responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, with those responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines with respect to their relevance, completeness, reliability, impartiality and understandability, taking into account best practice where appropriate;
- verify that a data-collection, compilation, processing and control procedure has been implemented to ensure the completeness and consistency of the CSR Information and reviewed the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and controls according to the nature and importance of the CSR Information with respect to the characteristics of the company, the social and environmental impacts of its activities, its sustainable development strategy and best practice.

With regard to the CSR Information that we considered to be the most important(1):

- at parent entity level, we consulted documentary sources and conducted interviews to substantiate the qualitative information (organisation, policy, action), we performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the data was consistent by cross-checking it with other information in the management report;
- at the level of a representative sample of entities selected(2) on the basis of their activity, their contribution to the consolidated indicators, their location and of a risk analysis, we conducted interviews to verify that procedures were followed correctly, and to identify any undisclosed data, and we performed tests of details, using sampling techniques, in order to verify the calculations made and reconcile the data with the supporting documents. The related sample represents on average 24% of quantitative labor data and on average 33% of quantitative environmental data.

For the other consolidated CSR information, we assessed its consistency based on our understanding of the company.

We also assessed the relevance of explanations given for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes used, based on our professional judgement, were sufficient to enable us to provide limited assurance; a higher level of assurance would have required us to carry out more extensive work. Due to the use of sampling techniques and other limitations inherent in the operation of information and internal control systems, we cannot completely rule out the possibility that a material misstatement in the CSR information has not been detected.

CONCLUSION

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

Paris La Défense and Neuilly-sur-Seine, 7 March 2014

KPMG Audit	**Deloitte & Associés**
A Department of KPMG S.A.	
Catherine Porta	Jean-Marc Lumet
Partner	*Partner*

(1) Quantitative labor information: Headcount, Number of employees who received training, Total number of training hours, Percentage of managers who did a performance interview, Remuneration, Movements of which dismissals, Absenteeism rate, Accident frequency rate, Severity rate; Qualitative labor information: Headcount covered by collective agreements, Regional and International training programs.
Quantitative environmental information: Electricity consumption, Natural gas consumption, CO_2 emissions (scopes 1 and 2), Municipal water consumption, Surface/groundwater consumption, Discharged water, Non hazardous waste quantities, Hazardous waste quantities, Percentage of recovered waste (including recycled waste); Qualitative environmental information: Environmental roadmaps, Raw material consumption for tube production, Noise pollution management, Life Cycle Assessment related to two kinds of tubes.*
Qualitative labor information: Geographical distribution of local purchases, Global Suppliers Convention.

** Scope 1: emissions associated with natural gas combustion, internal transport, charcoal and steel production processes; Scope 2: emissions associated with electricity consumption.*

(2) Labor information excluding safety: Vallourec in France and Vallourec in the USA.
Environmental, safety and training information: Vallourec Tubes France Déville, Vallourec Star Youngstown, Vallourec Star Houston and Vallourec Drilling Products USA Houston.
Safety information: Vallourec Deutschland Rath Pilger Mill and Rath Plug Mill.

Appendix 2 – Individual environmental indicators of companies excluded from the consolidated environmental indicators

Indicators	Units	Vallourec Mineração Ltda
Electricity consumption	kWh	37,028,935
Gas consumption	kWh	-
Consumption of municipal water	m^3	-
Consumption of surface/groundwater	m^3	4,246,725
Wastewater	m^3	-
Non-hazardous waste	Metric tons	728
Hazardous waste	Metric tons	120
Total waste	Metric tons	848
CO_2 emissions (scopes 1 and 2)	t./CO_2-eq	17,835

Vallourec Mineração Ltda operates the Pau Branco mine, located 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% is an environmental protection region, and 48% is unused space.

Appendix 3 – Methodological note

To inform shareholders and the wider public on Vallourec actions to promote sustainable development, Chapter 4 of the document is prepared in accordance with the Act of 12 July 2010, Grenelle II, and in particular Article 225 thereof and its implementing regulations. The information contained herein is derived from database systems deployed worldwide, at each site concerned.

In addition to a selection of environmental and social indicators, several assertions in this report have been audited with limited assurance by the Statutory Auditors. These assertions clearly explain the Group's CSR strategy, as well as its actions in this field.

INDICATORS

Vallourec defined its indicators based on the definition of the Grenelle II Act. Other indicators were constructed based on those published by the Global Reporting Initiative (GRI) in its third version, which proposes CSR reporting indicators for global companies.

Environmental and safety indicators were drawn from the "ERMIT" reporting system, which allows for monthly monitoring and consolidation. They are included in a project definition worksheet provided by the Sustainable Development Department to its network of local contacts in the Group's four working languages (French, English, German and Portuguese).

Social indicators are also the subject of a precise and standardized Group-wide definition, and covered by a detailed procedure. These indicators are collected monthly at each site using an Excel file. Consolidation is done first by country, under the responsibility of local HR contact, and then at Group level under the responsibility of the Human Resources Department.

REPORTING SCOPE

The environmental and safety reporting scope is determined according to rules established by the Sustainable Development Department. The scope includes:

1. industrial sites. The following are thus excluded from environmental reporting: the IT Europe data center in St. Saulve, the administrative offices and headquarters, and all sales offices. Research centers are also excluded, with the exception of Vallourec Research Center France, whose activity is more varied. As for the consolidation of safety indicators, all sites are included, with the exception of small sales offices;
2. sites belonging to Vallourec for more than six months. This rule is to be considered when a disposal or acquisition occurs;
3. sites with active industrial operations during the year. This excludes construction sites that have not been in operation for more than six months (in 2013 this concerns Valinox Guangzhou in China);
4. sites for which Vallourec owns more than 50% of the voting rights. Conversely, the sites for which Vallourec has a non-controlling interest are not included in the reporting scope (the case with the HKM steel mill in Germany and the Tianda tube mill in China, both of which are 20% owned);
5. in light of its size, Vallourec & Sumitomo Tubos do Brasil, 56% owned by the Group, is consolidated on a proportionate basis for environmental data. The social reporting scope includes companies belonging to the tax consolidation group. Workforce numbers are 100% consolidated.

CONSOLIDATION PRINCIPLES

1. With the exception of Vallourec & Sumitomo Tubos do Brasil, companies and sites included in the reporting scope in accordance with the rules described above are not accounted for using the equity method, but are treated equally in the reporting consolidation – that is, as 100% owned by the Group.
2. Precautionary principle: consolidation is established on the basis of prudent assessments to avoid transfer risk and reputational risk.
3. Accruals principle: all fiscal years are independent from one another.

CONSOLIDATION AND AUDITING

Social indicators are collected monthly at each site using an Excel file. Consolidation is done first by country, under the responsibility of local HR contact, and then at Group level under the responsibility of the Human Resources Department.

Environmental indicators are consolidated and audited monthly by the Sustainable Development Department (timeliness, fairness, completeness). In case of doubt or inconsistency, the sites involved are questioned and must provide sufficient explanation to clarify the given indicators, as well as the achievement or shortfall of the targets set for the year. This step is essential to ensure the quality of the reports and the integrity of the indicator monitoring system within a continuous improvement process. In addition, to verify and compare the data, the Sustainable Development Department issues a quarterly summary to the Management and to all sites.

Safety indicators are issued monthly, after verification, to the General Management, the Divisions and all sites.

AUDITING OF ASSERTIONS

A selection of statements included in this report has been audited with limited assurance by the Statutory Auditors. For each assertion presented, Vallourec has prepared a file to demonstrate a complete and rigorous implementation of its policy.

METHODOLOGICAL LIMITATIONS AND SPECIAL CASES

The following table lists some exceptions or special rules.

Issue	Plants concerned	Description
Determining the reporting scope (Rule 1)	Vallourec Mineração	Vallourec Mineração in Brazil has a very different activity from the other Vallourec sites (production of iron ore to supply part of the consolidated Brazilian site Vallourec Tubos do Brasil). Its environmental indicators are monitored like any Vallourec plant, but are not consolidated at Group level. They are reported on an individual basis in Appendix 2. Vallourec Mineração's safety and social indicators are, however, consolidated with all other Group results.
Wastewater quality	Vallourec Tubes France (St Saulve, Deville and Aulnoye steelworks and tube mills) Vallourec Drilling Tarbes, Vallourec Tubes Deutschland Rath, Vallourec Star Houston, PTCT, VSB	Indicators for monitoring wastewater quality (SPM, COD, TH and metals) are consolidated for sites that discharge wastewater directly into the environment after treatment at their own plants. These indicators are calculated based on the weighted average concentration per flows of discharged wastewater. Samples are taken quarterly in Germany and the United States, and at least weekly in France.
Waste	All plants	"Historical" waste (hazardous/non-hazardous) produced prior to the reporting period and stored on site is not counted in the total tonnage of consolidated waste.
Sludge from blast furnaces and steel mill	Vallourec Tubos do Brasil S.A.	In Brazil, sludge generated by blast furnaces is classified as non-hazardous waste, and is a totally different type of waste from tube mill sludge.
Dust from blast furnaces and steel mill	Vallourec Tubos do Brasil S.A.	In Brazil, dust generated by blast furnaces is classified as non-hazardous waste, and is a totally different type of waste from that produced by American and French steel mills.

Issue	Plants concerned	Description
Methane	Vallourec Florestal	When estimating methane emissions, the calculations are based on the statistical study in Appendices 5 and 6 of "Project Design Document Form (CDM PDD) – Version 03" registered as a CDM project at UNFCCC 8606 "Carbonization Project – Mitigation of Methane Emissions in the Charcoal Production of V & M Florestal, Minas Gerais, Brazil", available at: https://cdm.unfccc.int/Projects/DB/BVQI1354824411.24/view According to this study, process methane emissions depend on the gravimetric yield of wood carbonization (Annex 5), or the ratio between the final mass of dry charcoal (after combustion) and the initial mass of wood (Appendix 6).
Water consumption	Vallourec Mineração	From 2011, on-site water consumption corresponds to process water only.
Raw Materials	All plants	Indicators of raw materials (iron ore, iron ore pellets, charcoal, charcoal dust, scrap, cast iron) correspond to the amounts loaded into the furnaces. Scrap is considered by Vallourec as a "co-product" and is not included in either the waste or the recovery rate indicator.
Compensation	All	The "Compensation" indicator is calculated as the sum of staff salaries, social security charges and pension expenses.
Turnover	All	The turnover indicator is calculated as the ratio of the sum of the departures of permanent employees during the reporting period divided by the total permanent workforce at the end of the period. The reasons for departure included are: retirement, resignation, dismissal, and other (death, change of category, contract termination, termination after trial period).
Method of accounting for lost days following an accident in the United States	All	In the United States, lost days for occupational accidents are not counted beyond the 180th day in accordance with OSHA regulations. This accounting method is specific to the United States and differs from the rule recommended by the Group to accounting for lost days.

PRODUCTION CALCULATIONS

By processed metric ton, Vallourec means the metric ton produced in each plant (number of units of work produced in the plant), whether of steel, hot-rolled tubes or cold-finished tubes. The production of each plant is added together to calculate the total production in metric tons processed or work units.

For consolidated sites, such as Vallourec Star in Youngstown and Vallourec Tubos do Brasil S.A. in Belo Horizonte, total production is thus the sum of the steel and tubes produced.

Production of iron ore by Vallourec Mineração and production of charcoal by Vallourec Florestal are, however, not included in the Group's total production.

By metric ton shipped, Vallourec means the metric tons shipped to customers during the year: this is the official production figure included in the Group's results.

Environmental data are routinely expressed in absolute and relative terms, in both graphs and in tables of quantified results.

The relative values are divided either by production expressed as metric tons of tubes processed (which allows benchmarking between different sites) or metric tons of tubes shipped (which helps in estimating the environmental footprint of tubes shipped to customers).

Appendix 4 – Concordance table between the information required under Article 225-105-1 of the French Commercial Code and the information in this chapter

I. SOCIAL INFORMATION		Page
A) Employment		
1.	Total number and breakdown of employees by gender, age and geographical segment	4.1.1.3 and 4.1.1.4 (p. 66-68)
2.	New hires and dismissals	4.1.1.5 and 4.1.1.7 (p. 69-70)
3.	Compensation and changes thereto	4.1.2 (p. 70-71)
B) Organization of work		
4.	Organization of working time	4.1.3 (p. 72)
5.	Absenteeism	4.1.3.4 (p. 73)
C) Employee relations		
6.	Dialogue between employers and employees, including procedures for informing, consulting and negotiating with staff	4.1.4.1 (p. 73)
7.	Review of collective bargaining agreements	4.1.4.1 (p. 73)
D) Health and safety		
8.	Health and safety conditions at work	4.1.6 (p. 75-76)
9.	Review of agreements with trade unions or employee representatives on health and safety in the workplace	4.1.4.1. / 4.1.6 (p. 73-74 / 75-76)
10.	Occupational accidents, including their frequency and severity, and occupational illnesses	4.1.6.1 and 4.1.6.2 (p. 75-76)
E) Training		
11.	Training policies implemented	4.1.8 (p. 76-77)
12.	Total number of training hours	4.1.8 (p. 76-77)
F) Equal opportunity		
13.	Measures taken to promote gender equality	4.1.9.1 (p. 78-79)
14.	Measures taken to promote the employment and integration of the disabled	4.1.9.2 (p. 79)
15.	Anti-discrimination policy	4.1.9.3 and 4.1.10 (p. 79-80)
G) Promotion of and respect for the fundamental conventions of the ILO		
16.	Respect for freedom of association and right to collective bargaining	4.1.7 (p. 76)
17.	Elimination of discrimination in respect of employment and occupation	4.1.7 (p. 76)
18.	Elimination of forced or compulsory labor	4.1.7 (p. 76)
19.	Effective abolition of child labor	4.1.7 (p. 76)
II. ENVIRONMENTAL INFORMATION		
A) General environmental policy		
20.	Organization of the Company to take environmental issues and, where appropriate, environmental assessment or certification efforts into account	4.2.1.1 and 4.2.1.3 (p. 80-81)
21.	Employee training and information on environmental protection	4.2.1.5 (p. 81)
22.	Resources devoted to the prevention of environmental risks and pollution	4.2.1.1 and 4.2.1.5 (p. 80-81)
23.	The amount of provisions and guarantees for environmental risks, provided that such information is not likely to cause serious harm to the Company in an ongoing dispute	4.2.1.6 (p. 81) and Note 16 to the financial statements (p. 168)

B) Pollution and waste management		
24.	Measures to prevent, reduce or remediate discharges into the air, water and soil seriously impacting the environment	4.2.3 (p. 84)
25.	Waste prevention, recycling and elimination measures	4.2.3.3 (p. 85)
26.	Consideration of noise and other forms of pollution related to a specific activity	4.2.3.4 (p. 86)
C) Sustainable use of resources		
27.	Water consumption and water supply according to local constraints	4.2.2.1 (p. 82)
28.	Consumption of raw materials and measures to improve efficiency in their use	4.2.2.2 (p. 83)
29.	Energy consumption, measures to improve energy efficiency and use of renewable energy	4.2.2.3 (p. 83)
30.	Land use	4.2.3.2 (p. 85)
D) Climate change		
31.	Greenhouse gas emissions	4.2.4.1 (p. 87)
32.	Adaptation to the impacts of climate change	4.2.4.2 (p. 88)
E) Biodiversity protection		
33.	Measures to preserve or enhance biodiversity	4.2.5 (p. 88-89)
III. INFORMATION ON CORPORATE COMMITMENTS TO SUSTAINABLE DEVELOPMENT		
A) Regional, economic and social impact of the Company's activity		
34.	On employment and regional development	4.3.2.1 (p. 88-89)
35.	On neighbors or local populations	4.3.2.1 (p. 88-89)
B) Relations with persons or organizations with a stake in the Company's activities, including social integration associations, educational institutions, environmental protection associations, consumer associations and local residents		
36.	Conditions for dialogue with such people or organization	4.3.2.1 (p. 88-89)
37.	Partnership or sponsorship actions	4.3.2.2 (p. 90)
C) Subcontracting and suppliers		
38.	Consideration of social and environmental issues in the purchasing policy	4.3.3 (p. 90)
39.	Significance of subcontracting and consideration of suppliers' and subcontractors' CSR policies	4.3.3 (p. 90)
D) Fair practices		
40.	Actions to prevent corruption	4.3.4.1 (p. 90)
41.	Measures for consumer health and safety	4.3.4.2 (p. 90)
E) Other actions		
42.	Promotion of human rights	4.1.7 / 4.1.9 (p. 76 / 78-79)

Appendix 5 – Summary of workforce-related and environmental indicators

ENVIRONMENT

Indicators	Units	2009	2010	2011	2012	2013
Production	Metric tons processed	3,273,973	4,642,266	5,175,558	4,959,229	5,456,271
	Metric tons shipped	1,503,000	1,888,000	2,251,000	2,092,000	2,159,000
Water consumption	m^3/year	7,326,310	8,078,804	8,628,862	8,360,710	8,786,030
	m^3/metric ton processed	2.2	1.74	1.67	1.69	1.61
	m^3/metric ton shipped	4.9	4.28	3.83	3.99	4.07
Water discharged	m^3/year	4,830,400	4,903,721	5,257,296	5,596,360	5,494,232
	m^3/metric ton processed	1.5	1.06	1.02	1.13	1.01
	m^3/metric ton shipped	3.2	2.6	2.34	2.68	2.54
	Total metals mg/l.discharged	1.14	1.14	1.11	1.09	0.81
Waste						
Non-hazardous waste	Metric tons/year	465,047	588,614	616,828	604,425	572,669
Hazardous waste	Metric tons/year	47,745	59,904	48,985	50,544	53,737
% recovered waste	%	N.D.	86	89	91	93
Total waste (1)	Metric tons/year	512,793	628,518	665,813	654,969	626,406
	kg/metric ton processed	157	135	129	132	115
	kg/metric ton shipped	341	333	296	313	290
Energy						
Natural gas	GWh/year	2,652	3,238	3,496	3,257	3,708
	kWh/metric ton processed	810	697	675	657	680
	kWh/metric ton shipped	1,764	1,715	1,553	1,557	1,717
Electricity	GWh/year	1,197	1,521	1,598	1,603	1,812
	kWh/metric ton processed	366	328	309	323	332
	kWh/metric ton shipped	796	806	710	766	839
CO_2 (2)						
Total emissions	tons/year	739,807	961,264	1,050,778	1,007,967	1,127,592
	kg CO_2 eq./metric ton processed	226	207	203	203	207
	kg CO_2 eq./metric ton shipped	492	509	467	482	522

Steel production *(metric tons)*	**Blast furnaces**			**Electric ovens**		**Steel mills**
Plant	Iron ore	Pellets	Charcoal	Scrap iron	of which % of internal recycling	Cast iron used
Vallourec Tubos do Brasil - Barreiro	251,643	460,300	296,033	69,068	100	489,467
Vallourec France - St Saulve				335,941	29	335,941
Vallourec Star - Youngstown				705,920	10	735,117
TOTAL	**251,643**	**460,300**	**296,033**	**1,110,929**	**27**	**1,560,525**

1) This consolidated total does not include exceptional waste from prior years: in 2010, there were 26,057 metric tons of exceptional hazardous waste. (Barreiro: 26,050 metric tons; Mülheim: 7 metric tons).

(2) It is noted that the methane emission factor has been reviewed according to the official values starting in 2010.

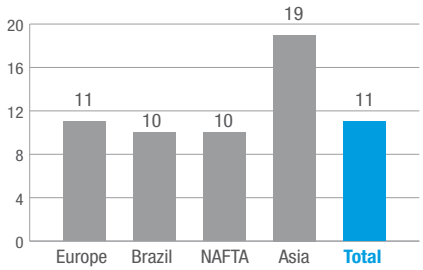
SOCIAL

	2009	2010	2011	2012	2013
Workforce	18,567	20,561	22,204	23,177	24,053
Turnover *(%)*	9	7	8	10	9

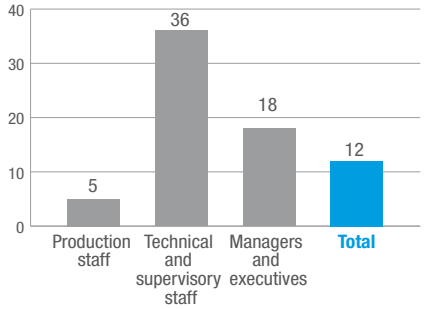
Breakdown of workforce	2012	2013	Change	2012 Breakdown	2013 Breakdown
Europe	9,904	9,891	-0.13	43	41
Brazil	8,151	8,429	3.41	35	35
NAFTA	2,859	3,154	10.32	12	13
Asia	1,922	2,098	9.16	8	9
Middle East	272	412	51.47	1	2
Africa	69	69	0	0	0
TOTAL	**23,177**	**24,053**	**3.78**	**100**	**100**

Hires and transfers in 2013	Production staff		Technical and supervisory staff		Managers and executives		Total	
	Number	%	Number	%	Number	%	Number	%
Europe	468	58	121	15	224	28	813	28
Brazil	807	77	120	11	125	12	1,052	36
NAFTA	423	67	94	15	112	18	629	21
Asia	152	55	77	28	45	16	274	9
Others	143	88	15	9	4	2	162	5
TOTAL	**1,993**	**68**	**427**	**15**	**510**	**17**	**2,930**	**100**

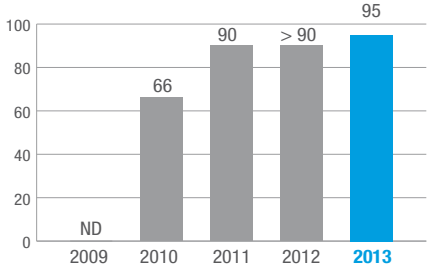
% of women in 2013 permanent workforce



% of women recruited in 2013



% of managers and executives who had an appraisal review

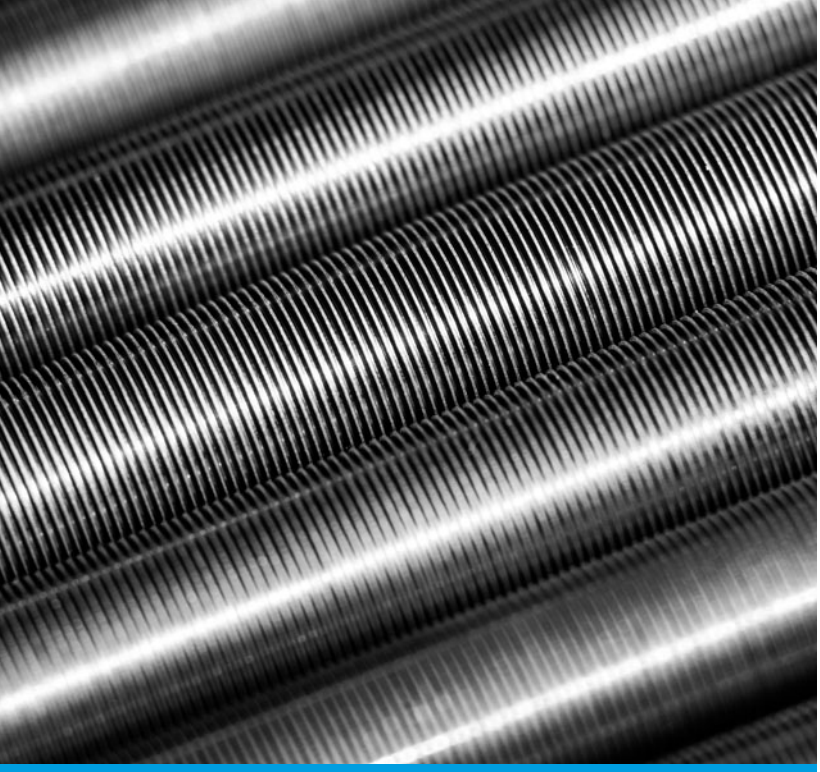


	2009	2010	2011	2012	2013
Safety					
LTIR[1]	5.27	3.16	2.79	2.6	2.26
TRIR[2]	18.6	12.8	9.4	7.1	5.51
Severity rate	0.33	0.2	0.11	0.11	0.12
Training					
Number of employees having participated in a training session	N.D.	12,691	16,027	15,942	14,912
Number of training hours	520,000	650,346	677,931	597,379	582,000

	Europe	Brazil	United States	Asia	Total
% of employees having participated in at least one day's training session in 2013	53	70	71	46	62
Average number of training hours in 2013	24	28	19	17	25

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

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



5

Risk factors

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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. As at the date of this Registration Document, these are the risks, the occurrence of which the Company considers could have a material adverse effect on the Group, its business, financial position, earnings or growth. The attention of investors is drawn to the fact that other risks may exist that have not been identified as at the date of this Registration Document or the occurrence of which is not considered, as at that date, as likely to have a material adverse impact on the Group, its business, financial position, earnings or growth.

5.1 Main risks

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

The Group has assessed the risks that could have a material adverse impact on its business or results (or on its ability to achieve its targets) and considers there are no material 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 an adverse 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 lawsuits 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, activity, 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, the United States, Brazil and China, 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 in Europe), 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 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 facilities classified for environmental protection 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, Land-use Planning and Housing (*Directions Régionales de l'Environnement, de l'Aménagement et du Logement*, or DREAL).

Although the Group, in accordance with its sustainable development principles, strives 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 temporarily or permanently. Given the long industrial past of several of the Group's sites (whether currently in use or obsolete), the soil 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 when significant changes are made to existing installations. They are kept up to date on a regular basis. To harmonize these analyses and strengthen risk control, Vallourec has devised a methodology adapted to local regulatory obligations. In France, none of the Group's sites subject to authorization fall under the SEVESO directive: each one prepares its own emergency or internal prevention measures depending on the risk analysis 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 approve 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 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 are 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 facilities, 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 seeks to limit the industrial and environmental risk inherent in its activities by setting up efficient organizational structures and quality, safety and environmental management systems, obtaining certification or assessing its management systems, performing stringent inspections and audits, 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

As far as the Group is aware, there are currently no identified specific risks likely to have a significant impact on the assets, earnings or the financial position 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. These are described below.

Risks related 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 some 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 related 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 who 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 PREON® solutions for the construction of industrial buildings.

Risks related to dependence on particular customers

In 2013, the Group generated 25% of sales from its five biggest customers (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 related 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 related 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 foreign exchange 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.

Management of risks related to maintaining advanced 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 related 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 business for customers or third parties 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 related to Group equipment failures

The Group's success in meeting orders depends on a high level of asset reliability. 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 continuously review its internal control (see "Report of the Chairman of the Supervisory Board" in Appendix 1 to chapter 7). 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 core values also incorporate an ethical conduct 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 related to Human Resources

Vallourec's success depends on retaining key personnel within the Group and 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 succession planning for key people in each division and programs to develop future leaders. These programs are monitored regularly by the Executive Committee.

Risks related 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, called "Cap Ten Safe". Driven by a desire to create a breakthrough in safety by taking action on every level, this program led to a sharp improvement in the Group's performance in occupational safety, reflected by the lost time incident rate (LTIR), which was 9.2 in 2008 (per million hours worked), fell to 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 2012 and 2013, the LTIR had fallen to 2.60 and 2.26, respectively. Despite these results, which show a 75% decrease in the LTIR between 2008 and 2013, the Group mourned the deaths of employees in three fatal accidents in 2013, and it continues to be extremely vigilant on safety matters.

The safety improvement program includes the following measures at all Group sites:

- establishing safety management committees at all levels of the Company;
- safety inspections (34,000 in 2013);
- ongoing risk assessment for safety concerns and preventive actions;
- forming continuous improvement teams (CITs) for safety concerns (367 CITs set up in 2013);
- the deployment of a specific action plan to prevent fatal accidents.

As regards health, the Group has also embarked on a number of measures to reduce physical hardship at work and prevent psychosocial and chemical risks (see above, chapter 4 "Corporate Social Responsibility" Section 4.1.6 "Health and safety"). In France,

some of the Group's subsidiaries are involved in civil proceedings on the use of asbestos. These proceedings were initiated 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 social security benefits. 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 a material adverse effect 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 material 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 an increase in occupational illnesses remains a risk.

Risks related 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 technologies by competitors. To limit these risks, the Group has an Intellectual Property Department composed of qualified and experienced personnel who are responsible for (i) taking the necessary measures to ensure its intellectual property rights are respected, while complying with the rights of third parties, and (ii) educating Group employees on the importance of better protecting its intangible assets.

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.

To maintain its technological edge, the Group continues to strengthen its policy of protecting its intangible assets worldwide.

In this context, the Group continues its efforts to:

- protect its innovative products (patents) and trade secrets (through specific procedures to keep them secret);
- protect its distinctive signs (such as logos and trademarks) used to indicate its products and services, through suitable steps/procedures to ensure that its position is respected, both nationally and internationally, and maintain its competitive edge.

Protecting the Group's intellectual property allows it to reward and promote its efforts in Research and Development, and to avoid any form of technological piracy as seen through acts of unfair competition or commercial practices.

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 edge, which could have a material adverse effect on its results.

Risks related 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, the activities of Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™, experts in premium joint technology, from Grant Prideco;
- in 2009, Dubai-based DPAL FZCO, which markets a large range of drill pipes, and 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; and
- 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.

Although the Group takes great care when drafting and negotiating acquisition and sale contracts and uses guarantees and other methods to hedge against certain risks, it cannot rule out the possibility that a liability, impairment of assets or claim may arise as a result of one of these contracts.

Risks related 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 the state of Minas Gerais in Brazil, which continued to be ramped up in 2013. The first commercial deliveries from this plant were made in late 2011.

In 2010, the Group announced:

- the construction of a new small-diameter rolling mill in Youngstown, Ohio to meet the needs of the fast-growing shale gas industry in the United States. After starting reception of the facilities in October 2012, the first commercial deliveries took place in December 2012 and marked the beginning of the ramp-up of production equipment;
- expanded capacity at the Vallourec (Changzhou) plant in China by the construction of a new forging and thermal treatment unit enabling the local integration of all manufacturing operations for large-diameter seamless tubes. This extension was inaugurated on 13 September 2012, and the first orders were delivered in late 2012; and
- the construction of a production plant for tubes for steam generators in Nansha, Guangdong Province in southeast China. The new plant was inaugurated on 6 June 2013.

In 2011, the Group announced:

- the 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 2015;

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

- the construction of a new manufacturing plant for rolled welded tubes at Venarey-Les Laumes (France), whose initial approvals were obtained in 2012 and 2013. The new facility was commissioned in late 2013 and will enable the Group to serve the umbilicals (subsea line pipe) sector in the oil and gas market.

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 facilities are commissioned. This would in turn lead to damages, losses and other material adverse effects for the Group that exceed the ceiling and terms of the guarantees and other legal protections obtained when entering into the corresponding contractual commitments.

Risks related to the Group's development strategy

In pursuing its development policy, the Group has engaged in external and internal growth operations, with the acquisition of businesses and companies and 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 be invalidated or the Group may not manage to successfully consolidate the acquired or merged companies. Consequently, the expected benefits of future or already completed external or internal growth operations may not be realized within the expected time frame or to the expected extent, and this may affect the Group's financial position.

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

Certain industrial cooperative 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 Vallourec 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. In return, 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, in the event of a change of control of Vallourec Oil & Gas France (VOGF), Vallourec Tubes or Vallourec, NSSMC has the right to cancel the Research and Development contract entered into by VOGF (formerly 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. 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, foreign exchange, credit and equity risks) and liquidity risk

Given its financial structure, the Group is exposed to (i) market risks, including interest rate, foreign exchange, credit and equity 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 risk

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

In 2013, a portion of the variable-rate debt was swapped to a fixed rate. Specifically, USD 300 million in debt (maturing in April 2013) was swapped at a fixed rate of 4.36% (excluding the spread). This loan was repaid on 17 April 2013.

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.

In December 2009, Vallourec & Sumitomo Tubos do Brasil, which is 56% owned by the Group, contracted a loan of from BNDES (*Banco National de Desenvolvimento Economico e Social*). As at 31 December 2013, BRL 214.6 million of this loan, at a fixed rate of 4.5%, had been drawn. Vallourec & Sumitomo Tubos do Brasil also concluded a fixed-rate finance lease in 2010.

Vallourec issued:

- on 7 December 2011, a €650 million bond, maturing in February 2017, with a fixed annual coupon of 4.25%;
- in August 2012, two long-term private placements for a total of €455 million. The amounts and terms of these two private placements are €400 million for seven years with an annual coupon of 3.25% for one, and €55 million for 15 years with an annual coupon of 4.125% for the other.

As at 31 December 2013, financial debt exposed to changes in variable interest rates was €300.9 million (about 13.7% of total debt). No other significant fixed-rate credit facility will reach contractual maturity in the 12 months following the 2013 balance sheet date, apart from the outstanding amount, as at 31 December 2013, of €325 million in commercial paper with a maximum 12-month maturity, and various credit facilities granted to the Brazilian subsidiaries (€147 million).

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

Given the Group's interest rate risk hedging policy, the impact of a 1% rise in interest rates applied to short-term rates in the euro zone, Brazilian and Chinese rates and British and American money market rates, would result in a €3 million increase in the Group's annual financial expenses, based on an assumption of complete stability of the financial debt and constant exchange rates, 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 12 months and on cash in short-term investments (with a maximum maturity of three months).

The tables below summarize the Group's position with regard to interest rate risk in 2013 and 2012:

TOTAL DEBT AS AT 31/12/2013

In € thousand	Other borrowings	Cash and cash equivalents
Fixed rate on date granted	1,893,032	-
Variable rate on date granted swapped to fixed rate	0	-
Fixed rate	1,893,032	-
Variable rate	300,940	563,316
TOTAL	**2,193,972**	**563,316**

TOTAL DEBT AS AT 31/12/2012

In € thousand	Other borrowings	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**

Foreign exchange risk

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 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 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 costs not denominated in euros, even if the value of these items in their original currency has not changed.

In 2013, net income, Group share, was generated to a significant extent by subsidiaries that prepare their financial statements in currencies other than the euro (mainly the US dollar and Brazilian real). A 10% change in exchange rates would have had an upward or downward impact on net income, Group share, of around €30.8 million. In addition, the Group's sensitivity to long-term foreign 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 €525.4 million at 31 December 2013) 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	31/12/2012	31/12/2013
USD	45,510	-18,363
GBP	-10,733	-12,407
BRL	-128,050	-513,799
CNY	32,847	29,153
Other	-4,596	-9,984
	-65,023	**-525,400**

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

TRANSACTION RISK

Vallourec is subject to foreign exchange risks due to its business exposure related 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 involved is the US dollar (USD): a significant portion of Vallourec's transactions (approximately 37.7% of Group sales in 2013) are invoiced in US dollars by companies whose functional currency is not the US dollar. Exchange rate fluctuations between the euro, the Brazilian real and the US dollar may therefore affect the Group's operating margin. Their impact is, however, very difficult to quantify for two reasons:

- there is an adjustment phenomenon on selling prices denominated in US dollars related to market conditions in the various sectors of activity in which Vallourec operates;
- certain sales and purchases, even though they are denominated in euros, are influenced by the level of the US dollar. They are therefore indirectly and at some time in the future affected by movements in the US dollar.

The Group actively manages its exposure to foreign exchange risk to reduce the sensitivity of its net profits to currency fluctuations by setting up hedges once the order is placed and sometimes once 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.

To be eligible for hedge accounting as defined under 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.

As 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 on commercial transactions – Foreign exchange risk *In € thousand*	**31/12/2012**	**31/12/2013**
Forward exchange contract: forward sales	2,025,445	2,015,532
Forward exchange contract: forward purchases	145,626	124,312
Currency options: sales	-	-
Currency options: purchases	-	-
Raw materials and energy – purchases, options	-	-
TOTAL	**2,171,071**	**2,139,844**

CONTRACT MATURITIES AS AT 31/12/2013

Contracts on commercial transactions *In € thousand*	**Total**	**< 1 year**	**1 to 5 years**	**> 5 years**
Exchange contracts: forward sales	2,015,532	1,932,565	82,967	-
Exchange contracts: Forward purchases	124,312	112,110	12,202	-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Raw materials and energy – purchases, options	-	-	-	-
TOTAL	**2,139,844**	**2,044,675**	**95,169**	

Forward sales correspond mainly to sales of US dollars (€2,016 million of the aggregate €2,140 million). These contracts were transacted at an average forward EUR/USD rate of 1.33 and an average forward USD/BRL rate of 2.37. In 2013, as in 2012, 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, since 2011, implemented forward sales for USD 376.4 million (€272.9 million) and for CNY 162.8 million (€19.5 million).

These instruments are intended to hedge either the debt denominated in US dollars, or loans in foreign currencies granted by the financial holding company Vallourec Tubes in the currency of the subsidiaries that benefit from them. The forward purchases and sales mature at various times between 2014 and 2016, as and when the hedged loans and borrowings mature.

Credit risk

Vallourec is subject to credit risk on 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 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),
  - 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,
  - the Group's policy on the impairment of trade receivables is to recognize a provision when indications of impairment are identified. The impairment is equal to the difference between the carrying amount of the asset and the present value of expected future cash flows, taking into account the position of the counterparty.

The Group considers that as at 31 December 2013 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. Trade receivables more than 90 days past due and not impaired amounted to €85.5 million as at 31 December 2013, or 7.9% 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 commercial relations with the Group's major customers; and
- the debt collection policy.

In addition, as at 31 December 2013, trade receivables not yet due amounted to €843.4 million, or 77.5% of total net trade receivables. The following table provides an analysis by maturity of these trade receivables:

As at 31 December 2013	0 to 30 days	30 to 60 days	60 to 90 days	90 to 180 days	over 180 days	Total
Not due (in millions of euros)	555.3	155.4	62.9	61.3	8.5	843.4

EQUITY RISK

Treasury shares held by Vallourec as at 31 December 2013 include (i) shares assigned to cover allocation plans for certain employees and corporate officers of the Group and (ii) shares allocated to the liquidity contract account managed by Rothschild & Cie Banque.

(i) Regarding the shares assigned to cover allocation plans for certain employees and corporate officers of the Group, Vallourec holds:

- 112,483 treasury shares acquired after 5 July 2001, mainly after (i) the definitive award in 2011 of 44,074 shares under the performance share plan of 3 May 2007, of 6,631 shares under the performance share plan of 1 September 2008, and of 23,280 shares under the performance share plan of 31 July 2009; (ii) the definitive award in 2012 of 3,680 shares under the performance share plan of 31 July 2010; and (iii) the definitive award in 2013 of 5,113 shares under the performance share plan of 31 July 2009, of 59,964 shares under the Value 08 plan, and (iv) the early award of 2,095 shares;
- 3,106 treasury shares acquired in 2008 as part of the share buyback plan of 4 June 2008, after (i) the definitive award in 2011 of 26,844 shares and (ii) the definitive award in 2013 of 70,050 shares under the performance share plan of 17 December 2009;
- 18,064 treasury shares acquired in 2010 as part of the share buyback plan on 31 May 2010, after the definitive award in 2012 of 81,936 shares under the performance share plan of 15 March 2010;
- 286,089 treasury shares acquired in 2011 as part of the share buyback plan of 7 June 2011, after (i) the definitive award in 2012 of 27,534 shares under the performance share plan of 30 November 2010, (ii) the definitive award in 2013 of 58,069 shares under the performance share plan of 30 March 2011 and of 28,308 shares under the performance share plan of 18 November 2011;
- 400,000 treasury shares acquired in 2012 under the share buyback program of 31 May 2012.

These figures take into account the 2:1 stock split on 9 July 2010. The Management Board, in consultation with the Supervisory Board, has decided to allocate these treasury shares to cover the Group's performance share and employee share ownership plans.

(ii) With effect from 2 July 2012, Vallourec has set up a liquidity contract with Rothschild & Cie Banque. To implement it, the following resources were allocated to the liquidity account:

- €9,000,000;
- 490,500 shares.

Under the liquidity contract, as at 31 December 2013, Vallourec held 475,000 shares for a value of €18.8 million.

Vallourec also holds shares in Nippon Steel & Sumitomo Metal Corporation (NSSMC) (see chapter 6, Consolidated financial statements, Note 4 "Other non-current assets").

To the best of its knowledge, the Group had no other exposure to equity risk as at 31 December 2013.

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. As at 31 December 2013, the maturities of current bank loans and other borrowings totaled €814,881 thousand; the maturities of non-current bank loans and other borrowings totaling €1,379,091 thousand are shown in the table below:

BREAKDOWN BY MATURITY OF NON-CURRENT BANK LOANS AND OTHER BORROWINGS (>1 YEAR)

In € thousand	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
At 31/12/2012	**61,229**	**22,452**	**121,297**	**665,438**	**539,858**	**1,410,274**
› Finance leases	12,070	11,884	12,110	26,545	45,741	108,350
› Other non-current financial debts	115,851	13,610	657,887	10,547	472,846	1,270,741
AS AT 31/12/2013	**127,921**	**25,494**	**669,997**	**37,092**	**518,587**	**1,379,091**

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 Vallourec Tubes, and to a lesser extent via the subsidiaries in Brazil (see below).

Market financing is arranged exclusively by Vallourec.

In Europe

In April 2008, Vallourec took out a five-year, USD 300 million loan with a consortium of seven banks. This loan was repaid at its maturity date on 17 April 2013.

In November 2008, Vallourec took out a €100 million loan with Crédit Agricole group, for an initial term of six years (maturing end-October 2015). This loan was drawn down at end-January 2009.

Finally, in February 2011, Vallourec took out a multi-currency €1 billion revolving credit line maturing in 2016. As at 31 December 2013 this line had not been drawn.

In addition to the financing set up by Vallourec, in July 2012 the Group negotiated four bilateral credit lines for Vallourec Tubes. These medium-term (three years) lines are for €100 million each, and three of them were extended by one year in 2013. Two other bilateral lines of a similar amount and maturity were arranged in 2013. As at 31 December 2013, none of these six lines was drawn. All these bank facilities require Vallourec to maintain its consolidated debt/equity ratio 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 loans, to be decided by the participating banks. It is also stipulated that the entire debt will be immediately due and payable if the Group defaults on one of its debt obligations (cross default), or in case of a major event with consequences for the Group's business or financial position and its ability to repay its debt.

In addition to this bank financing, the Vallourec Group aims to diversify its sources of financing on the markets. For example, Vallourec launched a commercial paper program on 12 October 2011 to meet its short-term needs. The program has a €1 billion ceiling. As at 31 December 2013, Vallourec had an outstanding €325 million for maturities of up to one year. This commercial paper program is rated A-2 by Standard & Poor's.

On 7 December 2011, Vallourec issued a €650 million bond maturing in February 2017, with a fixed annual coupon of 4.25%.

In August 2012, Vallourec also issued two long-term private placements totaling €455 million. The amounts and terms of these two private placements are €400 million for seven years with an annual coupon of 3.25% for one, and €55 million for 15 years with an annual coupon of 4.125% for the other.

As at 31 December 2013, the market value of these fixed-rate bonds was €673.6 million, €400.9 million and €52.5 million, respectively.

These bond issues were intended to diversify and increase the amount and extend the maturity of the financial resources available to the Group. 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 bondholder 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 BRL 448.8 million from BNDES (*Banco National de Desenvolvimento Economico e Social*). This fixed-rate loan at 4.5% is denominated in Brazilian reals and has a term of eight years. Amortization began on 15 February 2012.

As at 31 December 2013, BRL 214.6 million of this loan had been used.

In 2010, this company in Brazil concluded a finance lease with a nominal value of BRL 570 million relating to equipment needed to operate the plant at Jeceaba.

In the United States

The Group's US companies have a set of bilateral bank lines that were renewed in 2013 for a total of USD 348 million. None of these lines had been drawn as at 31 December 2013. These one-year facilities include clauses relating to the debt of each of the companies involved and a change of control clause.

In 2013, Vallourec Star, LP set up a finance lease with a nominal value of USD 63.4 million and a final maturity of five years.

As at 31 December 2013, the Group complied with its covenants and the terms and conditions for obtaining and maintaining all of the above facilities.

All the facilities described above adequately covered the Group's liquidity requirements as at 31 December 2013.

5.2 Risk management

5.2.1 Overall risk management measures

In addition to the internal control procedures issued by the functional departments and to promote the improvement and expansion of internal control, Vallourec has a formal risk management policy in place. The 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, and 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 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 the energy (hydrocarbon, nuclear and wind), petrochemical, automotive, mechanics and construction sectors;
- the geographical diversity of its markets worldwide;
- the promotion of long-term partnerships with major customers; and
- flexibility, i.e.:
  - the option 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 tubular solutions generating long-term partnerships with highly demanding customers; and
- defense 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 plantation in Brazil), and maintaining a variety of external sources of supply wherever possible;
- continuously reducing consumption, particularly by computer-modeling of furnaces and making processes more reliable; and
- passing on the impact of any changes in supply prices on the Company's revenue through the adjustment of its selling 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 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 advanced 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 production tools and in innovation, leading to the opening 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
- defense 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
- in addition, since 2012, the CAPTEN+ Quality program, which uses pilot plants to create a set of best practices that 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, including from equipment breakdowns, fires, explosions and natural disasters; and
- in addition: the main sites have had a Business Continuity Plan (BCP) to reduce the impact of equipment failure on customers and 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 coverage. 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 insurance coverage. 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:

- property insurance;
- third-party liability insurance.

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

- to take out shared insurance policies to ensure, first, the consistency of transferred risks and insurance coverage purchased and, second, to leverage 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 in the insurance or reinsurance markets by appropriate deductibles.

In 2013, 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.), as well as 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 2013 focused 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 consists in defining, in close collaboration with the internal structures at each subsidiary, major catastrophic risk scenarios (maximum possible claim), assessing the financial consequences for the Group if the claims materialized, helping implement measures designed to limit the likelihood and the scale of damage were such events to occur and deciding 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 coverage 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.

Property 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 limits on liability.

As an example, for natural disasters in the United States (hurricanes, etc.), the insured cap was USD 60 million in 2013.

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 coverage 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 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 includes a limit on 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 during performance of their duties.



6

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6.1 Consolidated financial statements

6.1.1 Vallourec Group's statement of financial position

In € thousand	Notes	31/12/2012 [a]	31/12/2013
NON-CURRENT ASSETS			
Net intangible assets	1	223,467	206,153
Goodwill	1	511,382	494,923
Gross property, plant and equipment	2.1	5,833,970	5,837,658
Less: accumulated depreciation	2.1	-1,513,858	-1,686,945
Net property, plant and equipment	2.1	4,320,112	4,150,713
Biological assets	2.2	196,134	178,005
Investments in equity affiliates	3	161,977	172,712
Other non-current assets	4	408,098	436,962
Deferred tax assets	5	213,186	187,301
TOTAL		**6,034,356**	**5,826,769**
CURRENT ASSETS			
Inventories and work-in-progress	6	1,429,714	1,423,439
Trade and other receivables	7	968,957	1,098,773
Derivatives – assets	8	59,351	91,788
Other current assets	9	202,567	296,105
Cash and cash equivalents	10	546,160	563,313
TOTAL		**3,206,749**	**3,473,418**
TOTAL ASSETS		**9,241,105**	**9,300,187**

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 "Employee Benefits".

In € thousand	Notes	31/12/2012 [a]	31/12/2013
EQUITY	12		
Capital		249,893	256,319
Additional paid-in capital		817,137	929,055
Consolidated reserves		3,549,026	3,706,223
Reserves, financial instruments		-249	27,584
Foreign currency translation reserve		-65,023	-525,400
Profit for the period		221,152	261,860
Treasury shares		-43,426	-55,129
Equity, Group share		**4,728,510**	**4,600,512**
Non-controlling interests	**14**	**415,387**	**385,431**
TOTAL EQUITY		**5,143,897**	**4,985,943**
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	15	1,410,274	1,379,091
Employee benefits	18	215,032	182,118
Provisions	16	12,872	12,475
Deferred tax liabilities	5	189,746	209,418
Other long-term liabilities	17	196,835	212,992
TOTAL		**2,024,759**	**1,996,094**
CURRENT LIABILITIES			
Provisions	16	153,299	137,615
Overdrafts and other short-term borrowings	15	749,752	814,881
Trade payables		677,715	832,899
Derivatives – liabilities	8	15,402	24,066
Tax liabilities		42,542	38,889
Other current liabilities	19	433,739	469,800
TOTAL		**2,072,449**	**2,318,150**
TOTAL EQUITY AND LIABILITIES		**9,241,105**	**9,300,187**

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 "Employee Benefits".

6.1.2 Consolidated income statement

In € thousand	Notes	2012 [a]	2013
Sales	22	5,326,018	5,578,314
Cost of sales [b]	23	-3,937,975	-4,035,733
Administrative, selling and research costs [b]	24	-575,594	-559,459
Other [b]	25	-24,331	-63,099
EBITDA		**788,118**	**920,023**
Depreciation of industrial assets	27	-237,507	-269,736
Other depreciation and amortization	27	-65,709	-73,223
Impairment of assets and goodwill	28	-1,766	-26,050
Asset disposals, restructuring costs and non-recurring items	28	-6,667	-17,204
OPERATING PROFIT		**476,469**	**533,810**
Financial income		20,119	25,111
Interest expenses		-104,138	-110,450
Net financial cost		-84,019	-85,339
Other financial income and expenses		342	773
Other discounting expenses		-9,747	-6,309
FINANCIAL INCOME (LOSS)	**29**	**-93,424**	**-90,875**
PROFIT BEFORE TAX		**383,045**	**442,935**
Income tax expense	30	-114,609	-147,659
Net profit of equity affiliates	3	6,503	3,574
NET INCOME FROM CONTINUING OPERATIONS		**274,939**	**298,850**
NET INCOME FOR THE CONSOLIDATED ENTITY		**274,939**	**298,850**
Attributable to non-controlling interests		53,787	36,990
Group share		**221,152**	**261,860**
Group share:			
Earnings per share	13	1.8	2.1
Diluted earnings per share	13	1.8	2.1

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 "Employee Benefits".

(b) Before depreciation and amortization.

6.1.3 Statement of comprehensive income

In € thousand	Notes	2012 [(a)]	2013
NET INCOME FOR THE CONSOLIDATED ENTITY		**274,939**	**298,850**
Other comprehensive income:			
Actuarial gains and losses on post-employment benefits		-39,997	12,588
Tax attributable to actuarial gains and losses on post-employment benefits		13,448	-4,679
Items that will not be reclassified to profit or loss		**-26,549**	**7,909**
Exchange differences on translating net assets of foreign entities	12 & 14	-281,754	-475,851
Change in fair value of hedging financial instruments		85,348	12,528
Change in fair value of available-for-sale securities		-1,822	20,252
Tax relating to the change in fair value of hedging financial instruments		-27,909	-4,621
Tax attributable to the change in fair value of available-for-sale securities		-	-100
Items that may be reclassified subsequently to profit or loss		**-226,137**	**-447,792**
OTHER COMPREHENSIVE INCOME (NET OF TAX)		**-252,686**	**-439,883**
TOTAL COMPREHENSIVE INCOME		**22,253**	**-141,033**
Profit attributable to non-controlling interests		42,090	22,136
Group share		**-19,837**	**-163,169**

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 "Employee Benefits".

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	Treasury shares	Net profit or loss for the period	Total equity, Group share	Total non-controlling interests	Total equity
REPORTED 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**
Restatements to reflect change in accounting method [(a)]	-	-	-45,336	-	-	-	-	-45,336	-787	-46,123
RESTATED POSITION AS AT 1 JANUARY 2012	**242,869**	**732,568**	**3,304,137**	**205,932**	**-55,773**	**-46,330**	**401,547**	**4,784,950**	**379,235**	**5,164,185**
Change in foreign currency translation reserve	-	-	-	-270,955	-	-	-	-270,955	-10,800	-281,755
Financial instruments	-	-	-	-	57,346	-	-	57,346	93	57,439
Actuarial gains and losses on pension commitments	-	-	-25,518	-	-	-	-	-25,518	-973	-26,491
Available-for-sale financial assets	-	-	-	-	-1,822	-	-	-1,822		-1,822
Other comprehensive income	-	-	*-25,518*	*-270,955*	*55,524*	-	-	*-240,949*	*-11,680*	*-252,629*
PROFIT FOR 2012	**-**	**-**	**-**	**-**	**-**	**-**	**221,152**	**221,152**	**53,787**	**274,939**
Comprehensive income	-	-	*-25,518*	*-270,955*	*55,524*	-	*221,152*	*-19,797*	*42,107*	*22,310*
Appropriation of 2011 net profit	-	-	401,547	-	-	-	-401,547			
Change in capital and additional paid-in capital	6,640	78,979	-	-	-	-	-	85,619		85,619
Change in treasury 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
RESTATED POSITION AS AT 31 DECEMBER 2012	**249,893**	**817,137**	**3,549,026**	**-65,023**	**-249**	**-43,426**	**221,152**	**4,728,510**	**415,387**	**5,143,897**
Change in foreign currency translation reserve	-	-	-	-460,377	-	-	-	-460,377	-15,474	-475,851
Financial instruments	-	-	-	-	7,681	-	-	7,681	226	7,907
Actuarial gains and losses on pension commitments	-	-	7,515	-	-	-	-	7,515	394	7,909
Available-for-sale financial assets					20,152			20,152		20,152
Other comprehensive income	-	-	*7,515*	*-460,377*	*27,833*	-	-	*-425,029*	*-14,854*	*-439,883*
PROFIT FOR 2013							**261,860**	**261,860**	**36,990**	**298,850**
Comprehensive income	-	-	*7,515*	*-460,377*	*27,833*	-	*261,860*	*-163,169*	*22,136*	*-141,033*
Appropriation of 2012 net profit	-	-	221,152	-	-		-221,152			
Change in share capital and additional paid-in capital	3,749	65,475	-	-	-	-	-	69,224		69,224
Change in treasury shares	-	-	-6,166	-	-	-11,703	-	-17,869		-17,869
Dividends paid [(c)]	2,677	46,443	-85,503	-	-	-	-	-36,383	-49,949	-86,332
Share-based payments	-	-	19,799	-	-	-	-	19,799		19,799
Changes in consolidation scope and other	-	-	400	-	-	-	-	400	-2,143	-1,743
POSITION AS AT 31 DECEMBER 2013	**256,319**	**929,055**	**3,706,223**	**-525,400**	**27,584**	**-55,129**	**261,860**	**4,600,512**	**385,431**	**4,985,943**

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 "Employee Benefits".

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

(c) Amounts net of €0.1 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	Profit or loss for the period	Non-controlling interests
PUBLISHED POSITION AS AT 31 DECEMBER 2012	**311,757**	**12,419**	**570**	**55,276**	**380,022**
Restatements to reflect change in accounting method [(a)]	-787	-	-	-	-787
RESTATED POSITION AS AT 1 JANUARY 2012	**310,970**	**12,419**	**570**	**55,276**	**379,235**
Change in foreign currency translation reserve	-	-10,800	-	-	-10,800
Financial instruments	-	-	93	-	93
Actuarial gains and losses on pension commitments	-973	-	-	-	-973
Available-for-sale financial assets	-	-	-	-	-
Other comprehensive income	*-973*	*-10,800*	*93*		*-11,680*
PROFIT AND LOSS FOR 2012	**-**		**-**	**53,787**	**53,787**
Comprehensive income	*-973*	*-10,800*	*93*	*53,787*	*42,107*
Appropriation of 2011 net profit	55,276	-	-	-55,276	-
Dividends paid	-27,770	-	-	-	-27,770
Changes in consolidation scope and other	21,815	-	-	-	21,815
RESTATED POSITION AS AT 31 DECEMBER 2012	**359,318**	**1,619**	**663**	**53,787**	**415,387**
Change in foreign currency translation reserve	-	-15,474	-	-	-15,474
Financial instruments	-	-	226	-	226
Actuarial gains and losses on pension commitments	394	-	-	-	394
Available-for-sale financial assets	-	-		-	
Other comprehensive income	*394*	*-15,474*	*226*	-	*-14,854*
PROFIT AND LOSS FOR 2013	**-**	**-**	**-**	**36,990**	**36,990**
Comprehensive Income	*394*	*-15,474*	*226*	*36,990*	*22,136*
Appropriation of 2012 net profit	53,787	-	-	-53,787	-
Dividends paid	-49,949	-	-	-	-49,949
Changes in consolidation scope and other	-2,143	-	-	-	-2,143
POSITION AS AT 31 DECEMBER 2013	**361,407**	**-13,855**	**889**	**36,990**	**385,431**

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 "Employee Benefits".

6.1.6 Statement of cash flows

In € thousand	2012 [a]	2013
Consolidated net profit (including non-controlling interests)	**274,939**	**298,850**
Net charges to amortization, depreciation and provisions	375,416	379,503
Unrealized gains and losses linked to changes in fair value	-28,381	-6,316
Income and expenses linked to share options and equivalent	30,303	19,796
Capital gains and losses on disposals	3,909	10,051
Share of profit (loss) of equity affiliates	-6,503	-3,574
Dividends reclassified as other flows linked to investing activities	-1,349	-4,063
Cash flow from operating activities after cost of net financial debt and taxes	**648,334**	**694,247**
Cost of net financial debt	84,019	85,339
Tax charge (including deferred taxes)	114,609	147,659
Cash flow from operating activities before cost of net debt and tax	**846,962**	**927,245**
Interest paid	-104,138	-110,450
Tax paid	-221,505	-133,081
Interest received	20,119	25,111
Cash flow from operating activities	**541,438**	**708,825**
Change in operating working capital requirements	-66,453	-182,675
NET CASH FLOW FROM OPERATING ACTIVITIES (1)	**474,985**	**526,150**
Cash outflows for acquisitions of property, plant and equipment and intangible assets	-774,424	-543,747
Cash outflows for acquisitions of biological assets	-28,692	-23,248
Cash inflows from disposals of property, plant and equipment and intangible assets	2,726	49,111
Impact of acquisitions (changes in consolidation scope)	0	0
Cash of subsidiaries acquired (changes in consolidation scope)	0	0
Impact of disposals (changes in consolidation scope)	0	0
Cash of subsidiaries sold (changes in consolidation scope)	-1,627	0
Other cash flows from investing activities	-12,069	9,253
NET CASH FLOW FROM INVESTING ACTIVITIES (2)	**-814,086**	**-508,631**
Increase and decrease in equity	85,619	69,224
Dividends paid during the year		
› Dividends paid in cash to shareholders in the parent company	-150,446	-36,383
› Dividends paid to non-controlling shareholders in consolidated companies	-32,923	-26,547
Movements in treasury shares	-2,395	-17,189
Cash drawn from new loans	707,851	2,125,722
Repayments of borrowings	-557,421	-2,029,756
Change in percentage of interest in controlled companies	0	0
Other cash flows from financing activities	-14,474	-29,481
CASH FLOW FROM FINANCING ACTIVITIES (3)	**35,811**	**55,590**
Impact of changes in exchange rates (4)	-14,449	-56,441
CHANGE IN CASH (1) + (2) + (3) + (4)	**-317,739**	**16,668**
Opening net cash	**845,416**	**527,677**
Closing net cash	**527,677**	**544,345**
Change	-317,739	16,668

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 "Employee Benefits".

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 2013

	Notes	31/12/2012	Change	31/12/2013
Gross cash (1)	10	546,160	17,152	563,312
Bank current accounts in debit and overdrafts (2)	15	18,483	484	18,967
CASH (3) = (1) - (2)		**527,677**	**16,668**	**544,345**
Gross financial debt (4)	15	2,141,544	33,461	2,175,005
NET FINANCIAL DEBT = (4) - (3)		**1,613,867**	**16,793**	**1,630,660**

STATEMENT OF CHANGES IN NET DEBT IN 2012

	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 FINANCIAL DEBT = (4) - (3)		**1,193,507**	**420,360**	**1,613,867**

6.1.7 Notes to the consolidated financial statements for the year ended 31 December 2013

In thousands of euros (€ thousand) unless stated otherwise

A – Consolidation principles

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

The consolidated financial statements for the year ended 31 December 2013, including the related notes to the consolidated financial statements, were approved by the Vallourec Management Board on 25 February 2014 and will be submitted for approval to the Annual Shareholders' Meeting.

Pursuant to Regulation (EC) No. 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, using the standards and interpretations applicable as at 31 December 2013. These financial statements are available on the Company's website: www.vallourec.com.

The IFRS framework covers the standards issued by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and their interpretations as issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC).

The accounting principles and valuation methods have been applied consistently to the periods presented, with the exception of:

New mandatory standards

Amendments to IAS 19 "Employee Benefits" are mandatory as at 1 January 2013, with retrospective effect from 1 January 2012. The main impacts for Vallourec are described in Note 2.15 "Retirement benefits and similar obligations."

Amendments to IAS 1 "Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income", are mandatory as at 1 January 2013, with retrospective effect from 1 January 2012. They concern the presentation of other comprehensive income that are now grouped according to whether or not they are reclassified from equity to the income statement.

IFRS 13 "Fair Value Measurement" mainly concerns the valuation of financial instruments. The application of this new standard had no material impact on the Group's financial statements.

The Vallourec Group's consolidated financial statements of 31 December 2013 are not impacted by the other new standards with mandatory application as at 1 January 2013.

New standards not applied early

The Group has not opted for early application of any other standards or interpretations that will be mandatory for fiscal years beginning on or after 1 January 2014.

The expected impacts from the application of IFRS 10 and 11 as at 1 January 2014 were examined. The Group does not anticipate any change in consolidation method or changes in the scope of consolidation. The Group is currently evaluating the disclosure requirements of IFRS 12 in comparison with the information currently required.

2. ACCOUNTING PRINCIPLES AND METHODS

2.1 General measurement principles

The consolidated financial statements are prepared using the historical cost convention, except for biological assets, derivative financial instruments that are measured at fair value, as well as financial assets measured at fair value through profit and loss or equity (see section 2.18).

2.2 Use of estimates

The preparation of the financial statements under IFRS leads Vallourec's management to use estimates and formulate assumptions that affect the carrying amount of certain assets and liabilities, income and expenses, and some of the information in the notes to the financial statements.

Such assumptions are inherently uncertain, and actual results could differ from these estimates. The Group regularly reviews its estimates and assumptions in order to take into account past experience and any factors deemed relevant in prevailing economic conditions. In the current economy, the uncertain nature of some estimates may be more pronounced.

Accounts and information subject to significant estimates include the valuations of property, plant and equipment, intangible assets, goodwill, financial assets, derivative financial instruments, inventories and work-in-progress, provisions and deferred taxes.

2.3 Consolidation of subsidiaries

The consolidated financial statements include the financial statements of Vallourec and its subsidiaries for the period from 1 January 2013 to 31 December 2013.

Subsidiaries are fully consolidated from the date of acquisition. They cease to be consolidated when control is transferred outside the Group. A subsidiary is controlled when the Group has the power, directly or indirectly, to control its financial and operating policies so as to obtain benefits from its activity.

The consolidated financial statements include all of the assets, liabilities, and comprehensive income of the subsidiary. Equity and comprehensive income are split between the share held by the Group and that held by non-controlling interests.

The financial results of acquired companies are included in the consolidated income statement from the effective dates of their acquisition. The results of companies sold are included until the date of loss of control.

Cash flows on the income statement and balance sheet related to intra-Group commercial and financial transactions are eliminated.

2.4 Consolidation of joint ventures

The Group's interests in joint ventures are accounted for using the proportional consolidation method. A company is considered to be jointly controlled when its business activity is shared, pursuant to a contractual agreement between the parties, and when the strategic, financial and operating decisions require the unanimous consent of all shareholders.

The consolidated financial statements include, line-by-line, the representative portion of the Group's interests in each item of the assets, liabilities and comprehensive income.

2.5 Investments in equity affiliates

The Group's investments in equity affiliates are accounted for using the equity method. Equity affiliates are companies in which the Group exercises significant influence over operating and financial policies without having control.

The carrying amount of investments in equity affiliates includes the acquisition cost of securities (including goodwill) plus or minus changes in the Group's share in the net assets of the associate as of the acquisition date. The statement of comprehensive income reflects the Group's share of profit (loss) of equity affiliates.

2.6 Foreign currency translation

2.6.1 TRANSLATION OF SUBSIDIARIES' FOREIGN CURRENCY FINANCIAL STATEMENTS

The presentation currency of the consolidated financial statements 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 ensuing translation differences are recorded in equity. The Group's share of such differences is recorded on the separate line, "Foreign currency translation reserve".

However, under the option authorized by IFRS 1 "First Time Adoption of IFRS", the Vallourec Group has chosen to reclassify to "Consolidated reserves" the foreign currency translation reserve accrued from 1 January 2004 resulting from the translation of foreign subsidiaries' financial statements.

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

2.6.2 TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated into the Company's functional currency. When the transaction is subject to a hedge (see section 2.18.4), it is translated at the spot rate on the day the hedging instrument is set up. In the absence of a hedge, foreign currency transactions are translated at the prevailing exchange rates on the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the closing exchange rates prevailing on that date. Translation differences resulting from difference between these rates and the rates 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

Except when acquired as part of a business combination, property, plant and equipment are recorded at their acquisition or production cost. They are not subject to revaluation. At each reporting date, the acquisition cost is reduced by accumulated depreciation and any provisions for impairment determined in accordance with IAS 36 "Impairment of Assets" (see section 2.11).

2.7.2 COMPONENT APPROACH

The main components of an asset having a useful life different from that of the main asset (furnaces, heavy industrial equipment, etc.) are identified by the technical departments and depreciated over their own 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 over 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 meet the criteria for the component approach are expensed when they are incurred.

2.7.4 DEPRECIATION AND AMORTIZATION

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

Depreciation of new industrial sites in the development stage is calculated according to the production-units method for assets used directly in the production process and 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 part of a business combination are measured at fair value on the acquisition date. They are depreciated using the straight-line method over the remaining useful life at the acquisition date.

2.7.6 IMPAIRMENT

Property, plant and equipment are tested for impairment in accordance with IAS 36 "Impairment of Assets" (see section 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 according to the principles defined by IAS 41 "Agriculture." The existence of an active market in Brazil requires the Group to measure these assets at fair value less selling costs upon initial recognition and at each balance sheet date.

2.8 Leases

Assets financed by finance leases, which substantially transfer all of the risks and rewards of ownership to the Group, are capitalized on the balance sheet at the lesser of the fair value of the leased property or the present value of the minimum lease payments. The corresponding liability is recorded under financial liabilities.

Lease payments are split between interest expense and amortization of the obligation so as to obtain a constant interest rate on the balance of the loan liability.

Assets leased under finance leases are depreciated over their useful life in accordance with Group rules (see section 2.7) or the lease term, whichever is shorter.

Leases under which the lessor substantially retains all of the risks and rewards of ownership are operating leases. Payments on operating leases are expensed on a straight-line basis over the term of the contract.

2.9 Goodwill

The Group measures goodwill as the surplus of:

- 1) the total of:
  - the fair value of the consideration transferred;
  - the amount of any non-controlling interest in the acquiree (such interests are measured either at fair value – total goodwill – or book value – partial goodwill); and
  - in the case of a step acquisition, the fair value at the acquisition date of the acquirer's previously held interest in the acquiree;
- and 2) the net fair value at the acquisition date of the identifiable assets acquired and liabilities assumed.

For major acquisitions, fair value measurements are done with the help of independent experts.

The decision to apply the partial or total goodwill method is made separately for each business combination.

Goodwill is not amortized: pursuant to IAS 36 "Impairment of Assets", it is tested for impairment at least once a year, or more frequently if there is an indication of impairment. The testing procedures are designed to ensure that the recoverable amount of the cash-generating unit to which the goodwill is assigned or allocated is less than its carrying amount (see section 2.11 – Impairment of property, plant and equipment and intangible assets). If an impairment loss is recognized, an irreversible provision is recorded in operating profit under "Impairment of assets and goodwill".

Pursuant to revised IFRS 3 and amended IAS 27, the Group recognizes in equity the difference between the price paid and the share of non-controlling shareholders acquired in previously-controlled companies.

Acquisition costs 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 expensed when they are incurred.

2.10 Intangible assets

2.10.1 RESEARCH AND DEVELOPMENT COSTS

In accordance with IAS 38 "Intangible Assets," research costs are expensed and development costs are capitalized as intangible assets if the company can show:

- its intention, and its financial and technical capability, to bring the development project to completion;
- that it is probable that the future economic benefits attributable to the development expenditure will flow to the company;
- its ability to reliably measure the cost of the intangible asset during its development phase;
- its ability to use or sell the intangible asset.

Significant R&D projects are reviewed based on information available from the corporate departments coordinating the research in order to identify and analyze any current projects that have entered the development phase, as defined under IAS 38.

The Group's developments projects to design new or improved products and manufacturing processes, particularly in its oil and energy related activities, are already at a very advanced stage before they qualify for capitalization as assets under IAS 38 criteria. It is very difficult to show the existence of long-term additional future economic benefits that can be clearly distinguished from the normal costs of maintaining and upgrading production plants and products to preserve the Group's technological and competitive edge. As a result, in 2013 as in 2012, no costs incurred on major projects were identified that met the standard's criteria.

2.10.2 OTHER INTANGIBLE ASSETS

Intangible assets acquired separately are recognized at cost. They are mainly 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 measured during the acquisition phase. Those with a finite life are amortized over their estimated useful lives for the company.

Greenhouse gas emission allowances received free of charge are recognized at nil value (in accordance with IAS 20). A provision is recognized when allowances granted by the government are inadequate to cover actual emissions. Notes 16 and 21 to the financial statements contain information about the methods used to value unused allowances 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 section 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 whenever there is an indication of impairment; such indications are reviewed at each balance sheet date.

A Group stock market value that is less than its consolidated net assets during a business cycle, a negative outlook arising from a given economic, legislative or technological environment or business sector would constitute indications of impairment.

Impairment tests are carried out at least once a year for assets with indefinite useful lives, a category that for the Group is limited to goodwill.

For impairment testing, assets are grouped into cash-generating units (CGU), which are homogeneous groups of assets, the ongoing use of which generates cash inflows that are largely independent of the cash inflows from other groups of assets. The value in use of the CGUs is determined in relation to the present value of future net cash flows generated by the assets tested. The discount rate corresponds to the Group's weighted average cost of capital, incorporating a market risk premium and a sector-specific risk premium. This rate is adjusted, where appropriate, by a risk premium related to the geographical area.

When the CGU's recoverable amount (the higher of fair value less costs to sell and value in use) is less than its carrying amount, an impairment loss is recognized on a separate line in the income statement. When a CGU includes goodwill, the impairment loss is first deducted from goodwill and then, where applicable, the CGU's other assets.

In addition the appearance of loss factors relating to 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 impairment of these assets.

The main CGUs within the Group's current structure and organization are Vallourec Europe (formerly V & M Europe), Vallourec do Brasil (former V & M do Brasil), Vallourec North America (formerly V & M North America), Vallourec Heat Exchanger Tubes (formerly Valtimet), Valinox Nucléaire, Serimax, and Vallourec & Sumitomo Tubos do Brasil.

2.12 Inventories and work-in-progress

Inventories are valued at the lesser of the cost or net realizable value, and provision for impairment are recognized if necessary.

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

Inventory costs 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 commissions etc.). These inventories are measured at weighted average cost.

The cost of work-in-progress and intermediate and finished goods consists of the production cost excluding financial charges. Production costs comprise raw materials, factory supplies and labor, and direct and indirect industrial overheads attributable to processing and production on the basis of normal capacity. General and administrative expenses are excluded from this measurement.

2.13 Assets held for sale and discontinued operations

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

- it is available for immediate sale in its current condition; and
- 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 in less than one year.

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

Only entire business lines of discontinued operations 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) as a result of a past event 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 audits, etc.) if the Group has an obligation to a third party at the balance sheet date. They are determined based on the best estimate of the expenditure likely to be required to settle the obligation.

2.15 Retirement benefits and similar obligations

The Group participates in the funding of supplementary retirement plans and 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. Contributions paid to the plans are recognized as expenses for the period. If applicable, provisions are recognized for outstanding contributions at the balance sheet date.

Provisions are recognized for retirement and similar commitments arising from defined benefit plans and are measured based on an actuarial calculation performed at least once a year by independent actuaries. The projected unit credit method is applied as follows: Each period of service creates an additional unit of benefit entitlement, and each of these units is measured separately to determine the Group's employee benefit obligations.

The calculations take into account the specific features of the various plans and assumptions for the retirement date, career advancement, salary increases, as well as the probability of the employee still being employed by the Group at retirement age (turnover rates, mortality tables etc.). The obligation is discounted based on the interest rates of long-term bonds of prime issuers.

Retirement benefits and similar obligations mainly relate to the Group's French subsidiaries and its subsidiaries in Germany, the United Kingdom, the United States 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 in the United States and Brazil, coverage of medical expenses.

The obligation is presented on the balance sheet, net of plan assets measured at fair value (if applicable).

2.16 Share-based payments

IFRS 2 "Share-based Payments" requires the measurement and recognition of the benefits arising from stock option and performance share plans that are equivalent to compensation of the beneficiaries: these are recognized as payroll costs spread over the vesting period, with a corresponding increase in equity.

Changes in value after the award date have no impact on the option's initial valuation. The number of options taken into account in valuing the plan is adjusted at each balance sheet date to reflect the probability of the beneficiaries' continued service at the end of the vesting period.

- Some Group officers and employees benefit from stock purchase and subscription options that entitle them to purchase an existing share or to subscribe to a capital increase at an agreed price.

  Options must be valued using the Black & Scholes model on the date they are awarded.
- Some Group officers and employees benefit from share award plans where vesting conditions are related to performance criteria (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 recognized 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 include financial assets and liabilities as well as derivatives.

The presentation of financial instruments is defined by IAS 32 and IFRS 7. The measurement and recognition of financial instruments is 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 balance sheet date (see section 2.18.4: "Derivatives and hedge accounting").

In addition, in accordance with IAS 32, the sale of a put to a minority shareholder of a company under exclusive control results in the recognition of a financial liability equal to the discounted fair value of the estimated repurchase amount. The Group recognizes this financial liability by deducting it from the amount attributable to non-controlling interests and, for the remaining portion of the liability, by deducting it from equity, Group share.

2.18.1 FINANCIAL ASSETS

Financial assets include:

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

Initial measurement

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

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

Classification and measurement at the end of the reporting period

Financial assets (excluding hedging derivatives) are classified according to IAS 39 in one of the following four categories for their measurement on the balance sheet

Category	Measurement	Recognition of changes in value
Financial assets measured at fair value through profit or loss	Fair value	Changes in fair value recognized in profit or loss
Held-to-maturity investments	Amortized cost	Not applicable
Loans and receivables	Amortized cost	Not applicable
Available-for-sale financial assets	General convention: fair value	Changes in fair value recognized in other comprehensive income
	But amortized cost for equity instruments whose fair value cannot be reliably estimated (e.g., shares not listed on an active market)	Not applicable

Financial assets measured at fair value through profit or loss

This category of assets includes:

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

For Vallourec, these are all cash assets (investment securities, cash and cash equivalents, etc.).

Investment securities (French SICAV and FCP mutual funds, etc.) are measured at fair value at the balance sheet date, and changes in fair value are recognized in financial income (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 maturities that the company has the intention and ability to hold to maturity, other than loans and receivables and financial assets classified by the company in the other two categories (measured at fair value through profit or loss; 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 participation loans;
- accounts receivable and other trade receivables.

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

Loans to employees are valued using 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 measured at fair value, which is determined based on the stock market price at the balance sheet date.

Changes in fair value are recognized directly in equity, unless a significant or long-term fall in fair value below the acquisition cost is recorded, in which case the corresponding loss is recognized in the income statement.

The “significant or long-term” nature is defined in Note 4 “Other non-current assets”, on a case-by-case basis.

Impairment testing of financial assets

Financial assets measured at amortized cost and available-for-sale financial assets measured at cost must be tested for impairment at each balance sheet date if there is any indication 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 impairment is equal to the difference between the carrying amount of the asset 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 debt 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 classified as current liabilities for the portion to be repaid within 12 months after the balance sheet date and as non-current liabilities for payments due in more than 12 months.

Interest-bearing borrowings are initially recorded at fair value less associated transaction costs. These costs (loan issue charges and premiums) are taken into account in the calculation of the amortized cost using 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 measured at amortized cost using 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 for the effective portion, with the balance being recognized in financial income or loss.

2.18.4 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

Group exposure to foreign exchange risk on commercial transactions

In addition to the hedging of certain financial liabilities (see section 2.18.3), the Group enters into hedging contracts mainly to manage its exposure to foreign exchange risks arising from the orders and sales of certain subsidiaries in currencies other than their functional currency. In particular, a significant share of Vallourec's sales is 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 foreign exchange risk by setting up hedges based on 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.

Measurement and presentation of derivatives

Changes in the value of derivatives with respect to their date of implementation are measured at each balance sheet date.

The fair value of forward currency contracts is calculated on the basis of market data and conditions. Since they hedge commercial transactions, these derivatives are presented on the balance sheet under current assets and current liabilities.

Hedge accounting

Hedging of commercial transactions falls 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 with respect to its date of implementation are measured at fair value and recognized on the balance sheet as derivatives assets or liabilities. 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 measurement 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 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 the end of each reporting period, hedged foreign currency accounts receivable and accounts payable are measured 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.

Once 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 reclassified in financial income or loss. Changes in the value of the hedging instrument and the underlying hedged item then have a symmetrical impact on financial income or loss.

2.19 Income tax

Income tax expense comprises current tax and deferred tax.

In accordance with IAS 12, deferred taxes are recognized, using the balance sheet liability method, for temporary differences existing at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts and unused tax losses, under the conditions set out below.

The main types of deferred tax recognized are:

- long-term deferred tax assets (provisions for post-employment benefits of French companies), which are likely to be recovered in the foreseeable future;
- deferred tax assets for short-term recurring items (provision for paid time off, 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 consistency and comparability of the parent company or consolidated financial statements;
- tax loss carryforwards.

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

Deferred taxes are not discounted to present 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 comprehensive income or directly in equity (see hedge accounting in section 2.18.4 and actuarial gains and losses on post-employment commitments in 2.15 “Post-employment benefits and similar”).

Deferred taxes are presented on separate lines in the balance sheet under non-current assets and non-current liabilities.

Net deferred tax assets are recognized only for those companies and tax groups that, based on a review at each balance sheet date, appear reasonably likely to recover these assets in the foreseeable future.

2.20 Revenues

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 to be incurred) as a result of the sale can be reliably determined.

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

No revenue is recognized if there are significant uncertainties as to the recovery of the amount due or the 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 measured at the fair value of the consideration received or receivable, as determined by the agreement entered into between the company and the customer, net of any trade discounts or volume rebates agreed.

See sections 2.6.2 and 2.18.4 for the procedures for recognizing sales denominated in foreign currencies.

2.21 Determination of operating profit

The income statement format used by the Group employs a classification by function.

Operating profit or loss 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 affiliates and excluding any profits or losses discontinued operations or assets held for sale.

EBITDA is an important indicator for the Group, enabling it to measure its performance from continuing operations. 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, such as:

- impairment of goodwill and fixed assets determined in the context of impairment tests in accordance with IAS 36 (see section 2.11);
- significant restructuring charges or those related to adjustments to the workforce in respect of major events or decisions;
- capital gains or losses on disposals;
- revenue and expenses resulting from major litigation or significant roll-out operations or capital transactions (e.g. costs of integrating a new activity).

2.22 Earnings per share

Net earnings per share are calculated by dividing net consolidated profit or loss by the weighted average number of shares outstanding during the financial year.

Diluted earnings per share are calculated taking into account the maximum impact of the conversion of dilutive common shares (options, performance shares) and using "share repurchase" method as defined in IAS 33 "Earnings per share".

3. SEGMENT INFORMATION

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

The Group presents its segment information based on 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 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. This 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 based on an analysis of the specific risks and returns associated with them:

- European Union;
- North America (United States, Mexico and Canada);
- South America (mainly Brazil);
- Asia;
- 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 selected information on the assets, liabilities and capital expenditure for fiscal years 2013 and 2012.

Geographical information

In addition to segment information, Note 31 shows, by geographical area, information on sales (by geographical location of customers), capital expenditure and selected information on assets (by operating areas) for fiscal years 2013 and 2012.

4. COMPARABILITY OF FINANCIAL PERIODS

Amendments to IAS 19 "Employee Benefits" are mandatory from 1 January 2013, with retrospective effect from 1 January 2012, and the main impacts for Vallourec are as follows:

- Elimination of the corridor method for the recognition in profit or loss for the year of the amortization of actuarial gains and losses of defined employee benefit plans. Consequently, actuarial gains and losses not yet recognized as at 31 December 2011 were recorded in consolidated shareholders' equity at 1 January 2012;
- In addition, actuarial gains and losses generated after 1 January 2012 are immediately recognized in other comprehensive income and will never be reclassified in the income statement. As a result, the consolidated financial statements for fiscal 2012 were adjusted for the cancellation of the amortization of actuarial gains and losses in cost of sales and financial income or loss, and for the recognition of actuarial losses or gains generated in 2012 in other comprehensive income that will not be reclassified;
- The past service cost resulting from the change or reduction of a plan with effect from 1 January 2012 is entirely recognized in profit or loss, in cost of sales and financial income or loss. The portion of commitments not yet vested is no longer amortized over the duration of the vesting period. Thus, the past service cost not yet recognized as at 31 December 2011 was recorded in shareholders' equity at 1 January 2012, and the consolidated financial statements for 2012 were adjusted for the cancellation of the amortization of the past service cost in cost of sales;
- The expected return on plan assets for retirement plans is measured by applying the discount rate used for the measurement of obligations, with outperformance accounted for in equity.

The retrospective application of the revised IAS 19 "Employee Benefits", has led to the consolidated financial statements for 2012 being restated for comparison purposes. The effects of this are presented below:

4.1 Impact on the 2012 income statement

In € thousand	31/12/2012 as published	Impact of revised IAS 19	31/12/2012 restated
Sales	5,326,018	-	5,326,018
Cost of sales[(a)]	-3,940,424	2,449	-3,937,975
Administrative, selling and research costs [(a)]	-575,594	-	-575,594
Other [(a)]	-24,331	-	-24,331
EBITDA	**785,669**	**2,449**	**788,118**
Depreciation of industrial assets	-237,507	-	-237,507
Other depreciation and amortization	-65,709	-	-65,709
Impairment of assets and goodwill	-1,766	-	-1,766
Asset disposals and restructuring costs	-6,667	-	-6,667
OPERATING PROFIT	**474,020**	**2,449**	**476,469**
Financial income	20,119	-	20,119
Interest expenses	-104,138	-	-104,138
Net financial cost	-84,019	-	-84,019
Other financial income and expenses	342	-	342
Other discounting expenses	-13,933	4,186	-9,747
FINANCIAL INCOME (LOSS)	**-97,610**	**4,186**	**-93,424**
PROFIT BEFORE TAX	**376,410**	**6,635**	**383,045**
Income tax	-112,394	-2,215	-114,609
Net profit of equity affiliates	6,503	-	6,503
NET INCOME FROM CONTINUING OPERATIONS	**270,519**	**4,420**	**274,939**
NET INCOME FOR THE CONSOLIDATED ENTITY	**270,519**	**4,420**	**274,939**
Profit attributable to non-controlling interests	53,761	26	53,787
Group share	**216,758**	**4,394**	**221,152**
Group share:			
Earnings per share	1.8	-	1.8
Diluted earnings per share	1.8	-	1.8

(a) Before depreciation and amortization

STATEMENT OF COMPREHENSIVE INCOME

In € thousand	31/12/2012 as published	Impact of revised IAS 19	31/12/2012 restated
NET INCOME FOR THE CONSOLIDATED ENTITY	**270,519**	**4,420**	**274,939**
Actuarial gains and losses on post-employment benefits	-	-39,997	-39,997
Tax attributable to actuarial gains and losses on post-employment benefits	-	13,448	13,448
Items that will not be reclassified subsequently to profit or loss	**0**	**-26,549**	**-26,549**
Exchange differences on translating net assets of foreign entities	-281,284	-470	-281,754
Change in fair value of hedging financial instruments	85,348	-	85,348
Change in fair value of available-for-sale securities	-1,822	-	-1,822
Tax attributable to the change in fair value of hedging instruments	-27,909	-	-27,909
Tax attributable to the change in fair value of available-for-sale securities	-	-	
Items that may be reclassified subsequently to profit or loss	**-225,667**	**-470**	**-226,137**
OTHER COMPREHENSIVE INCOME (NET OF TAX)	**-225,667**	**-27,019**	**-252,686**
TOTAL COMPREHENSIVE INCOME	**44,852**	**-22,599**	**22,253**
Attributable to non-controlling interests	42,952	-862	42,090
Group share	**1,900**	**-21,737**	**-19,837**

4.2 Impact on the balance sheet at 1 January 2012

ASSETS

In € thousand	01/01/2012 published	Impact of IAS 19 revised	01/01/2012 restated
NON-CURRENT ASSETS			
Net intangible assets	276,950		276,950
Goodwill	519,803		519,803
Gross property, plant and equipment	5,394,514		5,394,514
Less: accumulated depreciation and amortization	-1,328,239		-1,328,239
Net property, plant and equipment	4,066,275		4,066,275
Biological assets	184,299		184,299
Investments in equity affiliates	146,713		146,713
Other non-current assets	289,014		289,014
Deferred tax assets	140,806	19,806	160,612
TOTAL	**5,623,860**	**19,806**	**5,643,666**
CURRENT ASSETS			
Inventories and work-in-progress	1,388,977		1,388,977
Trade and other receivables	1,057,871		1,057,871
Derivatives – assets	39,705		39,705
Other current assets	182,510		182,510
Cash and cash equivalents	901,886		901,886
TOTAL	**3,570,949**		**3,570,949**
TOTAL ASSETS	**9,194,809**	**19,806**	**9,214,615**

LIABILITIES

In € thousand	01/01/2012 published	Impact of IAS 19 revised	01/01/2012 restated
EQUITY			
Capital	242,869		242,869
Additional paid-in capital	732,568		732,568
Consolidated reserves	3,349,473	-45,336	3,304,137
Reserves, financial instruments	-55,773		-55,773
Foreign currency translation reserve	205,932		205,932
Profit for the period	401,547		401,547
Treasury shares	-46,330		-46,330
Equity, Group share	**4,830,286**	**-45,336**	**4,784,950**
Non-controlling interests	**380,022**	**-787**	**379,235**
TOTAL EQUITY	**5,210,308**	**-46,123**	**5,164,185**
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	1,189,221		1,189,221
Employee benefits	116,705	65,929	182,634
Provisions	9,929		9,929
Deferred tax liabilities	198,817		198,817
Other long-term liabilities	92,113		111,919
TOTAL	**1,606,785**	**65,929**	**1,672,714**
CURRENT LIABILITIES			
Provisions	120,297		120,297
Overdrafts and other short-term borrowings	906,172		906,172
Trade payables	668,680		668,680
Derivatives – liabilities	115,697		115,697
Tax liabilities	62,485		62,485
Other current liabilities	504,385		504,385
TOTAL	**2,377,716**		**2,377,716**
TOTAL EQUITY AND LIABILITIES	**9,194,809**	**19,806**	**9,214,615**

4.3 Impact on the balance sheet at 31 December 2012

ASSETS

In € thousand	31/12/2012 as published	Impact of IAS 19 revised	31/12/2012 restated
NON-CURRENT ASSETS			
Net intangible assets	223,467		223,467
Goodwill	511,382		511,382
Gross property, plant and equipment	5,833,970		5,833,970
Less: accumulated depreciation and amortization	-1,513,858		-1,513,858
Net property, plant and equipment	4,320,112		4,320,112
Biological assets	196,134		196,134
Investments in equity affiliates	161,977		161,977
Other non-current assets	408,098		408,098
Deferred tax assets	182,171	31,015	213,186
TOTAL	**6,003,341**	**31,015**	**6,034,356**
CURRENT ASSETS			
Inventories and work-in-progress	1,429,714		1,429,714
Trade and other receivables	968,957		968,957
Derivatives – assets	59,351		59,351
Other current assets	202,567		202,567
Cash and cash equivalents	546,160		546,160
TOTAL	**3,206,749**		**3,206,749**
TOTAL ASSETS	**9,210,090**	**31,015**	**9,241,105**

LIABILITIES

In € thousand	31/12/2012 as published	Impact of IAS 19 revised	31/12/2012 restated
EQUITY			
Capital	249,893		249,893
Additional paid-in capital	817,137		817,137
Consolidated reserves	3,619,880	-70,854	3,549,026
Reserves, financial instruments	-249		-249
Foreign currency translation reserve	-64,450	-573	-65,023
Profit for the period	216,758	4,394	221,152
Treasury shares	-43,426		-43,426
Equity, Group share	**4,795,543**	**-67,033**	**4,728,510**
Non-controlling interests	**417,019**	**-1,632**	**415,387**
TOTAL EQUITY	**5,212,562**	**-68,665**	**5,143,897**
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	1,410,274		1,410,274
Employee benefits	115,352	99,680	215,032
Provisions	12,872		12,872
Deferred tax liabilities	189,746		189,746
Other long-term liabilities	196,835		196,835
TOTAL	**1,925,079**	**99,680**	**2,024,759**
CURRENT LIABILITIES			
Provisions	153,299		153,299
Overdrafts and other short-term borrowings	749,752		749,752
Trade payables	677,715		677,715
Derivatives – liabilities	15,402		15,402
Tax liabilities	42,542		42,542
Other current liabilities	433,739		433,739
TOTAL	**2,072,449**		**2,072,449**
TOTAL EQUITY AND LIABILITIES	**9,210,090**	**31,015**	**9,241,105**

4.4 Impact on the 2012 Cash Flow Statement

STATEMENT OF CASH FLOWS

In € thousand	31/12/2012 as published	Impact of revised IAS 19	31/12/2012 restated
Consolidated net profit (including non-controlling interests)	**270,519**	**4,420**	**274,939**
Net charges to amortization, depreciation and provisions	377,865	-2,449	375,416
Unrealized gains and losses linked to changes in fair value	-24,195	-4,186	-28,381
Income and expenses linked to share options and equivalent	30,303		30,303
Capital gains and losses on disposals	3,909		3,909
Share of profit (loss) of equity affiliates	-6,503		-6,503
Dividends reclassified as other flows linked to investing activities	-1,349		-1,349
Cash flow from operating activities after cost of net financial debt and taxes	**650,549**	**-2,215**	**648,334**
Cost of net financial debt	84,019		84,019
Tax charge (including deferred taxes)	112,394	2,215	114,609
Cash flow before cost of net financial debt and taxes	**846,962**	**0**	**846,962**
Interest paid	-104,138		-104,138
Tax paid	-221,505		-221,505
Interest received	20,119		20,119
Cash flow from operating activities	**541,438**	**0**	**541,438**
Change in operating working capital requirement	-66,453		-66,453
NET CASH FLOW FROM OPERATING ACTIVITIES (1)	**474,985**	**0**	**474,985**
Cash outflows for acquisitions of property, plant and equipment and intangible assets	-774,424		-774,424
Cash outflows for acquisitions of biological assets	-28,692		-28,692
Cash inflows from disposals of property, plant and equipment and intangible assets	2,726		2,726
Impact of acquisitions (changes in consolidation scope)	0		0
Cash of subsidiaries acquired (changes in consolidation scope)	0		0
Impact of disposals (changes in consolidation scope)	0		0
Cash of subsidiaries sold (changes in consolidation scope)	-1,627		-1,627
Other cash flows from investing activities	-12,069		-12,069
NET CASH FLOWS FROM INVESTING ACTIVITIES (2)	**-814,086**	**0**	**-814,086**
Increase and decrease in equity	85,619		85,619
Dividends paid during the year			0
› Dividends paid in cash to shareholders in the parent company	-150,446		-150,446
› Dividends paid to non-controlling shareholders in consolidated companies	-32,923		-32,923
Movements in treasury shares	-2,395		-2,395
Cash drawn from new loans	707,851		707,851
Repayment of borrowings	-557,421		-557,421
Change in percentage of interest in controlled companies	0		0
Other cash flows from financing activities	-14,474		-14,474
CASH FLOW FROM FINANCING ACTIVITIES (3)	**35,811**	**0**	**35,811**
Impact of changes in exchange rates (4)	-14,449		-14,449
CHANGE IN CASH (1) + (2) + (3) + (4)	**-317,739**	**0**	**-317,739**
Opening net cash	**845,416**	**0**	**845,416**
Closing net cash	**527,677**	**0**	**527,677**
Change	-317,739	0	-317,739

B – Consolidation scope

	% interest 31/12/2012	% control 31/12/2012	% interest 31/12/2013	% control 31/12/2013
Fully consolidated companies				
Vallourec Automotive Components (Changzhou) Co., Ltd (former Changzhou Carex Valinox Components) – China	95.0	100.0	95.0	100.0
Changzhou Valinox Great Wall (former Changzhou Valinox Great Wall Welded Tubes) – China	62.5	100.0	62.5	100.0
Kestrel Wave Investment Ltd – Hong Kong	100.0	100.0	100.0	100.0
PT Citra Tubindo – Indonesia	78.2	78.2	78.2	78.2
Premium Holding Limited – Hong Kong	100.0	100.0	100.0	100.0
Saudi Seamless Pipes Factory Company Ltd – Saudi Arabia	100.0	100.0	100.0	100.0
Serimax Angola Ltd – United Kingdom	100.0	100.0	100.0	100.0
Serimax Australia – Australia	-	-	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 OOO – Russia	-	-	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	100.0	100.0
Umax Services Ltd – Great Britain	100.0	100.0	100.0	100.0
V & M Al Qahtani Tubes LLC – Saudi Arabia	65.0	65.0	65.0	65.0
Vallourec (Changzhou) Co. Ltd. (former V & M Changzhou) – China	100.0	100.0	100.0	100.0
V & M Uruguay – Uruguay	100.0	100.0	100.0	100.0
Valinox Nucléaire S.A.S. – France	100.0	100.0	100.0	100.0
Valinox Nucléaire Tubes (former Valinox Nucléaire Tubes Guangzhou) Co. Ltd – China	100.0	100.0	100.0	100.0
Vallourec Middle East FZE (former Vallourec & Mannesmann Middle East FZE) – United Arab Emirates	100.0	100.0	100.0	100.0
Vallourec & Mannesmann Rus. – Russia	100.0	100.0	100.0	100.0
Vallourec Asia Pacific Corp Pte Ltd (former V & M Tubes Asia Pacific) – Singapore	100.0	100.0	100.0	100.0
Vallourec Bearing Tubes (former Valti) – France	100.0	100.0	100.0	100.0
Vallourec Beijing (former V & M Beijing) Co. Ltd – China	100.0	100.0	100.0	100.0
Vallourec Canada Inc. (former VAM Canada) – Canada	100.0	100.0	100.0	100.0
Vallourec Deutschland GmbH (former V & M Deutschland) – Germany	100.0	100.0	100.0	100.0
Drilling Products Vallourec France (former VAM Drilling France) – France	100.0	100.0	100.0	100.0
Vallourec Drilling Products USA (former VAM Drilling USA) Inc. – United States	100.0	100.0	100.0	100.0
Vallourec Fittings (former Interfit) – France	100.0	100.0	100.0	100.0
Vallourec Florestal Ltda (former V & M Florestal) – Brazil	100.0	100.0	100.0	100.0
Vallourec Heat Exchanger Tubes Asia (former Valinox Asia) – France	62.5	65.8	62.5	65.8
Vallourec Heat Exchanger Tubes (former Valtimet S.A.S.) – France	95.0	95.0	95.0	95.0
Vallourec Heat Exchanger Tubes Inc. (former Valtimet Inc.) – United States	95.0	100.0	95.0	100.0

	% interest 31/12/2012	% control 31/12/2012	% interest 31/12/2013	% control 31/12/2013
Vallourec Heat Exchanger Tubes Ltd (former CST Valinox) – India	95.0	100.0	95.0	100.0
Vallourec Holdings Inc (former V & M Holdings Inc) – the United States	100.0	100.0	100.0	100.0
Vallourec Industries Inc. – United States	100.0	100.0	100.0	100.0
Vallourec Mannesman Oil and Gas Nigeria Freezone Ltd (former VMOG Nigeria) – Nigeria	100.0	100.0	100.0	100.0
Vallourec Mannesmann Oil and Gas Nigeria Ltd (former VAM Onne) – Nigeria	100.0	100.0	100.0	100.0
Vallourec Mineração Ltda (former V & M Mineração) – Brazil	100.0	100.0	100.0	100.0
Vallourec Oil & Gas France S.A.S. (former VM Oil and Gas France) – France	100.0	100.0	100.0	100.0
Vallourec Oil & Gas Nederland BV – Netherlands	100.0	100.0	100.0	100.0
Vallourec Oil & Gas UK Ltd (former VM Oil and Gas UK) – United Kingdom	100.0	100.0	100.0	100.0
Vallourec Oil & Gas Mexico SA de CV (former VAM Mexico) – Mexico	100.0	100.0	100.0	100.0
Vallourec One S.A.S. (former V & M One) – France	100.0	100.0	100.0	100.0
Vallourec S.A. – France	100.0	100.0	100.0	100.0
Vallourec Services S.A. (former V & M Services) – France	100.0	100.0	100.0	100.0
Vallourec Star (former V & M Star) – United States	80.5	80.5	80.5	80.5
Vallourec Transportes e Serviços do Brasil Ltda – Brazil	-	-	100.0	100.0
Vallourec Tube-Alloy LP (former V & M Tubes Alloy) – United States	100.0	100.0	100.0	100.0
Vallourec Tubes Canada Inc. – Canada [(a)]	100.0	100.0	-	-
Vallourec Tubes France S.A.S. (former V & M France)- France	100.0	100.0	100.0	100.0
Vallourec Tubes S.A.S. (former V & M Tubes) – France	100.0	100.0	100.0	100.0
Vallourec Tubos do Brasil S.A. (former V & M Do Brasil) – Brazil	100.0	100.0	100.0	100.0
Vallourec Umbilicals S.A.S. – France	100.0	100.0	100.0	100.0
Vallourec USA Corporation (V & M USA Corp) – United States	100.0	100.0	100.0	100.0
Vallourec Drilling Products Middle East FZE (former VAM Drilling Middle East FZE) – Dubai	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 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 USA – United States	51.0	51.0	51.0	51.0
Vallourec Oil & Gas (China) Co., Ltd. (former VMOG China) – China	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) Company merged with Vallourec Canada Inc. on 1 January 2013.

2013

There was no significant change in scope in fiscal year 2013.

2012

There was no significant change in scope in fiscal year 2012.

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NOTE 1 Intangible assets and goodwill

In € thousand	Concessions, patents, licenses and other rights	Other intangible assets	Total intangible assets	Goodwill
GROSS VALUES				
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
Other changes	239	468	707	-
At 31/12/2012	**84,280**	**420,046**	**504,326**	**511,405**
Acquisitions	5,012	40,902	45,914	2,141
Disposals	-30	-220	-250	-
Impact of changes in exchange rates	-3,092	-19,564	-22,656	-18,603
Other changes	6,001	1,827	7,828	-
AT 31/12/2013	**92,171**	**442,991**	**535,162**	**494,943**
AMORTIZATION AND IMPAIRMENT				
At 31/12/2011	**-48,078**	**-187,608**	**-235,686**	**-23**
Net amortization charges for the period	-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 amortization charges for the period	-7,373	-53,625	-60,998	-
Disposals	30	36	66	-
Impact of changes in exchange rates	2,357	10,426	12,783	3
Other changes		-1		-
AT 31/12/2013	**-57,381**	**-271,628**	**-329,009**	**-20**
NET VALUES				
At 31/12/2012	**31,885**	**191,582**	**223,467**	**511,382**
AT 31/12/2013	**34,790**	**171,363**	**206,153**	**494,923**

INTANGIBLE ASSETS

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

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

No costs were identified in connection with major projects that meet the criteria for capitalization as assets under IAS 38.

Other intangible assets relate to technology and know-how, trademarks, order books and customer relationships acquired mainly in connection with business combinations. They are amortized on a straight-line basis over their useful life (amortization period of 5.5 to 15 years).

In 2013, intangible assets acquired consisted mainly of a non-competition fee amortized over a period of 5.5 years, with a net amount of €28 million at 31 December.

Other than goodwill, there are no intangible assets with indefinite useful lives.

GOODWILL

Cash-generating unit (CGU) (see section 2.11 Consolidation principles) *In € thousand*	Vallourec do Brasil	Vallourec North America	Vallourec Europe	Serimax	Other	Total
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
At 31/12/2012	**3,177**	**303,310**	**162,437**	**36,316**	**6,142**	**511,382**
Impact of changes in exchange rates	-44	-13,316	-4,332	-	-908	-18,600
Acquisitions	-	-	2,141	-	-	2,141
AT 31/12/2013	**3,133**	**289,994**	**160,246**	**36,316**	**5,234**	**494,923**

Origin of goodwill

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

Impairment testing

Goodwill is tested for impairment at each year-end. The value in use of a CGU is defined as the sum of future cash flows as determined by the discounted cash flow method (see section 2.11 – Accounting principles and methods). 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 Group stock market value that is less than its consolidated net assets during a business cycle, a negative outlook associated with the economic, legislative or technological environment or a business sector would constitute an indication of impairment.

FUTURE CASH FLOWS

For these purposes, the Group uses future cash flows from 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 normalized year generally calculated as the average of the last five years and therefore representative of a complete business cycle. This normalized year is projected to perpetuity by applying a growth rate of 1.5% to 2%, depending on the CGU. This perpetuity growth rate takes account of long-term inflation and growth forecasts for Vallourec's main markets, particularly oil and gas.

DISCOUNT RATES

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 the average rate on Treasury bills in each region. This rate, which is between 2.5% and 3%, varies between the regions of Europe, the United States and Brazil;
- a beta calculated on the basis of a sample of companies in the sector, specific to each CGU (generally between 1.1 and 1.3);
- a country risk specific to activities outside of Europe and the United States.

Applying these parameters leads to a discount rate of 8.6% for Serimax, 8.2% for Vallourec Europe, 8.3% for Vallourec North America and 10.1% for Vallourec do Brasil.

SENSITIVITY ANALYSIS

Vallourec's primary source of revenue is the sale of products and services to the oil and gas industry; the level of this revenue is dependent on international prices for oil and natural gas. 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 Vallourec North America, South America for Vallourec do Brasil, and the North Sea, Middle East and Asia-Pacific region for Vallourec Europe.

In addition, for Vallourec Europe, Vallourec North America and Vallourec do Brasil, key assumptions also include the price of raw materials: scrap, coke, coal and iron ore. Exchange rates are also among the key assumptions for determining future cash flows.

An analysis was carried out on the sensitivity of the calculation to a change in the parameters. This analysis did not reveal any probable scenario where the recoverable amount of the CGU would fall below its carrying amount. An increase of 50 basis points in the discount rate or a drop of 50 basis points in the perpetuity growth rate will not require the recognition of an impairment loss. An additional sensitivity analysis, taking the most recent year from the five-year forecast as the normalized year, showed that the current calculation of the value in use of the Vallourec Group CGUs results in a very 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 impairment losses at 31 December 2013.

Given the economic climate in Europe, an additional sensitivity analysis was performed on the valuations of the intangible assets and property, plant and equipment of the Vallourec Europe CGU. The test resisted a 10% decrease in EBITDA on each of the five years compared to forecasts of future cash flows.

NOTE 2.1 Property, plant and equipment

In € thousand	Land	Buildings	Technical installations, industrial equipment and tools	Current property, plant and equipment	Other property, plant and equipment	Total
GROSS VALUES						
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
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**
Acquisitions	332	24,911	153,902	352,353	22,887	554,385
Disposals	-1	-724	-65,428	-5,663	-6,777	-78,593
Impact of changes in exchange rates	-15,379	-69,536	-295,891	-55,766	-25,471	-462,043
Other changes	5,180	64,475	408,853	-499,265	10,696	-10,061
AT 31/12/2013	**108,992**	**865,717**	**4,147,396**	**424,936**	**290,616**	**5,837,658**
DEPRECIATION AND IMPAIRMENT						
At 31/12/2011	**-28,114**	**-154,665**	**-1,043,799**	**-820**	**-100,841**	**-1,328,239**
Net depreciation charges for the period	-1,476	-28,740	-189,766	-284	-20,914	-241,180
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 depreciation charges for the period	-975	-33,339	-214,037		-26,121	-274,472
Impairment losses	-	-278	-3,909	-123	-	-4,310
Disposals	-	616	15,779	-	3,047	19,442
Impact of changes in exchange rates	3,748	9,164	61,142	-	9,904	83,958
Other changes	-	-	2,263	-	32	2,295
AT 31/12/2013	**-24,296**	**-204,598**	**-1,327,810**	**-1,227**	**-129,014**	**-1,686,945**
NET VALUES						
At 31/12/2012	**91,791**	**665,830**	**2,756,912**	**632,173**	**173,405**	**4,320,112**
AT 31/12/2013	**84,696**	**661,119**	**2,819,586**	**423,709**	**161,602**	**4,150,713**

CAPITAL EXPENDITURE EXCLUDING CHANGES IN SCOPE

	2012		2013	
In € thousand	Intangible and property, plant and equipment	Biological	Intangible and property, plant and equipment	Biological (see Note 2.2.)
Europe	122,081	-	182,490	-
North America	359,790	-	191,743	-
South America	161,903	28,767	182,480	22,988
Asia	96,724	-	42,847	-
Other	2,472	-	739	-
TOTAL	**742,970**	**28,767**	**600,299**	**22,988**
	771,737		623,287	
Note 1: acquisition of intangible assets	4,784	-	45,914	-
Note 2.1: acquisition of property, plant and equipment	738,186	-	554,385	-
Total capital expenditure	**742,970**	**-**	**600,299**	**-**
Changes in fixed asset liabilities and partner contributions [(a)]	31,454	-75	-56,552	260
TOTAL	**774,424**	**28,692**	**543,747**	**23,248**
Statement of cash flow: capital expenditure paid out during the year:	803,116		566,995	

(a) In 2012, the share of the capital increase in Vallourec Star subscribed by our partner Nippon Steel Sumitomo Metal Corp. (former Sumitomo) is presented as a reduction of payments for acquisitions of property, plant and equipment amounting to €21.2 million.

In 2013, the change in fixed asset liabilities includes a liability relating to a finance lease in the amount of €48 million (see below).

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 €165 million at 31 December 2013.

In 2013, Vallourec Star concluded a financial lease agreement with a nominal value of US$64.3 million maturing five years.

NOTE 2.2 Biological assets

In € thousand	2012	2013
Net value at 31 December	196,134	178,005

The Group's Brazilian subsidiary Vallourec Florestal cultivates eucalyptus plantations mainly to produce the coal used in the blast furnaces of Vallourec do Brasil and Vallourec & Sumitomo do Brasil.

At 31 December 2013, the Company cultivated approximately 112,823 hectares (278,792 acres) of eucalyptus over a total area of 232,777 hectares (575,204 acres).

In 2013, Vallourec Florestal posted revenue of €83.7 million, against €111.6 million in 2012.

NOTE 3 Investments in equity affiliates

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

In € thousand	HKM	PT Citra Tubindo subsidiaries [a]	Tianda Oil Pipe	Other	Total
At 31/12/2012	**58,089**	**36,851**	**54,905**	**12,132**	**161,977**
Capital increase	14,600				14,600
Impact of changes in exchange rates		-785	-977	-357	-2,119
Dividends paid	-7	-4,113	-620	-529	-5,269
Other				-52	-52
Contribution to net profit of the period	6	2,222	1,026	321	3,575
AT 31/12/2013	**72,688**	**34,175**	**54,334**	**11,515**	**172,712**

(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		Shareholders' equity	Sales	Net income
HKM – Germany	**2013**	**363,438**	**2,501,576**	**31**
	2012	290,440	2,755,704	33
PT Citra Tubindo subsidiaries – Indonesia	**2013**	**48,986**	**47,835**	**4,342**
	2012	55,856	91,409	12,635
Tianda Oil Pipe – China	**2013**	**278,637**	**401,293**	**5,264**
	2012	281,561	486,763	3,977

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

In € thousand	2012	2013
HKM	7	6
Poongsan Valinox	1,002	380
PT Citra Tubindo subsidiaries	5,589	2,222
Tianda Oil Pipe	775	1,026
Xi'an Baotimet Valinox Tubes	-870	-60
TOTAL	**6,503**	**3,574**

NOTE 4 Other non-current assets

In € thousand	Other investments in equity instruments	Loans	Other financial assets	Other	Total
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**
Gross value	86,675	6,184	41,194	304,429	438,482
Provisions	-1,162	-	-358		-1,520
AT 31/12/2013	**85,513**	**6,184**	**40,836**	**304,429**	**436,962**

At 31 December 2013, available-for-sale equity securities related almost exclusively to Nippon Steel & Sumitomo Metal Corp., listed on the Tokyo Stock Exchange and acquired in 2009 for a total of € 81.9 million.

A seven-year partnership agreement signed on 31 December 2009 between Vallourec and Nippon Steel & Sumitomo Metal Corp. includes a cross-shareholding in which each company holds a stake of about €120 million in the other. Nippon Steel & Sumitomo Metal Corp. and Vallourec are partners in Vallourec & Sumitomo Tubos do Brasil, working together to produce the VAM® line of premium joints.

In view of the strategic and long-term nature of the investment, Vallourec set thresholds above which a decline in net asset value of the Nippon Steel & Sumitomo Metal Corp. shares would be an event with a "significant or long-term nature" requiring the recognition of an impairment loss in the income statement:

- 3 years for the long-term nature of a decline;
- 40% for the significant nature of a decline.

At 31 December 2013, the fair value of these shares, based on their NAV of €84.4 million, shows a gain of €2.4 million recognized in equity. For the record, the NAV of these shares at 31 December 2012 was €64.1 million and generated a loss of €17.8 million recognized in equity.

Other financial investments consist mainly of interest-bearing security deposits, mainly paid in connection with tax disputes in Brazil (€20.4 million at 31 December 2013; see also Note 16).

Other non-current assets consist mainly of €136.6 million in deferred tax liabilities in Brazil and the United States and a €166.7 million shareholders loan granted to Vallourec & Sumitomo Tubos do Brasil, which is proportionally consolidated.

Maturities of other non-current assets *In € thousand*	**1 to 5 years**	**5 years or more**	**Total**
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**
GROSS VALUES AT 31/12/2013			
Loans	3,511	2,673	6,184
Other investments in equity instruments	-	86,675	86,675
Other financial assets	226,154	119,469	345,623
TOTAL	**229,665**	**208,817**	**438,482**

NOTE 5 Deferred taxes

The main bases used to calculate deferred taxes are:

- recurring: provisions for paid leave and the additional social security levy on businesses (*contribution sociale de solidarité des sociétés*);
- non-recurring: cancellation of regulated provisions, employee profit-sharing, non-tax deductible provisions and any restatements to ensure the consistency and comparability of the parent company or consolidated financial statements;
- long-term recurring: non-tax deductible provisions for post-employment benefits, and valuation adjustments on assets acquired in connection with a business combination.

Deferred taxes are recognized using the balance sheet liability method.

The rates used are the recovery rates known at the reporting date.

The standard corporate income tax rate in France is 33.33%. The Social Security Funding Act No. 99-1140 of 28 December 1999 introduced an additional levy of 3.3% of the basic tax due for French companies. This raised the statutory tax rate by 1.1%, to 34.43%. The 2011 Finance Act No. 2011-1978 of 28 December 2011 introduced an exceptional contribution equal to 5% of the amount of income tax payable by companies with revenues above €250 million. This contribution is temporary, but Article 30 of the 2013 Finance Act extended its implementation by two years and raised its rate to 10.7%. This contribution therefore applies to fiscal years 2011 to 2014.

The deferred tax rates used for French companies in 2013, unchanged from 2012 are 34.43% for current tax and 0% for long-term capital gains and losses.

The other deferred tax rates used in 2013, unchanged from 2012, are 31.6% for Germany, 34% in Brazil and 36.5% for the United States.

The French supplementary business taxes (*Cotisation Foncière des Entreprises* and *Cotisation sur la Valeur Ajoutée des Entreprises*) are recognized as operating expenses.

In € thousand	2012	2013
Deferred tax assets	213,186	187,301
Deferred tax liabilitiy	189,746	209,418
NET DEFERRED TAX ASSETS/(DEFERRED TAX LIABILITIES)	**23,440**	**-22,117**

Presentation of deferred taxes by basis:

31/12/2012 [(a)] *In € thousand*	**Assets**	**Liabilities**	**Net deferred tax assets**
Non-current assets	-	254,503	
Other assets and liabilities	18,130	-	
Inventories	42,626	-	
Employee benefits	63,158	-	
Derivatives	-	11,410	
Distributable reserves and foreign currency translation reserves	130	-	
NET BALANCE	**124,044**	**265,913**	**-141,869**
Recognition of tax losses	165,309	-	165,309
TOTAL	**289,353**	**265,913**	**23,440**

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 "Employee Benefits".

At 31/12/2013 *In € thousand*	**Assets**	**Liabilities**	**Net deferred tax assets**
Non-current assets	-	330,926	
Other assets and liabilities	40,249	-	
Inventories	48,032	-	
Employee benefits	53,303	-	
Derivatives	-	20,693	
Distributable reserves and foreign currency translation reserves	129	-	
NET BALANCE	**141,713**	**351,619**	**209,906**
Recognition of tax losses	187,789	-	-187,789
TOTAL	**329,502**	**351,619**	**22,117**

The Group's deferred taxes (gross values) at 31 December 2012 and 31 December 2013 are broken down as follows:

31/12/2012 [(a)] *In € thousand*	**Gross value**	**Corresponding deferred tax liabilities**	**Recognized deferred tax liabilities**	**Unrecognized deferred tax liabilities**
Tax loss carryforwards	571,388	186,655	165,309	21,346
Other tax assets	-	125,173	124,044	1,129
TOTAL TAX ASSETS	**-**	**311,828**	**289,353**	**22,475**
Tax liabilities			-265,913	
TOTAL TAX LIABILITIES			**-265,913**	
TOTAL			**23,440**	**22,475**

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 "Employee Benefits".

At 31/12/2013 *In € thousand*	Gross value	Corresponding deferred tax liabilities	Recognized deferred tax liabilities	Unrecognized deferred tax liabilities
Tax loss carryforwards	768,188	231,192	187,789	43,403
Other tax assets	-	141,713	141,713	
TOTAL TAX ASSETS	**-**	**372,905**	**329,502**	**43,403**
Tax liabilities			-351,619	
TOTAL TAX LIABILITIES			**-351,619**	
TOTAL			**-22,117**	**43,403**

Tax loss carryforwards in 2013 relate mainly to Vallourec & Sumitomo Tubos do Brasil, the French tax group, Vallourec Changzhou (China), Saudi Seamless Pipes Factory Ltd. (Saudi Arabia) and Vallourec Star (United States).

Deferred tax assets were recognized on all loss carryforwards, and an impairment loss was recorded when there was no reasonable assurance of recovery of these deferred tax assets in the foreseeable future, or when the allocation of these loss carryforwards to future taxable income was deemed uncertain.

The analyses performed found that there was reasonable assurance of the recovery of net deferred tax assets in the foreseeable future, particularly for Vallourec & Sumitomo Tubos do Brasil (€81.5 million of deferred tax assets for the share held by Vallourec), offering a recovery horizon of over 10 years, but 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 Vallourec & Sumitomo Tubos Do Brasil (a special purpose entity for Nippon Steel & Sumitomo Metal Corp. and ourselves), on the predictability of the revenues and results of this entity.

Unrecognized deferred taxes relate mainly to Brazil, for €28 million.

Changes in deferred taxes are broken down as follows:

Assets/(Liabilities) net of tax *In € thousand*	2012 [(a)]	2013
BALANCE AT 1 JANUARY	**-38,148**	**23,440**
Impact of changes in exchange rates	-6,718	-9,351
Recognized in profit or loss	80,834	-27,649
Recognized in reserves	-15,103	-8,320
Change in scope and other	2,575	-237
BALANCE AT 31 DECEMBER	**23,440**	**-22,117**

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 "Employee Benefits".

The amount of the deferred tax recognized in reserves corresponds mainly to the change in deferred taxes calculated on derivatives and actuarial gains and losses on retirement benefits and similar personnel obligations.

NOTE 6 Inventories and work-in-progress

In € thousand	Raw materials and goods for resale	Goods in production	Intermediate and finished goods	Total
GROSS VALUES				
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
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**
Changes in inventories recognized in the income statement	33,325	35,804	3,970	73,099
Impact of changes in exchange rates	-25,064	-14,972	-37,534	-77,570
Other changes	975		8,126	9,101
AT 31/12/2013	**555,431**	**510,681**	**472,523**	**1,538,635**
IMPAIRMENT				
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
Allowances	-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**
Impact of changes in exchange rates	2,348	361	3,040	5,749
Allowances	-27,705	-10,025	-28,677	-66,407
Reversals of provisions	21,739	5,721	21,566	49,026
Other changes	603		124	727
AT 31/12/2013	**-46,106**	**-20,688**	**-48,402**	**-115,196**
NET VALUES				
At 31/12/2012	**503,104**	**473,104**	**453,506**	**1,429,714**
AT 31/12/2013	**509,325**	**489,993**	**424,121**	**1,423,439**

NOTE 7 Trade and other receivables

In € thousand	Advances and partial payments on orders	Trade and other receivables (gross) [(a)]	Provisions for depreciation	Total
At 31/12/2011	**25,673**	**1,043,492**	**-11,294**	**1,057,871**
Changes in scope of consolidation	-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	2,243
At 31/12/2012	**18,887**	**963,890**	**-13,820**	**968,957**
Changes in scope of consolidation				
Impact of changes in exchange rates	-1,449	-63,922	616	-64,755
Changes in gross values	-6,604	201,891		195,287
Charges to provisions			-5,606	-5,606
Reversals of provisions			4,640	4,640
Other changes	1	1	248	250
AT 31/12/2013	**10,835**	**1,101,860**	**-13,922**	**1,098,773**

(a) See section 2.18.1 "Accounting principles and methods" for details on recognition and valuation methods.

NOTE 8 Financial instruments

Financial assets and liabilities

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

8.1 IMPACT OF IAS 32 AND 39 ON EQUITY AND NET PROFIT

As explained in section 2.18 Accounting principles and methods, the main impact of IAS 32 and IAS 39 relates to the accounting treatment of hedging contracts entered into by the Group in connection with commercial purchase and sale transactions in foreign currencies and the accounting treatment of available-for-sale financial assets. The Group has also swapped a portion 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 to employees using the effective interest rate method and measurement at fair value of investment securities).

Regarding foreign exchange hedges, the hedging relationship is based on the spot exchange rates. Premiums and discounts on derivatives are systematically considered ineffective and recognized in the income statement (financial income or loss). Currency receivables and payables have been revalued at the spot rate at 31 December.

From a net asset position of €43.9 million at 31 December 2012, hedging assets rose to a net asset position of €67.7 million at 31 December 2013.

Fluctuations in the euro against the U.S. dollar in fiscal 2013 accounted for most of the €9.7 million change in the intrinsic value of hedges of forecast sales and purchases in foreign currencies and the €19.0 million change in the intrinsic value of hedges of foreign currency receivables and payables.

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 31/12/2012	At 31/12/2013	Changes in 2013		
			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	25,185	34,917	9,732	9,326	406
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with trade receivables (and accounts payable [b])	1,071	20,117	19,046	-	19,046
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with finance receivables (and financial payables)	12,055	10,270	-1,785	-	-1,785
Changes in the intrinsic value of hedges of raw materials 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	735	-1,023	-1,758	-868	-890
Recognition of changes in fair value of interest rate swaps	-2,657		2,657	2,657	-
Changes in values linked to hedging instruments set up under employee share ownership schemes	7,559	3,441	-4,118	-	-4,118
Changes in value associated with derivatives not classified as such	1		-	-	-1
SUBTOTAL: DERIVATIVES	**43,949**	**67,722**	**23,773**	**11,115**	**12,658**
› of which derivatives – assets	59,351	91,788			
› of which derivatives – liabilities	15,402	24,066			
2 – Receivables (payables) hedged in currencies –translation gain/loss					
Valuation at the closing date exchange rate (trade payables [b] and accounts receivable)	-713	-32,030	-31,317	-	-31,317
Valuation at the closing date exchange rate (finance payables and accounts receivable)	-19,877	2,546	22,423	-	22,423
IMPACT OF HEDGING TRANSACTIONS	**23,359**	**38,238**	**14,879**	**11,115**	**3,764**
3 – Valuation of receivables (payables [b]) not hedged in currencies – translation gain/loss [c]	**-85**	**-627**	**-542**	**-**	**-542**
4 – Valuation of construction loans at the effective interest rate	**-622**	**-642**	**-20**	**-**	**-20**
5 – Valuation of securities at fair value	**8**	**13**	**5**	**-**	**5**
6 – Valuation of other investments in equity instruments at fair value	**-14,482**	**5,626**	**20,108**	**20,108**	**-**
7 – Deferred tax	**-4,078**	**-8,968**	**-4,890**	**-4,621**	**-269**
TOTAL	**4,100**	**33,640**	**29,540**	**26,602**	**2,938**
Counterparty – see Statement of changes in equity					
Revaluation differentials – financial instruments	414	28,473	28,059	28,059	
› Of which Group share	-249	27,584	27,833	27,833	
› Of which attributable to non-controlling interests	663	889	226	226	
Other consolidation reserves	10,719	2,229	-8,490	-8,490	
Net profit or loss	-7,033	2,938	9,971	7,033	2,938
TOTAL	**4,100**	**33,640**	**29,540**	**26,602**	**2,938**

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

(b) Non-significant amounts.

(c) The €0.6 million decrease in the revaluation difference is related to an exchange loss realized in 2013.

The change in the fair value of financial instruments hedging foreign exchange risk, which affected equity at 31 December 2012, was €25.2 million. In 2013, around 79% of the positive change in fair value attached to the order book and commercial tenders at the end of 2012 was transferred from equity to the statement of comprehensive income, under "translation gain/loss". This amount represents the impact of the changes in value of foreign exchange hedges for the order book and commercial tenders at 31 December 2012, which were fully or partially unwound or converted into receivables during 2013.

This corresponds mainly to the hedges of receivables in US dollars, which represent over 91% of the hedges with an impact on equity at 31 December 2012.

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 finance payables)	10,508	12,055	1,547	-	1,547
Changes in the intrinsic value of hedges of raw materials 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 set up under 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 (trade 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 TRANSACTIONS	**-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 or loss	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) Non-significant amounts.

(c) The €0.1 million increase in the revaluation difference is related to an exchange gain realized in 2013.

The change in the fair value of financial instruments hedging foreign exchange risk, which affected equity at 31 December 2011, was -€51.6 million. During 2012, around 93% of the negative change in fair value attached to the order book and commercial tenders at the end of 2011 was transferred from equity to the comprehensive income statement, under "translation gain/loss". This amount represents the impact of the changes in value of foreign exchange hedges for 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.

TOTAL LIABILITIES

At 31/12/2012 *In € thousand*	**Other borrowings**	**Cash**
Fixed rate on date granted	1,893,032	
Variable rate on date granted swapped to fixed rate		
Fixed rate	**1,893,032**	
Variable rate	**300,940**	**563,312**
TOTAL	**2,193,972**	**563,312**

At 31/12/2011 *In € thousand*	**Other borrowings**	**Cash**
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 Group is exposed to interest rate risk on its variable rate debt.

In 2013, a portion of the variable rate debt has been swapped to a fixed rate. Specifically, US$ 300 million in debt (maturing in April 2013) was swapped at fixed rate of 4.36% (excluding the spread). This loan was repaid on 17 April 2013.

The amount of borrowings at a fixed rate on the date granted includes €1,096.2 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 costs using the amortized cost of capital method, and for €325.0 million in outstanding commercial paper issued at a fixed rate and with a maturity of over one year.

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.

In December 2009, Vallourec & Sumitomo Tubos do Brasil, which is 56% owned by the Group, contracted a loan of from BNDES (*Banco National de Desenvolvimento Economico e Social*). As at 31 December 2013, BRL 214.6 million of this loan, at a fixed rate of 4.5%, had been drawn. Vallourec & Sumitomo Tubos do Brasil also concluded a fixed-rate finance lease in 2010.

8.2 INFORMATION ON THE NATURE AND EXTENT OF MARKET RISK AND HOW IT IS MANAGED BY THE GROUP

Market risk is comprised of interest rate, foreign exchange, credit and equity risks. Liquidity risk is addressed in Note 15.

Interest rate risks

Management of medium- and long-term financing within the euro zone is centralized at Vallourec and the sub-holding company Vallourec Tubes.

On 7 December 2011, Vallourec issued a €650 million bond, maturing in February 2017, with a fixed annual coupon of 4.25%.

Finally, Vallourec also issued two long-term private placements in August 2012, for an aggregate of €455 million. The 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 15 years with an annual coupon of 4.125%.

As at 31 December 2013, financial debt exposed to changes in variable interest rates was €300.9 million (about 13.7% of total debt).

No significant line of fixed rate financing will reach contractual maturity during the 12 months after 31 December 2013, except for:

- €325 million in outstanding commercial paper maturing in more than one year;
- €147 million for various lines of financing in Brazilian subsidiaries.

Given the Group's interest rate risk hedging policy, the impact of a 1% rise in short-term rates in the euro zone, to Brazilian and Chinese rates and UK and US money market rates would result in a €3.0 million increase in the Group's annual financial expenses, based on an assumption of complete stability of the financial debt and constant exchange rates, 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 more than one year maturity or on short-term cash investments (of no more than three months).

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 costs not denominated in euros, even if the value of these items in their original currency has not changed.

In 2013, 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 €30.8 million.

In addition, the Group's sensitivity to long-term foreign exchange risk is reflected in the historical changes in the foreign currency translation reserves recognized in equity (a loss of €525.4 million at 31 December 2013), which in recent years have been linked mainly to movements in the US dollar and the Brazilian real.

Foreign currency translation reserve – Group share *In € thousand*	**31/12/2012**	**31/12/2013**
USD	45,510	-18,363
GBP	-10,733	-12,407
Brazilian real (BRL)	-128,050	-513,799
Chinese yuan (CNY)	32,847	29,153
Other	-4,597	-9,984
TOTAL	**-65,023**	**-525,400**

Transaction risk

The Group is subject to exchange rate risk due to its business exposure linked to sales and purchase transactions entered into by some of its subsidiaries in currencies other than those of the country where they operate.

The main foreign currency involved is the US dollar (USD): a significant portion of Vallourec's transactions (approximately 37.7% of Group sales in 2013) are invoiced in US dollars by companies whose functional currency is not the US dollar.

Exchange rate fluctuations between the euro, the Brazilian real and the US dollar may therefore affect the Group's 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 business segments 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 indirectly and at some time in the future affected by movements in the US currency.

The Group actively manages its exposure to foreign exchange risk to reduce the sensitivity of its net profits to currency fluctuations by setting up hedges once the order is placed and sometimes once 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 in place, leading to the recognition in the consolidated income statement of gains and losses with regard to these cancelled hedges.

We estimate that a 10% rise or fall in the currencies used in all hedges implemented by the Group would result in a €128.6 million decrease or increase in the intrinsic value recognized in consolidated equity at 31 December 2013. Most of these amounts would be due to changes in the US dollar against the euro, and to a lesser extent, the Brazilian real against the euro.

To be eligible for hedge accounting as defined under 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 2013, 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*	**2012**	**2013**
Forward exchange contract: forward sales	2,025,445	2,015,532
Forward exchange contract: forward purchases	145,626	124,312
Currency options: sales	-	-
Currency options: purchases	-	-
Commodities: call options	-	-
TOTAL	**2,171,071**	**2,139,844**

CONTRACT MATURITIES AT 31 DECEMBER 2013

Contracts on commercial transactions *In € thousand*	**Total**	**< 1 year**	**1 to 5 years**	**> 5 years**
Exchange contracts: forward sales	2,015,532	1,932,565	82,967	
Exchange contracts: forward purchases	124,312	112,110	12,202	
Currency options: sales	-			
Currency options: purchases	-			
Commodities: call options	-			
TOTAL	**2,139,844**	**2,044,675**	**95,169**	

Forward sales correspond mainly to sales of US dollars (€2,016 million of the €2,140 million total). These contracts were transacted at an average forward EUR/USD rate of 1.33 and an average forward USD/BRL rate of 2.37.

In 2013, as in 2012, 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:

- since 2011, forward sales for USD 376.4 million (€272.9 million) and for CNY 162.8 million (€19.5 million).

These instruments are intended to hedge either the debt denominated in USD, or the foreign currency loans established by the financial holding company Vallourec Tubes in the currency of the subsidiaries receiving them. The forward purchases and sales mature at various times between 2014 and 2016, as and when the hedged loans and borrowings mature.

Other than its foreign-currency-denominated borrowings, Vallourec does not hedge any of the other foreign currency assets and liabilities in its consolidated balance sheet (foreign currency translation risks).

Credit risks

Vallourec is subject to credit risk in respect of its non-impaired financial assets. Failure to recover these assets 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 and other receivables;
- derivatives that have a positive fair value.

1. 1% building loans: these loans do not expose the Group to credit risk, since the full amount of the loan is impaired once delay is noted in the collection of the amounts due. It should be noted that these loans are valued using the effective interest rate method applied to the estimated cash flows until the maturity date of these loans (contractual 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 for them, and the funds already paid in whole or in part.
3. Trade and other receivables:
   - the Group's policy on the impairment of trade receivables is to recognize a provision when indications of impairment are identified. The impairment is equal to the difference between the carrying amount of the asset and the present value of expected future cash flows, taking into account the position of the counterparty,

- the Group considers that there is no presumption of risk on non-impaired receivables less than 90 days past due. Trade receivables more than 90 days past due and not impaired amounted to €85.5 million at 31 December 2013, or 7.9% 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 long-standing nature of the Group's commercial relations with major customers;
- the commercial collection policy.

In addition, at 31 December 2013, trade receivables not yet due amounted to €843.4 million, or 77.5% of total net trade receivables.

The maturities of these trade receivables are as follows (in € million):

At 31 December 2013 *In € thousand*	**0 to 30 days**	**30 to 60 days**	**60 to 90 days**	**90 to 180 days**	**over 180 days**	**Total**
Trade receivables not yet due	555.3	155.4	62.9	61.3	8.5	843.4

Equity risk

Treasury shares held by Vallourec at 31 December 2013 include:

1) Shares allocated to various share ownership plans for some of the Group's employees, managers and corporate officers.

In this context, Vallourec holds:

- 112,483 treasury shares acquired after 5 July 2001, mainly after the definitive award in 2011 of 44,074 shares under the performance share plan of 3 May 2007, of 6,631 shares under the performance share plan of 1 September 2008, and of 23,280 shares under the performance share plan of 31 July 2009; the definitive award in 2012 of 3,680 shares under the performance share plan of 31 July 2010; and the definitive award in 2013 of 5,113 shares under the performance share plan of 31 July 2009, of 59,964 shares under the Value 08 plan, and after the early award of 2,095 shares;
- 3,106 treasury shares acquired in 2008 as part of the share buyback plan of 4 June 2008, after the definitive award in 2011 of 26,844 shares and the definitive award in 2013 of 70,050 under the performance share plan of 17 December 2009;
- 18,064 treasury shares acquired in 2010 as part of the share buyback plan of 31 May 2010, after the definitive award in 2012 of 81,936 shares under the performance share plan of 15 March 2010;
- 286,089 treasury shares acquired in 2011 as part of the share buyback plan of 7 June 2011, after the definitive award in 2012 of 27,534 shares under the performance share plan of 30 November 2010, the definitive award in 2013 of 58,069 shares under the performance share plan of 30 March 2011 and of 28,308 shares under the performance share plan of 18 November 2011;
- 400,000 treasury shares acquired in 2012 as part of the share buyback program of 31 May 2012.

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

The Management Board, in consultation with the Supervisory Board, has decided to allocate these treasury shares to cover the Group's performance share and employee share ownership plans.

Shares held under the liquidity contract with Rothschild & Cie Banque, or 475,000 shares valued at €18.8 million.

With effect from July 2, 2012, Vallourec set up in 2007 a liquidity contract with Rothschild & Cie. It was implemented under the annual general authorization for the share buyback program approved by the Shareholders' Meeting of 30 May 2013 (sixth 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 recognized in the balance sheet are based on the valuation methods used for each financial instrument.

2013 *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	84,370	-	84,370	-
Other investments in equity instruments		AFS	2,305	-	2,305	-
Loans		L&R	6,184	6,184	-	-
Other financial assets		L&R/AHM [b]	41,194	41,194	-	-
Trade and other receivables	**7**	**L&R**	**1,101,860**	**1,101,860**	**-**	**-**
Derivatives – assets	**8**					
Hedging financial instruments [f]		CFH	91,788	-	40,057	51,731
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	**9**	**L&R**	**296,105**	**296,105**	**-**	**-**
Cash and cash equivalents	**10**	**A-FVTPL**	**563,312**	**-**	**-**	**563,312**
LIABILITIES						
Bank loans and other borrowings [c] [e]	**15**	**AC-EIR**	**364,301**	**364,301**	**-**	**-**
Other	**15**	**AC-EIR**	**606,129**	**606,129**	**-**	**-**
Overdrafts and other short-term borrowings [d] [e]	**15**	**AC-EIR**	**18,967**	**18,967**	**-**	**-**
Trade payables		**AC**	**832,899**	**832,899**	**-**	**-**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	24,066	-	6,059	18,007
Speculative financial instruments		L-FVTPL		-	-	
Other current liabilities	**19**	**AC**	**469,800**	**469,800**	**-**	**-**

(a) A-FVTPL Financial assets measured 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 hedges
L-FVTPL Financial liabilities measured at fair value through profit or loss
AC Amortized cost
AC-EIR Amortized cost according to the effective interest rate method

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

(c) Borrowings classified within non-current liabilities maturing 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 using 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 09, Value 10, Value 11, Value 12 and Value 13 warrants, whose fair value at 31 December 2013 was €3.5 million.

Financial instruments measured at fair value are classified by category on the basis of their valuation method. Fair value is measured:

(A) mainly based on quoted prices on an active market; equity securities are valued this way;

(B) based on observable methods and data and with reference to the financial markets (yield curve, forward prices etc.).

2013 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	84,370	84,370	-	-
Other investments in equity instruments	AFS	2,305	-	2,305	-
Derivatives – assets					
Hedging financial instruments	CFH	91,788	-	91,788	-
Speculative financial instruments	L-FVTPL		-	-	-
Cash and cash equivalents	**A-FVTPL**	**563,312**	**563,312**	**-**	**-**
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	24,066	-	24,066	-
Speculative financial instruments	L-FVTPL		-		-

2012 *In € thousand*	Notes	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		L&R/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 borrowings [c] [e]	**15**	**AC-EIR**	**528,031**	**528,031**	**-**	**-**
Other	**15**	**AC-EIR**	**425,702**	**425,702**	**-**	**-**
Overdrafts and other short-term 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 measured 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 hedges
L-FVTPL Financial liabilities measured at fair value through profit or loss
AC amortized cost
AC-EIR Amortized cost according to the effective interest rate method

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

(c) Borrowings classified within non-current liabilities maturing 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 using 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 at 31 December 2013 was €7.6 million.

Financial instruments measured at fair value are classified by category on the basis of their valuation method. Fair value is measured:

(A) mainly based on quoted prices on an active market; equity securities are valued this way;

(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 equity securities	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	-

NOTE 9 Other current assets

In € thousand	Employee-related receivables and recoverable payroll taxes	Tax receivables excluding income taxes	Prepaid expenses	Statement, income tax	Other receivables	Total
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**
Impact of changes in exchange rates	-241	-6,216	-2,853	-1,612	-3,940	-14,862
Other changes	74	35,410	5,521	15,528	51,867	108,400
AT 31/12/2013	**4,117**	**97,689**	**39,496**	**32,271**	**122,532**	**296,105**

The increase in other current assets mainly reflects an increase in recoverable taxes.

NOTE 10 Cash and cash equivalents

In € thousand	Investment securities (gross)	Cash and cash equivalents	Total
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 of consolidation		-1,627	-1,627
Other changes	-334,263	-4,391	-338,654
At 31/12/2012	**293,140**	**253,020**	**546,160**
Impact of changes in exchange rates	-41,174	-15,703	-56,877
Changes in scope of consolidation			
Other changes	131,858	-57,829	74,029
AT 31/12/2013	**383,824**	**179,488**	**563,312**

"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 business combinations with a balance sheet total of over €100 million.

There were no business combinations in 2013 or 2012.

NOTE 12 Equity

CAPITAL

Vallourec's issued capital comprises 128,159,600 ordinary shares with a nominal value of €2 per share fully paid-up at 31 December 2013, compared with 128,159,600 shares with a par value of €2 each at 31 December 2012.

2013

On 25 June 2013, the option for payment of the dividend in shares, approved by the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, resulted in the creation of 1,338,791 new shares issued at the price of €36.69, for a capital increase of €49.1 million, including additional paid-in capital net of expenses.

On 10 December 2013, under the Value 13 employee share ownership plan 1,874,453 new shares were subscribed at a price of €36.95 for the leveraged scheme and €34.78 for the classic plan, for a capital increase of €69.2 million, including additional paid-in capital net of expenses.

2012

On 27 June 2012, the option for payment of the dividend in shares, 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, for a capital increase of €5.9 million, including additional paid-in capital net of expenses.

On 6 December 2012, under the terms of the Value 12 employee share ownership plan, 3,319,835 new shares were subscribed at a price of €25.79, for a capital increase of €85.6 million, including additional paid-in capital net of expenses.

RESERVES, FINANCIAL INSTRUMENTS

Under IAS 39 Financial Instruments, postings to this reserve account are made for two types of transaction:

- effective currency hedges assigned to the order book and commercial tenders. Changes in the intrinsic values at the year-end are recognized in equity;
- variable rate borrowings for which interest rate swaps (fixed rate) have been contracted. 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 euro zone. The change in the reserve corresponds to fluctuations in exchange rates used to translate the equity and net profit of these subsidiaries. Components of the reserve are reversed to income only in the case of a partial or total disposal and loss of control of the foreign entity.

In € thousand	USD	GBP	BRL	CNY	Other	Total
At 31/12/2011	**74,997**	**-11,096**	**111,834**	**35,225**	**-5,028**	**205,932**
Change	-29,487	363	-239,884	-2,378	431	-270,955
31/12/2012 [a]	**45,510**	**-10,733**	**-128,050**	**32,847**	**-4,597**	**-65,023**
Change	-63,873	-1,674	-385,749	-3,694	-5,387	-460,377
AT 31/12/2013	**-18,363**	**-12,407**	**-513,799**	**29,153**	**-9,984**	**-525,400**

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 "Employee Benefits".

MAIN EXCHANGE RATES USED (EURO/CURRENCY): TRANSLATION OF BALANCE SHEET ITEMS (CLOSING RATE) AND INCOME STATEMENT ITEMS (AVERAGE RATE)

For €1.00	USD	GBP	BRL	CNY
2012				
Average rate	1.28	0.81	2.51	8.11
Closing rate	1.32	0.82	2.70	8.22
2013				
Average rate	1.33	0.85	2.87	8.16
Closing rate	1.38	0.83	3.26	8.35

NOTE 13 Earnings per share

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

Diluted earnings per share are calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding in the same period, adjusted for the dilution effect of options.

Details of the earnings and numbers of shares used to calculate basic and diluted earnings per share are presented below:

Earnings per share	2012 [a]	2013
Net income attributable to ordinary shareholders for basic earnings per share	**221,152**	**261,860**
Weighted average number of ordinary shares for basic earnings per share	121,797,523	125,632,911
Weighted average number of treasury shares for basic earnings per share	-869,091	-1,101,787
Weighted average number of shares for earnings per share	120,928,432	124,531,124
EARNINGS PER SHARE *(in euros)*	**1.8**	**2.1**
Earnings per share comparable to 2013 *(in euros)*		
Dilution effect – stock purchase and subscription options and performance shares	355,560	1,155,374
Weighted average number of ordinary shares for diluted earnings per share	121,283,992	125,686,498
DILUTED EARNINGS PER SHARE *(in euros)*	**1.8**	**2.1**
Earnings per share comparable to 2013 *(in euros)*	1.8	-

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 «Employee Benefits».

Dividends paid during the year	2012	2013
› For the previous fiscal year *(in euros)*	1.30	0.69
› Interim dividend for the current fiscal year *(in euros)*	-	-

NOTE 14 Non-controlling interests

In € thousand	Reserves	Translation difference	Net profit	Total
31/12/2012 [a]	359,981	1,619	53,787	415,387
AT 31/12/2013	**362,296**	**-13,855**	**36,990**	**385,431**

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 «Employee Benefits».

Non-controlling interests relate mainly to the Nippon Steel Sumitomo Metal Corp.

NOTE 15 Bank loans and other borrowings

LIQUIDITY RISK

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 Vallourec 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 April 2008, Vallourec took out a five-year, USD 300 million with a consortium of seven banks. This loan was repaid at its maturity date on 17 April 2013.

In November 2008, Vallourec took out €100 million loan from Crédit Agricole Group, for an initial term of six years (due end of October 2015). This loan was drawn down in late January 2009.

Finally, in February 2011, Vallourec took out a multi-currency revolving credit line for €1 billion maturing in 2016. At 31 December 2013 this line had not been drawn.

In addition to the financing set up by Vallourec, in July 2012 the Group negotiated four bilateral credit lines for Vallourec Tubes. These medium-term (three years) lines are for €100 million each, and three of them were extended by one year in 2013. Two other bilateral lines of a similar amount and maturity were arranged in 2013. As at 31 December 2013, none of these six lines had been drawn.

Each of these bank facilities requires Vallourec to maintain its consolidated net debt-to-equity ratio at no more than 75%, calculated at 31 December each year. A change in control of Vallourec could require the repayment of some or all of the debt, which would be decided separately by each bank. It is also stipulated that the entire debt will be immediately due and payable if the Group defaults on one of its debt obligations (cross default), or in case of a major event with consequences for the Group's business or financial position and its ability to repay its debt.

In addition to bank financing, the Vallourec Group has sought to diversify its funding sources by using market financing. For example, Vallourec launched a commercial paper program on 12 October 2011 to meet its short-term needs. The program has a €1 billion ceiling.

At 31 December 2013, Vallourec had an outstanding of €325 million for maturities of up to one year. This commercial paper program is rated A-2 by Standard & Poor's.

On 7 December 2011, Vallourec issued a €650 million bond maturing in February 2017, with a fixed annual coupon of 4.25%.

In August 2012, Vallourec also issued two long-term private placements totaling €455 million. The amounts and terms of these two private placements are €400 million for seven years with an annual coupon of 3.25% for one, and €55 million for 15 years with an annual coupon of 4.125% for the other.

The market values of these three fixed-rate issues are €673.6 million, €400.9 million and €52.5 million, respectively.

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 prepayment 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) leading to a downgrade of Vallourec's financial rating.

In addition, these bonds may be subject to a request for prepayment should any of the common default scenarios for this type of transaction arise. Early redemption may also be requested in some cases by either the Company or the bondholder, particularly in respect of a change in Vallourec's position or tax status

At 31 December 2013, the Group complied with its covenants and the terms and conditions for obtaining and maintaining all of the above facilities and together the above resources were sufficient to cover the Group's cash 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 214.6 million of this loan has been used as at 31 December 2013.

In 2010, this same company in Brazil concluded a finance lease with a nominal value of BRL 570 million relating to equipment needed to operate the plant at Jeceaba.

In the United States

The Group's US companies have a set of bilateral bank lines that were renewed in 2013 for a total of USD 348 million. None of these lines had been drawn as at 31 December 2013. These one-year facilities include clauses relating to the debt of each of the companies involved and a change of control clause.

In 2013, Vallourec Star set up a finance lease with a nominal value of USD 64.3 million and a final maturity of five years.

FINANCIAL LIABILITIES – NON-CURRENT LIABILITIES

In € thousand	Bank borrowings	Finance leases	Bond issue	Other borrowings	Total
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 consolidation scope	-	-	-	-	
Other changes	-	-	-	-	
At 31/12/2012	**221,005**	**93,524**	**1,094,286**	**1,459**	**1,410,274**
New loan issues	15,232	42,604	1,937	5,479	65,252
Repayments	-47,564	-11,813		413	-58,964
Reclassifications					
Impact of changes in exchange rates	-15,085	-15,805		-10,547	-41,437
Changes in consolidation scope					-
Other changes		-158		4,124	3,966
AT 31/12/2013	**173,588**	**108,352**	**1,096,23**	**928**	**1,379,091**

FINANCIAL LIABILITIES – 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	Other borrowings (< 1 year)	Total
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 consolidation 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**
Reclassifications						
Impact of changes in exchange rates	-435	-1	-23,544	-5	-43,983	-67,968
Changes in consolidation scope					-5,515	-5,515
Other changes	879	41	-92,769	-6,853	237,314	138,612
AT 31/12/2013	**18,923**	**44**	**190,713**	**31,433**	**573,768**	**814,881**

DEBT BY CURRENCY

In € thousand	USD	EUR	BRL	Other	Total
At 31/12/2012 – in thousands of currency unit	621,477	1,461,239	590,374	NA	NA
At 31/12/2012 – in thousands of euros	471,030	1,461,239	218,366	9,391	2,160,026
At 31/12/2013 – in thousands of currency unit	**422,034**	**1,563,883**	**950,884**	**NA**	**NA**
AT 31/12/2013 – IN THOUSANDS OF EUROS	**306,021**	**1,563,883**	**291,897**	**32,171**	**2,193,972**

BREAKDOWN BY MATURITY OF NON-CURRENT BANK LOANS AND OTHER BORROWINGS (>1 YEAR)

In € thousand	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
At 31/12/2012	**61,229**	**22,452**	**121,297**	**665,438**	**539,858**	**1,410,274**
Finance leases	12,070	11,884	12,110	26,545	45,741	108,350
Other non-current financial debts	115,851	13,610	657,887	10,547	472,846	1,270,741
AT 31/12/2013	**127,921**	**25,494**	**669,997**	**37,092**	**518,587**	**1,379,091**

BREAKDOWN BY MATURITY OF CURRENT BANK LOANS AND OTHER BORROWINGS

2013 *In € thousand*	< 3 months	> 3 months and < 1 year	Total
Bank borrowings	54,282	136,431	190,713
Other borrowings	103,844	457,840	561,684
Finance lease borrowings	1,441	10,643	12,084
Accrued interest on borrowings	25,157	6,276	31,433
Bank overdrafts (negative cash and cash equivalents)	18,967	-	18,967
AT 31/12/2013	**203,691**	**611,190**	**814,881**

DEBT BY INTEREST RATE

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

In € thousand	Rate < 3%	Rate 3 to 6%	Rate 6 to 10%	Rate > 10%	Total
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**
At 31/12/2013					
Fixed rate on date granted	328,315	1,530,320	30,812	3,585	1,893,032
Variable rate on date granted swapped to fixed rate	-		-	-	
Fixed rate	328,315	1,530,320	30,812		1,893,032
Variable rate	271,397	13,131	13,406	3,006	300,940
TOTAL	**599,712**	**1,543,451**	**44,218**	**3,006**	**2,193,972**

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

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 31/12/2011	**9,929**
Provisions for the period	554
Provisions used	-45
Impact of changes in exchange rates	-1,347
Other	3,781
At 31/12/2012	**12,872**
Provisions for the period	672
Provisions used	-42
Impact of changes in exchange rates	-2,406
Other	1,379
AT 31/12/2013	**12,475**

This provision relates to the cost of treating industrial land; all likely costs have been provisioned.

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 31/12/2011	**43,497**	**9,531**	**2,936**	**41,580**	**22,753**	**120,297**
Provisions for the period	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 consolidation scope and other	-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 the period	31,045	41,303	816	1,234	16,940	91,338
Provisions used	-42,412	-39,549	-2,259	-1,314	-8,517	-94,051
Other reversals	-	-	-	-	-	
Impact of changes in exchange rates	-3,126	-868	-	-4,513	-4,649	-13,156
Changes in consolidation scope and other	-436	-	-	196	425	185
AT 31/12/2013	**35,746**	**43,493**	**558**	**25,713**	**32,105**	**137,615**

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 based on the best estimate of the expense 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 228 million, interest included, at December 31, 2013). This judgment was the final judgment of the Court of Appeal. Since the Group believed that a favorable outcome of this case was more probable than improbable, no provision was booked in respect of it.

OTHER CURRENT PROVISIONS

This item comprises various provisions with regard to customer discounts, late-payment penalties and other risks identified at the balance sheet date, with none being individually material.

For 2013 and 2012, actual annual greenhouse gas emissions were lower than the allowance granted by the French government, so no provisions were booked in this regard.

NOTE 17 Other long-term liabilities

Other long-term liabilities *In € thousand*	
At 31/12/2011	**92,113**
Impact of changes in exchange rates	-18,448
Other changes	123,170
At 31/12/2012	**196,835**
Impact of changes in exchange rates	-39,842
Other changes	55,999
AT 31/12/2013	**212,992**

Other long-term liabilities are primarily composed of other non-operating liabilities of more than one year and a €166.7 million shareholders' loan granted to Vallourec & Sumitomo Tubos do Brasil, consolidated proportionately.

The change in this item in 2013 is explained by the loan granted by Nippon Steel & Sumitomo Metal Corp. to Vallourec & Sumitomo Tubos do Brasil and by increased debt on capital expenditures.

NOTE 18 Employee benefits

The retrospective application of revised IAS 19 led to the restatement of the figures presented in this note.

In € thousand	Berlin – Germany	France	The UK	Other	Total
Restated at 31/12/2012					
Present value of the obligation	**241,076**	**53,243**	**106,454**	**77,593**	**478,366**
Pension	215,612	48,972	106,454	71,451	442,489
Early retirement commitments	10,255	-	-	-	10,255
Long-service awards and medical benefits	15,209	4,271	-	6,142	25,622
Fair value of plan assets	-134,544	-3,636	-105,019	-20,135	-263,334
PROVISION	**106,532**	**49,607**	**1,435**	**57,458**	**215,032**
At 31/12/2013					
Present value of the obligation	**231,709**	**49,325**	**116,795**	**64,133**	**461,962**
Pension	207,844	45,220	116,795	59,934	429,793
Early retirement commitments	8,872				8,872
Long-service awards and medical benefits	14,993	4,105		4,199	23,297
Fair value of plan assets	-133,701	-6,181	-117,079	-22,883	-279,844
PROVISION	**98,008**	**43,144**	**-284**	**41,250**	**182,118**

The main actuarial assumptions used for the valuation of post-employment benefits obligations, taking account of the plans' durations, are as follows:

Main actuarial assumptions	Germany	France	United Kingdom	Other
At 31/12/2012				
Discount rate	3.20%	3.20%	4.45%	from 4.05% to 10.56%
Calculated return on plan assets	3.20%	3.20%	4.45%	from 4.05% to 10.56%
Salary increase rate	2.75%	2.87%	3.25%	from 3.5% to 10.00%
At 31/12/2013				
Discount rate	3.50%	3.50%	4.40%	from 5% to 11.76%
Long-term return on plan assets	3.50%	3.50%	4.40%	from 5% to 11.76%
Salary increase rate	2.24%	1.66%	3.65%	from 3.5% to 8%

An exhaustive survey of defined benefit plans was conducted in 2003 and updated in 2010, covering the Group's entire consolidation scope.

For fiscal years 2012 and 2013

- Group contributions to plan assets amounted to €10.3 million in 2012 and €7.6 million in 2013;
- the return on plan assets was €20.8 million and €16.6 million in each year respectively.

Commitments are valued by independent actuaries. The assumptions used take account of the specific characteristics of the plans and companies concerned.

Experience gains and losses in 2013 generated €11.8 million in losses for the Group (against €0.6 million in gains in 2012).

In 2014, the Group expects to pay €32.1 million of benefits under defined benefit plans, including €20.3 million in Germany, €4.4 million in the United Kingdom, €3.7 million in France and €1.8 million in Brazil.

Plans that are fully or partially outsourced represented a total obligation of €376 million at 31 December 2013 for assets of €280 million.

In the euro zone, the discount rate is based on the iBoxx index (AA-rated corporate bonds with a maturity of 10 or more years, estimated on the date the obligations are valued). This index uses a basket of bonds of financial and non-financial companies. The rates have not been restated to reflect a credit risk not factored into the selected bond baskets. In 2013, a general increase in the discount rate resulted in an overall decrease in liabilities generating actuarial gains for the year of €16 million.

Actual returns on pension plan assets exceeded expected returns (discount rate) to the tune of €6.8 million.

FRANCE

Obligations in France correspond mainly to retirement bonuses, supplemental pension plans and long-service award-type benefits.

On 31 December 2013 a sensitivity test was performed on the discount rate, which found that a 1% change would result in a change of about €6.6 million on these obligations.

On 14 September 2005, a supplemental pension plan with its own plan assets was set up for senior management. The plan is partially outsourced to an insurance company. Since it is a defined benefit plan, it is valued on an actuarial basis and recognized in accordance with revised IAS 19 in the case of active employees. At 31 December 2013, the remaining obligation amounted to €11 million for assets of €6 million.

GERMANY

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

On 31 December 2013 a sensitivity test was performed on the discount rate, which found that a 1% change would result in a change of about €21.7 million on these obligations.

In Germany, a plan amendment reduced the guaranteed rate of pension increase from 5% to 2.75% from 1 January 2013, generating an exceptional gain of €7.5 million.

UNITED KINGDOM

The Group helps fund a defined benefit pension plan for Group employees. The obligations are outsourced and managed by leading institutions in the financial markets.

The strong performance of assets in the UK resulted in overfunding of the plan at 31 December 2013, posted as an asset of €0.3 million in the consolidated financial statements.

On 31 December 2013 a sensitivity test was performed on the discount rate, which found that a 1% change would result in a change of about €17.4 million on these obligations.

BRAZIL

In Brazil, employers help to fund termination benefits and long-service awards. Retirement bonuses are partially outsourced in a pension fund with total assets of €0.9 million in 2013 (vs. €1.1 million in 2012). A €0.4 million contribution was paid in 2013 (vs. €0.5 million in 2012).

MEXICO

Obligations in Mexico are not material for the Group.

UNITED STATES

The assumption of increased medical benefits is regressive from 2014 to 2019: from 7.8% to 5.0% for assets, and from 7.3% to 5.0% for retirees.

There were no significant events during 2013 that could have a material impact on the obligation.

OTHER COUNTRIES

Provisions are made for obligations in other countries in accordance with local standards. They are not considered material at Group level.

Charges incurred during the year include the additional rights acquired for an additional year of service, the change in existing rights at the beginning of year due to discounting, past service costs recorded in the period, the actual return on plan assets, the effects of plan reductions or liquidations and the amortization of actuarial gains and losses for liabilities other than pensions. The portion relating to the discounting of rights is recognized in financial income (loss) and the return on plan assets is recorded in investment income. These charges are broken down as follows:

CHARGES FOR THE FISCAL YEAR

In € thousand	Germany	France	United Kingdom	Other	Total
Restated at 31/12/2012					
Cost of services rendered	5,669	2,714	2,148	3,099	13,630
Interest expense on obligations	8,999	2,091	5,035	3,740	19,865
Actual return on plan assets	-5,777	-165	-4,591	-971	-11,504
Net actuarial losses (+) / gains (-) recognized during the fiscal year	1,708	442	-	443	2,593
Cost of services rendered	-	-	-	-	
Impact of any reduction or liquidation	-	-	-	-	
CARRYING AMOUNT	**10,599**	**5,082**	**2,592**	**6,311**	**24,584**
ACTUAL RETURN ON PLAN ASSETS	**11,608**	**128**	**6,707**	**2,309**	**20,752**

In € thousand	Germany	France	United Kingdom	Other	Total
At 31/12/2013					
Cost of services rendered	5,090	3,443	2,081	3,768	14,382
Interest expense on obligations	7,391	1,721	4,490	3,159	16,761
Actual return on plan assets	-4,328	-128	-4,545	-919	-9,920
Net actuarial losses (+) / gains (-) recognized during the fiscal year	3,181	-269	-	-1,003	1,909
Cost of services rendered	-7,454	-	-	-	-7,454
Impact of any reduction or liquidation		-393	-	-	-393
CARRYING AMOUNT	**3,880**	**4,374**	**2,026**	**5,005**	**15,285**
ACTUAL RETURN ON PLAN ASSETS	**734**	**90**	**12,892**	**2,882**	**16,598**

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

Changes in associated assets *In € thousand*	Germany	France	United Kingdom	Other	Total
At 31/12/2011	**122,921**	**3,507**	**91,921**	**16,220**	**234,569**
Value of assets	122,921	3,508	91,921	16,220	234,570
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	-564	1,532
At 31/12/2012	**134,544**	**3,636**	**105,019**	**20,135**	**263,334**
Value of assets	134,544	3,635	105,019	20,153	263,351
Return on assets	734	90	12,892	2,882	16,598
Contributions	-1,577	2,456	5,460	1,988	8,327
Benefits paid	-	-	-4,337	-914	-5,251
Acquisitions, disposals, liquidations				-67	-67
Impact of changes in exchange rates	-	-	-1,955	-1,159	-3,114
AT 31/12/2013	**133,701**	**6,181**	**117,079**	**22,883**	**279,844**

Changes in the obligation *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 expense on obligations	8,999	2,091	5,035	3,740	19,865
Employee contributions			858		858
Actuarial losses (+)/gains (-) generated during the year					
Revaluations:					
› experience-related adjustments	-867	209	-304	313	-649
› actuarial gains and losses arising from changes in demographic assumptions					
› actuarial gains and losses arising from changes in financial assumptions	32,731	6,966	-1,767	13,448	51,378
Acquisitions/disposals					
Payment of benefits	-12,237	-2,920	-3,901	-2,379	-21,437
Scheme amendments					
Foreign exchange differences			2,388	-4,872	-2,484
Other					
AT 31/12/2012	**241,076**	**53,243**	**106,454**	**77,593**	**478,366**

Changes in the obligation *In € thousand*	Germany	France	United Kingdom	Other	Total
At 31/12/2012	**241,076**	**53,243**	**106,454**	**77,593**	**478,366**
Cost of services rendered	5,090	3,443	2,081	3,768	14,382
Interest expense on obligations	7,391	1,721	4,490	3,159	16,761
Employee contributions			668	78	746
Actuarial losses (+)/gains (-) generated during the year					
Revaluations:					
› experience-related adjustments	7,307	1,055	1,422	2,034	11,818
› actuarial gains and losses arising from changes in demographic assumptions	94		-483	49	-340
› actuarial gains and losses arising from changes in financial assumptions	-7,681	-5,615	8,516	-11,388	-16,168
Acquisitions/disposals		-	-	-	
Payment of benefits	-13,697	-4,132	-4,337	-2,517	-24,683
Plan amendments	-7,454		-	-	-7,454
Foreign exchange differences	-	-	-2,016	-8,176	-10,192
Other	-417	-390	-	-467	-1,274
AT 31/12/2013	**231,709**	**49,325**	**116,795**	**64,133**	**461,962**

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 31/12/2011	**83,858**	**40,675**	**10,075**	**48,026**	**116,705**
Total charge for the period	10,599	5,082	2,592	6,311	24,584
Amount recognized in Other comprehensive income – Revaluation	25,430	6,771	-4,186	11,982	39,997
Benefits or contributions to the funds	-12,252	-2,920	-7,338	-4,549	-27,059
Impact of changes in exchange rates			292	-4,312	-4,020
Changes in scope and other	-1,103	-1	-		-1,104
PROVISION/(ASSET) AT 31/12/2012	**106,532**	**49,607**	**1,435**	**57,458**	**215,032**
Total charge for the period	3,880	4,374	2,026	5,005	15,285
Amount recognized in Other comprehensive income – Revaluation	-283	-4,252	1,109	-9,162	-12,588
Benefits or contributions to the funds	-12,120	-6,588	-4,792	-3,443	-26,943
Impact of changes in exchange rates			-62	-8,608	-8,670
Changes in scope and other	-1	3			2
PROVISION/(ASSET) AT 31/12/2013	**98,008**	**43,144**	**-284**	**41,250**	**182,118**

Plan assets are broken down as follows:

United Kingdom *In € thousand*	**31/12/2013 Share of assets**	**31/12/2012 Share of assets**
Equities (UK and overseas)	53.00%	49.00%
Bonds	32.00%	32.00%
Real Estate	9.00%	13.00%
Other (cash and index-linked gilts)	6.00%	6.00%

United States *In € thousand*	**31/12/2013 Share of assets**	**31/12/2012 Share of assets**
Equities	58.00%	50.00%
Bonds	33.00%	39.00%
Real Estate	-	8.00%
Other	9.00%	3.00%

France *In € thousand*	**31/12/2013 Share of assets**	**31/12/2012 Share of assets**
Equities	-	-
Bonds	-	-
Real Estate	-	-
Other	100.00%	100.00%

In Germany, 72% of the funds are invested in bonds.

SENSITIVITY ANALYSIS

Calculating the projected obligation of a defined benefit plan is sensitive to the above assumptions.

A change of 1% in the respective assumptions would have the following impacts on the defined benefit obligation at the balance sheet date:

	1% increase	1% decrease
Discount rate	-52.8	60.2
Salary increase rate	15	-14.4
Guaranteed rate of pension increase	31.4	-29.4

Amounts expensed for defined contribution plans *In € thousand*	**Production staff**	**Directors, management, technical and supervisory staff**	**Total**
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**
At 31/12/2013			
Employer's share of retirement contributions	7,695	11,589	19,284
Life insurance paid by the employer	12,063	8,446	20,509
Other retirement contributions	472	85	557
TOTAL	**20,230**	**20,120**	**40,350**

OTHER EMPLOYEE BENEFITS (OPTIONS AND PERFORMANCE SHARES)

Share subscription plans

CHARACTERISTICS OF THE PLANS

The Vallourec Management Board authorized share subscription plans from 2007 to 2013 for some senior managers and corporate officers of the Group.

The characteristics of these plans are as follows (figures for the 2007, 2008 and 2009 plans are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares):

In € thousand	2007 Plan	2008 Plan	2009 Plan	2010 Plan	2011 Plan	2012 Plan	2013 Plan
Grant date	03/09/2007	01/09/2008	01/09/2009	01/09/2010	01/09/2011	31/08/2012	02/09/2013
Maturity date	03/09/2011	01/09/2012	01/09/2013	01/09/2014	01/09/2015	01/04/2017	01/04/2018
Expiration date	03/09/2014	01/09/2015	01/09/2019	01/09/2020	01/09/2021	30/08/2020	01/09/2021
Number of beneficiaries at outset	65	9	303	349	743	387	406
Exercise price in euros	95.30	91.77	51.67	71.17	60.71	37	46.15
Number of options granted	294,600	143,600	578,800	512,400	684,521	530,400	602,465

CHANGE IN NUMBER OF UNEXPIRED OPTIONS

For all of these plans, the change in the number of unexpired options is as follows:

In number of options	2012	2013
Total at beginning of period	2,151,887	2,655,087
Options distributed	530,400	602,465
Options exercised	-	-
Options not exercised at expiry date	-	-
Options cancelled [a]	-27,200	-74,273
TOTAL AT END OF PERIOD	**2,655,087**	**3,183,279**
Of which options remaining to be exercised	421,200	944,800

(a) Beneficiaries who have left the Group.

The number of unexpired options breaks down as follows:

	2012	2013
2007 Plan	277,600	277,600
2008 Plan	143,600	143,600
2009 Plan	536,800	523,600
2010 Plan	491,200	481,900
2011 Plan	677,287	637,214
2012 Plan	528,600	516,900
2013 Plan		602,465

Valuation of plans [a] *In € thousand*	2007 Plan	2008 Plan	2009 Plan	2010 Plan	2011 Plan	2012 Plan	2013 Plan
Charge for fiscal year 2007	705	-	-	-	-	-	-
Charge for fiscal year 2008	2,912	711	-	-	-	-	-
Charge for fiscal year 2009	1,817	1,445	820	-	-	-	-
Charge for fiscal year 2010	1,561	895	1,581	694	-	-	-
Charge for fiscal year 2011	1,083	746	1,321	2,253	853	-	-
Charge for fiscal year 2012	-	768	1,493	638	1,175	176	-
Charge for fiscal year 2013	-	-	815	1,162	882	511	450
Accrued charge at 31 December 2012	**8,078**	**4,565**	**6,030**	**4,747**	**2,910**	**687**	**450**
Assumptions							
Share price at grant date	€99	€95.42	€50.65	€70.34	€62.93	€36.87	€46.33
Volatility [b]	35.00%	35.00%	43.00%	35.00%	35.00%	35.00%	30.00%
Risk-free rate [c]	4.20%	4.40%	2.39%	2.60%	3.01%	1.92%	2.16%
Exercise price	€95.30	€91.77	€51.67	€71.17	€60.71	€37	€46.15
Dividend rate [d]	3.75%	3.50%	5.00%	3.00%	3.00%	3.00%	3.00%
Fair value of the option	€29.10	€31.79	€17.11	€24.05	€18.50	€9.36	€10.41

(a) The binomial model of projecting share prices has been used to measure 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 plans

CHARACTERISTICS OF THE PLANS

The Vallourec Management Board authorized performance share plans from 2007 to 2013 for some senior managers and corporate officers of the Group.

The characteristics of these plans are as follows (figures for the 2007, 2008 and 2009 plans are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares):

	Grant date	Vesting period	Holding period	Number of beneficiaries at 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	18/11/2011	4.6 years	-	841	6,462
2011 2-4-6 Plan [(g)]	15/12/2011	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	286,718
2012 2-4-6 Plan [(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
2013 Plan [(j)]	29/03/2013	3 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)	1,647	295,225
2013 2-4-6 Plan [(k)]	29/03/2013	3 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	21,744	130,464
Value 13 Plan	10/12/2013	4.6 years	-	732	4,028

(a) Definitive award of shares in 2011 for French residents and in 2013 for non-French residents, based on the consolidated EBITDA performance achieved by the Group in 2009 and 2010. The actual number is determined 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) Definitive award of shares in 2011 for French residents and in 2013 for non-French residents, based on the consolidated EBITDA achieved by the Group for the period from 1 January 2010 to 30 September 2011. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(c) Definitive award of shares in 2012 for French residents and in 2014 for non-French residents, based on the consolidated EBITDA achieved by the Group in 2010 and 2011. The actual number is determined 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) Definitive award of shares in 2012 for French residents and in 2014 for non-French residents, based on the consolidated EBITDA achieved by the Group in 2010, 2011 and 2012. The actual number is determined 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 applying a performance factor of 1.

(e) Definitive award of shares in 2012 for French residents and in 2014 for non-French residents, based on the consolidated EBITDA achieved by the Group for the period from 1 January 2011 to 30 September 2012. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(f) Definitive award of the shares in 2013 for French residents and members of the Management Board, and in 2015 for non-French residents. For all beneficiaries (excluding Board members), it will be based on the ratio of consolidated EBITDA to consolidated sales achieved by the Group in 2011 and 2012. The actual number is determined 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 definitive award of shares in 2013 will be based on the following three criteria assessed for fiscal years 2011 and 2012: revenue growth on a like-for-like basis; the ratio of consolidated EBITDA to consolidated sales on a like-for-like basis; and the performance of the Vallourec share on the regulated Euronext Paris stock market against a benchmark panel. The actual number is determined 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) Definitive award of shares in 2014 for French residents and in 2016 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2012 to 30 September 2013. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(h) Definitive award of shares in 2014 for French residents and members of the Management Board, and in 2016 for non-French residents. For all beneficiaries (excluding Board members), it will be based on the ratio of consolidated EBITDA to consolidated sales achieved by the Group in 2012 and 2013. The actual number is determined 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 definitive award of shares will be based on the following three criteria assessed for fiscal years 2012 and 2013: revenue growth on a like-for-like basis; the ratio of consolidated EBITDA to consolidated sales on a like-for-like basis; and the performance of the Vallourec share on the regulated Euronext Paris stock market against a benchmark panel. The actual number is determined 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) Definitive award of shares in 2014 for French residents and in 2016 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2012 to 31 December 2013. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(j) Definitive award of shares in 2016 for French residents and members of the Management Board, and in 2017 for non-French residents. For all beneficiaries (excluding Board members), it will be based on the ratio of consolidated EBITDA to consolidated sales achieved by the Group in 2013, 2014 and 2015. The actual number is determined 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 definitive award of shares will be based on the following three criteria assessed for fiscal years 2013, 2014 and 2015: revenue growth on a like-for-like basis; the ratio of consolidated EBITDA to consolidated sales on a like-for-like basis; and the performance of the Vallourec share on the regulated Euronext Paris stock market against a benchmark panel. The actual number is determined 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.

(k) Definitive award of shares in 2016 for French residents and in 2017 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2013 to 31 December 2015. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

CHANGE IN NUMBER OF SHARES

The characteristics of these plans are as follows (figures for the 2007, 2008 and 2009 plans are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares):

	Initial theoretical number of shares allocated	Number of shares cancelled	Theoretical number of shares acquired or being vested	Number of shares delivered
Value 08 Plan	67,712	-8,928	58,784	58,784
2009 Plan	26,668	-1,547	25,121	28,387
Value 09 Plan	69,400	-3,912	65,488	-
1-2-3 Plan	104,424	-7,446	96,978	96,978
03/2010 Plan	190,540	-10,080	180,460	81,936
07/2010 Plan	4,280	-	4,280	3,680
Value 10 Plan	83,462	-2,778	80,684	-
2-4-6 Plan	72,588	-3,882	68,706	29,442
2011 Plan	214,271	-4,428	209,843	58,069
Value 11 Plan	6,462	-685	5,777	-
2011 2-4-6 Plan	78,318	-6,678	71,640	28,308
2012 Plan	286,718	-14,376	272,342	-
2012 2-4-6 Plan	130,116	-6,720	123,396	-
Value 12 Plan	4,395	-258	4,137	-
2013 Plan	295,225	-1,715	293,510	-
2013 2-4-6 Plan	130,464	-1,806	128,658	
Value 13 Plan	4,028	-	4,028	

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 fiscal year 2007	-	-	-	-	-	-
Charge for fiscal year 2008	17	-	-	-	-	-
Charge for fiscal year 2009	414	271	83	63		
Charge for fiscal year 2010	411	459	692	1.671	3.544	58
Charge for fiscal year 2011	412	290	657	1.639	3.368	128
Charge for fiscal year 2012	366	14	689	865	1.648	28
Charge for fiscal year 2013	32	17	563	693	1.139	44
Accrued charge at 31 December 2013	**1.652**	**1.051**	**2.684**	**4.931**	**9.699**	**258**
Assumptions						
Share price at grant 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)]	7.30%	5%	5%	5%	5%	5%
Fair value of share tranche 1	€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)
Fair value of share tranche 2	-	-	-	-	-	-
Fair value of share tranche 3	-	-	-	-	-	-

(a) The binomial model of projecting share prices has been used to determine the fair value of the shares allocated. The employee benefit corresponds to the fair value of the shares allocated, taking into account the impossibility of receiving dividends during the vesting period and the cost to the employee of the non-transferability of shares during the 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.

Valuation of Plans [a] *In € thousand*	Value 10 Plan	2-4-6 Plan	2011 Plan	Value 11 Plan	2011 2-4-6 Plan	2012 2-4-6 Plan
Charge for fiscal year 2010	136	127	-	-	-	-
Charge for fiscal year 2011	1,088	1,654	3,673	-	-	-
Charge for fiscal year 2012	1,134	1,530	2,560	51	1,095	2,994
Charge for fiscal year 2013	1,033	564	-80	39	892	970
Accrued charge at 31 December 2012	**3,391**	**3,875**	**6,153**	**90**	**1,987**	**3,964**
Assumptions						
Share price at grant 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]	3.00%	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)

(a) The binomial model of projecting share prices has been used to determine the fair value of the shares allocated. The employee benefit corresponds to the fair value of the shares allocated, taking into account the impossibility of receiving dividends during the vesting period and the cost to the employee of the non-transferability of shares during the 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.

Valuation of Plans [a] *In € thousand*	2012 2-4-6 Plan	Value 12 Plan	2013 Plan	2013 2-4-6 Plan	Value 13 Plan
Charge for fiscal year 2012	1,267	7	-	-	-
Charge for fiscal year 2013	1,541	22	2,053	860	2
Accrued charge at 31 December 2013	**2,808**	**29**	**2,053**	**860**	**2**
Assumptions					
Share price at grant date	€47.50	€34,15	€37.50	€37.50	€42.51
Volatility [b]	35%	35%	30%	30%	30%
Risk-free rate [c]	1.36%	0.91%	0.85%	0.85%	0.90%
Dividend rate [d]	3%	3%	3%	3%	3%
Fair value of the share	€41.34 (French residents) or €42.05 (non-French residents)	€29,33	€31.20 (French residents) or €33.20 (non-French residents)	€31.20 (French residents) or €33.20 (non-French residents)	€36.50

(a) The binomial model of projecting share prices has been used to determine the fair value of the shares allocated. The employee benefit corresponds to the fair value of the shares allocated, taking into account the impossibility of receiving dividends during the vesting period and the cost to the employee of the non-transferability of shares during the 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.

The impact on the income statement of employee share ownership Plans is presented in Note 24.

NOTE 19 Other current liabilities

In € thousand	Social security liabilities	Tax liabilities	Liabilities associated with the acquisition of assets	Deferred income	Other current liabilities	Total
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**
Impact of changes in exchange rates	-11,940	-4,977	-5,908	-43	-5,728	-28,596
Other changes	27,553	12,942	-1,403	1,004	24,561	64,657
AT 31/12/2013	**259,755**	**67,079**	**64,298**	**7,143**	**71,525**	**469,800**

Changes in other current liabilities consist mainly of a liability related to dividends payable to non-controlling interests and an increase in liabilities on employee share ownership and profit-sharing plans.

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 31/12/2012				
HKM	5,127	500,052	37	33,260
Rothschild & Cie [(a)]	-	-	-	-
Proportionately consolidated companies	21,779	40,448	4,505	53,476
At 31/12/2013				
HKM	2,610	460,688	130	92,245
Rothschild & Cie [(a)]	-	-	-	-
Proportionately consolidated companies	26,581	135,798	4,613	84,732

(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 Vallourec Deutschland GmbH and Vallourec Tubes France.

Transactions carried out in 2013 with Rothschild & Cie relate to a financial consultancy agreement to assist the Management Board.

Vallourec has a liquidity contract with Rothschild & Cie. that has been in effect since 2 July 2012. It was implemented under the annual authorization for the share buyback program approved by the Shareholders' Meeting of 30 May 2013 (sixth resolution). To implement it, the following resources were allocated to the liquidity account:

- €9,000,000
- 490,500 shares.

Vallourec & Sumitomo Tubos do Brasil, which is proportionately consolidated, has total assets of €1,464.2 million. In 2013, the Company generated €133.1 million in revenue for the Group, which made no capital investment during the year.

COMPENSATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The total compensation paid to members of the Executive Committee, as constituted at 31 December (14 people in 2013, against 15 in 2012), as well as pension liabilities at the balance sheet date, were as follows:

In € thousand	2012	2013
Compensation and benefits in kind	7,146	6,162
Share-based payments [(a)]	2,302	1,514
Pension commitments	1,176	1,236
Supplementary pension commitments	6,887	7,380

(a) Information provided based on the 2013, 2012, 2011, 2010 and 2009 share subscription option, performance share and employee share ownership plans.

Share purchase and share subscription options (Note 18) granted to members of the Executive Committee at 31 December

	2012 [(a)]	2013 [(a)]
Options granted on 3 September 2007 exercisable from 3 September 2011 to 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 exercisable options at 31 December	53,000	53,000
Options granted on 1 September 2008 exercisable from 1 September 2012 to 1 September 2015	108,000	100,400
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 exercisable options at 31 December	108,000	100,400
Options granted on 1 September 2009 exercisable from 1 September 2013 to 1 September 2019	124,800	118,800
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 exercisable options at 31 December	124,800	118,800
Options granted on 1 September 2010 exercisable from 1 September 2014 to 1 September 2020	113,400	108,900
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 exercisable options at 31 December	113,400	108,900
Options granted on 1 September 2011 exercisable from 1 September 2015 to 1 September 2021	113,216	108,716
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 exercisable options at 31 December	113,216	108,716
Options granted on 31 August 2012 exercisable from 1 September 2016 to 1 September 2022	55,500	51,000
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 exercisable options at 31 December	55,500	51,000
Options granted on 2 September 2013 exercisable from 3 April 2018 to 1 September 2021		111,000
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 exercisable options at 31 December		111,000

(a) Plan figures are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares).

Performance shares (Note 18) allocated to employees who were members of the Executive Committee at 31 December

	2012 [a]	2013 [a]
Value 08 Plan of 16 December 2008		
Theoretical number of shares allocated	42	42
Number of shares vested during the year		42
Value 09 Plan of 17 December 2009		
Theoretical number of shares allocated	24	24
15 March 2010 Plan		
Theoretical number of shares allocated	25,380	24,480
Number of shares vested during the year	23,095	
31 July 2010 Plan		
Theoretical number of shares allocated	4,000	4,000
Number of shares vested during the year	3,080	
Value 10 Plan of 3 December 2010		
Theoretical number of shares allocated	42	42
2-4-6 Plan of 3 December 2010		
Theoretical number of shares allocated	54	48
Number of shares vested during the year	48	
30 March 2011 Plan		
Theoretical number of shares allocated	31,777	25,200
Number of shares vested during the year		
Value 11 Plan of 15 December 2011		
Theoretical number of shares allocated	-	-
2-4-6 Plan of 15 December 2011		
Theoretical number of shares allocated	60	54
Number of shares vested during the year		42
30 March 2012 Plan		
Theoretical number of shares allocated	35,095	28,518
2-4-6 Plan of 30 March 2012		
Theoretical number of shares allocated	72	66
Value 12 Plan of 18 November 2012		
Theoretical number of shares allocated	-	
29 March 2013 Plan		
Theoretical number of shares allocated		28,833
2-4-6 Plan of 29 March 2013		
Theoretical number of shares allocated		66
Value 13 Plan of 14 November 2013		
Theoretical number of shares allocated		

(a) Plan figures are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares):

As regards post-employment benefits for senior managers, there is no specific plan. Senior managers are covered by the Vallourec Group's supplemental pension plan (under Article 39 of the French General Tax Code) introduced in 2005 (Note 18).

At 31 December 2013, no loans or guarantees had been granted to senior management by the parent company or its subsidiaries.

NOTE 21 Off-balance-sheet commitments

For its activities in Europe, the Group was granted a greenhouse gas emissions allowance of 449,325 metric tons in 2013.

Vallourec is concerned by the third emissions trading period (2013-2020). Although from 2013, a portion of such allowances allocated is no longer free and will be auctioned on the market, as the metalworking sector is exposed to the risk of "carbon leakage", it will continue to receive free allowances from 2013 until 2027.

OFF-BALANCE-SHEET COMMITMENTS RECEIVED (EXCLUDING FINANCIAL INSTRUMENTS)

In € thousand	2012	2013
Firm non-current asset orders	74,690	11,272
Guarantees and commitments received	111,104	124,116
Other commitments received	58,409	32,512
TOTAL	**244,203**	**167,900**
OFF-BALANCE-SHEET COMMITMENTS GIVEN (EXCLUDING FINANCIAL INSTRUMENTS)	**700,052**	**525,696**

COMMITMENTS GIVEN BY MATURITY

In € thousand	2013	< 1 year	> 1 year	> 5 years
Balance sheet				
Long-term financial debts	2,193,972	814,881	860,504	518,587
Off-balance-sheet				
Market guarantees and letters of credit given	164,207	74,473	89,734	
Other securities, mortgages and pledges given	90,729		5,919	84,810
Long-term leasing contract	72,613	9,134	21,865	41,614
Firm non-current asset orders given	23,771	11,272		12,499
Other commitments	174,376	81,104	69,840	23,432
TOTAL	**525,696**	**175,983**	**187,358**	**162,355**

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 benefit obligations	174,862	59,674	30,995	84,193
TOTAL	**700,052**	**234,961**	**205,231**	**259,860**

Firm non-current asset orders mainly concerned Vallourec & Sumitomo Tubos do Brasil and Vallourec Changzhou in 2012.

The joint venture agreement signed by the two shareholders, Vallourec and Sumitomo, provides that each will have the option to buy the other shareholder's stake should it undergo a change of control.

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 Revenues

In € thousand	2012	2013
Sales in France	176,581	180,715
Sales in Germany	501,740	461,538
Other EU countries	516,756	423,018
North America (NAFTA)	1,532,836	1,462,206
South America	1,169,647	1,184,521
Asia	978,729	1,462,147
Rest of the world	449,729	404,169
TOTAL	**5,326,018**	**5,578,314**

NOTE 23 Cost of sales

In € thousand	2012 [(a)]	2013
Direct cost of sales	-379,355	-401,467
Cost of raw materials consumed	-1,574,813	-1,587,917
Cost of labor	-867,476	-902,630
Other manufacturing costs	-1,150,169	-1,123,062
Change in non-raw material inventories	33,838	-20,657
TOTAL	**-3,937,975**	**-4,035,733**
Amortization	-237,507	-269,736
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**-4,175,482**	**-4,305,469**

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 «Employee Benefits».

NOTE 24 Administrative, selling and research costs

In € thousand	2012	2013
Research and Development costs	-92,820	-87,384
Selling and marketing costs	-120,666	-101,602
General and administrative costs	-362,108	-370,473
TOTAL	**-575,594**	**-559,459**
Depreciation and amortization	-65,709	-73,223
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**-641,303**	**-632,682**

PERSONNEL COSTS AND AVERAGE HEADCOUNT OF CONSOLIDATED COMPANIES

Personnel costs *In € thousand*	**2012**	**2013**
Wages and salaries	-779,470	-809,422
Employee profit-sharing	-42,448	-56,544
Charges related to share subscription and share purchase options and performance shares	-30,303	-19,797
Share subscription option plan of 3 September 2007	-	-
Share subscription option plan of 1 September 2008	-768	-
Share subscription option plan of 1 September 2009	-1,493	-815
Share subscription option plan of 1 September 2010	-638	-1,162
Share subscription option plan of 1 September 2011	-1,175	-882
Share subscription option plan of 30 August 2012	-176	-511
Share subscription option plan of 2 September 2013		-450
Performance share plan of 3 May 2007	-	-
Performance share plan of 1 September 2008	-	-
Value 08 employee share ownership plan of 8 December 2008 including the bonus share plan of 16 December 2008	-366	-32
Performance share plan of 31 July 2009	-15	-17
Value 09 employee share ownership plan of 12 December 2009 including the bonus share plan of 12 December 2009	-689	-563
1-2-3 performance share plan of 17 December 2009	-865	-693
Performance share plan of 15 March 2010	-1,648	-1,139
Performance share plan of 31 July 2010	-28	-44
Value 10 employee share ownership plan of 17 November 2010 including the bonus share plan of 17 November 2010	-1,134	-1,033
2-4-6 performance share plan of 3 December 2010	-1,530	-564
Performance share plan of 30 March 2011	-2,560	80
Value 11 employee share ownership plan of 18 November 2011 including the bonus share plan of 18 November 2011	-51	-39
2-4-6 performance share plan of 18 November 2011	-1,095	-892
Performance share plan of 30 March 2012	-2,994	-970
2-4-6 performance share plan of 30 March 2012	-1,267	-1,541
Value 12 employee share ownership plan of 12 November 2012 including the bonus share plan of 12 November 2012	-11,811	-22
Performance share plan of 29 March 2013		-2,053
2-4-6 performance share plan of 29 March 2013		-860
Value 13 employee share ownership plan of 14 November 2013 including the bonus share plan of 14 November 2013		-5,595
Social security costs	-294,867	-300,932
TOTAL	**-1,147,088**	**-1,186,695**

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

2013

An employee share ownership plan (ESOP) was offered to employees; to comply with the legal and tax requirements of each country, several different plans were offered:

- Leveraged company mutual fund (*fonds commun de placement entreprise levier – FCPE levier*): employees subscribe via a company mutual fund to a number of Vallourec shares at a price discounted by 15% and receive, at the end of the vesting period, a performance multiple on their Vallourec shares as well as protection of their initial investment, excluding currency effects. The increase multiple is achieved through the transfer of the discount, dividends and other financial rights related to ownership of the shares to the bank structuring the transaction through a swap contract;
- Standard company mutual fund (*fonds commun de placement classique – FCPE classique*): employees subscribe via a company mutual fund to Vallourec shares at a price discounted by 20% and receive any dividends;
- Share and Stock Appreciation Rights (SAR): employees, by buying one share at a price discounted by 15%, receive one SAR (protection on their initial investment, excluding currency effects, and a performance multiple on said share), which will be paid by the employer, in cash, at the end of the vesting period. The resulting liability (SAR) is covered by warrants provided to the employer by the bank structuring the transaction. The warrants are issued in consideration of the issue of shares reserved for the bank at a price discounted by 20%;
- Cash and Stock Appreciation Rights (SAR): employees, by depositing funds in an interest-bearing bank account, receive SARs (performance multiple on the deposit), which will be paid to the employee by the employer in cash at the end of the vesting period. The resulting liability (SAR) is covered by warrants provided to the employer by the bank structuring the transaction. The warrants are issued in consideration of 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 ESOP is measured on the grant date. The fair value of the benefit corresponds, in the case of the standard offering, 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 schemes, to the estimated 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 valuation of the option protecting the initial investment are added.

Characteristics of Value plans	2012	2013
Grant date	12 November 2012	14 November 2013
Maturity date of plans	3 July 2017	2 July 2018
Reference price	€32.23	€43.47
Subscription price	€25.78	€34.78
Subscription price for leveraged scheme		€36.95
Discount	20%	15% and 20%
Total amount subscribed	85,617	69,223
Total number of shares subscribed	3,319,835	1,874,453
Total discount	21,413	12,259
Multiple per share		
› Leveraged company mutual fund plan	7.2	6.8
› Share and SAR plan	6.2	4.9
› Cash and SAR plan	7.2	6.3
Valuation assumptions		
Volatility [(a)]	30%	30%
Risk-free rate [(b)]	0.91%	0.90%
Annual dividend rate [(c)]	3.00%	3.00%
Total IFRS 2 charge [(d)]	**11,804**	**5,593**

(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 were determined based on analysts' expectations (external information) and the Group's dividend policy.

(d) Calculated using a binomial model for share price movements.

This benefit led to the recognition of a personnel cost of €5.6 million in 2013 compared to €11.8 million in 2012.

The IFRS 2 charge resulting from the SARs is measured again at each quarter-end by reference to the fair value corresponding to the estimated present value of the amounts ultimately paid to the employee.

Parameters for measuring the fair value of SARs	Value 09	Value 10	Value 11	Value 12	Value 13
Valuation date	31 December 2013	31 December 2013	31 December 2013	31 December 2013	31 December 2013
Maturity date	1 July 2014	1 July 2015	1 July 2016	1 July 2017	1 July 2018
Share price at the valuation date	€39.60	€39.60	€39.60	€39.60	€39.60
Multiple per share					
› Share and SAR plan	4.7	4.8	6.2	6.06	4.9
› Cash and SAR plan	5.9	6	7.2	7.2	6.3
Valuation assumptions					
Volatility [(a)]	33%	33%	33%	35%	35%
Risk-free rate [(b)]	0.11%	0.15%	0.35%	0.59%	0.87%
Annual dividend rate [(c)]	3.00%	3.00%	3.00%	3.00%	3.00%
IFRS 2 charge for the period [(d)]	**-60**	**-71**	**-229**	**-539**	**686**

(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 were determined based on analysts' expectations (external information) and the Group's dividend policy.

(d) Calculated using a binomial model for share price movements.

The liability to employees resulting from SARs resulted in a charge included in personnel costs of €0.2 million in 2011.

In accordance with IAS 39, the income from warrants is remeasured at each quarter-end by reference to the fair value of the derivative instrument.

Parameters for determining the fair value of warrants	Value 09	Value 10	Value 11	Value 12	Value 13
Valuation date	31 December 2013	31 December 2013	31 December 2013	31 December 2013	31 December 2013
Maturity date	1 July 2014	1 July 2015	1 July 2016	1 July 2017	1 July 2018
Share price at the valuation date	€39.60	€39.60	€39.60	€39.60	€39.60
Multiple per share					
› Share and SAR plan	4.7	4.8	6.2	6.06	4.9
› Cash and SAR plan	5.9	6	7.2	7.2	6.3
Valuation assumptions [(a)]					
Implied volatility	33%	33%	33%	35%	35%
Interest rate	from 0.30% to 0.75%	from 0.30% to 0.41%	from 0.30% to 0.76%	from 0.30% to 1.03%	from 0.30% to 1.29%
Annual dividend (in euros)	€0.75	€0.75	€0.75	€0.75	€0.75
IAS 39 income for the period	**-70**	**-74**	**-249**	**-547**	**633**

(a) Assumptions of the bank structuring the transaction.

The expense corresponding to the warrants paid by the bank to the employer was added to the employees' investment and recognized in personnel costs in an amount of €0.3 million in 2013 since it is intended to cover the income associated with the SAR (see above).

Average headcount of consolidated companies [a]	2012	2013
Managers and executives	3,115	3,249
Technical and supervisory staff	3,975	4,092
Production staff	14,914	14,927
TOTAL	**22,004**	**22,268**

(a) The workforces of proportionally consolidated companies are included based on the percentage interest held by the Group.

Group headcount at 31 December 2013 was 22,912 people, against 22,196 at 31 December 2012.

NOTE 25 Other

In € thousand	2012	2013
Employee profit-sharing	-42,448	-56,544
Fees for concessions and patents	29,210	29,022
Other income and expenses	-11,093	-35,577
TOTAL	**-24,331**	**-63,099**

Charges to provisions, net of reversals *In € thousand*	2012	2013
Charges to provisions net of reversals included in EBITDA amounted to:	-59,494	-4,904

NOTE 26 Statutory Auditors' fees

	KPMG		Deloitte	
	Amount (excl tax)			
	2012	2013	2012	2013
Audit				
Statutory audit, certification, examination of Company and consolidated financial statements				
Issuer	214	218	206	210
%	20%	19%	12%	12%
Fully consolidated subsidiaries	785	839	1,412	1,470
%	73%	73%	86%	86%
Other services directly associated with the statutory audit				
Issuer	70	69	31	14
%	6%	6%	2%	1%
Fully consolidated subsidiaries	12	19	0	6
%	1%	2%	0%	0%
SUB-TOTAL	**1,081**	**1,145**	**1,649**	**1,700**
%	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)	0		0	0
%	0%	0%	0%	0%
SUB-TOTAL	**0**	**0**	**0**	**0**
%	0%	0%	0%	0%
TOTAL	**1,081**	**1,145**	**1,649**	**1,700**

NOTE 27 Accumulated depreciation and amortization

In € thousand	2012	2013
By function		
Depreciation of industrial assets	-237,507	-269,736
Depreciation and amortization – Research and Development	-7,186	-8,767
Depreciation and amortization – Sales and Marketing Department contracts	-36,937	-39,186
Depreciation and amortization – General and administrative expenses	-21,586	-25,270
TOTAL	**-303,216**	**-342,959**
By type		
Net amortization of intangible assets (see Note 1)	-56,875	-60,998
Net depreciation of property, plant and equipment (see Note 2)	-241,180	-274,472
Net depreciation and amortization of biological assets	-5,161	-7,489
TOTAL	**-303,216**	**-342,959**

Depreciation of new industrial sites in the development stage is calculated according to the production-units method for assets used directly in the production process and the straight-line depreciation method for other assets.

NOTE 28 Impairment of assets and goodwill, asset disposals and restructuring costs

In € thousand	2012	2013
Reorganization measures (net of expenses and provisions)	-744	-3,151
Gains and losses on disposals of non-current assets and other	-5,923	-14,053
TOTAL	**-6,667**	**-17,204**

In € thousand	2012	2013
Impairment of assets and goodwill	-1,799	-24,953
Impairment of inventories specific to discontinued operations	33	-1,097
TOTAL	**-1,766**	**-26,050**

Impairment of assets includes a provision of €20.6 million before tax recognized following a scam involving international transfers which impacted a Vallourec subsidiary.

NOTE 29 Financial income (loss)

In € thousand	2012 [a]	2013
Financial income		
Income from investment securities	17,423	23,952
Income from disposals of investment securities	2,696	1,159
TOTAL	**20,119**	**25,111**
Interest expenses	**-104,138**	**-110,450**
Other financial income and expenses		
Income from securities	1,349	4,063
Income from loans and receivables	2,578	2,736
Exchange losses (-) and gains (+) and changes in premiums/discounts	-3,741	-8,147
Charges to provisions, net of reversals	104	-755
Other financial income and expenses	52	2,876
TOTAL	**342**	**773**
Other discounting expenses		
Financial expenses: discounting of pension obligations	-9,914	-5,610
Financial income from discounted assets and liabilities	167	-699
TOTAL	**-9,747**	**-6,309**
FINANCIAL INCOME (LOSS)	**-93,424**	**-90,875**

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 «Employee Benefits».

NOTE 30 Reconciliation of theoretical and actual tax expense

Breakdown of the tax charge *In € thousand*	2012 [a]	2013
Current tax expense	-195,443	-120,009
Deferred taxes (see Note 5)	80,834	-27,650
INCOME TAX	**-114,609**	**-147,659**
Net profit or loss of consolidated companies	268,436	295,276
Tax charge	-114,609	-147,659
INCOME FROM CONSOLIDATED COMPANIES BEFORE TAX	**383,045**	**442,935**
Statutory tax rate of consolidating company (see Note 5)	34,43%	34,43%
Theoretical tax charge	-131,882	-152,503
Impact of main tax loss carryforwards	-2,265	-26,964
Impact of permanent differences	27,600	20,438
Other impacts	-3,836	-4,072
Impact of differences in tax rates	-4,226	15,442
INCOME TAX	**-114,609**	**-147,659**
ACTUAL TAX RATE	**30%**	**33%**

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 «Employee Benefits».

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.

Differences in taxation mainly reflect the range of tax rates applied in each country (France 34.4%, Germany 31.6%, Unites States 36.5%, Brazil 34.0%, China 25.0% and 20% Saudi Arabia).

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 2012 and 2013 fiscal years.

INFORMATION ON RESULTS, ASSETS AND LIABILITIES BY OPERATING SEGMENT

2013 *In € thousand*	Seamless tubes	Specialty Products	Holdings & miscellaneous [(a)]	Inter-segment transactions	Total
Income statement					
Sales to external customers	5,394,786	182,470	1,058		5,578,314
EBITDA	978,129	329	-50,310	-8,125	920,023
Depreciation and amortization	-327,607	-14,806	-981	435	-342,959
Impairment of assets and goodwill	-23,306	-2,744	-	-	-26,050
Asset disposals and restructuring costs	-16,284	-1,355	435	0	-17,204
OPERATING PROFIT/(LOSS)	**610,932**	**-18,576**	**-50,856**	**-7,690**	**533,810**
Unallocated income					25,884
Unallocated expenses					-116,759
Profit before tax					442,935
Income tax expense					-147,659
Net profit of equity affiliates					3,574
Net income for the consolidated entity					298,850
Balance sheet					
Non-current assets	5,440,365	209,142	4,648,194	-4,470,932	5,826,769
Current assets	2,737,438	147,673	130,516	-105,522	2,910,105
Cash and cash equivalents	572,766	16,521	777,682	-803,656	563,313
TOTAL ASSETS	**8,750,569**	**373,336**	**5,556,392**	**-5,380,110**	**9,300,187**
Equity	4,356,002	129,190	3,833,883	-3,718,563	4,600,512
Non-controlling interests	378,963	6,502	-	-34	385,431
Long-term liabilities	1,510,444	45,527	1,192,655	-752,532	1,996,094
Current liabilities	2,505,160	192,117	529,854	-908,981	2,318,150
TOTAL LIABILITIES	**8,750,569**	**373,336**	**5,556,392**	**-5,380,110**	**9,300,187**
Cash flows					
Property, plant and equipment, intangible assets and biological assets	584,927	34,363	3,997		623,287
Other information					
Average headcount	20,927	1,144	197		22,268
Personnel costs	-1,082,855	-43,884	-59,956		-1,186,695

(a) Vallourec and Vallourec Tubes.

2012 [a] *In € thousand*	Seamless tubes	Specialty Products	Holdings & miscellaneous [b]	Inter-segment transactions	Total
Income statement					
Sales to external customers	5,099,426	225,499	1,093		5,326,018
EBITDA	815,530	14,360	-41,260	-512	788,118
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)	**518,076**	**-286**	**-41,244**	**-77**	**476,469**
Unallocated income					20,461
Unallocated expenses					-113,885
Profit before tax					383,045
Income tax expense					-114,609
Net profit of equity affiliates					6,503
Net income for the consolidated entity					274,939
Balance sheet					
Non-current assets	5,689,347	190,743	4,412,621	-4,258,355	6,034,356
Current assets	2,512,044	117,520	167,056	-136,031	2,660,589
Cash	387,539	39,285	916,513	-797,177	546,160
TOTAL ASSETS	**8,560,452**	**347,009**	**5,494,192**	**-5,191,563**	**9,241,105**
Equity	4,394,306	139,254	3,612,214	-3,417,264	4,728,510
Non-controlling interests	407,316	8,095		-24	415,387
Long-term liabilities	1,632,786	18,918	1,209,466	-836,411	2,024,759
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**	**9,241,105**
Cash flows					
Property, plant and equipment, intangible assets and biological assets	732,582	37,321	1,834	-	771,737
Other information					
Average headcount	20,675	1,136	193		22,004
Personnel costs	-1,042,550	-46,730	-64,711	6,903	-1,147,088

(a) The figures published at 31 December 2012 have been restated for the impact of the retrospective application of the revised IAS 19 «Employee Benefits».

(b) Vallourec, Vallourec Tubes and the marketing subsidiary Vallourec Tubes Canada.

GEOGRAPHICAL REGIONS

The following tables provide information by geographical region on sales (by location of the Group's customers) and capital expenditure as well as certain information on assets (by regions where the companies operate).

2013 *In € thousand*	Europe	North America	South America	Asia	Rest of the world	Total
Revenue						
Sales to external customers	1,065,271	1,462,206	1,184,521	1,462,147	404,169	5,578,314
Balance sheet						
Property, plant & equipment, intangible assets and biological assets (net)	1,121,877	1,547,520	1,746,458	611,162	2,777	5,029,794
Cash flows						
Property, plant and equipment, intangible assets and biological assets	182,490	191,743	205,468	42,847	739	623,287
Other information						
Average headcount	9,836	2,742	7,299	2,321	70	22,268
Personnel costs	-661,408	-219,679	-262,385	-41,313	-1,910	-1,186,695

2012 *In € thousand*	Europe	North America	South America	Asia	Rest of the world	Total
Revenue						
Sales to external customers	1,195,077	1,532,836	1,169,647	978,729	449,729	5,326,018
Balance sheet						
Property, plant & equipment, intangible assets and biological assets (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 headcount	9,856	2,634	7,477	1,972	65	22,004
Personnel costs	-645,738	-196,096	-269,317	-34,397	-1,540	-1,147,088

NOTE 32 Subsequent events

On 13 February 2014, Vallourec took out a multi-currency revolving credit line for €1.1 billion, maturing in February 2019, with two options for one-year extensions each.

This credit line will be available for the Group's general funding purposes. It replaces the existing €1 billion credit line maturing in February 2016 and enables Vallourec to strengthen its financial flexibility and extend the maturity of its resources.

6.2 Parent company financial statements

6.2.1 Balance sheet

Assets

In € thousand	31/12/2012	31/12/2013
NON-CURRENT ASSETS		
Intangible assets	414	414
Property, plant and equipment	93	129
Equity interests	2,056,410	2,056,410
Treasury shares	940	19,402
Long-term investments	59,400	80,403
Receivables, loans and other financial investments	1,000,000	1,011,756
TOTAL I	**3,117,257**	**3,168,514**
CURRENT ASSETS		
Trade receivables	1,310	1,469
Other receivables	1,389,283	1,523,063
Marketable securities	46,165	37,826
Cash and cash equivalents	5	6
Prepaid expenses	163	695
Deferred expenses	10,685	8,711
Translation differences – unrealized losses	22,920	0
TOTAL II	**1,470,531**	**1,571,770**
TOTAL ASSETS (I+II)	**4,587,788**	**4,740,284**

Liabilities

In € thousand	31/12/2012	31/12/2013
EQUITY		
Capital	249,893	256,319
Additional paid-in capital	820,827	932,745
Revaluation reserve	634	634
Reserves	83,037	83,738
Retained earnings	1,319,897	1,528,008
Interim dividend	0	0
Profit for the year	294,316	263,324
TOTAL I	**2,768,604**	**3,064,768**
Provisions for risks, liabilities and expenses	24,344	27,739
Borrowings	1,706,670	1,561,225
Operating liabilities	4,185	4,134
Other liabilities	83,985	82,418
Translation differences – unrealized gains	0	0
TOTAL II	**1,819,184**	**1,675,516**
TOTAL LIABILITIES (I+II)	**4,587,788**	**4,740,284**

6.2.2 Income statement

In € thousand	2012	2013
Revenue	10,508	10,478
Provision reversals and charges transferred	8,392	11,030
Other income	993	964
External services	-10,112	-10,038
Taxes and similar	-578	-1,272
Personnel costs	-3,163	-5,713
Other operating expenses	-761	-773
Amortization, depreciation and provisions	-16,176	-13,183
OPERATING LOSS	**-10,897**	**-8,507**
Financial income	**398,254**	**340,091**
From shareholdings	372,301	268,705
Other long-term securities and receivables	457	46,639
Other interest and similar income	1,343	775
Provision reversals and financial charges transferred	21,718	22,547
Foreign exchange gains	2,335	1,425
Net income on disposal of investment securities	100	0
Financial expenses	**-89,626**	**-69,697**
Financial depreciation and provisions	-24,152	-5,417
Interest and similar expense	-65,410	-55,138
Foreign exchange losses	-64	-9,142
Net capital gain/loss on disposal of marketable securities	0	0
FINANCIAL INCOME	**308,628**	**270,394**
INCOME FROM ORDINARY OPERATIONS BEFORE TAX	**297,731**	**261,887**
Exceptional income	2,651	255
Exceptional charges	-10,733	-9,659
EXCEPTIONAL ITEMS	**-8,082**	**-9,404**
Income tax	4,667	10,841
PROFIT	**294,316**	**263,324**

6.2.3 Notes to the parent company financial statements for the year ended 31 December 2013

In € thousand unless stated otherwise

Notes to the balance sheet (before allocation) for the year ended 31 December 2013, which totals €4,740.3 million, and to the income statement, which shows a net profit of €263.3 million

The fiscal year runs for 12 months, from 1 January to 31 December.

Vallourec prepares the consolidated financial statements.

A – Significant events, valuation methods and comparability of financial statements

On 25 June 2013, the option for payment of the dividend in shares, approved by the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, resulted in the creation of 1,338,791 new shares issued at the price of €36.69, for a capital increase of €49.1 million, including additional paid-in capital net of expenses.

On 10 December 2013, under the Value 13 ESOP, 1,874,453 new shares were subscribed at a price of €36.95 for the leveraged scheme and €34.78 for the standard plan, for a capital increase of €69.2 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 parent company financial statements are prepared in accordance with French GAAP (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 shareholdings 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 shareholdings 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 outlook.

TREASURY SHARES

Treasury shares recorded in intangible assets on the balance sheet comprise:

- shares allocated to the Group's various share ownership plans for some employees, senior managers and corporate officers;
- shares held under the terms of the liquidity contract.

Pursuant to CRC Regulation No. 2008-15 dated 4 December 2008 relating to the accounting treatment of share purchase or subscription plans and performance share plans for employees, shares allocated for these plans are not impaired based on market value due to the obligation to allocate such shares to employees and the provision recognized as a liability (see below in the section relating to provisions for risks, liabilities and expenses).

For treasury shares held under the terms of the liquidity contract, their carrying amount is the lower value of their acquisition cost and their market value (defined as the average price over the previous month).

Treasury shares are presented in the balance sheet as follows:

- treasury shares acquired before 2008 and available for allocation to employees are classified as intangible assets;
- treasury shares acquired since 2008 and available to be allocated to employees are classified as investment securities;
- treasury shares acquired for the liquidity contract are classified as intangible assets.

RECEIVABLES AND PAYABLES

Receivables and payables are measured at their nominal value.

Receivables may be impaired to take account of specific collection difficulties, in which case they are measured individually.

INVESTMENT SECURITIES

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

Treasury 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 are stated on the balance sheet using the exchange rate applicable on the reporting date.

Unrealized losses resulting from the translation into euros are measured net of any forward hedges and recognized as a provision for foreign exchange risk.

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

PROVISIONS FOR RISKS, LIABILITIES AND EXPENSES

Retirement pensions

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

Retirement bonuses

Commitments in respect of bonuses 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 are used:

- discount rate of 3.5% (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 bonuses and supplemental pension agreements are measured by an independent actuary based on an actuarial calculation (projected unit credit method) and provisioned as a liability in the balance sheet. At 31 December 2013, the discount rate is based on the iBoxx index (AA-rated corporate bonds in the euro zone with a maturity of 10 or more years, estimated on the date the obligations are valued). This index uses a basket of bonds composed of financial and non-financial stocks.

Actuarial gains or losses are amortized using the corridor rule over the average remaining working lives of employees.

Provisions on shares earmarked for employee share allocations

Pursuant to CRC Regulation No. 2008-15 dated 4 December 2008 relating to the accounting treatment of share purchase or subscription plans and performance share plans for employees, as soon as an outflow of resources becomes probable, the Company recognizes a provision for a contingent liability. This provision is measured based on 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 ESOP 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 continuous service and performance) as assessed on the balance sheet date.

A provision for risks, liabilities 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, senior managers and corporate officers of Vallourec and its subsidiaries.

Other provisions

All disputes (technical, tax…) and risks have been recognized as provisions for the estimated probable risk at the balance sheet date.

EXCEPTIONAL INCOME AND CHARGES

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

C – Notes to the balance sheet

1. MOVEMENTS IN NON-CURRENT ASSETS

Non-current assets *In € thousand*	31/12/2012	Acquisition charge	Disposal Reversal	31/12/2013	Revaluation reserve	Related parties
INTANGIBLE ASSETS	**414**			**414**		
Trademarks	414			414		
PROPERTY, PLANT AND EQUIPMENT	**93**			**129**	**23**	
Land	93			93	23	
Buildings	113			113		
Accumulated depreciation of buildings	*-113*			*-113*		
Construction in progress	0			36		
EQUITY INTERESTS	**2,056,410**			**2,056,410**		**2,056,410**
Equity interests	2,056,410			2,056,410		2,056,410
Provisions for equity interests	0			0		
LONG-TERM INVESTMENTS & TREASURY SHARES	**60,340**	**17,266**	**22,199**	**99,805**		
Long-term investments	81,947			81,947		
Provisions for other long-term investments	*-22,547*	*-1,544*	*22,547*	*-1,544*		
Treasury shares	940	20,710	-348	21,302		
Provisions for treasury shares	0	*-1,900*		*-1,900*		
RECEIVABLES, LOANS, OTHER INVESTMENTS	**1,000,000**	**11,756**		**1,011,756**		**1,011,756**
Loans	1,000,000			1,000,000		1,000,000
Accrued interest	0	11,756		11,756		11,756
TOTALS	**3,117,257**	**29,022**	**22,199**	**3,168,514**	**23**	**3,068,166**

Long-term investments & treasury shares

SHARES OF NIPPON STEEL SUMITOMO METAL CORPORATION (NSSMC)

NSSMC shares, quoted on the Tokyo Stock Exchange, were acquired in 2009 for a total of €81.9 million, at an average price of JPY 230.8 per share. NSSMC and Vallourec are partners in VSB and the development of VAM® line of premium joints. These partnerships are strategic for Vallourec.

The value of these shares at 31 December 2013, based on the average share price in December 2013, was €80.4 million (against €59.4 million in late 2012). The impairment loss of €1.5 million was recorded as a provision for impairment financial income (loss) (against €22.5 million at end 2012).

TREASURY SHARES

a) Liquidity contract

Vallourec has a liquidity contract with Rothschild & Cie. Banque, which it arranged in 2007 and has been in effect since 2 July 2012. It was implemented under the annual authorization for the share buyback program approved by the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013 (sixth resolution). It complies with the Code of Conduct (*Charte de déontologie*) issued by the French Association of Financial Markets (*Association Française des Marchés Financiers*) and approved by the French Securities Regulator (*Autorité des Marchés Financiers*), of 21 March 2011.

In 2013, under the liquidity contract, total purchases involved 2,632,759 shares, representing 2.05% of the share capital at 31 December 2013, for a total €107,651,908 euros and a weighted average price of €40.89 per share. Total sales involved 2,157,759 shares, representing 1.68% of the share capital at 31 December 2013, for a total of €87,120,049 and a weighted average price of €40.38 per share.

In 2013, the liquidity contract generated a capital gain of €0.2 million.

Shares held under the terms of the liquidity contract amounted to 475,000 shares with an NAV of €18.8 million.

b) Other treasury shares

At 31 December 2013, treasury shares acquired before 2008 and available for allocation to employees amounted to €0.59 million, classified in non-current assets;

In 2013, Vallourec definitively awarded:

- 59,964 shares under the Value 08 ESOP;
- 5,113 shares under the performance share plan of 31 July 2009.

Receivables, loans and other investments

LOANS

On 31 December 2011, Vallourec arranged a €1,000 million loan for subsidiary Vallourec Tubes to finance its long-term requirements. The loan carries a fixed rate of 4.6% per annum and matures on 31 December 2015.

ACCRUED INTEREST

At 31 December 2013, accrued interest on the loan was €11.8 million.

2. INVESTMENT SECURITIES

Investment securities include:

Mutual and investment funds

In € thousand	31/12/2012	31/12/2013	Measurement at 31/12/2013	Loss provisioned	Unrealized gain
Mutual and investment funds	2,999	2,999	3,008		9
TOTAL	**2,999**	**2,999**	**3,008**	**0**	**9**

Vallourec joins in euro and US dollar cash management centralization with its main European companies and centralized currency hedging transactions in respect of its US dollar sales within Vallourec Tubes.

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

Treasury shares

In € thousand	31/12/2012	Acquisition charge	Disposal Reversal	31/12/2013
Treasury shares	43,125	0	9,298	33,827
Impairment provision				
TOTAL	**43,125**	**0**	**9,298**	**33,827**

Vallourec acquired no treasury shares in 2013.

In 2013, Vallourec definitively awarded:

- 70,050 shares (€4.2 million) at the end of the four-year vesting period of the performance share plan of 17 December 2009;
- 58,069 shares (€3.8 million) under the performance share plan of 30 March 2011;
- 28,308 shares (€1.3 million) under the 2-4-6 ESOP of 18 November 2011.

At 31 December 2013, Vallourec held 819,742 treasury shares (including 112,483 shares held as long-term investments).

3. STATEMENT OF RECEIVABLES AND PAYABLES

Receivables *In € thousand*	**Gross value**	**Accrued receivables**	**Related parties**	**Gross value < 1 year**	**Gross value > 1 year**
FINANCIAL ASSETS RECEIVABLES AND PAYABLES	**1,011,756**		**1,011,756**		**1,011,756**
TRADE RECEIVABLES	**1,469**			**1,469**	
Advances and deposits paid to suppliers	415		407	415	
Trade and other receivables	898			898	
Other trade receivables	156			156	
OTHER RECEIVABLES	**1,523,063**		**1,485,349**	**1,523,063**	
Receivables related to tax consolidation	0				
Income tax	37,714			37,714	
Intra-Group cash advance	1,477,884		1,477,884	1,477,884	
Other receivables	7,465		7,465	7,465	
TOTALS	**2,536,288**		**2,497,105**	**1,524,532**	**1,011,756**

Loans granted during the year: None.

Loans repaid during the year: None.

Receivables represented by commercial paper: None.

Payables *In € thousand*	**Gross value**	**Accrued payables**	**Related parties**	**- < 1 year**	**> 1 year**	**> 5 years**
BORROWINGS	**1,561,225**	**31,210**		**356,213**	**100,012**	**1,105,000**
Bond issues	1,105,000					1,105,000
Bank borrowings and debt	131,210	31,210		31,210	100,000	
Commercial paper	325,000			325,000		
Bank loans and other borrowings	15			3	12	
Intra-Group cash advance	0					
OPERATING LIABILITIES	**4,134**	**1,348**	**408**	**4,134**		
Trade payables	1,286	941	408	1,286		
Tax and social security liabilities	2,848	407		2,848		
OTHER LIABILITIES	**82,418**	**316**	**33,758**	**82,418**		
Tax liabilities (corporate income tax)	0					
Other sundry liabilities	82,418	316	33,758	82,418		
TOTALS	**1,647,777**	**32,874**	**34,166**	**442,765**	**100,012**	**1,105,000**

Borrowings

BOND ISSUES

On 7 December 2011, Vallourec issued a €650 million bond maturing in February 2017, with a fixed annual coupon of 4.25%.

In August 2012, Vallourec also issued two long-term private placements totaling €455 million. The amounts and terms of these two private placements are €400 million for seven years with an annual coupon of 3.25% for one, and €55 million for 15 years with an annual coupon of 4.125% for the other.

At 31 December 2013, the market value of these fixed-rate bonds was €673.6 million, €400.9 million and €52.5 million, respectively.

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 prepayment 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) leading to a downgrade of Vallourec's financial rating.

In addition, these bonds may be subject to a request for prepayment should any of the common default scenarios for this type of transaction arise. Early redemption may also be requested in some cases by either the Company or the bondholder, particularly in respect of a change in Vallourec's position or tax status.

BANK LOANS & DEBTS

In April 2008, Vallourec took out a five-year, USD 300 million with a consortium of seven banks. This loan was repaid at its maturity date on 17 April 2013.

In November 2008, Vallourec took out €100 million loan from Crédit Agricole Group, for an initial term of six years (maturing end-October 2015). This loan was drawn down at end-January 2009.

At 31 December 2013, accrued interest on the loan was €31.2 million.

Finally, in February 2011, Vallourec took out a multi-currency revolving credit line for €1 billion maturing in 2016. At 31 December 2013 this line had not been drawn.

COMMERCIAL PAPER

In addition to this bank financing, the Vallourec Group aims to diversify its sources of financing on the markets. For example, Vallourec launched a commercial paper program on 12 October 2011 to meet its short-term needs. The program has a €1 billion ceiling.

At 31 December 2013, Vallourec had an outstanding €325 million for maturities of up to one year. This commercial paper program is rated A-2 by Standard & Poor's.

4. TRANSLATION DIFFERENCES ON RECEIVABLES AND PAYABLES DENOMINATED IN FOREIGN CURRENCIES

Translation differences of €22.9 million in late 2012 concerned the USD 300 million loan maturing on 17 April 2013.

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	31/12/2012	Increase	Decrease	31/12/2013
Bond issue costs	10,685		1,974	8,711

6. EQUITY

Changes in equity were as follows:

In € thousand	Number of shares	Capital	Profit/(loss) for the period	Additional paid-in capital and reserves	Equity
At 31/12/2011	**121,434,409**	**242,869**	**458,554**	**1,837,691**	**2,539,114**
Allocation of 2011 profit/(loss)			-458,554	458,554	
Capital increase	3,511,947	7,024		84,570	91,594
Revaluation reserve					
Dividend paid				-156,420	-156,420
Interim dividend					
2012 profit/(loss)			294,316		294,316
Change	*3,511,947*	*7,024*	*-164,238*	*386,704*	*229,490*
At 31/12/2012	**124,946,356**	**249,893**	**294,316**	**2,224,395**	**2,768,604**
Allocation of 2012 profit/(loss)			-294,316	294,316	
Capital increase	3,213,244	6,426		111,917	118,343
Revaluation reserve					
Dividend paid				-85,503	-85,503
Interim dividend					
2013 profit/(loss)			263,324		263,324
Change	*3,213,244*	*6,426*	*-30,992*	*320,730*	*296,164*
AT 31/12/2013	**128,159,600**	**256,319**	**263,324**	**2,545,125**	**3,064,768**

Vallourec's issued capital comprises 128,159,600 ordinary shares with a nominal value of €2 per share fully paid-up at 31 December 2013, compared with 124,946,356 shares with a par value of €2 each at 31 December 2012.

On 25 June 2013, the option for payment of the dividend in shares, approved by the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, resulted in the creation of 1,338,791 new shares issued at the price of €36.69, for a capital increase of €49.1 million, including additional paid-in capital net of expenses.

On 10 December 2013, under the Value 13 ESOP, 1,874,453 new shares were subscribed at a price of €36.95 for the leveraged scheme and €34.78 for the standard plan, for a capital increase of €69.2 million, including additional paid-in capital net of expenses.

7. EMPLOYEE SHARE OWNERSHIP

Share subscription plans

CHARACTERISTICS OF THE PLANS

The Vallourec Management Board authorized share subscription plans from 2007 to 2013 for some senior managers and corporate officers of the Group.

The characteristics of these plans are as follows (figures for the 2007, 2008 and 2009 plans are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares):

	2007 Plan	2008 Plan	2009 Plan	2010 Plan	2011 Plan	2012 Plan	2013 Plan
Grant date	03/09/2007	01/09/2008	01/09/2009	01/09/2010	01/09/2011	31/08/2012	02/09/2013
Maturity date	03/09/2011	01/09/2012	01/09/2013	01/09/2014	01/09/2015	01/04/2017	01/04/2018
Expiration date	03/09/2014	01/09/2015	01/09/2019	01/09/2020	01/09/2021	30/08/2020	01/09/2021
Number of beneficiaries at outset	65	9	303	349	743	387	406
Exercise price in euros	95.30	91.77	51.67	71.17	60.71	37.00	46.15
Number of options granted	294,600	143,600	578,800	512,400	684,521	530,400	602,465

CHANGE IN NUMBER OF UNEXPIRED OPTIONS

For all of these plans, the change in the number of unexpired options is as follows:

In number of options	2012	2013
Total at beginning of period	2,151,887	2,655,087
Options distributed	530,400	602,465
Options exercised	-	-
Options not exercised at expiration date	-	-
Options cancelled [(a)]	-27,200	-74,273
TOTAL AT END OF PERIOD	**2,655,087**	**3,183,279**
Options available for exercise	421,200	944,800

(a) Beneficiaries who have left the Group.

The following table provides a breakdown by plan of the number of unexpired options:

	2012	2013
2007 Plan	277,600	277,600
2008 Plan	143,600	143,600
2009 Plan	536,800	523,600
2010 Plan	491,200	481,900
2011 Plan	677,287	637,214
2012 Plan	528,600	516,900
2013 Plan	-	602,465

Performance share plans

CHARACTERISTICS OF THE PLANS

The Vallourec Management Board authorized performance share plans from 2008, 2009, 2010, 2011, 2012 and 2013 for some employees and corporate officers of the Group.

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):

	Grant date	Vesting period	Holding period	Number of beneficiaries at 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	18/11/2011	4.6 years	-	841	6,462
2011 2-4-6 Plan [g]	15/12/2011	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	286,718
2012 2-4-6 Plan [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
2013 Plan [j]	29/03/2013	3 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)	1,647	295,225
2013 2-4-6 Plan [k]	29/03/2013	3 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	21,744	130,464
Value 13 Plan	10/12/2013	4.6 years	-	732	4,028

(a) Definitive award of shares in 2011 for French residents and in 2013 for non-French residents, based on the consolidated EBITDA performance achieved by the Group in 2009 and 2010. The actual number is determined 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 applying a performance factor of 1.

(b) Definitive award of shares in 2011 for French residents and in 2013 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2010 to 30 September 2011. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(c) Definitive award of shares in 2012 for French residents and in 2014 for non-French residents, based on the consolidated EBITDA performance achieved by the Group in 2010 and 2011. The actual number is determined 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 applying a performance factor of 1.

(d) Definitive award of shares in 2012 for French residents and in 2014 for non-French residents, based on the consolidated EBITDA performance achieved by the Group in 2010, 2011 and 2012. The actual number is determined 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 applying a performance factor of 1.

(e) Definitive award of shares in 2012 for French residents and in 2014 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2011 to 30 September 2012. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(f) Definitive award of shares in 2013 for French residents and members of the Management Board, and in 2015 for non-French residents. For all beneficiaries (excluding Board members), it will be based on the ratio of consolidated EBITDA to consolidated sales achieved by the Group in 2011 and 2012. The actual number is determined 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 definitive award of shares in 2013 will be based on the following three criteria assessed for fiscal years 2011 and 2012:

- revenue growth 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 relative performance of the Vallourec share on the regulated Euronext Paris stock market against a benchmark panel.

The actual number is determined 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) Definitive award of shares in 2013 for French residents and in 2015 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2012 to 30 September 2013. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(h) Definitive award of shares in 2014 for French residents and members of the Management Board, and in 2016 for non-French residents. For all beneficiaries (excluding Board members), it will be based on the ratio of consolidated EBITDA to consolidated sales achieved by the Group in 2012 and 2013. The actual number is determined 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 definitive award of shares in 2014 will be based on the following three criteria assessed for fiscal years 2012 and 2013:

- revenue growth 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 relative performance of the Vallourec share on the regulated Euronext Paris stock market against a benchmark panel.

The actual number is determined 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) Definitive award of shares in 2014 for French residents and in 2016 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2012 to 31 December 2013 The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(j) Definitive award of shares in 2016 for French residents and members of the Management Board, and in 2017 for non-French residents. For all beneficiaries (excluding Board members), it will be based on the ratio of consolidated EBITDA to consolidated sales achieved by the Group in 2013, 2014 and 2015. The actual number is determined 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 definitive award of shares will be based on the following three criteria assessed for fiscal years 2013, 2014 and 2015:

- revenue growth 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 relative performance of the Vallourec share on the regulated Euronext Paris stock market against a benchmark panel.

The actual number is determined 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.

(k) Definitive award of shares in 2016 for French residents and in 2017 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2013 to 31 December 2015. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

CHANGE IN NUMBER OF SHARES

The characteristics of these plans are as follows (figures for the 2008 and 2009 plans are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares):

	Initial theoretical number of shares allocated	Number of shares cancelled	Theoretical number of shares acquired or being vested	Number of shares delivered
Value 08 Plan	67,712	-8,928	58,784	58,784
2009 Plan	26,668	-1,547	25,121	28,387
Value 09 Plan	69,400	-3,912	65,488	-
1-2-3 Plan	104,424	-7,446	96,978	96,978
03/2010 Plan	190,540	-10,080	180,460	81,936
07/2010 Plan	4,280	-	4,280	3,680
Value 10 Plan	83,462	-2,778	80,684	-
2-4-6 Plan	72,588	-3,882	68,706	29,442
2011 Plan	214,271	-4,428	209,843	58,069
Value 11 Plan	6,462	-685	5,777	-
2011 2-4-6 Plan	78,318	-6,678	71,640	28,308
2012 Plan	286,718	-14,376	272,342	-
2012 2-4-6 Plan	130,116	-6,720	123,396	-
Value 12 Plan	4,395	-258	4,137	-
2013 Plan	295,225	-1,715	293,510	-
2013 2-4-6 Plan	130,464	-1,806	128,658	
Value 2013 Plan	4,028	-	4,028	

8. PROVISIONS FOR RISKS, LIABILITIES AND EXPENSES

The change in provisions for risks, liabilities and expenses is shown below:

	31/12/2012	Allowances	Reversals used	Reversals of provisions no longer needed	31/12/2013
Provisions for risks, liabilities and expenses	0				0
Retirement provisions	182	98			280
Provisions for supplemental pension commitments	1,728	649	-1,488		889
Provisions for charges re performance shares	22,434	12,436	-8,300	0	26,570
TOTALS	**24,344**	**13,183**	**-9,788**	**0**	**27,739**
› Recognized in operating profit		13,183	-9,788	0	
› 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 (for 2008, 2009, 2010, 2011, 2012 and 2013) totaled €26.57 million.

Retirement provisions

Total pension commitments, net of plan assets, totaled €0.5 million at 31 December 2013.

Actuarial losses and past service costs not recognized totaled €0.2 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 pension benefits and the change in the discount rate.

Provisions for supplemental pension commitments

Total pension commitments, net of plan assets, totaled €1.4 million at 31 December 2013.

Actuarial losses and past service costs not recognized totaled €0.5 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 reversal of the provision for supplemental pension commitments mainly reflects a €1.2 million payment to a pension fund.

Information on interest rate risk

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

Vallourec used swaps to hedge its variable-rate borrowing at a fixed interest rates.

In 2013, a portion of the variable rate debt was swapped to a fixed rate. Specifically, USD 300 million in debt (maturing in April 2013) was swapped to a fixed rate of 4.36% (excluding the spread). This loan was repaid on 17 April 2013.

Information on foreign exchange risk

At 31 December 2013, Vallourec had no exposure to foreign exchange risk, as its USD 300 million loan, contracted in 2008, was repaid at maturity on 17 April 2013.

D – Notes to the income statement

1. OPERATING INCOME

Revenue

Revenues of €10.5 million mainly correspond to the Group's reinvoicing of the costs of employee performance share plans (€7.3 million) and related services to its subsidiary Vallourec Tubes (€2.5 million).

Other operating income:

Vallourec invoiced fees totaling €1 million for the use of its trademark.

2. FINANCIAL INCOME AND EXPENSES CONCERNING AFFILIATED COMPANIES

Financial expenses: €59,000

Financial income: €268,705

3. EXCEPTIONAL ITEMS

Exceptional items for the year amounted to a loss of €9.4 million.

This figure includes:

- a €9.6 million charge related to the exercise of performance share plans: 1-2-3 of 2009; 2-4-6 of 2011; and March 2011;
- income of €0.2 million on the liquidity contract.

E – Other information

COMPOSITION OF THE AVERAGE WORKFORCE

The Company's workforce consists of seven people, including three corporate officers (members of the Management Board).

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 French General Tax Code.

This agreement has been renewed automatically for five-year periods since 1999.

In 2013, the scope of the tax group included: Vallourec, Assurval, Vallourec Fitting (former Interfit), Vallourec Bearing Tubes (former Valti), Vallourec Heat Exchanger Tubes (former Valtimet), Vallourec Université France (former Valsept), Vallourec Umbillicals, Valinox Nucléaire, Vallourec Tubes (former Vallourec & Mannesmann Tubes), Vallourec Drilling France (former VAM Drilling Products France), Vallourec Tubes France (former V & M France), Vallourec Oil & Gas France (former V & M Oil & Gas France), Vallourec One (former V & M One), Vallourec Services (former V & M Services), Serimax Holding SA, Serimax SAS and Serimax Russia, Val27, Val28, Val29.

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 savings of €42.7 million resulting from the allocation of losses generated by the subsidiaries was recognized in other liabilities and not in profit or loss.

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 2013, the tax credit recorded in the income statement was €10.8 million.

The Vallourec tax group reported a loss in 2013 and its tax loss carryforward was €249.5 million at the end of 2013.

Increase in, and relief of, future tax liabilities

Nature of temporary differences *In € thousand*	**Amount at 31/12/2013 (basis)**
Increase	
Relief	
Provision for retirement commitments	1169
Provision for employee share ownership arrangements	13,230
Provision for paid holidays	19
Solidarity social security contribution provision	6
Unrealized gains on UCITS	0

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

In € thousand	**Profit before tax**	**Tax due**	**Consolidated Net income**
Current	261,887		261,887
Exceptional items	-9,404		-9,404
SUB-TOTAL	**252,483**	**0**	**252,483**
Charge specific to Vallourec	0	0	0
Income relating to tax consolidation	0	10,841	10,841
TOTAL VALLOUREC	**252,483**	**10,841**	**263,324**

COMPENSATION OF MEMBERS OF ADMINISTRATIVE AND MANAGEMENT BODIES

Administrative bodies

Directors' 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 bonuses: €255,000 (actuarial loss)
- Supplemental pension allowance: €500,000 (actuarial loss)
- Long-term vehicle lease: €44,000

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

SUBSEQUENT EVENTS

On 12 February 2014, Vallourec took out a multi-currency revolving credit line for €1.1 billion maturing in February 2019, with two options for one-year extensions each.

This credit line is available for the Group's general funding purposes. It replaces the existing €1 billion credit line maturing in February 2016 and enables Vallourec to strengthen its financial flexibility and extend the maturity of its resources.

Notes to the parent company financial statements – Allocation of net profit for the year ended 31 December 2013 and distribution of dividends

The Management Board will propose to the Shareholders' Meeting of 28 May 2014 to allocate the profit for the year ended 31 December 2013 and to pay out dividends as follows:

(In euros)	2013
Net profit for the year	263,323,881.77
Allocation to the statutory reserve	- 642,648.80
Retained earnings carried forward	1,528,008,298.69
DISTRIBUTABLE PROFIT	**1,790,689,531.66**
DIVIDEND	**103,809,276**
Balance transferred in full to retained earnings	1,686,880,255.66

The dividend of €103,809,276 payable to Vallourec shareholders – based on the number of shares outstanding at 31 December 2013 – corresponds to a dividend of €0.81 per share having a nominal value of €2.



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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 bylaws; and
- the Supervisory Board is responsible for ongoing management control; it receives the information needed to perform its role.

7.1.1 Composition of the Management and Supervisory Boards

7.1.1.1 Management bodies

7.1.1.1.1 The Management Board

As at 31 March 2014, the Management Board is comprised of the following three members:

	Year of birth	Date of 1st appointment to the Management Board	Date appointment most recently renewed	Date of expiration of term of office
Chairman				
Mr. Philippe Crouzet	1956	01/04/2009	15/03/2012	15/03/2016
Members				
Mr. Jean-Pierre Michel – Chief Operating Officer	1955	01/04/2006	15/03/2012	15/03/2016
Mr. Olivier Mallet – Chief Financial Officer and General Counsel	1956	30/09/2008	15/03/2012	15/03/2016



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

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)

Positions currently held

Positions held in French companies

- Chairman of the Management Board of Vallourec (since 2009)
- Chairman of Vallourec Tubes (since 2009)

Positions held in foreign companies

- Director of Vallourec Tubos do Brasil S.A. (Brazil) (since 2009)

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)

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- Director of Électricité de France

Positions expired within the last five years

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 as from 1 April 2009, thereby succeeding Mr. Pierre Verluca for the remainder of 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, effective from 15 March 2012 until 15 March 2016.



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

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)

Positions currently held

Positions held in French companies

- Member of the Management Board and CEO of Vallourec since 2006 and 2009 respectively
- Director and CEO of Vallourec Tubes (since 2006)
- Director of Vallourec Heat Exchanger Tubes (since 2006)
- Director of Vallourec Services (since 2006)
- Director of Vallourec Heat Exchanger Tubes Asia (since 2004)
- Manager of Vallourec One (since 2004)

Positions held in foreign companies

- Director of Vallourec Tubos do Brasil S.A. (Brazil) (since 2008)
- Director of Vallourec & Sumitomo Tubos do Brasil (Brazil) (since 2007)
- Director of Vallourec Industries Inc. (United States) (since 2001)
- Director of Vallourec Holdings, Inc. (United States) (since 2004)
- Director of VAM USA LLC (United States) (since 2009)
- Chairman of the Supervisory Board of Vallourec Deutschland GmbH (since 2009)
- Member of the Executive Committee of Vallourec Star, LP (United States) (since 2002)
- Director of Vallourec USA Corporation (United States) (since 2000)
- Director of Vallourec Drilling Products USA, Inc. (United States) (since 2005)
- Director of Vallourec Oil & Gas UK Ltd (United Kingdom) (since 2000)

Positions expired within the last five years

Positions held in French companies

- Member of the Supervisory Board of V & M France (up to 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 2009)
- Chairman of the Board of Directors of Vallourec Industries Inc. (United States) (up to 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 Vallourec Deutschland GmbH (Germany) (up to 2009)
- Chairman of the Board of Directors and Director of Finalourec (Luxembourg) (up to 2010)

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

- None

Positions expired within the last five years

- None

Mr. Jean-Pierre Michel does not receive any compensation as a corporate officer of Vallourec's direct or indirect subsidiaries.

(1) At its meeting on 7 March 2006, the Supervisory Board appointed Mr. Jean-Pierre Michel as a member of the Management Board as from 1 April 2006. At its meeting on 3 June 2008, it renewed his appointment as a member of the Management Board with effect from 4 June 2008 from the end of the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2008 until 15 March 2012, and at its meeting on 25 February 2009, appointed him as Chief Operating Officer with immediate effect. On 22 February 2012, the Supervisory Board renewed his appointment as member of the Management Board and Chief Operating Officer, with effect from 15 March 2012 until 15 March 2016.



Mr. Olivier MALLET

Member of the Management Board and Chief Financial Officer [1]

Date of first appointment:
30 September 2008

Date appointment most recently renewed:
15 March 2012

Date on which appointment ceases:
15 March 2016

Date of birth: 14 July 1956

Nationality: French

Business address:
Vallourec
27, avenue du Général Leclerc
92100 Boulogne-Billancourt

Expertise and managerial experience:

- Graduate of 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 of Vallourec since 30 September 2008, Chief Financial Officer and General Counsel

Positions held by Mr. Olivier MALLET

RELATED TO THE 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 Vallourec Services (since 2008)
- CEO and Director of Vallourec Tubes (since 2008)
- Director of Vallourec Heat Exchanger Tubes (since 2008)

Positions held in foreign companies

- Chairman of Vallourec Holdings, Inc. (United States) (since 2009)
- Member of the Supervisory Board of Vallourec Deutschland GmbH (Germany) (since 2008)
- Director of Vallourec Tubos do Brasil S.A. (Brazil) (since 2008)
- Director of Vallourec Tubes Canada Inc. (Canada) (since 2008) [a]
- Director of Vallourec Holdings, Inc. (United States) (since 2008)
- Director of Vallourec USA Corporation (United States) (since 2008)
- Director of Vallourec Tube-Alloy, LLC (since 2008)
- Chairman (since 2009) and Director (since 2008) of Vallourec Industries Inc.
- Director of Vallourec Drilling Products USA, Inc. (United States) (since 2008)
- Member of the Executive Committee of VAM USA LLC (since 2009)
- Member of the Executive Committee of Vallourec Star, LP (United States) (since 2008)

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)

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

- None

(a) Vallourec Tubes Canada Inc. was taken over by Vallourec Canada Inc. (formerly VAM Canada Inc.) on 1 January 2013.

(1) At its meeting on 29 September 2008, the Supervisory Board appointed Mr. Olivier Mallet as member of the Management Board, with effect from 30 September 2008 until 15 March 2012. On 22 February 2012, the Supervisory Board renewed his appointment as member of the Management Board, effective from 15 March 2012 until 15 March 2016.

Mr. Olivier MALLET

Member of the Management Board

Positions expired within the last five years

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.

7.1.1.1.2 Operational management

Vallourec is continuing a phase of in-depth transformation. This transformation has been coupled with a reorientation of the Group's activities around three guidelines: recentering its focus on energy markets, international development, and significantly adapting its industrial organization, particularly in Europe, which is suffering from the financial crisis.

The Group must rely on its resources, focusing on industrial excellence and strengthening its responsiveness and the overall effectiveness of its organization.

In order to implement its strategic guidelines and key decisions, the Management Board has decided to establish two Committees, the Group Management Committee (GMC) and the Operational Committee (OPCOM) as at 3 February 2014.

THE GROUP MANAGEMENT COMMITTEE

The Group Management Committee examines and drafts proposals to the Management Board regarding all of the actions and changes needed to implement the Group's strategy. It provides daily management for operating and functional activities. It holds meetings once every two weeks, which are presided over by Mr. Philippe Crouzet. As at 31 March 2014, it consisted of the following nine members:

- Mr. Philippe Crouzet, Chairman of the Management Board;
- Mr. Jean-Pierre Michel, member of the Management Board;
- Mr. Olivier Mallet, member of the Management Board;
- Mr. Philippe Carlier, Director of the Upstream business line – Industry;
- Mr. Nicolas de Coignac, Director of the Powergen – Speciality Powergen business line – Pipe Project;
- Mr. François Curie, Director of Group Human Resources;
- Ms. Stéphanie Fougou, Director of Group Legal Affairs;
- Mr. Didier Hornet, Director of the OCTG – Drilling business line; and
- Mr. Alexandre Lyra, Director of the Brazil business line.

The Secretary of the Group Management Committee is Ms. Clémentine Marcovicci, Director of Strategic Planning.

THE OPERATIONAL COMMITTEE

The Operational Committee monitors major projects and programs that have an impact on the Group's operating performance.

It holds meetings once a month, which are presided over by Mr. Philippe Crouzet. As at 31 March 2014, it consists of the nine members of the Group Executive Committee (see above) along with eight other members, as follows:

- Mr. Flavio de Azevedo, Director of Technology, Research, Development and Innovation;
- Mr. Dirk Bissel, Director of the Drilling Products Division;
- Mr. Andreas Denker, Director of the Industry Division;
- Mr. Pierre Frentzel, Director of Strategic Projects;
- Mr. Skip Herald, Director of OCTG, North America;
- Mr. Jean-Yves Le Cuziat, Director of Strategic Marketing & Sourcing;
- Ms. Laurence Pernot, Director of Group Communications; and
- Mr. Dominique Richardot, Director of the Pipe Projects Division.

This new body has replaced the Executive Committee, which, at 31 December 2013, was composed of three members of the Management Board as well as the following: Messr. Flavio de Azevedo, Dirk Bissel, Philippe Carlier, Nicolas de Coignac, François Curie, Andreas Denker, Didier Hornet, Jean-Yves Le Cuziat, Pierre Frentzel, Alexandre Lyra and Dominique Richardot.

7.1.1.2 The Supervisory Board

7.1.1.2.1 Policy on the composition of the Supervisory Board

The Board policy relating to its composition relies on the following four fundamental objectives:

- selection of competent members;
- a balanced composition, which creates value;
- respect of corporate interest; and
- members who ensure fluid exchange of information and that each member can express themselves.

1. SELECTION OF COMPETENT MEMBERS

Aware that first-rate quality must lie in the quality of its members, the Board makes every effort to add members that have performed managerial duties with a high level of responsibility and/or who have recognized expertise in financial, strategic, industrial or legal areas. Furthermore, when they assume office and throughout their terms, each member has the chance to benefit from training sessions on specific aspects of the Group, its businesses, its sector of activity and its organization, if they so desire.

2. BALANCED COMPOSITION CREATES VALUE

Like any business player, the Supervisory Board is committed to the process of creating value. Consequently, beyond the challenges of social performance, it endeavors to ensure the diversity of its members, which it considers to be an essential vehicle for creativity and innovation. Diverse genders and experiences bring to the Board distinct sensitivities that contribute favorably to good governance, which itself leads to competitive advantages. At this time, the Board is comprised of eleven members, who have a variety of experience gained primarily in an international environment, which is a source of cognitive enrichment. Furthermore, 36% of these members are female or of foreign nationality (Brazilian, German, Dutch and British). Ms. Vivienne Cox, who is British, is the Board Chairman. Since the Board is well aware of how enriching a diverse body can be, it intends to pursue efforts to diversify its membership.

3. RESPECT OF CORPORATE INTEREST

The Board feels that each member is a guardian of the corporate interest, and must accomplish their duties objectively and independently, in order to gain and maintain the trust of all of the shareholders who nominated them.

Consequently, going beyond the qualification of independent member, the Board intends to propose full members to the Shareholders' Meeting who have strong ethics that lead them to act with ongoing concern for the corporate interest and the interests of all shareholders, and specifically, to avoid conflicts of interest. To that end, each member is required to inform the Board of any situation involving a conflict of interest, even a potential one, and to refrain from taking part in discussions or voting on any issue at Board meetings where there may be a conflict of interest, and to leave the Board meeting if a subject is discussed that places the member in such a situation.

If any member finds themselves in a conflict of interest situation, even a potential one, concerning a subject to be debated by the Board, they must alert the Appointments, Compensation 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, Compensation and Governance Committee were amended to strengthen prevention of the risk of conflicts of interest. From now on, 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, Non-voting Board members (*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, Compensation and Governance Committee.

4. MEMBERS WHO ENSURE THE FLUID EXCHANGE OF INFORMATION AND THAT EACH MEMBER CAN EXPRESS THEMSELVES

Although the law allows a Board to contain up to 18 members, the Board wishes to limit its staff to 12 members in order to ensure there are satisfying and fluid exchanges of information, and to allow each member to express him/herself, thereby encouraging each person's action and involvement. To that end, the Chairman of the Board, like their predecessor, encourages the participation of the members and sees to it that each member can express their opinion.

7.1.1.2.2 Members of the Supervisory Board as at 31 March 2014

As at 31 March 2014, the Supervisory Board is comprised of eleven members and one Non-voting Board member (*Censeur*).

	Year of birth	Date first appointed	Date appointment most recently renewed	Date of end of term of office	Other main appointments held
Chairman					
Ms. Vivienne Cox	1959	31/05/2010	-	2014 OSM to approve financial statements as at 31/12/2013	Director of BG Group Plc. Pearson Plc and Rio Tinto Plc
Vice-Chairman					
Mr. Patrick Boissier	1950	15/06/2000	OSM 07/06/2011	2015 OSM to approve financial statements as at 31/12/2014	Chairman and CEO, DCNS
Members					
Mr. Olivier Bazil	1946	31/05/2012	-	2016 OSM to approve financial statements as at 31/12/2015	Director of Legrand, Michelin, Château Palmer and Firmenich International
Ms. Pascale Chargrasse	1960	13/12/2010	OSM 07/06/2011	2015 OSM to approve financial statements as at 31/12/2014	Business Development Manager, Valinox Nucléaire
Mr. Jean-François Cirelli	1958	13/05/2009	OSM 31/05/2012	2016 OSM to approve financial statements as at 31/12/2015	Vice-Chairman Executive Vice-President of GDF-SUEZ
Mr. Michel de Fabiani	1945	10/06/2004	OSM 31/05/2010	2014 OSM to approve financial statements as at 31/12/2013	Director of BP France and Valéo
Mr. José Carlos Grubisich	1957	31/05/2012	-	2016 OSM to approve financial statements as at 31/12/2015	Chairman of Eldorado Brasil Celulose S.A. Director of Halliburton
Ms. Anne-Marie Idrac	1951	07/06/2011	-	2015 OSM to approve financial statements as at 31/12/2014	Director of Saint-Gobain Bouygues, Total and Mediobanca
Mr. Edward G. Krubasik	1944	06/03/2007	OSM 31/05/2012	2016 OSM to approve financial statements as at 31/12/2015	Member of the Central Advisory Board of Commerzbank
Ms. Alexandra Schaapveld	1958	31/05/2010	-	2014 OSM to approve financial statements as at 31/12/2013	Member of the Supervisory Board of Holland Casino, Bumi Armada Berhad and Société Générale
Bolloré	NA	13/11/2008	OSM 31/05/2010	2014 OSM to approve financial statements as at 31/12/2013	
Represented by: Mr. Cédric de Bailliencourt	1969	01/01/2011	-	2014 OSM to approve financial statements as at 31/12/2013	CFO of Bolloré group
Non-voting Board member (Censeur)					
Mr. François Henrot	1949	13/12/2010	OSM 07/06/2011	2015 OSM to approve financial statements as at 31/12/2014	President of Investment Banking Activities, Rothschild Group

7.1.1.2.3 Presentation of Supervisory Board members



Ms. Vivienne COX

Chairman of the Supervisory Board [1]
Chairman of the Strategy Committee [2]
Member of the Finance and Audit Committee

Date of first appointment: 31 May 2010
Date appointment most recently renewed: None
Date on which appointment ceases: 2014 Shareholders' Meeting called to approve the financial statements for fiscal year 2013

Date of first appointment as Chairman of the Supervisory Board: 30 May 2013

Date of birth: 19 May 1959
Nationality: British

Business address:
Vallourec
27, avenue du Général Leclerc
92200 Boulogne-Billancourt

Expertise and managerial experience:

- A graduate of Oxford University and INSEAD and Honorary Doctor from the University of Hull
- 28 years' experience with the BP group
- CEO of BP Gas, Power and Renewables (2004-2009)
- Commissioner of the Airport Commission of the Department of Transport of the British government (since 2012)

Positions held by Ms. Vivienne COX

RELATED TO THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- Chairman of the Supervisory Board of Vallourec

Positions held in foreign companies

- None

Positions expired within the last five years

Positions held in French companies

- None

Positions held in foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- None

Positions held in foreign companies

- Director, member of the Audit Committee and the Appointments and Remuneration Committee (since 2012) and Senior Independent Director (since 2013) of Pearson Plc
- Director and member of the Sustainable Development Committee of BG group Plc (since 2012)
- Director and member of the Appointments Committee (since 2005) and the Sustainable Development Committee (since 2011) of Rio Tinto Plc
- Lead Independent Director of the Department for International Development of the British government (since 2010)
- Director of the Climate Group (since 2010)

Positions expired within the last five years

Positions held in French companies

- Member of the Board of Directors and Appointment and Compensation Committee of INSEAD (up to 2013)

Positions held in foreign companies

- Non-Executive Chairman and Director of the consulting and investment firm Climate Change Capital Limited (up to 2012)
- Member of the Offshore Advisory Committee of Mainstream Renewable Power (up to 2012)
- Executive Vice-President of BP Plc (up to 2009)

(1) At its meeting of 27 March 2013, the Supervisory Board appointed Ms. Vivienne Cox, a member of the Board since 2010, as Chairman of the Supervisory Board with effect from the close of the Shareholders' Meeting of 30 May 2013. She took over from Mr. Jean-Paul Parayre (whose term as Chairman of the Board was due to expire at the end of the Shareholders' Meeting of 30 May 2013).

(2) Mr. Edward G. Krubasik had been Chairman of the Strategy Committee since 3 May 2007, when the Committee was restored after its dissolution in 2002. In the interests of good governance, the Supervisory Board decided to organize the rotation of the Committee's chairmanship. At its meeting of 27 July 2011, it appointed Ms. Vivienne Cox to succeed Mr. Edward Krubasik as Chairman of the Strategy Committee.



Mr. Patrick BOISSIER [1]

Vice-Chairman of the Supervisory Board

Member of the Appointments, Compensation and Governance Committee

Date of first appointment: 15 June 2000

Date appointment most recently renewed: 7 June 2011

Date on which appointment ceases: 2015 Shareholders' Meeting called to approve the financial statements for fiscal year 2014

Date of first appointment as Vice-Chairman of the Supervisory Board: 18 April 2005

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)

Positions currently held

Positions held in French companies

- Member and Vice-Chairman of the Vallourec Supervisory Board

Positions held in foreign companies

- None

Positions expired within the last five years

Positions held in French companies

- None

Positions held in foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- Chairman and CEO, 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 held in foreign companies

- None

Positions expired within the last five years

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)

Positions held in foreign companies

- None

(1) The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 renewed, in accordance with Article 10 paragraph 1 of the bylaws, 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 fiscal year ended 31 December 2014. The Supervisory Board that met following this Shareholders' Meeting, at the proposal of Mr. Jean-Paul Parayre, reappointed Mr. Patrick Boissier as Vice-Chairman of the Supervisory Board for the duration of his term of office.



Mr. Olivier BAZIL [1]

Member of the Supervisory Board

Chairman of the Finance and Audit Committee [2]

Member of the Strategy Committee

Date of first appointment: 31 May 2012

Date appointment most recently renewed: None

Date on which appointment ceases: 2016 Shareholders' Meeting called to approve the financial statements for fiscal year 2015

Date of birth: 22 September 1946

Nationality: French

Business address:
Vallourec
27, avenue du Général Leclerc
92100 Boulogne-Billancourt

Expertise and managerial experience:

- Graduate of 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)

Positions currently held

Positions held in French companies

- Member of the Supervisory Board of Vallourec

Positions held in foreign companies

- None

Positions expired within the last five years

Positions held in French companies

- None

Positions held in foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- Director of Legrand
- Member of the Supervisory Board of Michelin
- Director of Château Palmer

Positions held in foreign companies

- Director of Firmenich International

Positions expired within the last five years

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 bylaws, 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 fiscal year ended 31 December 2015.

(2) The Supervisory Board meeting of 31 May 2012 appointed Mr. Olivier Bazil as Chairman of the Finance and Audit Committee and member of the Strategy Committee.



Ms. Pascale CHARGRASSE

Member of the Supervisory Board representing the employee shareholders

Member of the Appointments, Compensation and Governance Committee (1)

Date of first appointment:
13 December 2010 (2)

Date appointment most recently renewed:
7 June 2011

Date on which appointment ceases: 2015 Shareholders' Meeting called to approve the financial statements for fiscal 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)

Positions currently held

Positions held in French companies

- Member of the Supervisory Board of Vallourec

Positions held in foreign companies

- None

Positions expired within the last five years

Positions held in French companies

- None

Positions held in foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- None

Positions held in foreign companies

- None

Positions expired within the last five years

Positions held in French companies

- None

Positions held in foreign companies

- None

(1) The Supervisory Board meeting of 30 July 2013 appointed Ms. Pascale Chargrasse as a member of the Appointments, Compensation and Governance Committee.

(2) Ms. Pascale Chargrasse was appointed by the Supervisory Board on 13 December 2010 as a member of the Supervisory Board representing employee shareholders, replacing Mr. François Henrot, for the remainder of her predecessor's term, i.e. up to the close of the Ordinary Shareholders' Meeting called to approve the financial statements of 31 December 2010. The Ordinary and Extraordinary Shareholders' Meeting of 7 June 2011 ratified this appointment and renewed, in accordance with Article 10, paragraph 1 of the bylaws, the term of office as a member of the Supervisory Board representing company shareholders of Ms. Pascale Chargrasse 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 fiscal year ended 31 December 2014.



Mr. Jean-François CIRELLI

Member of the Supervisory Board

Member of the Strategy Committee

Date of first appointment: 13 May 2009

Date appointment most recently renewed: 31 May 2012 (1)

Date on which appointment ceases: 2016 Shareholders' Meeting called to approve the financial statements for fiscal 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)

Positions currently held

Positions held in French companies

- Member of the Supervisory Board of Vallourec

Positions held in foreign companies

- None

Positions expired within the last five years

Positions held in French companies

- None

Positions held in foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

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

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 bylaws, 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 fiscal year ended 31 December 2015.



Mr. Michel de FABIANI

Member of the Supervisory Board [1]

Chairman of the Appointments, Compensation and Governance Committee [2]

Date of first appointment: 10 June 2004

Date appointment most recently renewed: 31 May 2010

Date on which appointment ceases: 2014 Shareholders' Meeting called to approve the financial statements for fiscal 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 & CEO of BP France (1995-2004)

Positions held by Mr. Michel de FABIANI

RELATED TO THE 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 expired within the last five years

Positions held in French companies

- None

Positions held in foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- Director of BP France
- Director of Valeo
- Vice-President 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

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 Banque Publique d'Investissement Participations (BPI - formerly the Fonds Stratégique d'Investissement or FSI), approved by the Supervisory Board, Mr. Michel de Fabiani has been sitting on the Supervisory Board of Vallourec since 4 August 2011, representing the BPI.

(2) The Supervisory Board Meeting of 28 March 2011 appointed Mr. Michel de Fabiani as Chairman of the Appointments, Compensation and Governance Committee, effective immediately, in replacement of Mr. Jean-Paul Parayre.



Mr. José Carlos GRUBISICH [1]

Member of the Supervisory Board

Member of the Strategy Committee [2]

Date of first appointment: 31 May 2012

Date appointment most recently renewed: None

Date on which appointment ceases: 2016 Shareholders' Meeting called to approve the financial statements for fiscal year 2015

Date of birth: 19 February 1957

Nationality: Brazilian

Business address:
Eldorado Braseil
Celulose e Papel
Rua General Furtado do Nascimento, no 66
CEP 05464-070 São Paulo – SP – 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)

Positions held by Mr. José Carlos GRUBISICH

RELATED TO THE 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 expired within the last five years

Positions held in French companies

- Non-Voting Member of the Supervisory Board of Vallourec (up to May 2012)

Positions held in foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

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

Positions held in French companies

- None

Positions held in foreign companies

- Chairman & CEO of Brazilian company ETH Bioenergia S.A. (bioenergy) (up to 2012)
- Board Member of Braskem S.A. (up to 2012)

(1) The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 appointed Mr. 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 fiscal year ended 31 December 2015.

(2) The Supervisory Board meeting of 31 May 2012 appointed Mr. José Carlos Grubisich as a member of the Strategy Committee.



Ms. Anne-Marie IDRAC

Member of the Supervisory Board

Member of the Appointments, Compensation and Governance Committee (1)

Date of first appointment: 7 June 2011

Date appointment most recently renewed: None

Date on which appointment ceases: 2015 Shareholders' Meeting called to approve the financial statements for fiscal 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)

Positions currently held

Positions held in French companies

- Member of the Supervisory Board of Vallourec

Positions held in foreign companies

- None

Positions expired within the last five years

Positions held in French companies

- None

Positions held in foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

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

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 meeting of 26 July 2012 appointed Ms. Anne-Marie Idrac as a member of the Appointments, Compensation and Governance Committee.



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: 2016 Shareholders' Meeting called to approve the financial statements for fiscal 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)
- Chairman of Orgalime (2006-2007)
- Former Chairman of the Federal Committee of the Economic Development and Innovation Council (Germany), of the Federation of the Electrical and Electronics Industry (Germany) and of the Industry and Technology Committee of the Economic Council of Bavaria, former Vice-Chairman of the Federation of German Industries and former member of the Economic Council of the Federal Government

Positions held by Mr. Edward-Georg KRUBASIK

RELATED TO THE 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 expired within the last five years

Positions held in French companies

- None

Positions held in foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- None

Positions held in foreign companies

- Member of the Central Advisory Board of Commerzbank (Germany)

Positions expired within the last five years

Positions held in French companies

- 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)
- Member of the Supervisory Board of Asahi Tec (Japan) (up to 2013)

(1) The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 renewed, in accordance with Article 10, paragraph 1 of the bylaws, 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 fiscal year ended 31 December 2015.



Ms. Alexandra SCHAAPVELD

Member of the Supervisory Board

Member of the Finance and Audit Committee

Date of first appointment: 31 May 2010

Date appointment most recently renewed: None

Date on which appointment ceases: 2014 Shareholders' Meeting called to approve the financial statements for fiscal 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)

Positions held by Ms. Alexandra SCHAAPVELD

RELATED TO THE 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 expired within the last five years

Positions held in French companies

- None

Positions held in foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- Director of Société Générale

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

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)

Bolloré

BOLLORÉ Group

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: 2014 Shareholders' Meeting called to approve the financial statements for fiscal year 2013

Business address:
Tour Bolloré
31-32, quai de Dion Bouton
92811 Puteaux

Positions held by BOLLORÉ Group

RELATED TO THE 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 expired within the last five years

Positions held in French companies

- None

Positions held in foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- Chairman of Compagnie Saint-Gabriel [(a)]
- Director of Bolloré Énergie [(a)], Havas [(a)], SFDM [(a)], Société de Culture des Tabacs et Plantations Industrielles [(a)], Financière de Cézembre [(a)], MP 42 [(a)], 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

Positions held in French companies

- Director of Blue Solutions (formerly BatScap) [(a)] and Financière Moncey [(a)] (up to 2013)
- Director of Fred & Farid Paris (up to 2013)
- Director of Transisud [(a)] (up to 2012)
- 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 up on the structural simplifications of the Bolloré group, Bolloré was appointed by the Board meeting of 13 November 2008 as a member of the Supervisory Board, instead of and in the place of Société Financière de Sainte-Marine (Bolloré group). This appointment was ratified by the Ordinary and Extraordinary Shareholders' Meeting of 4 June 2009.



Mr. Cédric de BAILLIENCOURT

Permanent representative of Bolloré

Date of first appointment: 1 January 2011

Date of appointment most recently renewed: none

Date on which appointment as permanent representative ceases: 2014 Shareholders' Meeting called to approve the financial statements for fiscal 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
- 17 years with the Bolloré group, Director of Shareholding (since 1996), Chief Operating Officer (since 2002) and Vice-President of Finance of Odet, Vice-President of Bolloré (since 2002), CFO of Bolloré group since 2008.

Positions held by Mr. Cédric de BAILLIENCOURT

RELATED TO THE 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 expired within the last five years

Positions held in French companies

- None

Positions held in foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

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 Blueboat (formerly 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)], Bluestorage (formerly Financière de Loctudy) [(a)], Financière du Perguet [(a)], Financière de Sainte-Marine [(a)], Financière de Pont-Aven [(a)], Imperial Mediterranean [(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 [(a)]
- Member of the Management Board of Compagnie du Cambodge [(a)]
- Permanent representative of Bolloré on the Boards of 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 [(a)]
- Permanent representative of Compagnie du Cambodge on the Supervisory Board of Banque Hottinguer
- Member of the Board of Directors of the National Maritime Museum

(a) Position held within the Bolloré group.

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

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)], Financière du Champ de mars [(a)], Forestière Équatoriale [(a)], BB Group [(a)], Plantations des Terres Rouges [(a)], SFA [(a)], PTR Finances [(a)], Sorebol [(a)] and Technifin [(a)]
- Permanent representative of Pargefi Helios Iberica Luxembourg on the Board of Pargefi SA [(a)]
- Permanent representative of Bolloré Participations on the Board of Nord Sumatra Investissements [(a)]
- Permanent representative of Bolloré Participations on the Boards of Socfinasia, Socfinaf (formerly Intercultures), Socfinde, Terrasia, Socfin (formerly Socfinal), Induservices SA, Centrages, Immobilière de la Pépinière, Socfinco, and Agro Products Investment Company
- Permanent representative of SAFA on the Board of SAFA Cameroun (since 2013)

Positions expired within the last five years

Positions held in French companies

- Chairman of Omnium Bolloré (up to 2013)
- Permanent representative of Bolloré on the Board of Blue Solutions (formerly BatScap) (up to 2013)
- Chairman of Bluely (formerly Financière de Kerdevot) (up to 2013)
- Chairman and Director of Sofibol (up to 2012)
- Manager of Financière du Loch (up to 2012)
- Chairman of the Board of Directors and Managing 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.

7.1.1.2.4 Non-voting Board member (Censeur) *of the Supervisory Board*



Mr. François HENROT

Non-voting Board member (Censeur) of the Supervisory Board

Date of first appointment:
13 December 2010

Date appointment most recently renewed:
7 June 2011

Date on which appointment ceases: 2015 Shareholders' Meeting called to approve the financial statements for fiscal year 2014

Date of birth: 03 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 Chairman of the investment bank of the Rothschild group (since 2010)

Positions held by Mr. François HENROT

RELATED TO THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- Non-voting Board member (Censeur) of the Supervisory Board

Positions held in foreign companies

- None

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 foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- Chairman of Rothschild group investment bank [(a)]
- Managing Partner of Rothschild & Cie [(a)]
- Member of the Supervisory Board of Rexel

Positions held in foreign companies

- Member of the Board of Yam Invest N.V. (Netherlands)
- Chairman of the Board of Copeba (Belgium)

Positions expired within the last five years

Positions held in French companies

- Managing Partner of Rothschild & Cie Banque (up to 2011) [(a)]
- Member of the Supervisory Board of 3 Suisses (up to 2013)

Positions held in foreign companies

- None

(a) Position held within the Rothschild group.

7.1.1.2.5 Honorary chairmen



Mr. Jean-Paul PARAYRE

Honorary Chairman of Vallourec since 31 May 2013

Expertise and managerial experience:

- Graduate of Ecole Polytechnique
- 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)
- Chairman of the Supervisory Board of Vallourec (2000-2013)

The 30 May 2013 Shareholders' Meeting marked 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 Mr. 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, in 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 his office, the Supervisory Board expressed its gratitude to Mr. Jean-Paul Parayre for the actions taken under his chairmanship, which have created exceptional value for the Group and its shareholders.

Positions held by Mr. Jean-Paul PARAYRE

RELATED TO THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- None

Positions held in foreign companies

- None

Positions expired within the last five years

Positions held in French companies

- Member of the Supervisory Board of Vallourec (up to 2013)
- Permanent representative of Vallourec on the Board of Directors of Vallourec Tubes (up to 2013)

Positions held in foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- Member of the Supervisory Board of Peugeot SA
- Director of Société Financière du Planier

Positions held in foreign companies

- None

Positions expired within the last five years

Positions held in French companies

- Director of Bolloré (up to 2013)
- Chairman of the Supervisory Board of Stena Maritime [(a)] (up to 2013)
- Director of SNEF (up to 2009)

Positions held in foreign companies

- Manager B of Stena International Sarl (Luxembourg) [(a)] (up to 2013)

(a) Position held within the Stena group.



Mr. Arnaud LEENHARDT

Honorary Chairman of Vallourec since 15 June 2000

Expertise and managerial experience:

- Graduate of 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)
- Non-voting Board member (Censeur) of the Supervisory Board of Vallourec (2006-2010)

Having spent his entire career in the Vallourec Group, of which he was Chairman from 1981 to 2000, Mr. Arnaud Leenhardt has initiated numerous formative decisions that have had a major influence on the Group's development and the success of its products.

Positions held by Mr. Arnaud LEENHARDT

RELATED TO THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- None

Positions held in foreign companies

- None

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 foreign companies

- None

OUTSIDE THE VALLOUREC GROUP (FRANCE AND OTHER COUNTRIES)

Positions currently held

Positions held in French companies

- Honorary Chairman of UIMM

Positions held in foreign companies

- None

Positions expired within the last five years

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)

Positions held in foreign companies

- None

7.1.2 Operation of the Management Board and Supervisory Board

7.1.2.1 Operation of the Management Board

The Management Board has, with regard to third parties, the broadest powers to act under all circumstances in the name of the Company, within the limit of the corporate purpose, and subject to the powers expressly provided by law to the Supervisory Board and Shareholders' Meetings, and those which require the prior authorization of the Supervisory Board, in application of the bylaws and, where applicable, internal regulations.

In conformity with the provisions in the bylaws (Article 9 thereof), the Management Board is comprised of a minimum of two and a maximum of five members who are appointed and, as the case may be, reappointed by the Supervisory Board. At 31 March 2014, the Management Board had three members serving four-year terms.

The members of the Management Board may be dismissed by the Supervisory Board or the Shareholders' Meeting.

The Management Board has adopted internal regulations which consist of an internal document intended to organize its functioning and relations with the Supervisory Board. It is not valid against third parties.

The Management Board is in charge of the Company's management and of running its activities. It must, in conformity with the law, bylaws and internal regulations, obtain the prior authorization of the Supervisory Board in certain cases (See *infra* paragraph 7.1.2.2). It meets once a week.

7.1.2.2 Operation of the Supervisory Board

The Supervisory Board is the Company's control body and is managed and administered by the Management Board. The Supervisory Board ensures that the strategy applied by the Management Board is suited to the guidelines it has approved.

To that end, the role of the Supervisory Board is twofold:

- to provide ongoing control of the Company's management through the Management Board, by performing the checks and controls it deems appropriate;
- to provide periodic control of the Company's management: once per quarter for the activities report which the Management Board presents to it, and within three months of the close of each fiscal year, at the time of the Management Board's presentation of the annual financial statements, consolidated financial statements and management report intended for the Shareholders' Meeting, as well as during the presentation of the interim financial statements.

In addition to the legal obligations of prior authorizations (sureties, securities and guarantees – disposals of properties or shareholdings – establishment of sureties) the Supervisory Board gives its authorization prior to the Management Board carrying out the following actions:

- completing any capital increases in cash or by capitalization of reserves authorized by a Shareholders' Meeting;
- completing any other issue of securities that could later give access to the capital, authorized by a Shareholders' Meeting;
- proceeding with a buyback by the Company of its own shares;
- granting to managers and/or Group employees options to subscribe for or purchase the Company's shares, granting shares free of charge or any other benefits of a similar nature under the terms of authorizations granted by the Shareholders' Meeting;
- establishing any projected merger or partial transfer of assets, entering into or refusing any industrial or commercial agreement with other companies that could affect the Company's future and, more generally, completing any major transaction (such as external operations for the acquisition or disposal of significant investments in organic growth or internal restructuring operations) (i) that could materially alter the business scope or financial structure of the Group or the type of risks it incurs or (ii) which falls outside of the Group's declared strategy.

Where applicable, the prior authorization of the Supervisory Board is required for both Vallourec and the companies it controls under the terms of Article L.233-16 of the French Commercial Code (consolidation scope).

The Supervisory Board determines the composition of the Management Board, appoints its members and may revoke them from office. It may likewise propose to the Shareholders' Meeting that their duties be terminated. Once a year, the Supervisory Board evaluates the performance of the Management Board and leads a discussion as to its future.

The Supervisory Board sets the compensation of members of the Management Board as well as the number of share subscription or purchase options and/or performance shares they are allocated, or any other benefit of a similar nature.

It determines the terms and conditions for receiving directors' fees, and their distribution among the Board members. It likewise determines the compensation of the Chairman and, where applicable, the Vice-Chairman, and the means allocated to them for performing their duties. In 2013, the Board met seven times.

The Chairman of the Supervisory Board sets the agenda for each Supervisory Board meeting, upon consulting with the Chairman of the Management Board.

Once per quarter, the Management Board presents a report to the Supervisory Board which describes as completely as possible the progress of the Group's affairs, as well as any useful information about the financial position, cash flow, commitments and liquidity.

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.

At its meetings, the Supervisory Board can ask the Management Board to supplement its information on particular matters with a presentation at the next meeting.

The report on the activities of the Supervisory Board during fiscal year 2013 is presented in the Board Chairman's Report which appears in Appendix 1 to this chapter.

In the performance of its duties, the Supervisory Board is regularly informed by the Management Board, through its Chairman, 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 to the above provisions, information is provided to the Supervisory Board on an ongoing basis through a frequent, regular dialogue between the Chairman of the Supervisory Board and the Chairman of the Management Board.

As an exception to the above, if any member of the Supervisory Board finds themselves in a conflict of interest situation, even a potential one, concerning a subject to be debated by the Board, the Chairman of the Supervisory Board must alert the Appointments, Compensation and Governance Committee to ensure that information concerning this subject is not communicated to the member in question, without prejudice to the latter's obligations, as described below.

The Supervisory Board is composed of at least three and no more than 12 members. Its members are appointed by the Ordinary Shareholders' Meeting, which has the sole authority to reappoint them and, as the case may be, to dismiss them. Their term of office is four years. As of 31 March 2014, it is composed of 11 members, all of whom were appointed by the Shareholders' Meeting.

Taking the schedule for expiry of the current offices into account, 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 (updated on 7 November 2013) designed to formalize its operating and organizational rules and working methods. These regulations are strictly internal and are not intended to and do not replace the Company bylaws or the laws and regulations governing sales companies. They may be amended or added to at any time as a result of a decision made 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 elects a Chairman and Vice-Chairman from among its members, for a maximum term corresponding to their term of office as a Supervisory Board member. The Chairman and Vice-Chairman may be reelected or revoked, at any time, by the Supervisory Board. They are in particular responsible for convening the Board and directing its deliberations, it being specified that the powers of the Vice-Chairman are exercised if the Chairman is absent or at the Chairman's request, and under the same conditions. The Vice-Chairman particularly alerts the Chairman to observations regarding compliance with the ethics obligations established by the Board's internal regulations.

Under the terms of its ethics obligations, each Member of the Supervisory Board is required:

- before accepting office, to acknowledge the general and specific obligations for which s/he is responsible, and in particular the legal or regulatory texts, the recommendations of the AFEP-MEDEF Code and any supplements the Board may have added, along with the Board's internal operating rules;
- to participate, unless specifically prevented, in Board meetings and, where applicable, the meetings of the Committees to which they belongs, as well as in the Shareholders' Meetings;
- to request information. To that end, they must request, within the appropriate time frames, the information required for them to actively participate in the subjects on the Board's agenda and, if applicable, the agenda of the Committee(s) to which they belong;
- to comply with the legal and regulatory obligations arising from their position and, in particular, to comply with the law and the recommendations of the AFEP-MEDEF Code relating to the plurality of offices;
- to behave as a representative of all the shareholders and act in the Company's interest at all times;
- to inform the Supervisory Board of any conflict of interest situation, even a potential one, and to refrain from voting on any issue examined by the Board that would result in a conflict of interest;
- to personally be a shareholder of the Company throughout the entire term of their office, under the conditions set by the bylaws and internal regulations of the Board, for a minimum of 500 Vallourec shares;
- with regard to the confidential information obtained in the course of their duties, to consider themselves as a member in possession of insider knowledge 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 releases of results (annual, interim, 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";
- to consider themselves bound to true professional privilege with regard to all non-public information, regardless of the material (written or verbal) that is collected within the context of their duties, during a meeting of the Board or of a Committee (in particular the files of the Board and Committees, discussions, debates and deliberations of the Board and Committees), or between two meetings (ongoing information), and to take all useful measures to preserve confidentiality, in particular by refraining from communicating this information to a third party when it has not been made public;
- to disclose, under the conditions established by statutory and regulatory provisions, to the French Securities Regulator (*Autorité des Marchés Financiers* – AMF) and the Company, the transactions carried out with the financial instruments issued by the Company;

- to comply with the "Code of best practice on securities transactions in Vallourec shares and on the prevention of insider trading";
- to comply with the ethical rules of Article 20 of the AFEP-MEDEF Corporate Governance Code of June 2013.

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, for which the findings on the 2013 fiscal year are presented in the Chairman of the Supervisory Board's Report (see *infra* Appendix 1 to this Chapter 7).

When first appointed, the members of the Supervisory Board receive a guide containing all the documents concerning the Group's governance (the bylaws, the internal regulations, the AFEP-MEDEF Corporate Governance Code, the Code of Best Practice, 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 in Belo Horizonte in Brazil, enabling members to visit the plants of Vallourec Tubos do Brasil S.A. and Vallourec & Sumitomo Tubos do Brasil, as well as the Pau Branco mine and the Vallourec Florestal Ltda. 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.

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.

The members of the Supervisory Board are able to meet with the primary senior executives of the Group, including without members of the Management Board being present. In the latter case, said members must have been informed first. In order to ensure the process operates correctly, requests by any member for a meeting with the primary senior executives of the Group are made to the Chairman of the Supervisory Board.

7.1.2.3 Meetings of the Supervisory Board in fiscal year 2013

In 2013, the Supervisory Board met seven times. The absence rate was extremely low and absent members gave power to a proxy so that they could be represented (see *infra* the Chairman of the Supervisory Board's Report, Appendix 1 to this Chapter 7). The average length of the meetings was approximately 4 hours 30 minutes. A meeting was held over a full day, as has been done since 2011, so that the members could have more time to discuss the strategic plan with the Management Board.

7.1.2.4 Independent members and members associated with the Company

The Supervisory Board, in its session on 11 December 2013, examined on an individual basis the position of each of its members with regard to the independence criteria of the AFEP-MEDEF Corporate Governance Code issued in June 2013. It based its examination on the recommendations made by the Appointments, Compensation and Governance Committee (see *infra* Section 7.1.2.6).

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 thereby prevent the risk of conflicts of interest with the Company and its management.

As at 31 December 2013, with regard to the AFEP-MEDEF Corporate Governance Code, all Board members must be considered to have no interest vis-à-vis the Company and that consequently, the proportion of independent members of the Supervisory Board stands at 100% (compared to 83% at the end of 2012) [(1)].

7.1.2.5 Diversity within the Supervisory Board: internationalization and feminization of its members

According to a recommendation resulting from a performance assessment of the operations of the Supervisory Board conducted in 2009, the composition of the Supervisory Board has changed significantly since 2010, to achieve more balanced gender representation and a broader international range of backgrounds.

At 31 December 2013, the composition of the Supervisory Board was as follows (excluding Non-voting Board members (*Censeurs*)):

- four women (Mses. Vivienne Cox, Pascale Chargrasse, Anne-Marie Idrac and Alexandra Schaapveld) and seven men, i.e. a proportion of women above 36%. The Board therefore had a greater number of women members than that recommended by the AFEP-MEDEF Corporate Governance Code, which stipulates that the percentage of women on Boards should be at least 20% by April 2013, and a greater number than that stipulated under the provisions of Article 5 of Law No. 2011-103 of 27 January 2011 relating to the balanced representation of women and men on Boards of Directors and Supervisory Boards and professional equality, which require that the proportion of 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 – Mses. Vivienne Cox (British), Alexandra Schaapveld (Dutch), Messr. Edward G. Krubasik (German) and José-Carlos Grubisich (Brazilian) – i.e. a proportion of foreign national members of 36%.

In the formal self-assessment conducted in 2013, 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 *infra* the Chairman of the Supervisory Board's Report, Appendix 1 to Chapter 7).

7.1.2.6 Committees set up within the Supervisory Board

The Supervisory Board is assisted by three specialized Committees:

- the Finance and Audit Committee;
- the Appointments, Compensation and Governance Committee;
- the Strategy Committee.

The Supervisory Board appoints the members of each of the Committees, establishes their powers and determines their compensation. 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

(1) In conformity with the recommendations of the AFEP-MEDEF Code, Ms. Pascale Chargrasse, who represents employee shareholders, is not included when establishing the proportion of independent members.

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

COMPOSITION

The Finance and Audit Committee is comprised of a minimum of three members and a maximum of five members, who are chosen from among the members of the Supervisory Board and have financial or accounting expertise. As at 31 March 2014, it consisted of three members: Mr. Olivier Bazil (Chairman), Mses. Vivienne Cox and Alexandra Schaapveld, all independent. 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, spent over 35 years in the Legrand group, notably in finance and management control (for a description of the expertise and experience of members of the Finance and Audit Committee: see *supra* Section 7.1.1.2.2). When they are first appointed, the members are sent detailed information on the Group's specific accounting, financial and operating processes.

POWERS

The role of the Finance and Audit Committee is to prepare the necessary information for the Supervisory Board's deliberations, which concern tracking issues in relation to the preparation and control of accounting and financial data, in conformity with Article L.823-19 of the French Commercial Code. 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, and for which it must not be substituted, and informs it of any difficulty encountered during the exercise of its duties.

Within this context, the Finance and Audit Committee tracks:

- the process of preparation of financial information.

  In this respect, the Committee is presented with:

  - the retrospective and forward-looking financial data each quarter,
  - risk exposure and significant off-balance sheet commitments of the Group,
  - at its request, accounting matters that may have a significant impact on the preparation of the financial statements.

  Draft external financial communications 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 annual financial statements and the consolidated financial statements by the Statutory Auditors.

  To that end, the Statutory Auditors present the results of their audit at each half-year, emphasizing, where applicable, the audit adjustments and significant weaknesses in internal control that were identified during the work, and the accounting options used.

  The Committee gives the Supervisory Board its opinion as to the relevance and consistency of the accounting methods used to prepare the statutory and consolidated financial statements;
- the independence of the Statutory Auditors.

  In this regard, the Committee manages the procedure for selecting the Statutory Auditors, submits a recommendation to the Supervisory Board on the Statutory Auditors proposed for appointment by 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 any issue requiring the Board's prior approval to the Finance and Audit Committee.

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.

OPERATION

The Finance and Audit Committee meets at least four times a year to review the interim and annual financial statements before they are presented to the Supervisory Board. Subject to this condition, it defines the frequency of its meetings by agreement with the Chairman of the Supervisory Board. The Finance and Audit Committee met six times in 2013, with an attendance rate of 100%. Its usual speaker is the member of the Management Board in charge of Finance and, where applicable, employees designated by said member. It likewise meets with the people in charge of finance and accounting, cash and cash equivalents, internal audits, risk management and internal control, as well as with the Statutory Auditors, including, if the Committee

so desires, without the members of the Management Board being present. In the latter case, said members must have been informed first. It may likewise invite the Chairman of the Management Board to participate in its work and, in exercising its powers, contact the primary senior executives, after having informed the Chairman of the Management Board, and is responsible for reporting to the Supervisory Board on such work.

A complete file containing all supporting documents relating to the subjects recorded in the agenda is sent to each of the Committee members six days prior to the meeting date. For meetings which relate to the presentation of the financial income, this file also includes the corresponding financial statements. The Board meetings devoted to reviewing the annual, interim and quarterly results are generally held two days before the meetings of the Supervisory Board ruling on that subject. However, in 2013 the meeting of the Committee reviewing the financial statements for the third quarter was held the day before the Board's meeting.

Each year, the Committee evaluates its activities and reports on them to the Supervisory Board.

The Committee may request outside technical studies on issues falling within its competence, after having so informed the Chairman of the Supervisory Board or the Board itself, and is responsible for reporting on them to the Board. In the event that outside consulting services are used, the Committee must ensure that the advice in question is independent, objective and competent.

The Finance and Audit Committee has internal regulations aimed at specifying the role, composition and operating rules of the Committee. These regulations are strictly internal and may not have the purpose or effect of replacing the Company bylaws or the laws and regulations governing commercial companies.

ACTIVITIES OF THE FINANCE AND AUDIT COMMITTEE IN 2013

In 2013, the Committee also examined and formed opinions on the following issues:

- 2013 forecast and outlook for 2014:
- the Group's financial communication projects;
- the quarterly cash and cash equivalents situation and the medium and long-term financing plan;
- the dividend policy and the proposed dividend for fiscal year 2012;
- review of the 2013 assumptions;
- changes in accounting principles and the accounting policies used for preparing the year-end 2013 financial statements;
- the budget for 2014;
- the internal and external audit plan;
- structural change in working capital requirements;
- return on investments of capital employed (ROCE);
- risk mapping;
- the organization of risk management and internal control within the Group;
- the Chairman of the Supervisory Board's Report on internal control and risk management;
- the off-balance-sheet commitments;
- the employee share ownership offer;
- risk insurance policy for interest rate and foreign exchange rate risks;
- the Group's main contracts and commitments; and
- the intra-Group fees and management fees.

The Statutory Auditors attended all meetings of the Finance and Audit Committee for fiscal year 2013. They presented a report on the work completed within the context of their offices, emphasizing essential points from the legal audit results and the accounting options used.

The Head of Risk Management and the Head of Finance made a joint presentation concerning the Group's significant risk exposure and off-balance sheet commitments.

Appointments, Compensation and Governance Committee

COMPOSITION

The Appointments, Compensation and Governance Committee is comprised of a minimum of three members and a maximum of five members. As at 31 March 2014, it consists of four members, all of whom are independent [(1)]: Messr. Michel de Fabiani (Chairman) and Patrick Boissier, Mses. Anne-Marie Idrac and Pascale Chargrasse (representing employee shareholders). The Chairman of the Management Board is associated with the work concerning appointments and governance, except in cases that concern his personal situation.

POWERS

The role of the Appointments, Compensation and Governance Committee is to prepare information for the Supervisory Boards' deliberations, which concern tracking issues relating to the appointment and compensation of corporate officers, and to the governance of the Group. 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, and for which it must not be substituted, and informs it of any difficulty encountered while performing its tasks.

The duties of the Appointments, Compensation 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.
- Regular review of the composition of the Management Board and establishment of a succession plan for members of the Management Board, in order to be able to propose succession solutions to the Board, notably in the event of an unexpected vacancy.
- Regularly reviewing the composition of the Board and its Committees and making recommendations on changes to its composition when this appears appropriate.

(1) In conformity with the recommendations of the AFEP-MEDEF Code, Ms. Pascale Chargrasse, who represents employee shareholders, is not included when establishing the proportion of independent members.

The Committee's proposals for the offices of members of the Board are guided by the interests of the Company and all of its shareholders. They particularly take into account the desired balance of the Board's composition, as concerns the composition and evolution of the Company's shareholders, as well as the diversity of its areas of expertise, gender, and nationalities. The Committee ensures that its proposals to the Board reflect the necessary independence and objectivity.

The Committee conducts its studies on potential candidates before taking any action with them.

Compensation

- Proposals concerning the amounts and allocation of directors' fees paid to Board members, as well as the compensation of members of the Committees.
- Proposals concerning the compensation of the Chairman of the Board.
- Compensation of members of the Management Board: the Committee is responsible for recommending to the Board the structure and level of the compensation paid to each member of the Management Board (fixed portion, variable portion and benefits in kind).
- Performance actions and share subscription or purchase options for members of the Management Board.
- Policy for allocating performance shares and share purchase or subscription options to managers and executives and/or staff of the Group.

In addition, as regards members of the Operational Committee, the Committee is informed of their appointments, compensation policy 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 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.
- Preparing the annual assessment of the Board and recommendations resulting from such assessment.
- Reviewing and following up on any situation involving a conflict of interest between a Board Member and the Company, which could lead the Board to request an express commitment from the member in such a situation.
- Reviewing requests from Supervisory Board Members concerning the assumption of new offices or duties outside the Company.
- Reviewing the independence of Board Members with regard to specific criteria which have been made public.

OPERATION

The Appointments, Compensation and Governance Committee meets at least twice a year. Subject to this condition, it defines the frequency of its meetings by agreement with the Chairman of the Supervisory Board. The Committee met eight times in 2013 with an average effective attendance rate of 100%.

Each year, the Committee proceeds to evaluate its own activities and report on them to the Supervisory Board.

The Committee may likewise, in exercising its powers, contact the primary senior executives, after having informed the Chairman of the Management Board, and is responsible for reporting to the Supervisory Board accordingly.

The Committee may request outside technical studies on issues falling within its competence. In the event that outside consulting services are used, the Committee ensures that the advice in question is independent, objective and competent.

The Appointments, Compensation and Governance Committee have internal regulations aimed at specifying the role, composition and operating rules of the Committee. These regulations are strictly internal and are not intended to and do not replace the Company bylaws or the laws and regulations governing commercial companies.

ACTIVITIES OF THE APPOINTMENTS, COMPENSATION AND GOVERNANCE COMMITTEE IN 2013

In 2013, the Committee also examined and formed opinions on the following issues:

- Management Board member compensation for 2012, 2013 and 2014, as well as the report on 2013 compensation in view of implementing the "Say on Pay" mechanism;
- Vallourec's policy on enabling the personnel to share in the Group's net profit (the Value 13 international employee share ownership offer, the "2-4-6" global performance share plans, and performance share plans and share subscription options to managers and executives (including members of the Executive Committee);
- 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 mechanisms linked to the termination from office of Management Board members Messrs. Philippe Crouzet, Jean-Pierre Michel and Olivier Mallet;
- policy on the composition of the Supervisory Board;
- the succession of the Board chairmanship led to Ms. Vivienne Cox being appointed as Board Chairman;
- compensation of the Chairman of the Board, Vice-Chairman of the Board, members of the Supervisory Board, members of the Committees and the Non-voting Board member (*Censeur*);
- annual evaluation of the Supervisory Board and Committees;
- the composition of the Supervisory Board and its Committees;
- the independence of the Board members;
- the representation of employees on the Board and/or Committees, which led to the appointment of Ms. Pascale Chargrasse, employee shareholder representative on the Appointments, Compensation and Governance Committee;
- Board member shareholders; and

- the amendments to the internal regulations of the Board and Committees, taking into account the review of the AFEP-MEDEF Corporate Governance Code in June 2013.

Strategy Committee

COMPOSITION

The Strategy Committee is comprised of a minimum of three members and a maximum of five members. As at 31 March 2014, it consisted of four members: Ms. Vivienne Cox (Chairman), Messr. Olivier Bazil, Jean-François Cirelli and José-Carlos Grubisich, all of whom are independent.

POWERS

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 areas of expertise. It acts under the authority of the Supervisory Board, to which it reports, and for which it must not be substituted, and informs it of any difficulty encountered while performing its tasks.

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 or partial transfer of assets, any industrial or commercial agreement with other companies that could affect the Company's future and, more generally, any major transaction (such as external acquisition or disposal operations, significant capital expenditure in organic growth or internal restructuring operations) that could materially alter the business scope or financial structure of the Group or the type of risks it incurs. Within this context, the Committee reviews:

(i) capital expenditure transactions when they exceed €50 million;

(i) acquisition or disposal operations when they exceed €50 million; and

(iii) following their implementation, the conditions for carrying out and attaining objectives for the operations that have been authorized by the Supervisory Board.

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 which it considers to be necessary or relevant.

OPERATION

The Committee meets at least four times a year. Subject to this condition, it defines the frequency of its meetings by agreement with the Chairman of the Supervisory Board. The Committee met five times in 2013 with an average effective attendance rate of 85%.

Its usual speaker is the member of the Management Board that is in charge of Operations, along with, where applicable, the employees designated by said member.

Each year, the Committee proceeds to analyze its own activities and report on them to the Board.

The Committee may invite the Chairman of the Management Board to participate in its work, and, in exercising its powers, may contact the primary senior executives, after having informed the Chairman of the Management Board, and accordingly is responsible for reporting to the Supervisory Board.

The Committee may request outside technical studies on issues falling within its competence, after having so informed the Chairman of the Supervisory Board or the Board itself, and is responsible for reporting on them to the Board. In the event that outside consulting services are used, the Committee must ensure that the advice in question is independent, objective and competent.

The Strategy Committee has internal regulations aimed at specifying the role, composition and operating rules of the Committee. These regulations are strictly internal and are not intended to and do not replace the Company bylaws or the laws and regulations governing commercial companies.

7.1.2.7 Non-Voting Board Members *(Censeurs)*

The Extraordinary Shareholders' Meeting of 1 June 2006 decided in its sixth resolution to create the position of a Non-voting Board member (*Censeur*). The main role of Non-voting Board members (*Censeurs*) is to ensure the strict application of the bylaws.

There may not be more than two Non-voting Board members (*Censeurs*). They attend meetings of the Supervisory Board and take part in discussions in an advisory capacity.

As at 31 March 2014, Mr. François Henrot held the office of Non-voting Board member (*Censeur*). During fiscal years 2012 and 2013, he played an active part in preparations for the succession of the Chairman of the Supervisory Board, whose term of office expired on 30 May 2013.

7.1.3 Shareholdings of the 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	20,412
Mr. Jean-Pierre Michel	5,874
Mr. Olivier Mallet	9,542

As far as the Company is aware, the number of Vallourec shares held by each of the members of the Supervisory Board and the non-voting director, as at 31 December 2013 is as follows:

Members of the Supervisory Board	Number of Vallourec shares held [(a)]
Ms. Vivienne Cox (Chairman)	1,921
Mr. Patrick Boissier (Vice-Chairman)	609
Mr. Olivier Bazil	1,209
Ms. Pascale Chargrasse	200
Mr. Jean-François Cirelli	665
Mr. Michel de Fabiani	575
Ms. Anne-Marie Idrac	313
Mr. José Carlos Grubisich	100
Mr. Edward G. Krubasik	1,016
Ms. Alexandra Schaapveld	700
Bolloré [(b)]	2,084,963
Mr. François Henrot (Non-voting Board member (Censeur))	538

(a) At its meeting of 7 November 2013, the Supervisory Board increased the number of Vallourec shares that each member of the Board is required to hold from 50 to 500 shares. For members in office on the date this obligation entered into force, i.e. 7 November 2013, the deadline for compliance with the new requirement was set at 31 December 2014.

(b) Including 117 Vallourec shares held by Bolloré S.A. and 2,084,846 held by 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 members of 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 administrative, management or supervisory body;
- no member of the Management Board or Supervisory Board has been charged, during the past five years, with an offense 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 administrative, management or supervisory body of an issuer or being involved in the management or conduct of the business of an issuer; and
- 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.

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.

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 interest

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, Compensation and Governance Committee constantly monitors the independence of members with regard to the AFEP-MEDEF Corporate Governance Code criteria; 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 refrain 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, Compensation and Governance Committee to ensure that information concerning this subject is not communicated to the member in question.

Since 2012, 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, Non-voting Board members (*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, Compensation 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-liability company managed by a Management Board and a Supervisory 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 of all kinds

Details are provided below of the compensation and benefits of all kinds paid to Vallourec's 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, and the most recent recommendations of the French Securities Regulator (*Autorité des Marchés Financiers* – AMF). They should be read in light of the Supervisory Board's report on the compensation of the Management Board in 2013, which includes a description of the compensation policy for the members of the Management Board (see above Appendix 2 to this Chapter 7).

7.2.1 Compensation and benefits of all kinds paid to corporate officers

7.2.1.1 Compensation of members of the Management Board

The following tables show the compensation paid to members of the Management Board as it was comprised at 31 December 2013.

a) Summary of compensation and 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 French Securities Regulator (*Autorité des Marchés Financiers – *AMF))

The following table summarizes the compensation due in fiscal years 2012 and 2013 and the valuation of the share subscription options and performance shares allocated during the fiscal year.

In €	Fiscal year 2012	Fiscal year 2013
Mr. Philippe Crouzet, Chairman of the Management Board		
Compensation due for the year (see *infra* b) in paragraph 7.2.1.1)	1,040,276	1,324,485
Valuation of multi-year variable compensation allocated	-	-
Valuation of options allocated during the year (see *infra* c) in paragraph 7.2.1.1) [(a)]	-	343,530
Valuation of performance shares allocated during the fiscal year (see *infra* e) in paragraph 7.2.1.1) [(b)]	496,080	281,517
TOTAL	**1,536,356**	**1,949,532**
Mr. Jean-Pierre Michel, Chief Operating Officer		
Compensation due for the fiscal year (see *infra* b) in paragraph 7.2.1.1)	582,949	709,932
Valuation of multi-year variable compensation allocated	-	-
Valuation of options allocated during the year (see *infra* c) in paragraph 7.2.1.1) [(a)]	-	156,150
Valuation of performance shares allocated during the yea (see *infra* e) in paragraph 7.2.1.1) [(b)]	243,906	138,403
TOTAL	**826,855**	**1,004,485**
Mr. Olivier Mallet, Chief Financial Officer		
Compensation due for the fiscal year (see *infra* b) in paragraph 7.2.1.1)	526,065	646,132
Valuation of multi-year variable compensation allocated	-	-
Valuation of options allocated during the year (see *infra* c) in paragraph 7.2.1.1) [(a)]	-	124,920
Valuation of performance shares allocated during the year (see *infra* e) in paragraph 7.2.1.1) [(b)]	198,432	112,600
TOTAL	**724,497**	**883,652**

(a) All share subscription options allocated to members of the Management Board in 2013 are contingent upon performance conditions. Their valuation, which is 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 €46.15. No option was granted to members of the Management Board in 2012.

(b) All the performance shares allocated to members of the Management Board in 2012 and 2013 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 compensation to each member of the Management Board (according to the format of Table 2 recommended by the AFEP-MEDEF Code and the French Securities Regulator (Autorité des Marchés Financiers – AMF))

In €	Fiscal year 2012		Fiscal year 2013	
	Amounts due for the fiscal year	Amounts paid for the fiscal year	Amounts due for the fiscal year	Amounts paid for the fiscal year
Mr. Philippe Crouzet, Chairman of the Management Board				
Fixed compensation	760,000	760,000	760,000	760,000
Annual variable compensation	275,000	555,000	560,000	275,000
Multi-annual variable compensation	-	-	-	-
Extraordinary compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits in kind [(a)]	5,284	5,284	4,493	4,493
TOTAL	**1,040,276**	**1,320,276**	**1,324,485**	**1,039,485**
Mr. Jean-Pierre Michel, Chief Operating Officer				
Fixed compensation	445,908	445,908	450,000	450,000
Annual variable compensation	132,000	275,000	255,000	132,000
Multi-annual variable compensation	-	-	-	-
Extraordinary compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits in kind [(a)]	5,041	5,041	4,932	4,932
TOTAL	**582,949**	**725,949**	**709,932**	**586,932**
Mr. Olivier Mallet, Chief Financial Officer				
Fixed compensation	394,893	394,893	400,000	400,000
Annual variable compensation	125,000	247,000	240,000	125,000
Multi-annual variable compensation	-	-	-	-
Extraordinary compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits in kind [(a)]	6,180	6,180	6,132	6,132
TOTAL	**526,073**	**648,073**	**646,132**	**531,132**

(a) Use of a company car.

The principles and rules for determining the variable compensation of members of the Management Board as well as a breakdown of the benefits in kind are presented for fiscal year 2013 in the 2013 Supervisory Board Report on compensation (see Appendix 2 to this Chapter 7) and, for fiscal year 2012, in the 2012 Supervisory Board Chairman's Report (Appendix 1, Chapter 7 of the 2012 Registration Document).

c) Share purchase or subscription options allocated during the fiscal year 2013 to each member of the Management Board by Vallourec and each Group company (according to the format of Table 4 recommended by the AFEP-MEDEF Code and the French Securities Regulator (Autorité des Marchés Financiers – AMF))

Name of executive corporate officer	Plan number and date	Type of options	Valuation of options according to the method used for the consolidated financial statements	Number of options allocated during the fiscal year [(a)]	Exercise price	Exercise period
Mr. Philippe Crouzet	2013 Plan 02/09/2013	Share subscription options	€343,530	33,000 *i.e. 0.026% of the share capital* [(b)]	€46.15	From 03/03/2018 to 01/09/2021(inclusive)
Mr. Jean-Pierre Michel	2013 Plan 02/09/2013	Share subscription options	€156,150	15,000 *i.e. 0.012% of the share capital* [(b)]	€46.15	From 03/03/2018 to 01/09/2021 (inclusive)
Mr. Olivier Mallet	2013 Plan 02/09/2013	Share subscription options	€124,920	12,000 *i.e. 0.009% of the share capital* [(b)]	€46.15	From 03/03/2018 to 01/09/2021 (inclusive)
TOTAL			**€624,600**	**60,000 *i.e. 0.047% of the share capital*** [(b)]		

(a) The number corresponds to the coefficient 1, equivalent to target performance. A higher performance coefficient cannot be applied.

(b) On the basis of the share capital at 31 December 2013.

The share subscription options allocated to members of the Management Board in 2013 are subject to performance conditions assessed over four years and measured based on the following four quantified criteria:

- the expected rate of return on capital invested (ROCE) over the 2014, 2015, 2016 and 2017 years, compared to the expected rate of return on capital invested, which is recorded in the 2014, 2015, 2016 and 2017 budget (40% weighting);
- sales for the 2014, 2015, 2016 and 2017 years, compared to the sales recorded in the budget for 2014, 2015, 2016 and 2017 (30% weighting);
- performance in relation to the Vallourec share between 2013 and 2017, compared to a reference panel comprised of Tenaris, TMK and Vallourec (15% weighting);
- the relative performance of Vallourec's EBITDA between 2013 and 2017, compared to the same panel noted above (15% weighting).

The number of options definitively granted to members of the Management Board after the performance assessment period shall be calculated by applying a coefficient which measures performance for each of the criteria to the number of options initially granted. This coefficient shall vary between 0 and 1. The number of options granted shall be null below a level of performance which corresponds to the minimum threshold; it shall be 1 if the target performance was attained. Achievement of the budgetary objectives of the first two criteria corresponds to the coefficient 1, i.e. maximum performance.

The confidential nature of the first two quantified criteria on share subscription options does not permit their content to be disclosed. However, at the end of the performance appraisal period, Vallourec will communicate the minimum and maximum thresholds to be achieved and the linear progression applied between them.

d) Share subscription or purchase options exercised during 2013 the fiscal year by each member of the Management Board

No members of the Management Board exercised share subscription or purchase options in 2013 under the share subscription option or purchase plans created in previous years.

e) Performance shares allocated during the fiscal year 2013 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 French Securities Regulator (Autorité des Marchés Financiers – AMF))

Name of executive corporate officer	Plan number and date	Number of shares allocated during the fiscal year [(a)]	Valuation of shares according to the method used for the consolidated financial statements	Vesting date	Available date	Performance conditions
Mr. Philippe Crouzet	2013 Plan 29/03/2013	9,023 *i.e. 0.007% of the share capital* [(b)]	€281,517	29/03/2016	29/03/2018	Yes
Mr. Jean-Pierre Michel	2013 Plan 29/03/2013	4,436 *i.e. 0.0035% of the share capital* [(b)]	€138,403	29/03/2016	29/03/2018	Yes
Mr. Olivier Mallet	2013 Plan 29/03/2013	3,609 *i.e. 0.0028% of the share capital* [(b)]	€112,600	29/03/2016	29/03/2018	Yes
TOTAL		**17,068 i.e. *0.013% of the share capital*** [(b)]	**€532,520**			

(a) The number corresponds to the coefficient 1, which is equivalent to target performance. It may be increased by applying a performance factor of 1.33 for overperformance.

(b) On the basis of the share capital at 31 December 2013.

The performance shares granted to members of the Management Board in 2013 are subject to performance conditions assessed over three years and measured based on the following four quantified criteria:

- the expected rate of return on capital invested on a consolidated basis (ROCE) for the 2013, 2014 and 2015 years, compared to the ROCE recorded in the budget for 2013, 2014 and 2015 (40% weighting);
- the consolidated sales at constant exchange rate and scope for the 2013, 2014 and 2015 years, compared to the sales recorded in the budget for 2013, 2014 and 2015 (30% weighting);
- the stock market performance in relation to the Vallourec share between 2013 and 2015, compared to a reference panel comprised of Tenaris, TMK and Vallourec (15% weighting);
- the relative performance of consolidated EBITDA between 2013 and 2015, compared to the same panel noted above (15% weighting).

The number of performance shares definitively allocated to members of the Management Board after the performance appraisal period shall be calculated by applying a factor which measures performance for each of the criteria to the number of performance shares initially allocated. This factor shall vary between 0 and 1.33. The number of performance shares allocated shall be null below a level of performance which corresponds to the minimum threshold; it shall be 1.33 if overperformance was attained. The confidential nature of the first two quantified criteria on performance shares does not permit their content to be disclosed. However, at the end of the performance appraisal period, Vallourec will communicate the minimum and maximum thresholds to be achieved and the linear progression applied between them.

f) Performance shares that became available during the fiscal year 2013 for each member of the Management Board (according to the format of Table 7 recommended by the AFEP-MEDEF Code and the French Securities Regulator (Autorité des Marchés Financiers – AMF))

Name of executive corporate officer	Plan number and date	Number of shares that became available during the fiscal year	Vesting conditions [(a)]
Mr. Philippe Crouzet	2009 Plan 31/07/2009	10,195	2,549
Mr. Jean-Pierre Michel	2009 Plan 31/07/2009	2,893	723
Mr. Olivier Mallet	2009 Plan 31/07/2009	3,853	963
TOTAL	**-**	**16,941**	**4,235**

(a) Members of the Management Board 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 appraisal period for the performance share plan of 30 March 2011 ended on 30 March 2013. The shares that were initially allocated under this plan, within the context of the sixteenth resolution which was passed by the Shareholders' Meeting of 4 June 2008, were subject to three performance conditions, which were assessed for the 2011 and 2012 fiscal years:

- the ratio of consolidated EBITDA to consolidated sales (weighting 40%): a coefficient of 0 (no shares vested) was applied if the average ratio achieved in 2011 and 2012 was less than 12%; the coefficient was 1 if the average was at least 12% and 1.33 if the average was 24% or higher;
- growth of consolidated sales (weighting 30%): a coefficient of 0 (no shares vested) was applied if 2012 sales were less than €5.390 billion; the coefficient was 1 if sales were at least €5.750 billion and 1.33 if sales were €5,870 billion or higher;
- the stock market performance of the Vallourec share on the regulated market of Euronext Paris in relation to a reference panel comprised of Tenaris, TMK and Vallourec (30% weighting).

After applying these conditions, the number of shares actually vested by each of the members of the Management Board, in application of the performance conditions, is as follows:

30 March 2011 performance shares plan	Mr. Philippe Crouzet	Mr. Jean-Pierre Michel	Mr. Olivier Mallet	Total
Number of performance shares allocated on 30 March 2011 [(a)]	9,023	4,436	3,609	17,068
Number of performance shares vested on 30 March 2013 after performance conditions applied	1,696	834	678	3,208
Percentage of performance shares vested on 30 March 2013 against the number of performance shares initially allocated on 30 March 2011	18.8%	18.8%	18.8%	18.8%

(a) The number corresponds to the factor 1, which is equivalent to target performance. It could be increased by applying a coefficient of 1.33 for overperformance.

*g) History of grants of share subscription or purchase options (according to the format of Table 8 recommended by the AFEP-MEDEF Code and the French Securities Regulator (*Autorité des Marchés Financiers – *AMF))*

The history of the grants of share subscription or purchase options appears in paragraph 7.3.1.1 of this chapter.

*h) History of grants of share subscription or purchase options (according to the format of Table 9 recommended by the AFEP-MEDEF Code and the French Securities Regulator (*Autorité des Marchés Financiers – *AMF))*

The history of the grants of performance shares appears in paragraph 7.3.1.2 of this chapter.

*i) Share subscription or purchase options granted to the top ten employees who are not corporate officers and options exercised by them (according to the format of Table 9 recommended by the French Securities Regulator (*Autorité des Marchés Financiers – *AMF))*

	Total number of options granted/shares subscribed or purchased	Weighted average exercise price *(in €)*	Share subscription or purchase option plans
Options granted during the year to the ten Group employees to whom the largest number of options was allocated	46,565	46.15	2 September 2013 share subscription options 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 definitive granting of subscription options issued under the plan put in place on 2 September 2013 is entirely subject to conditions of performance and continuous service.

For grants to employees (other than members of the Executive Committee), performance is assessed over fiscal years 2014, 2015, 2016 and 2017 and is dependent on achieving a ratio of the Group's EBITDA to consolidated sales.

For grants to members of the Executive Committee, performance is assessed over four years and measured based on the following four quantified criteria:

- the estimated rate of return on capital invested (ROCE) over the 2014, 2015, 2016 and 2017 years, compared to the expected rate of return on capital invested, which is recorded in the 2014, 2015, 2016 and 2017 budget (40% weighting);
- sales for the 2014, 2015, 2016 and 2017 years, compared to the sales recorded in the budget for 2014, 2015, 2016 and 2017 (30% weighting);
- performance in relation to the Vallourec share between 2013 and 2017, compared to a reference panel comprised of Tenaris, TMK and Vallourec (15% weighting);
- the relative performance of Vallourec's EBITDA between 2013 and 2017, compared to the same panel noted above (15% weighting).

j) Summary of departure mechanisms and status of members of the Management Board (according to the form of Table 10 recommended by the AFEP-MEDEF Code and Table 11 recommended by the French Securities Regulator (Autorité des Marchés Financiers – AMF))

	Employment contract		Supplementary pension scheme [e]		Payments or benefits due or likely to become due in respect of termination of office or change of position [f]		Compensation for a non-compete clause [g]	
	Yes	No	Yes	No	Yes	No	Yes	No
Mr. 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 renewed: 15 March 2012 [a]* *Date on which appointment ceases: 15 March 2016 [a]*		X	X		X		X	
Mr. Jean-Pierre Michel Member of the Management Board *Date of first appointment: 7 March 2006 [b]* *Date renewed: 15 March 2012 [b]* *Date on which appointment ceases: 15 March 2016 [b]*	X [d]		X			X		X
Mr. Olivier Mallet Member of the Management Board *Date of first appointment: 30 September 2008 [c]* *Date renewed: 15 March 2012 [c]* *Date on which appointment ceases: 15 March 2016 [c]*	X [d]		X		X			X

(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 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, effective from 15 March 2012 until 15 March 2016.

(b) At its meeting on 7 March 2006, the Supervisory Board appointed Mr. Jean-Pierre Michel as a member of the Management Board as from 1 April 2006. At its meeting on 3 June 2008, it renewed his appointment as a member of the Management Board with effect from 4 June 2008, at the close 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) On 29 September 2008, the Supervisory Board appointed Mr. Olivier Mallet as member of the Management Board, with effect from 30 September 2008 until 15 March 2012. On 22 February 2012, the Supervisory Board renewed his appointment as member of the Management Board, effective from 15 March 2012 until 15 March 2016.

(d) The employment contract is suspended throughout the Management Board member's term of office.

(e) For a description of the supplementary pension scheme, see infra 7.2.2.2.

(f) For a description of the payments or benefits that are due or may be due as a result of a termination or change of office, see the 2013 Board Report on compensation of the members of the Management Board which appears in Appendix 2 to this Chapter 7.

(g) For a description of the compensation for a non-compete clause; see the 2013 Board Report on compensation of the members of the Management Board which appears in Appendix 2 to this Chapter 7.

7.2.1.2 Directors' fees received by members of the Supervisory Board

2013 Compensation

The total amount for directors' fees that the Supervisory Board divided among its members in 2013 is recorded under the annual budget for directors' fees of €520,000 authorized by the Ordinary Shareholders' Meeting of 31 May 2010 (Tenth resolution).

On this basis, each member of the Supervisory Board collected, for their participation in the Supervisory Board meetings held in 2013, maximum compensation of €33,000 [1], including a fixed portion of €16,500 (i.e. half the directors' fees) and a variable portion of €16,500 (i.e. half the directors' fees), based on their attendance at those meetings [2].

The Supervisory Board Chairman also received, in addition to directors' fees, compensation of €250,000 [3].

(1) This amount was reduced prorata temporis in the event of an appointment or termination of service during the fiscal year.

(2) This rule has applied since 2010. Up to 2008, each member of Vallourec's Supervisory Board received a directors' fee which was set at €28,000 per year, without their attendance at the Board's meetings being taken into account. In order to take into account the recommendations of the 2008 AFEP-MEDEF Code, the Supervisory Board had adopted, as at 1 July 2009, a new compensation mechanism, distributing the amount of €28,000, which was increased to €33,000 in 2010 in two equal installments, one of which was dispensed in all cases, with the other being allocated based on attendance.

(3) Given the succession of the Board chairmanship, which occurred in 2013, this compensation was reduced prorata temporis according to the duration of the terms of office effectively held by the acting Chairman from 1 January to 30 May 2013 and his successor, who was appointed as at 30 May 2013.

2014 Compensation

The principal for the amount of directors' fees of €33,000 per year and per member, in effect since 2010, shall remain unchanged. However, in order to take into account the new recommendation of the AFEP-MEDEF Code of June 2013, which requires that the portion of the directors' fees that is based on attendance dominate over the fixed portion, the Supervisory Board, in its session on 7 November 2013, at the proposal of the Appointments, Compensation and Governance Committee, decided to set the fixed portion to €12,000 (i.e. 1/3 of the directors' fees) and the variable portion based on directors' at €21,000 (i.e. 2/3 of the directors' fees).

At the same meeting, the Supervisory Board likewise adopted new provisions with regard to its Chairman and Vice-Chairman, the interested parties not taking part in the deliberations and votes concerning them.

As concerns the Board Chairman, the structure of her compensation was simplified: all components of her compensation which prevailed through the end of 2013 (directors' fees and annual fixed compensation) were combined, with only the remaining annual fixed compensation of €320,000. This approach will have the effect that potential variations linked to attendance will no longer be taken into account, but is justified due to the fact that the attendance of the Board Chairman does not appear to be a determining factor, insofar as she performs duties and procedures which far surpass merely participating in Board and Committee meetings.

Within the context of a review of its internal operation, the Supervisory Board of 7 November 2013 also decided to extend the role of its Vice-Chairman. This person is thus now in charge of convening the Board and directing its discussions if the Chairman is absent, as well as upon the latter's request. He is also responsible for informing the Chairman of observations regarding compliance with the ethical obligations of the Board members. Consequently, the Board, at the proposal of the Appointments, Compensation and Governance Committee, has decided to allocate to the Vice-Chairman of the Supervisory Board, in this capacity, an additional set amount of directors' fees of €12,500 per year.

The Chairman of the Board, along with the other members, is not allocated any options, performance shares or termination payments of any kind.

7.2.1.3 Compensation of Committee members

In 2013, members of the Committees received, as part of the aforementioned €520,000 annual budget, additional directors' fees based on their actual attendance at meetings of said Committees, at the rate of €2,500 per meeting, with the Committee Chairmen each having collected €3,500 per meeting.

In order to take into account the change in market practice, the Supervisory Board, in its session of 7 November 2013, decided, at the proposal of the Appointments, Compensation and Governance Committee, that as at 1 January 2014, each member of a Board Committee, including the Committee Chairman, would collect €2,500 per meeting, dependent on attendance, with the Chairman collecting an additional annual fixed portion of:

- €12,500 for the Finance and Audit Committee;
- €6,250 for the Strategy Committee; and
- €6,250 for the Appointments, Compensation and Governance Committee.

Considering the change in the composition of the Board and its Committees, and the growing number of their meetings, the Shareholders' Meeting of 28 May 2014 will be asked to increase the annual budget for directors' fees from €520,000 to €650,000.

7.2.1.4 Compensation of Non-voting Board members (*Censeurs*)

Compensation of the Non-voting Board members (*Censeurs*), which is calculated on the same basis as the compensation of the Supervisory Board members, comes within the annual budget for directors' fees allocated to the Supervisory Board.

Directors' fees and other compensation received by the members and Non-Voting Members of the Supervisory Board (according to the format of Table 3 recommended by the AFEP-MEDEF Code and the French Securities Regulator (*Autorité des Marchés Financiers – *AMF))

Members and Non-voting Board members (*Censeurs*) of the Supervisory Board *In €*	**Amounts paid in 2012**	**Amounts paid in 2013**
Mr. Jean-Paul Parayre (Chairman of the Board up to the Shareholders' Meeting of 30 May 2013)	283,000 [(a)]	129,929 (b)
Ms. Vivienne Cox (Chairman of the Board as at the Shareholders' Meeting of 30 May 2013)	49,786	204,233 [(c)]
Mr. Olivier Bazil (member since 31/05/2012)	32,542	56,900
Mr. Patrick Boissier	36,857	45,025
Ms. Pascale Chargrasse	30,643 [(d)]	36,007 [(e)]
Mr. Jean-François Cirelli	36,286	36,134
Mr. Michel de Fabiani	47,000	54,233
Mr. José Carlos Grubisich (Non-voting Board member (Censeur) from 09/11/2011 to 31/05/2012 and Member since 31/05/2012)	32,073	38,230
Mr. François Henrot	25,929	27,243
Ms. Anne-Marie Idrac (member since 7 June 2011)	35,857	42,802
Mr. Edward G. Krubasik	42,000	29,339
Ms. Alexandra Schaapveld (member since 31 May 2010)	45,500	40,579
Mr. Jean-Claude Verdière (member up to 31 May 2012)	30,464	-
Bolloré, represented by Mr. Cédric de Bailliencourt	33,000	29,339
TOTAL	**760,937**	**769,993**

(a) Including €33,000 in directors' fees and €250,000 for the Supervisory Board chairmanship.

(b) Including €25,929 in directors' fees and €104,000 for the Supervisory Board chairmanship (fixed portion of directors' fees and annual fixed compensation of €250,000 having been reduced prorata temporis in order to take into account the term of office that was effectively held in 2013 by Mr. Jean-Paul Parayre, i.e. from 1 January 2013 to 30 May 2013).

(b) Including €58,233 in directors' fees and €146,000 for the Supervisory Board chairmanship (annual fixed compensation for the Board chairmanship of €250,000 having been reduced prorata temporis in order to take into account the term of office that was effectively held in 2013 by Ms. Vivienne Cox, i.e. from 31 May 2013 to 31 December 2013).

(d) This amount is in addition 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.

(e) This amount is in addition to the fixed and variable compensation and the valuation of the 65 performance shares received in 2013 by Ms. Pascale Chargrasse under her employment contract with the Group, i.e. €55,943.

7.2.2 Compensation and pensions obligations of the Group's executive management

7.2.2.1 Compensation of the Group's senior executives

The total amount of direct and indirect compensation of all kinds paid in 2013 by the Group's French and foreign companies in respect of all the Group's primary senior executives (i.e. the members of the Executive Committee as composed in 2013 excluding the members of the Management Board) amounted to €4,004,527. The variable portion represented 23.9% of the total.

The charge in respect of the share subscription options and performance shares allocated to the Group's senior executives during the year and recognized in the 2013 income statement was €1,514,000.

7.2.2.2 Retirement commitments

In conformity with market practices, and in order to create loyalty among the Group's senior executives, members of the Management Board, like other senior executives of the Group that meet the eligibility conditions (i.e. 42 people as at 31 December 2013), have available to them a supplementary retirement scheme with defined benefits which allows them to improve their replacement income, on the condition that they take their retirement on the day of their departure from the Group.

This scheme, which has always been available, does not afford any specific advantage to the members of the Management Board, over the eligible senior executive employees of the Group, and applies to beneficiaries whose gross base compensation (excluding variable portion and exceptional bonuses) is higher than four annual Social Security caps over three consecutive years. This benefit appears to be moderate, as the Group's supplementary retirement scheme is capped at 20% of the average base salary for the last three years, excluding the variable portion, and limited to four annual Social Security caps.

This mechanism has been approved by the Shareholders' Meetings of 1 June 2006 (first resolution) and 4 June 2009 (fifth resolution).

The potential rights on an individual basis for each of the three members of the Management Board as at 31 December 2013 are as follows:

Members of the Management Board	Reference compensation at 31 December 2013	Annual potential rights for 2013	Total annual potential rights as at 31 December 2013 [(b)]	Cap on potential rights [(b)]	Length of service conditions
Mr. Philippe Crouzet	€760,000	2%	9.50%	20%	36 months
Mr. Jean-Pierre Michel	€450,000	2%	15.34%	20%	36 months
Mr. Olivier Mallet	€400,000	1.7%	9.25%	20%	36 months

(a) As a percentage of the reference compensation (base compensation excluding variable portion).

(b) Capped at 20% of the average base compensation for the last three years, excluding variable portion and limited to 4 annual Social Security caps.

Beneficiaries may keep the benefit of this supplementary scheme if they are over the age of 55 and unable to find employment after being forced to leave by the Company.

The determination of the overall compensation 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 2013, this policy was implemented at the Supervisory Board's meetings of 20 February (performance share plan for all employees and performance share plan for 1,644 managers and executives, excluding members of the Management Board), 27 March (Value 13 employee share ownership plan) and 30 July (share subscription options plan for 406 beneficiaries, excluding members of the Management Board). The Supervisory Board also determined, at its meetings on 27 March and 30 July 2013, the principles of compensation of members of the Management Board in the form of share subscription options and performance shares.

This information was made public in conformity with the AFEP-MEDEF Corporate Governance Code with the information provided on the Company's website on 2 April and 30 July 2013 (www.vallourec.com).

Vallourec thus aims to supplement the compensation paid to its employees with various schemes designed to involve them in the Group's performance over the long-term and build a significant level of employee share ownership, in line with Vallourec's development ambitions. The policy will gradually be extended to all categories of Group staff worldwide, subject to and in accordance with local legislation and regulations and budgetary constraints (relationship between the number of staff in a country and the cost of implementing the offer).

In 2013 the Group therefore renewed:

- for the sixth consecutive year (see *infra* Section 7.3.3 "Employee share ownership"), a "Value" employee share ownership scheme, called Value 13, 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 fifth consecutive year (see *infra* Section 7.3.3 "Employee share ownership"), an international performance share plan subject to a period of time worked for the Company, and performance therein, for a maximum of six shares per beneficiary, for 21,744 employees of Vallourec entities in Germany, Brazil, Canada, China, United Arab Emirates, the United States, France, Great Britain, India, Malaysia, Mexico, Norway, the Netherlands and Russia (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 grant of options and/or performance shares subject to the achievement of performance targets over several fiscal years.

These grants have been gradually extended to a growing number of Group managers and executives, according to a scope and volume which have been defined based on the Hay chart established at the world level. They are contingent upon:

- continuing employment within the Company;
- the fulfillment of objective and predefined performance requirements.

Beneficiaries are thus encouraged to make greater efforts to improve net profit 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 grant 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 grants 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 number of performance shares and options mentioned in paragraphs 7.3.1.1 and 7.3.1.2 below correspond to coefficient 1, equivalent to the target performance. 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: 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 shares that can be subscribed, including the number that can be subscribed by:	294,600
› Mr. Philippe Crouzet:	NA
› Mr. Jean-Pierre Michel:	22,000 i.e. 0.02% of the share capital
› Mr. Olivier Mallet:	NA
Percentage of the share capital that may potentially be allocated to members of the Management Board [(a)]	0.02% [(a) (b)]
Total number of options granted to the ten employees who are not corporate officers and to whom the largest number of options was allocated	64,000
Total potential dilution of the plan at grant date [(b)]	0.23% [(b)]
Date from which options may be exercised	3 September 2011
Expiration date of exercise period	3 September 2014
Exercise price [(c)]	€95.30
Performance conditions	No
Exercise procedures	-
Number of shares subscribed	-
Total number of options canceled or expired since the grant date	17,000
Options remaining as at 31 December 2013	277,600
Total potential dilution of plan as at 31 December 2013 [(b)]	0.22%

(a) Based on the composition of the Management Board as at 31 March 2014.

(b) On the basis of the 128,159,600 shares making up the share capital at 31 December 2013.

(c) Average price of the Vallourec share in the 20 trading days preceding the grant date, without discount.

SHARE SUBSCRIPTION OPTIONS: 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 shares that can be subscribed, including the number that can be subscribed by:	143,600
› Mr. Philippe Crouzet:	NA
› Mr. Jean-Pierre Michel:	24,000 i.e. 0.02% of the share capital
› Mr. Olivier Mallet:	46,000 i.e. 0.04% of the share capital
Percentage of the share capital that may potentially be allocated to members of the Management Board [a]	0.06% [a] [b]
Total number of options granted to the ten employees who are not corporate officers and to whom the largest number of options was allocated	45,600
Total potential dilution of the plan at grant date [b]	0.11% [b]
Date from which options may be exercised	1 September 2012
Expiration date of exercise period	1 September 2015
Exercise price [c]	€91.77
Performance conditions	Yes [d]
Exercise procedures	-
Number of shares subscribed	-
Total number of options canceled or expired since the grant date	0
Options remaining as at 31 December 2013	143,600
Total potential dilution of plan as at 31 December 2013 [b]	0.11%

(a) Based on the composition of the Management Board as at 31 March 2014.
(b) On the basis of the 128,159,600 shares making up the share capital at 31 December 2013.
(c) Average price of the Vallourec share in the 20 trading days preceding the grant date, without discount.
(d) Performance condition: Ratio of the Group's consolidated EBITDA to consolidated sales for the 2008 and 2009 fiscal years.

SHARE SUBSCRIPTION OPTIONS: 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 shares that can be subscribed, including the number that can be subscribed by:	578,800
› Mr. Philippe Crouzet:	44,000 i.e. 0.03% of the share capital
› Mr. Jean-Pierre Michel:	20,000 i.e. 0.02% of the share capital
› Mr. Olivier Mallet:	16,000 i.e. 0.01% of the share capital
Percentage of the share capital that may potentially be allocated to members of the Management Board [(a)]	0.06% [(a) (b)]
Total number of options granted to the 10 Group employees who are not corporate officers and to whom the largest number of options was allocated	48,000
Total potential dilution of the plan at grant date [(b)]	0.45% [(b)]
Date from which options may be exercised	1 September 2013
Expiration date of exercise period	1 September 2019
Exercise price [(c)]	€51.67
Performance conditions	Yes [(d)]
Exercise procedures	-
Number of shares subscribed	-
Total number of options canceled or expired since the grant date	55,200
Options remaining as at 31 December 2013	523,600
Total potential dilution of plan as at 31 December 2013 [(b)]	0.41%

(a) Based on the composition of the Management Board as at 31 March 2014.
(b) On the basis of the 128,159,600 shares making up the share capital at 31 December 2013.
(c) Average price of the Vallourec share in the 20 trading days preceding the grant date, without discount.
(d) Performance condition: Ratio of the Group's consolidated EBITDA to consolidated sales for the 2009, 2010 and 2011 fiscal years.

SHARE SUBSCRIPTION OPTIONS: 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 shares that can be subscribed, including the number that can be subscribed by:	512,400
› Mr. Philippe Crouzet:	33,000 i.e. 0.03% of the share capital
› Mr. Jean-Pierre Michel:	15,000 i.e. 0.01% of the share capital
› Mr. Olivier Mallet:	12,000 i.e. 0.01% of the share capital
Percentage of the share capital that may potentially be allocated to members of the Management Board [(a)]	0.05% [(a) (b)]
Total number of options granted to the employees who are not corporate officers and to whom the largest number of options was allocated	51,800
Total potential dilution of the plan at grant date [(b)]	0.40% [(b)]
Date from which options may be exercised	1 September 2014
Expiration date of exercise period	1 September 2020
Exercise price [(c)]	€71.17
Performance conditions	Yes [(d)]
Exercise procedures	-
Number of shares subscribed	-
Total number of options canceled or expired since the grant date	30,500
Options remaining as at 31 December 2013	481,900
Total potential dilution of plan as at 31 December 2013 [(b)]	0.37%

(a) Based on the composition of the Management Board as at 31 March 2014.
(b) On the basis of the 128,159,600 shares making up the share capital at 31 December 2013.
(c) Average price of the Vallourec share in the 20 trading days preceding the grant date, without discount.
(d) Performance condition: Ratio of the Group's consolidated EBITDA to consolidated sales for the 2010, 2011, 2012 and 2013 fiscal years.

SHARE SUBSCRIPTION OPTIONS: 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 shares that can be subscribed, including the number that can be subscribed by:	684,521
› Mr. Philippe Crouzet:	33,000 i.e. 0.03% of the share capital
› Mr. Jean-Pierre Michel:	15,000 i.e. 0.01% of the share capital
› Mr. Olivier Mallet:	12,000 i.e. 0.01% of the share capital
Percentage of the share capital that may potentially be allocated to members of the Management Board [(a)]	0.05% [(a) (b)]
Total number of options granted to the ten Group employees who are not corporate officers and to whom the largest number of options was allocated	52,300
Total potential dilution of the plan at grant date [(b)]	0.53% [(b)]
Date from which options may be exercised	1 September 2015
Expiration date of exercise period	1 September 2021
Exercise price [(c)]	€60.71
Performance conditions	Yes [(d)]
Exercise procedures	-
Number of shares subscribed	-
Total number of options canceled or expired since the grant date	47,307
Options remaining as at 31 December 2013	637,214
Total potential dilution of plan as at 31 December 2013 [(b)]	0.49%

(a) Based on the composition of the Management Board as at 31 March 2014.

(b) On the basis of the 128,159,600 shares making up the share capital at 31 December 2013.

(c) Average price of the Vallourec share in the 20 trading days preceding the grant date, without discount.

(d) Performance condition: Ratio of the Group's consolidated EBITDA to consolidated sales for the 2011, 2012, 2013 and 2014 fiscal years.

SHARE SUBSCRIPTION OPTIONS: 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 shares that can be subscribed, including the number that can be subscribed by:	530,400
› Mr. Philippe Crouzet:	0
› Mr. Jean-Pierre Michel:	0
› Mr. Olivier Mallet:	0
Percentage of the share capital that may potentially be allocated to members of the Management Board [(a)]	0% [(a) (b)]
Total number of options granted to the ten Group employees who are not corporate officers and to whom the largest number of options was allocated	53,800
Total potential dilution of the plan at grant date [(b)]	0.41% [(b)]
Date from which options may be exercised	1 April 2017
Expiration date of exercise period	31 August 2020
Exercise price [(c)]	€37
Performance conditions	Yes [(d)]
Exercise procedures	-
Number of shares subscribed	-
Total number of options canceled or expired since the grant date	13,500
Options remaining as at 31 December 2013	516,900
Total potential dilution of plan as at 31 December 2013 [(b)]	0.40%

(a) Based on the composition of the Management Board as at 31 March 2014.

(b) On the basis of the 128,159,600 shares making up the share capital at 31 December 2013.

(c) Average price of the Vallourec share in the 20 trading days preceding the grant date, without discount.

(d) The definitive granting of the subscription options issued under the plan put in place on 31 August 2012 is entirely subject to conditions of performance and continuous service. For grants to employees (other than members of the Executive Committee), performance is assessed over fiscal years 2013, 2014, 2015 and 2016 and is dependent on achieving a ratio of the Group's EBITDA to consolidated sales. As concerns grants to members of the Executive Committee, performance is assessed for the 2013, 2014, 2015 and 2016 fiscal years, and measured based on the following four criteria: the estimated rate of return on capital invested on a consolidated basis, the growth of consolidated sales on a like-for-like basis, as well as the relative stock market performance of the Vallourec share, and the performance of consolidated EBITDA against a panel of comparable companies.

SHARE SUBSCRIPTION OPTIONS: 2013 PLAN

Date of Shareholders' Meeting	31 May 2012
Date of Management Board meeting	2 September 2013
Number of beneficiaries when plan implemented	406
Total number of shares that can be subscribed, including the number that can be subscribed by:	602,465
› Mr. Philippe Crouzet:	33,000 i.e. 0.03% of the share capital
› Mr. Jean-Pierre Michel:	15,000 i.e. 0.01% of the share capital
› Mr. Olivier Mallet:	12,000 i.e. 0.01% of the share capital
Percentage of the share capital that may potentially be allocated to members of the Management Board [(a)]	0.05% [(a) (b)]
Total number of options granted to the ten Group employees who are not corporate officers and to whom the largest number of options was allocated	46,565
Total potential dilution of the plan at grant date [(b)]	0.47% [(b)]
Date from which options may be exercised	3 March 2018
Expiration date of exercise period	1 September 2021
Exercise price [(c)]	€46.15
Performance conditions	Yes [(d)]
Exercise procedures	-
Number of shares subscribed	-
Total number of options canceled or expired since the grant date	-
Options remaining as at 31 December 2013	602,465
Total potential dilution of plan as at 31 December 2013 [(b)]	0.47%

(a) Based on the composition of the Management Board as at 31 March 2014.

(b) On the basis of the 128,159,600 shares making up the share capital at 31 December 2013.

(c) Average price of the Vallourec share in the 20 trading days preceding the grant date, without discount.

(d) The definitive granting of the subscription options issued under the plan put in place on 2 September 2013 is entirely subject to conditions of performance and continuous service. For grants to employees (other than members of the Executive Committee), performance is assessed over fiscal years 2014, 2015, 2016 and 2017 and is dependent on achieving a ratio of the Group's EBITDA to consolidated sales. As concerns grants to members of the Executive Committee, performance is assessed for the 2014, 2015, 2016 and 2017 fiscal years, and measured based on the following four criteria: the estimated rate of return on capital invested on a consolidated basis, the growth of consolidated sales on a like-for-like basis, as well as 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 option plans is included in 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 bonus share allocation plans

7.3.1.2.1 Performance share allocation plans

PERFORMANCE SHARES: 2008 PLAN

Date of Shareholders' Meeting	4 June 2008
Date of Management Board meeting	1 September 2008
Number of beneficiaries when plan implemented	41
Total number of shares that can be acquired, including the number that can be subscribed by:	23,180 [a]
› Mr. Philippe Crouzet:	NA
› Mr. Jean-Pierre Michel:	800 [b] i.e. 0.001% of the share capital
› Mr. Olivier Mallet	1,200 [c] i.e. 0.001% of the share capital
Percentage of the share capital that may potentially be allocated to members of the Management Board [d]	0.002% [d] [e]
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	10,320 [f]
Total potential dilution of the plan at grant date [e]	None
Performance conditions	Yes [g]
Vesting period end-date	1 September 2010 and 2011
Holding period end-date	1 September 2012 and 2013
Total number of performance shares canceled or expired since the grant date	2,100
Performance shares remaining as at 31 December 2013	None (plan reached end on 1 September 2013)
Total potential dilution of plan as at 31 December 2013 [e]	None

(a) I.e. 30,829 shares based on the maximum factor of 1.33.

(b) I.e. 1,064 shares based on the maximum factor of 1.33.

(c) I.e. 1,596 shares based on the maximum factor of 1.33.

(d) Based on the composition of the Management Board as at 31 March 2014.

(e) Based on the 128,159,600 shares making up the share capital at 31 December 2013.

(f) I.e. 13,726 shares based on the maximum factor of 1.33.

(g) Performance condition: ratio of the Group's consolidated EBITDA to consolidated sales for the 2008 and 2009 fiscal years.

PERFORMANCE SHARES: 2009 PLAN

Date of Shareholders' Meeting	4 June 2008
Date of Management Board meeting	31 July 2009
Number of beneficiaries when plan implemented	53
Total number of shares that can be acquired, including the number that can be subscribed by:	26,668 [a]
› Mr. Philippe Crouzet:	9,022 [b] i.e. 0.007% of the share capital
› Mr. Jean-Pierre Michel:	3,410 [c] i.e. 0.003% of the share capital
› Mr. Olivier Mallet:	2,560 [d] i.e. 0.002% of the share capital
Percentage of the share capital that may potentially be allocated to members of the Management Board [a]	0.013% [e] [f]
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	4,196 [g]
Total potential dilution of the plan at grant date [b]	None
Performance conditions	Yes [h]
Vesting period end-date	31 July 2011 or 2013
Holding period end-date	31 July 2013
Total number of performance shares canceled or expired since the grant date	1,547
Performance shares remaining as at 31 December 2013	None (plan ended 31 July 2013)
Total potential dilution of plan as at 31 December 2013 [b]	None

(a) I.e. 35,468 shares based on the maximum factor of 1.33.

(b) I.e. 11,999 shares based on the maximum factor of 1.33.

(c) I.e. 4,535 shares based on the maximum factor of 1.33.

(c) I.e. 3,405 shares based on the maximum factor of 1.33.

(e) Based on the composition of the Management Board as at 31 March 2014.

(f) Based on the 128,159,600 shares making up the share capital at 31 December 2013.

(g) I.e. 5,581 shares based on the maximum factor of 1.33.

(h) Performance condition: ratio of the Group's consolidated EBITDA to consolidated sales for the 2009 and 2010 fiscal years.

PERFORMANCE SHARES: 2010 PLAN

Date of Shareholders' Meeting	4 June 2008
Date of Management Board meeting	15 March 2010 and 31 July 2010
Number of beneficiaries when plan implemented	850
Total number of shares that can be acquired, including the number that can be subscribed by:	194,820 [(a)]
› Mr. Philippe Crouzet:	9,000 [(b)] i.e. 0.007% of the share capital
› Mr. Jean-Pierre Michel:	4,400 [(c)] i.e. 0.003% of the share capital
› Mr. Olivier Mallet:	3,600 [(d)] i.e. 0.003% of the share capital
Percentage of the share capital that may potentially be allocated to members of the Management Board [(a)]	0.01% [(e) (f)]
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	11,380 [(g)]
Total potential dilution of the plan at grant date [(b)]	None
Performance conditions	Yes [(h)]
Vesting period end-date	15 March and 31 July 2012 or 2014
Holding period end-date	15 March and 31 July 2014
Total number of performance shares canceled or expired since the grant date	10,080
Performance shares remaining as at 31 December 2013	184,740
Total potential dilution of plan as at 31 December 2013 [(b)]	None

(a) I.e. 259,111 shares based on the maximum factor of 1.

(b) I.e. 9,000 shares based on the maximum factor of 1.

(c) I.e. 4,400 shares based on the maximum factor of 1.

(d) I.e. 3,600 shares based on the maximum factor of 1.

(e) Based on the composition of the Management Board as at 31 March 2014.

(f) Based on the 128,159,600 shares making up the share capital at 31 December 2013.

(g) I.e. 11,900 shares based on the maximum factor of 1.

(h) Performance condition: ratio of the Group's consolidated EBITDA to consolidated sales for the 2010 and 2011 fiscal years.

PERFORMANCE SHARES: 2011 PLAN

Date of Shareholders' Meeting	4 June 2008
Date of Management Board meeting	30 March 2011
Number of beneficiaries when plan implemented	1,157
Total number of shares that can be acquired, including the number that can be subscribed for by:	214,271 [(a)]
› Mr. Philippe Crouzet:	9,023 [(b)] i.e. 0.007% of the share capital
› Mr. Jean-Pierre Michel:	4,436 [(c)] i.e. 0.003% of the share capital
› Mr. Olivier Mallet:	3,609 [(d)] i.e. 0.003% of the share capital
Percentage of the share capital that may potentially be allocated to Members of the Management Board [(a)]	0.01% [(e) (f)]
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	7,995 [(g)]
Total potential dilution of the plan at grant date [(b)]	None
Performance conditions	Yes [(h)]
Vesting period end-date	30 March 2013 or 2015
Holding period end-date	30 March 2015
Total number of performance shares that have been canceled or which have become null and void since allocation	4,428
Performance shares remaining as at 31 December 2013	209,843
Total potential dilution of plan as at 31 December 2013 [(b)]	None

(a) I.e. 269,204 shares based on the maximum factor of 1.25 or 1.33, as applicable.

(b) I.e. 12,000 shares based on the maximum factor of 1.33.

(c) I.e. 5,900 shares based on the maximum factor of 1.33.

(d) I.e. 4,800 shares based on the maximum factor of 1.33.

(e) Based on the composition of the Management Board as at 31 March 2014.

(f) Based on the 128,159,600 shares making up the share capital at 31 December 2013.

(g) I.e. 9,994 shares based on the maximum factor of 1.25.

(h) Performance condition: for grants to employees, performance is assessed over fiscal years 2011 and 2012 and is dependent on achieving a ratio of the Group's EBITDA to consolidated sales. For grants to members of the Management Board, performance is assessed over corporate fiscal years 2011 and 2012, and measured based on the following three criteria: the growth rate of sales on a like-for-like basis, the ratio of consolidated EBITDA to consolidated sales on a like-for-like basis in the period, and the stock market performance of the Vallourec share on the regulated market of Euronext Paris compared with a reference panel.

PERFORMANCE SHARES: 2012 PLAN

Date of Shareholders' Meeting	7 June 2011
Date of Management Board meeting	30 March 2012
Number of beneficiaries when plan implemented	1,591
Total number of shares that can be acquired, including the number that can be subscribed by:	286,718 [(a)]
› Mr. Philippe Crouzet:	9,023 [(b)] i.e. 0.007% of the share capital
› Mr. Jean-Pierre Michel:	4,436 [(c)] i.e. 0.003% of the share capital
› Mr. Olivier Mallet:	3,609 [(d)] i.e. 0.003% of the share capital
Percentage of the share capital that may potentially be allocated to members of the Management Board [(a)]	0.01% [(e) (f)]
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	7,898 [(g)]
Total potential dilution of the plan at grant date [(b)]	None
Performance conditions	Yes [(h)]
Vesting period end-date	30 March 2014 or 2016
Holding period end-date	30 March 2016
Total number of performance shares canceled or expired since the grant date	14,376
Performance shares remaining as at 31 December 2013	272,342
Total potential dilution of plan as at 31 December 2013 [(b)]	None

(a) I.e. 357,712 shares based on the maximum factor of 1.25 or 1.33, as applicable.

(b) I.e. 12,000 shares based on the maximum factor of 1.33.

(c) I.e. 5,900 shares based on the maximum factor of 1.33.

(d) I.e. 4,800 shares based on the maximum factor of 1.33.

(e) Based on the composition of the Management Board as at 31 March 2014.

(f) Based on the 128,159,600 shares making up the share capital at 31 December 2013.

(g) I.e. 10,505 shares based on the maximum factor of 1.33.

(h) Performance condition: for grants to employees, performance is assessed over fiscal years 2012 and 2013 and is dependent on achieving a ratio of the Group's EBITDA to consolidated sales. For grants to members of the Management Board and the Executive Committee, performance is assessed over corporate fiscal years 2012 and 2013, and measured based on the following three criteria: the growth rate of sales on a like-for-like basis, the ratio of consolidated EBITDA to consolidated sales on a like-for-like basis in the period, and the stock market performance of the Vallourec share on the regulated market of Euronext Paris compared with a reference panel.

PERFORMANCE SHARES: 2013 PLAN

Date of Shareholders' Meeting	31 May 2012
Date of Management Board meeting	29 March 2013
Number of beneficiaries when plan implemented	1,647
Total number of shares that can be acquired, including the number that can be subscribed by:	295,225 [(a)]
› Mr. Philippe Crouzet:	9,023 i.e. 0.007% of the share capital
› Mr. Jean-Pierre Michel:	4,436 i.e. 0.003% of the share capital
› Mr. Olivier Mallet:	3,609 i.e. 0.003% of the share capital
Percentage of the share capital that may potentially be allocated to members of the Management Board [(a)]	0.01% [(b)] [(c)]
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	10,955 [(d)]
Total potential dilution of the plan at grant date [(b)]	None
Performance conditions	Yes [(e)]
Vesting period end-date	29 March 2016 or 2017
Holding period end-date	29 March 2018
Total number of performance shares canceled or expired since the grant date	1,715
Performance shares remaining as at 31 December 2013	293,510
Total potential dilution of plan as at 31 December 2013 [(b)]	None

(a) I.e. 371,389 shares based on the maximum factor of 1.25 or 1.33, as applicable.

(b) Based on the composition of the Management Board as at 31 March 2014.

(c) Based on the 128,159,600 shares making up the share capital at 31 December 2013.

(d) I.e. 14,570 shares based on the maximum factor of 1.33.

(c) Performance condition: for grants to employees, performance is assessed over fiscal years 2013, 2014 and 2015 and is dependent on achieving a ratio of the Group's consolidated EBITDA to consolidated sales. As concerns grants to members of the Management Board and the Executive Committee, performance is assessed for the 2013, 2014 and 2015 corporate fiscal years, and measured based on the following four criteria: the expected rate of return on capital invested on a consolidated basis, the growth of consolidated sales on a like-for-like basis, as well as the relative stock market performance of the Vallourec share, and the performance of consolidated EBITDA against a panel of comparable companies.

Members of the Management Board are 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. They are furthermore prohibited from using 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.

Furthermore, with regard to the confidential information obtained in the course of their duties, the members of the Management Board are required to comply with the provisions established by the Supervisory 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 releases of results (annual, interim, 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";

INTERNATIONAL PERFORMANCE SHARE PLANS FOR EMPLOYEES [1]

	1-2-3 plan (2009)	2-4-6 plan (2010)	2-4-6 plan (2011)	2-4-6 plan (2012)	2-4-6 plan (2013)
Date of Shareholders' Meeting	04/06/2008	04/06/2008	07/06/2011	07/06/2011	31/05/2012
Grant date by the Management Board	17/12/2009	03/12/2010	18/11/2011	30/03/2012	29/03/2013
Number of beneficiaries when plan implemented	17,404	12,098	13,053	21,686	21,744
Maximum total number of performance shares	104,424	72,588	78,318	130,116	130,464
of which maximum total number of performance shares allocated to members of the Management Board (as composed when plan implemented)	0	0	0	0	0
Number of executive corporate officers concerned	0	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	60
Potential dilution	None	None	None	None	None
Performance condition	*Ratio of consolidated EBITDA to consolidated sales (2010 and 2011)*	*Ratio of consolidated EBITDA to consolidated sales (2011 and 2012)*	*Ratio of consolidated EBITDA to consolidated sales (2012 and 2013)*	*Ratio of consolidated EBITDA to consolidated sales (2012 and 2013)*	*Ratio of consolidated EBITDA to consolidated sales (2013, 2014 and 2015)*
Vesting period	2 or 4 years	2 or 4 years	2 or 4 years	2 or 4 years	3 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)	0 or 2 year(s)
Total number of performance shares canceled or expired since the grant date	7,446	3,882	6,678	6,720	1,806
Performance shares as at 31 December 2013	None (plan ended 17 December 2013)	68,706	71,640	123,396	128,658

(1) For a description of these plans, see Section 7.3.3 below, "Employee share ownership."

7.3.1.2.2 Bonus share plans

Bonus share plans (without performance conditions) have been implemented only under the terms of the "Value" employee share ownership offers (see *infra* Section 7.3.3, "Employee share ownership"), implemented since 2008, and 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 other 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	Value 13 plan
Date of Shareholders' Meeting	04/06/2008	04/06/2009	04/06/2009	07/06/2011	31/05/2012	31/05/2012
Grant date by the Management Board	16/12/2008	17/12/2009	03/12/2010	18/11/2011	06/12/2012	10/12/2013
Number of beneficiaries when plan implemented	8,697	8,097	9,632	841	737	732
Total number of shares free of charge	67,712	69,400	83,462	6,462	4,395	4,028
of which total number of shares free of charge granted to members of the Management Board (when plan implemented)	0	0	0	0	0	0
Number of members of the Management Board concerned	0	0	0	0	0	0
Total number of shares allocated free of charge to the ten employees who are not corporate officers and to whom the largest number of options was allocated	174	120	120	80	60	60
Potential dilution	0	0	0	0	0	0
Performance conditions	None	None	None	None	None	None
Vesting period	4.6 years	4.6 years	4.6 years	4.6 years	4.6 years	4.6 years
Holding period	0	0	0	0	0	0
Number of shares free of charge canceled since their allocation	8,928	3,912	2,778	685	258	0

The valuation of performance share and bonus share plans appears in Notes 18 and 20 to the consolidated financial statements, which appear in Section 6.1 of this Registration Document.

7.3.2 Profit-sharing, incentive and savings schemes

Shareholding

The amounts paid in respect of special reserves for shareholding during the last five fiscal years are as follows:

In € million	2009	2010	2011	2012	2013
	4.70	3.23	3.22	2.40	2.56

Profit-sharing

Most Group companies have put in place profit-sharing plans that involve the employees in the Company's performance, based on the current income/sales ratio.

The amounts paid in respect of these plans during the last five fiscal years are as follows:

In € million	2009	2010	2011	2012	2013
	36.60	46.28	10.23	10.23	6.58

Company savings plan

The Group formed a Company savings plan (*Plan d'Épargne d'Entreprise* – PEE) in France in 1989, 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 plan (*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 net profit.

The amounts paid by way of Company contributions over the last five fiscal years were as follows:

In € million	2009		2010		2011		2012		2013	
	PEE	PERCO	PEE	PERCO	PEE	PERCO	PEE	PERCO	PEE	PERCO
	2.95 [(a)]	1.04 [(a)]	2.4 [(b)]	0.4 [(b)]	3.1 [(c)]	0.6 [(c)]	3.6 [(d)]	0.7 [(d)]	4.1 [(e)]	0.6 [(e)]

(a) Including €907,847 for the Value 09 operation.

(b) Including €1,047,964 for the Value 10 operation.

(c) Including €1,161,716.91 for the Value 11 operation.

(d) Including €2,077,757.23 for the Value 12 operation.

(e) Including €1,923,536.19 for the Value 13 operation.

7.3.3 Employee share ownership

7.3.3.1 International employee share ownership plans

Since 2008, the Group has offered an international employee share ownership plan in its main countries of operation, called "Value," followed by the last two figures of the year of its roll-out (for a description of the plans from 2008 to 2012, see Section 6.3.3 "Employee share ownership" in the 2011 Registration Document and Section 7.3.3 "Employee share ownership" in the 2012 Registration Document).

In 2013, the Value 13 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 10 December 2013, for a gross total of €69.2 million through the issue of 1,874,453 new shares at a subscription price per share of €34.78 for the traditional scheme and €36.95 for the leveraged scheme, in accordance with the authorizations granted to the Management Board by the Shareholders' Meeting of 30 May 2013 in its fifteenth, seventeenth, eighteenth and nineteenth resolutions. Nearly 15,000 employees in the nine countries concerned, i.e. 68% of eligible employees, chose to subscribe to the Group's share offering. The shares owned by employees as a result of the offering represented 7.37% of Vallourec's share capital at 31 December 2013 compared with 7.14% at 31 December 2012.

In place of the contribution granted to employees and those with similar rights of the Group's French companies and those companies with registered offices in Brazil, Germany, Mexico, the United Arab Emirates and the United Kingdom participating in the Value 13 plan, the Management Board at the same time implemented, under the terms of the Value 13 offering, a bonus share plan for existing shares, involving 4,028 shares, i.e. 0.003% of the share capital on that date, for the benefit of employees who are non-French residents for tax purposes of Vallourec 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 offering under the Value 13 plan.

The six international employee share ownership plans offered since 2008 have proved highly successful given their average subscription rate of 68% and raised employee share ownership 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 and 7.14% at the end of December 2012, standing at 7.37% at 31 December 2013. 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 the Group, 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," Value 12 and Value 13 plans are provided in Note 24 to the consolidated financial statements, which appears in Section 6.1 of this Registration Document.

7.3.3.2 International performance share allocation plans for employees

Since 2009, the Group has conducted an annual international performance share 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" as at 2010 to take account of the two for one split in the nominal value of the Vallourec share in July 2010, these plans enable each of the employees within the allocation scope to receive zero, two, four or six Vallourec shares depending on the Group's performance. In 2013, the 2-4-6 plan resulted in the grant, subject to conditions of the beneficiary continuing to be employed within the Group and performance, of a maximum number of 130,464 performance shares, representing 0.10% of the share capital as at 31 December 2013, a maximum of six shares per beneficiary, for 21,744 employees of Vallourec entities in Germany, Brazil, Canada, China, United Arab Emirates, the United States, France, Great Britain, India, Malaysia, Mexico, Norway, the Netherlands and Russia (for a summary of the international performance share allocation plans rolled-out from 2009 to 2013, see *supra* Section 7.3.1.2.1 "Performance share allocation plans").

APPENDICES

Appendix 1 – The Chairman of the Supervisory Board's Report concerning the composition of the Board and the application of the principle of equal representation of men and women within it, the conditions for preparing and organizing its work and the risk management and internal control procedures put in place 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 composition of the Supervisory Board and the application of the principle of equal representation of men and women within it, as well as the conditions for preparing and organizing its 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 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 of this report on the French Securities Regulator's (*Autorité des Marchés Financiers* – AMF) reference framework, dated 22 July 2010, supplemented by its application guidelines and the final report of the Audit Committee on 22 July 2010, issued by a working party formed by the French Securities Regulator (*Autorité des Marchés Financiers* – AMF).

This report has been prepared by the Group's Legal Department, under the responsibility of the Management Board, after consulting with the Finance Department, the Cash Management Department, the Internal Audit Department, the Communications Department, the Investor Relations and Financial Communications Department, the Capital Expenditure Department, the Quality Department, the Safety Department, the Sustainable Development Department, the Technology, Research and Development, and Innovation Department, the Purchasing Department, the Information Systems Department, the Risk Department and the Human Resources Department.

It was presented to the Finance and Audit Committee on 24 February 2014 and approved by the Supervisory Board on 26 February 2014.

A – Supervisory Board: composition, international representation, equal representation of men and women, and conditions for preparing and organizing work

The composition of the Supervisory Board and of its Committees, and particularly their international representation and gender diversity, along with their respective internal regulations are detailed in Chapter 7 of the 2013 Registration Document dealing with corporate governance, which is an integral part of this report.

In 2013, the Board met seven times. The average length of its meetings was approximately 4 hours 30 minutes. The meeting on 7 November 2013 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 schedule of meetings is prepared very far in advance. The schedule for meetings in 2013 was adopted by the Board of 28 March 2012, and that for meetings in 2014 by the Board on 27 March 2013, 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 95% on average for the meetings held in 2013.

Dates of Board meetings (fiscal year 2013)	Attendance rate
20 February	11/12 (92%)
27 March	12/12 (100%)
2 May	12/12 (100%)
29 May	10/12 (83%)
30 July	11/11 (100%)
7 November	11/11 (100%)
11 December	10/11 (91%)

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 2013 for each Board member, was as follows:

Members of the Supervisory Board in 2013	Attendance rate [(a)]
Ms. Vivienne Cox	7/7 (100%)
Mr. Jean-Paul Parayre [(a)]	4/4 (100%)
Mr. Olivier Bazil	7/7 (100%)
Mr. Patrick Boissier	6/7 (86%)
Ms. Pascale Chargrasse	7/7 (100%)
Mr. Jean-François Cirelli	6/7 (86%)
Mr. Michel de Fabiani	7/7 (100%)
Mr. José Carlos Grubisich	7/7 (100%)
Ms. Anne-Marie Idrac	6/7 (86%)
Mr. Edward G. Krubasik	7/7 (100%)
Ms. Alexandra Schaapveld	6/7 (86%)
Bolloré, represented by Mr. Cédric de Bailliencourt	7/7 (100%)

(a) Prorata temporis through the end of the term of office.

When absent, members of the Supervisory Board were represented.

The members of the Management Board were present at all Board meetings, except for points on the agenda which directly concerned them.

The meeting is confirmed on average one week in advance by sending a notice of meeting, which is enclosed with the agenda, the draft minutes from the previous meeting on which the Board members are asked to share any comments, even before the Board meeting, as well as a file containing, without exception, all of the supporting documents relating to the subjects recorded in 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. 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 important matters. Any conflicts of interest are handled in conformity with the principles indicated in paragraph 7.1.7 of the 2013 Registration Document.

Vallourec's Statutory Auditors attended those Supervisory Board meetings at which the annual and interim financial statements were reviewed.

Since 2008, the Supervisory Board has conducted an annual formal review of its operations, directed by the Legal Department and supervised by the Appointments, Compensation and Governance Committee. The review is based on an assessment questionnaire that covers seven key topics, including one aimed exclusively at the Committees. In 2013, this assessment was conducted by an external consultant selected by the Supervisory Board, on the recommendation of the Appointments, Compensation and Governance Committee. The summary of the Board's responses, which was distributed to its members and discussed at the meeting of 26 February 2014, showed a high degree of satisfaction among all members. They noted the continuous improvement in corporate governance and the quality, transparency and constructive climate of discussions within the Board, as well as with the Management Board. The division of tasks between the Management Board and the Supervisory Board was seen as clear, allowing each one to fully assume its role in accordance with their respective powers. The Committees' operations and the reporting of their work were also deemed highly satisfactory.

For the future, the following areas of improvement were considered and recommended: increasing the time dedicated to the presentation and discussion of strategic issues, and continued efforts to diversify the members of the Supervisory Board to maintain diversity and the complementarity of skills, and to reinforce the balance of women and men as well as international representation on the Board.

Regarding business operations, in 2013 the Supervisory Board spent most of its time on reviewing the annual, interim and quarterly financial statements and the Group's activity, safety improvements at industrial sites, the dividend policy, updates on strategic projects, financing policy, the conduct of major projects, the strategic plan, the 2014 budget, the Group's policy on equal pay and gender equality at work, and projects and negotiations under way.

As regards the Governance plan, the Supervisory Board examined the following subjects in particular:

- compensation of the three members of the Management Board for 2012, 2013 and 2014, as well as the report on compensation in view of implementing the "Say on Pay" mechanism;
- Vallourec's policy on enabling the personnel to share in the Group's net profits (the Value 13 international employee share ownership plan, the "2-4-6" global performance share allocation plan, and the performance share and subscription options allocation plan for managers and executives (including members of the Executive Committee);
- 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 mechanisms linked to the termination from office of Management Board members Messrs. Philippe Crouzet, Jean-Pierre Michel and Olivier Mallet;
- policy on the composition of the Supervisory Board;
- the succession of the Board chairmanship led to Ms. Vivienne Cox being appointed as Board Chairman;
- compensation of the Chairman of the Board, Vice-Chairman of the Board, members of the Supervisory Board, members of the Committees and the Non-voting Board member (*Censeur*);
- the composition of the Supervisory Board and its Committees;
- the independence of the Board members;
- the representation of employees on the Board and/or Committees, which led to the appointment of Ms. Pascale Chargrasse, employee shareholder representative on the Appointments, Compensation and Governance Committee;
- Board member shareholding; and
- the amendments to the internal regulations of the Board and Committees, taking into account the review of the AFEP-MEDEF Code in June 2013.

B – Shareholders 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 bylaws 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 30 May 2013 shows that 1,942 shareholders were present, represented or had voted by correspondence, owning a combined total of 73,611,593 shares with voting rights out of 123,962,572, i.e. 59.38% of shares with voting rights, and 77,166,444 voting rights out of 127,804,594, i.e. 60.37% of voting rights. In this analysis, the Caisse des Dépôts et Consignations (CDC) and the Banque Publique d'Investissement Participations (formerly known as the Fonds Stratégique d'Investissement-FSI) accounted for a combined number of 8,947,629 shares representing the same number of voting rights, which is 7.22% of the capital and 7% 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 shareholdings declared in accordance with Articles L.233-7 and L.233-12 of the French Commercial Code

A table showing the structure of Vallourec's share capital and direct or indirect shareholdings in the capital 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 2013 Registration Document.

2. Statutory restrictions on the exercise of voting rights

Article 8 paragraph 5 of the Company's bylaws 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) or twelve and a half (12.5) percent of the total number of shares comprising the share capital (see Section 2.1.9 of the 2013 Registration Document).

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 the disclosure notification.

3. Holders of any security containing special rights of control

Article 12, paragraph 4 of the bylaws provides for fully paid-up shares that have been 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 share ownership 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 (see Section 2.3.1 of the 2013 Registration Document), 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 bylaws, 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 have expressly ruled out the possibility of share buybacks during takeover bids for the Company. The Shareholders' Meeting of 28 May 2014 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 28 May 2014.

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. The most significant ones, which may have an impact in the event of a takeover bid include: certain industrial agreements with Nippon Steel & Sumitomo Metal Corporation (NSSMC) (formerly Sumitomo Metal Industries) [1] and Sumitomo Corporation (see Section 5.1.4 "Other specific risks" of the 2013 Registration Document), the multi-currency revolving credit line of €1.1 billion with a maturity date of February 2019, which was put in place on 12 February 2014 (see Chapter 6 "Assets, financial position and results" of the 2013 Registration Document – Subsequent events), and the bond issues of December 2011 and August 2012 (see Section 2.2.6 "Non-equity instruments" of the 2013 Registration Document.

9. Agreements providing for payments to members of the Management Board or employees, if they resign or are dismissed for no real or serious cause, or if their employment is terminated due to a takeover bid

The mechanisms linked to the termination of corporate offices and/or, where applicable, the employment contracts of Mr. Philippe Crouzet, Chairman of the Management Board, and Messr. Jean-Pierre Michel and Olivier Mallet, members of the Management Board, are described in the Supervisory Board's Report on the 2013 compensation of the members of the Management Board, which appears in Appendix 2 to Chapter 7 of the 2013 Registration Document, which is an integral part of this report.

D – Risk management procedures and internal control

1. Risk management

1.1 Objectives and general principles of risk management

Risk management provides management leverage for the Group, and primarily contributes to:

- creating and preserving the Group's value, assets and reputation;
- securing the Group's decision-making processes and other procedures in order to promote the achievement of its objectives.

Furthermore, risk management likewise aims to:

- promote consistency between the Group's actions and values; and
- mobilize the Group's employees around a common vision in terms of the primary risks, and raise their awareness of the risks inherent to their business.

The main risks facing the Group are described in Chapter 5 of the 2013 Registration Document.

Risks are managed by the industrial and sales units and by the functional departments.

Furthermore, Vallourec adopts a detailed cross-company approach in the "Group Risk Management Policy" The Risk Management Department provides methodological support for implementing this policy.

The Risk Committees formed at the level of each Division and at the Management Board level evaluate the controls designed to reduce risks in relation to "best practices." The Risk Management Department thus promotes controls that are increasingly well-suited and complete. This favors the development of internal control by anticipating risks and reviewing the "best practices" for control. If necessary, these controls are improved with action plans led by the Division Directors and the Management Board.

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

1.2 Risk management measures

Identifying risks consists of determining the main risks the Group faces with the operational and functional departments. The Risk Management Department analyzes these risks and maps them, an exercise which in particular aims to determine how to reduce, transfer, eliminate or accept them. The priorities are defined not only as a function of probability of occurrence and/or consequences of risks, but also of the margins from progress of control through "best practices".

A mapping of the risks is in place for each of the Divisions and for the Management Board. This map incorporates the main risks, along with their scenarios, internal and external experiences, controls in place and "best practices".

Risk management is provided by the Divisions and the Management Board during semiannual Committee meetings in which the head of risk management participates, in order to provide ideas and guarantee that actions are consistent at the Group level. Each Committee meeting is attended by the relevant Division manager and their main assistants. Functional managers concerned by specific risks may also be invited, in particular the Departments of Technology, Research and Development and Innovation, and Information Systems. 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; and
- updating of the self-assessment of priority risks.

Furthermore, ongoing plans are rolled out in an effort to ensure actions are continuous.

Additional information, especially on management measures for the main operating risks, is provided in Chapter 5, Section 5.2 "Risk management" of the 2013 Registration Document, which is an integral part of this report.

2. Connection between risk management and internal control

The internal control and internal audit rely on the results of the risk analysis, in order to respectively improve the internal control mechanism and define the internal audit plan.

3. Internal control

3.1 Objectives and general principles 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.

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 developments, the key control activities for internal control processes and risk management are regularly reviewed.

In order to guarantee the consistency of daily actions led worldwide on behalf of the Group, Vallourec has put in place a set of key internal control procedures. These constitute the basis for the internal rules which apply to all employees and to its units.

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, conformity with the laws and regulations, the delegation of authority, the confidentiality of information, the prevention of insider trading, the procedure for relations with the media and financial communication.

3.1.1 ETHICS

The ethics standards of the Group are indicated 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 stakeholders, such as its employees, customers, shareholders and suppliers, and constitute a benchmark for the Group, especially in implementing its sustainable and 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 consolidated Group 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 employees. 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 employees, in particular managers and executives, a Code of Ethics Officer has been appointed for the Group. This Officer has the following duties:

- 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 relating 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 Chairman of the Management Board. He relies on a network of local correspondents, organized by geographical zones. These correspondents periodically report on their activity to the Code of Ethics Officer within the context of the latter's duties.

An Ethics Committee, led by the Code of Ethics Officer, meets with the representatives of the functional departments (Legal Affairs, Purchasing, Human Resources, etc.). It must hold meetings at least once per quarter in order to determine, at the initiative of the Code of Ethics Officer, the ethical guidelines and ensure they are effectively rolled out.

3.1.2 COMPLIANCE WITH LAWS AND REGULATIONS IN FORCE

In line with the principles inscribed in the Code of Ethics and the commitments of the United Nations Global Compact 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 compliance program.

This program, devised by the Group's Legal Department, is aimed at raising the awareness of the relevant Group managers about 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 activities through pedagogical recommendations and practical case studies, so that they may be understood by everyone.

Even though the training actions were pursued at a global level in 2013, an e-learning program will be rolled out as at the first quarter of 2014 in order to raise the awareness of technical and supervisory staff, and managers and executives of the Group about the laws and regulations on competition, anti-corruption and environmental friendliness.

3.1.3 DELEGATION OF AUTHORITY

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 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 expanded in December 2012 with a procedure which facilitates the traceability of decision-making processes.

3.1.4 CONFIDENTIALITY OF INFORMATION

Against a backdrop of intense competition, the Group has needed to make all employees 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 of the duty of confidentiality with which they must comply.

3.1.5 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 Vallourec's corporate officers, but all of the Group's employees and partners. It is sent to all employees who have access to privileged information, of whom Vallourec 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.

The Group's Legal Director performs an ethics function, and is mainly in charge of overseeing compliance with the provisions of the Code of Good Conduct, although each person involved is ultimately responsible for compliance with the applicable regulations. In particular, he updates and keeps available for the French Securities Regulator (*Autorité des Marchés Financiers* – AMF) three insider lists (Top Managers, Internal Insiders, External Insiders). Insiders are obligated to refrain from trading Vallourec securities during negative window periods, noting that any person must refrain from trading securities, even outside of the "negative windows" if they hold privileged information.

3.1.6 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, in particular, a press release, conference, interview or telephone call, is subject to an internal validation process.

3.1.7 FINANCIAL COMMUNICATIONS

Vallourec has drawn up a financial communications procedure, which aims to ensure that the Group's system of providing financial information to the public complies with the prevailing statutory and regulatory provisions.

Annual and interim financial reports and quarterly financial information are thus the subject of an internal approval process prior to their release and filing with the French Securities Regulator (*Autorité des Marchés Financiers* – AMF).

3.2 Internal control mechanism

The Management Board sets the internal control policy and ensures it is implemented by the managers of each Group entity.

To ensure the consistency of the Group's procedures worldwide, the Management Board relies on the functional departments to draw up procedures, give instructions and ensure compliance with them.

In the first quarter of 2013, one of Vallourec's subsidiaries was the victim of major international transfer fraud. The criminal investigation is proceeding, as are the actions before the administrative court which were filed by Vallourec. An awareness campaign was immediately conducted with the Group's entire financial community and its banks.

The Group launched a plan to strengthen its internal control mechanism over three years (2013-2015) in an effort to better structure and coordinate the existing procedures.

The existing internal control mechanism is described through the relevant key functions of the Vallourec Group as follows:

3.2.1 INTERNAL CONTROL PROCEDURES REGARDING FINANCIAL AND ACCOUNTING INFORMATION

3.2.1.1 Financial and accounting reporting

Preparation of financial and accounting information is centralized based on 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.

3.2.1.2 External financial information

Vallourec publishes quarterly information as at 31 March and 30 September including, in particular, the consolidated balance sheet and income statement. The preparation of the quarterly, interim 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 interim financial statements. They do not audit the quarterly financial information.

3.2.1.3 Cash management and financing

The Cash Management and Financing Department is in charge of the Group's financing strategy and manages banking liquidity and access to market financing.

Long-term (more than one year) financing and investment are managed by the Cash Management and Financing Department. Financing and investments of less than one year are delegated to the subsidiaries according to a specific Group procedure: quality of the banks involved, risk-free investment, and monitoring of the financial guarantees given.

The Cash Management and Financing Department ensures that cash flow is optimized and controlled through:

- forecasts prepared by companies in the Group;
- centralizing euro and US dollar cash flow at the main European companies; and
- since 2013, centralizing cash flow management in Chinese yuan for the main Chinese companies at the level of Vallourec Beijing Co. Ltd., and centralizing cash flow management in US dollars for certain American companies at the level of Vallourec Holding, Inc.

It is also responsible for foreign exchange and interest rate risk management.

To this end, currency hedging operations for sales in US dollars is centralized for the Group's main companies.

Currency and currency hedging operations are governed by rules emanating from the Group's Cash Management and Financing Department and, more generally, all the cash management operations specific to each company are conducted within the framework of a general cash and risk management strategy.

The Cash Management and Financing Department ensures debts, investments and foreign exchange transactions of subsidiaries are tracked. As part of this tracking, it prepares a monthly report which is sent to the Management Board.

3.2.1.4 Procedures and instructions for financial and accounting reporting

With the objective of producing high-quality financial and accounting information, Vallourec has established procedures and instructions tailored to the French and foreign subsidiaries. These procedures are classified by topic and deal mainly with accounting, cash and cash equivalent, 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 consistency 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 disseminated among employees who are in charge of preparing and controlling management and financial information. Its purpose is to contribute to the quality and consistency of this information.

3.2.1.5 Internal control of accounting and financial information

The internal control questionnaire developed by Vallourec, was based on the original version of the COSO reference manual (Committee of Sponsoring Organizations of the Treadway Commission) and complies with the provisions of the French Securities Regulator (*Autorité des Marchés Financiers* – AMF) reference framework application guidelines relating to the internal control of financial and accounting information published by issuers. It currently concerns the following accounting and financial cycles: capital expenditure, purchases, inventories, sales, cash and cash equivalents, provisions, staff, taxes and reporting process.

The new companies within the Group must independently evaluate their accounting and financial procedures based on this questionnaire.

All fully consolidated companies are regularly reviewed through internal control based on this questionnaire. The results of this review are sent to the Management Offices of the companies and Divisions concerned, to the Management Board, the Finance and Audit Committee, and to the Statutory Auditors. Implementation of the main recommendations issued following this review is the subject of a follow-up and discussions with the Statutory Auditors.

3.2.2 OTHER KEY INTERNAL CONTROL MECHANISMS

3.2.2.1 Industrial capital expenditure

The Executive Committee reviews the position regarding the Group's capital expenditure presented by the Capital expenditure Department several times per year. It examines budgets, capital expenditure 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 Capital expenditure 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 at the initiative of the Capital expenditure Department or the Management Control Department. Such controls are performed on all projects which were authorized in earlier years and involve production. Project management audits may also be carried out during the project implementation phase.

Furthermore, in order to extract all useful lessons from the Group's project management experiences, the Strategy Committee examines the conditions under which capital expenditure projects were implemented, upon their completion.

In 2013, Vallourec added a new functional department, the "Large Project Office." The objective is to implement "best practices" to manage major industrial projects, in order to increase the reliability of their execution, in particular in terms of costs, time frames and quality.

3.2.2.2 Management system

Vallourec has a management system (Vallourec Management System – VMS), which has been implemented in all Group companies. The VMS has been structured around three main components:

- the "Total Quality Management" plans allow processes to be controlled and improved, through an annual progress plan which associates actions, key performance indicators and objectives;
- The Continuous Improvement Teams (CITs) organize personnel's commitment to ongoing progress by implementing a standard problem resolution method for the annual progress plan; and
- the steering Committees ensure the commitment of management, and monitor and support 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. In all areas of key activity, in particular Health and Safety, Quality and Environment, the functional departments assist the Group's entities in rolling out the VMS, sharing and capitalizing on "best practices", and developing managers' expertise.

In 2013, Vallourec moreover added a functional department, "Lean Management" aimed at achieving operational excellence through a structured approach.

3.2.2.3 Quality – safety

Quality

The Group's Quality Department is in charge of defining the applicable standard in the Group as a whole, in terms of the quality performance levels to achieve and the specific tools and methods to implement in order to continuously improve the quality of the products and control over the manufacturing process. It handles their promotion, assists with their implementation, sets up the necessary training programs and oversees the sharing of best practices. 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 well understood and 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, problem resolution, the control of variations in quality and risk prevention.

Within the context of the VMS (see *supra* paragraph 3.2.2.2), the Quality Department defines the systems, methods and tools applicable in the Group, in conformity with the quality management requirements (ISO 9001 or ISO/TS 16 949, API, ASME, etc.).

Safety

Driven by a determination to act on all safety levers, in 2011 Vallourec renewed its three-year program (2011-2013) on safety improvement.

Known as "CAPTEN+ Safe," this program falls within the framework of the VMS, and is consistent with the following three basic principles: the commitment of management as a whole, the involvement of all employees and the establishment of appropriate follow-up indicators (see Section 4.1.6.1 "Safety" and Section 5.1.4 "Other specific risks" (Risk linked to occupational safety and health) of the 2013 Registration Document).

Sharing the Management Board's concern regarding safety, the Supervisory Board starts each of its meetings with a progress review of safety performance.

Within the context of the VMS (see *supra* paragraph 3.2.2.2), the Safety Department defines the systems, methods and tools applicable in the Group, in conformity with the safety management requirements (OHSAS 18001).

3.2.2.4 Sustainable development

Sustainable development is managed within Vallourec by an Executive Committee's member, which is associated with the Sustainable Development Department.

It makes proposals to the Sustainable Development Committee, on which two members of the Management Board, the Division Directors and those of the main functional departments participate. The Divisions implement the set guidelines.

Within this context, the Sustainable Development Department has authority over the Environmental Department, which is in charge of coordinating and leading actions of the people in charge of Health and Environment in the Divisions. Their role is in particular to ensure compliance with the laws and regulations of activities, and to improve environmental performance in application of Vallourec's "Sustainable Development Charter." The environmental component of this Charter notably addresses water, waste, hazardous products, emissions and noise. Annual or biannual audits, depending on the importance of the sites, are conducted locally. An environmental performance report is published every quarter for the managers concerned.

The information required in application of the law of 12 July 2010, the "Grenelle 2 law," which appears in Chapter 4 of the 2013 Registration Document, the purpose of which is to emphasize the Company's commitment to Human Resources, environmental, social and ethical issues, as well as the progress achieved. This information is audited. The objective of the ISO 14001 certification of the production sites has almost been achieved.

The Sustainable Development Department is leading the energy performance improvement program, which has an objective of reducing specific consumptions by twenty percent before 2020, based on the 2008 figures, by developing practices and investing in new equipment. These actions were also aimed at reducing greenhouse gas emissions.

In 2013, several sites obtained ISO 50001 certification relating to energy management.

Within the context of the VMS (see *supra* paragraph 3.2.2.2), the Sustainable Development Department defines the systems, methods and tools applicable in the Group, in conformity with the health and environmental management requirements (ISO 14001).

3.2.2.5 Research and Development

The Research and Development Department, grouped with the Technology Department within the Technology, R&D and Innovation Department, has drawn up procedures at the 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.

Selected projects benefit from training actions and specific assistance engagements carried out by experienced professionals. The Divisions' project portfolios are monitored in particular for potential challenges and risks.

Each year, audits are also carried out by the QSMS Department, in accordance with the VMS.

3.2.2.6 Purchases

In 2013, the Purchasing Department pursued its process for ongoing improvement of internal control. This occurs at the stage of the initial purchase (product evaluation, selection of suppliers and contracts) through processing (receipt of the necessary quantities at the price agreed to and under the determined delivery and payment conditions).

At the start of the process, the Purchasing Department centralizes the analysis of all purchases in order to determine the most strategic goods and services. On this basis, purchase strategies are determined in cooperation with internal customers and validated by management. Taking commercial practices into account, it focuses on formalizing contracts and orders to avoid later disputes.

In an effort to make competitive purchases of good quality, suppliers are selected based on an analytical matrix. This simultaneously considers the financial health of the suppliers and the criteria of quality, time frames and price.

At the end of the purchase process, and in addition to the control of supplier invoices, a quality control process is likewise conducted for certain products or services.

In order to prevent any conflicts of interest and any unethical 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.

3.2.2.7 Information systems

The plan for auditing the safety of the Group's information system, for the 2009-2013 period, was finalized for all geographical zones. In 2013, the Information Systems Department defined an internal control framework in terms of information system safety. The approach consists of preparing control points which are suited to the maturity of the local information system. It allows the degree of application of the overall IT safety policy to be verified. This mechanism reinforces the consistency and analysis of the indicators used.

Furthermore, actions are being pursued to raise employees' awareness about information protection and project monitoring.

- SAP management is now continuously provided, following the completion of the GRC project;
- the second phase of commissioning the SAP application at Vallourec Star LP took place while it was simultaneously being rolled out at Vallourec Oil and Gas France;
- the Group's Smartphones were replaced with a uniform solution, and all apparatus are monitored with a mobile fleet management tool;
- a plan for the IT security of the Group's plants was launched in France. This is a multi-year plan which, after France, will then be extended to Germany and then to other geographical zones of the Group. This plan primarily consists of strengthening the safety of lower IT levels of the plants, which are close to production departments.

3.2.2.8 Human Resources

The Human Resources Department relies on an internal control process for all of its functioning: 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 actions 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 practices" to be identified and implemented on a Group-wide basis.

Within the context of talent management, the Human Resources Department identifies key positions in the Group, analyzes the risks of default, and then consequently prepares development and succession plans. Furthermore, Human Resources management allows there to be an available group of people who have the necessary expertise and abilities to perform the duties with which they have been entrusted.

In 2013, an independent review was conducted in several countries. Within the context of an external audit aimed at improving the Group's internal control process, the HR process was considered to be a "best practice," with certain opportunities for improvement in terms of communication and generalization. This internal HR process allows anomalies or discrepancies to be detected, and then analyzed and monitored.

As part of a survey on employee satisfaction, a questionnaire was sent to all of the Group's employees. They were particularly asked to express their point of view on the understanding and application of the principles contained in the Code of Ethics (See above, paragraph 3.1.1 of this report). A summary of the responses demonstrated that communication and awareness of internal control processes and the principles of the Code of Ethics could be further improved and strengthened.

3.2.2.9 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 regarding credit and delegation of authority, and credit insurance) and drawn up general sales terms to be applied by all Group entities, with the aim of making practices consistent throughout the Group and reducing risk exposure.

Divisions' procedures for reviewing contracts and candidates for invitations to tender were reviewed in 2012, in order to roll out a new tool to evaluate and summarize the legal risk associated with sales. The rolling out of this new tool improves the effective analysis of the legal conditions that apply to sales contracts signed by the Group's subsidiaries with their customers, and allows discrepancies in relation to the Group's standards to be precisely managed and statistics recovered. The general conditions and standard documents are regularly updated in order to monitor changes in the market and regulations.

Furthermore, the Legal Department and the Risk Management Department are working together closely. They are providing monitoring in order to identify "best practices" for managing the contractual legal risk, with a view towards ongoing improvement.

3.2.2.10 Insurance

The main industrial risks are covered by two types of Group insurance:

- a general insurance policy (direct material damage to Group property, not subject to specific exclusions, as well as any resulting costs and consequential losses);
- a third-party liability insurance policy (liability arising as a result of injury or loss caused to third parties during operations or after delivery or service).

4. Scope of risk management and internal control

Risk management and internal control are rolled out in all companies in which Vallourec directly or indirectly holds the majority of the share capital. Companies whose shares are listed or under joint control have an appropriate system and internal control organization, consistent with current local legislation.

Newly acquired entities are incorporated into the internal control system in the year following their acquisition.

5. Players with regard to risk management and internal control

5.1 The Management Board

The Management Board, acting directly or by delegation, is responsible for the quality of the internal control systems and risk management. It designs and implements the internal control and risk management systems which have been tailored to the Group, its activity and organization, and in particular defines the respective roles and responsibilities within the Group.

It conducts ongoing oversight of the internal control and risk management systems with the aim, on the one hand, of preserving their integrity and, with the dual objective of preserving their integrity and improving them – in particular by adapting them to changes in the organization and the business environment. It initiates any corrective action that proves necessary to correct the dysfunctions identified and stays within the scope of the accepted risks. It ensures that these actions are properly conducted.

The Management Board makes sure that the appropriate information is communicated within the desired period of time to the Supervisory Board and Audit Committee.

5.2 The Supervisory Board

The Supervisory Board is informed of the basic characteristics of the internal control and risk management mechanisms retained and implemented by the Management Board to manage risks: the organization, roles and duties of the main players, the process, risk reporting structure and operational follow-up of the control mechanism. It notably acquires an overall understanding of the procedures relating to the preparation and processing of the accounting and financial information.

The Supervisory Board sees to it that the major risks identified, which have been incurred by the Group, are supported by its strategies and objectives, and that these major risks are taken into account in the Group's management.

In particular, the Supervisory Board verifies with the Management Board that the mechanism for managing the internal control and risk management systems are of a nature that ensures the reliability of the Group's financial information and provides a trustworthy image of its results and financial position.

5.3. The Finance and Audit Committee

In conformity with Article L.823-19 of the French Commercial Code, the Finance and Audit Committee ensures that the following are monitored:

- the process of preparation of financial information;
- the effectiveness of the internal control and risk management systems;
- the statutory audit of the annual financial statements and the consolidated financial statements by the Statutory Auditors; and
- the independence of the Statutory Auditors.

The Finance and Audit Committee ensures that the internal control and risk management systems are effectively monitored, based on the information that is communicated to it by the Management Board, or which it so requests. It ensures there are internal control and risk management systems, and that they are used, and makes sure that the weaknesses identified are followed by corrective actions. Conversely, it does not take part in implementing said systems.

In order to carry out its role of monitoring the effectiveness of the internal control and risk management systems, the Finance and Audit Committee takes formal note of the results of the internal audit and external audit work conducted on these subjects, in order to ensure that if any dysfunctions are detected, the appropriate action plans are put in place and thoroughly implemented.

5.4 Head of risk management

The head of risk management ensures that the overall risk management process, as defined by the Management Board, is rolled out and implemented. To that end, it puts in place a structured, permanent and adaptable mechanism which aims to identify, analyze and address the main risks. It carries out the risk management system and provide methodological support to the Company's operational and functional departments.

5.5 Head of internal audit

The Internal Audit Department now reports to a member of the Management Board. It reports on its works to the Finance and Audit Committee once every six months.

Its roles, powers and responsibilities are formally defined in an "Internal Audit Charter." This Charter, which was approved after the close of fiscal year 2013, concerns the following four topics: term of internal audit; duty to report on actions and responsibilities, internal audit authority; and internal audit principles.

In order to draft its audit plan, the Internal Audit Department notably takes into consideration the internal control reviews, the Group's risk mapping and the requests of the Management Board and heads of Divisions and functional departments.

In 2013, the Internal Audit Department launched a plan aimed at making significant progress in the structuring of the internal audit process. In the points for improvement by 2015, it in particular identified the need:

- to standardize communication of its results;
- standardize the rules and procedures providing a framework for its activities.

5.6 Employees

Each employee concerned, and in particular the heads of Divisions and functional departments have the necessary information to operate and oversee the internal control and risk management devices, with regard to the responsibilities and objectives they have been assigned.

Vallourec's basic values also include an ethical component in terms of conduct, the requirements of which are relayed by the Group's Code of Ethics, which applies to all levels of the Company (Cf. *supra* paragraph 3.1.1.).

6. Role of the Statutory Auditors

The Statutory Auditors take formal note of the internal control and risk management mechanisms, relying on internal audit work to obtain a greater understanding and to formulate, completely independently, an opinion as to their pertinence.

They certify the financial statements and, within this context, can identify during the fiscal year significant risks and major weaknesses in internal control which could have a significant impact on the accounting and financial information.

They present their comments on this report of the Chairman, and on the internal control procedures which relate to the preparation and processing of the financial and accounting information, and attest to the establishment of other information required by law.

7. Limits of risk management and internal control

In contributing to the effectiveness of its operations, the efficient use of its resources and the control of risk, this internal control and risk management 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 Group's international profile requires complex processes at entities with different levels of maturity in terms of internal control, evolving in a variety of legal environments, and running different information system. 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.). However, Vallourec has developed a structured and formalized process to review its internal control on an ongoing basis, as the developments of this report attest. 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.

E – Principles and rules for determining the compensation of corporate officers

1. Compensation of members of the Management Board

The compensation due or allocated to members of the Management Board with regard to the 2013 fiscal year are presented in Chapter 7 of the 2013 Registration Document, which is an integral part of this report (see too, the Supervisory Board's report on the 2013 compensation of the members of the Management Board, which appears in Appendix 2 of said Chapter 7).

For 2014, the Supervisory Board has determined the fixed portions of the monetary compensation of Management Board members and is reaffirming the principles used for determining their variable portions in 2013. Consequently, the fixed and variable monetary compensation determined was as follows:

	Mr. Philippe Crouzet Chairman of the Management Board	Mr. Jean-Pierre Michel, Member of the Management Board	Mr. Olivier Mallet, Member of the Management Board
Fixed portion *In €*	798,000	450,000	400,000
Target variable portion *as a % of fixed portion*	100%	75%	75%
Maximum variable portion *as a % of fixed portion*	135%	100%	100%

The fixed portion of Mr. Philippe Crouzet's compensation was thus increased from €760,000 to €798,000 (i.e. a 5% increase). The Supervisory Board considers this reevaluation of the fixed portion to be appropriate for the following reasons:

- the new internal structure of the effective functions since 3 February 2014 increases Mr. Philippe Crouzet's direct responsibilities, since all of the Group's operational divisions now report directly to him;
- the compensation surveys which were conducted by an external consultant, under the responsibility of the Appointments, Compensation and Governance Committee, demonstrate a position that is considerably below the median, in particular as to the fixed portion;
- the fixed portion of Mr. Philippe Crouzet's compensation has never been increased since he assumed office in 2009. His percent increase, which was decided on in 2014 (i.e. 5%) appears moderate with regard to the general salary increase of the Group's French employees, which was on average 11% over the same period.

The amount of this fixed portion which applies from 1 January 2014 shall remain unchanged until the end of Mr. Philippe Crouzet's term on 15 March 2016.

The variable portions of Management Board members' compensation for 2014 shall be determined based on the following objectives:

	Members of the Management Board		
Objectives of the 2014 variable portion	**Mr. Philippe Crouzet (target variable portion: 100% of fixed portion)**	**Mr. Jean-Pierre Michel (target variable portion: 75% of fixed portion)**	**Mr. Olivier Mallet (target variable portion: 75% of fixed portion)**
1. Financial performance objectives EBITDA, consolidated net profit or loss for the year, Group share and net cash flow	Weighting: 60%	Weighting: 45%	Weighting: 45%
2. Operating performance objectives	Weighting: 40%	Weighting: 30%	Weighting: 30%
2.1 Corporate, environmental and social responsibility Safety and waste recovery	Weighting: 10%	Weighting: 7.5%	Weighting: 7.5%
2.2. Pillars of progress	Weighting: 30% Competitiveness and international development	Weighting: 22.5% Industrial excellence and performance of industrial projects	Weighting: 22.5% Internal control, organization of financial function and operational control
TOTAL TARGET VARIABLE PORTION	**100%**	**75%**	**75%**

2. Compensation of Supervisory Board members

2013 Compensation

The total amount for directors' fees that the Supervisory Board divided among its members in 2013 is recorded under the annual budget for directors' fees of €520,000 authorized by the Ordinary Shareholders' Meeting of 31 May 2010 (Tenth resolution).

On this basis, each member of the Supervisory Board collected, for their participation in the Supervisory Board meetings held in 2013, maximum compensation of €33,000 [(1)], including a fixed portion of €16,500 (i.e. half the directors' fees) and a variable portion of €16,500 (i.e. half the directors' fees), based on their 100% attendance at those meetings [(2)].

The Supervisory Board Chairman also collected, in addition to directors' fees, compensation of €250,000 [(3)].

2014 Compensation

The principal for the amount of directors' fees of €33,000 per year and per member, in effect since 2010, shall remain unchanged. However, in order to take into account the new recommendation of the AFEP-MEDEF Code of June 2013, which requires that the portion of the directors' fees that is based on attendance dominate over the fixed portion, the Supervisory Board, in its session on 7 November 2013, at the proposal of the Appointments, Compensation and Governance Committee, decided to set the fixed portion to €12,000 (i.e. 1/3 of the directors' fees) and the variable portion based on attendance at €21,000 (i.e. 2/3 of the directors' fees).

At the same meeting, the Supervisory Board likewise adopted new provisions with regard to its Chairman and Vice-Chairman, the interested parties not taking part in the deliberations and votes concerning them.

As concerns the Board Chairman, the structure of her compensation was simplified: all components of her annual compensation which prevailed through the end of 2013 (directors' fees and fixed compensation) were combined, with only the remaining annual fixed compensation of €320,000. This approach will have the effect that potential variations linked to attendance will no longer be taken into account, but seems justified due to the fact that considering the attendance of the Board Chairman does not appear to be a determining factor, insofar as she performs duties and procedures which far surpass merely participating in Board and Committees meetings.

Within the context of a review of its internal operation, the Supervisory Board of 7 November 2013 also decided to extend the role of its Vice-Chairman. This person is thus now in charge of convening the Board and directing its discussions if the Chairman is absent, as well as upon the latter's request. He is also responsible for informing the Chairman of observations regarding compliance with the ethical obligations of the Board members. Consequently, the Board, at the proposal of the Appointments, Compensation and Governance Committee, has decided to allocate to the Vice-Chairman of the Supervisory Board, in this capacity, an additional set amount of directors' fees of €12,500 per year.

The Chairman of the Board, along with the other members, is not allocated any options, performance shares or termination payments of any kind.

3. Compensation of Committees members

In 2013, members of the Committees received, as part of the aforementioned €520,000 annual budget, additional directors' fees based on their actual attendance at meetings of said Committees, at the rate of €2,500 per meeting, with the Committee Chairmen each having collected €3,500 per meeting.

In order to take into account the change in market practice, the Supervisory Board, in its session of 7 November 2013, decided, at the proposal of the Appointments, Compensation and Governance Committee, that as at 1 January 2014, each member of a Board Committee, including the Committee Chairman, would collect €2,500 per meeting, according to attendance, with the Chairman collecting an additional annual fixed portion of:

- €12,500 for the Finance and Audit Committee;
- €6,250 for the Strategy Committee; and
- €6,250 for the Appointments, Compensation and Governance Committee.

Considering the change in the composition of the Board and its Committees, and the growing number of their meetings, the Shareholders' Meeting of 28 May 2014 will be asked to increase the annual budget for directors' fees from €520,000 to €650,000.

4. Compensation of the Non-voting Board members (*Censeurs*)

Compensation of the Non-voting Board members (*Censeurs*), which is calculated on the same basis as the compensation of the Supervisory Board members, comes within the annual budget for directors' fees allocated to the Supervisory Board.

(1) This amount was reduced prorata temporis in the event of an appointment or termination of service during the fiscal year.

(2) This rule has applied since 2010. Up to 2008, each member of Vallourec's Supervisory Board received directors' fees of €28,000 per year, without their attendance at the Board's meetings being taken into account. In order to take into account the recommendations of the 2008 AFEP-MEDEF Code, the Supervisory Board had adopted, as at 1 July 2009, a new compensation mechanism, distributing the amount of €28,000, which was increased to €33,000 in 2010 in two equal installments, one of which was dispensed in all cases, with the other being allocated based on attendance.

(3) Given the succession of the Board chairmanship, which occurred in 2013, this compensation was reduced prorata temporis according to the duration of the terms of office effectively held by the acting Chairman from 1 January to 30 May 2013 and by his successor, who was appointed as at 30 May 2013.

F – Corporate governance

The Supervisory Board decided in 2008 to adopt the AFEP-MEDEF Corporate Governance Code, as amended for application to limited-liability 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 this Chapter 7, which is an integral part of this report.

The AFEP-MEDEF Corporate Governance Code, as revised in June 2013, is available on the MEDEF's website (www.medef.com).

Appendix 2 – Supervisory Board's report on the 2013 compensation of members of the Management Board

Fiscal year 2013

This report was drafted in application of paragraph 24.3 of the AFEP-MEDEF Corporate Governance Code, which was revised in June 2013 (the "AFEP-MEDEF Code") in view of the advisory vote of the shareholders, who met at the Shareholders' Meeting on 28 May 2014, regarding the compensation due or allocated with regard to the fiscal year ended 31 December 2013 to each of the three members of the Management Board, Mr. Philippe Crouzet, Chairman of the Management Board, and Mr. Jean-Pierre Michel and Mr. Olivier Mallet, members of the Management Board.

The compensation policy for members of the Management Board is determined by the Supervisory Board, at the proposal of its Appointments, Compensation and Governance Committee (*Comité des Nominations, des Rémunérations et de la Gouvernance*, or "CNRG"), to have such compensation seen as fair and balanced by both shareholders and employees.

Vallourec operates worldwide on the seamless tube production market, a sector which requires specific expertise held by only a limited number of talented people. Having people who have high potential and the capacity to face ambitious challenges is essential for ensuring the Group's profitability and for generating value. The compensation policy aims to attain this objective by allowing the Group to attract and retain the most talented people, whose contributions help create more value for shareholders.

1. Governance regarding the compensation policy for members of the Management Board

The compensation policy for members of the Management Board is reviewed each year. It is determined by the Supervisory Board, at the proposal of the CNRG. The defined policy takes into account the work accomplished, the net profits obtained and the responsibility assumed by each of the members of the Management Board, and relies on analyses of the market context, which are in particular based on compensation surveys conducted by outside consultants.

1.1 The composition and role of the Appointments, Compensation and Governance Committee in terms of the compensation of members of the Management Board

As at 31 December 2013, the CNRG consisted of four members, three of whom are independent and one of whom represents employee shareholders. The Committee has no executive corporate officers from the Vallourec Group, and is presided over by an independent member. Its members are:

- Mr. Michel de Fabiani, Chairman and independent member;
- Mr. Patrick Boissier, independent member;
- Ms. Pascale Chargrasse, representative of employee shareholders; and
- Ms. Anne-Marie Idrac, independent member.

In terms of compensation of the members of the Management Board, the CNRG:

- prepares the annual evaluation of the members of the Management Board;
- proposes to the Supervisory Board the principles of the compensation policy for members of Management Board, and in particular the criteria for determining the structure and level of this compensation (fixed and variable portions), including benefits in kind, and insurance or pension benefits;
- proposes to the Board the number of performance shares and share subscription or purchase options allocated to each member of the Management Board; and
- drafts proposals for the Board regarding the mechanisms which are linked to the termination of Management Board members' duties.

In order to ensure consistency between the compensation paid to members of the Management Board and the compensation prevailing within the Group, the CNRG examines the policy for allocating performance shares and share purchase or subscription options to managers and executives and/or employees of the Group, and is informed of the compensation policy for members of the Operational Committee.

The 2013 Registration Document contains a description of the CNRG's activity over the course of the last fiscal year.

In order to prepare its work on the compensation of members of the Management Board, the CNRG requests outside studies, and in particular compensation surveys, so that it can assess market condition. It selects and manages the consultants concerned, in order to ensure they are competent, and monitors their independence and objectivity. The CNRG itself determines the composition of the reference panels.

The CNRG likewise meets with the heads of the functional departments, in particular the Human Resources Department and the Legal Department, with which it organizes inter-departmental meetings to ensure that its work is consistent with the Group's social and governance policies.

In preparing its work, the CNRG invites experts in governance and engineering in the area of managerial compensation to share their know-how and experience at dedicated work meetings, which are attended by the functional department heads.

Ahead of the actual meetings of the CNRG, the Chairman of the CNRG has discussions with the requested consultants and other members of the CNRG, and holds several work meetings with internal staff supervisors in order to ensure that all of the issues examined by the CNRG are documented in an exhaustive and pertinent manner.

The CNRG also enlists the expertise of the Finance and Audit Committee to determine and assess the pertinence of the quantitative financial criteria for variable monetary compensation and long-term incentive instruments allocated to members of the Management Board.

The CNRG reports verbally on its work during the Supervisory Board's meetings. A written report of each meeting of the Committee is established by the secretary of the Committee, under the authority of the Chairman of the Committee, and is sent to Committee members. It is included in the Board meeting files after the meeting during which the report is drafted.

1.2 The role of the Supervisory Board in terms of compensation of members of the Management Board

The Supervisory Board, upon the CNRG's recommendations, establishes all components for the short and long-term compensation of members of the Management Board (fixed portion, variable portion, equity instruments –performance shares and stock options), as well as benefits in kind, and insurance or pension benefits, along with specific departure schemes.

When a report of the CNRG's work on Management Board member compensation is presented, the Supervisory Board deliberates on the compensation of members of the Management Board when said members are not present.

All potential or acquired elements of compensation for members of the Management Board are made public after the Board meeting at which they were decided, by adding them to Vallourec's website.

2. Supervisory Board policy on Management Board members compensation

2.1 General principles of the Board policy on Management Board members compensation

The decisions of the Supervisory Board regarding the compensation of members of the Management Board are governed by the following principles:

- **competitiveness:** The Supervisory Board ensures that compensation is tailored to the market in which Vallourec operates. To that end, the CNRG analyzes the data of a panel of 15 companies which are listed in Paris, and which are comparable with regard to sales, staff, international establishment and market capitalization, and targets positioning members of the Management Board around to the median of the sample.
- **a balance between fixed, short-term variable and long-term variable compensation:** The CNRG ensures a balance between the three components of the compensation (fixed portion, annual variable portion and long-term incentive equity instruments).
- **recognition of short and long-term performance:** The compensation structure for members of the Management Board contains a variable monetary portion which is based on performance for the fiscal year ended (short-term performance) and equity instruments which reflect performance over both a three-year term, performance shares, and a four-year term, stock options (long-term performance).
- **consistent compensation among all members of the Management Board:** The compensation of members of the Management Board is set according to their responsibilities within the Group, complying with a ratio of reasonable proportion, in order to encourage the collegial commitment of the Management Board as a whole towards the Group.
- **a prevailing consistent structure of employee compensation within the Group:** The majority of the Group's managers and executives benefit from a compensation structure, which, like that of members of the Management Board, contains a fixed portion and a variable portion, along with long-term incentive equity instruments.

2.2 Status of members of the Management Board

Mr. Philippe Crouzet does not have an employment contract. He holds 20,412 Vallourec shares.

Messr. Jean-Pierre Michel and Olivier Mallet hold employment contracts for which performance was suspended during the term of their duties as members of the Management Board. They respectively hold 5,874 and 9,542 Vallourec shares.

2.3 Components of Management Board members compensation

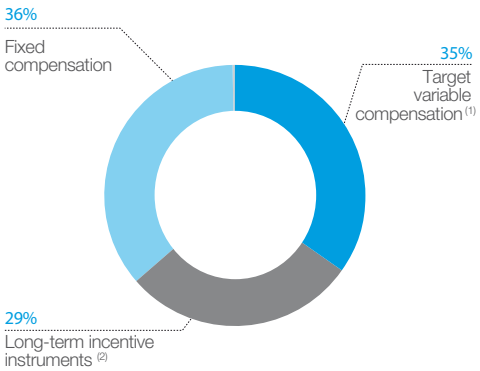
2.3.1 WEIGHT OF THE COMPONENTS OF MANAGEMENT BOARD MEMBERS COMPENSATION

The primary components of the compensation of members of the Management Board, along with their purposes, are defined as follows:

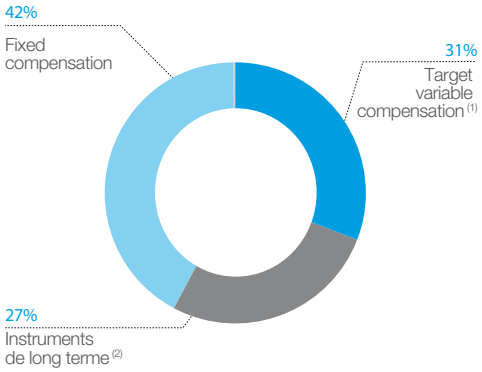
Component	Purposes
Fixed portion	Role and responsibility of each member of the Management Board
Variable portion	Association with short-term performance by the achievement of annual objectives
Performance shares	Association with medium-term performance and alignment with shareholders interests
Stock options	Association with long-term performance and alignment with shareholders interests

For 2013 target, the respective weight of each of these elements breaks down as follows:

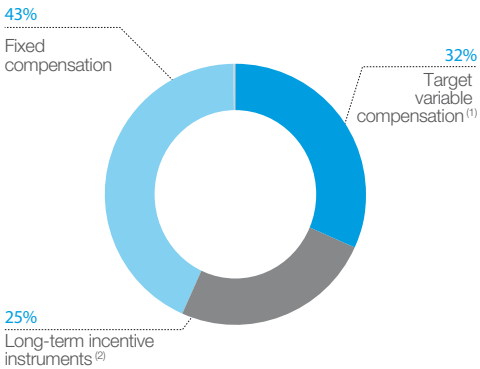
Mr. Philippe CROUZET



Mr. Jean-Pierre MICHEL



Mr. Olivier MALLET



(1) The amount of the variable portion is integrated with the target.

(2) Performance shares and share subscription options allocated during 2013 according to the accounting valuation under IFRS, for March and September 2013, respectively.

2.3.2 FIXED PORTION

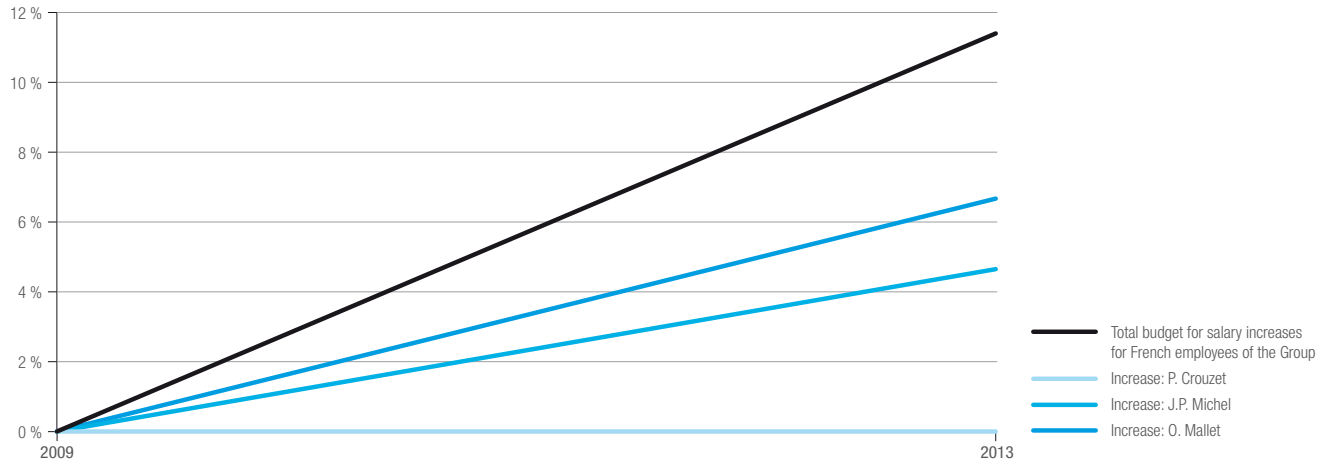
The fixed portion is determined every year based on the liability assumed by each member of the Management Board and on Vallourec's business sector. To that end, the CNRG relies on compensation surveys conducted by outside consultants. It sets up the panel and makes adjustments as necessary according to sales, market capitalization and sector of business of the companies on the panel, in order to ensure complete comparability and thus a high correlation between the fixed portion and the Group's size.

In addition, since the variable portion of the compensation is determined as a percentage of the fixed portion, the Supervisory Board devotes particular attention to moderating the fixed portion.

On these bases, the fixed portions of Messr. Jean-Pierre Michel and Olivier Mallet, set in 2008, were increased in 2012 by 4.65% and 6.67% respectively, totaling €450,000 and €400,000 respectively in 2013. Mr. Philippe Crouzet's fixed compensation, which totaled €760,000 through 2013, did not, at his request, change since he took office in 2009. For the 2014 fiscal year, this fixed portion rose to €798,000 (or a 5% increase) [(1)].

With regard to the general salary increases of French employees between 2009 and 2013, the changes in the fixed portions for members of the Management Board over the same period seem moderate, as the chart below attests.

CHANGE IN THE FIXED COMPENSATION OF FRENCH EMPLOYEES OF THE GROUP AND MEMBERS OF THE MANAGEMENT BOARD FOR THE PERIOD 2009-2013.



2.3.3 VARIABLE PORTION

The variable portion aims to associate the members of the Management Board with the short-term performance of the Group. Its structure is reviewed and determined every year by the Supervisory Board, upon recommendations from the CNRG. Determined on an annual basis (in conjunction with the Company's fiscal year), it corresponds to a percentage of the fixed portion and contains minimum objectives, below which no payment is made, target objectives set by the Supervisory Board and maximum objectives which translate to an overperformance beyond the target objectives. With regard to the 2013 fiscal year, Mr. Philippe Crouzet's variable portion could vary from 0 to 100% of his target fixed portion and reach 135% of this same fixed portion in the event that maximum objectives were attained. For Messr. Jean-Pierre Michel and Olivier Mallet, the variable portions were able to vary from 0 to 75% of their target fixed portions and attain 100% in the event that maximum objectives were achieved. In summary, the elements of monetary compensation of the members of the Management Board were as follows:

	Mr. Philippe Crouzet Chairman of the Management Board	Mr. Jean-Pierre Michel, Member of the Management Board	Mr. Olivier Mallet, Member of the Management Board
Fixed portion *In €*	760,000	450,000	400,000
Target variable portion *as a % of fixed portion*	100%	75%	75%
Maximum variable portion *as a % of fixed portion*	135%	100%	100%

(1) For a statement containing the reasons for this increase, see the release of 4 March 2014 on 2013 and 2014 compensation of the Management Board or the Report of the Chairman of the Supervisory Board in Appendix 1 of Chapter 7 of the 2013 Registration Document.

The variable portions are subordinate to achievement of several precise and previously established objectives of a quantitative and qualitative nature, for which the minimum, target and maximum thresholds are set by the Supervisory Board based on the budget, after an in-depth examination of the CNRG and Finance and Audit Committee, ensuring that the threshold effects generated by quantitative objectives are neutralized.

In 2013, quantitative objectives represented 80% of the target variable portion of Mr. Philippe Crouzet and 85% of that of Messr. Jean-Pierre Michel and Olivier Mallet.

The objectives of the variable portion are set each year based on the key operating and financial indicators of the Group, which are in line with the nature of its activities, strategy and values. This system as a whole includes a corporate indicator for the 2013 variable portion which is based on performance in terms of the Group's safety. In order to strengthen the Management Board's commitment to issues involving the Group's social, corporate and environmental responsibility, for the 2014 variable portion, the Supervisory Board, at the CNRG's recommendation, has introduced an objective to recover waste, as well as a safety objective.

Through 2012, the objectives of the variable portion and their weighting were strictly identical for each of the members of the Management Board. As at 2013, the Supervisory Board, at the CNRG's proposal, made a commitment to a process for individualizing the variable portions of Management Board members compensation by introducing certain changes for weighting objectives, in order to best reflect the nature and responsibilities assumed by each of them. In pursuing this process, the Supervisory Board, for the 2014 variable portion, strengthened this individualization by using, for each of the members of the Management Board, objectives which are specific to them, in the amount of 30% of their variable portions.

In this context, the variable portions of each Management Board member for the 2013 fiscal year were determined as follows:

	Members of the Management Board		
2013 variable portion	**Mr. Philippe Crouzet**	**Mr. Jean-Pierre Michel**	**Mr. Olivier Mallet**
Structure and level of the variable portion (expressed as a percentage of the fixed portion)	Variable portion: 100% if the objectives set by the Board are achieved (target) and 135% maximum for exceptional performance	Variable portion: 75% if the objectives set by the Board are achieved (target), and 100% maximum for exceptional performance	Variable portion: 75% if the objectives set by the Board are achieved (target), and 100% maximum for exceptional performance
Financial performance objectives	Weight in target variable portion: 62.5%	Weight in target variable portion: 46.8%	Weight in target variable portion: 50.6%
Consolidated net profit or loss, Group share	This criterion varied from 0 to 25% if the target was attained.	This criterion varied from 0 to 18.7% if the target was attained.	This criterion varied from 0 to 18.7% if the target was attained.
EBITDA	This criterion varied from 0 to 30% if the target was attained and could be established as 40.5% as a maximum.	This criterion varied from 0 to 22.5% if the target was attained and could be established as 30% as a maximum.	This criterion varied from 0 to 22.5% if the target was attained and could be established as 30% as a maximum.
Management of Group Debt	This criterion varied from 0 to 7.5% if the target was attained and could be established as 10.1% as a maximum.	This criterion varied from 0 to 5.6% if the target was attained and could be established as 7.5% as a maximum.	This criterion varied from 0 to 9.4% if the target was attained and could be established as 12.5% as a maximum.
Average rate of achievement of financial performance objectives with regard to their weight in the target variable portion	41%	43%	51%
Total in absolute value of financial performance objectives	€310,865	€144,869	€153,807
Operating performance objectives	Weight in target variable portion: 37.5%	Weight in target variable portion: 28.2%	Weight in target variable portion: 24.4%
Safety (TRIR)/(LTIR) [(a)]	These criteria varied 0 to 5% from the target, and could be established as 6.8% as a maximum. The lower limit of the objective was the result attained in 2012.	These criteria varied 0 to 3.7% from the target, and could be established as 5% as a maximum. The lower limit of the objective was the result attained in 2012.	These criteria varied 0 to 3.7% from the target, and could be established as 5% as a maximum. The lower limit of the objective was the result attained in 2012.
Improvement of competitiveness and savings plan	These criteria varied 0 to 7.5% from the target, and could be established as 10.1% as a maximum.	These criteria varied 0 to 5.7% from the target, and could be established as 7.5% as a maximum.	These criteria varied 0 to 5.7% from the target, and could be established as 7.5% as a maximum.
Increased load of new facilities (Brazil and United States)	These criteria varied 0 to 10% from the target, and could be established as 13.4% as a maximum.	These criteria varied 0 to 11.2% from the target, and could be established as 15% as a maximum.	These criteria varied 0 to 7.6% from the target, and could be established as 10% as a maximum.
Strategic development, evaluation of progress in the implementation of the Group's strategy	This qualitative criterion was assessed by the Supervisory Board. It varied 0 to 15% from the target, and could be established as 20.3% as a maximum.	This qualitative criterion was assessed by the Supervisory Board. It varied 0 to 7.5% from the target, and could be established as 10% as a maximum.	This qualitative criterion was assessed by the Supervisory Board. It varied 0 to 7.5% from the target, and could be established as 10% as a maximum.
Average rate of achievement of operating performance objectives with regard to their weight in the target variable portion	33%	33%	29%
Total in absolute value of operating performance objectives	€249,135	€110,131	€86,193
Variable portion set by the Supervisory Board	€560,000	€255,000	€240,000
Percentage of the variable portion set by the Supervisory Board in relation to the target variable portion	74%	76%	80%

(a) The safety objective is measured based on the results of the Lost Time Injury Rate (LTIR) and Total Recordable Injury Rate (TRIR), which measure, respectively, the number of accidents, with work stoppage, per million hours worked, and the number of reported accidents per million hours worked.

On these bases, the Supervisory Board considers that the variable portions of the Management Board members' compensation reflect the evolution of the Group's results and overall performance.

2.3.4 LONG-TERM INCENTIVE EQUITY INSTRUMENTS

Performance shares and options granted in 2013

In an industrial group for which capital expenditure projects might have a distant time frame for achieving profitability, long-term incentive equity instruments seem particularly appropriate. Consequently, the Group has used a dynamic policy for numerous years for employees to share in the Company's results, by establishing performance shares and share subscription option allocation plans. The Supervisory Board believes that the combination of these two tools, which align the interests of beneficiaries with those of shareholders, is important insofar as the performance shares are connected to medium-term performance, while options are associated with long-term performance.

In 2013, the Supervisory Board thus authorized the renewal of:

- for the fifth consecutive year, an international performance share plan, subject to continuous service and performance conditions, for a maximum of six shares per beneficiary, for 21,744 employees from Vallourec Group entities located in Germany, Brazil, Canada, China, United Arab Emirates, the United States, France, Great Britain, India, Malaysia, Mexico, Norway, the Netherlands and Russia (excluding members of the Management Board), within the context of the nineteenth resolution approved by the Shareholders' Meeting of 31 May 2012;
- for the seventh consecutive year, a plan to grant, subject to continuous service and performance conditions, a maximum number of 371,389 performance shares, to benefit 1,644 managers and executives and three members of the Management Board, in the context of the nineteenth resolution approved by the Shareholders' Meeting of 31 May 2012;
- for the seventh consecutive year, a plan to grant, subject to continuous service and performance conditions, a maximum number of 602,465 share subscription options, to benefit 406 managers and executives and three members of the Management Board, in the context of the fourteenth resolution approved by the Shareholders' Meeting of 31 May 2012;

Overall, representing 0.86% of the share capital as at 31 December 2013, the portion granted to members of the Management Board was set at 7.49% of the total allocations, and 0.065% of the share capital. To determine the number of performance shares and options allocated to the Management Board, the Appointments, Compensation and Governance Committee measures the fair value of these instruments and then sets an allocation volume that ensures a balance between the three elements of compensation (fixed, variable and long-term incentives).

The performance shares granted to members of the Management Board in 2013 are subject to performance conditions which have been assessed over three years and measured based on four criteria, quantified as follows:

- the estimated rate of return on capital invested on a consolidated basis (ROCE) for the fiscal years 2013, 2014 and 2015, compared with the ROCE recorded in the budget for the fiscal years 2013, 2014 and 2015 (40% weighting);
- consolidated sales at consistent foreign exchange rates and with a consistent scope for the fiscal years 2013, 2014 and 2015, compared with the sales recorded in the budget for the fiscal years 2013, 2014 and 2015 (30% weighting);
- stock performance relating to Vallourec shares between fiscal years 2013 and 2015, compared to a reference panel comprised of Tenaris, TMK and Vallourec (15% weighting); and
- relative performance of the consolidated EBITDA between the fiscal years 2013 and 2015, compared to the same panel as mentioned above (15% weighting).

The number of performance shares definitively allocated to members of the Management Board following the performance appraisal period shall be calculated by applying a coefficient which measures the performance for each of the criteria to the number of performance shares initially allocated. This coefficient will vary from 0 and 1.33. The number of performance shares allocated shall be null below performance corresponding to the minimum threshold; it shall be 1.33 in the event of outperformance of the objective. Coefficient 1 corresponds (i) as concerns the first two criteria to the budgetary objectives of the Company's three fiscal years considered, and (ii) as concerns the third and fourth criteria, to performance which is identical to that of the panel (with a linear evolution between coefficient 1 and the two minimum and maximum limits).

The number of performance shares granted in 2013 for performance corresponding to coefficient 1 was 9,023 for Mr. Philippe Crouzet, 4,436 for Mr. Jean-Pierre Michel and 3,609 for Mr. Olivier Mallet.

The share subscription options granted to members of the Management Board in 2013 are subject to performance conditions which have been assessed over four years and measured based on four criteria, quantified as follows:

- the estimated rate of return on capital invested (ROCE) for the 2014, 2015, 2016 and 2017 years, compared with the expected rate of return on capital invested, which is recorded in the budget for 2014, 2015, 2016 and 2017 (40% weighting);
- the sales for the 2014, 2015, 2016 and 2017 years, compared with the sales recorded in the budget for the 2014, 2015, 2016 and 2017 years (30% weighting);
- relative performance of Vallourec shares between fiscal year 2013 and fiscal year 2017, compared to a reference panel comprised of Tenaris, TMK and Vallourec (15% weighting); and
- relative performance of Vallourec's EBITDA between fiscal year 2013 and fiscal year 2017, compared to the same panel as mentioned above (15% weighting).

The number of options that was definitively granted to members of the Management Board following the vesting period shall be calculated by applying a coefficient which measures the performance for each of the criteria to the number of options initially granted. This coefficient will vary from 0 to 1. The number of options granted shall be null below performance corresponding to the minimum threshold; it shall be 1 if a target performance is achieved. The coefficient 1 corresponds (i) as concerns the first two criteria, to the budgetary objectives of the Company's four fiscal years considered, (ii) as concerns the third criterion, to performance greater than 10% compared to that of the panel and (iii) as concerns the fourth criterion, to performance greater than 20% of that of the panel.

The number of options granted in 2013 for performance corresponding to coefficient 1 was 33,000 for Mr. Philippe Crouzet, 15,000 for Mr. Jean-Pierre Michel and 12,000 for Mr. Olivier Mallet.

The confidential nature of the first two quantified criteria on performance shares and share subscription options does not allow their content to be disclosed. However, at the end of the performance appraisal period, Vallourec will communicate the minimum and maximum thresholds to be achieved and the linear progression applied between them.

Within the set of performance objectives for performance shares and stock options, the relative criteria represent 30%. This weighting, which is already high, shall be increased for allocations that will occur in 2015.

The Supervisory Board noted that the reference panels used in support of the criteria relating to performance shares and options were too narrow, and plans to review them for the next plans allocating long-term incentive instruments, which will be implemented in 2015.

Performance shares definitively vested in 2013

The period for assessing the performance share allocation plan, which began on 30 March 2011, ended on 30 March 2013. The shares that were initially allocated under this plan, within the context of the sixteenth resolution that was approved by the Shareholders' Meeting of 4 June 2008, were subject to three performance conditions, which were assessed for the 2011 and 2012 fiscal years:

- the ratio of consolidated EBITDA to consolidated sales (weighting 40%): a coefficient of 0 (no shares acquired) applied if the average ratio achieved in 2011 and 2012 was less than 12%; the coefficient was 1 if the average was at least 12% and 1.33 if the average was 24% or higher;
- growth of consolidated sales (weighting 30%): a coefficient of 0 (no shares acquired) applied if 2012 sales were less than €5.390 billion; the coefficient was 1 if sales were at least €5.750 billion and 1.33 if sales were €5,870 billion or higher;
- stock market relating to the Vallourec share on the regulated market of Euronext Paris, compared to a reference panel comprised of Tenaris, TMK and Vallourec (30% weighting).

After applying these conditions, the number of shares that were actually vested by each of the members of the Management Board, in application of the performance conditions, was established to be as follows:

30 March 2011 performance shares plan Members of the Management Board	Mr. Philippe Crouzet	Mr. Jean-Pierre Michel	Mr. Olivier Mallet	Total
Maximum number of performance shares allocated on 30 March 2011 [(a)]	9,023	4,436	3,609	17,068
Number of performance shares vested on 30 March 2013 after performance conditions applied	1,696	834	678	3,208
Percentage of shares vested on 30 March 2013 against the maximum number of performance shares initially allocated on 30 March 2011	18.8%	18.8%	18.8%	18.8%

(a) Based on a coefficient 1, corresponding to the target performance.

The Supervisory Board feels that the performance criteria applicable to the stock options and performance shares allocated to members of the Management Board are correlated to the evolution over the medium and long term of the Group's results and overall performance.

Members of the Management Board are 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 options exercised. They are moreover prohibited from using hedging instruments in connection with the exercise of options, selling shares resulting from the exercise of options, or selling performance shares.

2.3.5 BENEFITS IN KIND

In terms of benefits in kind, members of the Management Board benefit, as do the majority of the Group's senior executives (i.e. 117 people), from a company car.

2.3.6 ATTENDANCE FEES

Management Board members do not collect any compensation or attendance fees for the corporate offices they hold in direct or indirect subsidiaries of the Vallourec Group.

2.3.7 SUPPLEMENTARY RETIREMENT PLAN

In conformity with market practices, and in order to develop loyalty among the senior executives of the Group, the members of the Management Board, like the other senior executives of the Group that meet the eligibility requirements (i.e. 42 people as at 31 December 2013), have a supplementary retirement plan with defined benefits available to them, which allows them to improve their replacement income, provided that they take their retirement on the day of their departure from the Group.

This plan, which is still available, does not offer any particular benefit to members of the Management Board as compared to eligible salaried senior executives of the Group, and applies to beneficiaries whose gross basic compensation (excluding the variable portion and extraordinary bonuses) is greater than four annual Social Security limits over a term of three consecutive years. This benefit appears moderate, as the Group's supplementary retirement is limited to 20% of the average basic salary for the last three years, excluding the variable portion, and limited to four annual Social Security limits.

This mechanism was approved by the Shareholders' Meetings of 1 June 2006 (first resolution) and 4 June 2009 (fifth resolution).

The potential benefits on an individual basis for each of the three members of the Management Board as at 31 December 2013 are as follows:

Members of the Management Board	Reference compensation at 31 December 2013	Annual potential rights for 2013 [(a)]	Total annual potential rights as at 31 December 2013 [(b)]	Limit on potential rights	Length of service conditions
Mr. Philippe Crouzet	€760,000	2%	9.50%	20%	36 months
Mr. Jean-Pierre Michel	€450,000	2%	15.34%	20%	36 months
Mr. Olivier Mallet	€400,000	1.7%	9.25%	20%	36 months

(a) As a percentage of the reference compensation (basic pay excluding variable portion).

(b) Limited to 20% of the average basic compensation for the last three years, excluding the variable portion and limited to 4 annual Social Security caps.

Beneficiaries may keep the benefit of this supplementary plan if they are over 55 years of age and are unable to find another job after having been asked to leave by the Company.

The determination of the overall compensation of members of the Management Board took into account the benefits under this supplementary retirement plan.

The Group's supplementary retirement plan has a replacement rate which remains clearly below market practice, regardless of the reference panel used.

2.3.8 MECHANISMS LINKED TO TERMINATION OF THE DUTIES OF MEMBERS OF THE MANAGEMENT BOARD

In 2013, the Supervisory Board reviewed the mechanisms which are linked to the termination of duties of three members of the Management Board.

2.3.8.1 Mechanism linked to the termination of the duties of Mr. Philippe Crouzet, Chairman of the Management Board

Upon examining the termination package that has been in effect since Mr. Philippe Crouzet took office on 2 April 2009, which was approved by the Meeting of 4 June 2009, the Supervisory Board, in its session of 2 May 2013, decided to renew the basic principles, taking market practice into account.

That Board likewise:

- set the conditions under which Mr. Philippe Crouzet, should he leave, could retain the right, as applicable, to exercise share subscription options and/or to receive previously allocated performance shares; and
- decided on the principle of a non-compete obligation to be assumed by Mr. Philippe Crouzet.

Termination package of Mr. Philippe Crouzet

Mr. Philippe Crouzet's termination package shall only be due in the event of a forced termination, linked to a change in control or strategy. No compensation shall be due if it is possible for Mr. Philippe Crouzet to invoke his retirement rights within a short period of time.

The termination package amount shall be limited to twice the average gross annual fixed and variable monetary compensation due for the two fiscal years preceding the date of departure of Mr. Philippe Crouzet (hereinafter the "Maximum Payment").

The payment shall be calculated based on Mr. Philippe Crouzet's fixed monetary compensation, due for the fiscal year preceding the date of departure, plus the target variable monetary compensation set for the same fiscal year (the "Reference Compensation") and may not, under any circumstance, exceed the Maximum Payment.

Its amount shall depend on the fulfillment of three performance criteria, assessed over the last three fiscal years preceding Mr. Philippe Crouzet's date of departure (the "Reference Period").

Satisfaction of each of the performance criteria shall be determined by assigning a grade that is within the limits of 0 and 30 points.

- The first performance condition "C1" shall be based on EBITDA rate, expressed as a percentage of sales for each fiscal year within the Reference Period. C1 shall vary linearly within 30 points, for a maximum set by the Supervisory Board, further to the opinion of the Appointments, Compensation and Governance Committee, in reference to the EBITDA rates achieved during the three fiscal years preceding the Shareholders' Meeting of 30 May 2013, and shall be at least equal to the average of these rates; and 0 point for a minimum that is at most equal to the maximum, less 6 points, of EBITDA.
- The second performance condition "C2" shall be based on a comparison of EBITDA for each of the fiscal years in the Reference Period with the EBITDA forecast in the budget for those same fiscal years, as established by the Management Board and approved by the Supervisory Board. C2 shall vary linearly between 0, for EBITDA less than 25% of the EBITDA budgeted, and 30 points for EBITDA greater than 12.5% of the EBITDA budgeted. The budgetary objective is set each year by the Supervisory Board, further to the opinion of the Appointments, Compensation and Governance Committee, upon review of the budget presented by the Management Board and reviewed in advance by the Finance and Audit Committee.
- The third performance condition "C3" shall be based on the percentage of the variable portion of the monetary compensation due to Mr. Philippe Crouzet for each of the fiscal years of the Reference Period, in relation to the target variable portion for the fiscal year considered. C3 shall vary linearly between 0 and 30 points (limited to 30) according to the percentage of the variable portion paid in relation to the target variable portion.

In the event that the total of C1, C2 and C3 (hereinafter the "PC") that on average less than 40 during the Reference Period, no payment shall be due. For an average PC that is equal to 40 or 50, the payment shall be equal to 15 or 18 months' salary respectively (1/12 of the Reference Compensation), up to the Maximum Package. The payment shall reach its maximum, i.e. 24 months, within the limit of the Maximum Package, for an average PC that is greater or equal to 80 on average. It shall vary linearly between each of the thresholds: 40, 50 and 80.

If the PC for the last fiscal year of the Reference Period is equal to 0, no payment shall be due.

For the 2011, 2012 and 2013 fiscal years, the PC would be set at 68, 30 and 61 respectively.

This mechanism was approved by the Shareholders' Meeting of 30 May 2013, in its fifth resolution.

Conditions under which Mr. Philippe Crouzet could retain the right, as applicable, to exercise share subscription options and/or to receive the previously allocated performance shares

After his departure, Mr. Philippe Crouzet may, at the decision of the Supervisory Board and where applicable, keep the right to exercise share subscription options and/or to receive the previously allocated performance shares under the following conditions:

- Mr. Philippe Crouzet's departure must be exclusively due to a forced termination that is linked to a change in control or strategy;
- the average of the three performance criteria for the termination package for the three fiscal years preceding the date of departure shall be at least equal to 40; and
- the performance share and share subscription options shall remain subject to the performance conditions which were prescribed when they were first granted.

This mechanism was approved by the Shareholders' Meeting of 30 May 2013, in its twenty-third resolution.

Non-compete obligation to be assumed by Mr. Philippe Crouzet.

Given the expertise in the steel sector that Mr. Philippe Crouzet has gained since his entry into office on 2 April 2009, the Supervisory Board wanted to enable the Group to protect its know-how and activities by subjecting Mr. Philippe Crouzet to a conditional non-compete obligation in the event that he ends up leaving the Group.

The Supervisory Board, at its full discretion, may decide, at the time of Mr. Philippe Crouzet's departure, to prohibit him for a period of 18 months following the termination of his duties as Chairman of Vallourec's Management Board, regardless of the reason, from collaborating in any way whatsoever with a company or group of companies that participates in the steel sector, with no territorial restriction.

Should this obligation be implemented by the Board, it would result in a compensation to Mr. Philippe Crouzet of a non-compete compensation equal to 12 months of gross fixed and variable monetary compensation, which is calculated based on the average of the gross fixed and variable annual monetary compensation that has been paid during the two fiscal years preceding the date of departure.

This amount shall be paid in equal monthly installments throughout the entire term of application of the non-compete clause.

The total compensation due under the non-compete obligation, along with an termination package, if such an payment was to be paid, may not under any circumstance exceed twice the average gross fixed and variable annual monetary compensation due for the two fiscal years preceding Mr. Philippe Crouzet's date of departure.

This mechanism was approved by the Shareholders' Meeting of 30 May 2013, in its twenty-fourth resolution.

2.3.8.2 Mechanisms linked to the termination of duties of Messr. Jean-Pierre Michel and Olivier Mallet, members of the Management Board

The Supervisory Board, in its session of 11 December 2013, reviewed the departure mechanism for Messr. Jean-Pierre Michel and Olivier Mallet, members of the Vallourec Management Board and holders of an employment contract with Vallourec Tubes [1] which was suspended during their terms of office.

After having (i) acknowledged Messr. Jean-Pierre Michel and Olivier Mallet's waiver of the contractual termination payments which were provided for in their respective employment contracts, which were entered into with Vallourec Tubes, and likely to be due to them in the event of a breach of their employment contracts, and after then (ii) stating that Messr. Jean-Pierre Michel and Olivier Mallet, under their employment contracts, are automatically by law beneficiaries of the Collective Agreement for Metallurgy Managers, Executives and Engineers (the "**Collective Agreement**") which is mandatory for Vallourec to apply, the Board made the following decisions:

Mr. Jean-Pierre Michel

Based on his seniority in the Vallourec Group (36 years), Mr. Jean-Pierre Michel is entitled, in application of the Collective Agreement, to termination pay in an amount that is equal, as at 31 December 2013, to 18 months' fixed and variable compensation in the event his employment contract is breached for a reason other than serious fault, i.e. a theoretical amount of €818 thousand [2].

(1) Known as V & M Tubes through 30 September 2013.

(2) In conformity with the provisions of the Collective Agreement, this theoretical amount was determined on the basis:

- *of Mr. Jean-Pierre Michel's seniority, which was acquired from the date he assumed office, by virtue of the current employment contract, without excluding the suspension periods of this contract, or since 1 September 1978;*
- *of the current payment rate (1/5 of a month per year of seniority for the segment with 1 to 7 years' seniority, and 3/5 of a month per year of seniority for the segment with over 7 years' seniority), with the result being limited to a value of 18 months' pay;*
- *of the monthly average appointments as well as the contractual benefits and bonuses from which Mr. Jean-Pierre Michel would have benefited, during the last 12 months in application of his employment contract; and*
- *of a target annual fixed and variable compensation of €546 thousand under the employment contract.*

Mr. Olivier Mallet

Based on his seniority in the Vallourec Group (5.5 years), Mr. Olivier Mallet is entitled, in application of the Collective Agreement, to a termination payment in an amount that is equal, as at 31 December 2013, to slightly more than one month's fixed and variable compensation in the event his employment contract is breached for a reason other than serious fault, or a theoretical amount of €40 thousand [(1)].

Given this situation, the Supervisory Board decided that Mr. Olivier Mallet could further benefit from an termination package, in the event of a forced termination that was linked to a change in control or strategy. This package shall not be due if Mr. Olivier Mallet has the possibility of invoking his retirement rights within a short period of time.

The amount of termination package shall be limited to twice the average annual gross fixed and variable monetary compensation due for the two fiscal years preceding the date of departure of Mr. Olivier Mallet (hereinafter the "Maximum Package").

The payment shall be calculated based on Mr. Olivier Mallet's fixed monetary compensation, due for the fiscal year preceding the date of departure, plus the target variable monetary compensation set for the same fiscal year (the "Reference Compensation") and may not, under any circumstance, exceed the Maximum Package.

Its amount shall depend on the fulfillment of three performance criteria, which are assessed for the Company's last three fiscal years preceding Mr. Olivier Mallet's date of departure (the "Reference Period").

Satisfaction of each of the performance criteria shall be determined by assigning a score that is between the limits of 0 and 30 points.

- The first performance condition, "C1" shall be assessed on the EBITDA rate, expressed as a percentage of sales for each fiscal year within the Reference Period. C1 shall vary linearly within 30 points, with a maximum set by the Supervisory Board, further to the opinion of the Appointments, Compensation and Governance Committee, in reference to the EBITDA rates achieved during the three fiscal years preceding the 2014 Shareholders' Meeting, and which shall be at least equal to the average of these rates, along with 0 points for a minimum that is at most equal to the maximum less 6 points of EBITDA.
- The second performance condition "C2" shall be assessed by comparing the EBITDA for each of the fiscal years in the Reference Period with the EBITDA forecast in the budget for those fiscal years, as established by the Management Board and approved by the Supervisory Board. C2 shall vary linearly between 0, for EBITDA less than 25% of the EBITDA budgeted, and 30 points, for EBITDA greater than 12.5% of the EBITDA budgeted. The budgetary objective is set each year by the Supervisory Board, further to the opinion of the Appointments, Compensation and Governance Committee, upon review of the budget presented by the Management Board, and examined in advance by the Finance and Audit Committee.
- The third performance condition, "C3" shall be based on the percentage of the variable portion of the monetary compensation due to Mr. Olivier Mallet for each of the fiscal years of the Reference Period, in relation to the target variable portion for the fiscal year considered. C3 shall vary linearly between 0 and 30 points (limited to 30) according to the percentage of the variable portion paid in relation to the target variable portion.

In the event that the total of C1, C2 and C3 (hereinafter the "PC") is on average less than 40 during the Reference Period, no payment shall be due. For an average PC that is equal to 40 or 50, the payment shall be equal to 15 or 18 months' salary respectively ($1/12^{th}$ of the Reference Compensation), up to the Maximum Package. The payment shall reach its maximum, i.e. 24 months, up to the Maximum Package, for an average PC that is equal or greater than 80 on average. It shall vary linearly between each of the thresholds: 40, 50 and 80.

If the PC for the last fiscal year of the Reference Period is equal to 0, no payment shall be due.

For the 2011, 2012 and 2013 fiscal years, the PC would be set at 70, 38 and 69 respectively.

The total payment due under the Collective Agreement, along with the termination package, if such a payment is to be made, may not under any circumstance exceed twice the average gross annual fixed and variable monetary compensation due for the two fiscal years preceding Mr. Olivier Mallet's date of departure.

This mechanism shall be submitted for the approval of the Shareholders' Meeting of 28 May 2014, in its fifth resolution.

(1) In conformity with the provisions of the Collective Agreement, this theoretical amount was determined on the basis:

- *of Mr. Olivier Mallet's seniority, which was acquired from the date he assumed office, by virtue of the current employment contract, without excluding the suspension periods of this contract, or since July 2008;*
- *of the current payment rate (1/5 of a month per year of seniority for the segment with 1 to 7 years' seniority, and 3/5 of a month per year of seniority for the segment with over 7 years' seniority), with the result being limited to a value of 18 months' pay;*
- *of the monthly average appointments as well as the contractual benefits and bonuses, from which Mr. Olivier Mallet would have benefited during the last 12 months; and*
- *of a target annual fixed and variable compensation of €431 thousand under the employment contract.*

3. Compensation due or allocated for the fiscal year ended 31 December 2013 to each of the three Management Board members

3.1 Compensation due or allocated for the fiscal year ended 31 December 2013 to Mr. Philippe Crouzet

Elements of compensation due or allocated for the fiscal year ended 31 December 2013	Value submitted to advisory vote	Presentation
Fixed compensation	€760,000	No change since 2009.
Annual variable compensation	€560,000	See paragraph 2.3.3 of this report for a description of the annual variable compensation.
Deferred variable compensation	NA	There is no deferred variable compensation.
Extraordinary compensation	NA	There is no extraordinary compensation.
Long-term incentive equity instruments	Options = €343,530 (accounting valuation for target performance)	33,000 options granted for target performance, or 0.026% of the share capital as at 31 December 2013. This grant was authorized by the Supervisory Board meeting of 26 July 2013, within the context of the fourteenth resolution which was passed by the Shareholders' Meeting of 31 May 2012. See paragraph 2.3.4 of this report for a description of the conditions for these options.
	Shares = €281,517 (accounting valuation for target performance)	9,023 performance shares granted for target performance, or 0.007% of the share capital as at 31 December 2013. This grant was authorized by the Supervisory Board on 27 March 2013, within the context of the nineteenth resolution which was passed by the Shareholders' Meeting on 31 May 2012. See paragraph 2.3.4 of this report for a description of the conditions for these performance shares.
Attendance fees	NA	Mr. Philippe Crouzet does not receive directors' fees for corporate offices held within the Vallourec Group.
Valuation of benefits of any kind	€4,493*	Car
Elements of compensation due or allocated for the fiscal year ended which are or were voted on by the Shareholders' Meeting under the regulated agreements and commitments procedure	**Value submitted for vote**	**Presentation**
Termination payment	€0	This termination payment was authorized by the Supervisory Board on 2 May 2013 and approved by the Shareholders' Meeting of 30 May 2013, in its fifth resolution, in conformity with the procedure for regulated agreements. See paragraph 2.3.8.1 of this report for a description of the termination payment scheme.
Maintaining the right to exercise options or receive performance shares which were allocated prior to departure	€0	This power was authorized by the Supervisory Board on 2 May 2013 and approved by the Shareholders' Meeting of 30 May 2013, in its twenty-third resolution, in conformity with the procedure for regulated agreements. See paragraph 2.3.8.1 of this report for a description of the conditions under which this power may be exercised.
Non-compete compensation	€0	This non-compete compensation was authorized by the Supervisory Board on 2 May 2013 and approved by the Shareholders' Meeting of 30 May 2013, in its twenty-fourth resolution, in conformity with the procedure for regulated agreements. See paragraph 2.3.8.1 of this report for a description of the non-compete compensation scheme.
Supplementary retirement plan	€0	This plan was authorized by the Supervisory Board at its sessions on 14 September 2005 and 7 May 2008, and was approved by the Shareholders' Meeting, which met respectively on 1 June 2006 (first resolution) and 4 June 2009 (fifth resolution), in conformity with the procedure for regulated agreements. See paragraph 2.3.7 of this report for a description of the supplementary retirement plan.

** Carrying amount of €14,523.*

3.2 Compensation due or allocated for the fiscal year ended 31 December 2013 to Mr. Jean-Pierre Michel

Elements of the compensation due or allocated for the fiscal year ended 31 December 2013	Value submitted for an advisory vote	Presentation
Fixed compensation	€450,000	Unchanged since 2008; the fixed portion of Mr. Jean-Pierre Michel's compensation was increased by 4.65% in 2012, to €450,000.
Annual variable compensation	€255,000	See paragraph 2.3.3 of this report for a description of the annual variable compensation.
Deferred variable compensation	NA	There is no deferred variable compensation.
Extraordinary compensation	NA	There is no extraordinary compensation.
Long-term incentive equity instruments	Options = €156,150 (accounting valuation for target performance)	15,000 options granted for target performance, or 0.012% of the share capital as at 31 December 2013. This grant was authorized by the Supervisory Board meeting of 26 July 2013, within the context of the fourteenth resolution which was passed by the Shareholders' Meeting of 31 May 2012. See paragraph 2.3.4 of this report for a description of the conditions for these options.
	Shares = €138,403 (accounting valuation for target performance)	4,436 performance shares granted for target performance, or 0.0035% of the share capital as at 31 December 2013. This grant was authorized by the Supervisory Board meeting of 27 March 2013, within the context of the nineteenth resolution which was passed by the Shareholders' Meeting of 31 May 2012. See paragraph 2.3.4 of this report for a description of the conditions for these performance shares.
Attendance fees	NA	Mr. Jean-Pierre Michel does not receive directors' fees for corporate offices held within the Vallourec Group.
Valuation of all benefits in kind	€4,932*	Car
Elements of compensation due or awarded during the fiscal year ended that were submitted for vote to the Shareholders' Meeting under the procedure for regulated agreements and commitments	**Value submitted for vote**	**Presentation**
Termination payment	NA	There is no termination payment. See paragraph 2.3.8.2. of this report for a description of the mechanism that is linked to Mr. Jean-Pierre Michel's termination of service.
Non-compete compensation	NA	There is no non-compete compensation.
Supplementary retirement plan	€0	This scheme was authorized by the Supervisory Board at its sessions of 14 September 2005 and 7 May 2008, and was approved by the Shareholders' Meetings, which were held respectively on 1 June 2006 (first resolution) and 4 June 2009 (fifth resolution), in conformity with the procedure for regulated agreements. See paragraph 2.3.7 of this report for a description of the supplementary retirement plan.

** Carrying amount of €14,938.*

3.3 Compensation due or allocated for the fiscal year ended 31 December 2013 to Mr. Olivier Mallet

Elements of the compensation due or allocated for the fiscal year ended 31 December 2013	Value submitted for an advisory vote	Presentation
Fixed compensation	€400,000	Unchanged since 2008; the fixed portion of Mr. Olivier Mallet's compensation was increased by 6.67% in 2012, totaling €400,000.
Annual variable compensation	€240,000	See paragraph 2.3.3 of this report for a description of the annual variable compensation.
Deferred variable compensation	NA	There is no deferred variable compensation.
Extraordinary compensation	NA	There is no extraordinary compensation.
Long-term incentive equity instruments	Options = €124,920 (accounting valuation for target performance)	12,000 options granted for target performance, or 0.009% of the share capital as at 31 December 2013. This grant was authorized by the Supervisory Board meeting of 26 July 2013, within the context of the fourteenth resolution which was passed by the Shareholders' Meeting of 31 May 2012. See paragraph 2.3.4 of this report for a description of the conditions for these options.
	Shares = €112,600 (accounting valuation for target performance)	3,609 performance shares granted for target performance, or 0.0028% of the share capital as at 31 December 2013. This grant was authorized by the Supervisory Board meeting of 27 March 2013, within the context of the nineteenth resolution which was passed by the Shareholders' Meeting of 31 May 2012. See paragraph 2.3.4 of this report for a description of the conditions for these performance shares.
Attendance fees	NA	Mr. Olivier Mallet does not receive directors' fees for corporate offices held within the Vallourec Group.
Valuation of all benefits in kind	€6,132*	Car
Elements of compensation due or awarded during the fiscal year ended that were submitted for vote to the Shareholders' Meeting under the procedure for regulated agreements and commitments procedure	**Value submitted for vote**	**Presentation**
Termination payment	€0	This termination payment was authorized by the Supervisory Board on 11 December 2013 and shall be submitted for the approval of the Shareholders' Meeting to be held on 28 May 2014, in its fifth resolution, in conformity with the procedure for regulated agreements. See paragraph 2.3.8.2 of this report for a description of the termination payment scheme.
Non-compete compensation	NA	There is no non-compete compensation
Supplementary retirement plan	€0	This plan was authorized by the Supervisory Board, at its sessions on 14 September 2005 and 7 May 2008, and was approved by the Shareholders' Meetings which met respectively on 1 June 2006 (first resolution) and 4 June 2009 (fifth resolution), in conformity with the procedure for regulated agreements. See paragraph 2.3.7 of this report for a description of the supplementary retirement plan.

** Carrying amount of €7,440.*

The Supervisory Board

Appendix 3 – Compliance with the recommendations of the AFEP-MEDEF Code

The following table summarizes the recommendations of the AFEP-MEDEF Code that Vallourec has chosen not to apply and the circumstantial explanations for this.

Recommendation of the AFEP-MEDEF Code (June 2013)	Application by Vallourec
Paragraph 23.2.4 of the AFEP-MEDEF Code recommends *"to condition the performance shares allocated to corporate officers, based on terms set by the Board and made public at the time of the allocation, on the purchase of a set quantity of shares once the allocated shares become available."*	While the allocation of performance shares to members of the Management Board are subject to strict conditions of performance and continuous service, as well as to mandatory holding periods, it is not, however, conditioned on the purchase of a set of quantity shares once the allocated shares become available. Given the significant number of Vallourec shares already held by Management Board members (see section 7.1.3 above of the 2013 Registration Document) and binding obligations to hold shares received from both the exercise of options and the vesting of performance shares, Vallourec considers that it is not desirable to compel the members of the Management Board to purchase additional shares with their own funds and to build a securities portfolio almost exclusively composed of Vallourec shares.
Paragraph 23.2.6 of the AFEP-MEDEF Code recommends that supplemental pension plans for corporate officers meet several conditions including that *"the beneficiary is a corporate officer or employee of the company at the time of his/her retirement and claim of benefits under the rules in force."*	The supplemental pension plan for members of the Management Board satisfies all the conditions recommended by the AFEP-MEDEF Code, except that relating to the condition of presence in the company when the beneficiary retires. The Group's supplemental pension plan provides that beneficiaries may keep their benefits if, after the age of 55, they are unable to find a job after leaving the company at the latter's initiative. Vallourec considers that this plan 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 unfair to cause them to lose their benefits solely due to involuntary departure.
Paragraph 16.2.1 of the AFEP-MEDEF Code recommends allowing sufficient time for the Audit Committee to review the financial statements (at least two days prior to their review by the Board).	Given that members of the Finance and Audit Committee often travel abroad, the Committee meeting called to review the third-quarter financial statements was held on the eve of the Board meeting, and not two days before as recommended by the AFEP-MEDEF Code. However, a complete file including the financial statements is systematically sent to the Committee members six days before the meeting date, allowing them a reasonable amount of time to review these documents.

Appendix 4 – 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 during the fiscal year 2013

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 €)*
Ms. Vivienne Cox, Chairman of the Supervisory Board	Shares	Acquisition	03/05/2013	24/05/2013	London	£33.4989	£24,864.84
Mr. Philippe Dupeyré, Group General Counsel	Shares	Disposal	10/05/2013	01/07/2013	Euronext Paris	41.174	39,290.67
Bolloré, member of the Supervisory Board	Shares	Collection of the dividend in shares	25/06/2013	25/06/2013	Euronext Paris	36.69	110.07
Compagnie de Cornouaille, legal entity affiliated with Bolloré, member of the Supervisory Board	Shares	Collection of the dividend in shares	25/06/2013	25/06/2013	Euronext Paris	36.69	1,412,014.65
Mr. Gérard Terneyre, Director of Strategy and Development	Shares	Disposal	01/08/2013	06/08/2013	Paris	44.545	25,301.56
Mr. Olivier Bazil, member of the Supervisory Board	Shares	Acquisition	05/08/2013	26/09/2013	Euronext Paris	44.305	44,305.00
Mr. Pierre Frentzel, Director of Strategic Projects	Shares	Disposal	16/09/2013	20/09/2013	Euronext Paris	49.385	47,409.60
Mr. Pierre Frentzel, Director of Strategic Projects	Shares	Disposal	24/09/2013	30/09/2013	Euronext Paris	50.70	43,956.90
Mr. Jean-Pierre Michel, member of the Management Board and Chief Operating Officer	Shares	Disposal	01/10/2013	03/10/2013	Euronext Paris	44.436	195,562.836
Ms. Vivienne Cox, Chairman of the Supervisory Board	Shares	Acquisition	02/10/2013	15/10/2013	United Kingdom	44.205	49,856.26



8

Information on recent trends and outlook

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In 2013, Vallourec's oil and gas markets saw robust growth, while its other markets (particularly industrial) remained flat, mainly due to the weak economy in Europe and the sluggishness of 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 on the competitive position of the Company – Oil & Gas").

In 2013, global expenditure on exploration and production totaled USD 682 billion(1), a 10% increase over 2012. This trend is expected to continue, with global E&P spending estimated at USD 723 billion(1) in 2014, up 6% against 2013. In addition, the IEA has estimated the rate of conventional hydrocarbon depletion at about 6% per year(2). Significant investments in oil and gas have thus become necessary and create an opportunity for the premium solutions offered by the Group.

The stability of oil prices(3) at a high level, which averaged USD 109/bbl in 2013, against USD 112/bbl in 2012, also encouraged increased E&P spendings.

According to the IEA report, global demand for oil is expected to rise from 87 mb/d in 2012 to 95 mb/d in 2020, and to 101 mb/d by 2035(4). According to the report, global oil production should continue to grow over the next decade, with an increasing proportion coming from Brazil and the United States. Vallourec has a strong presence in both of these countries, where non-conventional and deep water drilling require more premium tubular solutions – the Group's core business.

In the United States, the number of active rigs(5) was 1,757 at the end of December 2013, unchanged from 1,763 a year ago. The average rig count in 2013 was 1,761, an 8% decline compared to 2012.

The proportion of oil rigs rose slightly (1% compared to the 2012 average) with an average of 1,373 active rigs in 2013, against 1,359 in 2012. Oil rigs, mainly dedicated to shale hydrocarbons, accounted for 79% of the rig count at end December 2013, against 75% in the previous year. The natural gas rig count, meanwhile, fell 31% year-on-year to an average 383 active rigs in 2013. Gas prices (Henry Hub) averaged USD 3.8 per MMBtu(7) in 2013, up 29% compared to 2012, and exceeded USD 4 per MMBtu during the period. These prices, however, were too low to spur a rebound in gas drilling. Driven by the shale oil drilling activity, the product mix in the U.S. OCTG market is trending towards more semi-premium connections with lower margins than premium connections.

The decrease in the U.S. rig count was partly offset by their increased efficiency, which results in more wells drilled per rig and longer well lengths, boosting tubular consumption. Accordingly, a total of 35,676 wells were drilled onshore in the United States in 2013, down 3% compared to 2012. An average of 5.2 wells were drilled per onshore rig(7) in 2013 against an average of 4.9 in 2012.

In the Gulf of Mexico, the rig count rose to 59 at end December 2013, an increase of 11 rigs since December 2012.

Benefiting from the quality of its enlarged products and services offering, Vallourec maintained robust activity in its North American plants throughout 2013, especially in the fourth quarter with the wider range made possible by the new rolling mill. This rolling mill enabled Vallourec to better meet its customers' needs in terms of products, delivery and service. The North American business was supplemented by imports of tubes from its other plants, particularly in Europe.

In the rest of the world, the active rig count(8) was 1,335 at the end of 2013, a 7% increase over the end of 2012. The average international active rig count rose 5% in 2013 compared with 2012.

In Brazil, during the summer, the Group's main Brazilian customer, Petrobras, prioritized cash generation and increased oil production in the short term from previously drilled wells. For Vallourec, this resulted in more tubing (tubes for oil production) and less casing (tubes for the equipment of new wells), consequently temporarily reducing delivered tonnage of OCTG tubes on the domestic market from Q4 2013 until mid-year 2014.

(1) Barclays Capital – Global 2014 E&P Spending Outlook.

(2) IEA – World Energy Outlook 2013.

(3) Brent price. Thomson Reuters – average for 2013, data collected in January 2014.

(4) IEA – World Energy Outlook 2013 – "New Policies Scenario".

(5) Baker Hughes (number of active drilling rigs in the United States) – 27 December 2013.

(6) Gas price (Henry Hub). Thomson Reuters – average for 2013, data collected in January 2014.

(7) Baker Hughes (number of wells per onshore rig in the United States) – December 2013.

(8) Baker Hughes (International Rig Count excluding North America) – end of December 2013.

Nevertheless, operations in Brazil continued to be driven by Petrobras' five-year investment plan (USD 237 billion, including USD 147 billion for exploration and production between 2013 and 2017[1]) including requirements for exploration of pre-salt fields, drilling in very deep water (over 2,000 meters), far offshore and in highly corrosive environments. Oil production is expected to rise by 2.2 mb/d in 2012 to 4.1 mb/d in 2020 and around 6 mb/d in 2035, making Brazil the world's sixth-largest oil producer by that year[2]. Brazil is expected to become the world's No. 1 producer of deep-water oil[2].

In the EAMEA region[3], activity level was high, especially in the North Sea and the Middle East, where Aramco has expressed major needs. The development of gas fields by national oil companies, such as in Saudi Arabia, continues to stimulate demand for products adapted to corrosive environments.

Saudi Arabia is the world's No. 1 oil producer and has the largest conventional oil reserves, sufficient to maintain high production levels in the coming decades[4]. Its policy is to maintain crude oil production capacity at 12.5 mb/d (about 500 kb/d above current levels) and to have a reserve capacity of at least 1.5 - 2 mb/d (average of 2.2 mb/d in 2012). Several major projects are currently underway to maintain this capacity. Saudi Aramco has gradually increased the country's rig count and this trend should continue. The development of new projects in the Middle East is also good news for Vallourec's premium tubes.

The granting of new licenses for offshore development in West Africa has also generated strong demand for tubes. In the North Sea, many HP/HT[5] projects require extremely high-quality products.

8.2 Power Generation

New equipment needs for conventional power generation remained low in Europe and the United States in 2013. A number of power plant projects has been postponed in Europe, primarily due to uncertainties about environmental policies. In the United States, more stringent environmental regulations and low natural gas prices tied to the abundance of shale gas have given a competitive edge to gas-fired power plants over the construction of coal-fired power plants.

In contrast, Asia's very high energy needs are boosting the development of new, high-performance thermal power plants. China is pursuing its policy of replacing small subcritical power plants with less-polluting supercritical plants that offer better yields. India and China are expected to account for almost 40% of the world's new installed capacity between 2013 and 2035[2].

South Korea is still positioning itself as a dynamic player in the development of new capacities in Asia, notably for export. All of these projects are being developed in a fiercely competitive environment for international players.

The nuclear energy market has been rebounding for several years due to the need of many countries to reduce their CO_2 emissions. The Fukushima accident in March 2011 nevertheless caused some of them to review their policies on nuclear energy. France and China generate most of the Group's steam generator tube sales, for maintenance reasons in France, and for the construction of new nuclear plants in China.

In the second half of 2012, China's State Council approved the nuclear safety plan, an important step in the process to resume the construction of the new power plants. The total operating capacity of China's nuclear fleet[6] is expected to rise from 15 GW in 2013 to 58 GW in 2020. This growth should comprise an additional 13 GW of capacity for the 2013-2015 period, then 30 GW for 2016-2020. In France, Vallourec is benefiting from the program to replace the steam generators at EDF's plants to extend the life of its 1,300-MW reactors. New nuclear power projects are also planned in Asia (India, China, Vietnam), the Middle East (Turkey) and Europe (England).

(1) Petrobras: Business and Management Plan 2013-2017 – 19 March 2013.

(2) IEA – World Energy Outlook 2013 – New Policies Scenario.

(3) EAMEA: Europe, Africa, Middle East, Asia.

(4) IEA – World Energy Outlook.

(5) HP/HT: High Pressure/High Temperature.

(6) Nuclear Power in China, World Nuclear Association – 27 November 2013.

8.3 Other applications

Despite the growing number of petrochemicals projects in the United States, the Middle East and Asia (in contrast with the sluggish markets in Europe), the environment remained highly competitive for this type of application.

Non-energy markets, especially in Europe, remained impacted by an unfavorable economic environment in a context of continued pressure on prices with limited visibility.

In Brazil, activity rebounded for industrial vehicles. The overall outlook for activity in the country was revised downwards but remains positive, with a GDP growth forecast estimated at 2.3% [(1)] for 2013.

8.4 Raw Materials

After rebounding in late 2012 and early 2013, spot prices for iron ore fell during the second quarter of 2013. After a slight increase in the third quarter of 2013, spot prices remained relatively stable in the fourth quarter of 2013.

Scrap prices were broadly stable in 2013 and remained lower than in 2012.

8.5 Currency

The Group remains sensitive to volatility in foreign currencies (Brazilian real, U.S. dollar) against the euro. It did, however, benefit from a positive transaction effect related to better hedged rates for 2013 deliveries compared to 2012.

During 2013, the Group was affected by a negative foreign currency translation effect due to the weakening of the Brazilian real and the U.S. dollar against the euro.

In 2014, stabilization of the Brazilian Real at current levels should have a positive impact on the competitiveness of the Group's Brazilian entities, but a negative translation effect on the Group's results. Stabilization of the U.S. dollar against the euro in early 2014 level will, however, have negative translation and transaction effects on the Group's results.

8.6 Market trends and outlook in 2014

In Oil & Gas, Vallourec targets a further increase in sales in 2014, notably in the EAMEA region and in the USA.

In EAMEA, the sales shall continue to benefit from a dynamic Middle East market, which will be supplied by our new industrial set-up,combining European mills, VSB and our local finishing units.

In the USA, the Group targets higher volumes, but will continue to see a mix deterioration, and operate in a pricing environment likely to remain competitive.

In Brazil, while the first half will be impacted by the lower well construction activity year-on-year, the Group confirms its anticipated recovery of the deliveries to Petrobras in pre-salt basins by mid-year.

No change in trends is foreseen in the conventional power generation activity, while sales for nuclear power plants should benefit from the rescheduling of some projects from 2013 to 2014. In Industry & Other, the visibility remains limited due to the still fragile economic recovery.

The strengthening of the Euro over the past months has negatively affected the hedged rates for a large part of 2014 deliveries from Europe, and would be a further negative if it were to continue.

Vallourec is committed to financial discipline and return to shareholders. It will continue to adapt its European costs base, offset inflation on costs through CAPTEN+ savings program, reduce capital expenditures and tightly manage working capital requirement.

Based on the above trends, and notwithstanding further changes in markets and currencies, Vallourec targets stable to moderate increase in sales and EBITDA, and a positive Free Cash Flow generation in 2014.

(1) IHS Global Insight, January 2014.



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Additional information

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9.1 Management Board Reports

9.1.1. Management Board report for fiscal year 2013

This Registration Document includes all elements from the Board's management report as required by the law and 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.	Activities and business development of the Group – Progress and challenges	3.1.2	38-46
2.	Results of the Group – Financial position and performance indicators	3.1.3 / 3.1.4 / 3.1.5	46-49
3.	Changes to the presentation of the annual financial statements or the valuation methods applied in prior years	6.1.7	123-139
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5.	Foreseeable developments and the Company's outlook	8	300-302
6.	Payment periods for suppliers and customers	3.1.3.2	48
7.	Amount of dividends paid during the past three years	2.5	27
8.	Vallourec results table for the last five financial years	9.4	323
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	101-114
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 / 107-112
11.	Significant equity stakes in companies headquartered in France	NA	NA
12.	Injunctions or monetary penalties for anti-competitive practices	NA	NA
13.	Research and development activities	3.3	59-62
14.	Corporate Social Responsibilty information	4	64-100
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24.	Share transfers made to regularize cross-shareholdings or takeovers of such companies	NA	NA
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	NA	NA
27.	Report of the Chairman of the Supervisory Board on the Board's composition and application of the principle of equal representation of women and men thereon, the conditions for preparing and organizing the Board's work, and the risk management and internal control procedures implemented by Vallourec	7 (Appendix 1)	269-282

9.1.2 Additional Management Board report on the use of the seventeenth, eighteenth and nineteenth resolutions of Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013 in connection with the implementation of the Value 13 international employee share ownership scheme

This additional report has been drawn up pursuant to Article R.225-116 of the French Commercial Code within the framework of the seventeenth, eighteenth and nineteenth resolutions of Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013 in connection with the implementation of the Value 13 international employee share ownership scheme.

I. Presentation of the Value 13 international employee share ownership scheme

In an effort 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 seventeenth, eighteenth, nineteenth and twentieth resolutions passed by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, after obtaining authorization from the Supervisory Board on 25 July 2013, Vallourec's Management Board agreed in principle to put in place a share subscription offering (Value 13) 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 30 May 2013 under the terms of the seventeenth, eighteenth and nineteenth resolutions with a view to issuing shares at a 20% or 15% discount, depending on the subscription taking place under the terms of the traditional scheme or the leveraged scheme, subject to an overall maximum nominal amount of €3,750,000 (i.e. 1,875,000 shares); and
- the authorization granted by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013 pursuant to the twentieth resolution, with a view to allocating a maximum of 15,000 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 13 offering can be summarized as follows:

Beneficiaries of the offering

The Value 13 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 which have corporate headquarters 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 13 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 any of the Vallourec Group's companies 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 registered 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 13 offering comprises two sets of arrangements:

- a leveraged offering open to all employees and those with similar rights eligible for the Value 13 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 2 July 2018;
- a traditional offering open to employees and those with similar rights eligible for the Value 13 offering, allowing them to subscribe for shares at a 20% discount, together with an employer's contribution through the Vallourec Value Relais 13 company mutual fund (*fonds commun de placement d'entreprise* – FCPE).

Except in the case of early redemption, employee investments will be subject to a holding period until 1 July 2018 inclusive.

The leveraged offerings 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 stock appreciation rights by the employer).

In Germany, France, Brazil, the United Arab Emirates, Mexico and the United Kingdom, the leveraged offering 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 13 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 for Vallourec shares at a 20% discount;
  - **leveraged offering:** subscription to units in the Vallourec Value France 13 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 for Vallourec shares at a 15% 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 United Kingdom:** subscription to units in the Vallourec Value Germany UK 13 segment of the Vallourec Value France Germany UK company mutual fund. The company mutual fund segment will subscribe to Vallourec shares at a 15% 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 United Arab Emirates:** subscription to units in the Vallourec Value Brasil Mexico UAE 13 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 15% 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 for 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 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 + SAR" formulas, rounded down to the nearest whole number [(1)].

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 compensation or retirement pension received for 2013. 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 employees to the savings schemes in which they participate may not exceed one-quarter of their gross annual compensation or, where applicable, retirement pension, in the case of payment by a retiree that has kept his/her assets in the plans, received for 2013. 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 compensation for 2013.

OFFERING UNDER A COMPANY MUTUAL FUND NOT INCLUDED IN THE SCHEME

Subscription is limited to 100% of the gross annual compensation for 2013. 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 compensation for 2013 for employees working at VAM USA LLC and to 10% of the gross annual compensation for 2013 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.

(1) The number of SARs allocated to each participant in a "Cash + SAR" arrangement shall be equal to the number (rounded down to the fourth decimal point) resulting from the quotient of its deposit (converted to euros based on the exchange rate set by the Management Board on 8 November 2013) and the Discounted Subscription Price of the Leveraged Offering.

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 13" segment, the "Vallourec Value Brasil Mexico UAE company" mutual fund, the "Vallourec Value France 13" and "Vallourec Value Germany UK 13" segments of the "Vallourec Value France Germany UK" company mutual fund, the "Vallourec Value Relais 13" 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 25 July 2013, i.e. 1,875,000 shares, these commitments will be reduced as follows:

The ratio between (i) the maximum number of shares proposed under the Value 13 Offer and (ii) the total amount of shares requested by subscribers (after taking leverage into account) will be calculated. The amount of each participant's subscriptions shall be proportionately reduced by application of the ratio calculated in the preceding paragraph.

Each subscription may nevertheless not be reduced to an amount lower than €50.

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 participant for each set of arrangements.

When a combination of payment options for a single scheme is available, the reduction will first be applied to the portion of the subscription financed by arbitrage of assets in the Group savings scheme, then to the portion financed by withdrawal from the bank account, and lastly to the portion financed by salary deductions.

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 by using the exchange rate in effect when the price is set.

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.

The aforementioned reduction mechanism will lead to an automatic corresponding adjustment of the number of shares subscribed for by the Crédit Agricole CIB.

Allocations of free shares will not exceed 15,000 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 1 July 2018 inclusive, except in the case of early release.

Calendar

20 February and 27 March 2013	Authorization of the Value 13 offering by the Supervisory Board
25 July 2013	Management Board makes decision on the principle and procedures of the offering
From 16 September to 4 October 2013 (inclusive)	Reservation period
8 November 2013	Setting of dates and subscription price
From 12 to 14 November 2013 (inclusive)	Subscription/retraction period open to the beneficiaries of the Value 13 offering
10 December 2013	Recognition of completion of the capital increase

II. Context of capital increases carried out for the purpose of implementing the Value 13 offer

(a) Decisions of the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013

The Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013 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 in the Company's development. Each of these resolutions included the cancellation of shareholders' preferential subscription rights.

Seventeenth 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).

Eighteenth 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).

Nineteenth resolution: resolution authorizing **a capital increase reserved for a financial institution** at a discount of up to 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.

Twentieth 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 seventeenth, eighteenth and nineteenth resolutions:

- an individual cap of €6.6 million 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 €6.6 million, 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 €6.6 million 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 the seventeenth, eighteenth and nineteenth resolutions will, moreover, be allocated against the overall cap provided for in paragraph 2 of the seventh resolution adopted by the Extraordinary Shareholders' Meeting of 30 May 2013 (i.e. €99,950 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 seventeenth, eighteenth, nineteenth and twentieth resolutions is 18 months from the date of the Meeting.

(b) Decisions of the Supervisory Board on 20 February and 27 March 2013

The Supervisory Board, in its sessions of 20 February and 27 March 2013, authorized the Management Board to use:

- the delegations of authority granted by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, under the terms of the seventeenth through nineteenth resolutions, for the issue of shares at a 20% discount; and
- the authorization granted by Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, under the terms of the twentieth resolution, for the allocation of free shares.

(c) Decisions of the Management Board on 25 July 2013

During its meeting of 25 July 2013, the Management Board approved in principle the implementation of the Value 13 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 seventeenth, eighteenth, nineteenth and twentieth resolutions of the General Shareholders' Meeting of 30 May 2013:

- in view of issuing new shares with a 20% discount, under the terms of the traditional scheme, and with a 15% discount under the terms of the leveraged scheme, up to an overall nominal amount of €3,750,000, as concerns the seventeenth, eighteenth and nineteenth resolution;
- with a view to the allocation of a maximum of 15,000 free shares under the twentieth 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 8 November 2013

The Management Board, in its meeting of 8 November 2013, approved the definitive terms and conditions for the Value 13 offer, the main characteristics of which were presented in Section I above.

In order to implement the Value 13 offer, the Management Board decided to use the delegations granted by the seventeenth, eighteen and nineteenth resolutions of the Shareholders' Meeting of 30 May 2013, in view of issuing new shares with a 20% discount under the terms of the traditional scheme, and with a 15% discount under the terms of the leveraged scheme, up to an overall nominal amount of €3,750,000.

The Management Board also set the dates of the subscription/retraction period for employees and those with similar rights (from 12 November to 14 November 2013 inclusive) and the subscription price for the new shares required to be issued under the seventeenth, eighteenth and nineteenth resolutions.

III. Conditions for the use of the seventeenth, eighteenth and nineteenth resolutions

III.1 Conditions for the use of the seventeenth resolution

BENEFICIARIES OF THE CAPITAL INCREASE MADE PURSUANT TO THE SEVENTEENTH RESOLUTION

The issue carried out pursuant to the seventeenth 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 early retirees of those companies who have retained their assets in such plans. In France, subscriptions will be made through the Vallourec Value Relais 13 company mutual fund for the traditional scheme and through the Vallourec Value France 13 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 13, 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 13 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 €3,750,000 (i.e. a maximum of 1,875,000 new shares), it being specified, however, that the combined use of the seventeenth, eighteenth and nineteenth resolutions for the purpose of implementing the Value 13 offering is subject to an overall cap of €3,750,000 (nominal amount).

The number of shares effectively issued under the terms of use of the seventeenth 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 13 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 of the Traditional Offering. The definitive number of shares reserved for the Vallourec Value Relais 13 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 France 13 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 8 November 2013) and (ii) the Discounted Subscription Price of the Leveraged Offering. The definitive number of shares reserved for the Vallourec Value France 13 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 13 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 8 November 2013) and (ii) the Discounted Subscription Price of the Leveraged Offering. The definitive number of shares reserved for the Vallourec Value Germany UK 13 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 of the traditional scheme is equal to the Discounted Subscription Price of the Traditional Offering, i.e. €34.78.

The unit subscription price of the shares of the leveraged scheme is equal to the Discounted Subscription Price of the Leveraged Offering, i.e. €36.95.

The terms for determining subscription prices are described in Section IV below.

SUBSCRIPTION TERMS

The subscription/retraction period for employees and those with similar rights was from 12 to 14 November 2013 (inclusive). The Vallourec Value Relais 13 company mutual fund and the Vallourec Value France 13 and Vallourec Value Germany UK 13 segments of the Vallourec Value France Germany UK company mutual fund will subscribe on 10 December 2013.

The subscription terms and conditions were approved in principle on 25 July 2013 by the Management Board, which ratified them on 8 November 2013. The main features are described in Section I above.

LIMITATION ON THE AMOUNT OF THE CAPITAL INCREASE – REDUCTION RULES

See Section I above.

OTHER TERMS AND CONDITIONS

The new shares will be paid up in cash upon issue and will carry dividend rights as at 1 January 2013; 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 eighteenth resolution

BENEFICIARY OF THE CAPITAL INCREASE MADE PURSUANT TO THE EIGHTEENTH RESOLUTION

The issue made pursuant to the eighteenth resolution is reserved for the Vallourec Value Brasil Mexico UAE 13 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 13 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 carried out pursuant to the sixteenth resolution is €3,750,000 (i.e. a maximum of 1,875,000 new shares), it being specified, however, that the combined use of the seventeenth, eighteenth and nineteenth resolutions for the purpose of implementing the Value 13 offering is subject to an overall cap of €3,750,000 (nominal amount).

The number of shares effectively issued under the eighteenth resolution will be equal to the whole number 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 13 segment of the Vallourec Value Brasil Mexico UAE company mutual fund is open (translated into euros using the exchange rate set on 8 November 2013 and after any reduction made in accordance with the terms and conditions described below), and (ii) the Discounted Subscription Price of the Leveraged Offering. The definitive number of shares reserved for the Vallourec Value Brasil Mexico UAE 13 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 of the Leveraged Offering, i.e. €36.95.

SUBSCRIPTION TERMS

The subscription/retraction period for employees and those with similar rights was from 12 to 14 November 2013 (inclusive). The Vallourec Value Brasil Mexico UAE 13 segment of the Vallourec Value Brasil Mexico UAE company mutual fund will subscribe on 10 December 2013.

The subscription terms and conditions were approved in principle on 25 July 2013 by the Management Board, which ratified them on 8 November 2013. The main features are described in Section I above.

LIMITATION ON THE AMOUNT OF THE CAPITAL INCREASE – REDUCTION RULES

See Section I above.

OTHER TERMS AND CONDITIONS

The new shares will be paid up in cash upon issue and will carry dividend rights as at 1 January 2013; 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 nineteenth resolution

BENEFICIARY OF THE CAPITAL INCREASE MADE PURSUANT TO THE NINETEENTH RESOLUTION

The issue made pursuant to the nineteenth 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 13 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 the Leveraged Offering, for 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 13 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 carried out pursuant to the nineteenth resolution is €3,750,000 (i.e. a maximum of 1,875,000 new shares), it being specified, however, that the combined use of the seventeenth, eighteenth and nineteenth resolutions for the purpose of implementing the Value 13 offering is subject to an overall cap of €3,750,000.

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 light of the actual subscriptions of employees (and those with similar rights), after any reduction.

SUBSCRIPTION PRICE

The unit subscription price of the shares is equal to the Discounted Subscription Price of the Leveraged Offering, i.e. €36.95.

SUBSCRIPTION TERMS

The Crédit Agricole CIB Vehicle will subscribe to the capital increase on 10 December 2013.

LIMITATION ON THE AMOUNT OF THE CAPITAL INCREASE – REDUCTION RULES

See Section I above.

OTHER TERMS AND CONDITIONS

The new shares will be paid up in cash upon issue and will carry dividend rights as at 1 January 2013; 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 €3,750,000 (nominal amount), i.e. 1,875,000 shares. Furthermore, the cumulative use of the three resolutions cannot exceed the overall cap of €3,750,000, i.e. 1,875,000 shares.

In other words, the Value 13 offer will have a cap, such that the sum (Total Number) of:

- the number of shares actually subscribed for by the Vallourec Value Relais 13 company mutual fund;
- the number of shares actually subscribed for by the Vallourec Value France 13 and Vallourec Value Germany UK 13 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 13 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; and
- 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 1,875,000 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 1,875,000, the subscriptions by beneficiaries of the Value 13 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 13 international employee share ownership scheme, the execution of which was approved in principle by the Management Board on 25 July 2013. The main features of this plan are described in Section I above.

More specifically:

- the capital increase made pursuant to the seventeenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013 is intended, in the context of Group savings schemes, to enable the implementation of a traditional scheme in France through 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 13 segment of the Vallourec Value France Germany UK company mutual fund, and in Germany and the United Kingdom through the Vallourec Value Germany UK 13 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 eighteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013 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 nineteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013 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) assumed by Vallourec companies participating in the Value 13 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 Traditional Offering and the Discounted Subscription Price of the Leveraged Offering for shares offered to beneficiaries of the Value 13 Offering (directly or through a company mutual fund) and the Crédit Agricole CIB Vehicle were determined in accordance with the provisions of the seventeenth, eighteenth and nineteenth resolutions of the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013.

The Discounted Subscription Price of the Traditional Offering is equal to the Reference Price, less a 20% discount and rounded up to the nearest cent.

The Discounted Subscription Price of the Leveraged Offering is equal to the Reference Price, less a 15% discount and rounded up to the nearest cent.

The Reference Price, which corresponds to the last twenty trading days preceding the date of the Management Board's decision on 8 November 2013, and for which the recording period was thus 11 October 2013 to 7 November 2013 inclusive, is set as €43.47.

Consequently:

- the Discounted Subscription Price of the Traditional Offering, which is equal to the Reference Price, less a 20% discount and rounded up to the nearest cent, stands at €34.78; and

(1) The number of SARs allocated to each participant in a «Cash + SAR» arrangement shall be equal to the number (rounded down to the fourth decimal point) resulting from the quotient of its deposit (converted to euros based on the exchange rate set by the Management Board meeting of 8 November 2013) and the Discounted Subscription Price of the Leveraged Offering.

- the Discounted Subscription Price of the Leveraged Offering, which is equal to the Reference Price, less a 15% discount and rounded up to the nearest cent, stands at €36.95; and

VI. Theoretical impact on shareholders' position of capital increases resulting from the use of the seventeenth, eighteenth and nineteenth 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.

By way of example, and assuming that all of the 1,875,000 shares offered jointly in the context of the capital increases carried out pursuant to the seventeenth, eighteenth and nineteenth 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. 126,285,147 shares), would be as follows:

(1) Impact of the issue of 1,875,000 new shares at the Discounted Subscription Price of the Traditional Offering or Leveraged Offering 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. 126,285,147 shares:

	Shareholder's interest as a percentage of the share capital
Before the capital increase	1.00%
After the issue of 1,875,000 shares	0.99%

(2) Impact of the issue of 1,875,000 new shares at the Discounted Subscription Price of the Traditional Offering and the Discounted Subscription Price of the Leveraged Offering 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 at 30 June 2013 and the number of shares comprising the share capital as of the date of this report, i.e. 126,285,147 shares):

	Proportion of consolidated equity based on consolidated equity as at 30 June 2013 [(a)]
Before the capital increase	€36.90
Upon issuing 1,875,000 shares subscribed for under the traditional scheme	€36.87
Upon issuing 1,875,000 shares subscribed for under the leveraged scheme	€36.90

(a) Excluding non-controlling interests.

VII. Theoretical impact of the capital increases resulting from the use of the seventeenth, eighteenth and nineteenth 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.

By way of example, and assuming that all of the 1,875,000 shares offered jointly in the context of the capital increases made pursuant to the seventeenth, eighteenth and nineteenth 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 twenty trading sessions preceding the setting of the Discounted Subscription Price of the Traditional Offering, and the Discounted Subscription Price of the Leveraged Offering, would be as follows:

- number of shares comprising the share capital: 126,285,147 shares;
- average opening price during the twenty trading sessions preceding the setting of the Discounted Subscription Price: €43.47;
- based on this average:

  The theoretical price of the Vallourec share after the issue of 1,875,000 shares, based on the share capital at the date of this report would be €43.34 [(1)] under the terms of the traditional scheme and €43.37 [(2)] under the leveraged scheme.

  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 seventeenth, eighteenth and nineteenth 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 their attention during the next Shareholders' Meeting.

8 November 2013

The Management Board

(1) This theoretical price is equal to $\frac{126{,}285{,}147 \times 43.47 + 1{,}875{,}000 \times 34.78}{126{,}285{,}147 + 1{,}875{,}000}$

(2) This theoretical price is equal to $\frac{126{,}285{,}147 \times 43.47 + 1{,}875{,}000 \times 36.95}{126{,}285{,}147 + 1{,}875{,}000}$

9.1.3 Supplement to the supplementary Management Board report of 8 November 2013 on the use of the seventeenth, eighteenth and nineteenth resolutions of Vallourec's Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013 in connection with the implementation of the Value 13 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 seventeenth, eighteenth and nineteenth resolutions of Vallourec's Ordinary and Extraordinary Shareholders' Meeting, approved on 30 May 2013, which was decided on 8 November 2013 by the Management Board within the context of implementing the Value 13 international employee share ownership scheme (Value 13 offering).

At its meeting on 10 December 2013, the Management Board:

- recorded that the subscriptions of employees and those with similar rights who participated in the Value 13 Offer (after eliminating payment defaults) would lead to issuing a total number of shares under the terms of use of the seventeenth, eighteenth and nineteenth resolutions of higher than the overall cap of 1,875,000 shares which the Management Board set for use of the three resolutions, in its decisions of 25 July and 8 November 2013;
- proceeded to reduce subscriptions of beneficiaries of the Value 13 Offer in conformity with the principles it had previously decided on, which are described in the supplementary report of 8 November 2013;
- set the number of shares to be issued under the use of each of the above three resolutions as follows:
  - the issue of 980,842 new shares at a unit price of €34.78 for the traditional scheme, and €36.95 for the leveraged scheme, in the context of the seventeenth resolution, of which 17,190 shares were to be subscribed for by the Vallourec Value Relais 13 company mutual fund, 389,476 shares to be subscribed for by the Vallourec Value France 13 segment of the Vallourec Value France Germany UK company mutual fund, 561,441 shares to be subscribed for by the Vallourec Value Germany UK segment of the Vallourec Value France Germany UK company mutual fund and 12,735 shares to be subscribed for by employees and those with similar rights who participated in a shares + SAR scheme,
  - the issue of 714,880 new shares at a unit price of €36.95 in the context of the eighteenth resolution, to be subscribed for by the Vallourec Value Brasil Mexico UAE 13 segment of the Vallourec Value Brasil Mexico UAE company mutual fund,
  - the issue of 178,731 new shares at a unit price of €36.95 in the context of the nineteenth 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 completion of the following capital increases and amended the bylaws accordingly:
  - the definitive execution of a capital increase, under the terms of the seventeenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, in the gross amount of €36,204,809.60, through the issue of 17,190 new shares at a unit price of €34.78, subscribed for by the Vallourec Value Relais 13 company mutual fund, and 963,652 shares at a unit price of €36.95, subscribed for by the Vallourec Value France 13 segment of the Vallourec Value France Germany UK company mutual fund (389,476 shares) and the Vallourec Value Germany UK 13 segment of the Vallourec Value France Germany UK company mutual fund (561,441 shares) on behalf of unitholders and directly by beneficiaries of the shares + SAR scheme who have participated in Value 13 under the international employee shareholding plan (12,735 shares). The issue of 980,842 new shares through a capital increase in the nominal amount of €1,961,684 and by the recognition of additional paid-in capital of €34,243,125.60, representing the difference between the total amount of the subscription price and the total nominal amount of the capital increase,
  - the definitive completion, under the eighteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, of a capital increase in the gross amount of €26,414,816, through the issue of 714,880 new shares at a unit price of €36.95, subscribed for by the Vallourec Value Brasil Mexico UAE 13 segment of the Vallourec Value Brasil Mexico UAE company mutual fund. The issue of 714,880 new shares through a capital increase in the nominal amount of €1,429,760 and by the recognition of additional paid-in capital of €24,985,056, 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 definitive execution, in the context of the seventeenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, of a capital increase for a gross amount of €6,604,110.45, by the issue of 178,731 new shares at a unit price of €36.95, subscribed for by Value Plan International Employees S.A.S. The issue of 178,731 new shares through a capital increase in the nominal amount of €357,462 and by the recognition of additional paid-in capital of €6,246,648.45, 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 increases.
- allocated 4,028 existing shares free of charge under the terms of the twentieth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, for employees who are not French residents for tax purposes of Vallourec Group companies with registered offices 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 13 Offer.

As the aforementioned capital increases resulted in the issue of 1,874,453 shares, it is appropriate to update the information on the impact of the capital increases which appeared in the report of 8 November 2013, to the extent that the latter noted the theoretical impact on the base of an issue of 1,875,000 new shares at the discounted subscription price for the traditional scheme (€34.78) on the one hand, and 1,875,000 new shares at the discounted subscription price for the leveraged scheme (€36.95) on the other.

I. Theoretical impact on shareholders' position of capital increases resulting from the use of the seventeenth, eighteenth and nineteenth resolutions

Given a subscription corresponding to 1,874,453 new shares altogether in the seventeenth, eighteenth and nineteenth resolutions adopted by the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, the impact of the capital increases 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. 126,285,147 shares), is:

(1) Impact of the issue of 1,874,453 new shares at the Discounted Subscription Price of the Traditional Offering or Leveraged Offering 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. 126,285,147 shares:

	Shareholder's interest as a percentage of the share capital
Before the capital increases	1.00%
After the issue of 1,874,453 shares	0.99%

(2) Impact of the issue of 17,190 shares at the Subscription Price of the Traditional Offering (€34.78) and 1,857,263 new shares at the Discounted Subscription Price of the Leveraged Offering (€36.95) 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 at 30 June 2013 and the number of shares comprising the capital as of the date of this report, i.e. 126,285,147 shares):

	Proportion of consolidated equity based on consolidated equity as at 30 June 2013 [(a)]
Before the capital increases	€36.90
After issuing 17,190 shares subscribed for under the terms of the traditional scheme and 1,857,263 shares subscribed for under the terms of the leveraged scheme	€36.90

(a) Excluding non-controlling interests.

II. Theoretical impact of the capital increases resulting from the use of the seventeenth, eighteenth and nineteenth resolutions on the current stock market price of the Vallourec share

Given a subscription corresponding to 1,874,453 new shares altogether in the seventeenth, eighteenth and nineteenth resolutions adopted by the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013, 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 twenty trading days preceding the setting of the Discounted Subscription Price for the Traditional Offering and the Discounted Subscription Price for the Leveraged Offering is as follows:

- number of shares comprising the share capital: 126,285,147 shares;
- average opening price during the twenty trading sessions preceding the setting of the Discounted Subscription Price: €43.47;
- 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 €32.15;
- based on this average:

  The theoretical price of the Vallourec share after an issue of 17,190 shares at the Subscription Price under the Traditional Offering (€34.78) and of 1,857,263 new shares at the Discounted Subscription Price under the Leveraged Offering (€36.95), based on the share capital at the date of this report, is €43.37 [(1)].

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 Shareholders' Meeting.

10 December 2013

The Management Board

(1) This theoretical price is equal to $\frac{(126{,}285{,}147 \times 43.47) + (17{,}190 \times 34.78) + (1{,}857{,}263 \times 36.95)}{126{,}285{,}147 + 1{,}874{,}453}$

9.2 Statutory Auditors' reports for fiscal year 2013

9.2.1 Statutory Auditors' report on the financial statements for the fiscal year ended 31 December 2013

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 2013, 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 2013 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 matter:

Your Company records provisions for impairment of participating interests 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 compensation 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 - 7 March 2014
The Statutory Auditors,

Deloitte & Associés
Jean-Marc Lumet

KPMG Audit
Department of KPMG S.A.
Catherine Porta

9.2.2. Statutory Auditors' report on the consolidated financial statements for the fiscal year ended 31 December 2013

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 accordance with our appointment as statutory auditors by your Shareholders' Meeting, we hereby report to you for the year ended 31 December 2013, on:

- the audit of the accompanying consolidated financial statements of VALLOUREC;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these consolidated financial statements based on our audit.

I - OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2013 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.

Without qualifying our opinion above, we draw your attention to Note A-4 of the consolidated financial statements, which sets out the change in accounting method introduced by the application of the revised IAS 19 "Employee Benefits" as from 1 January 2013.

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 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 2013, we considered that these significant assumptions and estimates concern intangible assets, goodwill and tangible assets (notes A-2.9 to A-2.11), provisions (note A-2.14) and retirement benefits and similar obligations (note A-2.15):

- concerning the intangible assets, goodwill and tangible assets, we have examined the methods for implementing the impairment tests that were performed as well as the cash flow forecasts and assumptions used. We have also verified the appropriateness of the information disclosed in notes C-1 and C-2.1 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.

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, 7 March 2014

The Statutory Auditors

Deloitte & Associés
Jean-Marc Lumet

KPMG Audit
Department of KPMG S.A.
Catherine Porta

9.2.3 Statutory Auditors' special report on regulated agreements and commitments

This is a free translation into English of the statutory auditors' special report on regulated agreements and commitments with third parties that is issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code ("Code de commerce") and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

To the Shareholders,

In our capacity as statutory auditors of your Company, we hereby present to you our report on the regulated agreements and commitments.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have discovered during the course of our audit, without expressing an opinion on their usefulness and appropriateness or identifying such other agreements and commitments, if any. It is your responsibility, pursuant to article R.225-58 of the French Commercial Code ("*Code de Commerce*"), to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information stipulated in article R.225-58 of the French Commercial Code relating to the implementation during the past year of agreements and commitments previously approved by the Shareholders' Meeting, if any.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors ("*Compagnie Nationale des Commissaires aux Comptes*") relating to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

Agreements and commitments submitted to the approval of the annual general meeting

AGREEMENTS AND COMMITMENTS AUTHORIZED DURING THE PAST YEAR

Pursuant to Article L. 225-88 of the French Commercial Code ("*Code de Commerce*"), we have been advised of the following agreements and commitments which were previously approved by the Supervisory Board.

Commitments undertaken for a member of the Management Board

Person concerned: Mr. Olivier Mallet

Monetary termination benefit

On 11 December 2013, the Supervisory Board decided, on the proposal of the Appointments, Compensation and Governance Committee, to grant Mr. Olivier Mallet a monetary termination benefit following his removal from office as member of the Vallourec Management Board, provided that he waives any specific compensation payable in the event of a termination of his employment contract with Vallourec Tubes, which has been suspended during his term of office as a Management Board member.

The monetary termination benefit of Mr. Olivier Mallet shall only be payable should he be required to leave following a change in control or strategy. No benefit shall be payable should Mr. Olivier Mallet have the opportunity to claim his retirement rights in the near future.

The termination benefit amount shall be limited to twice the average gross fixed and variable annual monetary remuneration payable in respect of the two financial periods preceding the date of departure of Mr. Olivier Mallet (hereinafter the "Maximum Benefit").

The benefit shall be calculated using the fixed monetary remuneration of Mr. Olivier Mallet payable in respect of the financial period preceding the departure date of Mr. Olivier Mallet, plus the target variable monetary remuneration determined for the same period (the "Reference Remuneration") and may not under any circumstances exceed the Maximum Benefit.

Its amount shall depend on the achievement of three performance criteria assessed in the last three financial periods preceding the departure date of Mr. Olivier Mallet (the "Reference Period").

The achievement of each performance criterion shall be combined with a rating range from a floor of 0 point to a ceiling of 30 points.

- The first "C1" performance condition shall be based on the EBITDA rate expressed as a percentage of sales for each financial period of the Reference Period. C1 shall vary on a straight-line basis between 30 points for a maximum determined by the Supervisory Board, upon the approval of the Appointments, Compensation and Governance Committee, with reference to the EBITDA rates achieved in the three financial periods preceding the 2014 Annual General Meeting, and at least equal to the average of these rates; and 0 point for a minimum at most equal to the maximum less 6 EBITDA points.
- The second "C2" performance condition shall be based on a comparison between the EBITDA for each financial period of the Reference Period and the EBITDA specified in the budget for the same periods, prepared by the Management Board and approved by the Supervisory Board. C2 shall vary on a straight-line basis between 0 for a EBITDA that is 25% lower than budgeted EBITDA, and 30 points for a EBITDA that is 12.5% higher than the budgeted EBITDA. The budgetary objective is determined each year by the Supervisory Board, upon the approval of the Appointments, Compensation and Governance Committee, following the analysis of the budget presented by the Management Board and reviewed previously by the Financial and Audit Committee.

- The third "C3" performance condition shall be based on the percentage of the variable portion of the monetary remuneration payable to Mr. Olivier Mallet in respect of each financial period of the Reference Period compared to the target variable portion of the period in question. C3 shall vary on a straight-line basis between 0 and 30 points (and limited to 30 points) according to the percentage of the variable portion paid compared to the target variable portion.

Should C1, C2 and C3 (hereinafter the "PC") in the Reference Period be lower than 40 on average, no benefit shall be payable. For an average PC equal to 40 or 50, the benefit shall be equal, respectively, to 15 or 18 months of salary (1/12th of the Reference Remuneration), within the limit of the Maximum Benefit. The benefit shall amount to its maximum, i.e. 24 months, within the limit of the Maximum Benefit, for an average PC equal to or greater than 80 on average. It shall vary on a straight-line basis between each of the 40, 50 and 80 thresholds.

If the PC of the last financial period in the Reference Period is equal to 0, no benefit shall be payable.

The accumulation of a benefit payable under the National Collective Bargaining Agreement for Executives in the steel industry (the "Collective Bargaining Agreement"), and the aforementioned monetary termination benefit, should such benefit be paid, may not under any circumstances exceed twice the average gross fixed and variable annual monetary remuneration of Mr. Olivier Mallet payable in respect of the two financial periods preceding his departure date.

Agreements and commitments previously approved by the annual general meeting

AGREEMENTS AND COMMITMENTS APPROVED IN PRIOR YEARS BUT WITH NO EFFECT DURING THE YEAR

Furthermore, we have been advised of the following agreements and commitments previously approved by the Shareholders' Meeting in prior years which remained in force but had no effect during the year.

Commitments undertaken for a member of the Management Board

Person concerned: Mr. Philippe Crouzet

On 2 May 2013, the Supervisory Board decided, on the proposal of the Appointments, Compensation and Governance Committee, to amend the terms and conditions in the termination agreement of Mr. Philippe Crouzet that were approved by the Supervisory Board on 6 April 2009 and also introduced a conditional non-compete obligation applicable to Mr. Philippe Crouzet.

Monetary termination benefit

The monetary termination benefit of Mr. Philippe Crouzet shall only be payable should he be required to leave following a change in control or strategy. No benefit shall be payable should Mr. Philippe Crouzet have the opportunity to claim his retirement rights in the near future.

The termination benefit amount shall be limited to twice the average gross fixed and variable annual monetary remuneration payable in respect of the two financial periods preceding the date of departure of Mr. Philippe Crouzet (hereinafter the "Maximum Benefit").

The benefit shall be calculated using the fixed monetary remuneration of Mr. Philippe Crouzet payable in respect of the financial period preceding the departure date of Mr. Philippe Crouzet, plus the target variable monetary remuneration determined for the same period (the "Reference Remuneration") and may not under any circumstances exceed the Maximum Benefit.

Its amount shall be calculated according to the same terms and conditions as those governing the monetary termination benefit approved in 2009, and shall depend on the achievement of three performance criteria assessed in the last three financial periods preceding the departure date of Mr. Philippe Crouzet (the "Reference Period").

The achievement of each performance criterion shall be combined with a rating range from a floor of 0 point to a ceiling of 30 points.

- The first "C1" performance condition shall be based on the EBITDA rate expressed as a percentage of sales for each financial period of the Reference Period. C1 shall vary on a straight-line basis between 30 points for a maximum determined by the Supervisory Board, upon the approval of the Appointments, Compensation and Governance Committee, with reference to the EBITDA rates achieved in the three financial periods preceding the Annual General Meeting of 30 May 2013, and at least equal to the average of these rates; and 0 point for a minimum at most equal to the maximum less 6 EBITDA points.
- The second "C2" performance condition shall be based on a comparison between the EBITDA for each financial period of the Reference Period and the EBITDA specified in the budget for the same periods, prepared by the Management Board and approved by the Supervisory Board. C2 shall vary on a straight-line basis between 0 for a EBITDA that is 25% lower than budgeted EBITDA, and 30 points for a EBITDA that is 12.5% higher than the budgeted EBITDA. The budgetary objective is determined each year by the Supervisory Board, upon the approval of the Appointments, Compensation and Governance Committee, following the analysis of the budget presented by the Management Board and reviewed previously by the Financial and Audit Committee.
- The third "C3" performance condition shall be based on the percentage of the variable portion of the monetary remuneration payable to Mr. Philippe Crouzet in respect of each financial period of the Reference Period compared to the target variable portion of the period in question. C3 shall vary on a straight-line basis between 0 and 30 points according to the percentage of the variable portion paid compared to the target variable portion.

Should C1, C2 and C3 (hereinafter the "PC") in the Reference Period be lower than 40 on average, no benefit shall be payable. For an average PC equal to 40 or 50, the benefit shall be equal, respectively, to 15 or 18 months of salary (1/12th of the Reference Remuneration), within the limit of the Maximum Benefit. The benefit shall amount to its maximum, i.e. 24 months, within the limit of the Maximum Benefit, for an average PC equal to or greater than 80 on average. It shall vary on a straight-line basis between each of the 40, 50 and 80 thresholds.

If the PC of the last financial period in the Reference Period is equal to 0, no benefit shall be payable.

Share subscription options and performance-based shares

Mr. Philippe Crouzet may, based on the decision of the Supervisory Board, retain, after his departure from the Company, the right, depending on the case, to exercise the previously allocated share subscription options and/or receive the previously allocated performance-based shares, under the following conditions:

- The departure of Mr. Philippe Crouzet shall arise exclusively from a change in control, or strategy;
- The average of the three termination benefit performance criteria for the three financial periods preceding the departure date shall be at least equal to 40; and
- Share subscription options and performance-based shares shall remain subject to the performance conditions determined on their initial allocation.

Non-compete obligation applicable to Mr. Philippe Crouzet

Considering the steel industry expertise that Mr. Philippe Crouzet has acquired since assuming his duties on 2 April 2009, the Supervisory Board has sought to enable the Group to safeguard its know-how and activities by imposing a conditional non-compete obligation on Mr. Philippe Crouzet should he leave the Group.

At its entire discretion, the Supervisory Board may decide to prohibit Mr. Philippe Crouzet, at the time of his departure, and for a period of 18 months following the termination of his duties as Chairman of the Vallourec Management Board, for whatever reason, from working in whatever manner with a company or a group of companies in the steel industry, with no territoriality restrictions.

This obligation, if implemented by the Board, would give rise to the payment to Mr. Philippe Crouzet of non-compete compensation equal to 12 months of gross fixed and variable monetary remuneration, calculated using the average annual gross fixed and variable remuneration paid in the two financial periods preceding the departure date.

This sum would be paid in equal monthly advances during the entire period in which the non-compete clause is applicable.

The accumulation of the compensation paid under the non-compete clause and a termination benefit, should such benefit be paid, may not under any circumstances exceed twice the average gross fixed and variable annual monetary remuneration payable in respect of the two financial periods preceding Mr. Philippe Crouzet's departure date.

Additional pension scheme attributed to executive officers

Persons concerned: Mr. Philippe Crouzet (Chairman of the Management Board) and Messrs. Jean-Pierre Michel and Olivier Mallet (members of the Management Board)

Additional pension scheme dated 15 September 2005

On 14 September 2005 your Supervisory Board approved the implementation of an additional pension scheme attributed to executive officers and noted that the members of Vallourec's Management Board are likely to benefit from these rights.

The defined benefit scheme (additional pension scheme) financed by the Group in respect of which the vesting of rights is conditional to the employee finishing his career at Vallourec and/or Vallourec Tubes, and which supplements the income following retirement of the Group's former managerial staff, under acceptable economic, financial and social conditions, was renewed in 2009.

The Company undertakes to pay a lifetime annuity at a predetermined level, directly proportional to the salary and in accordance with the employee's seniority and career development. The annuity is capped at 20% of the average basic salary, excluding bonuses, of the last three years and limited to four times the annual social security ceiling. This scheme is insured with Axa France-Vie. The scheme is established for an indefinite period but may be terminated at any time.

Amendment of 7 May 2008 to the additional pension scheme dated 15 September 2005

On 7 May 2008, your Supervisory Board authorized an amendment to the additional pension scheme dated 15 September 2005.

The purpose of the amendment is to allow executive officers, including members of the Management Board, who were over the age of 55 when they left the Company following a decision taken by the employer, to retain their rights vested through the additional pension scheme of Vallourec on condition that they are not subsequently actively employed. Members of the Management Board are bound by the same amendment without any specific advantage over other salaried executive officers.

The other terms and conditions of the additional pension scheme attributed to executive officers are detailed above.

Paris La Défense and Neuilly-sur-Seine - 7 March 2014

The Statutory Auditors,

Deloitte & Associés
Jean-Marc Lumet

KPMG Audit
Department of KPMG SA
Catherine Porta

9.2.4 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

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 2013.

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"*).

Paris La Défense and Neuilly-sur-Seine - 7 March 2014

The Statutory Auditors,

Deloitte & Associés
Jean-Marc Lumet

KPMG Audit
Department of KPMG S.A.
Catherine Porta

9.2.5 Supplementary Statutory Auditors' report on capital increases with cancellation of preferential subscription right

Decision of the Management Board of 8 November 2013

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 22 April 2013 on capital increases with cancellation of preferential subscription right authorized by your Shareholders' Meeting of 30 May 2013 in the 17th, 18th and 19th resolutions.

This Shareholders' Meeting delegated to your Management Board the ability to decide such operations for a period of eighteen months and for a maximum amount of €6,600,000 (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 share capital.

Using this delegation, your Management Board has decided during its meeting held on 8 November 2013, to proceed with capital increases for a maximum nominal global amount of €3,750,000 by issuing a maximum of 1,875,000 shares with a nominal value of €2 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 (17th resolution);
- The capital increase through the issue of shares or securities granting access to the share capital reserved for employees of foreign companies of the Vallourec Group outside of a corporate savings plan (18th resolution);
- The capital increase reserved for Value Plan International Employees SAS, controlled by Credit Agricole CIB, as part of a transaction reserved for employees (19th 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 interim consolidated financial information, on the proposed cancellation of preferential subscription right 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 condensed half-year consolidated financial statements as at 30 June 2013 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 condensed half-year consolidated financial statements consisting in making inquiries with the persons responsible for financial and accounting matters, verifying that they were established based on accounting principles and measurement and presentation methods as applied for the last consolidated financial statements and performing analytical procedures;
- the conformity of the terms and conditions of the operation regarding the delegation conferred by the Shareholders' Meeting;
- the information as given in the supplementary report prepared by the Management Board on the conditions under which the issue price and the final amount were determined.

We have nothing to report on:

- the fairness of the quantified data derived from the condensed half-year consolidated financial statements of the Company and 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 Shareholders' Meeting of 30 May 2013 and on information provided to the Shareholders;
- the conditions under which the issue price and the final amount were determined;
- the presentation of the consequence of this issue on the situation of holders of securities granting access to the share capital regarding consolidated shareholders' equity and on the stock market value of the shares;
- the cancellation of preferential subscription right on which you were previously asked to vote.

Neuilly-sur-Seine and Paris-La Défense, 25 November 2013

The Statutory Auditors

Deloitte & Associés
Jean-Marc Lumet

KPMG Audit
Department of KPMG S.A.
Catherine Porta

9.3 Subsidiaries and directly-held equity interests at 31 December 2013

In € thousand 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 fiscal year	Profit (loss) for the last fiscal year	Dividends received by the Company during the year
				gross	net					
A) Subsidiaries and equity 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 company	-	-	-	-	-	-	-	-	-	-
Vallourec Tubes – 27 Avenue du Général Leclerc 92100 Boulogne-Billancourt	762,709	2,017,391	100	2,056,403	2,056,403	2,489,640	-	43,995	182,281	267,965
B) Subsidiaries and equity 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	225	99	8	8	-	-	655	18	19
II. Equity 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	80,403	-	-	-	-	-

9.4 Five-year financial summary

In €	2009	2010	2011	2012	2013
CAPITAL					
Share capital	**229,123,156**	**235,888,164**	**242,868,818**	**249,892,712**	**256,319,200**
Number of ordinary shares in issue	57,280,789	117,944,082	121,434,409	124,946,356	128,159,600
Number of preference dividend shares (without voting rights) in issue	-	-	-	-	-
Maximum number of new shares to be issued:					
› by bond conversion	-	-	-	-	-
› by exercise of subscription rights	500,000	1,511,800	2,151,887	2,655,087	3,183,279
› by bond redemption	-	-	-	-	
Sales ex-VAT	108,188	3,938,925	6,334,458	10,507,997	10,477,780
Profit (loss) before tax, employee profit-sharing, depreciation and amortization, and provisions	413,810,495	505,369,693	475,723,170	305,645,524	238,748,107
Corporate income tax	- 11,559,643	- 15,030,740	- 8,022,363	- 4,666,973	- 10,840,983
Employee profit-sharing for the financial year	-	-	-	-	-
Profit (loss) after tax, employee profit-sharing, depreciation and amortization, and provisions	427,376,831	515,485,566	458,554,435	294,316,536	263,323,882
Distributed earnings	**200,482,762**	**153,327,307**	**157,864,732**	**86,212,986**	**103,809,276**
EARNINGS PER SHARE					
Income after taxes and employee profit-sharing but before amortization and provisions	7.43	4.41	3.98	2.48	1.95
Profit (loss) after tax, employee profit-sharing, depreciation and amortization, and provisions	7.46	4.37	3.78	2.36	2.05
Dividend allotted to each existing share	**3.50**	**1.30**	**1.30**	**0.69**	**0.81**
Adjusted dividend per share [(a)]	**1.75**	**1.30**	**1.30**	**0.69**	**0.81**
STAFF					
Average number of employees during the fiscal year	7	6	7	7	7
Payroll during the financial year	2,566,640	3,220,974	3,149,976	2,013,521	2,994,504
Payroll-related costs (social security, employee benefits, etc.)	929,471	1,746,856	1,406,613	1,150,021	2,718,063

(a) The adjustment is intended to take into account the 2:1 stock split of 9 July 2010.

9.5 Concordance tables and information incorporated by reference

9.5.1 Concordance table comparing the Registration Document and Appendix I to EC Regulation No. 809/2004 of 29 April 2004

			Registration Document	
Appendix I of European Regulation			**Chapters/Sections**	**Pages**
1.	**Persons responsible**			
	1.1	Names of persons responsible	1.1	8
	1.2	Declaration by the persons responsible	1.2	8
2.	**Statutory Auditors**			
	2.1	Name and address of the statutory auditors	1.3	9
	2.2	Information on the resignation of statutory auditors	NA	NA
3.	**Selected financial information**			
	3.1	Historical financial information	Profile / 3.1.3 / 3.1.7 / 6.1 / 6.2	4-5 / 46 / 51-54 / 116-122 / 194-195
	3.2	Information on financial intermediaries	NA	NA
4.	**Risk factors**		**5**	**102-114**
5.	**Information about the issuer**			
	5.1	History and development of the Company	3.1	32-37
	5.1.1	Legal and commercial name	2.1.1	12
	5.1.2	Location and registration number of the issuer	2.1.2	12
	5.1.3	Date of incorporation and term of the issuer	2.1.3	12
	5.1.4	Registered office and legal form of the issuer, the legislation governing its activities, country of origin, address and telephone number of its registered office	2.1.1 / 2.1.2	12
	5.1.5	Significant events in the issuers' business development	3.1 / 3.1.4	32-37 / 49
	5.2	Investments	3.2	57-59
	5.2.1	Major investments carried out	3.2.2.1	57-59
	5.2.2	Major investments in progress	3.2.2.1	57-59
	5.2.3	Major investments planned by the issuer	3.2.2.2	59
6.	**Business overview**			
	6.1	Principal activities	3.1.2 / 3.1.5 / 3.3	38-46 / 50 / 59-62
	6.1.1	Nature of transactions by the issuer and its principal activities	3.1.2 / 3.1.5	38-46 / 50
	6.1.2	New product	3.3	59-62
	6.2	Main markets	3.1.7	51-54
	6.3	Exceptional events	3.1.4	49
	6.4	Dependency with regard to patents, licenses, agreements and processes	3.1.9	55 / 56
	6.5	Group's competitive position	3.1.8	54-55
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	38-46 / 140-141

Appendix I of European Regulation			Registration Document Chapters/Sections	Pages
8.	**Property, plant and equipment**			
	8.1	Main property, plant and equipment	3.1.6.1 / 6.1 (Notes 2.1 & 21)	50 / 145 / 183
	8.2	Environmental issues that may affect the Group's utilization of its property, plant and equipment	3.1.6.2 / 4.2	50 / 80-88
9.	**Operating and financial review**			
	9.1	Financial position	3.1.3	46-49
	9.2	Operating profit or loss		
	9.2.1	Significant factors affecting the operating income of the issuer	3.1.3 / 3.1.4	46-49 / 49
	9.2.2	Explanation of significant changes in net sales or revenues	3.1.3 / 3.1.4	46-49 / 49
	9.2.3	Strategy or factor that materially affected or could affect, directly or indirectly, the issuer's operations	3.1.3 / 3.1.4 / 5	46-49 / 49 / 102-114
10.	**Capital resources**			
	10.1	Information on capital resources	6.1.4	120
	10.2	Sources and amounts of cash flows	6.1.6	122-123
	10.3	Borrowing requirements and financial structure	6.1 (Note 15)	165-168
	10.4	Restriction on the use of capital	6.1 (Note 15)	165-168
	10.5	Expected sources of funding	6.1 (Note 15)	165-168
11.	**Research and development, patents and licenses**		**3.3**	**59-62**
12.	**Trend information**			
	12.1	Main trends in production, sales and inventory, and costs and selling prices since the end of the last fiscal year	8	300-302
	12.2	Known trends, demands, commitments or uncertainties or events that are reasonably likely to materially affect the prospects of the issuer	8	300-302
13.	**Profit forecasts or estimates**			
	13.1	Disclosure of the main assumptions on which the issuer has based its forecast or estimate	NA	NA
	13.2	Report prepared by the auditors	NA	NA
	13.3	Development of the forecast or estimate	NA	NA
	13.4	Declaration on the validity of a forecast previously included in a prospectus	NA	NA
14.	**Supervisory and management bodies**			
	14.1	Composition of the supervisory and management bodies	7.1.1 / 7.1.4	210-239 / 240
	14.2	Conflicts of interest in supervisory and management bodies	7.1.4 / 7.1.5 / 7.1.6 / 7.1.7	240-241
15.	**Compensation and benefits of corporate officers**			
	15.1	Compensation and benefits in kind	7.2 / 7 (Appendix 2)	242-250 / 282-296
	15.2	Pensions or other benefits	6.1 (Note 18) / 7.2.2 / 7.3	170-179 / 251 / 252-268
16.	**Practices of management and supervisory bodies**			
	16.1	Expiration date of current terms	7.1.1	210-232
	16.2	Service agreements binding members of the Company's supervisory and management bodies	7.1.6	240
	16.3	Information about the Supervisory Board's committees	7.1.2.6	235-239
	16.4	Declaration of compliance with the corporate governance regime in force	7.1.8 / 7 (Appendix 1) / 7 (Appendix 3)	241 / 282 / 296

Appendix I of European Regulation			Registration Document Chapters/Sections	Pages
17.	**Employees**			
	17.1	Workforce	4.1.1	64-70
	17.2	Shareholdings, options, allocation of performance shares concerning the management and supervisory bodies	6.1 (Note 20) / 7.1.3 / 7.2.1 / 7.3.1	180-182 / 239-240 / 244-246 / 252-267
	17.3	Arrangements for employee share ownership	7.3	252-268
18.	**Major shareholders**			
	18.1	Identification of major shareholders (holding more than 5% of capital)	2.3.1	21-22
	18.2	Existence of different voting rights	2.1.8 / 2.3.1	13 / 21-22
	18.3	Ownership or control of the issuer	2.3.1 / 2.3.2	21-22 / 22
	18.4	Arrangements that, when implemented, may result in a change of control	NA	NA
19.	**Related-party transactions**		**6.1 (Note 20)**	**180-182**
20.	**Financial information concerning the issuer's assets and liabilities, financial condition and profits or losses**			
	20.1	Historical annual financial information	6	116-207
	20.2	Pro forma financial information	NA	NA
	20.3	Financial statements	6 / 9.4	116-207 / 323
	20.4	Auditing of the historical annual financial information		
	20.4.1	Statements that the historical financial information has been documented	9.2.1 / 9.2.2	315 / 316
	20.4.2	Indications of other information audited by the statutory auditors	4 (Appendix 1) / 9.2.3 / 9.2.4 / 9.2.5	91-92 / 317-319 / 320 / 321
	20.4.3	Indication of the source and the lack of verification of financial data in the Registration Document that are derived from the issuer's audited financial statements	NA	NA
	20.5	Date of latest financial information	6	116-207
	20.6	Interim and other financial information	NA	NA
	20.6.1	Half-year or quarterly financial information	NA	NA
	20.6.2	Interim and other financial information	NA	NA
	20.7	Dividend policy	2.5	27
	20.7.1	Amount of dividends	2.5	27
	20.8	Legal and arbitration proceedings	5.1.1 / 6.1 (Note 16)	102 / 168-169
	20.9	Significant changes in the Group's financial or trading position	3.1.1 / 6.1 (Note 32)	37 / 193
21.	**Additional information**			
	21.1	Share capital	2.2.2	14
	21.1.1	Amount of subscribed capital	2.2.2 / 2.2.5	14 / 18
	21.1.2	Shares not representing capital	2.2.6	19-20
	21.1.3	Treasury shares	2.2.4 / 2.3.1	16-17 / 22
	21.1.4	Amounts of convertible securities, exchangeable securities or securities with warrants	NA	NA
	21.1.5	Information about and terms of any acquisition rights and/or obligations attached to capital subscribed but not paid, or an undertaking to increase the capital	2.2.3	14-15
	21.1.6	Information about the capital of any member of the Group that is under option or a conditional or unconditional contract to be put under option	2.3.1	22

Appendix I of European Regulation			Registration Document Chapters/Sections	Pages
	21.1.7	History of share capital	2.2.5	18
	21.2	Memoranda and bylaws		
	21.2.1	Description of the corporate purpose	2.1.4	12
	21.2.2	Provisions contained in the by-laws and internal regulations for members of its management and supervisory bodies	2.1 / 2.2.1 / 7.1.2	12-13 / 13 / 233-235
	21.2.3	Rights, privileges and restrictions attaching to each class of shares	2.2.1 / 7 (Appendix 1)	13 / 271-272
	21.2.4	Actions necessary to change the rights of shareholders	2.2.1	13
	21.2.5	Conditions governing the manner in which annual and extraordinary shareholders' meetings are convened	2.1.8	13
	21.2.6	Provisions contained in the bylaws and internal regulations that could have the effect of delaying, deferring or preventing a change in control	7 (Appendix 1)	271-272
	21.2.7	Provisions contained in the bylaws and internal regulations governing the ownership threshold above which any shareholding must be disclosed	2.1.9	13
	21.2.8	Conditions governing changes in the capital, where such conditions are more stringent than is required by law	2.2.1	13
22.	**Material contracts (review)**		**3.3.1 / 5.1.4 / 6.1 (Note 15) / 6.1 (Note 32)**	**60 / 107 / 165 / 193**
23.	**Information from third parties, statements by experts and declarations of interests**			
	23.1	Statement or report attributed to a person acting as an expert	NA	NA
	23.2	Information from a third party	NA	NA
24.	**Publicly available documents**		**2.1.5 / 2.6**	**12 / 27-29**
25.	**Information on holdings**		**9.3**	**322**

9.5.2 Concordance table between the Vallourec Registration Document and the annual financial report

Annual financial report		Registration Document Chapters/Sections	Pages
1.	Parent company financial statements	6.2	194-207
2.	Group consolidated financial statements	6.1	116-193
3.	Statutory Auditors' report on the parent company financial statements	9.2.1	315
4.	Statutory Auditors' report on the consolidated financial statements	9.2.2	316
5.	Management report including at least the information referred to in Articles L. 225-100, L. 225-100-2, L. 225-100-3 and L. 225-211 paragraph 2 of the French Commercial Code	9.1.1	304
6.	Statement by the person responsible for the annual financial report	1.2	8
7.	Statutory Auditors' fees (Article 222-8 of the AMF's General Regulations)	6.1 (Note 26)	188
8.	Report of the Chairman of the Supervisory Board on the Board's composition and application of the principle of equal representation of women and men therein, the conditions for preparing and organizing the Board's work, and the risk management and internal control procedures implemented by Vallourec (Article 222-9 of the AMF's General Regulations)	7 (Appendix 1)	269-282
9.	Statutory Auditors' report on the report of the Chairman of the Supervisory Board (Article 222-9 of the AMF's General Regulations)	9.2.4	320

9.5.3 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	38-46
2.	Results of the Group – Financial position and performance indicators	3.1.3 / 3.1.4 / 3.1.5	46-50
3.	Changes to the presentation of the annual financial statements or the valuation methods applied in prior years	6.1	116-193
4.	Material events between the balance sheet date and the date the report was prepared	3.1.1	37
5.	Foreseeable developments and the Company's outlook	8	300-302
6.	Payment periods for suppliers and customers	3.1.3.2	48
7.	Amount of dividends paid during the past three years	2.5	27
8.	Vallourec results table for the last five financial years	9-4	323
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	101-114
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 / 107-112
11.	Significant equity stakes in companies headquartered in France	NA	NA
12.	Injunctions or monetary penalties for anti-competitive practices	NA	NA
13.	Research and development activities	3.3	59-62
14.	Corporate Social Responsibility information	4	63-101
15.	Mandates and functions of corporate officers	7.1.1	210-232
16.	Compensation of corporate officers	7.2.1	242-261
17.	Allocation of stock options	7.3.1.1	253-259
18.	Allocation of shares free of charge or performance shares	7.3.1.2	260-268
19.	Summary of securities transactions made by executives	7 (Appendix 4)	297
20.	Composition of share capital	2.3.1	21
21.	Employee share ownership	2.3.1 / 4.1.2.4 / 7.3.3	21 / 71 / 268
22.	Share repurchases	2.2.4.1	16-18
23.	Measures having an impact in the event of a takeover bid	7 (Appendix 1)	244
24.	Share transfers made to regularize cross-shareholdings or takeovers of such companies	NA	NA
25.	Summarizing authorizations valid for capital increases and use made of these authorizations during the fiscal year 2012	2.2.3	14-16
26.	Adjustments of the rights of holders of transferable securities giving access to capital or options	NA	NA
27.	Report of the Chairman of the Supervisory Board on the Board's composition and application of the principle of equal representation of women and men therein, the conditions for preparing and organizing the Board's work, and the risk management and internal control procedures implemented by Vallourec (Article 222-9 of the AMF's General Regulations)	7 (Appendix 1)	269-282

9.5.4 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 parent company and consolidated financial statements for the year ended 31 December 2012, the Statutory Auditors' reports thereon, and the Management Report, presented respectively in section 6.2 (pages 181-193), section 6.1 (pages 110-180), sections 9.3.1 to 9.3.4 (pages 275-278) and section 8.1.1 (page 262) of the 2012 Registration Document filed with the AMF (*Autorités des Marchés Financiers* – The French Securities Regulator) on 24 April 2013 under No. D.13-0419; and
- the parent company and consolidated financial statements for the year ended 31 December 2011, the Statutory Auditors' reports thereon, and the Management Report, presented respectively in section 5.2 (pages 142-155), section 5.1 (pages 70-141), sections 8.3.1 to 8.3.4 (pages 259-263) and section 8.1.1 (pages 206-233) of the 2011 Registration Document filed with the AMF on 13 April 2012 under No. D.12-0343.

9.6 Other periodic information required under the AMF's General Regulations

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	**Pages**
Report of the Chairman of the Supervisory Board on the Board's composition and application of the principle of equal representation of women and men therein, the conditions for preparing and organizing the Board's work, and the risk management and internal control procedures implemented by Vallourec (Article 222-9 of the AMF's General Regulations)	7 - Appendix 1	269-282
Statutory Auditors' report on the report of the Chairman of the Supervisory Board (Article 222-9 of the AMF's General Regulations)	9.2.5	321
Statutory Auditors' fees (Article 222-8 of the AMF's General Regulations)	6.1 (Note 26)	188
Description of the 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 €256,319,200