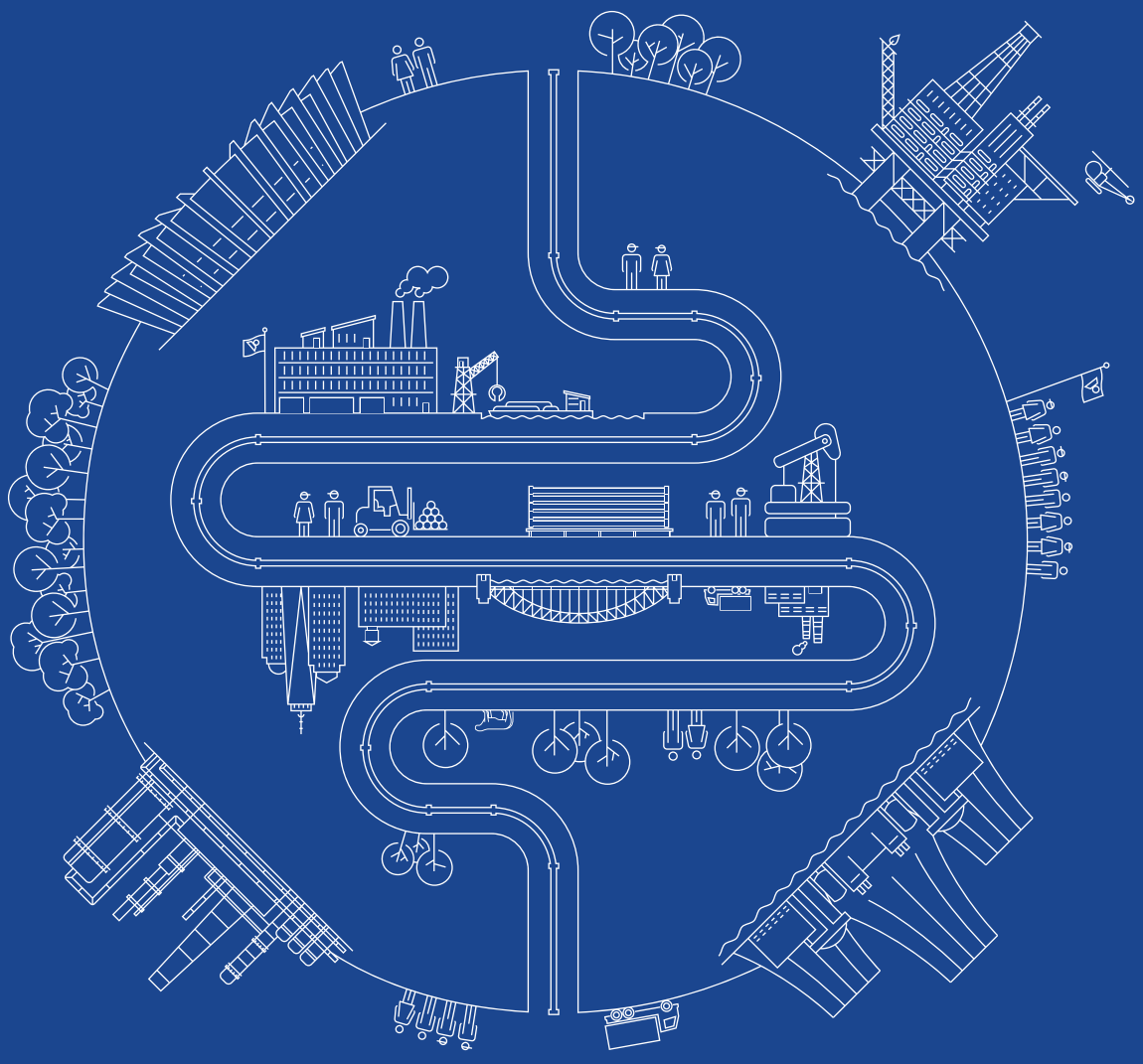
2014 Registration Document

AND ANNUAL
FINANCIAL REPORT



vallourec

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Registration Document including the annual financial report

Fiscal year 2014

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

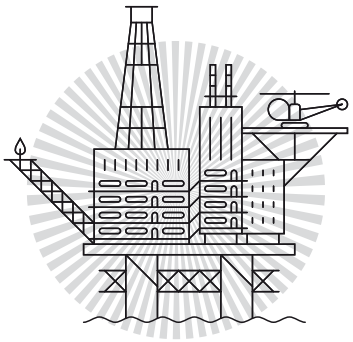
The original version of this Registration Document *(document de référence)* in French was filed with the French securities regulator (*Autorité des Marchés Financiers*) on 10 April 2015 in accordance with Article 212-13 of its General Regulations. It may be used in connection with a financial transaction if supplemented by an Information Notice authorized by the French securities regulator (*Autorité des Marchés Financiers*). 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, at 27, avenue du Général Leclerc, 92100, Boulogne-Billancourt, Cedex – France, Vallourec's website (http://www.vallourec.com) and on the website of the French securities regulator (*Autorité des Marchés Financiers*) (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 General Regulations of the French securities regulator (*Autorité des Marchés Financiers*). A concordance table showing the documents referred to in Article 222-3 of the General Regulations of the French securities regulator (*Autorité des Marchés Financiers*) and the corresponding sections of this Registration Document is included on page 295.

Profile

Vallourec is a world leader in premium tubular solutions, primarily for the energy markets (oil and gas, power generation). Its expertise also extends to the industrial sector (mechanical engineering, automotive, construction). With more than 23,000 employees, integrated production units worldwide and cutting-edge R&D, Vallourec offers innovative global solutions that are adapted to the energy challenges of the 21st century.



OIL & GAS

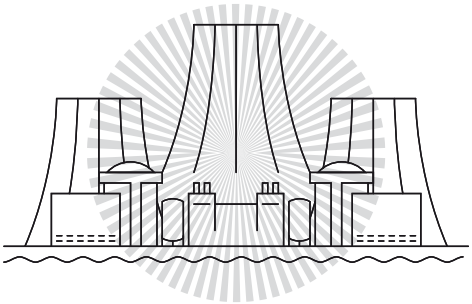
Vallourec offers a range of premium tubular solutions to the oil and gas industry that satisfy the most demanding applications and cover the full chain, from exploration to production and to hydrocarbon transportation.

Vallourec's OCTG (Oil Country Tubular Goods), threaded seamless steel tubes, equip a large number of oil and gas wells worldwide (casing and tubing). Vallourec offers all the equipment for drilling: drill pipes, bottom hole assembly, and accessories. These tubes are connected using VAM® premium threaded connections, a registered trademark of Vallourec. From wells to conversion units, hydrocarbons are transported offshore and onshore by Vallourec tubes and accessories. Its stainless steel super duplex tubes for umbilicals connect the seabed equipment to the surface control station.

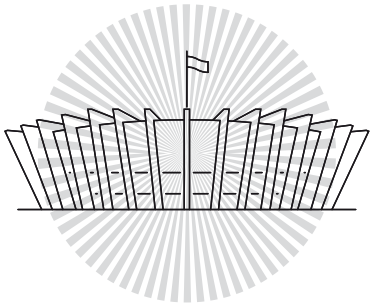
The Vallourec Global Solutions offer supports customers and shares Vallourec's know-how with them throughout the well life cycle.

Vallourec's tube portfolio for the power generation market is the largest in the world. For conventional thermal power plants, new generation "ultra-supercritical" coal plants, or nuclear power plants, Vallourec responds to all the needs of power producers. Its specialist subsidiaries Valinox Nucléaire and Vallourec Heat Exchanger Tubes are valued partners in renovating the French nuclear plant fleet.

Seamless tubes for boilers or steam generators, welded tubes for heat exchangers, in all sizes and grades, from carbon steel to high alloy steels, titanium, stainless steel and nickel alloys, etc. Vallourec products respond to the challenges of power producers and the Group's services support their performance, from logistics to risk assessment, and to customer-specific training.



POWER GENERATION



INDUSTRY

Vallourec's premium tubular solutions are used for the construction of many infrastructures: bridges, stadiums, airports, and other ambitious architectural projects. The mechanical industry uses Vallourec tubes and rings to manufacture cranes and agricultural machinery. Automotive manufacturers equip their heavy-weight and light vehicles with Vallourec tubes and axles. The energy sector also relies on the Group to build its offshore jack-up platforms.

Tubes, hollow bars and sections of all sizes and steel grades, Vallourec's offer responds to the most varied and demanding industrial applications with special steel grades.

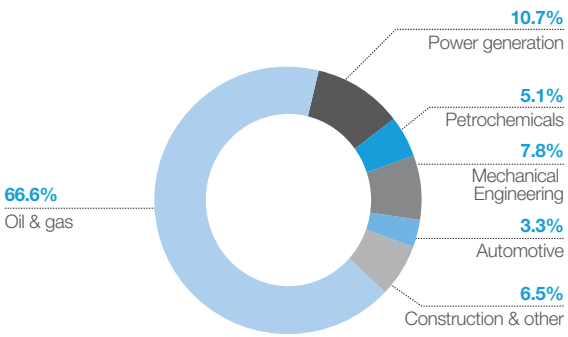
Main Vallourec locations

Steel mills | Tube mills | Finishing units | R&D centers | Sales offices and services | Plantation and Mine

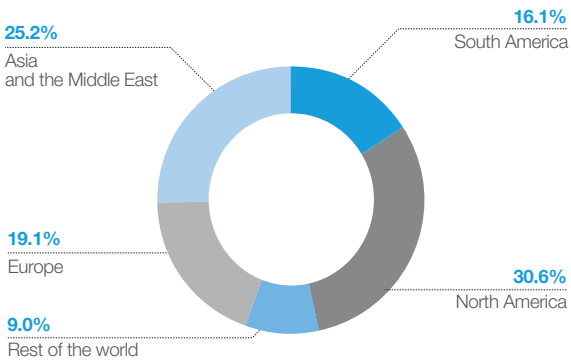


- 23,700 employees
- Over 50 production sites in 20 countries
- 6 R&D centers
- 500 researchers

SALES BY ACTIVITY IN 2014



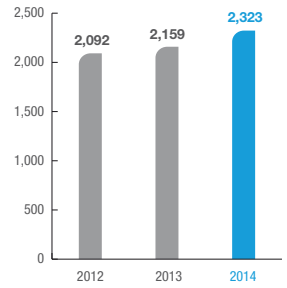
SALES BY GEOGRAPHICAL REGION IN 2014



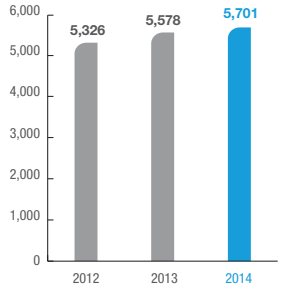
Financial and activity indicators



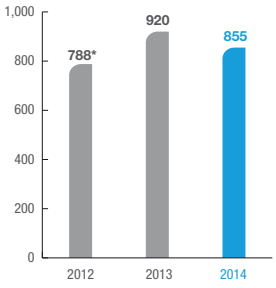
SALES VOLUME
(in kt)



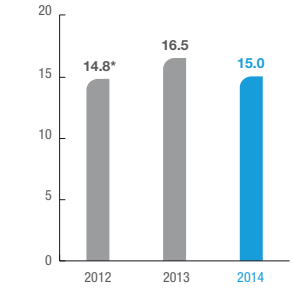
SALES
(in € million)



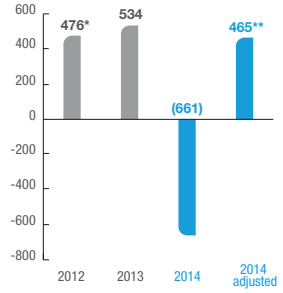
EBITDA
(in € million)



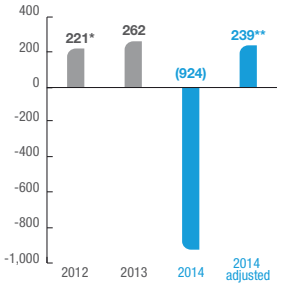
EBITDA MARGIN
(as a %)



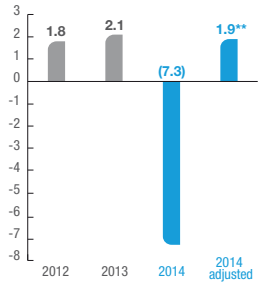
OPERATING INCOME
(in € million)



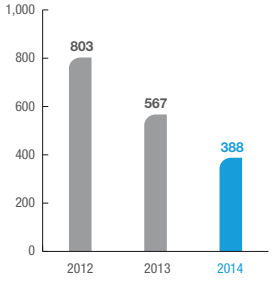
NET INCOME – GROUP SHARE
(in € million)



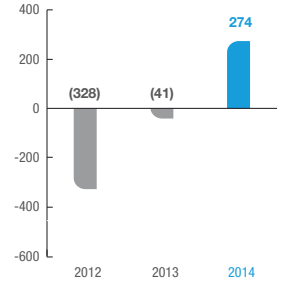
EARNINGS PER SHARE
(in €)



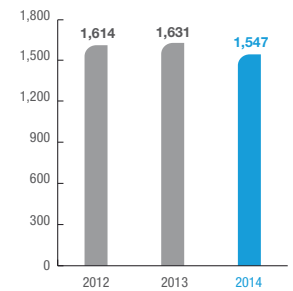
GROSS CAPITAL EXPENDITURE
(in € million)



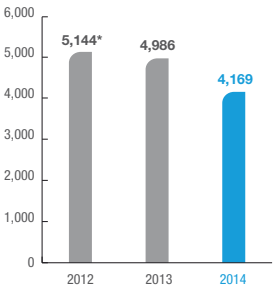
FREE CASH FLOW***
(in € million)



NET DEBT
(in € million)



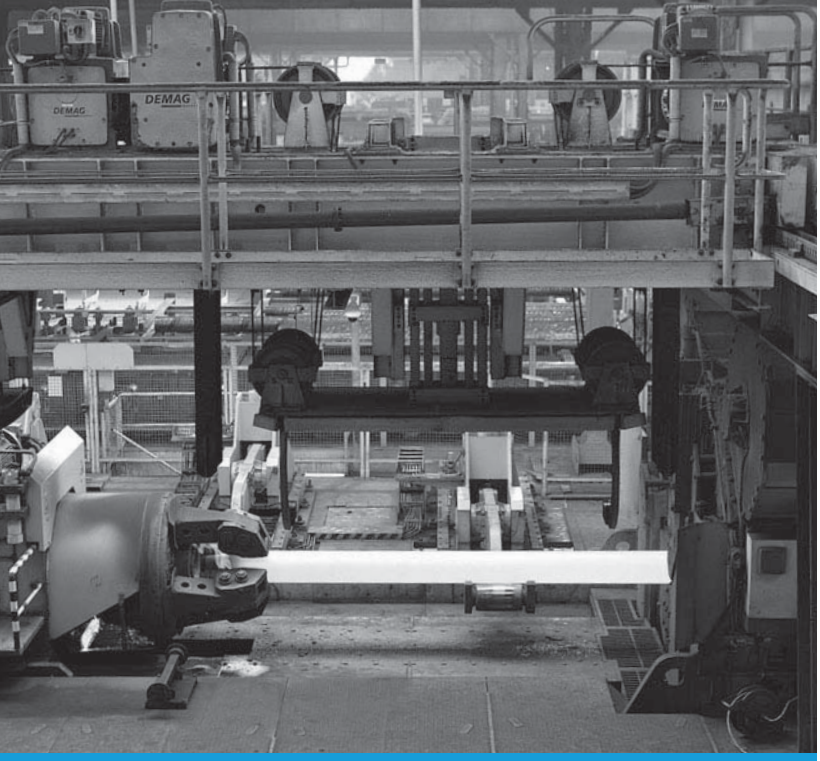
TOTAL EQUITY
(in € million)



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

** *Excluding impairment registered at year-end, see Chapter 6, Notes 2.3 and 28 to the financial statements.*

*** *Free cash flow (FCF) is a non-GAAP measure and is defined as cash flow from operating activities minus gross capital expenditure and plus/minus change in operating working capital requirement.*



1

Persons responsible for the Registration Document and financial audit

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1.1 Person responsible for the Registration Document

Mr. Philippe Crouzet

Chairman of the Management Board of Vallourec (hereinafter “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 concordance table on page 299 of this Registration Document (Section 9.4.3), 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 2012, presented in the 2012 Registration Document filed with the French securities regulator (*Autorité des Marchés Financiers*) 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 the 2013 Registration Document filed with the French securities regulator (*Autorité des Marchés Financiers*) under No. D.14-0358 on 14 April 2014, 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 notes to 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.”

The consolidated financial statements for the fiscal year ended 31 December 2014, presented in this 2014 Registration Document, were the subject of the Statutory Auditors’ report on page 287 which contains no comments.

Boulogne-Billancourt, 9 April 2015

Chairman of the Management Board

Mr. 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 renewed: 31 May 2012

The Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012 reappointed KPMG S.A. 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 fiscal 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 renewed: 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 fiscal 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 fiscal year ending 31 December 2017.

BEAS

Alternate auditor for Deloitte & Associés

195, avenue Charles de Gaulle
92524 Neuilly-sur-Seine Cedex – France

Date of first appointment: 11 June 2002
Date renewed: 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 fiscal 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 85

E-mail: stephanie.fougou@vallourec.com

1.5 Person responsible for the communication of financial information

Mr. Etienne 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

General information on Vallourec and its capital

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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 12 months long. It begins on 1 January and ends on 31 December.

2.1.7 Distribution of profits (Article 15 of the bylaws)

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

Unless otherwise required by law, the Shareholders' Meeting decides how net profit is 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 for 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 exceeding thresholds other than those prescribed by the legal provisions in force.

Consequently:

"In addition to the disclosure of thresholds crossed as 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 or greater than 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 thus held, via registered letter with request for 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 for 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 on share capital

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

An Extraordinary Shareholders' Meeting may, in accordance with statutory provisions, increase or reduce 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 share capital, authorized by a Shareholders' Meeting.

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

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

2.2.2 Share capital

As at 1 January 2014, the start of the 2014 fiscal year, 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.

On 25 June 2014, under the fourth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014, the Management Board recorded the completion of a capital increase through the issue of 518,416 new shares (representing 0.4% of share capital at that date) at a price per share of €35.69 in payment of the 2013 dividend of €0.81 per share. The issue of the new shares resulted in a share capital increase by a nominal amount of €1,036,832, which raised Vallourec's share capital at 25 June 2014 from €256,319,200 to €257,356,032, divided into 128,678,016 shares with a par value of €2.00 each.

At the end of the clearing period for subscriptions to the Value 14 international employee share ownership plan (see Chapter 7 below) at its meeting on 16 December 2014, the Management Board, under the terms of the fifteenth, sixteenth and seventeenth resolutions of the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014, recorded the final completion of three capital increases in the nominal amounts of €1,947,246, €1,547,440 and €345,232, or an aggregate nominal amount of €3,839,918, through the respective issue of 973,623, 773,720 and 172,616 new shares for an aggregate total of 1,919,959 new shares with a par value of €2.00 each and a price per share of €24.12 for the standard plan and €25.62 for the leveraged scheme. These transactions had the cumulative effect of increasing share capital from €257,356,032 to €261,195,950. As at 31 December 2014, subscribed, fully paid-up share capital amounted to €261,195,950, divided into 130,597,975 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 providing access to capital valid at 31 December 2014

Authorizations to issue shares and securities providing access to the Company's capital valid as at 31 December 2014 were as follows:

	Maximum nominal ceilings on capital increases *(in € 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' PREEMPTIVE RIGHTS					
Capital increases with preemptive rights (7th resolution)	99.950 million	1.5 billion	30 May 2013	26 months	30 July 2015
Increase in the amount of the initial issue with preemptive rights (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]	N/A	30 May 2013	26 months	30 July 2015
CAPITAL INCREASES WITHOUT SHAREHOLDERS' PREEMPTIVE RIGHTS					
Capital increases without preemptive 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 preemptive 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 preemptive rights, carried out under the 8th and 9th resolutions, at a price set by the General 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 preemptive 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 preemptive rights in compensation 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 € 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 preemptive rights in consideration for securities contributed in a 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 preemptive 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 PLAN					
Capital increase reserved for members of company savings plan as part of an employee share ownership plan (15th resolution)	5 million [(a)] [(d)]	N/A	28 May 2014	18 months	28 November 2015
Capital increase reserved for employees and those with similar rights of Vallourec Group companies outside France as part of an employee share ownership plan (16th resolution)	5 million [(a)] [(d)]	N/A	28 May 2014	18 months	28 November 2015
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 plan (17th resolution)	5 million [(a)] [(d)]	N/A	28 May 2014	18 months	28 November 2015
Allocation of shares free of charge as part of an employee share ownership plan to replace the employer matching contributions given to French employees (18th resolution)	0.2% of share capital [(a)]	N/A	28 May 2014	18 months	28 November 2015
SHARE SUBSCRIPTION OR SHARE PURCHASE OPTIONS AND PERFORMANCE SHARES					
Share subscription or share purchase options granted to employees and corporate officers of the Group (19th resolution)	3% of share capital [(a)]	N/A	28 May 2014	38 months	28 July 2017
Performance shares allocated to employees and corporate officers of the Group (20th resolution)	3% of share capital [(a)] [(e)]	N/A	28 May 2014	38 months	28 July 2017

(a) This amount or percentage is deducted from the €99.950 million cap on capital increases with retention of shareholders' preemptive 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 €24.980 million cap for capital increases with cancellation of shareholders' preemptive rights.

(d) The aggregate capital increases carried out as part of an employee share ownership offer may not exceed €5 million.

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

2.2.3.2 Use of financial authorizations to issue shares and securities providing access to the Company's capital at 31 December 2014 were as follows:

EMPLOYEE SHARE OWNERSHIP PLAN (Fifteenth to eighteenth resolutions of the Shareholders' Meeting of 28 May 2014)

Under the authorizations for employee share ownership plans, the Management Board, with the approval of the Supervisory Board, extended the Value 14 international employee share ownership plan in 2014, for the seventh year running (for a description of this plan, see Chapter 7, Section 7.3.3 Employee Share Ownership, below). Under the terms of the fifteenth, sixteenth and seventeenth resolutions of the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014, the Management Board, at its meeting of 16 December 2014, recorded the final completion of three capital increases in the nominal amounts of €1,947,246, €1,547,440 and €345,232, or an aggregate nominal amount of €3,839,918, representing 1.49% of share capital at that date, through the respective issue of 973,623, 773,720 and 172,616 new shares, for an aggregate total of 1,919,959 new shares with a par value of €2.00 each and a price per share of €24.12 for the standard plan and €25.62 for the leveraged scheme. These transactions had the cumulative effect of increasing share capital from €257,356,032 to €261,195,950.

In place of the employer matching contribution benefiting employees and those with similar rights in French companies of Vallourec and Group companies headquartered in Germany, Brazil, Mexico, the United Arab Emirates, India and the United Kingdom, and invested in the Value 14 plan, the Management Board, using the eighteenth resolution of the Shareholders' Meeting of 28 May 2014, implemented a free share allocation plan for new or existing shares for a maximum of 3,960 shares, or 0.003% of share capital at that date, for Group employees, headquartered in Saudi Arabia, Canada, the United States (excluding employees of VAM USA LLC), Malaysia, and Singapore who have invested in a "Shares + SAR" plan under the Value 14 plan.

The terms of this plan are set out in Section 7.3.1.2 "Free share allocation plans".

PERFORMANCE SHARES (Nineteenth resolution of the Shareholders' Meeting of 31 May 2012)

Under the nineteenth resolution on performance shares adopted by the Ordinary and Extraordinary Shareholders' Meeting of 31 May 2012, the Management Board decided, on 15 April 2014 and in agreement with the Supervisory Board, to:

- allocate a maximum of 130,062 performance shares (subject to continuous presence and performance conditions) [(1)], representing 0.10% of share capital as at 31 December 2014, for a maximum of six shares per beneficiary, to 21,677 employees of Group entities in Germany, Brazil, Canada, 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);
- allocate, subject to continuous service and performance conditions, of 413,597 performance shares [(2)], i.e. 0.32% of share capital as at 31 December 2014, to 1,755 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 "Performance share allocation plans".

SHARE SUBSCRIPTION OR PURCHASE OPTIONS (Fourteenth resolution of the Shareholders' Meeting of 31 May 2012)

Under the fourteenth resolution on share subscription or purchase options adopted by the Shareholders' Meeting of 31 May 2012, on 15 April 2014 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 373,550 options [(3)], or 0.29% of share capital at 31 December 2014 to 396 managers, and three Management Board members.

The terms of this plan are set out in Section 7.3.1.2 "Share purchase and/or subscription options".

2.2.3.3 Potential dilution at 31 December 2014

Vallourec has not issued any securities giving access to capital.

Performance share and bonus share allocation plans (see Section 7.3.1.2 below) are covered by existing shares so they have no dilutive impact on capital.

Only the allocation plans for share subscription options (see Section 7.3.1.1 below) could, if the options were exercised, result in a dilution of shareholders. Based on the number of options currently outstanding, net of those canceled or that have lapsed, potential dilution to shareholders at 31 December 2014 was 2.44%.

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

(2) i.e. 521,863 performance shares based on the highest performance coefficient of 1.25 or 1.33, as applicable.

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

2.2.4 Share buyback

2.2.4.1 Information on transactions under the share buyback program during fiscal year 2014

REPURCHASE OF SHARES (excluding liquidity contract)

At 1 January 2014, Vallourec held 819,742 Vallourec shares with a nominal value of €2.00, or 0.64% of share capital at that date, all assigned to cover free share or performance share allocation plans.

From 1 January to 31 December 2014, Vallourec transferred 271,333 shares under its free share and performance share allocation plans.

Total gross cash flows relating to purchases and disposals/transfers of shares (excluding liquidity contract) from 1 January to 31 December 2014 were as follows:

	Purchases	Transfers/Sales
Number of shares	300,000	271,333
Average price per share *(in €)*	24.79	41.80
AGGREGATE AMOUNT *(in €)*	**7,437,825**	**11,342,824**

TREASURY SHARES (excluding liquidity contract) AT 31 DECEMBER 2014

As at 31 December 2014, Vallourec held 848,409 Vallourec shares, or 0.65% of 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 2014 was €30,520,395, including a nominal value of €1,696,818 and a market value on the same date of €19,301,304.75.

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*) on 21 March 2011.

In 2014, under the liquidity contract, total purchases involved 8,952,505 shares, representing 6.86% of share capital at 31 December 2014, for a total of €347,098,114.60 euros and a weighted average price of €38.77 per share. Total sales involved 8,502,505 shares, representing 6.51% of share capital at 31 December 2014, for a total of €339,133,426.05 and a weighted average price of €39.89 per share.

In 2014, the liquidity contract generated a capital loss of €1,422,171.05.

As at 31 December 2014, the balance on the liquidity account comprised:

- 925,000 shares;
- €9,896,943.

The management fee for the liquidity contract in 2014 was €135,960 (excluding VAT).

TREASURY SHARES

None.

OPEN DERIVATIVE POSITIONS AS AT 31 DECEMBER 2014

None.

2.2.4.2 Description of the 2015-2016 share buyback program, submitted to the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2015 (11th resolution)

This description of the program's purpose, under Articles 241-1 *et seq.* of the General Regulations of the French securities regulator (*Autorité des Marchés Financiers*), 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 on 28 May 2015.

ALLOCATION OF VALLOUREC SHARES HELD BY THE COMPANY AS AT 31 MARCH 2015

As at 31 March 2015, Vallourec held 813,999 Vallourec shares, or 0.62% of share capital at that date, all assigned to cover bonus share or performance share allocation plans.

Moreover, on the same date 1,125,000 shares were included in the balance of the liquidity contract with Rothschild & Cie Banque, or 0.86% of share capital.

OBJECTIVES OF THE SHARE BUYBACK PROGRAM SUBMITTED TO THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF 28 MAY 2015

In accordance with the provisions of European Regulation No. 2273/2003 of 22 December 2003 implementing European Directive No. 2003/6/EC of 28 January 2003, and with the market practices accepted by the French securities regulator (*Autorité des Marchés Financiers*), the objectives of the share buyback program submitted for the approval of the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2015 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 allocate 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 for by law, in particular Articles L.3332-1 *et seq.* of the French Labor Code;

3. to allocate shares free of charge or to allocate performance shares under the provisions of Articles L.225-197-1 *et seq.* of the French Commercial Code;
4. to cover all awards of shares to employees and/or corporate officers of the Group, particularly in the context of international employee share ownership plans or variable compensation;
5. for market making in the secondary market 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*) 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 French securities regulator (*Autorité des Marchés Financiers*);
7. to deliver shares upon the exercise of rights attached to securities giving access to share capital by means of redemption, conversion, exchange, exercise of a warrant or any other means; or
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 share capital by canceling shares acquired as part of a share buyback program.

TERMS OF THE SHARE BUYBACK PROGRAM SUBMITTED TO THE SHAREHOLDERS' MEETING ON 28 MAY 2015

The table below shows the maximum percentage of capital, the maximum number, and the characteristics 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 2015, as well as the maximum unit purchase price:

Share characteristics	Maximum percentage of capital [(a)]	Maximum number of shares [(b)]	Maximum unit purchase price *(per share)*
Ordinary shares	10%	13,059,797	€50

(a) It is stipulated that this percentage applies to capital that will be adjusted, where applicable, to take account of any transactions affecting share capital that may occur after the Shareholders' Meeting of 28 May 2015, 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 share capital at 31 March 2015, i.e. €261,195,950, divided into 130,597,975 shares. Based on the number of ordinary shares owned by Vallourec at that date (or 1,938,999 shares), Vallourec could acquire 11,120,798 of its own shares.

TERM OF THE SHARE BUYBACK PROGRAM SUBMITTED TO THE SHAREHOLDERS' MEETING OF 28 MAY 2015

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 2015, until 28 November 2016, subject to the program's approval by the Ordinary Shareholders' Meeting.

2.2.5 Changes in share 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 €)*	Paid-in capital *(in €)*	Total share capital after transaction *(in €)*
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
25/06/2014	-	518,416	128,678,016	1,036,832	17,465,435	257,356,032
16/12/2014	-	1,919,959	130,597,975	3,839,918	45,325,754	261,195,950

(a) Dividing the par value of the shares by two, thus bringing them from €4 to €2, and accordingly multiplying the number of shares by two.

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 authority since its adoption by the Ordinary and Extraordinary Shareholders' Meeting of 30 May 2013.

Since Order 2014-863 of 31 July 2014 relating to Corporate Law, only the Management Board has the power to issue securities entitling their bearers to be allocated debt securities. As at 31 December 2014, no issuance of securities of this kind had been decided upon by the Management Board.

Commercial paper issue program

On 12 October 2011 Vallourec established a commercial paper issue program to meet its short-term requirements. This program, updated on 17 June 2014, 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 Banque Populaire Crédit Agricole CIB CM – CIC Crédit du Nord GFI Brokers Limited HSBC France HPC ING Bank NV Kepler Capital Markets Natixis Newedge Group Société Générale CIB TSAF OTC (instead of Viel Tradition) Tullett Prebon LTD
Short-term rating (Standard & Poor's)	A-2

The financial prospectus for the commercial paper issue program and outstanding amounts of the issues are available 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 and 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 issue 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 each year;
- on 31 July 2012, a €400 million fixed-rate bond issue maturing on 2 August 2019, (the "**August 2019 Bonds**"). These bonds have a unit par value of €100,000 and 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;
- on 26 September 2014, a €500 million fixed-rate bond issue maturing on 30 September 2024, (the "**September 2024 Bonds**"). These bonds have a unit par value of €100,000 and are admitted for trading on the Euronext Paris stock market. They bear interest at an annual fixed rate of 2.25%, payable in arrears on 30 September each year, and are rated BBB by Standard & Poor's.

The nominal value and interest on the February 2017 Bonds, August 2027 Bonds, August 2019 Bonds and September 2024 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 four 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, the August 2019 Bonds and the September 2024 Bonds on the Euronext Paris stock market may be consulted on the websites of the Company (www.vallourec.com) and the French securities regulator (*Autorité des Marchés Financiers*) (www.amf-france.org).

Rating

At 1 January 2014, the opening date of the 2014 fiscal year, Vallourec's debt was rated BBB+/stable/A-2 by Standard & Poor's. On 17 September 2014, this agency downgraded Vallourec's long-term rating to BBB with a stable outlook. Accordingly, at 31 December 2014, the credit rating of Vallourec's debt was BBB/stable/A-2.

2.3 Distribution of share capital and voting rights

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

FY 2012 (as at 31 December)

Shareholders	Number of shares	% of 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 share 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 Mr. 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 (as at 31 December)

Shareholders	Number of shares	% of 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-Group [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 French securities regulator (*Autorité des Marchés Financiers*) 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 French securities regulator (*Autorité des Marchés Financiers*) 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.

FY 2014 (as 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]	107,147,689	82.05%	109,328,808	77.30%	78.27%
Group employees	9,944,475	7.61%	10,459,678	7.39%	7.49%
Bpifrance Participations SA	6,958,640	5.33%	13,147,895	9.29%	9.41%
CDC savings funds	2,800,628	2.14%	2,800,628	1.98%	2.00%
Subtotal – CDC Group [b]	**9,759,268**	**7.47%**	**15,948,523**	**11.27%**	**11.41%**
Nippon Steel & Sumitomo Metal Corporation [c]	1,973,134	1.51%	3,946,268	2.79%	2.83%
Treasury shares [d]	1,773,409	1.36%	1,773,409	1.25%	0.00%
TOTAL	**130,597,975**	**100.00%**	**141,456,686**	**100.00%**	**100.00%**

(a) The "Public" part includes the position of Tweedy Browne Company LLC (TBC). According to a letter received by the AMF on 29 January 2015, which was supplemented by a letter received on 2 February 2015, TBC, acting on behalf of clients and the funds it manages, declared on 26 January 2015 to have exceeded Vallourec's 5 % capital threshold, holding, on behalf of said clients and funds, 6,534,596 shares and the same number of voting rights, representing at 31 December 2014 5.004 % of the capital and 4.62 % of the voting rights of Vallourec. To the Company's knowledge, TBC is registered with the Securities Exchange Commission as an investment advisor and to that end would not hold any share for its own account and would not exercise, barring a specific agreement with its clients, the voting rights attached to the shares recorded in the individual accounts of its clients.

(b) Bpifrance Participations (former FSI), jointly with Caisse des Dépôts et Consignations *(CDC). By letter received by the French securities regulator (*Autorité des Marchés Financiers*) on 30 April 2014, CDC and Bpifrance Participations SA clarified that they were each acting alone, and CDC declared that there was no collaboration with Bpifrance Participations SA.*

(c) NSSMC and Vallourec have built up strategic R&D partnerships for a number of years, and have entered into a cross-shareholding agreement described on page 20.

(d) 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 share capital or voting rights.

As at 31 December 2014, Vallourec's free float percentage was 83.41%.

Agreement between Vallourec and Nippon Steel & Sumitomo Metal Corporation (former 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 USD 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 is available on the website of the French securities regulator (*Autorité des Marchés Financiers*): 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 2014, Nippon Steel & Sumitomo Metal Corporation held 1,973,134 Vallourec shares, representing 1.51% of Vallourec's 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.

2.4 Market for Vallourec's shares

2.4.1 Stock 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'épargne en actions* – PEA).

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

FTSE classification: engineering and industrial capital goods.

The February 2017, August 2019 and September 2024 Bonds were admitted for trading on the Euronext Paris stock market under ISIN codes FR0011149947, FR0011302793 and FR0012188456 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.

Within this context, 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.

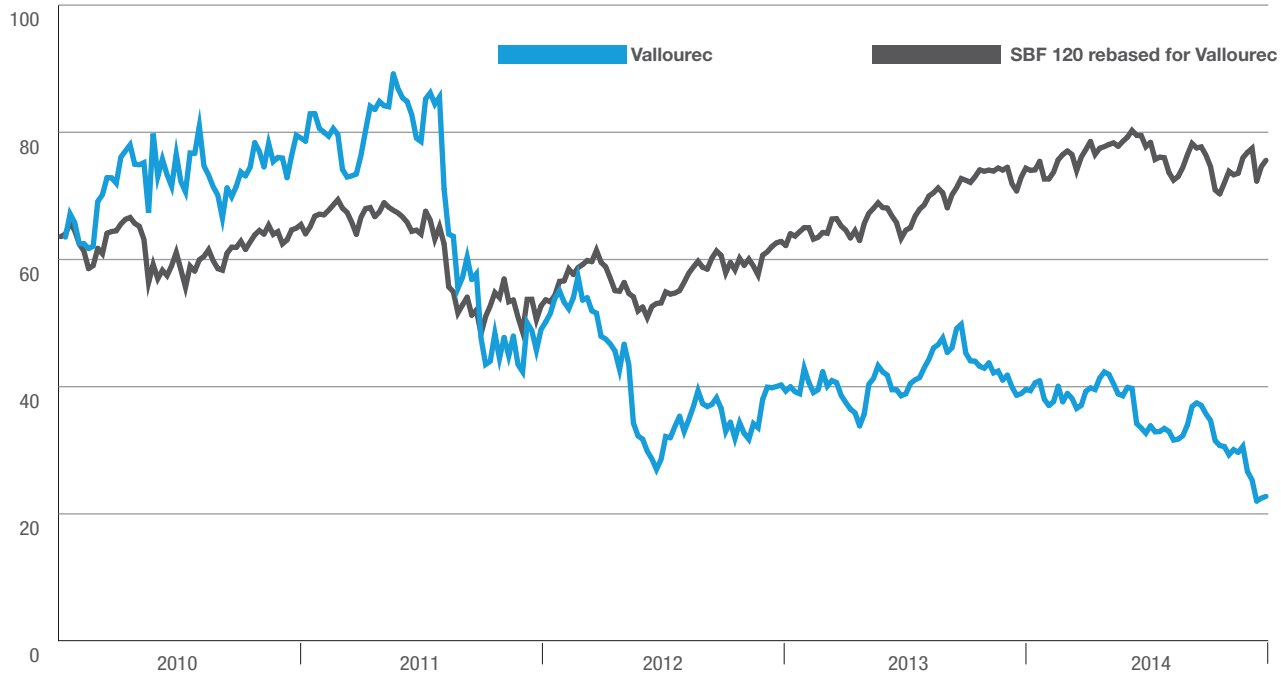
  P.O. Box 64504
  St Paul, MN 55164-0504
  USA

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

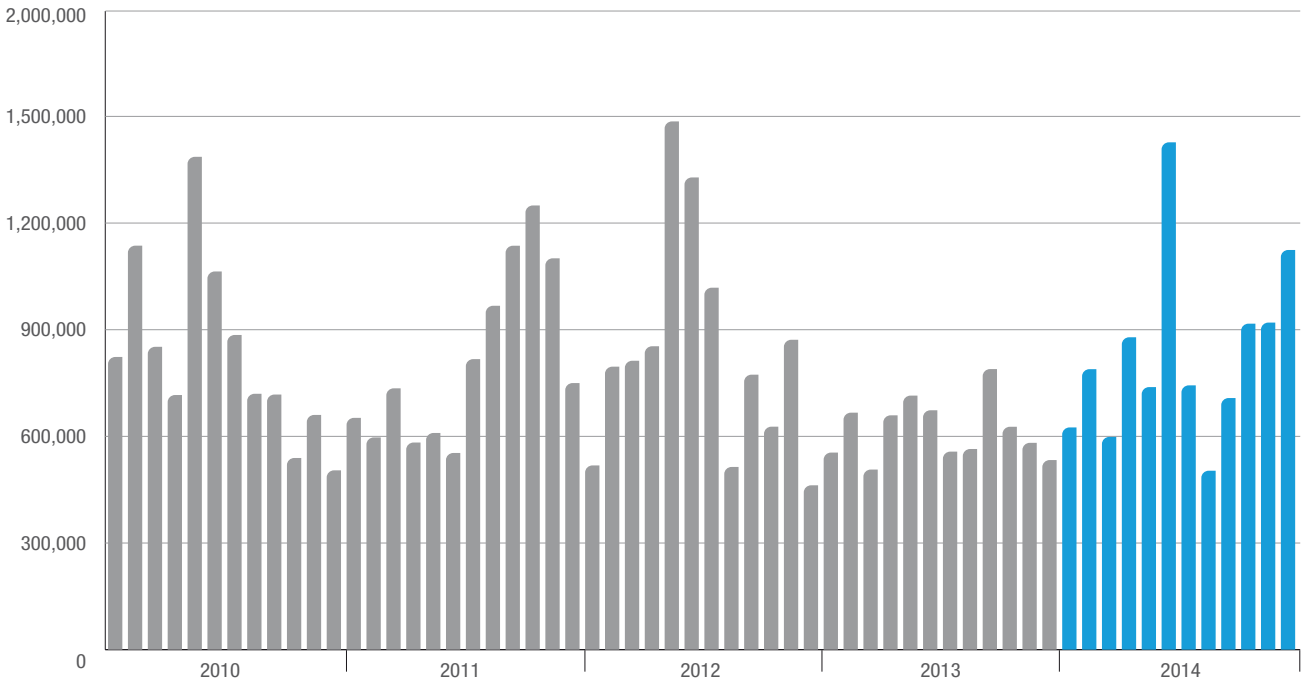
2.4.3 Volumes traded and price performance

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 SBF 120 index



Adjusted monthly average volumes traded per day



Movements in the adjusted share price and market capitalization in the last five years

In €	2010	2011	2012	2013	2014
Adjusted number of shares (as at 31 December)	117,944,082	121,434,409	124,946,356	128,159,600	130,597,975
Highest price	81.61	89.58	58.24	51.01	43.26
Lowest price	60.35	38.34	25.69	33.05	21.23
Average (closing) price for the year	73.05	68.33	40.05	41.55	34.80
Year-end price	78.60	50.16	39.49	39.60	22.75
Market capitalization (year-end price)	9,270,404,845	6,091,149,955	4,934,131,598	5,075,120,160	2,971,103,931

Source: Euronext.

Movements in share price and trading volume from January 2014 to March 2015

	Price *(in €)*			Transaction volume			
				Monthly total		Daily average	
	Highest	Lowest	Last	Number of shares	Capital *in € billion*	Number of shares	Capital *in € billion*
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
April	43.26	38.71	42.61	17,574,743	0.72	878,737	0.04
May	43.00	38.20	39.90	15,510,422	0.63	738,592	0.03
June	41.14	32.11	32.71	29,968,965	1.06	1,427,094	0.05
July	35.61	32.55	33.04	17,100,012	0.57	743,479	0.02
August	34.16	31.25	33.99	10,570,541	0.34	503,359	0.02
September	37.83	34.05	36.41	15,571,520	0.57	707,796	0.03
October	36.54	28.23	29.30	21,091,165	0.66	917,007	0.03
November	30.72	25.13	26.67	18,401,056	0.53	920,053	0.03
December	26.00	21.23	22.75	23,609,633	0.56	1,124,268	0.03
2015							
January	22.99	17.98	19.37	27,069,541	0.54	1,289,026	0.03
February	23.88	19.38	21.20	30,129,561	0.66	1,506,478	0.03
March	23.70	20.50	22.73	33,555,170	0.74	1,525,235	0.03

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 there was a 2:1 stock split on 9 July 2010. To date, the share's par value is €2.

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

The Shareholders' Meeting of 28 May 2015 (third and fourth resolutions) are asked to approve the payment of a net dividend of €0.81 per share for fiscal year 2014 and to grant each shareholder of the Company 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 2015 (record date of 3 June 2015).

Accordingly, each shareholder may opt for payment of the entire net dividend in cash or in shares between 4 and 17 June 2015 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 2015.

This dividend corresponds to a payout ratio [1] of 44.3% of consolidated net income, Group share. The average payout ratio of the last five years is 40.1%.

Based on the par value of the Vallourec share as at 31 December 2013 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 € per share	Gross earnings	Tax credit	Net dividend	Payout ratio [a]
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%
2013	0.81	none	0.81 [b]	39.6%
2014 [c]	0.81	none	0.81	44.3%

(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 31 May 2010, 7 June 2011, 31 May 2012, 30 May 2013 and 28 May 2014 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.

(c) Submitted for the approval of the Shareholders' Meeting of 28 May 2015.

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 Communication team is to facilitate shareholders' access to accurate and precise information that faithfully reflects 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 2014.

2.6.1 Information available to all shareholders

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

- the activity and sustainable development report, Vallourec at a glance brochures, the Shareholders' Guide 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*),
  - documents relating to the Shareholders' Meeting (Notice of Meeting, draft resolutions, voting form, meeting brochure);
- all Group press releases, presentations and publications are available under the Media heading.

Requests for information may be made on the Group website or addressed to the Investor Relations and Financial Communication Department by e-mail, telephone 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 Communication Department organizes, along with various members of the Group's executive management, 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**, upon the release of the Group's annual results;
- **each year, Vallourec participates in several events on socially responsible investment (SRI).** These meetings with investment funds and SRI analysts contribute to the Group's progress in the field of sustainable development;
- **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. Accessible to everyone in the form of a video recording that is available on the Group's website, Investor Day allows investors and analysts to have detailed discussions with the Management Board and the operational supervisors on a wide range of topics, outside of the periods for reporting results. 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 2014, Vallourec's executive management and the Investor Relations and Financial Communication team took part in nearly 350 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

Attentive to the expectations of individual shareholders, the Investor Relations and Financial Communication team provides precise and accessible information to all shareholders throughout the year. To that end, and through various additional media, specific communications methods were developed:

- a dedicated Individual Shareholders' space under the Finance heading of the Group's website (www.vallourec.com);
- 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 toll-free number for individual shareholders (0800 505 110, free of charge from landlines in metropolitan France);
- a newsfeed which allows press releases, notifications of financial publications as well as letters to shareholders to be received;
- a program of visits to Vallourec's industrial sites, offering shareholders the opportunity to learn about the Group in a more personal way (registration through the Group's website);
- Shareholders' Meetings in Paris and the regions, organized jointly with other companies in the oil services sector; a calendar of events is available on the Group's website;
- a Shareholders' Club allows members to take part in events and to engage in discussions more regularly (membership and registration conditions are on the Group website);
- lastly, an Investor Relations and Financial Communication team that is always available to answer questions.

Shareholders' Meeting

The Annual Shareholders' Meeting, which in 2014 was held at the former Paris Stock Exchange (Palais Brongniart), is a key opportunity for dialog 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.

Shareholders' Meetings

Vallourec had the opportunity to meet shareholders during two informational meetings that were dedicated to individual shareholders. These meetings, organized in Lyon (in June) and in Paris (in December) were held in the presence of other companies from the oil services sector in the form of conferences/discussions. They gathered together several hundreds of current and potential shareholders, enabling them to deepen their knowledge of the Group's activities and of the oil services sector.

Shareholders' Club

In 2014, Vallourec sought to further develop its measures for individual shareholders, by creating a Shareholders' Club. Thanks to this Club, Vallourec seeks to promote a sustained dialog with its shareholders, also strengthening the trusting, close relationships it has built with them. The Shareholders' Club can be accessed via the internet at www.vallourec.com (Finance/Investors Section) simply by registering online [1]. It allows shareholders to participate in events (conferences, discovery workshops, plant visits), engage in regular discussions in order to learn more about the Group's activities and gain a deeper understanding of them. This dialog also helps Vallourec better understand the concerns of its shareholders, and meet their expectations.

Within the framework of the Club, approximately twenty shareholders were invited to Vallourec's headquarters in Boulogne-Billancourt, to attend a presentation on the activities and financial results of the Group given by the Investor Relations and Financial Communication Director. This presentation was followed by a question-and-answer session.

Newsfeed

When disseminating its publications, Vallourec provides its shareholders and stakeholders with the possibility of subscribing to a Group newsfeed via the internet at www.vallourec.com (Finance/Investors Section), merely by registering online. The newsfeed allows press releases on the Group's financial results and activities to be received electronically, along with notifications of financial publications and letters to shareholders.

Toll-free number

Vallourec has provided its shareholders with a toll-free phone number (0 800 505 110) since September 2014. Free from any landline in mainland France, the number allows shareholders to gain access to information such as the financial agenda, as well as to hear a commentary on the most recent publication of the Group's results. The toll-free number also allows shareholders to get in touch with the Investor Relations and Financial Communication team, or BNP Paribas Securities Services, if the shareholder has registered shares or is interested in acquiring such shares.

Directly registered shares

Vallourec offers its shareholders direct registration of their shares, which includes the following benefits:

- **free management**: directly registered shareholders are totally exempt from custody fees and other associated management fees:
  - 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 directly registered shareholder will receive personalized information on:
  - shareholders' meetings, with systematic sending of the Notice of Meeting, a single form for postal voting or by proxy, a request for an admission card, and legal documentation
  - securities management (purchase and sale orders, etc.), securities transactions organized by Vallourec, etc. To this effect, as well as for other information, a team of dedicated operators is available to shareholders from 8:45 a.m. to 6:00 p.m. (Paris time), Monday to Friday, on + 33 (0) 1 40 14 80 17;
- **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;
- **a dedicated website**, Planetshares My Shares, can be accessed on a PC or tablet at: https://planetshares.bnpparibas.com. This site allows you to:
  - manage assets,
  - issue orders,
  - participate in the Shareholders' Meeting,
  - directly download all communication relating to assets (portfolio trading, transaction notices, etc.).

Further information about direct registration and registration forms may be obtained from BNP Paribas Securities Services:

- by mail from the following address:

BNP Paribas securities services
Corporate Trust Services
Relations Actionnaires Vallourec
9 rue du Débarcadère
93761 Pantin Cedex France

- by telephone on: + 33 (0) 1 40 14 80 17
- by fax on: + 33 (0) 1 55 77 34 17

(1) The regulations of the Shareholders' Club, which detail the terms of membership, are available on Vallourec's website (www.vallourec.com).

2.6.4 Contact for Investor Relations and Financial Communication

Investor Relations and Financial Communication Department

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

2.6.5 2015 financial calendar (dates subject to change)

29 April 2015	Release of results for Q1 2015
28 May 2015	Shareholders' Meeting
25 June 2015	Dividend payment
30 July 2015	Release of results for Q2 and H1 2015
9 November 2015	Release of results for Q3 and 9M 2015



3

Information on Vallourec's activities

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3.1 Presentation of Vallourec and its Group

3.1.1 History and development 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. Vallourec 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 1990s and the creation of the joint venture between Vallourec and Mannesmann, the Group has furthermore been widely established in the Düsseldorf region in North Rhine-Westphalia (Germany) and in the region of Belo Horizonte in the state of Minas Gerais, Brazil. In the first decade of the new millennium it strongly developed its positioning in North America and established itself in Asia. Also present in Africa and the Middle East, Vallourec is now an international group, operating close to its customers.

1886: INVENTION OF THE SEAMLESS STEEL TUBE ROLLING PROCESS

The Mannesmann brothers filed a patent which revolutionized the tube industry: thanks to a rolling mill with an oblique cylinder piercer, they were able to produce seamless steel tubes.

1890-1930: CREATION OF FOUNDING COMPANIES

In France, tube manufacturers began to adopt the seamless tube manufacturing process that had been perfected by the Mannesmann brothers in Germany. The Société Métallurgique de Montbard 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 Bourse 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.

1930: BIRTH OF VALLOUREC

The economic crisis prompted French tube manufacturers to join forces. The name Vallourec appeared for the first time as the name of a management company for tube plants in Valenciennes, Denain, Louvroil and Recquignies.

1957: LISTING OF VALLOUREC ON THE PARIS STOCK EXCHANGE

The Société des Tubes de Valenciennes and Société Louvroil-Montbard-Aulnoye merged. This Group became the second biggest manufacturer of steel tubes in France, and was listed on the Paris Stock Exchange under the name Vallourec.

1965: LAUNCH OF THE VAM® CONNECTION

A major innovation, the VAM® connection (named for Vallourec and Alexandre Madrelle, the engineer who developed the connection) revolutionized the oil industry. Thanks to unique mechanical features, it ensures complete sealing of the strings inside the well.

1976: INDUSTRIAL PARTNERSHIP WITH SUMITOMO

The development of the oil market prompted Vallourec to build industrial partnerships in order to meet its customers demand worldwide. In 1976, Vallourec signed a licensing agreement with the Japanese group Sumitomo (the third largest producer of steel tubes worldwide) and created a joint venture with it in 1984 to produce and market VAM® connections on the other side of the Atlantic. These agreements were the starting point for an ongoing collaboration.

1997: CREATION OF THE JOINT VENTURE BETWEEN VALLOUREC & MANNESMANN TUBES

Created in 1890, shortly after the Mannesmann brothers' revolutionary discovery of the seamless steel tube rolling process, Mannesmannröhren-Werke AG quickly became a world benchmark. The formation of Vallourec & Mannesmann Tubes, a joint subsidiary of Vallourec (55%) and the German company Mannesmannröhren-Werke (45%), allowed the two companies to offer their customers the widest range of tube sizes in the world.

2000: DEVELOPMENT IN BRAZIL

Vallourec & Mannesmann Tubes acquired the Brazilian subsidiary Mannesmannröhren-Werke, now known as Vallourec Tubos do Brasil S.A.

2002: STRENGTHENING OF THE GROUP'S PRESENCE IN THE UNITED STATES

Established since 1984 in the United States, the reference market for tubes for oil and gas well equipment (Oil Country Tubular Goods - OCTG), Vallourec has significantly strengthened its presence in the United States through the acquisition of the seamless steel tube activity of North Star Steel Company (North Star Tubes), which includes an electric steel mill and a tube mill in Youngstown (Ohio), along with a heat treatment and threading unit in Houston (Texas). Now called Vallourec Star, this company is 80.5% controlled by Vallourec Tubes and 19.5% controlled by Sumitomo Corporation.

2005: ACQUISITION BY VALLOUREC OF COMPLETE CONTROL OF VALLOUREC & MANNESMANN TUBES

Vallourec gained full control of Vallourec & Mannesmann Tubes through the acquisition of the 45% stake held by Mannesmannröhren-Werke for €545 million. This major operation gave Vallourec full control over implementing the strategy of the joint venture.

2005-2006: STRENGTHENING OF THE DRILLING TUBE ACTIVITY

Vallourec acquired the assets of the Omsco Division of ShawCor in the United States (Houston). This acquisition allowed Vallourec to become the second largest drilling tube operator for the oil & gas market in the world. This position was strengthened in 2006 with the acquisition of SMFI (Société de Matériel de Forage International) in France. These activities were combined under the name Vallourec Drilling Products.

2006-2010: EXPANSION IN CHINA

In an effort to pursue its growth in the area of tube production for the power generation market, in 2006 Vallourec opened a subsidiary, Vallourec Changzhou Co., Ltd, which was established in Changzhou, China, specialized in the cold-finishing of large-diameter seamless alloy steel tubes, produced in Germany for power plants.

In the same year, VAM Changzhou Oil & Gas Premium Equipments was created to operate a mill in Changzhou for threading tubing to equip oil and gas wells. Production began in mid-2007.

In an effort to further strengthen its presence on the Chinese market, in 2010 the Group acquired 19.5% of Tianda Oil Pipe Company Limited (TOP), a Chinese manufacturer of seamless tubes, listed on the Hong Kong Stock Exchange. Under the terms of a cooperation agreement with TOP, VAM Changzhou Oil & Gas Premium Equipments threads premium tubes manufactured locally by TOP for the Chinese premium OCTG market.

2008: ACQUISITIONS IN THE UNITED STATES

To strengthen its positions in products with high added value, Vallourec acquired Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy™ from Grant Prideco. These companies are specialized, respectively, in the production of premium connections, the heat treatment of high-grade alloy steel tubular products, as well as the production and repair of accessories used inside oil and gas wells, and in complex threading operations. In 2009, Atlas Bradford® Premium Threading & Services and TCA® merged respectively with VAM USA LLC and Vallourec Star.

2009-2010: NEW TUBE PRODUCTION CAPACITIES FOR NUCLEAR POWER PLANTS

Valinox Nucléaire, a Vallourec subsidiary specialized in the manufacturing of steam generator tubes, invested in new production capacities in Montbard (Côte d'Or, France) to meet the growing needs of the nuclear energy sector. In order to assist in the strong growth of the Chinese nuclear fleet, Valinox Nucléaire also invested in a new production unit in Guangzhou, in the southeast of China.

2009-2010: DEVELOPMENT IN THE MIDDLE EAST

In 2009, Vallourec acquired DPAL FZCO, a drill pipe supplier established and based in Dubai. This acquisition allowed Vallourec Drilling Products to increase its presence in the Middle East and to supply local and international customers of the Group. In 2010, the Group acquired the Abu Dhabi-based Protools, the biggest drill pipe accessories producer in the Middle East, thus enabling it to offer comprehensive solutions for the whole drill string.

2010: CONSOLIDATION OF THE PREMIUM SOLUTIONS OFFER

Vallourec acquired 100% of Serimax, the world leader in welding solutions for offshore line pipes. This acquisition supplemented Vallourec's activities in the area of offshore line pipes and allowed the Group to offer its customers integrated solutions.

2011: STRENGTHENING OF THE GROUP'S INDUSTRIAL PRESENCE IN BRAZIL AND THE MIDDLE EAST

In 2011, the new joint industrial site for Vallourec & Sumitomo Tubos do Brasil, held 56% by Vallourec and 44% by Sumitomo was commissioned at Jeceaba, in the state of Minas Gerais, Brazil. This premium industrial site includes a steel mill, a tube mill, and a group of heat treatment, threading and finishing lines. It employs 1,600 people and has a production capacity of 1 million metric tons of steel and 600,000 metric tons of tubes per year.

In the same year, Vallourec acquired Saudi Seamless Pipes Factory Company Ltd, the leading processing and finishing company for seamless OCTG tubes in Saudi Arabia. Vallourec thus became the leading player in the OCTG market to have local access to integrated heat treatment and threading facilities, to which it added a new threading line of VAM® connections.

2012: PARTICIPATING IN THE DEVELOPMENT OF UNCONVENTIONAL HYDROCARBONS IN THE UNITED STATES

Vallourec began operating a new premium small-diameter tube mill in Youngstown (Ohio), thereby covering a full range of products and services necessary for the production of all hydrocarbons, especially those relating to shale oil and gas.

2013: VALLOUREC, THE SINGLE BRAND FOR ALL COMPANIES OF THE GROUP

Since the formation of the joint venture Vallourec & Mannesmann Tubes, numerous entities of the Group operated under the V & M brand. In 2013, in an effort to contribute to strengthening its world leadership and assisting its growth strategy, Vallourec combined all of its entities under the same name: Vallourec, attesting to the successful consolidation of the numerous companies acquired by the Group worldwide.

3.1.2 Key events from fiscal year 2014 and Q1 2015

Fiscal year 2014

On 15 January 2014, Vallourec announced the opening of its plant, located in Dammam, Saudi Arabia. As a result of the acquisition of Saudi Seamless Pipes Factory Company Ltd in 2011, this plant was modernized and supplemented with an additional premium threading line and a new sleeve production workshop. Dedicated to the heat treatment and threading of the full range of VAM® premium connections, its annual production capacity amounts to 100,000 metric tons.

On 23 January 2014, Vallourec announced the expansion of its VAM® connections testing and developing center in Aulnoye-Aymeries, France (Nord). This center is in charge of developing increasingly innovative products for the oil and gas industry (tubes and VAM® connections), allowing it to meet the needs of increasingly complex drilling operations.

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.

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 Brazilian national oil company in terms of logistics services for ultra-deep offshore applications. It will provide these services through a dedicated subsidiary, Vallourec Transportes e Serviços.

On 7 March 2014, Vallourec announced that it was awarded a USD 100 million contract from Total E&P Borneo, a subsidiary of the Total group. Under the framework of the ML-South offshore project in Brunei, Vallourec will equip the wells with premium tubes, the majority of which are composed of high-alloy, corrosion-resistant steel grades, threaded with the latest VAM® 21 premium connections.

On 26 May 2014, Vallourec announced it had been selected to supply 15,000 metric tons of premium anticorrosion coated subsea line pipes as well as welding solutions within the framework of the TEN project, located in very deep waters off the coast of Ghana. Operated by Tullow Oil plc, the TEN project was developed by a consortium made up of Subsea 7 and Technip.

On 9 September 2014, Vallourec announced the signing of a contract with Technip Umbilicals for the supply of super duplex welded tubes for umbilicals under the Edradour project operated by Total in the United Kingdom. This contract marked the start of industrial production of the new Vallourec Umbilicals plant.

On 29 September 2014, Vallourec announced that it had successfully completed a bond issue in the amount of €500 million, maturing September 2024, with a coupon of 2.25%. This issue will be used to meet the Group's general financing needs and will allow Vallourec to increase its financial flexibility, and extend its debt maturity profile.

On 2 October 2014, Vallourec announced it had started initial deliveries on a 24,000 metric ton order of premium line pipe tubes for the Egina deepwater offshore oil field located in Nigeria and operated by Total Upstream Nigeria.

On 14 November 2014, Vallourec announced it had been awarded an important contract as part of the Kaombo project operated by Total E&P Angola in an ultra-deepwater offshore oil field in Angola. Vallourec will deliver 27,000 metric tons of tubular solutions to equip offshore oil wells, at water depths of between 1,400 and 2,000 m.

On 16 December 2014, Vallourec announced it had finalized Value 14, a capital increase reserved for its employees worldwide. Nearly 15,000 employees in 13 countries, representing 64% of eligible staff, subscribed for this seventh worldwide employee share ownership operation offered by the Group. As at 31 December 2014, employee shareholders represented 7.61% of Vallourec's shareholding structure.

Q1 2015

On 29 January 2015, Vallourec announced an impairment of its assets with regard to the CGU [(1)] that was consolidated with Vallourec & Sumitomo Tubos do Brasil (VSB), which notably includes the Brazilian joint venture between Vallourec and Nippon Steel & Sumitomo Metal Corporation, and the CGU Vallourec Europe. The Group also announced that a cost reduction and cash management plan would be presented at the same time as the results of fiscal year 2014.

On 12 March 2015, Vallourec announced that it had signed two contracts with AREVA to manufacture tubes for eight steam generators on two 1,300 MW EDF reactors. The tubes will be manufactured in 2016 and 2017 by Valinox Nucléaire, Vallourec's subsidiary, which specializes in tubes for nuclear power plants, at its Montbard production plant in Bourgogne.

(1) CGU: 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 main CGUs within the structure of the Group's current organization are Vallourec Europe, Vallourec Tubos do Brasil, Vallourec North America, Vallourec Heat Exchanger Tubes, Valinox Nucléaire, Serimax, and Vallourec & Sumitomo Tubos do Brasil.

3.1.3 Group activities

The Group is a world leader in premium tubular solutions, primarily for the energy markets and other industrial applications. With over 23,000 employees, integrated production sites, state-of-the-art R&D and a presence in over 20 countries, the Group offers its customers innovative global solutions tailored to the energy challenges of the twenty-first century.

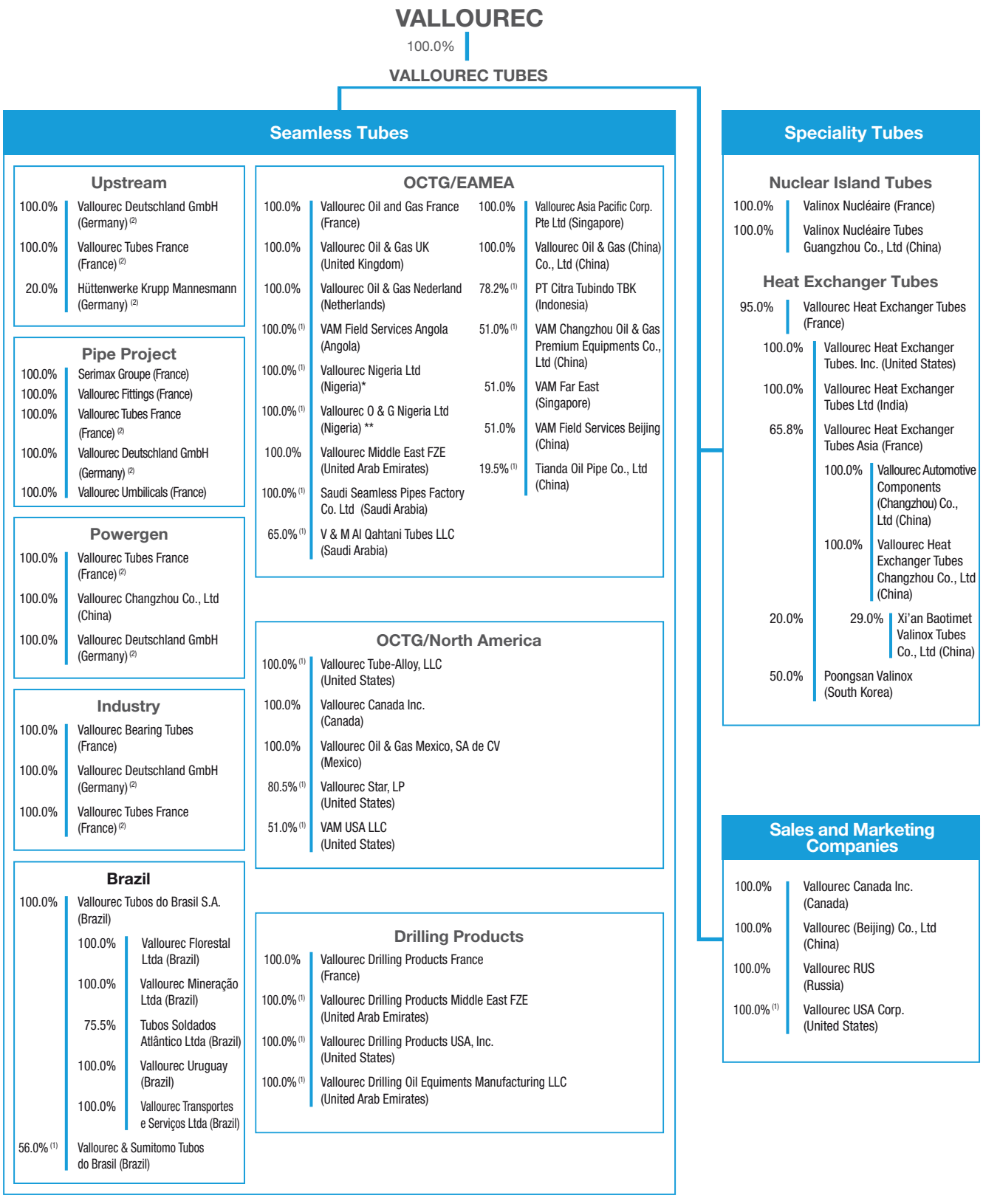
Originally based in France and Germany, Vallourec now has frontline positions in the United States, Brazil, Europe, the Middle East and Asia. With more than 50 production units and finishing lines around the world, Vallourec has integrated sites combining steel mills and tube mills in Europe, the United States and Brazil.

The Group's activities are subject to European regulations ((EU) Council Regulation No. 267/2012 of 23 March 2012 and amended (EU) Council Regulation No. 36/2012 of 18 January 2012, and US 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 in particular), concerning the imposition of restrictive measures against Iran and Syria.

They are likewise subject to the European regulations (amended (EU) Council Regulation No. 833/2014 of 31 July 2014) and the US regulations (in particular the rules of the Office of Foreign Assets Control or the Bureau of Industry and Security (BIS)) which impose economic and financial sanctions on Russia.

The Group has two main activities: Seamless Tubes and Specialty Products. It also has holding, sales and marketing companies.

Vallourec Group organization chart as at 31 December 2014



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

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

* *New company name effective since 10 September 2013, formerly VAM Onne Nigeria Ltd.*

* *New company name effective since 10 September 2013, formerly VMOG Nigeria Ltd.*

3.1.3.1 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;
  - owns its trademark and the Group image, of which it entrusted management to Vallourec Tubes in 2014;
  - 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 2014, the companies belonging to this centralized management were Vallourec, Vallourec Tubes, Vallourec Tubes France, Vallourec Oil and Gas France, Vallourec Deutschland GmbH, Vallourec Drilling Products France, Vallourec Heat Exchanger Tubes, Vallourec Bearing Tubes, Valinox Nucléaire, Assurval, Vallourec Fittings, Vallourec Umbilicals, Vallourec Nigeria Ltd. (former 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. As at 31 December 2014, companies participating in centralized cash management were Vallourec (Beijing) Co., Ltd, Vallourec (Changzhou) Co., Ltd, Vallourec Oil & Gas (China) Co., Ltd, VAM Changzhou Oil & Gas Premium Equipments, Vallourec 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 US dollars of certain American companies at the level of Vallourec Holding, Inc. As at 31 December 2014, the companies adhering to this centralized management were Vallourec Holding, Inc., Vallourec Tube-Alloy, LLC, Vallourec USA Corporation, Vallourec Industries Inc., Vallourec Heat Exchanger Tubes, Inc. and Vallourec Drilling Products USA, Inc.

  During 2014, centralized management of the rights of use of the Vallourec trademark was established at Vallourec Tubes level. In this context, Vallourec Tubes was entrusted with implementing the strategy for the protection, defense and use of its trademark, and of corresponding licensing agreements initially entered into with Vallourec were transferred to it.

3.1.3.2 Seamless tubes

The Group has a large portfolio of tubular products that is diversified, original and has high added value. It includes the most extensive range of seamless tubes in the world, up to 1,500 mm in external diameter, with a variety of more than 250 steel grades.

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 well equipment operating in extreme conditions such as the high pressure, high temperature and the 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 customer 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 pressures. 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: mechanical engineering (hydraulic cylinders, machine tools, etc.), automotive, construction (stadiums, buildings and other complex structures), and other industries.

To serve its core markets as close as possible 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.

UPSTREAM

The Upstream Division is comprised of all of the Group's rolling mills and steel mills in Europe, with the exception of the Montbard rolling mill, which is dedicated to mechanics and bearing tubes.

The objectives of the Upstream Division are:

- to continue to improve safety, quality and customer service;
- to provide other 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 – Innovation, Research and Development – Industrial Property).

In 2014, the Upstream Division continued the plan to optimize its heat treatment and finishing capacities to support the upgrading of its products, and commissioned a new heat treatment facility at its Déville-lès-Rouen (France) plant.

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 – 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 modernizing of the liquid steel production tool in 2013 allowed the plant's technical performance to improve and provided the production needed to create a more flexible and efficient rate of production.

The renovation of the Saint-Saulve continuous rolling mill is being completed in stages.

The Déville-lès-Rouen plant was refocused on oil activities, and supplies urgent casing-product orders to the OCTG Division. The new heat treatment furnace commissioned in 2014 will be an aid to the plant's upgrading.

The Aulnoye-Aymeries forge is now specialized in niche products for the Industry market.

Vallourec 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 activity at the Mülheim plant benefits from the investments to improve its production flows, in the very competitive small tubes market.

The Rath plant is pursuing its program to streamline its finishing flows based on lean manufacturing principles.

The Reisholz plant provides the world market with very large tubes for power plants.

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).

PIPE PROJECT

The Pipe Project Market Division is dedicated to the Oil & Gas market, 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 line pipes (production and injection lines - flowlines and risers), onshore rigid line pipes, specialized tubes for umbilicals, as well as 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.

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 four 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, thanks to a service offering that includes comprehensive solutions for pipeline welding and manufacturing, on both land and at sea, and in the most extreme conditions. From planning to the implementation and management of a project, Serimax adapts each project to customer 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 on the end-to-end welded Section of line pipes both onshore and offshore on installation vessels.

Vallourec Fittings – 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.).

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.

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 (European plants) and the Powergen Division (Chinese plant), 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 fine tune understanding of the constraints and requirements of Group customers, provide them with suitable solutions, strengthen and develop useful partnerships on the markets and translate technological challenges into Research and Development programs, and innovative offerings.

The Group also focuses on the continuous improvement of the quality, operational excellence and range of the products and services it offers to satisfy customers' needs. The Project Management and Boiler Field Services functions have supplemented this plan since 2012, which was designed to meet the needs of the Group's customers.

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.

INDUSTRY

The Industry Division includes a Business Unit and the following departments, located in Germany and France:

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

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

This Department is responsible for selling hollow bars 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, hollow bars) 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 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 Vallourec Bearing Tubes, 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. The Industry Division recently restructured its range of proprietary materials for industrial applications. Six series of premium grades with new names were designed to improve the readability of the Company's 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.

The activities of the Industry Division are carried out through Vallourec Tubes France and Vallourec Deutschland GmbH, described above (see 3.1.3.2 – Upstream above), as well as through Vallourec Bearing Tubes.

Vallourec Bearing Tubes – 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 bearing tube activity, Vallourec Bearing Tubes produces and supplies made-to-measure tubes for mechanical engineering and tubular hollow bars for the oil and gas markets.

To increase competitiveness and responsiveness to meet customers' increasingly demanding service requirements, Vallourec Bearing Tubes streamlined production capacity in 2010. It currently has two production units:

- the Montbard plant (Côte-d'Or): manufacturing unit for hot-rolled tubes, heat-treated and cold-finished;
- the La Charité-sur-Loire plant (Nièvre): a factory and cold-rolled component finishing unit.

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 offering for the following products:

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

OIL COUNTRY TUBULAR GOODS (OCTG)

The OCTG activities are being developed in Europe, Africa, the Middle East and Asia (OCTG EAMEA), as well as in North America (OCTG North America) and South 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 established 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. The OCTG activity in South America is integrated into the Brazilian operating division (see below – Brazil, p. 39).

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 operating 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 & Gas Premium Equipments 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-technology products for the global market.

OCTG North America continued to expand in 2014 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, completed its industrial development stage in 2014.

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 which are 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, Singapore and Indonesia to provide, as a complement to its network of licensed partners, global coverage for accessory 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) – 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 – 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).

Vallourec Nigeria Limited (former VAM ONNE Nigeria Ltd) – Nigeria (100%) (1)

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 Co., Ltd – China (51%) (1)

This company was created in September 2006 for the operation of a tube threading plant for oil and gas well equipment. Production began 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 Anhui Tianda Oil Pipe Company Limited (TOP), it is responsible for threading 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 – China (100%)

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

Vallourec Asia Pacific Corp. 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%) (1)

This company carries out heat treatment on tubes and threading of API and NS® joints, 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:

Vallourec Oil & Gas Nederland (VOGNL) – Netherlands (100%)

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

VAM Field Services Angola – Angola (100%) (1)

This service company was formed in 2007; its operating base is located in Luanda.

Vallourec O & G Nigeria Limited – Nigeria (100%) (1)

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

V & M Al Qahtani Tubes LLC – Saudi Arabia (65%) (1)

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 which brought all of the Group's industrial activities in Saudi Arabia under the same umbrella.

Saudi Seamless Pipes Factory Company Limited – Saudi Arabia (100%) (1)

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 required for the production of premium connections using hollow bars supplied by Vallourec's tube mills, achieving activity that was close to its capacity in 2014.

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

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

VAM Far East Ltd – 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.

Its operations are based 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 provide services to drilling platforms.

Tianda Oil Pipe Company Limited (TOP) – China (19.5%) (1)

On 1 April 2011, Vallourec finalized 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. TOP has been manufacturing OCTG tubes for the Oil & 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). 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 Equipments China threads premium tubes manufactured locally by TOP for the Chinese premium OCTG market.

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

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.

OCTG North America activities

Vallourec Star, LP – United States (80.5%) (1)

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.

Effective 1 January 2012, Vallourec Star, LP which already had a 400,000 metric ton capacity for medium and very thick diameter tubes, absorbed V & M Two, which was in charge of constructing the new small-diameter tube mill in Youngstown (Ohio). This new rolling mill has an initial capacity of 350,000 metric tons of tubes per year. The plant's capacity may be raised, if necessary, to 500,000 metric tons of seamless tubes per year, bringing the full capacity of Vallourec Star, LP to approximately 900,000 metric tons if needed. 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. The ramping up of this new plant was completed in 2014, and the Group now offers a full range of products and services necessary for the production of all hydrocarbons, especially those relating to shale oil and gas.

Vallourec Oil & Gas Mexico SA de CV – Mexico (100%)

This company specializes in premium VAM® connections 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. – Canada (100%)

On 1 January 2013, Vallourec Tubes Canada Inc., Vallourec's tube import company in Canada, and VAM Canada Inc., a specialist in VAM® premium connections 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%) (1)

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® and Atlas Bradford® 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 OCTG premium joints. 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 to 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 – 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, Houston, Texas, and Casper, Wyoming.

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

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 units 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 operational companies and drilling contractors to develop new high-performance products, incorporating the most complex drilling techniques.

Vallourec Drilling Products 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, Vallourec Oil and Gas France contributed its drilling products business to the company.

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

Vallourec Drilling Products USA, Inc. – United States (100%) (1)

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 for the oil and gas drilling industry. These products primarily consist of drill pipes and heavyweight drill pipes.

Its production unit is located in Houston, Texas.

Vallourec Drilling Products Middle East FZE – Dubai, United Arab Emirates (100%) (1)

Acquired in September 2009 from Soconord, Vallourec Drilling Products Middle East FZE is a drill pipe supplier. It offers a broad range of drill pipes for the oil drilling industry in the Middle East. Its production capacity is 25,000 pipes per year.

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

Vallourec Drilling Oil Equipments Manufacturing LLC – Abu Dhabi, United Arab Emirates (100%) (1)

Acquired in February 2010, Vallourec Drilling Oil Equipments 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 all drill strings in the region.

Since mid-2013, this unit has also had an internal plastic coating line which is primarily for the drill pipes manufactured at the Dubai site.

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

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

BRAZIL

The activities of the Brazilian companies are aimed at markets in Brazil and Latin America, as well as the rest of the world (Vallourec & Sumitomo Tubos do Brasil).

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

Vallourec Tubos do Brasil S.A. – 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 combines all production equipment, from the steel mill to the hot-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 S.A. 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. combines the following subsidiaries:

Vallourec Florestal Ltda – Brazil (100%)

Vallourec Florestal Ltda cultivates 113,022 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. The supply of charcoal to Vallourec & Sumitomo Tubos do Brasil began in the second half of 2014.

Vallourec Mineração Ltda – Brazil (100%)

Vallourec Mineração Ltda produces approximately 4 million metric tons of iron ore in the Pau Branco mine, which are primarily for the Vallourec Tubos do Brasil S.A. and Vallourec & Sumitomo Tubos do Brasil steel mills. In 2014, all of the pellets were delivered to the Vallourec & Sumitomo do Brasil pelletization plant. The iron ore fines for sintering were sold to VALE and on the Brazilian market. Vallourec Mineração also sells the excess pellets produced by Vallourec & Sumitomo do Brasil that it does not use itself on the Brazilian market.

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 anticorrosion coatings on welded spiral tubes or seamless tubes.

Vallourec 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%)

Formed in 2013, Vallourec Transportes e Serviços Ltda, wholly-owned by Vallourec Tubos do Brasil, continued its ramp up in 2014. It combines the activities of accessory and specialized service sales for the Brazilian oil and gas industry.

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

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 a steel mill, a rolling mill, finishing lines and a pelletization plant in Jeceaba, Minas Gerais. Its annual steel production capacity is one million metric tons produced in the form of billets, 700,000 metric tons of which are needed to supply the new rolling mill. The remaining 300,000 metric tons are used by the Group.

The new rolling mill has an annual seamless tube production capacity of 600,000 metric tons. Production is 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 commercial deliveries were made in late 2011. In February 2013, the first pellets were produced from iron ore mined at Pau Branco. In the second half of 2014, the first blast furnace began production.

Vallourec & Sumitomo Tubos do Brasil (Brazil) is an industrial supplier to all Vallourec's OCTG markets, with a focus on the EAMEA region. It has ramped up capacity since it began operations with the industrialization of premium products and progressive qualification of the plant by major international customers. Semi-finished products are exported to finishing plants in Scotland, Saudi Arabia and Indonesia, and finished VAM® threaded products are exported to Africa and the Middle East, among other destinations.

Vallourec & Sumitomo Tubos do Brasil (Brazil) handles all kinds of API and premium threading and, in particular, the VAM® product line.

Vallourec & Sumitomo Tubos do Brasil is 56% owned (1) by the Group, 21.4% by Nippon Steel and Sumitomo Metal Corporation, 19% by Nippon Steel and Sumikin Tubos do Brasil and 3.6% by Sumitomo Corporation.

3.1.3.3 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.

HEAT EXCHANGER TUBES

Vallourec Heat Exchanger Tubes – 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., which has a plant in Morristown, Tennessee.

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

- **Vallourec Heat Exchanger Tubes Changzhou Co., Ltd** (65.8% owned via the sub-holding company Vallourec Heat Exchanger Tubes 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);
- **Vallourec Automotive Components (Changzhou) 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** (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).

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

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 plants, 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.

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

Formed in November 2010 in Guangdong Province, China, Valinox Nucléaire Tubes Guangzhou was opened 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 in nuclear power plants on the Chinese market. This plant will allow the Group to keep pace with the fast-growing Chinese nuclear fleet, whose operating capacity is expected to jump from 17 GW in early 2014 to 58 GW in 2020.

3.1.3.4 Sales and Marketing companies

Vallourec USA Corporation – United States (100%) (1)

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

3.1.4 Results

3.1.4.1 Consolidated Group results

INCOME STATEMENT

Comparison of FY 2014 with FY 2013

Consolidated data *In € million*	2014	2013	Change 2014/2013
Sales volume *(in thousands of metric tons)*	**2,323**	**2,159**	**+7.6%**
Sales	**5,701**	**5,578**	**+2.2%**
Cost of sales (a)	(4,248)	(4,035)	+5.3%
Industrial margin	**1,453**	**1,543**	**-5.8%**
(as a % of sales)	*25.5%*	*27.7%*	*-2.2pt*
Sales, general and administrative costs (a)	**(568)**	**(560)**	**+1.4%**
(as a % of sales)	*10.0%*	*10.0%*	*+0.0pt*
EBITDA	**855**	**920**	**-7.1%**
(as a % of sales)	*15.0%*	*16.5%*	*-1.5pt*
Operating profit	**(661)**	**534**	**N/A**
Net income, Group share	**(924)**	**262**	**N/A**

(a) Before depreciation and amortization.

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

Vallourec consolidated sales amounted to €5,701 million in 2014, up 2.2% (3.9% at constant exchange rates), thanks to a positive volume effect (+7.6%), partly offset by a negative price and product mix effect (-3.7%) and a negative translation effect (-1.7%).

EBITDA stood at €855 million in 2014, down 7.1% year-on-year. EBITDA margin reached 15.0% of sales in 2014 compared with 16.5% in 2013. This was due to:

- lower industrial margin, as higher consolidated sales have been offset by less favorable volumes and mix in Brazil, as well as a negative EUR/USD effect;
- broadly stable sales, general and administrative costs (SG&A) at €568 million, notwithstanding an increased R&D effort.

Operating loss was -€661 million, compared with a profit of €534 million in 2013, largely as a consequence of the -€1,104 million impairment charge.

Excluding impairment impacts [(1)], operating profit stood at €465 million, down 12.9% year-on-year. This decline is attributable to a decrease in EBITDA and to higher depreciation of industrial assets, in line with investments made over the past few years.

For the full year 2014, financial result was negative at -€62 million versus -€91 million in 2013. This improvement mainly resulted from a positive foreign exchange result in 2014.

Net income, Group share stood at -€924 million, compared with €262 million in 2013. The Income tax amounted to -€157 million in 2014, and was impacted by the depreciation and the non-recognition of some deferred tax assets.

Adjusted net income, Group share (excluding impairment impacts) stood at €239 million, down 8.8% versus last year.

CASH FLOW

Vallourec generated a positive free cash flow of €274 million in 2014 compared with a negative €41 million in 2013. Despite a slight decrease in cash flow from operating activities**,** at €682 million, mainly due to EBITDA decline, free cash flow generation was positive due to:

- lower **gross capital expenditure** which, at €388 million in 2014, represented a reduction of 31.6% or €179 million compared with 2013;
- a stabilization in **operating working capital requirement** with an increase of €20 million in 2014, compared with an increase of €183 million in 2013.

Total dividends paid by the Group in 2014 amounted to €163 million.

As at 31 December 2014, Group net debt decreased by €84 million to €1,547 million compared to the end of 2013. The gearing ratio was 37.1%.

As at 31 December 2014, Vallourec had approximately €3.5 billion of committed financings, including undrawn confirmed credit lines of €1.7 billion. In September 2014, Vallourec announced the successful completion of its €500 million bond issue, maturing in September 2024, with an annual coupon of 2.25%.
In February 2015, Vallourec obtained a one-year extension option of its syndicated facility conditions. The maturity of the €1.1 billion multi-currency revolving credit facility is now February 2020, and can be extended for an additional year subject to banks' approval.

REASSESSMENT OF ASSET BASE

Brent and WTI price declines, together with increased capex discipline from IOCs, and the emergence of new competitors in some less differentiated products market, notably in the EAMEA region, are impacting prospects for some Group operations in the short and medium term.

Therefore, as a result of its annual impairment test, Vallourec has taken an asset impairment charge of -€1,104 million, mainly attributed to Vallourec & Sumitomo Tubos do Brasil (VSB) integrated CGU [(2)] (-€522 million) and to Vallourec Europe CGU (-€539 million). These impairment charges relate to tangible assets of -€900 million and goodwill of -€204 million.

(1) For details, see reconciliation table in Section - Reassessment of asset base and Chapter 6, Notes 2.3 and 28 to the financial statements of this registration document.

(2) CGU: 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 from the cash inflows generated by other groups of assets. The main CGUs within the Group's current structure and organization are Vallourec Europe, Vallourec Tubos do Brasil, Vallourec North America, Vallourec Heat Exchanger Tubes, Valinox Nucléaire, Serimax, and Vallourec & Sumitomo Tubos do Brasil.

In € million	Goodwill impairment	Assets impairment	Total impairment
Vallourec Europe CGU	(165)	(374)	(539)
VSB integrated CGU	-	(522)	(522)
Other CGUs & individual assets	(39)	(4)	(43)
TOTAL	**(204)**	**(900)**	**(1,104)**

After this adjustment, the total value of non-current assets of the Group amounted to €5,077 million as at 31 December 2014. These impairments charges have no impact on Vallourec's cash position or liquidity.

Excluding impairment impacts, the Group's 2014 consolidated data is as follows:

		Impairment impacts					
In € million	2014 Actual	Impairment *(incl. Goodwill)*	Depreciation of current assets	Deferred tax assets	2014 Adjusted	2013 Actual	Change YoY
EBITDA	**855**	**-**	**-**	**-**	**855**	**920**	**-7.1%**
Depreciation of industrial assets	*(311)*	*-*	*-*	*-*	*(311)*	*(270)*	*+15.2%*
Other (amortization, exceptional items, impairment & restructuring)	*(1,205)*	*1,104*	*22*	*-*	*(79)*	*(116)*	*N/A*
Operating profit	**(661)**	**1,104**	**22**	**-**	**465**	**534**	**-12.9%**
Financial income (loss)	*(62)*	*-*	*-*	*-*	*(62)*	*(91)*	*-31.9%*
Profit before tax	**(723)**	**1,104**	**22**	**-**	**403**	**443**	**-9.0%**
Income tax & Net profit of equity affiliates	*(155)*	*(18)*	*(4)*	*59*	*(118)*	*(144)*	*N/A*
Adjusted net income, Group share	**(924)**	**1,086**	**18**	**59**	**239**	**262**	**-8.8%**

N/A: not applicable.

3.1.4.2 Corporate results for Vallourec (parent company)

In 2013, Vallourec posted an operating loss of €13.9 million, compared to a loss of €8.5 million in 2013. This loss stems from the costs incurred by the holding company (personnel costs, legal fees and communications).

Financial income/(loss) (the difference between financial income and expense) was positive at €162.4 million, versus €270.4 million in 2013, and mainly reflects a dividend of €183.1 million received from Vallourec Tubes.

Non-recurring income for the fiscal year was a gain of €3.7 million, compared to a loss of €9.4 million in 2013. This is explained by the assignment of the usufruct on the Vallourec trademark for €5.1 million and the €1.4 million loss under the liquidity agreement.

Corporate income tax resulted in a tax benefit of €7.0 million (€10.8 million in 2013) resulting from the tax loss carryforwards of consolidated companies, which are available to be used by Vallourec as head of the tax group.

Vallourec posted net income of €159.2 million, down from €263.3 million in 2013.

As at 1 January 2014, the start of the 2014 fiscal year, 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.

On 25 June 2014, under the fourth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014, the Management Board recorded the completion of a capital increase through the issue of 518,416 new shares (representing 0.4% of share capital at that date) at a price per share of €35.69 in payment of the 2013 dividend of €0.81 per share. The issue of the new shares resulted in a capital increase by a nominal amount of €1,036,832, which raised Vallourec's share capital at 25 June 2014 from €256,319,200 to €257,356,032, divided into 128,678,016 shares with a par value of €2.00 each.

At the end of the clearing period for subscriptions to the Value 14 international employee share ownership plan (see Chapter 7 below) at its meeting on 16 December 2014, the Management Board, under the terms of the fifteenth, sixteenth and seventeenth resolutions of the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014, recorded the final completion of three capital increases in the nominal amounts of €1,947,246, €1,547,440 and €345,232, or an aggregate nominal amount of €3,839,918, through the respective issue of 973,623, 773,720 and 172,616 new shares for an aggregate total of 1,919,959 new shares with a par value of €2.00 each and a price per share of €24.12 for the standard plan and €25.62 for the leveraged scheme. These transactions had the cumulative effect of increasing share capital from €256,319,200 to €261,195,950.

As at 31 December 2014, subscribed, fully paid-up share capital amounted to €261,195,950, divided into 130,597,975 shares with a par value of €2.00 each.

Equity rose by €123.5 million to a total of €3,188.3 million as at 31 December 2014. This increase is due to net profit for 2014 of €159.2 million, the distribution of a cash dividend of €0.81 per share on 25 June 2014 for a total of €103.3 million, the capital increase of €18.5 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 €49.2 million (including additional paid-in capital, but excluding issuance fees) carried out as part of the Value 14 international employee share ownership plan.

Financial debt amounted to €1,949 million, up €388 million year-on-year. This change is notably explained by a new bond issue in the amount of €500 million, maturing in September 2024, with a fixed annual coupon of 2.25%. Within the framework of 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 2014, €311 million were outstanding under this program, with a maturity of one to 12 months.

To the best of the Company's knowledge, the 2014 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 2013 and 2014.

Due dates (D=31/12/2014) *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			3,061		151			3,212
Suppliers of fixed assets	-	-	-	-	-	-	-	-
Total payable	**-**		**3,061**		151			**3,212**
Accruals: invoices not yet received			1,021					1,021
Other		-	-	-	-	-	-	
TOTAL			**4,082**		**151**			**4,233**

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**

3.1.4.3 Trends in Vallourec Group markets

OIL & GAS, PETROCHEMICALS (71.7% of sales)

Oil & Gas sales reached €3,796 million in 2014, up 3.5% year-on-year (up 4.9% at constant exchange rates).

- **In the USA,** Vallourec sales reached a record high in 2014, benefiting from higher volumes. This performance was supported by increased local demand and the successful ramp-up of the Group's new rolling mill. OCTG [1] demand grew in 2014 driven by a 5.7% year-on-year increase in the average active rig count and gains in drilling efficiency.
- **In the EAMEA** [2] **region,** sales increased in 2014, mainly benefiting in the first nine months from the exceptional backlog generated in 2013, notably in the Middle East, and more specifically in Saudi Arabia. However, the low level of orders recorded since Q2 2014 negatively affected Q4 2014 sales year-on-year, and will severely impact 2015 deliveries.

(1) OCTG (Oil Country Tubular Goods): tubes used for oil and gas production.

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

- **In Brazil,** sales and product mix were strongly impacted in 2014, as a result of Petrobras' decision to eliminate most of its tube inventories, although its drilling plans were kept unchanged. As expected, Q4 2014 sales benefited from the progressive restart of deliveries to Petrobras.

Petrochemicals sales were €288 million in 2014, down 6.5% year-on-year (down 4.9% at constant exchange rates) affected by intense competition and a lack of new projects.

POWER GENERATION (10.7% of sales)

Power Generation sales reached €610 million in 2014, up 6.6% year-on-year (up 6.8% at constant exchange rates).

- **The conventional power generation** market continued to benefit from numerous projects but was impacted by sustained pricing pressure.
- **In nuclear**, sales were up year-on-year, benefiting from the rescheduling of some projects from 2013 to 2014.

INDUSTRY & OTHER (17.6% of sales)

Industry & Other sales amounted to €1,007 million in 2014, down 2.1% year-on-year (up 1.3% at constant exchange rates).

- **In Europe**, higher volumes were offset by the effect of negative price and product mix. The competitive environment, coupled with the poor macroeconomic outlook in the region leads to a highly challenging backdrop.
- **In Brazil**, sales were down year-on-year due to the decline of automotive sales, notably heavy vehicles (domestic and export), suffering from the weak macroeconomic environment in the region. In addition, 2014 iron sales declined due to the correction in iron ore prices, notably in the second half of the year.

3.1.5 Exceptional events in 2014

On 10 June 2014, Vallourec announced to the financial community that it was revising its 2014 guidance.

This announcement followed, on the one hand, the decision of Petrobras, the Group's major customer in Brazil, to eliminate most of its tube inventories, and on the other, the drop in Oil & Gas orders in the EAMEA region, which was due to inventories adjustments at some E&P operators and the postponement of some tenders. Vallourec also informed the financial community that the non-Oil & Gas activities in Brazil would be impacted by the continuing deterioration of the Brazilian macroeconomic environment, and by the fall of iron ore prices.

Consequently, and despite operational adjustment measures, which were immediately taken to limit these temporary negative impacts, the Group informed the financial community that, assuming no significant changes in markets and currencies, it was targeting sales in 2014 close to those of 2013, and an EBITDA down by approximately 10% compared to 2013. Lastly, the Group confirmed its target to generate a positive free cash flow in 2014, and has accordingly decided to reduce its capital expenditures by €100 million for the full year 2014 (to €400 million compared to an initial objective of €500 million for 2014).

On 29 January 2015, Vallourec announced to the financial community that it had reassessed the carrying value of its global asset base, as part of its annual impairment review. The Group estimated that this review should lead to a total adjustment anticipated between €1.0-1.2 billion. Over the past few months, certain of Vallourec's end-markets have been affected by challenging conditions; in particular, oil markets have experienced substantial levels of turmoil leading to this impairment.

In the end, the Group has accounted for an impairment charge of -€1,104 million as at 31 December 2014. The details of this impairment are available in Section 3.1.4.1 - Consolidated results of the Group and in the Notes 2.3 and 28 to the consolidated financial statements (Chapter 6), and were disclosed to the financial community on 24 February 2015 upon publication of the full year 2014 results and the launch of Valens, the Group's two-year competitiveness plan [(1)].

3.1.6 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	2012	2013	2014	Comparison 2013/2014
Q1	504	487	551	+13.3%
Q2	528	543	583	+7.4%
Q3	525	545	564	+3.5%
Q4	535	584	625	+7.0%
TOTAL	**2,092**	**2,159**	**2,323**	**+7.6%**

(1) See chapter 8, Section 8.7 (Valens, a two-year competitiveness plan).

3.1.7 Location of main facilities

3.1.7.1 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 2014, 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 3.1.3 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 €3,737.2 million at the end of 2014 (€4,328.7 million in late 2013 and €4,516.2 million at the end of 2012). 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 Chapter 6, 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 2014, which extended the Company's property, plant and equipment base, are provided below (see Section 3.2.2 below).

3.1.7.2 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. These establishments comply with the regulations:

- four establishments are subject to a declaratory regime, i.e. operated in compliance with standard operating obligations;
- 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 2014, all of these facilities held valid prefectural orders.

Vallourec's 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 foreign establishments have the prescribed permits, which are regularly renewed in application of local regulations. To that end, only the new Valinox Nucléaire Guangdong site is awaiting formal notification of its permit, after having provided all of the required documents.

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, Valti Krefeld plants) underwent complete environmental investigations prior to sale.

The situation of operational sites with regard to soil pollution is described in Section 4 "Corporate social responsibility" of this Registration Document.

3.1.7.3 Changes in consolidation scope

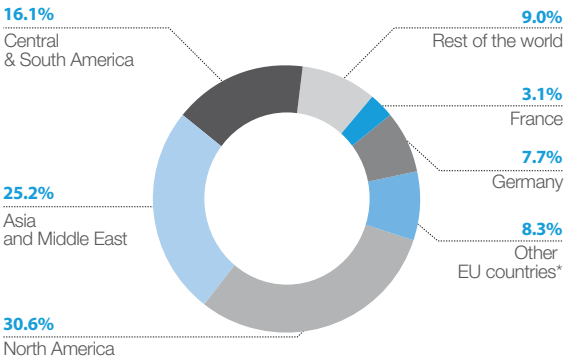
There was no significant change in scope during the last three fiscal years.

3.1.8 Main Group markets

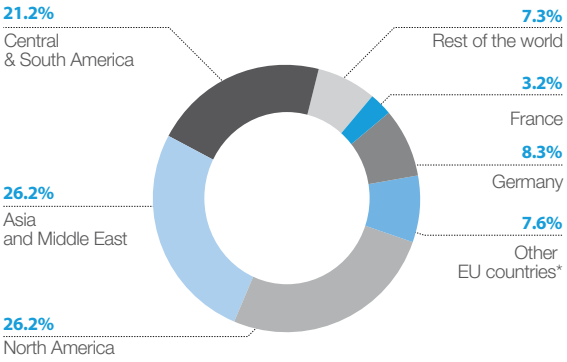
Due to the scale of the integrated industrial processes and the development of downstream activities, the breakdown of business activity according to markets and geographical segments is the only meaningful indicator.

3.1.8.1 Group activities by geographical segment

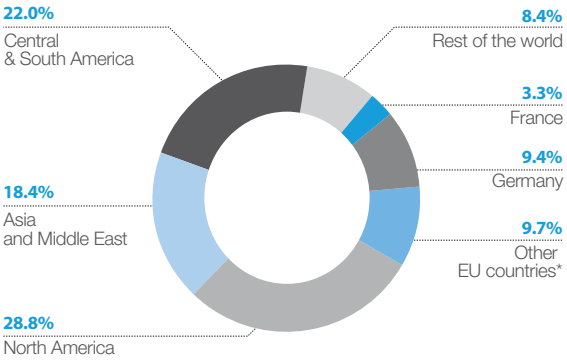
2014



2013



2012



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

Consolidated sales totaled:

- €5,701 million in 2014; 19% in Europe;
- €5,578 million in 2013; 19% in Europe; and
- €5,326 million in 2012; 22% 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 2014
TOTAL 2014													
(in € thousand)	**178,050**	**438,071**	**473,732**	**57,318**	**1,746,660**	**312,902**	**1,121,159**	**1,434,061**	**867,910**	**50,891**	**918,802**	**453,431**	**5,700,124**
(%)	3.12	7.69	8.31	1.01	30.64	5.49	19.67	25.16	15.23	0.89	16.12	7.95	100.00

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

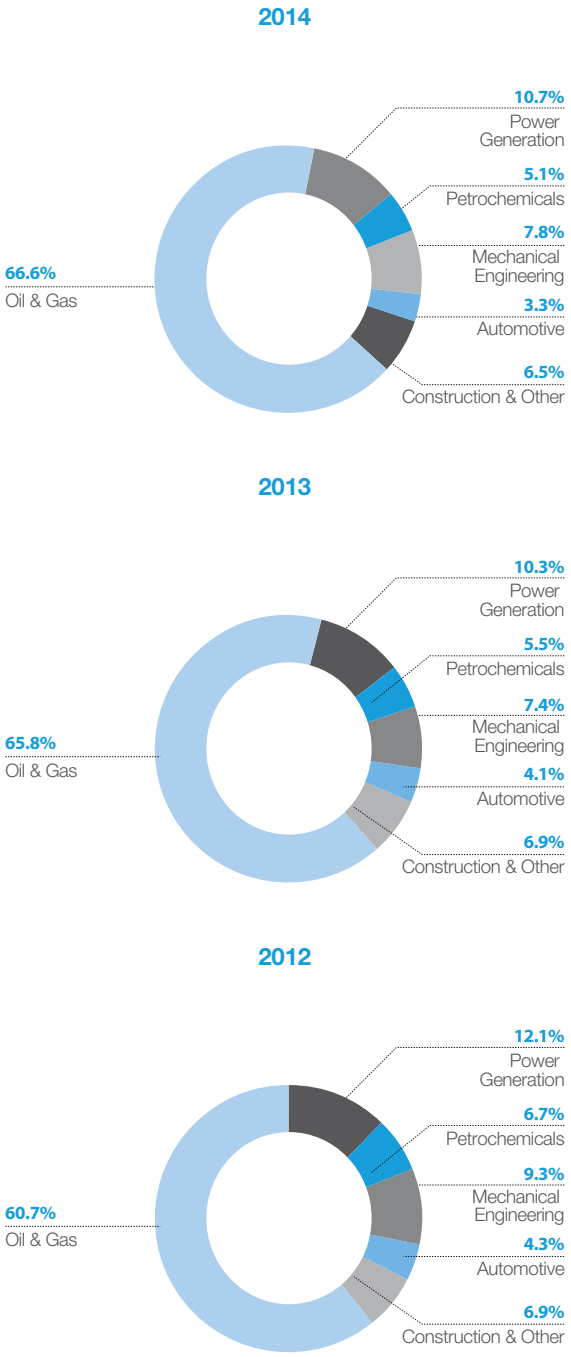
	France	Germany	Other EU countries [a]	CIS	North America	China	Other Asia and Middle East	Total Asia and Middle East	Brazil	Other Central & South America	Total South America	Rest of the world	Total 2013
TOTAL 2013													
(in € thousand)	180,715	461,538	423,018	53,160	1,462,206	222,556	1,239,591	1,462,147	1,105,206	79,315	1,184,521	351,009	5,578,314
(%)	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 America and 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
(%)	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.

3.1.8.2 Group activities by market



As at 31 December 2014, the Group's sales in absolute value and as a percentage of sales by market was as follows:

Markets	Revenue *(in € million)*	Revenue *(in %)*
Oil & Gas	3,796	66.6
Power Generation	610	10.7
Petrochemicals	288	5.1
Mechanical Engineering	447	7.8
Automotive	188	3.3
Construction & Other	372	6.5
TOTAL	**5,701**	**100**

3.1.9 Information on the competitive position of the Company

The information below is broken down into the various markets in which Vallourec participates. It is based on the Group's internal analyses and constitutes the Group's own estimates.

3.1.9.1 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, offshore and onshore line pipe for oil and gas transportation:

- In the OCTG market, Vallourec is among the world's 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 and American companies.
- Vallourec is one of the three major players in the offshore line pipe market with Tenaris and NSSMC:
  - the Group has a very strong position in the segment of seamless tubes for deep water (over 500 meters) projects, which require high-tech products;
  - Vallourec has also positioned itself as the world leader in welding solutions for offshore line pipe through its subsidiary Serimax, which offers welding solutions for onshore line pipe;
  - 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.
- Vallourec is also present in the onshore line pipe segment.

3.1.9.2 Power generation

Vallourec is the global leader in this segment, offering the largest range of tubes, product sizes 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, Changbao and Chengde;
- 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 tubes in titanium or stainless steel for applications in power plants (low and high-pressure feedwater heaters and condensers, driers and steam heating equipment): Vallourec is a world leader on this market, through its subsidiary Vallourec Heat Exchanger Tubes. Its main competitors are NSSMC, Schoeller and Shinhan.

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

3.1.9.4 Petrochemicals

Vallourec is a supplier for several applications:

- seamless tubes for refineries, petrochemical facilities, 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 at saltwater desalination plants and liquefied natural gas (LNG) plants: Vallourec is one of the world market leaders, through its Vallourec Heat Exchanger Tubes subsidiary. Its main competitors are Korean and Japanese companies, as well as new Chinese players.

3.1.9.5 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.

3.1.10 Dependency on the economic, industrial and financial environment

3.1.10.1 Breakdown of raw material supplies at 31 December 2014

Purchases consumed during 2014 included the following:

In € thousand	At 31/12/2013	At 31/12/2014
Scrap metal and ferrous alloys	377,964	448,668
Rounds/billets	846,775	759,421
Flat parts	38,795	30,540
Tubes	295,718	259,516
Other [(a)]	230,889	411,758
TOTAL	**1,790,141**	**1,909,903**

(a) Including change in inventories.

3.1.10.2 Main customers

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

Name	Home country	Vallourec markets	Activity
ADNOC	United Arab Emirates	Oil & Gas	Oil company
Aramco	Saudi Arabia	Oil & Gas	Oil company
Areva	France	Power Generation	Power plant construction
Champions Pipe & Supply	United States	Oil & Gas	Distributor
Chickasaw	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
Mitsubishi Hitachi Power Systems	Japan	Power Generation	Power plant construction
Petrobras	Brazil	Oil & Gas	Oil company
Pipeco Services	United States	Oil & Gas	Distributor
Premier Pipe	United States	Oil & Gas	Distributor
Pyramid Tubular	United States	Oil & Gas	Distributor
Salzgitter	Germany	Automotive/Mechanical Engineering	Tube manufacturing
Subsea 7	Luxembourg	Oil & Gas	Engineering and construction
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 2014, the five largest customers accounted for 29% 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 are made through a dedicated process that systematically includes an economic 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 impact and energy savings receive special focus.

Starting in 2015, the Group began strengthening investment management by relying on certain key reforms:

- an optimized budget: the budget was designed to provide optimal balance between project categories (growth, maintenance, safety, etc.). It aims to guarantee coverage of all of the Group's needs over the long term;
- better preparation of each significant project through three "Front End Loading" phases;

- rigorous qualification: a new qualification committee involving the Group's experts selects the best projects. They are presented before a new engagement committee which only authorizes priority projects creating maximum value. During this process, the essential aspects of the projects (market assumptions, technical choices, budget), are systematically examined;
- a strict final selection process uses an authorization committee that competitively compares the projects in terms of their suitability with regard to strategy, profitability and risk.

3.2.2 Main investments

3.2.2.1 Main investments in 2012-2014

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

Industrial capital expenditure excluding changes in scope (property, plant and equipment, intangible and biological assets)

In € million	31/12/2012	31/12/2013	31/12/2014
Europe	122.1	182.5	143.5
North America	359.8	191.7	95.3
Central & South America	190.7 (a)	205.5 (d)	107.2 (f)
Asia	96.7	42.9	21.5
Other	2.5	0.7	2.4
TOTAL INDUSTRIAL CAPITAL EXPENDITURE	**771.7** (a)	**623.3** (d)	**369.9** (f)
Capital expenditure payments during the year	803.1 (b)	567.0 (e)	388.2 (g)
ACQUISITIONS AND FINANCIAL INVESTMENTS	**0**	**0**	**0**

(a) Including €28.8 million for biological assets.

(b) Including €28.7 million for biological assets.

(c), (d) Including €23 million for biological assets.

(e) Including €23.2 million for biological assets.

(f), (g) Including €19.9 million for biological assets.

The most significant investment programs carried out in 2012, 2013 and 2014 are outlined below:

IN 2012

The year was marked by an investment program, 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 (down 29% compared with 2012) due to the phasing out of major strategic projects undertaken in Brazil, the United States and China. Programs initiated prior to or in 2012 still represented 53% of expenditure in 2013.

Investments related to:

- 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 unit producing steam generator tubes intended for nuclear power plants in Ghangzhou (China);
- the new tube mill 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 gas emissions (Germany, France and Brazil);
- continued to increase in 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;
- completion of work to increase Vallourec Tubos do Brasil's hot-forging capacity for car and truck axles;
- increased R&D budgets in Europe and Brazil;
- increased finishing capabilities and lean manufacturing programs at the plug rolling mill in 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.

IN 2014

The conclusion of major strategic projects led to a significant reduction in investment costs compared with the previous year (down 30%). The programs initiated in the previous years still represent 53% of 2014 expenses.

The main investments initiated in 2014 were as follows:

- modernization of the Rath pilger rolling mill piercer;
- a renovation plan for the Youngstown steel mill;
- simplification of Déville plant flows;
- the planting of 1,061 and 2,500 hectares of eucalyptus, to meet the needs of Vallourec Tubos do Brasil S.A. and Vallourec & Sumitomo Tubos do Brasil, respectively;
- increased capacity to manufacture accessories for the oil market in Southeast Asia;
- as well as a large number of projects aimed at improving the safety of people and facilities, in reducing costs and maintaining equipment in good working condition.

3.2.2.2 Main investments planned for 2015

The 2015 plan is capped at €350 million.

In addition to pursuing the projects undertaken in the previous years, which should represent approximately 40% of expenses, the 2015 plan notably provides for:

- adapting production tools in order to expand the premium product offering for onshore and offshore markets in Brazil, Europe, the Middle East and the United States;
- renewing industrial equipment, in particular in the area of non-destructive testing;
- replacing of certain major IT applications that have become obsolete;
- supporting an important cost reduction program;
- improving the safety of people and facilities.

3.3 Innovation, Research and Development – Industrial Property

3.3.1 Innovation policy

A key factor for competition and growth, innovation has always been at the heart of Vallourec's strategy, and has largely contributed to its leading position. In a very competitive global environment, the Group intends to continue to detect and foresee the technological challenges faced by its customers. It must respond to the radical and rapid evolution of their needs by offering them tailored solutions which are simultaneously safe, reliable and environmentally friendly, and that create value, in line with its premium position. To do so, Vallourec relies on an innovation policy structured around three pillars: rigorous management of the portfolio of innovation projects, collaborative methods and tools to generate ideas and manage projects, and a strong culture of innovation within its teams.

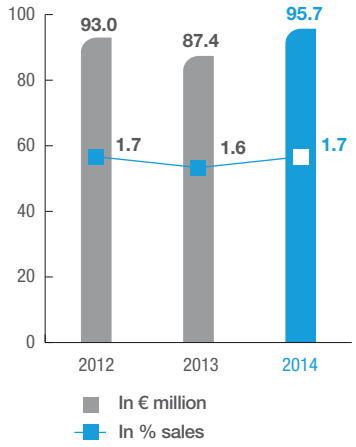
3.3.2 Organization of innovation and R&D

3.3.2.1 Information and key figures

Vallourec's expertise in technology, R&D and innovation are coordinated within the Technology, R&D and Innovation Department (TRDI).

This central department relies on Research and Development (R&D) teams that are established in close proximity to markets and customers. A total of some 500 employees are involved in R&D in the Group. In 2014, R&D expenses totaled €95.7 million.

R&D-related expenses during the last three years



The cornerstones of the Group's research are:

- manufacturing processes;
- new products and improving the performance of existing products;
- services and solutions.

3.3.2.2 Research centers and expertise: global presence

Vallourec has six research centers throughout the world 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, digital product and process simulations, notably for OCTG and mechanical engineering applications;
  - the "**Vallourec Research Center Connections**" is in charge of the design of the VAM® threaded connection and the industrialization of threading lines. Equipped with modern test benches, it notably enables the tubes and VAM® connections to be sealed to their actual size under the most extreme conditions. It must undergo make-and-break operations, combined loads simulation (tension and compression), deformation, high-temperature and fatigue resistance. Vallourec announced that this center would be extended by 2016.
- In Düsseldorf, Germany:
  - the "**Vallourec Research Center Germany**" is dedicated to designing and developing steel tubes for power plants and oil and gas pipelines. It has also housed a welding lab since 2014;
  - the "**Vallourec Research Center Technology**" is in charge of research on hot forming for tube production. This long-established center has made innovations in Vallourec's core processes. It operates alongside the "Vallourec Competence Center Riesa", a laboratory containing the most modern equipment, which allows Vallourec to increase the pace of development of innovations in process methodologies and equipment. Its versatile piercing, rolling and forging facilities will push back the current limits of steel and alloy hot-forming within the Group.
- In Belo Horizonte, Brazil:
  - the "**Vallourec Research Center Brazil**" has teams of experts and test laboratories, adapting the Group's solutions to the specific needs of its Brazilian customers, as well as developing new solutions. A new "Vallourec Competence Center Rio" is located in the Industrial Park of the University of Rio de Janeiro in close proximity to CENPES, the Petrobras research center. Lastly, Vallourec Florestal, Vallourec's subsidiary which operates the Group's eucalyptus forest in Brazil, conducts research work on the forestry and the transformation of wood into charcoal.
- In Houston, Texas (USA):
  - the "**Vallourec Competence Center USA**" is devoted to specific developments of the VAM® connection for the American market. The center's testing capacity was doubled in 2012.

In total, five testing stations worldwide conduct full-scale tests on the behavior of VAM® connections under the most arduous usage conditions.

The Group also performs R&D activities in other regions of the world, notably in Indonesia, through its subsidiary P.T. Citra Tubindo, as well as in Japan and in Spain, with its longstanding partners NSSMC and Tubacex.

3.3.2.3 A culture of shared innovation

In an effort to promote and disseminate the culture of innovation within the Group,TRDI is working towards strengthening knowledge sharing, the implementation of high-performing innovation tools and methodologies, and career development, notably through the "Expert Career" program (see below).

INNOVATION METHODS AND CULTURE

In order to optimize the generation and selection of ideas that will be the innovations of tomorrow, TRDI organizes training sessions and workshops in order to deploy and share a language of innovation and common tools for creativity for the teams. These training sessions and workshops combine people from different functions and Divisions, allowing them to share experiences and strengthen their collaboration.

Vallourec's methodology in terms of project management was recently reworked in an effort to strengthen the collaborative approach to innovation. Training sessions are organized for the functions involved: R&D, industrialization, marketing, internal control, etc., in order to ensure that the methodology is consistently and effectively applied.

In order to strengthen the collaboration between the teams and Divisions, the Group's R&D portfolio was reevaluated by a work group which brought together the R&D Directors from all Divisions.

The Experts coming out of the "Expert Career" program (see below), the process communities, project teams and R&D teams are developing and participating in online collaborative spaces and tools which allow them to share information across the Group.

THE "EXPERT CAREER" PROGRAM

Vallourec established the "Expert Career" program to enhance the value of technical expertise and individual career paths within the Group's key sectors. This program allows engineers and scientists to be offered new career opportunities in the areas of Technology and R&D. Links between management responsibilities and technical expertise were established under the coordination of the Human Resources Department, guaranteeing the same level of recognition.

INNOVATION DAY

Now organized jointly by TRDI and the Corporate Marketing Department, Innovation Day is an annual event that allows information on pending projects to be shared and synergies to be promoted.

3.3.2.4 A collaborative approach to innovation with customers and markets

Innovation is at the source of numerous advances which allow Vallourec's customers to push back technological borders, tap into unused resources until then unexplored, and improve the performance of their facilities. As R&D is a process of ongoing dialogue with customers, the Group works in close collaboration with some of these customers to develop solutions which meet their operational needs:

- **with Petrobras:** innovative tubular solutions for exploration and production in hard-to-access oil and gas deposits (ultra deep water, pre-salt fields, corrosive environments with H2S, CO_2, etc.). The Group has evaluated that approximately 80% of the products developed with Petrobras to operate complex fields did not exist in 2009;
- **with Total:** premium connections delivering unmatched performance in difficult High Pressure/High Temperature (HP/HT) type wells;
- **with BHP:** specific connections for oil and shale gas fields;
- **with British Petroleum:** high-performance drill pipes for extended-reach drilling (ERD);
- **with Hitachi Power Europe, Alstom, Doosan:** high-performance steels for advanced ultra-supercritical and ultra-supercritical power plants.

The Group is also developing R&D programs in all countries where it is established, in association with institutions with leading positions in their field, in particular:

- **Nippon Steel & Sumitomo Metal Corporation (NSSMC):** collaboration since 1976 in the area of VAM® connections for the Oil & Gas market. The launch of the new VAM® 21, a new premium threaded connection which meets the most stringent industry specifications (ISO CAL IV), and a new Cleanwell Dry® grease-free dry lubrication solution, are a reflection of this dynamic partnership;
- **Tubacex:** collaboration on the development of seamless tubes made of stainless steel and alloys, with the aim of enhancing the Group's offering for the Oil & Gas and Power Generation markets. R&D 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;
- for assistance with its program, Vallourec also relies on a longstanding partner, "**Salzgitter Mannesmann Forschung**", located in Duisbourg, Germany, which has expertise in both metallurgy and corrosion research, as well as testing capabilities for full-scale tubes.

Lastly, Vallourec participates in the most essential research work with numerous university laboratories worldwide.

3.3.3 R&D activities

3.3.3.1 High-tech manufacturing processes

FOREST AND BLAST FURNACES

In Brazil, Vallourec operates a eucalyptus forest to produce charcoal to fuel its blast furnaces. Since the Group's steel needs and sustainable development requirements have increased interest in the cast iron/charcoal sector, the Group is pursuing its efforts to improve performance in this area. The main thrusts of this research include: scientific tree selection, improving forest nutrition programs and industrializing the continuous charcoal-making process.

STEEL PRODUCTION

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, and is the purpose of much of its work. Research on the cleanliness of steel is a cornerstone of research on the manufacture of premium products. Innovations made in continuous casting processes also allow the capacity and quality of the steel to be improved, thereby strengthening the Group's autonomy in terms of premium steel supply.

HOT-PROCESS SEAMLESS TUBE PRODUCTION

The hot-process production of seamless steel tubes, invented in 1886 by the Mannesmann brothers, is a fundamental technology for Vallourec, and is constantly being improved thanks to research.

The Group has developed other processes, including the Premium Forged Pipes (PFP®) patented process to produce very wide, thick tubes, in particular for the mechanical and energy sectors. It has been used industrially in Europe since 2008, and in China since 2012.

Developments are underway for the most modern hot-rolling processes (PQF, MQF, etc.).

NON-DESTRUCTIVE TESTING

Significant developments in the area of non-destructive tests ensure that the Group's products are extremely reliable. Innovations in this sector are major differentiating factors.

HEAT TREATMENT

A large share of the Group's premium products are heat-treated to reach exceptional levels of performance. The heat treatment process is continually being improved, in order to meet the needs of the Group's customers, notably in terms of corrosion residence and tube weldability.

PROCESS COMMUNITIES

Process communities rolled out within the Group allow rapid and ongoing progress to be achieved, through the sharing of best practices and available technologies for the main processes of the Group: production and continuous casting of steel, heating rounds, hot rolling, forging, heat treatment, non-destructive testing, threading, tube finishing (coating, marking, machining, etc.).

3.3.3.2 Products and services

OIL AND GAS: TO ENABLE WELL EXPLORATION AND PRODUCTION UNDER INCREASINGLY COMPLEX CONDITIONS

The increasingly difficult oil and gas exploitation conditions require more resistant steel to be developed, along with new high-performing threaded connections: deep water, "High Pressure/High Temperature" (HP/HT) deep reservoirs, assisted oil recovery through the injection of steam, shale oil and gas, pre-salt reservoirs, etc. Vallourec meets the needs of oil and gas operators by providing them with innovative products and solutions.

OCTG (Oil Country Tubular Goods)

Steel and alloys

Developing steel grades that are able to resist H2S (hydrogen-sulfide) corrosion is essential for the oil and gas industry. This range of so-called "sour service" grades was expanded with the introduction of the VM125SS grade which, being specially designed for High Pressure/High Temperature (HP/HT) applications, has been an ongoing success.

The increasingly demanding applications, in terms of corrosion and resistance, pave the way for new R&D work.

The range of premium VAM® connections

Developed in 1965, the VAM® connection (named after Vallourec and Alexandre Madrelle, the engineer who developed the connection) allows seamless tubes to be connected without welding them to one another. Ensuring complete sealing of the strings within the wells, it has not stopped evolving over the years, thanks to the Group's R&D work.

The next-generation of premium threaded connections, VAM® 21, is now being marketed in a wide range of sizes. This innovative and resistant 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 worldwide. Versions with high torque capacity and versions dedicated to thick tubes have recently been added to the range. The connection was successfully introduced in the most demanding offshore projects, along the coasts of West Africa, for a large size range (for tubing and casing applications), and in particular for 13% CR steel tubes.

The VAM® SG connection, for shale oil and gas fields, allows our customers to create wells with long horizontal sections (up to 3,000 meters). Its resistance to high torque forces and high fracturing pressures is an essential quality of this solution.

The Group launched the VAM® EDGE connections range, which enables resistance to high torque forces and high pressures in wells with even longer horizontal sections.

For strongly deviated wells, the VAM® HTTC connection which enables resistance to exceptional torque forces when the string is placed in long horizontal zones, while ensuring full sealing during production phases (in accordance with standards API5CT:2013 CAL IV, which are among the most demanding).

For connections intended for offshore wells, Vallourec's customers are increasingly systematically requesting a qualification, for which the Group benefits from extensive experience and significant capacities.

Cleanwell® is a dry film lubricant developed for threaded connections, to replace polluting grease, which ensures a watertight connection and effectively protects 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 low temperatures.

Vallourec Global Solutions

The innovative and global offering of Vallourec Global Solutions allows the Group's customers to be assisted on the Oil & Gas market, from the design of wells and throughout the course of their operation, notably with on-site assistance, connection inspection, supervision of assembly operations, etc.

Drilling

Since its creation, Vallourec Drilling Products has become a technological leader in the manufacture of drilling products and associated services. Vallourec Drilling Products offers a full range of products and services, including: drill pipes, heavyweight drill pipes, drill collars, landing strings, risers, magnetic drill collars and MWD (measurement while drilling) cases, safety valves and accessories for all drilling applications. Its innovative product portfolio includes:

- high torque connections such as VAM® Express™, VAM® EIS® and VAM® CDS™, which offer an excellent operational reliability, high performance and very low repair rates;
- steel grades for various applications, including "sour service" steel grades for very corrosive wells, steel grades for very low temperature arctic environments, and ultra-resistant steel grades (165 ksi) for very strongly deviated drilling;
- landing strings , notably the CrushFree™ Landing String, capable of lifting up to 1,130 metric tons for installing casing tubes completely safely;
- VAM® DPR SR™ and VAM® DPR HP™, proprietary connections for gas-tight risers, allowing the seabed equipment to be effectively connected to the platform;
- the range of Hydroclean® products for optimally cleaning wells.

Tubes for subsea line pipe and umbilicals

Improving the performance of subsea line pipes and lightening them are essential for 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 and facilitate placement of the tubes.

As part of its welding service offering, Serimax is proposing offshore welding equipment, which has undergone intense developments to improve its productivity, reliability and ease of use. Saturnax 09, its latest development, is a piece of next-generation automatic welding equipment. It allows new alloys and greater thicknesses of tubes to be welded.

For the umbilicals market, Vallourec has perfected a premium welded stainless steel tube solution which allows for significant performance gains. These tubes offer resistance and mechanical properties that are better than those of the products currently available on the market.

POWER GENERATION: TO CONTRIBUTE TO IMPROVING YIELDS AND ENERGY PERFORMANCE OF PLANTS

One of the challenges of Vallourec's customers in the power generation sector is improving the yields and energy performance of the plants. In this context, the tubes must resist increasingly high temperatures and pressure levels.

Vallourec serves all of the demands for construction of fossil-fired thermal power plants (coal, lignite and fuel oil-fired, etc.) which use tubes in a broad and varied range of diameters and alloyed steel grades, for which the Group holds a leading position.

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.

Significant research efforts have been made for even higher performing ferritic steels, to expand their field of use.

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 aggressive 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, for example).

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

Vallourec also innovates by proposing services for energy customers. The new "Boiler Field Service" offer consists of diagnosing tubes that could present a risk of weakness within boilers, thanks to non-destructive ultrasound testing.

INDUSTRY: TO COMBINE MECHANICAL PERFORMANCE, EXTREME TUBE RESISTANCE AND THE LIGHTNESS OF INFRASTRUCTURE

Vallourec offers tubes for the construction markets: bridges, stadiums, airports, etc.

Highly innovative tubular solutions are being developed for industrial and commercial buildings, particularly in Germany and Brazil. The patented PREON® roof structure's tubular system allows the scope to be considerably increased. Vallourec simultaneously developed PREON® Box, an innovative software program for the planning and design of factories spanning over 100 meters.

For offshore equipment, Vallourec develops high mechanical strength steels, which are resistant to very low temperatures and offer excellent weldability. For example, the Oceanfit® grade was successfully launched on the international markets.

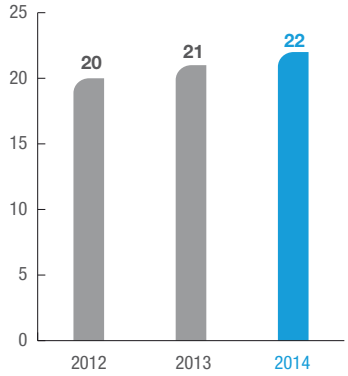
The development of a new system for anchoring wind turbines at sea, PREON® marine, is a promising new field of application for Vallourec tubes in regions where environmental constraints are very severe. This solution will enable wind-farm base structures to be built more easily, and at a lower cost.

3.3.4 Industrial property

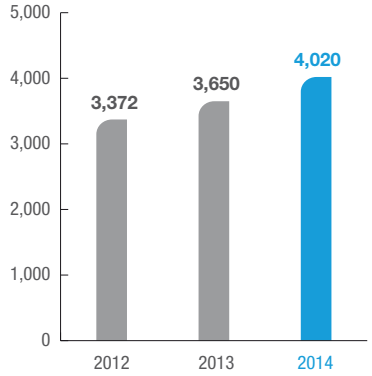
The strengthening of the Group's organization in the area of industrial property continued with the monitoring of major Research and Development projects and the holding of sessions to heighten industrial property awareness among Research and Development teams, in France and abroad.

The Group's patent filing activity remained very sustained in 2014. The Group thus filed 22 new basic patents and proceeded with 500 geographical extensions of patents. The budget dedicated by the Group to protecting inventions via patents remained consistent in 2014, as compared to 2013.

Number of patents recorded during the fiscal year (first filing)

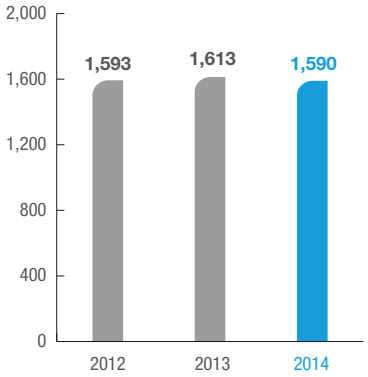


Number of patents in the portfolio as at 31 December



In 2014, Vallourec continued its efforts to protect its trademarks, through filings and registrations as well as opposition procedures.

Number of trademarks filed or registered by the Group as at 31 December





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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.

Within this framework, in 2014 the Sustainable Development Department presented a draft 5-year strategic plan to the Group Management Committee (GMC), which was incorporated into the Group's strategic guidelines. The Supervisory Board examined its main provisions at its 30 July 2014 session, and will follow up on the Group's corresponding guidelines on an annual basis. The seven topics presented can be summarized as follows: strengthening governance of issues in accordance with sustainable development, setting medium-term objectives and publishing them, giving greater importance to sustainable development issues in the Group's economic model and, specifically in R&D programs, ensuring greater involvement of employees, regardless of position, providing greater visibility of commitments and specifically social actions, raising the expectations of projects underway and gaining institutional recognition of efforts made.

For example, in 2015 the Sustainable Development Department will construct a Group matrix to clearly take into account the expectations of its stakeholders, developing a simple tool to prepare a life cycle analysis of its products, and incorporating specific modules into Vallourec University's programs.

This Chapter 4 outlines Vallourec's commitments in the area of Corporate Social Responsibility (CSR). It is intended to describe the policy implemented by the Group and the principles that guide it. It sets out the actions taken in terms of safety, health and human resource management, the relationships developed with the local authorities and populations, as well as the efforts made to preserve the environment in compliance with the Grenelle 2 act of 12 July 2010, establishing a national environmental commitment, and the act of 16 June 2011 to fight against discrimination and promote of diversity. These laws have helped to strengthen institutional publication on these subject matters. 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.

The Group is committed to providing detailed information on the results of its actions. It therefore reports, with 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. One of the Statutory Auditors conducted audits with a moderate level of assurance as to all of the information presented in Chapter 4, and issued an opinion with reasonable assurance on select indicators – for the first time in 2014 – which resulted in the report which appears in Appendix 1 of this Chapter. **The indicators that were verified with a reasonable level of assurance are preceded in the text and in the appendices by the symbol ☑.**

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. We should note that the individual indicators of the consolidated entities, excluding consolidated indicators, namely Vallourec Mineração and the pelletization unit established on the site of Vallourec & Sumitomo Tubos do Brasil (see below 4.4.1.6, "Specific Cases"), are presented in Appendix 2 to this Chapter.

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

It is this information that forms the basis for the periodic evaluations of the main non-financial agencies or specialized SRI funds, such as Vigeo, RobecoSam, Guilé, MSCI, Oëkom, Eiris and Sustainalytics. Even if each of these entities has its own evaluation methodologies, we can summarize them as generating a rating of B+ on a scale of A to D. We should also mention that the Group belongs to the Euronext Vigeo France 20, Euronext Vigeo Europe 120 and Euronext Vigeo Eurozone 120 indexes.

To move forward, the Group relies on Vallourec Management System (VMS), whose fundamental objective is to improve the Group's performance in the fields of quality, health, safety, the environment and logistics, which are grouped under an ambitious program known as Index and run by one of the Management Board's members.

This system ensures that initiatives are consistent with the strategic plan and that they 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 goal of this system is to develop risk prevention, control process variability and improve process efficiency. It uses numerous specific tools such as Lean Management and the six sigma method, and strives to strengthen project management methods.

It contains three cornerstones:

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

The Vallourec Management System relies on a three-level documentary tool, which it decided to improve in 2014:

- the first level includes the charts defining the applicable values and commitments, the policies that the general guidelines present and the manuals that describe the management systems in place;
- the second level includes the procedures presented by the methods to ensure compliance with the specific requirements, as well as the rules and instructions;
- the third level includes recommendations or suggestions.

4.1 Ethics

4.1.1 Code of Ethics and Governance

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 Group employees. For this purpose, it was 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 allow the Group's new employees to review the Code of Ethics during their first few months at the Company, a specific e-learning program aimed at employees that have joined the Group since January 2012 was launched in April 2014. The goal of this project was to allow employees to better adopt ethical values and principles for issues relating to their daily professional practices.

The Code of Ethics is a founding document which contains certain guidelines and recommendations for the Group's employees to apply.

In order to support implementation of the Code of Ethics by all Vallourec employees, in particular managers, a Code of Ethics Officer has been appointed for the Group. This Officer 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 define the procedures for implementing the Code of Ethics;
- ascertaining any difficulties in interpreting or applying the Code of Ethics that are raised by staff; to that end, the Officer receives information relating to breaches of the principles of responsibility; and
- preparing an annual report for the Chairman of the Management Board on the Code of Ethics' implementation.

The Code of Ethics Officer reports to the Chairman of the Management Board. He relies on a network of 12 local correspondents, organized by geographical areas. These contacts report back to the Ethics Officer periodically on the duties delegated to them. A letter providing an update on ethical issues is distributed monthly to the Group's primary senior executives.

An Ethics Committee, led by the Code of Ethics Officer, meets with the representatives of the functional (Legal Affairs, Purchasing, Human Resources, Shareholders, etc.) and operational departments. 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. Its objective for 2015 is notably to enrich the Code and draft directives on various subjects such as gifts and receptions, donations, actions to develop local content of service offers, and lobbying. These directives will be disclosed to all employees.

4.1.2 Compliance program

Consistent with the principles set out in the Code of Ethics and 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.

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 2014, an e-learning program was implemented from the first quarter of 2014 to educate all of the Group's technical and supervisory staff, and managers about the laws and regulations concerning competition, the fight against corruption and environmental protection. Another e-learning program was rolled out to train the Group's employees in the content and application of the Code of Ethics.

The Group's General Counsel likewise acts as Compliance Officer. To that end, she serves on the Ethics Committee.

4.1.3 Promotion of and compliance with international agreements

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 Labour Organization, in particular:

- respect for freedom of association and right to collective bargaining;
- elimination of discrimination with respect to employment and occupation;
- elimination of forced or compulsory labor;
- effective abolition of child labor.

This text forms an integral part of Vallourec's Code of Ethics. The latter likewise targets the guiding principles of the United Nations, the guiding principles of the OECD aimed at multinational companies, and the United Nations Global Compact.

4.2 Social policy

The social indicator scope includes companies within the tax consolidation scope. Staff at sales offices are likewise included in this report.

4.2.1 Group Workforce

4.2.1.1 Changes and distribution

BREAKDOWN OF THE WORKFORCE BY AGE, GENDER AND GEOGRAPHICAL AREA

As at 31 December 2014, ☑ 23,709 employees worked at more than 50 production sites or under service contracts with Vallourec (short-term or permanent contracts). Notwithstanding the workforce of the Indonesian unit P.T. Citra Tubindo, which was reduced, the balance between entries and exits recorded in 2014 did not generate any considerable change in workforce as compared to year-end 2013 (24,053 employees).

Distribution by geographical area

	Number of employees	
Country	**2013**	**☑ 2014**
Brazil	8,429	8,401
France	5,280	5,198
Germany	4,014	3,935
United States	2,756	2,707
Indonesia	980	735
China	713	702
United Kingdom	559	631
Mexico	319	361
Saudi Arabia	238	255
United Arab Emirates	174	182
Malaysia	173	170
India	107	106
Other regions	311	326

Workforce as at 31 December (permanent and short-term contracts)	2013	2014	Change 2013/2014	2013 Breakdown	2014 Breakdown
Europe	9,891	9,815	-0.8%	41%	41%
Brazil	8,429	8,401	-0.3%	35%	35%
NAFTA (United States, Canada, Mexico)	3,154	3,156	0.06%	13%	13%
Asia	2,098	1,829	-12.8%	9%	8%
Middle East	412	438	6.3%	2%	2%
Africa	69	70	1.4%	NS	NS
TOTAL	**24,053**	**23,709**	**- 1.43%**	**100%**	**100%**

Breakdown by gender

As at 31 December 2014, the Group had 2,581 women under permanent contracts, which represented 11% of the total permanent workforce. Marginally present in the category of production staff, women essentially hold administrative and commercial positions. They represent one-third of the Group's technical and supervisory staff, and one-fifth of its managers.

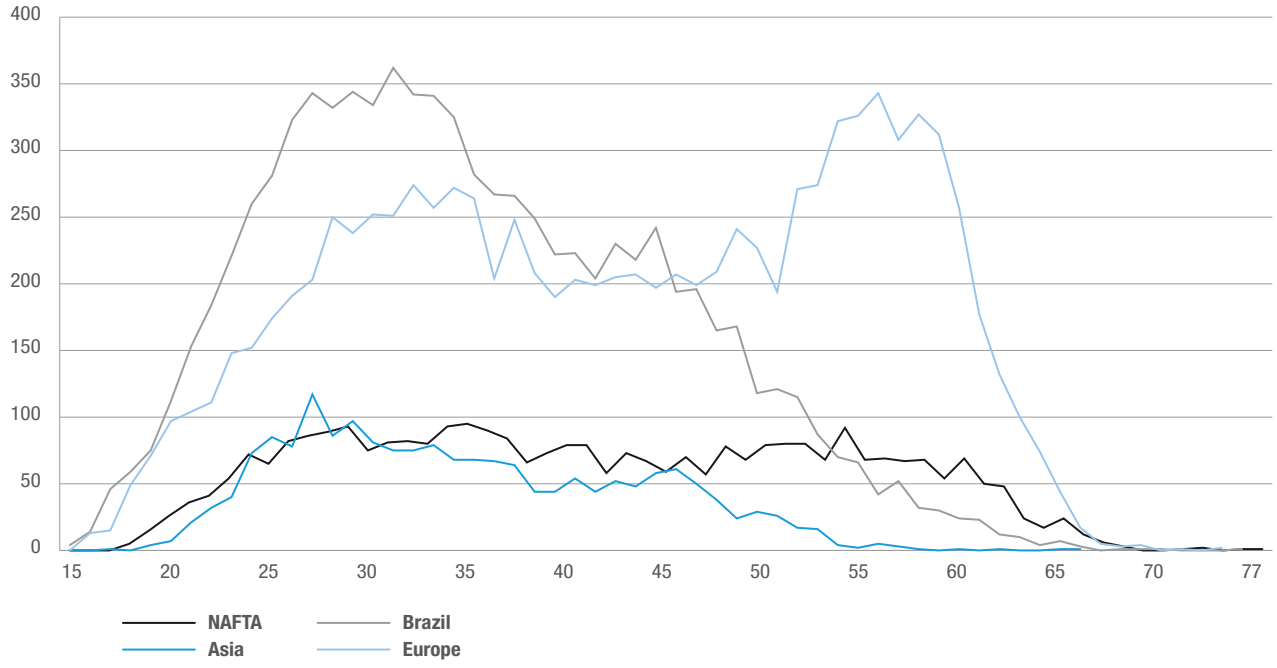
% of women (permanent employees)	Production staff		Technical and supervisory staff		Managers		Total	
	2013	2014	2013	2014	2013	2014	2013	2014
Europe	2%	2%	33%	33%	21%	21%	11%	11%
Brazil	5%	6%	29%	28%	23%	24%	10%	11%
Asia	15%	17%	26%	28%	19%	16%	19%	20%
NAFTA	1%	1%	29%	31%	19%	21%	10%	10%
TOTAL	**4%**	**4%**	**30%**	**30%**	**21%**	**21%**	**11%**	**☑ 11%**

Breakdown by age

The age pyramids show significant disparities in terms of geographical areas.

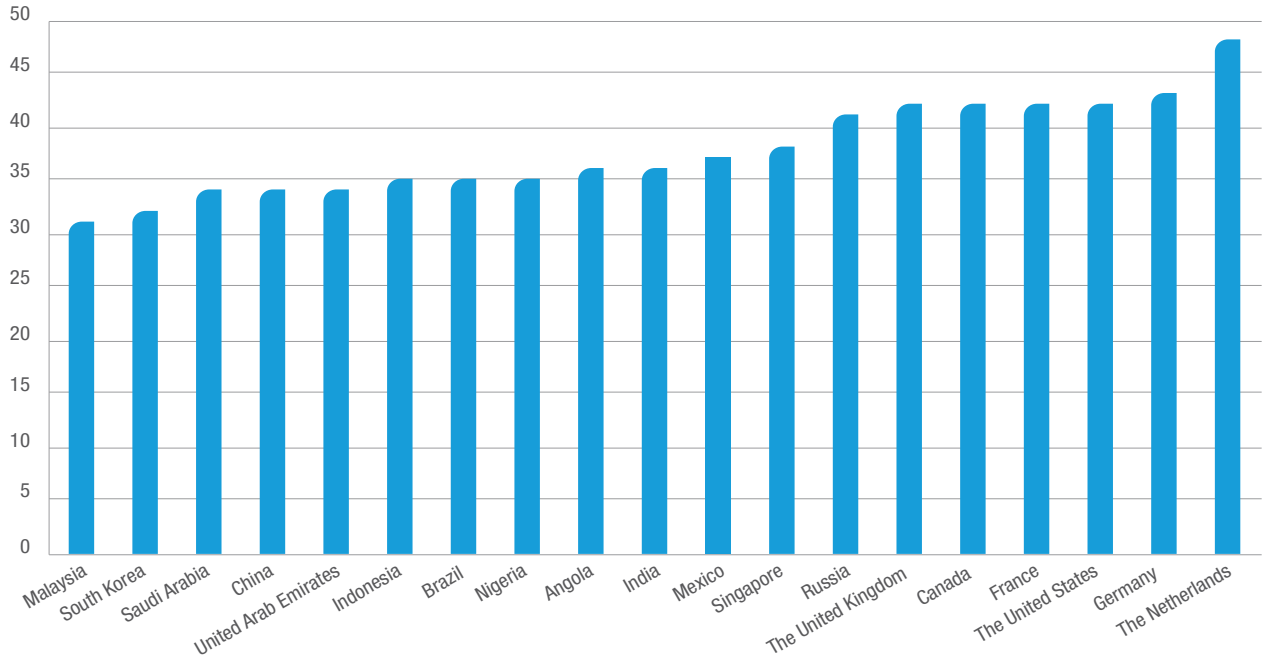
The Brazilian employee population is young, with a strong concentration in the 25 to 35-year-old segment. In the NAFTA region, the distribution of the population among the various age categories is well balanced. Asia has practically no employees older than 55. Conversely, Europe is marked by a strong presence of employees aged between 50 and 58 years. To correct this imbalance, an agreement for proactive management of employment, which was signed in France on 7 February 2014, set hiring objectives in an effort to rebalance the age pyramid.

Breakdown of the workforce by age ☑



These disparities are also reflected in the average age of employees in the main countries where the Group is established.

Average age by country



BREAKDOWN OF THE WORKFORCE BY PROFESSIONAL CATEGORY AND TYPE OF CONTRACT

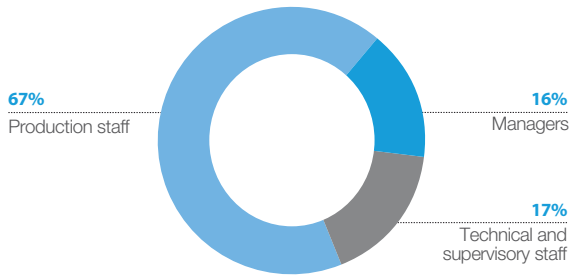
Breakdown by professional category

Production staff represents two-thirds of the workforce.

Technical and supervisory staff includes administrative staff, technicians and field supervisors, which account for 17% of the permanent workforce.

Managers (16% of the permanent workforce) have a proportionately higher representation in France (21% of the workforce), compared with the rest of the world, due to the headquarters in Boulogne-Billancourt (France), where the Group's management teams and support functions are based.

Breakdown of workforce by category in 2014



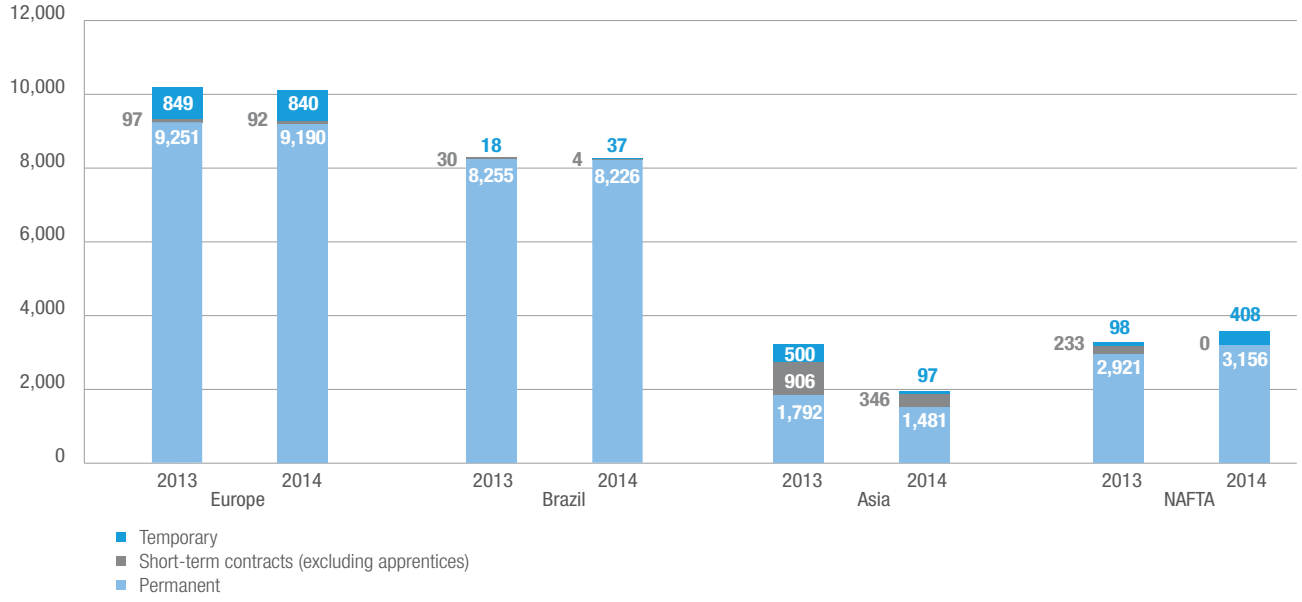
Breakdown by type of contracts

Due to the highly cyclical nature of its markets, Vallourec has to be able to adapt rapidly to changes in activity. As a matter of policy, it maintains a permanent workforce (via permanent contracts) which allows it to meet the needs of its ongoing operations, and 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 in 2014 was 7.5% of the total workforce, with Brazil remaining far below the average due to the rarity of temporary contracts.

Although they are listed as temporary workers, apprentices are not recognized in the diagram below because they do not constitute a business adjustment variable.

Breakdown between permanent and temporary



4.2.1.2 Entries and departures

HIRES AND TRANSFERS

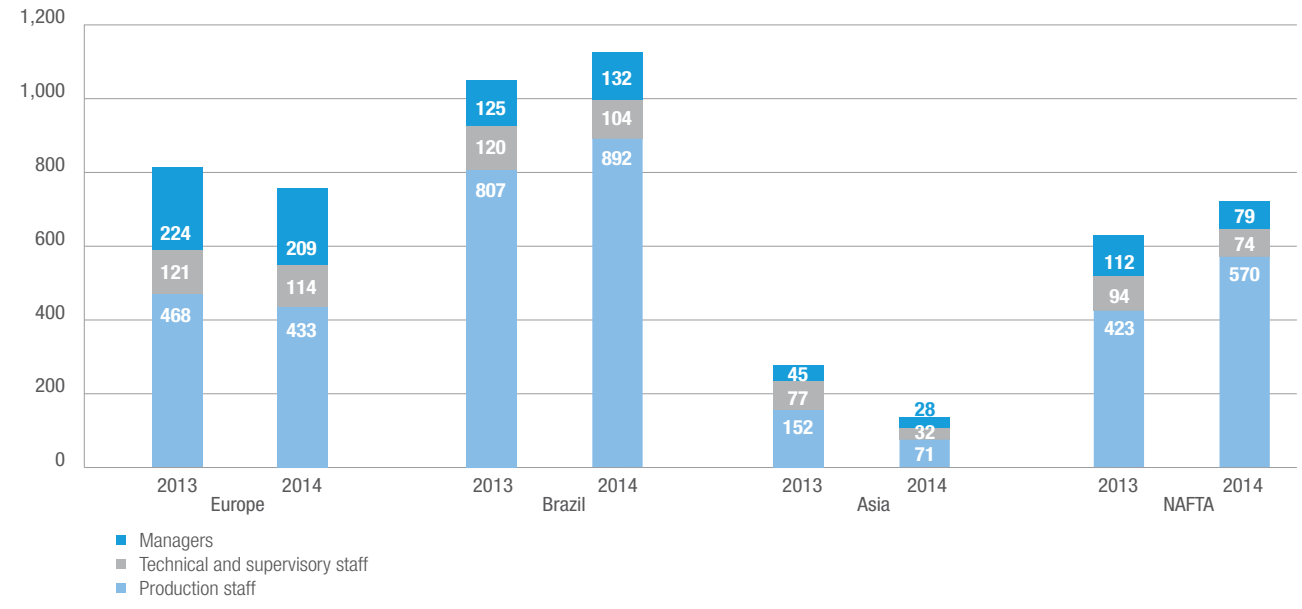
In 2014, excluding intra-Group transfers, Vallourec companies hired ☑ 2,327 permanent employees, representing 10% of the permanent workforce, a hiring rate that was down from year-end 2013 (12%).

The number of planned transfers has risen sharply: 491 transfers in 2014, compared with 291 in 2013. Half of them were due to the formation of Vallourec Transportes e Serviços in Brazil, which resulted in the transfer of 254 employees from Vallourec Tubos do Brasil.

35% of total hires were in Brazil, while Europe and the NAFTA region represented 27% and 26% of entries, respectively.

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

Breakdown of new hires by professional category

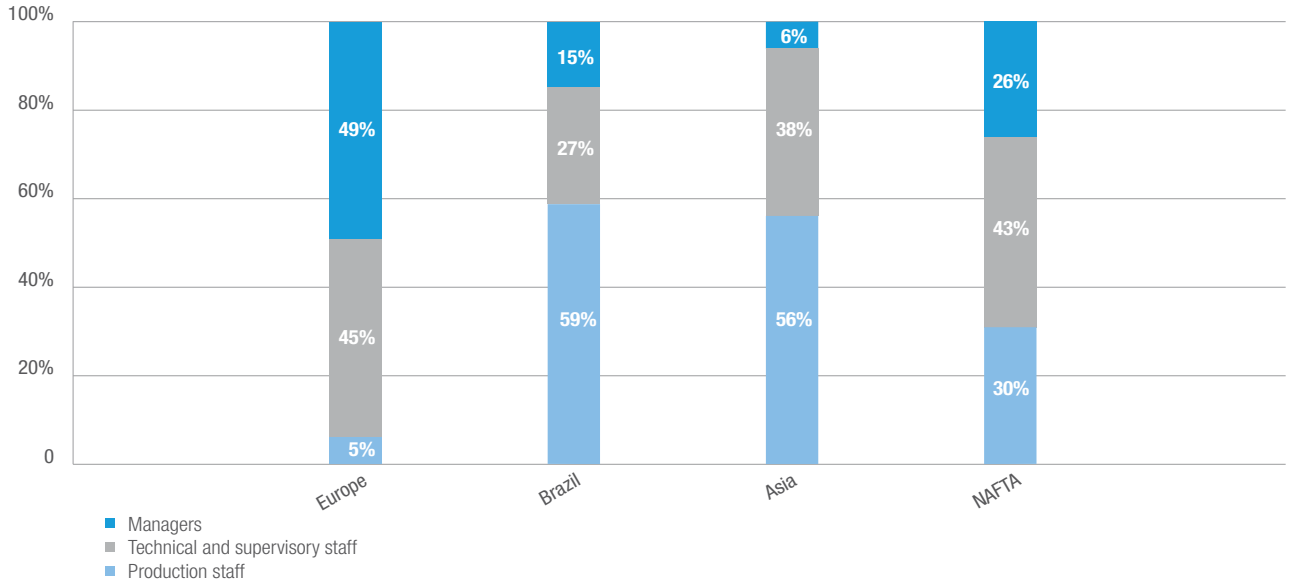


The United States and Brazil hired 24% and 14% of their permanent staff respectively, primarily in the category of production staff.

In Europe, new hires represented 8% of the permanent workforce; they were mainly hired to replace retiring workers and to reinforce the functional departments.

Women represented 13% of new hires at Group level, of which 6% were in the NAFTA region, 13% in Europe, 15% in Brazil and 26% in Asia. In Brazil and Asia, these new hires were primarily for production staff positions. Elsewhere, they related more to technical and supervisory, and management positions.

Breakdown of new hires of women by professional category in 2014



DEPARTURES

In 2014, an average of ☑ 12% of employees under permanent contracts left the Group, a rate that was higher than the one at year-end 2013 (9%). This increase affects all professional categories identically.

The departures primarily concerned Brazil, but also Europe and the United States.

The percentages of turnover (number of departures as compared with the permanent workforce) by geographic segment were as follows:

Turnover rate

(% departures compared with permanent workforce)	2013	2014
Brazil	10%	14%
Asia	6%	9%
Europe	7%	9%
NAFTA	14%	17%
TOTAL	**9%**	**☑ 12%**

Reasons for termination of employment contract

	Retirement		Resignation		Dismissal		Other reasons	
	2013	2014	2013	2014	2013	2014	2013	2014
Europe	46%	53%	21%	20%	20%	13%	12%	14%
Brazil	14%	16%	12%	12%	71%	70%	2%	2%
NAFTA	5%	4%	45%	51%	40%	37%	9%	8%
Asia	7%	5%	65%	69%	19%	21%	9%	5%
TOTAL	**21%**	**24%**	**25%**	**27%**	**46%**	**41%**	**7%**	**8%**

In Brazil, given the employment regulations, termination is the method by which contracts are typically broken.

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

In the United States, departures in 2014 were primarily due to resignations.

In Europe, more than one out of two departures were due to retirement.

4.2.1.3 Organization of working time

RATE OF WORK

The Group's policy is designed to provide flexibility and responsiveness in order to adapt 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 arduous character 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.

WORK HOURS

The following table shows the number of hours worked and the average number of overtime hours worked in the last two years. It is based, for each country, on the number of hours worked by the permanent workforce. France had to resort to short-time work programs (47,000 hours) due to below-normal activity.

	Average number of hours worked per employee		Average number of overtime hours worked per employee during the year	
	2013	2014	2013	2014
Germany	1,480	1,497	116	117
Brazil	2,022	2,021	117	118
China	2,173	2,128	255	219
United States	2,154	2,244	315	403
France	1,515	1,509	29	34
Mexico	2,674	2,692	167	236
United Kingdom	2,158	2,192	162	188

Although overtime hours do not apply to managers, the average number of overtime hours has been calculated for the entire permanent workforce including this category.

INDIVIDUAL WORKING ARRANGEMENTS AND PART-TIME WORK (FRANCE)

In France, nearly 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.

92 employees (in France: 26 production staff members, 41 technical and supervisory staff members, and 25 managers) worked part-time in 2014 for personal reasons or on medical advice (therapeutic part-time).

As an experiment, a telecommuting program was established at the headquarters after consulting with staff representatives.

ABSENTEEISM

The rate of absenteeism is calculated by comparing the aggregate of all compensated absences (including for illness, maternity, workplace accidents or commuting accidents) with the total number of hours actually worked. In every country, it is in the low average of the rates of comparable industries.

Rate of absenteeism	2013	2014
Europe	5.5%	5.6%
Brazil	3.6%	3.0%
NAFTA	1.3%	1.4%
Asia	1.1%	1.1%
TOTAL	**3.5%**	**3.4%**

4.2.2 Health and Safety

4.2.2.1 Safety

Commitment to responsible performance

> Ensure the safety and protect the health of our employees

> Offer each employee good working conditions

INDICATOR

TRIR (Total Recordable Injury Rate): frequency rate of accidents with or without lost time (number of accidents declared per million hours worked).

2014 OBJECTIVE

To achieve a **TRIR of 5.**

ACHIEVEMENT OF THE 2014 OBJECTIVE

The Group exceeded its objective and achieved a **TRIR of 4.2**. Between 2008 and 2014, the TRIR and the Lost Time Injury Rate (LTIR) decreased by 86%.

2015 OBJECTIVE

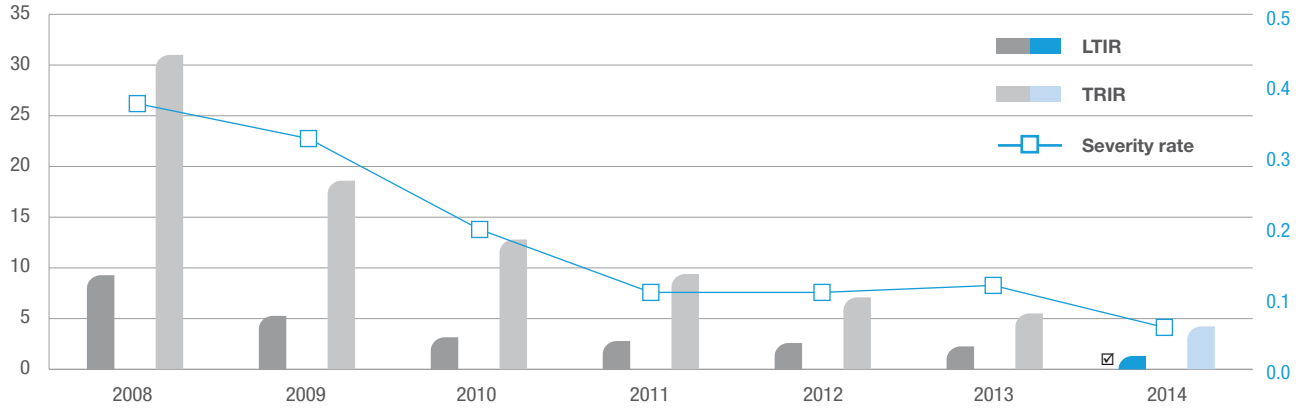
To continue efforts to reduce the **TRIR to 4.0.**

Safety is the Group's No. 1 priority, and it aims to become a benchmark and a model for success in this area. At the end of 2014, certified OHSAS [1] sites represented 99.2% of production in metric tons.

In 2008, the Group launched an ambitious three-year safety improvement program (2008-2010), called "CAPTEN Safe". Motivated by a desire for a breakthrough in safety management, this program allowed the Group's performance to considerably improve (see graph below). Building on 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", which allowed it to increase its performance in safety matters. Between 2008 and 2014, the Lost Time Injury Rate (LTIR) decreased by 86%.

The Group also decided to monitor the total recordable injury rate (TRIR) [2], which fell from 31 in 2008 to 4.23 in 2014. At each site, "near miss" situations are thoroughly documented, analyzed and reported by supervisory staff.

At year-end 2014, the LTIR [2] was ☑1.32 and the accident severity rate [3] was 0.06, both clearly down from 2013. Despite these results, the Group mourned two fatal accidents in 2014 [4] (compared with three in 2013 and two in 2012 – there were no fatal accidents in 2011 [5]), and it continues to be extremely vigilant in safety matters.



(1) OHSAS 18001: International guideline relating to occupational health and safety, published in 2001 under the authority of the International Labour Organization.

(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 basis comparable with 2012 (two fatalities were, however, reported among subcontractors).

Whenever an accident involving lost time or a potentially serious incident occurs, the Group Management Committee (GMC) is informed immediately.

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

- establishing safety management committees at all levels of the Company;
- safety inspections (more than 32,000 inspections in 2014);
- ongoing risk assessment for safety concerns and preventive actions;
- continuous improvement teams (CITs) focused on safety issues (350 CITs were set up in 2014).

In addition to the safety improvement program, a specific action plan to prevent fatalities was launched. 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 Director 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.

Each year, a day is devoted to safety at all of the Group's sites. This is the time to raise awareness in multiple ways among all employees, in particular through specific workshops (risks to hands, load handling, driving forklifts, evacuation exercises, etc.) during which production is suspended. A great number of senior executives make special trips to sites for this event. This day is also the time to honor the site that is highest performing in terms of safety.

In 2014, the Vallourec Oil & Gas Mexico plant received the safety prize for the actions established and their results: no accidents have been recorded for more than 20 months.

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 initiative in a risk situation, was launched in 2012 and continued in 2014.

In an effort to signal its commitment to safety issues, the Supervisory Board has included safety objectives for several years in the variable portion of Management Board members' compensation, as well as in that of the main managers in charge of overseeing staff at the sites, i.e. nearly more than 2,000 managers.

4.2.2.2 Health

Along with safety, health is a major and constant concern for the Group. 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-wide employee satisfaction survey (Opinion) which was conducted in 2013 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. For example, Vallourec Tubos do Brasil regularly improved work conditions at the individual position level. The decisions were made by an "ergonomics" and "audiology" committee, to specifically address the issue of noise. Lastly, Vallourec Tubos do Brasil encouraged employees to stop smoking, to engage in sporting activities and improve their personal health practices.

The Group conducts the following actions in addressing key concerns:

- the establishment of multidisciplinary health services on the sites allows preventive actions to be taken amongst employees; to date the Group has nearly 80 physicians and nurses on staff;
- improvement in working conditions and reducing arduous work: ergonomics is integrated both in the design and installation of workstations. In France, following the agreement on the prevention of arduous work signed in 2012, members of management committees, technicians and project managers, as well as employees who participate in continuous improvement teams (70 in 2014), receive training in ergonomics (140 people were trained, and 800 were informed about these issues). This French initiative will be gradually rolled out internationally;
- 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. Legally required checks on the atmosphere in the work environment were conducted and this information is included in risk assessments;

- 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. At the end of 2014, over 60% (vs. 57% in 2013) of 372 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 2014, the sites of Vallourec Star, a Saint-Saulve steel mill, Vallourec Tubes Déville-lès-Rouen and Vallourec Fittings replaced RCF materials and eliminated the corresponding fibers,
  - leaded grease: Developments continued internally, and in partnership with the main manufacturers of grease for implementation of non-CMR greases to replace leaded grease and, in particular, in the case of usage in a critical (high-temperature) environment for which "clean" greases are currently lacking. Leaded grease consumption dropped to 48.1 metric tons (i.e. 15% of greases used) in 2014, as compared with 56.3 metric tons (i.e. 18% of greases used) in 2013,
  - chrome-plated mandrels: a "semi-industrial" test was performed to validate an alternative solution to the chrome-plated mandrels – the tests were conducted in 2014 in Riesa in an effort to develop new ideas with coating specialists. Prototypes are underway at the Youngstown site to evaluate the impacts on the industrial process. The tests should continue in 2015,
  - nickel phosphates: a fine-tuned solution was validated with one of the suppliers and applied at the Vallourec Oil and Gas France site. Other solutions are being studied with two other suppliers in an effort to cover global distribution.

Lastly, the impact of chemical risk is likewise studied from the initial stage of R&D projects in an effort to take all prevention criteria that should be associated therewith into account.

4.2.3 Social relations

4.2.3.1 Employer-employee dialogue

Wherever the Group is established, it has made employer-employee dialogue a priority. This is organized in each country, in accordance with local regulations. To date, at least 82% of production staff are covered by business line or company collective agreements.

- At the European level, the dialogue occurs at several levels:
  - a European committee, comprised of 30 French, German and British representatives meets at least once a year, alternating between France and Germany. It meets with Management, which provides information about changes in the Group's activities, results and strategy;
  - a European Committee office is also in session five times a year, and regularly meets with Management to discuss the Group's future, along with other European issues. In 2014, the members of the office visited the Group's facilities in China to better understand European competitiveness issues;
  - additionally, European employee shareholders are represented by a Supervisory Board for employee shareholding funds. They meet with management twice a year. An employee representative is chosen from among them, who then serves on Vallourec's Supervisory Board.
- In France:

  The Group Committee 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.). It is assisted by a certified public accountant. It is also involved in managing employee benefits and savings plans. In each company, works councils or central works councils, elected consultative committees or staff delegates, as well as health and safety and working conditions committees are associated with the business or institution's management. The works councils manage social activities (participation in the financing of health contracts, organization of travel, Christmas gifts, sporting activities, etc.). The union organizations, which have obtained more than 10% of the votes in works council or elected consultative committee elections, are the managerial contacts for negotiations. In 2014, employment negotiations resulted in the signing of agreements at almost all of the companies, while the employer-employee dialogue at Group level concerned:
  - concrete measures allowing young people to access stable employment and seniors to stay within the Company. These discussions resulted in the signing of an agreement "For proactive employment management under an inter-generational contract";

(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.

- adjustments to be made to pension plans in order ensure compliance with the new regulations (portability, objective categories, etc.);
- the simplification and securitization of employee savings schemes.

Moreover, an agreement was signed in September 2014 with the three union organizations representing Vallourec Tubes France to implement social measures to aid in the project to restructure the Saint-Saulve steel mill and tube mill. The negotiations, which took place with the union organizations in parallel with the consulting procedure of the elected consultative committees and the central works councils, allowed the measures that had initially been planned to be improved, notably by extending the voluntary retirement measures and establishing measures intended to best promote internal reclassifications.

- 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 participates 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. It holds meetings once a month, which are attended by the employer. The managers have a specific consulting body: the *Sprecherausschuß*.

  In 2014, the main agreements concerned employees (negotiation which occurs at the business line level), employment contracts and early retirement schemes. The discussions also concerned measures to adapt to the new production load, which primarily centered on not replacing people who had left.

- 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 2014, negotiations concerned methods to assist in exceptional weather conditions, and the revision of rules regarding absences, discipline and flexible hours.

- In Brazil, most employees are represented by a trade union. The *Conselho Representativo dos Empregados* (CRE) [Employee Representative Board] provides employee representation and facilitates joint discussions on such internal matters as safety, working conditions, promotions and transfers. The trade unions are represented by employees, appointed by the union and paid by Vallourec. The negotiations that were conducted in 2014 at the professional business line level led to an agreement which addressed all corporate issues, such as wage policy, working conditions, hours, health and safety, and specific measures applicable to women. Specific bodies in charge of improving safety with employee-elected representatives also meet every month.

- In Mexico, the union mainly represents production staff and employees who are covered by collective bargaining agreements. The union for which dues and membership are mandatory, can propose candidates for hire from among these employees, a list of whom is drawn up in accordance with the agreements. Negotiations concern salaries 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 2014 further confirmed this choice. Employer-employee dialogue is thus carried out in frequent meetings in the field between 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.

4.2.3.2 Opinion internal survey

Vallourec conducts a survey at regular intervals with all of its employees worldwide to find out their perception, expectations and concerns, and to measure their level of commitment. The most recent survey, conducted in 2013, earned a good participation score (73% response rate) and revealed a high proportion of employees who are satisfied at work and proud of working with the Company. Respondents also gave high scores for working conditions and level of autonomy given to employees.

In 2014, each entity established work groups to define the priority actions to be taken according to the expectations of its employees. These action plans were implemented locally in the second half of 2014, and will continue in 2015. The Human Resources Department makes sure it is meeting the standards of excellence defined at Group level, including communication of clear objectives and instructions, and recognizing performance. It also assists local Human Resources Departments in defining objectives linked to these standards of excellence.

The goal of the Opinion survey is to measure employees' commitment and motivation, in order to better reinforce them, as these are the essential levers for operational excellence.

4.2.3.3 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 12,000 employees in approximately 20 countries. It delivers information, in real time, on strategy, targets and results, and showcases the achievements of teams worldwide. A bi-monthly e-newsletter presents site news. Vallourec Inside also gives everyone the opportunity to connect through employee networks, which promote working together, and increase responsiveness and performance. Some 3,600 individuals have connected via 220 web forums dedicated to specific Group issues (manufacturing processes, business activities, research and innovation);

- Vallourec Info, the magazine for all employees, provides an overview of the latest Group news in each country's language. Key information is also rapidly communicated by posters displayed in all Group sites;
- communication on specific projects seeks to educate employees about key issues in the Group – safety, ethics and values, the environment – or involves them in important matters such as subscribing to the Value employee share ownership plan, or the launch of the Opinion employee satisfaction survey;
- at annual conventions or local meetings, the Group's management team visits local managers to share information and gather feedback.

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.).

4.2.4 Compensation and benefits

4.2.4.1 Payroll

In 2014, Group payroll costs, excluding temporary staff, totaled €1,236 million (vs. €1,186 million in 2013) and included:

- €856 million for salaries (€809 million in 2013);
- €54 million for employee profit sharing (€56 million in 2013);
- €11 million for expenses associated with share subscription or share purchase options and performance shares (€15 million in 2013);
- €312 million in social security costs (€302 million in 2013).

The 4.2% increase in payroll costs year-on-year is due to the combined effects of wage policies and changes in foreign exchange rates against the euro.

Breakdown of payroll costs by country:

	Breakdown of total payroll costs		Breakdown of average workforce	
	2013	2014	2013	2014
Germany	23%	22%	18%	17%
Brazil	22%	21%	33%	36%
China	1%	1%	3%	3%
United States	17%	18%	11%	11%
France	30%	29%	24%	22%
Mexico	1%	1%	1%	1%
United Kingdom	3%	4%	2%	3%
Other	3%	4%	8%	7%
TOTAL	**100%**	**100%**	**100%**	**100%**

4.2.4.2 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 management teams.

Average salaries including profit sharing and social security costs

	2014 average salary including profit sharing *(in €)*	% of 2014 social security costs
Germany	69,630	20%
Brazil	31,380	63%
China	18,570	26%
United States	83,520	28%
France	68,520	46%
Mexico	28,540	15%
United Kingdom	73,580	22%

4.2.4.3 Employee profit sharing

Profit sharing plans are designed to associate employees with the Company's performance. In 2014, this amounted to €54 million.

In France, a Company savings plan (PEE) and retirement savings plan (*Plan d'Épargne Retraite Collectif* – PERCO) allow employees to invest the money they receive from profit sharing in order to build up savings with a favorable tax status and benefit from employer matching contributions.

4.2.4.4 Employee shareholding

In 2014, the Group announced:

- for the seventh consecutive year, a Value employee shareholding plan, known as Value 14, benefiting employees in 13 countries. Nearly 2 out of 3 employees, or 63.5% 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 represented 7.61% of Vallourec's share capital as at 31 December 2014, against 7.37% at 31 December 2013;
- for the sixth year in a row, a performance share plan to allocate up to 130,062 performance shares (subject to continuous service and performance conditions), with no more than six shares per beneficiary, to 21,677 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 and Russia.

4.2.4.5 Other benefits

In almost all countries, except in Africa and the Middle East, employees benefit from a healthcare system for themselves and their families. During business travel, a medical service guarantees they will be cared for under the best conditions.

Multiple activities of a social, sporting or cultural nature are organized within the subsidiaries. They take on different forms according to the structures: business orchestras or choirs, organization of tourist trips, sporting competitions or parties and the funding of vacation camps for children. The goal of these activities is to bring people together outside of a strictly professional framework, to support and strengthen connections among employees.

4.2.5 Employee development

4.2.5.1 Talent management process

Vallourec assists its employees throughout their careers, revealing and cultivating their talents thanks to several programs and initiatives that are rolled out within the Group.

TALENT 360

Annual interviews

The talent management information system, known as Talent 360, used throughout the Group, is one of the tools used to evaluate skills, manage objectives and assess the potential of the population of managers. Implementation of this tool, supported by the strong involvement of all managers, enabled performance reviews to be standardized and systematically structured on an annual basis. This tool is also accessible to technicians and field supervisors in certain countries, in particular France.

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

In 2014, the talent management process was harmonized and extended to non-managers.

Job posting

In order to allow managers to seize opportunities for growth within the organization, job openings are published in Talent 360, with the option to apply online.

EMPLOYEE REVIEW AND SUCCESSION PLANS

The staff review, run by the Human Resources Department in connection with the sites and Divisions, is an indispensable process for ensuring that the Group has the talent needed to implement its strategy. It also allows employee potential to be identified and developed, helping staff to evolve within the organization over the short, medium and long terms.

This staff review, which is based on criteria of performance and potential, allows true career paths to be constructed by relying on levers such as training, and internal and international mobility.

Vallourec has also generalized succession plans in an effort to ensure that key positions are filled by people with the necessary expertise.

EXPERT PROGRAM

Created in 2010, the goal of the Expert Program is to recognize employees specialized in the processes that are connected to Vallourec's core business, such as steel production, rolling, heat treatment, threading or even welding.

The Expert Program encourages and values individual career paths in these areas, and allows Vallourec to develop its competitiveness to satisfy increasingly demanding markets.

At the end of 2014, the Group had 317 Experts throughout the Group.

4.2.5.2 Training

In an evolving and competitive market, Vallourec has a growing need for trained and motivated staff who are able to adapt to the changing businesses and markets. The Group strives to reconcile its need for change with the individual aspirations of its employees, allowing them to grow in their careers, while developing their skills.

In addition to training programs which are centrally decided upon by the Group Training Department, each company prepares its training plan each year, in accordance with the Group's pedagogical guidelines. Specific training programs are thus established to locally address the regulatory or market requirements.

In 2014, more than 513,597 hours were spent on professional training for employees, for an amount equivalent to 1.40% of payroll costs (training costs and compensation of trainees as a percentage of compensation excluding charges). The slight decrease in training hours compared to 2013 (582,000 hours for an amount representing 1.74% of payroll costs) partly reflects the results of a comprehensive cost savings program that has affected all cost items, and partially impacted the progress of an approach that optimizes costs.

61% of employees received at least seven hours of aggregate training during the year.

Employees trained at least one day per year (aggregate)

	Production staff		Technical and supervisory staff		Managers		Total	
	2013	2014	2013	2014	2013	2014	2013	2014
Europe	30%	35%	12%	13%	11%	11%	53%	59%
Brazil	49%	43%	9%	10%	13%	13%	71%	66%
NAFTA	46%	44%	11%	12%	14%	14%	71%	70%
Asia	32%	28%	9%	9%	5%	6%	46%	43%
TOTAL GROUP	**40%**	**38%**	**11%**	**11%**	**11%**	**12%**	**62%**	**61%**

In 2014, each Group employee completed on average 22 hours of training (25 hours in Brazil, 22 hours in Europe, 18 hours in the NAFTA zone and 16 hours in Asia).

Type of training provided

	% of technical and professional training		% of Health, Safety and Environmental training		% other training (management, IT, language, etc.)	
	2013	2014	2013	2014	2013	2014
Europe	54%	48%	20%	29%	26%	24%
Brazil	18%	15%	34%	38%	48%	47%
NAFTA	34%	20%	42%	40%	20%	41%
Asia	36%	46%	18%	14%	46%	40%
TOTAL GROUP	**36%**	**31%**	**28%**	**33%**	**35%**	**36%**

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 cultural differences.

Vallourec University offers training programs for Group employees worldwide. These training programs may be given locally through Vallourec University in the main countries, centrally under international programs which are most often organized in Europe, or via e-learning through a dedicated training platform, the Learning Management System (LMS).

All of the training programs that are launched and rolled out by Vallourec University must meet the following 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 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 are structured around 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 levels, aimed at the continuous development and improvement of employee skills to meet the specific requirements of each level of responsibility and in the various geographical areas.

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 towards 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.

Vallourec University adopted a Learning Management System (LMS), a training management tool 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 tool allows Vallourec University to offer customized or standard training, which can 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.

In 2014, 844 employees participated in international training programs.

2014 was also marked by a ramping up of distance training and the adoption of new learning practices. Legally and ethically compliant programs were rolled out via e-learning to all of the Group's technical and supervisory staff and managers. The number of training hours provided via distance learning was raised to 34,210 hours in 2014 (hours recorded by the Learning Management System).

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 an average of 262 apprentices in 2014 (259 in 2013), and France, where 210 work-study trainees pursued their vocational curriculum in 2014, up 22% from year-end 2013. Brazil has 166 apprentices and the United Kingdom has 32.

4.2.6 Diversity and equal opportunities

Under the roll-out of the Code of Ethics (see above, Section 4.1 – "Ethics"), all employees received education to raise their awareness about discrimination; examples from daily life were used.

In France, training for 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.)".*

4.2.6.1 Diversity

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 Group Management Committee (GMC), these include:

- the percentage of women in line management positions in production, sales and Research and Development: as at 31 December 2014, 12% of these positions were held by women;
- the percentage of women identified in succession planning processes of GPEC [(1)] as ready to step into a leadership role on short notice: as at 31 December 2014, this figure was 9%;
- the number of women who currently hold a leadership position: as at 31 December 2014, 6% 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. These surveys are regularly repeated.

In Germany, part-time work was one of the solutions made available to parent employees in an effort to facilitate a balance between their professional and family lives.

CULTURAL DIVERSITY

As an international group, Vallourec faces cultural diversity issues. From this perspective, managers who are required to work with multicultural teams benefit from an adapted training program.

Furthermore, an average of 150 employees of diverse origins have the benefit of working internationally, for a variable duration of one to three years, and in some twenty different countries.

4.2.6.2 Equal opportunities

DISABILITIES

At the end of 2014, 3% of the Group's employees had a disability or a medical restriction requiring an adjustment of their job or workstation (2.51% at end 2013):

- in Germany and in France: priority is given to keeping employees with disabilities in service by adapting positions or work hours;
- in Brazil, in partnership with the government, Vallourec Tubos do Brasil conducts a rehabilitation program to allow employees with disabilities to continue their professional activities.

SENIORS

Under the agreement for proactive management of employment, and under the framework of the intergenerational contract, several commitments were assumed with respect to senior employees, and specifically:

- the objective to maintain employment (up to 20% of staff) and hiring (at least 15% of new hires must be employees aged 45 or older, and at least 1% of new hires must be employees over age 55);
- specific days off for employees over age 50 who perform shift work;
- retirement leave allowing employees performing shift work to move to part-time, or to retire 2 or 3 months early, according to seniority in the position held;
- organization of training to facilitate the transition from professional life to retirement.

(1) Provisional management of positions and expertise.

4.3 Relations with stakeholders

4.3.1 Relations with employees

Commitment to responsible performance

> Train and motivate our employees through skills development, recognition of expertise, talent promotion and career development

INDICATOR

Result of the Opinion internal survey (employee satisfaction rate). This survey is conducted every two to three years.

2014 RESULTS

Based on the **satisfaction rate of 76%** that was expressed during the survey conducted in 2013, action plans were constructed locally to meet the stated expectations. These plans were rolled out in 2014 and are continuing in 2015.

The next survey should take place in 2016.

The social policy is presented in full in Section 4.2 – Social Policy (see above, p. 64).

4.3.2 Relations with customers

In an effort to strengthen the close relationship with its customers, the Group has established specific monitoring of key customers (there are approximately fifty of them) known as “Key Accounts” and “Key Development Customers”. Each of them has a dedicated manager, who serves as a true customer ambassador, having the role of structuring the relationship with a long-term vision, identifying key expectations of the customer, implementing a specific action plan which is then regularly monitored by the Group Management Committee, and measuring customer satisfaction going forward. This program required adapted training to be rolled out, and resulted in exchanges of best practices among the supervisors in question.

To meet the expectations thus identified, the Group constructs its offers, including those that are financial, with its main customers. With a view to optimizing the creation of value for the latter’s benefit, Vallourec combines product innovation with services. This approach notably includes an evaluation of the environmental impact of products throughout their useful industrial life, from manufacture to dismantlement. To that end, the Group develops specific R&D programs and multi-division initiatives.

This approach is inseparable from the Group’s efforts to raise the level of quality of its products as well as that of the associated services. For example, the amount of time for processing defects in quality or logistics has been considerably accelerated.

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 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.

4.3.3 Relations with subcontractors and suppliers

Commitment to responsible performance

> Establish a network of reliable and responsible suppliers

INDICATOR

Number of suppliers included in the formal evaluation process conducted by Vallourec of its social and environmental responsibility.

2014 RESULTS

As at 31 December 2014, **576 suppliers** were involved in the process, up from 2013 (315 suppliers included).

2015 OBJECTIVE

To involve a total of **750 suppliers** in the Group's formal evaluation process.

In 2014, the Group's purchases reached €4,174 million and were distributed geographically as follows: 44% in Europe, 22% in North America, 27% in South America and 7% in the rest of the world.

4.3.3.1 Local purchases

Vallourec ascribes specific importance to the regional, economic and social impact of its activities on the neighboring and local populations.

Local purchases, which totaled an estimated amount of €1.9 billion in 2014, represented approximately 45% of purchases (a share that is analogous to 2013) and directly contributed to supporting the local economy. These were mainly for scrap metal, temporary work, certain IT services, subcontracting, maintenance and supply services, 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.

The proportion of local purchases is fairly consistent across the various geographical areas.

Subcontracting purchases represented an amount that was analogous to local purchases (€1.9 billion). These concerned either industrial finishing or control services, or services that were needed for the process to be properly performed. These subcontracting purchases were for the most part local, given the quality and responsiveness requirements that providers must satisfy. These services corresponded to a significant number of very qualified jobs that helped strengthen the local industrial fabric, although it is not easy to evaluate their number. A significant portion of these local subcontractors were considered in the CSR evaluation of Vallourec's suppliers.

4.3.3.2 Supervisors' purchasing policy

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 was instituted. This Department, in operation since January 2013, introduced many tools and processes over these past two years 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 2014 Vallourec:

- carried out over 650 supplier risk audits and analyses across all its sites, a process that will be repeated in 2015 with the same objective, but with a harmonized and strengthened set of audit guidelines as compared with 2014;
- conducted a formal and systematic evaluation of suppliers (production and non-production) based on CSR and environmental criteria with the help of a specialized firm. As at 31 December 2014, 576 suppliers, beginning with the most important ones, were incorporated in this project, and nearly 225 suppliers, representing more than 25% of Vallourec's expense, were at the end of the process, with a complete evaluation and progressive action plans. This assessment showed that 52% of the suppliers evaluated already publish a formal report on their energy consumption and greenhouse gas emissions, 68% publish a report on their health, safety and environment (HSE) indicators, and 30% are ISO 14001 certified;
- established a specific innovative process to anticipate supplier risks. A score card on the matter is continually updated and reviewed monthly by the Group's Purchasing Department Committee. Furthermore, several e-learning training modules were developed and established to train buyers and their internal clients in all aspects of supplier risk; and
- launched at the end of the year, to be established in 2015, a specific project to standardize and fine-tune methods and tools linked to supplier qualification and development (audits and ongoing improvement plans), which will include a strengthened CSR component.

Vallourec's requirements for sustainable development, ethics and safety were part of the main messages delivered to suppliers during the second Vallourec Supplier Day held in September 2014 with the Group's 100 largest suppliers representing 15% of its mass purchases. As part of this annual event, Vallourec awards a prize to the most virtuous suppliers in terms of sustainable development and safety.

In conformity with the new U.S. laws and European directives, Vallourec has likewise committed to monitoring potential "Conflict Minerals" coming out of certain African countries which could be used by its suppliers. The Group's policy consists (i) of making sure that none of these minerals is used directly or indirectly, in application of the Group's Code of Ethics, the Sustainable Development Charter and the Environmental Policy, and (ii) where certain cases are detected, to find solutions to replace them. This supervisory campaign which, in 2013, primarily impacted suppliers delivering to the Group's U.S. plants, was generalized in 2014 for world coverage. More than 1,500 suppliers were thus subject to this survey's analytical grid. The summary of responses to the questionnaires sent out and analyzed using special software did not show that Group products contained any conflict minerals from the African countries in question. The survey will be repeated and updated in 2015.

4.3.3.3 Anti-corruption actions

All suppliers are aware of and have access to the Group's Code of Ethics, particularly through Vallourec's website. Vallourec's systematic evaluation of suppliers based on CSR criteria, initiated in 2013 (see above), showed that 35% 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 2014, there were no comments or complaints related to respect for the values set out in the Group's Code of Ethics.

4.3.4 Support of local communities

4.3.4.1 Local community support policy

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 issued recommendations, the local level has the autonomy to determine the actions to be taken, with the approval of 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, healthcare and local development.

4.3.4.2 Actions undertaken

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 modest populations, have for several years followed a structured process in close collaboration with local authorities, backed by tax incentives. The very numerous actions include economic development, cultural and sporting programs. The specific school support program known as "comunidade viva", with volunteers from Vallourec Tubos do Brasil (VBR), has proved effective since 2005. During the 2011-2014 period, nearly 5,000 young people directly benefited from the programs, and more than 20,000 benefited indirectly, in particular the families of the employees. These programs represent more than 6,500 training hours. One of the objectives pursued was extending the duration of schooling, and achieving a better integration rate in the working world.

The exceptional effort that has been made for several years to restore a historical cinema in the city's center has allowed the Belo Horizonte metropolis to become a major cultural center; the Cine Theatro Brasil Vallourec has become incredibly successful, and since it opened to the public in 2013, it has welcomed 250 artistic events, including exhibitions, and dance, music and theater performances, drawing more than 163,000 visitors.

In order to better appreciate the communities' perception of the Brumadinho mine, an in-depth study on the opinions of people residing nearby was conducted based on questionnaires and individual interviews with residents, merchants, elected officials, officers and associations, during the first half of 2014. Its results showed that people had different perceptions, attitudes and expectations depending on where they were located and their sociocultural status. It was likewise determined that communication had to be strengthened, particularly with respect to associations, by adopting the most appropriate channels and placing value on the historical position of the mine in the local economy. These lessons will be implemented by the Group and communicated to the Administrative Authority that issues the permit to operate the mine.

Since its inception, Vallourec & Sumitomo Tubos do Brasil (VSB) has also implemented programs that offer economic and cultural support to local populations, under the framework of local agreements with local authorities.

In Indonesia, the subsidiary P.T. Citra Tubindo TBK has for many years been involved in large-scale programs that provide educational and medical assistance to the people, financing for sporting and cultural equipment, as well as environmental protection actions and support to underprivileged populations.

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 the Valenciennes, Aulnoye-Aymeries and Montbard basins, the Group has participated in the Alizé programs which consisted, for large and medium-sized local businesses, of (i) charitably contributing expertise to SMEs by providing consulting from managers and (ii) coordinating projects categorized under the framework of the "Metal Valley Rural Excellence Division". Under this framework, the Group performed nearly 15 support actions in 2014. It likewise contributed to various initiatives: including support to the Valenciennois theater, sports club and numerous cultural programs, aid in the development of university training programs in line with the production of steel and an environmental restoration program grant.

In 2014, approximately €6.6 million were devoted to the financing of partnerships, down from 2013 (€8.7 million), notably due to the completion of the Cine Theatro Brasil Vallourec rehabilitation program, and to the reduction of the activity of Vallourec Tubos do Brasil (VBR). Outside of Brazil, the amounts allocated have remained stable.

4.3.5 Relations with shareholders and investors

Commitment to responsible performance

> Satisfy our shareholders over the long term

INDICATOR

Average rating given by four leading non-financial rating agencies.

2014 OBJECTIVE

Attaining a rating of **B+.**

ACHIEVEMENT OF THE 2014 OBJECTIVE

The Group **attained** a rating of **B+**, in accordance with the objective it had set for itself.

2015 OBJECTIVE

Attaining a rating of **A-** given the surveys expected in 2015 and the existing growth margins.

The Group's priority is to maintain lasting, trustworthy relations with all its shareholders, whether individual or institutional, French or foreign. It strives to give them access to exact, precise and accurate information, particularly with regard to its activities, 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.

In 2014, the Group participated in 350 meetings and telephone conferences with institutional investors and financial analysts. Each year, it also meets with SRI (Socially Responsible Investment) funds and analysts. This approach contributes to the Group's improvement in the area of sustainable development.

In an effort to strengthen its connections to individual shareholders, in 2014 Vallourec created a Shareholders' Club. This allows shareholders to participate in events (conferences, discovery workshops, plant visits) in order to deepen their knowledge and understanding of the Group's activities. This new mechanism, which promotes dialogue, helps Vallourec to better respond to the concerns and expectations of its shareholders.

The entire scheme used by the Group for shareholders and investors is presented in Sections 2.6.2 – Relations with Institutional Investors and Financial Analysts, and 2.6.3 – Relations with Individual Shareholders, of this Registration Document.

4.4 Environmental commitment

The environmental data included in the 2014 environmental reporting scheme concerns all of the subsidiaries controlled by the Group. However, given the industrial size of the Vallourec & Sumitomo Tubos do Brasil plant, only 56% of the data from this plant is consolidated (percentage corresponding to Vallourec's share of the capital).

4.4.1 General environmental policy

Vallourec's manufacturing policy is to minimize the impact of its activities on the environment. This commitment is clearly explained in the Sustainable Development Charter published by the Group in 2011, and in the Group's Environmental Policy, which was signed by the Chairman of the Management Board and published in 2014.

In 2013, Vallourec created a five-year environmental roadmap for each of the following three Divisions: Upstream, OCTG and Vallourec Tubos do Brasil. This constitutes a strategic Environmental plan for targeted environmental projects (energy, water, waste, noise and chemical hazards) whose purpose is to minimize the Group's environmental footprint. It focuses on defining objectives, determining the necessary resources (including capital expenditures to be made), promoting progress and cost savings, and setting priorities. It is monitored regularly and updated each year. Its horizon is extended annually in one-year increments, and currently concerns the 2014-2019 period.

4.4.1.1 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 among 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 140 full or part-time environmental specialists working at the production sites in every country.

Exchanges have developed among the countries, fostering significant progress thanks to 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 Group Management Committee (GMC) members, in the form of a specific report to each entity.

4.4.1.2 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.

As at 31 December 2014, the Group's main sites were certified ISO 14001, which represents more than 94% of production (96% at year-end 2013). Vallourec & Sumitomo Tubos do Brasil and Vallourec Canada Inc. should be certified in 2015, which would restore the certification rate of the Group's units to the rate achieved in late 2012, i.e. 99%.

More generally, the Group's entities are subject to quality, health/safety, energy and environmental certifications.

4.4.1.3 Legal Compliance

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

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. In France, an environmental regulatory watch has been set up on a dedicated intranet portal accessible by all production sites.

4.4.1.4 Training and education

Employee training and education on the environment, sustainable development and energy efficiency are carried out in the plants through poster campaigns, periodic publications, briefings and compliance programs, among other measures. The Global Compliance Program, developed and coordinated by the Group's Legal Department, has an educational component on compliance with environmental regulations (see above, Section 4.1. – Ethics, and the Report of the President of the Supervisory Board, which appears in Appendix 1 to Chapter 7 of this Registration Document).

In 2014, the total number of training hours in the field of health, safety and the environment (HSE) rose to 168,000 hours (from 164,000 hours in 2013), or 33% of total training hours, up 2.4% from 2013. As concerns the environment, the training effort reached nearly 5,000 hours.

4.4.1.5 Investments

The Group systematically incorporates sustainable development concerns in designing its investment projects. In particular, an HSE risk analysis is conducted at the beginning of every project to assess potential impact and anticipate environmental risk.

A procedure on eco-design rules is being finalized as part of the reworking of major project governance. It is intended to highlight the best practices and techniques available for design that conforms to HSE challenges in the following main 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);
- reasonable use of natural resources and consideration of the consequences of climate change;
- 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 more efficient 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 2014, HSE investments reached €57.35 million, i.e. 15% of investment expenses in 2014. They primarily concerned:

- 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;
- management of the forest operated by Vallourec Florestal;
- the replacement of hazardous chemical substances;
- layout and safety of plants in terms of roofing, roads and parking;
- renewal of operating permits;
- reforestation projects and carbonization furnaces to produce charcoal as a renewable energy source.

The following operations are included under the scope of these projects:

- the Déville-lès-Rouen plant finished reworking its process water treatment system, allowing it to reduce its water consumption by more than 50%, an investment of €1.5 million;
- the Vallourec Tubos do Brasil plant has developed a system to control the level of gasholders for blast furnaces, which allowed it to save €1.3 million with an investment expense of €650,000. This plan was awarded the “President Vargas” prize from Companhia Siderúrgia Nacional (CSN) which rewarded one of the best technical contributions to the Energy & Utilities Seminar.

Total provisions and guarantees for environmental risks are presented in Note 16 of the consolidated financial statements. This provision covers the cost of treating industrial land and cleaning up the mine once resources have been exhausted.

4.4.1.6 Specific cases

The mining extraction activities of Vallourec Mineração, which are not the Group’s core business (i.e. the manufacture of seamless 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. They are instead reported separately in Appendix 2 to this Chapter.

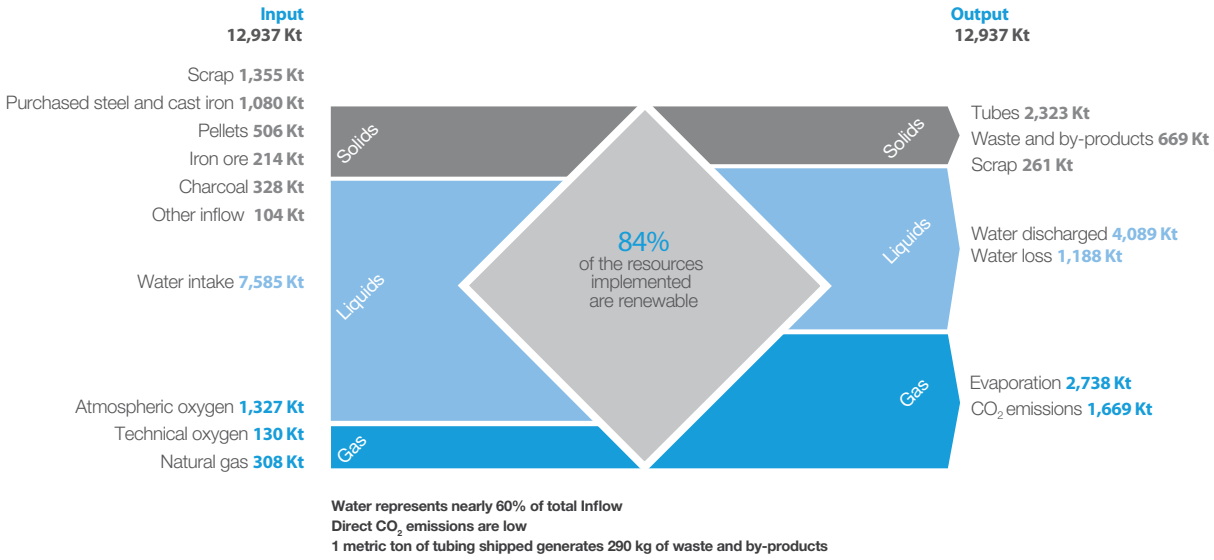
The same methods apply for the “pelletization” unit established at the Vallourec & Sumitomo Tubos do Brasil (VSB) site. A high consumer of water, this unit manufactures pellets using ore produced by Vallourec Mineraçao and other mines, and supplies the blast furnaces of Vallourec Tubos do Brasil and VSB, as well as other local steel metallurgists. Its level of activity is thus independent of VSB’s steel and tube mills. Consequently, its environmental data is recorded in a separate statement, which is presented in Appendix 2.

4.4.2 Sustainable use of resources

4.4.2.1 Resources implemented

In 2013, the Group conducted an analysis for the first time of all mass flows necessary for tube production at all its industrial sites [1]. This analysis was updated in 2014.

Raw material footprint



In 2014, the production of 2.32 million metric tons of tubes required 12.94 million metric tons of different types of inputs, down 6% from 2013, even though production increased 1%, due to the decrease in water abstraction which now only represents 59.6% of total inputs. To that end, we should emphasize that:

- 84% of the resources consumed are renewable (scrap and steel made from scrap, charcoal, water and oxygen), demonstrating the limited nature of the Group's net environmental footprint;
- 86% of "outflow channels" related to production can be considered recyclable.

The updated analysis also shows that it is essential to continue efforts in wastewater treatment, industrial waste disposal and CO_2 emissions, areas in which the Group has taken action for several years.

In 2013, the Group also performed a life cycle analysis of two typical products in the Oil & Gas activity (tubing and casing) in cooperation with an end customer. The ten key impacts evaluated (including carbon, energy, water, resource depletion, toxicity, eutrophication) demonstrated the weak relative impact of the Group's products. The goal is to continue these analyses on other products, in cooperation with other customers. From this perspective, in 2015 the Group will create, with the aid of an outside consultancy, a specific tool designed to perform these types of analyses for products that are already available on the market or which are being created through R&D programs.

4.4.2.2 Consumption of raw materials

The steel used by Vallourec to manufacture tubes is primarily produced in the Group's steel mills, according to two different processes. The blast furnace process (BOF – Basic Oxygen Furnace) is used at the Vallourec Tubos do Brasil (VBR) site in Belo Horizonte and, since mid-2014, at the Vallourec & Sumitomo Tubos do Brasil (VSB) site in Jeceaba. The electric process (EAF – Electric Arc Furnace) is also used at the VSB site, as well as in Youngstown in the United States, and in Saint-Saulve in France. With the latter process, the Group favors the use of recycled scrap over the manufacture of new quantities of steel or cast iron.

Continuous improvement teams have been set up to maximize the effectiveness of each process. They focus 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.

(1) With the exception of Vallourec Mineração Ltda (mining) and Vallourec Florestal Ltda (forestry) which do not manufacture tubes.

Steel mill production in 2014

Plant *(In metric tons)*	Blast furnaces			Electric furnaces		Steel mills
	Iron ore	Pellets	Charcoal	Scrap iron	of which % of internal recycling	Scrap and cast iron used
Vallourec Tubos do Brasil – Belo Horizonte	199,479	457,451	296,611	55,014	100%	436,912
Vallourec & Sumitomo do Brasil – Jeceaba (56% consolidated)	14,254	48,180	31,666	140,372	9%	222,981
Vallourec Tubes France – Saint-Saulve	0	0	0	336,455	31%	366,455
Vallourec Star – Youngstown	0	0	0	796,016	10%	826,618
TOTAL	**213,733**	**505,631**	**328,277**	**1,357,857**	**19%**	**1,852,966**

4.4.2.3 Water management

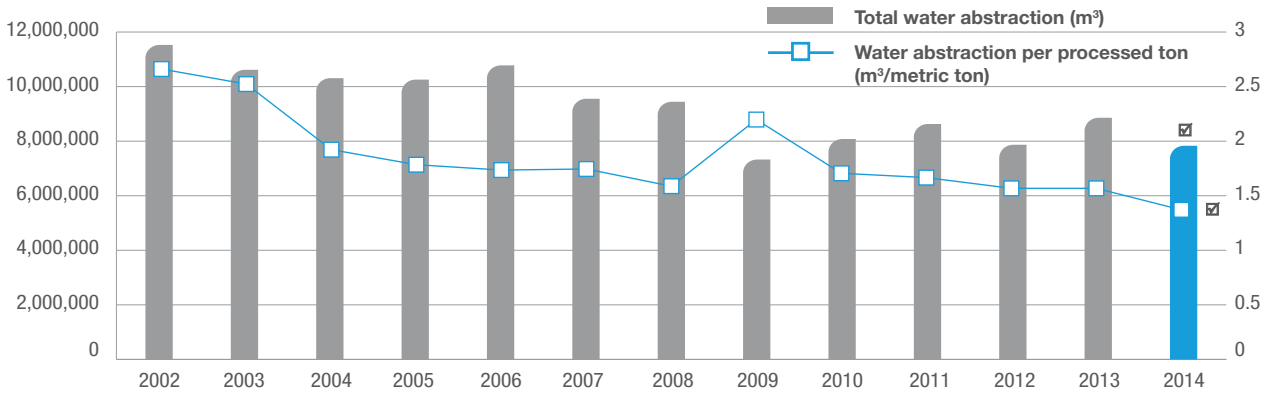
The Group considers water management to be one of the major challenges of sustainable development, due to its importance to the well-being of populations, the risks of shortage, and because water quantitatively represents the main resource needed for the Group's production processes. Water is indeed essential for its plants. 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.

In recent years, the quality of plant waste has improved and water abstraction has decreased, primarily thanks to the establishment of tools to increase reuse. Abstraction went from 10.3 million m^3 in 2004 to ☑7.83 million m^3 in 2014 (despite the increased load of the new sites of Vallourec & Sumitomo do Brasil and the new tube mill in Youngstown). The relative abstraction has thus regularly improved. Over the 2004-2014 period, it decreased 29%, to ☑1.4 m^3/metric ton treated at year-end 2014 (as compared with 1.6 m^3/metric ton treated at year-end 2013).

For the four integrated steel mill/tube mill sites of Vallourec Tubos do Brasil (Belo Horizonte), Vallourec & Sumitomo Tubos do Brasil (Jeceaba), Vallourec Tubes France (Saint-Saulve) and Vallourec Star (Youngstown), the internal water recycling rate is on average 98.1%, which attests to a very low level of water abstraction, and to the excellent performance of the flow management systems.

Water intake – 2002-2014



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).

ACTIONS TAKEN

Various improvements were made in 2014:

- After several wastewater discharge incidents in recent years, the Vallourec Tubes France plant in Déville-lès-Rouen 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 specific abstraction at the Déville site is now 6 m^3/metric ton instead of the 7 m^3/metric ton treated that was anticipated. The specific consumption of the Group as a whole has thus been reduced 15% since mid-2014, with all other aspects remaining constant. The VBR networks, along with the phosphating installation supply system, were rebuilt while expanding Vallourec Star Houston's storage.
- The Montbard networks were modified to allow water from the storm water basins to be reused.
- Oil separators and manually operated stopcocks on the pilot site of the Saint-Saulve tube mill (France) were established.
- In the Vallourec Drilling Products plant in Tarbes, at-source emissions were reduced, while an agreement to channel wastewater into the municipal treatment plant was finalized with the municipality.
- With a specialized provider, the Group established the full cost of water management for the four integrated steel mill/tube mill sites of VSB, VBR, Youngstown and Saint-Saulve. These costs, which combine the costs of abstraction, rehabilitation in the natural environment or networks, staff, maintenance, energy, consumables, and amortization and depreciation were higher than original estimates. Specific action plans are being prepared with a view to setting a precise objective to reduce the total cost of water management. A shared cornerstone for improvement consists of developing and establishing "smart" meters at strategic consumption points. This would enable real-time measurements to be taken, and actions to be rapidly implemented, in the event a discrepancy was noted, because specific knowledge of water consumption and its uses at the sites is a prerequisite for establishing a precise water savings strategy. This complete cost evaluation method used at the integrated sites will be rolled out at the Group's other major sites in 2015.

Lastly, the new Vallourec Star plant in Youngstown was awarded the 2014 Environmental Management and Recycling prize from the Steel Manufacturers Association (SMA). This prize rewards the excellent results of its new ultramodern water treatment facility, which applies all of the best practices recommended by the SMA.

THE WATER IMPACT INDEX

Water management is not limited to measuring abstraction in natural environments or municipal networks, or to monitoring the quantity and quality of waste. That is why the Group is tracking and analyzing its "water footprint" thanks to an indicator known as the "Water Impact Index". An initial study was conducted in 2012 based on 2011 data, with the participation of a specialized provider, at seven of the Group's sites located in Brazil, the United States, France and Germany. This indicator takes into account the volumes abstracted and discharged, the quality of the abstracted and discharged water, and stress factors (water scarcity and the hydrological context). Expressed in equivalent m^3 as related to the site's production, it synthetically measures the impact of each site with regard to the available water resources in the basin to which it belongs. A better understanding of the overall impact of using the resources indeed improves the prioritization of actions and investments.

In 2014, the indicator was specified for calculation at the four sites, and transposed to four other sites based on 2013 data. The method for measuring the water stress factor was affirmed after comparing existing methodologies. The sites analyzed represent nearly two-thirds of abstraction. It appears that only two of these sites belong to hydrological basins that are subject to water stress.

The application of the Water Impact Index demonstrated that the most critical sites were not only those where water abstraction was highest, as the table below shows.

Sites – 2013 Data

	Vallourec Tubos do Brasil	Vallourec & Sumitomo Tubos do Brasil	Youngstown	Houston	Saint-Saulve	Déville [(a)]	Tarbes	Rath [(a)]	Mülheim [(a)]	Batam
Water abstraction *(in thousands of m^3/year)*	1,644	363	1,127	93	1,439	2,280	101	640	370	78
Net impact of abstraction *(in m^3 equivalent)*	35,388	4,768	25,847	78,000	1,298,832	190,525	2,365	15,948	38,648	15
Net impact per metric ton processed *(in m^3 equivalent/metric ton)*	3	0.7	2	17	206	96	57	4	11	0.02

(a) 2011 data.

4.4.2.4 Energy policy

ENERGY CONSUMPTION

Commitment to responsible performance

> Improve the energy efficiency of our equipment and reduce CO_2 emissions from our manufacturing processes

INDICATOR

Energy consumption in kWh/metric ton processed.

2014 OBJECTIVE

Reducing energy consumption to **954 kWh/metric ton processed** for the Group's entire consolidation scope, except for the new Brazilian and American units (Vallourec & Sumitomo Tubos do Brasil and the new Youngstown tube mill) where production continued to ramp up in 2014.

ACHIEVEMENT OF THE 2014 OBJECTIVE

Energy consumption on this scope was recorded at ☑ **968 kWh/metric ton processed**.

The production level and the weak investment in improving energy performance weighed down the energy consumption ratio.

The Group's energy performance as compared to production conditions in 2008 nevertheless increased, reaching nearly **15%**.

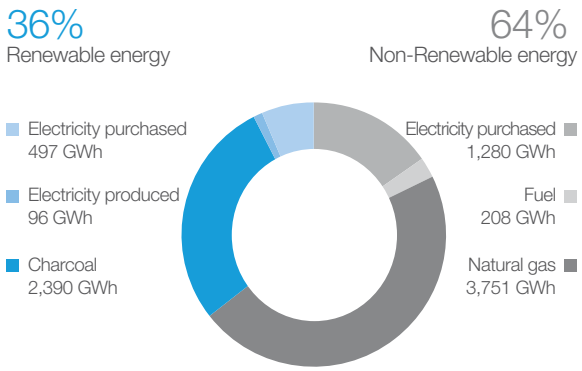
2015 OBJECTIVE

1,070 kWh/metric ton processed. This objective now includes all of the Group's plants, including Vallourec & Sumitomo Tubos do Brasil and the new Youngstown tube mill.

In 2014, energy consumption reached €249 million, slightly down from 2013 (€254 million), mainly due to the decrease in production level during the period, a result of long shutdowns for maintenance, as well as to foreign currency translation adjustments.

The Group also uses biomass as a source of energy for its blast furnaces in Brazil. It owns 237,000 hectares of eucalyptus plantations and forests, for the production of charcoal which reenters the cast iron production process as iron ore.

The diagram opposite shows the energy sources used by the Group:



Renewables account for 36% of the energy consumed on a group scale. This percentage comes from the energy consumed by using the charcoal produced by Vallourec Florestal, from reusing gas from the blast furnaces, and from the tar derived from the carbonization of charcoal to generate power, along with power purchased on the markets from a renewable source. This percentage has remained nearly stable despite the difficulties in getting power supplied from a hydraulic source in Brazil, due to extended periods of drought.

THE GREENHOUSE PROJECT

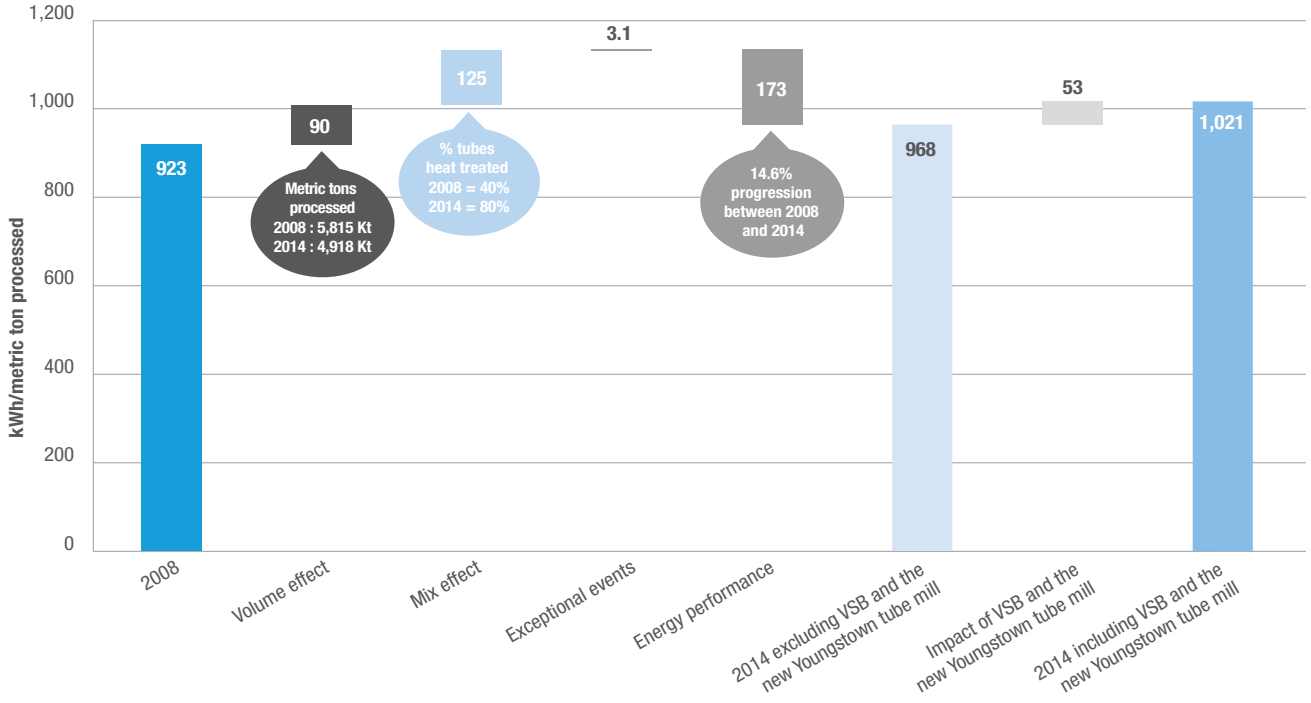
In 2009, Vallourec launched the GreenHouse project in an effort to achieve significant energy savings, targeting a 20% reduction in total gas and electricity consumption by 2020 (on a like-for-like basis of product mix and business activity, reference year 2008). With this project, Vallourec is also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

The GreenHouse project is rigorous in its approach and is supported by Vallourec Management System tools and methodologies (see above). It centers around the following elements:

- 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 teams 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 teams;
- 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;
- a self-assessment system for sites controlled by the project leaders.

In 2014, thanks to this project, energy consumption per processed ton ☑ totaled 681 kWh/t for gas, and 340 kWh/t for electricity (compared with 634 kWh/t and 289 kWh/t, respectively in 2008), excluding the mine and pelletization unit. On a like-for-like basis with 2013, i.e. excluding Vallourec & Sumitomo Tubos do Brasil and the new tube mill in Youngstown, Ohio (United States), consumption totaled 668 kWh/t for gas (680 kWh/t in 2013) and 300 kWh/t for electricity (332 kWh/t in 2013).

Factoring in the level of activity (85% of the 2008 level), the higher proportion of premium products (80% of products were heat treated in 2013 compared with 40% in 2008), and the sharp rise in the use of alloy steels, the Group's energy performance improved by nearly 15% over the 2008-2014 period. This progress was mainly due to the actions described above, since the Group only launched a limited number of investment projects.



THE VALLOUREC ENERGY MANAGEMENT SYSTEM

To take this to the next level and incorporate energy management into industrial processes, the Group developed the Vallourec Energy Management System based on the methodology of the GreenHouse project and international energy efficiency standard ISO 50001. Three sites were fully certified in 2014: Vallourec Tubes France (tube mill and steel mill in Saint-Saulve), Vallourec Oil & Gas UK Ltd and Vallourec Tubos do Brasil S.A., which is the first Brazilian steel site to have received this certification. Numerous other sites are engaged in the same process and working groups are in place in Germany, France, the United States, China and Indonesia.

The success of the processes, and notably the sustainability of their results depends on:

- energy efficiency training: Several hundreds of operators have completed specific training in energy efficiency in France, Brazil and Scotland, with experts from each site. Since 2013, Vallourec University, partnering with EDF, has developed, under a progress initiative aimed at Energy Demand Management – "EDM", an energy management specialist training program, with the aim of improving the technical expertise of the staff in charge of energy efficiency at its French sites. In 2014, 36 specialists were trained. The training was given in various technical disciplines, such as compressed air, thermal combustion, industrial cooling, lighting, mechanization and renewable energy;
- the use of a real time metering system, "Advanced Metering Management", was either implemented or is now being rolled out at the largest sites in Brazil, France, Germany, Scotland and the United States.

OTHER ACTIONS

Vallourec Florestal, which manages the Brazilian forest, also follows an energy efficiency plan. Its teams developed a more efficient carbonization process which led to an improvement in the mass transformation rate of wood into charcoal from 29% to 35%. This led to (i) a decreased need for wood and cultivated areas for production of cast iron, (ii) a very considerable reduction in methane emissions as compared with m^3 of charcoal and (iii) a reduction in the heat dispersed into the atmosphere.

Vallourec Florestal also conducts projects concerning new carbonization processes with recovery of steam and gas to allow electrical energy to be produced, while avoiding methane emissions, for which the equivalent "greenhouse effect" is more than 20 times that of carbon dioxide.

4.4.3 Impact and emissions

4.4.3.1 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. The emissions produced by plants are vapors and particles.

VAPORS

- Nitrogen oxide emissions (NO_X) come from furnaces for steel billets and from the 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 burners are replaced by low-NO_X burners that meet the highest technical specifications for this type of emission. In 2014, there were 729 metric tons of NO_X emitted (703 metric tons in 2013).

  Emissions of volatile organic compounds (VOCs) come from our facilities for tube lubrication, lacquering and painting, and for degreasing and cleaning tubes and machinery parts. In 2014, nominal VOC emissions (before retention and filtration), were estimated at 603 metric tons (519 metric tons in 2013). These are emissions from oil vapors released from rolling or cold-forming facilities and machine tools. Atmospheric emissions are thus quite a bit lower, and the measures taken show that the emissions comply with the applicable regulations. 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.

  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. Therefore, Vallourec Oil and Gas France made an investment to change from a solvent method to an aqueous one on the casing line, which will reduce the site's emissions by 30% starting in the second quarter of 2015.
- As concerns vapors from surface treatments, facilities are equipped with a treatment and retention system in compliance with applicable regulations.

	2011	2012	2013	2014
COV emissions *(kg/metric ton processed)*	0.11	0.10	0.10	0.11
NO_X emissions *(kg/metric ton processed)*	0.13	0.13	0.13	0.13

PARTICLES

- The main potential sources of particle emission are steel mill furnaces. Every year, retention systems are improved to continuously reduce the corresponding emissions. Therefore, in the Vallourec steel mill in Saint-Saulve, which emits dust, in particular during scrap melting in its electric arc furnace, the roofing of the building housing this furnace is enclosed and the dust is drawn up to the baghouses, with an efficiency of more than 99%, and is then used within the zinc industry. As baghouses do not have an absolute performance level, a low quantity of dust is nevertheless emitted into the environment through the chimneys. The steel mill has measured the impact of dust dispersal and fall-out around its site.

  The conditions for placing refractories in pockets were also modified with a view to avoiding the generation of dust. In Youngstown, since the installation of the dust extractors, the working environment has considerably improved. Particle retention is very efficient and abstractions show that the heavy metal content released (chrome, lead, nickel, etc.) is well below the authorized limits.

- 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.

4.4.3.2 Soil

FRENCH FACILITIES

In view of the sites' ages, all soil studies have been completed at the 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 for treatment processing, at a cost of €20,000. The last area was treated in 2014.

Vallourec Drilling Products in Cosne-sur-Loire continued to treat the areas of soil and groundwater contamination on the site. A mechanical skimmer was used in 2014 to recover hydrocarbon products.

As part of the extension of the Aulnoye-Aymeries test station, a soil survey was performed to determine the soil's condition before construction and any decontamination needs. The results showed various contaminants (blocks of concrete, roofing components and traces of metals and hydrocarbons). They did not, however, show any environmental impact. Even though a new site is being examined, the method for ensuring that this waste will remain sustainably inert is being studied in close collaboration with the administrative authorities.

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. Its 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 are subject to significant contamination risk.

4.4.3.3 Waste and by-product management

Commitment to responsible performance

> Respect our environment and protect biodiversity by preventing pollution of all kinds, reducing water consumption, recovering waste and reducing disturbances

INDICATOR

Percentage of waste recovered.

2014 OBJECTIVE

Achieving a **94% rate of waste recovery** for the Group's full consolidation scope, with the exception of Vallourec & Sumitomo Tubos do Brasil and the new tube mill in Youngstown, United States, where production continued to ramp up in 2014.

ACHIEVEMENT OF THE 2014 OBJECTIVE

The rate of recovered waste on this scope reached **93.9%**. For the Group's full consolidation scope, including Vallourec & Sumitomo Tubos do Brasil and the new tube mill in Youngstown, the rate of recovered waste reached ☑ 93.5%.

2015 OBJECTIVE

Achieving the rate of **94.5% of recovered waste** for the Group's full consolidation scope, including Vallourec & Sumitomo Tubos do Brasil and the new tube mill in Youngstown, United States.

As with all industrial activities, the Group generates significant quantities of various types of waste. In 2014, the Group generated 668,914 metric tons of waste (626,406 metric tons in 2013), 6.1% of which was hazardous (6% in 2013).

The key indicators for their management, which now include Vallourec & Sumitomo Tubos do Brasil (VSB) and the new Youngstown tube mill, are as follows:

	2010	2011	2012	2013	2014
Total waste *(in thousands of metric tons)*	629	666	655	626	669
Total waste/metric ton treated *(kg/metric ton)*	135	129	132	115	121
% hazardous waste	9.5	7.4	7.7	8.6	6.1
% waste recovered	86	89	91	92.7	☑ 93.5

On a like-for-like basis with 2013 (excluding VSB and the new Youngstown tube mill), the percent recovery reached 93.9%, up from 2013.

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 Group has set a recovery objective of 94.5% for 2015. To mark its commitment to the environmental issue represented by waste management, the Supervisory Board, on the recommendation of the Appointments, Compensation and Governance Committee, introduced a waste recovery target in 2013 in the variable portion of Management Board members' compensation.

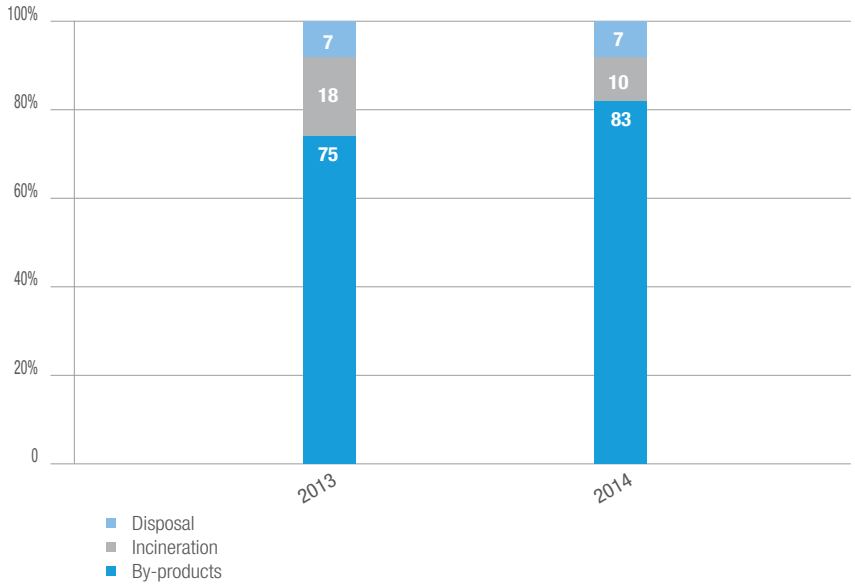
THE "BY-PRODUCTS" PROJECT

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 of materials or energy recovery. The costs of eliminating waste are high. However, thanks to the Group's efforts, the net cost of eliminating waste per metric ton (external costs less income from sales) decreased by 35% in 2014 compared with 2013.

In a spirit of continuous improvement, all waste categories are monitored monthly by each site with the aim of reducing volumes. The percentage of waste disposed was 7%, while waste recycled in the form of materials was 83% and waste burned to produce energy was 10%.

The data resulted in the implementation of more precise reporting on this subject in 2014.

Waste by end-use



The main levers of progress under the By-Products project are as follows:

- reduction of waste volumes;
- increase in the recovery rate by favoring a recovery of materials rather than energy;
- 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 recycling, 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 2014 the local teams opened new waste management channels and generated additional revenue by:

- combining the storage facilities of the steel mill and tube mill at the Saint-Saulve site;
- choosing providers according to the type of waste and method of recovery: zinc process for steel mill dust (Saint-Saulve), the use of process sludge and scale by the cement industry (Germany), etc.;
- in Youngstown, the environmental team launched a study to recover process sludge in road techniques. The study will continue in 2015 and will prevent this waste from being dumped;
- the Saint-Saulve steel mill has renegotiated the contract with its supplier to recover its slag in an effort to guide its use towards the most pertinent process, according to the technical characteristics of slag, and to increase transparency;
- Vallourec Fittings has established an oil regeneration system which has resulted in savings on the costs of process treatment as well as consumables.

HAZARDOUS WASTE TREATMENT

Posing a risk to health and the environment, hazardous waste (classified as such due to the hazardous substances it contains) is subject to special treatment. The percentage relating to all waste, i.e. 6.1%, decreased significantly from 2013 (8.6%).

The Group has identified two important hazardous waste categories on which it is working:

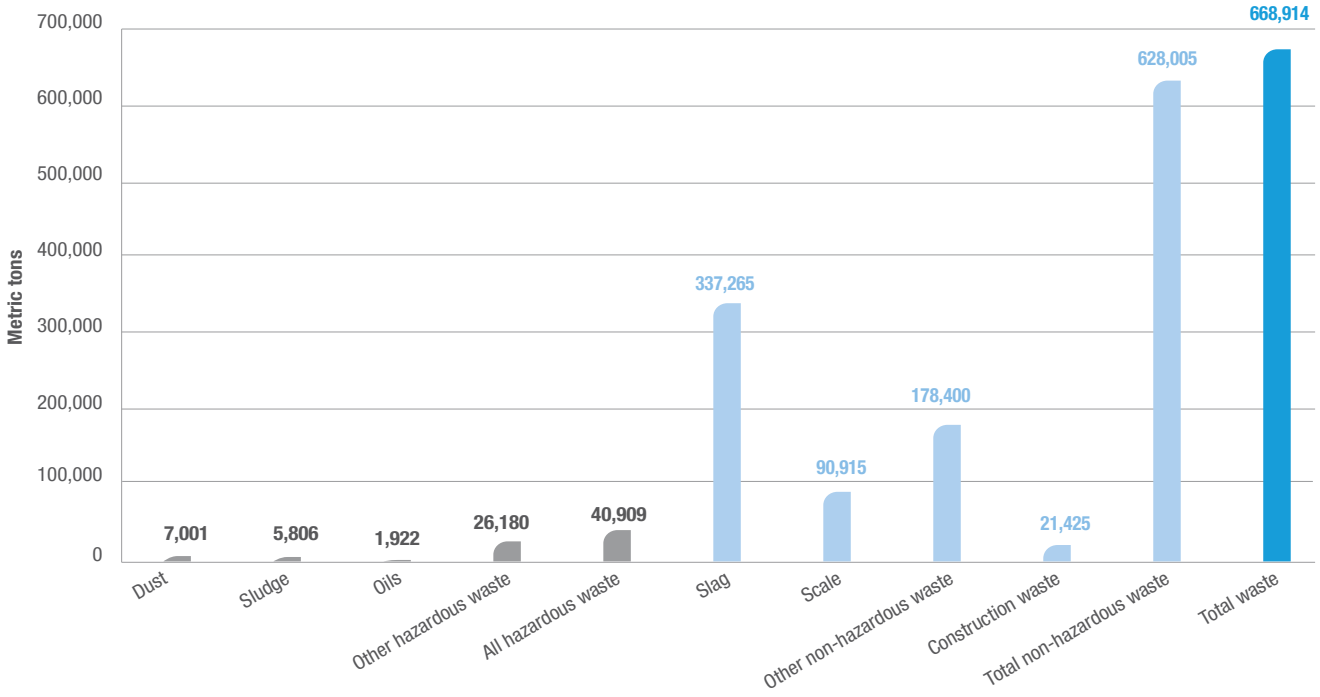
- organic waste (sludge, oils); and
- solid mineral waste (dust).

Hazardous waste requires specific management: handling and storage are subject to strict safety rules to preserve the environment and health of the staff handling them. Furthermore, this waste is generally not very recoverable as is, and processing costs are significant.

There are thus two possibilities that have been explored by the By-Products project: either reducing the portion of hazardous substances at the source, or separating that portion from the rest of the waste concerned through pre-treatment. For example, the water treatment station at the Youngstown site was able to improve the separation of mill scale particles and oil, which is responsible for its hazardous classification. Non-oily mill scale, which is not classified as hazardous, may thus be recovered for its material. The establishment of small waste oil treatment units allowed for a corresponding decrease in the generation of this waste, which is reused internally after treatment.

Waste quantity

The waste generated in 2014 is broken down as follows:



4.4.3.4 Noise

The Group's activities inevitably involve noise. Noise arises from various sources: steel mill furnaces, the cutting and storage of steel bars, the impact between tubes, or steel-rolling processes. Several types of actions have been implemented to limit noise, reduce it as much 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. At certain sites, very elaborate systems have been installed. They allow noise to be measured at very precise locations and to determine its 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 pollution, 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 2014, a certain number of specific actions were carried out:

- the partnership with an external provider, an acoustic specialist, established in 2013, continued with a view to performing environmental measurement operations along with workshop measurement operations (dosimetry and mapping);

- the Aulnoye tube mill committed to treating a significant source of noise at the tube cooling bed ventilators;
- the work continued in Germany at the Rath site, replacing plasticized surfaces with glass ones at the roof vents. There was an approximately one decibel improvement, building on the improvements that had already been made. In Reisholz, the moving of a noisy machine into another production room, and actions in the water pump room also allowed 1 decibel to be gained;
- establishment of a system to measure urban background noise in Montbard;
- soundproofing of control rooms inside Vallourec & Sumitomo Tubos do Brasil.

4.4.4 Climate change

4.4.4.1 Greenhouse gas emissions

ANALYSIS OF EMISSIONS

The reduction of greenhouse gas emissions is one of Vallourec's objectives. With a direct emissions ratio of 231 kg of CO_2 per metric ton processed and 223 grams of CO_2 per euro, Vallourec is a low emitter compared with industrial groups of comparable size. In 2015, the Group will determine and publish its emission targets for the coming years.

The Group strives to continually improve knowledge of its emission sources, in order to better control them. Therefore, the European land and sea logistics data for the Group, as identified by an outside consulting office, was incorporated into the calculation of emissions linked to the transportation of merchandise, in order to better understand these flows.

Since 2013, Vallourec has sought to enhance its public reporting in line with the "Carbon Disclosure Project". The Group achieved major improvements in its ratings in 2014, with a score of 91 for transparency (up from 63 in 2012) and a B for performance (compared with a D in 2012).

2014 emissions were calculated using the GHG protocol methodology, which distinguishes between direct emissions, indirect emissions from electricity, and indirect emissions from other sources of energy based on the Group's full scope.

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

The Brazilian native forest represents approximately one-third of the Vallourec Florestal forest surface. It is kept as is, while the other portion is cultivated. Every year, about one-seventh of the cultivated forest is cut down for the production of charcoal, and that area is then immediately 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. This is the assumption which is commonly accepted by the profession in Brazil. A detailed analysis of the carbon cycle, conducted with the help of academic and institutional experts, is currently pending completion and will determine, over a long period, the amount of carbon put into play. This study has already revealed a sustainable stock of carbon in the soil and roots which are not extracted after the trees are cut down.

Simplified carbon analysis

Type of emissions	2010	2011	2012	2013	2014
Direct emissions – (scope 1) *(in thousands of metric tons)*	961	1,051	1,008	1,128	☑ 1,273
Indirect emissions – (electricity) (scope 2) *(in thousands of metric tons)*	451	463	508	580	☑ 696.6
Indirect emissions – (supply chain) *(scope 3) (in thousands of metric tons)*	2,886	3,034	2,963	3,195	2,889.9
TOTAL EMISSIONS *(in thousands of metric tons)*	**4,298**	**4,548**	**4,479**	**4,903**	**4,860**
Specific emissions *(kg/metric tons processed)*	926	879	903	899	882

The following comments may be made:

- The main CO_2 emissions taken into account for the cast iron production process are related to the emission of methane during the wood carbonization process. Thanks to greater productivity of the plantations, the subsidiary is becoming self-sufficient and the purchase of charcoal is decreasing. This situation has the effect of mechanically increasing direct emissions (scope 1) although the gradual improvement of the furnace yield makes it possible to reduce emissions at a given production level. Nevertheless, the Vallourec Florestal results show little change.
- The emissions from steel production are significantly increasing due to production volumes and conditions in Brazil.
- Emissions from the electrical energy consumed (scope 2) are increasing 20% due to increased production in the United States and the high carbon content of that energy.
- The emissions under scope 3 are decreasing by approximately 10%, primarily due to the reduction in steel purchases, a natural consequence of the increased production of the Group, and of the efforts made by Vallourec Tubos do Brasil in waste management.

- As concerns the other production factors, emissions are proportionate to production.

These results are the benchmark for conducting improvement plans in upcoming years. The methods for reducing emissions are primarily improving energy efficiency (GreenHouse project) and reducing methane emissions during the charcoal production process. By way of example, and thanks to optimized management of the recycling of gas produced by blast furnaces, Vallourec Tubos do Brasil succeeded in putting an end to the combustion of the excess gases in question.

The full 2014 carbon analysis appears in Appendix 5 to this Registration Document.

EMISSION REGULATION SYSTEMS

- The Saint-Saulve steel mill comes under the scope of the European Directive of 23 April 2009 on the system for trading greenhouse gas quotas (ETS – Emissions Trading System). In 2014, the steel mill's allowance was 67,929 metric tons (69,130 metric tons in 2013). Estimated emissions in 2014 of 56,154 metric tons were lower than the allowances for the year as well as those of 2013 (51,604 metric tons). This latest improvement is related to the steel mill producing below its nominal capacity, 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 have fallen 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 2014, allowances for all tube mills totaled 380,000 metric tons, while emissions during the period were estimated at 300,000 metric tons.

  The impact of the mechanism on the Group's activity is not limited to consideration of its own emissions. European electricity providers are obligated to completely cover their CO_2 emissions under emissions laws. Furthermore, steel suppliers and, in particular HKM, which uses the cast iron coke-ore process, are also obligated to purchase emission quotas. Therefore, given the current low price of these emission quotas, the full impact of the ETS system provisions on the Group's operating costs was very limited in 2014.

- 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. The plan to reduce methane emissions, thanks to a better carbonization process, was also approved by these same bodies and affects a total amount of nearly 200,000 metric tons of CO_2 equivalent.

4.4.4.2 Adaptation to the impact of climate change

In 2014, the Group conducted a study of the risks related to the consequences of climate change, distinguishing among eight regions with distinct climate characteristics, namely Nord-Pas-de-Calais and Burgundy (France), Rhine-Westphalia (Germany), Minas Gerais (Brazil), Ohio and Texas (United States), Batam Island (Indonesia) and the Shanghai region (China).

Upon an in-depth examination of the public documents and national adaptation plans, the main phenomena identified were the risks of flooding, heat waves and prolonged drought, periods of frost, disturbance of water resources and the evolution of marine or lacustrine life. Some exceptional events could become more frequent (storms and hurricanes) and damage the Group's facilities. The conditions under which the sites are operated could also worsen (availability of water needed for the tube manufacturing process, working conditions at the plants, operation of equipment during heat waves). In addition, the unique ecosystem of Group-operated forests could change or weaken over the long term. For each of these risks, a probability of occurrence was estimated, and the extent of the consequences also evaluated. Lastly, the upstream and downstream supply chains are also likely to be seriously impacted.

Analysis of the impact of climate change on the main Group's facilities

	Nord-Pas-de-Calais FRANCE		Burgundy France		Rhine-Westphalia Germany		Minas Gerais Brazil		Ohio/Cleveland United States		Texas/Houston United States		Batam Indonesia		Shanghai China	
	Probability	Impact	Probability	Impact	Probability	Impact	Probability	Impact	Probability	Impact	Probability	Impact	Probability	Impact	Probability	Impact
Rising of average temperature	3	1	3	1	3	1	3	2			3	1	3	1	1	5
Heat waves	3	2	3	2	3	2			3	3	3	4	2	3	2	3
Drought	3	2	3	2	2	1	1	decrease	2	decrease	3	4	1	3		
Depletion of water resources	2	2	2	3	1	1	2	4			3	4	1	3	2	4
Snowfall/Frost	3	decrease	2	decrease	3	decrease			3	decrease						
Strong rains, flooding and mudslides	3	3	2	2	3	4	3	5	3	5	2	3	1	5	1	5
Storms, tornadoes, hurricanes, etc.					2	1	2	3			2	5	1	5	1	5
Rising sea level	N/A	N/A	N/A	N/A	N/A	N/A	2	3	N/A	N/A	3	5	3	3	2	5
Drop in levels of rivers, lakes and waterways									3	3						

1	2	3		decrease	1	2	3	4	5
uncertain	*probable*	*very probable*	*data unavailable*	*reduced frequency/intensity*	*weak impact*				*very strong/ costly impact*

N/A: Not applicable.

A growing number of international industrial groups are beginning to adopt protective measures. Each industrial site is in charge of further examining, at a local level, the risks that have thus been identified, and of constructing an adjusted adaptation plan. Such a process, which starts from a general approach before focusing on the situations deemed to be most critical, shall be updated periodically and recorded in the mapping of major risks, which the company keeps up-to-date.

4.4.5 Biodiversity

Surveys have also been conducted during the past few years at the main Vallourec sites, to study the impact of their activities on biodiversity. No major risk has been identified.

Some of the Group's specific activities nevertheless have a direct link to biodiversity, such that very specific measures aimed at preserving it have been established for several years already, or for a specific project.

4.4.5.1 Actions conducted in Brazil

- The Brazilian subsidiary Vallourec Tubos do Brasil runs the environmental education center in Barreiro, outside Belo Horizonte. This 20-hectare center includes three ecosystems: the "cerrado" (savanna), the transitional vegetation, and the "mata atlantica" (Atlantic forest).
- Brazilian subsidiary Vallourec Florestal carries out forestry activities for the production of charcoal, which is used as a source of energy in Brazilian steel mills. It conducts plant and wildlife monitoring programs, in cooperation with the universities of Minas Gerais and Lavras, the aim of which is to measure the impact of activities on the natural environment, and to establish appropriate management measures with a view to preserving and balancing biodiversity. 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.
- Vallourec Mineração performs mining activities in the city of Brumadinho, around 50 kilometers from the Barreiro industrial complex. 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 (for example, 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 m² of land used for mining were rehabilitated with the planting of species native to the region. These areas are now covered with a wide variety of trees, grasses and legumes.

- For several years now, the Group has contributed to the Tamar project, which aims to protect the giant sea turtles in the Ubatuba region on the northeast coast of Brazil. This project, which has been ongoing for more than 20 years, has allowed more than 5,000 specimens to be saved, and a scientific research and training center to be established.

4.4.5.2 Extension of the Aulnoye-Aymeries test center

In France, the proposed extension of the Aulnoye-Aymeries test center led to a study of the surrounding fauna and flora, aided by an outside consultancy. An action plan, approved by the authorities, was deployed to preserve protected animal species on the site, and to implement the project without disrupting the existing ecosystem. A complete inventory of the species was taken from March through September 2013: 29 species of birds, 25 species of insects, 2 protected species of amphibians, and 2 protected species of reptiles. The species movement was organized in connection with the authorities and expert ecologists in an effort to preserve certain areas, capture certain species and reconstruct new habitats. A supervisory plan was established to ensure the survival of the species. The initial observations, showing new births, attest to the effectiveness of the measures taken.

4.4.5.3 Actions taken in Indonesia

For several years, PT Citra Tubindo has been planting trees, specifically fruit trees, and has maintained a mangrove close to the facilities. In 2014, with the help of local volunteers, more than 6,000 seedlings were planted in the mangrove to develop it, representing a surface of approximately 8,000 m². These actions allowed coastal erosion to be slowed, the penetration of saltwater towards the interior to be halted, and the shores to be protected from storms, in addition to enabling carbon to be retained, and the toxic products contained in the water to be absorbed. These actions were supported by the local populations, academic institutions and students.

APPENDICES

Appendix 1 – Report by one of the Statutory Auditors, appointed as Independent Third Party, on the consolidated labor, environmental and civic responsibility information presented in the management report

Year ended 31 December 2014

This is a free translation into English of the Statutory Auditors' report issued in French and it 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 Auditor of Vallourec S.A., appointed as Independent Third Party, accredited by the COFRAC under number 3-1049 (1), we hereby present our report on the consolidated labor, environmental and civic responsibility information (hereinafter the "CSR Information") for the year ended 31 December 2014, 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"), available on request from the company's head office, summarized in the management report.

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 AUDITOR

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 limited assurance 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);
- at the request of the company, provide reasonable assurance, that information selected by the Group and identified by the symbol ☑ in the management report is fairly presented, in all material respects, in accordance with the Guidelines (Reasonable assurance on a selection of CSR information).

Our work was carried out by a team of seven people over an eight-week period between October 2014 and February 2015. 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 (2) concerning our opinion on the fairness of CSR Information.

(1) Scope available on the website www.cofrac.fr.

(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial 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 programs it has implemented as a result.

We compared the CSR Information presented in the management report with the list provided in 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 Article R.225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the consolidation scope, i.e. the company and its subsidiaries as defined by Article L.233-1 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 information presented in the Appendix 3 of the management report.

Based on these procedures 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 the work

We conducted approximately fifteen interviews with the individuals responsible for preparing 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 in terms of their relevance, completeness, reliability, impartiality and understandability, taking into account best practices, where appropriate;
- verify that a data-collection, compilation, processing and control process has been implemented to ensure the completeness and consistency of the CSR Information and review the internal control and risk management procedures followed 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 challenges of its activities, its sustainable development strategy and sector best practices.

With regard to the CSR Information that we considered to be the most important presented in the table below:

- at parent entity level and sites level, we consulted documentary sources and conducted interviews to substantiate the qualitative information (organization, policy, action), we performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and 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 entity level for a representative sample of entities selected [1] on the basis of their activity, their contribution to the consolidated indicators, their location and risk analysis, we conducted interviews to verify that the 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 selected sample represents on average 71% of quantitative labor information and on average 49% of quantitative environmental information.

(1) Labor information excluding safety: Vallourec Oil & Gas UK (United Kingdom), Serimax UK (United Kingdom), Vallourec in France, Vallourec in the USA, Vallourec Tubos do Brasil (Brazil), V&S Tubos do Brasil (Brazil).

Environmental information: Vallourec Oil & Gas UK (United Kingdom), Serimax UK (United Kingdom), Vallourec Tubes France Déville, Vallourec Tubes France St Saulve Steel, Vallourec Tubos do Brasil (Brazil), Vallourec Florestal (Brazil), Vallourec Mineraçao (Brazil), Vallourec Star Youngtown (USA).

Safety information: Vallourec Oil & Gas UK (United Kingdom), Serimax UK (United Kingdom), Vallourec Tubes France St Saulve Steel, Vallourec Tubos do Brasil (Brazil), V&S Tubos do Brasil (Brazil), Vallourec Florestal (Brazil), Vallourec Star Youngtown (USA).

Quantitative labor information	Level of assurance
Headcount at 31/12	☑ Reasonable
Breakdown of the workforce by age, gender and geographical area	
Hirings	
Departures	
Frequency rate of workplace injuries with lost days	
Percentage of managers who received a performance interview	
Severity rate of workplace injuries	Limited
Number of employees who received training	
Total number of training hours	
Remuneration	
Absenteeism rate	

Quantitative environmental information	Level of assurance
Energy consumptions	☑ Reasonable
CO_2 emissions (scopes 1 and 2) [(a)]	
Water intakes (per source)	
Percentage of recovered waste (of which recycled waste)	
Discharged water	Limited
Quality of water discharges	
Hazardous and non-hazardous waste quantities	
Volume of raw materials used / recovered	

(a) Scope 1: stationary combustion, steel plant processes, methane emissions, internal transport - Scope 2: electricity.

Qualitative information	
Labor topics	› Organization of social dialogue including collective bargaining agreements with employee representatives › Policies implemented regarding training › Occupational health and safety conditions › Policy against discrimination
Environmental topics	› The organization of the company to integrate environmental issues and, if appropriate, the assessments and certification process regarding environmental issues › Water consumption and water supply adapted to local constraints › Energy consumption and measures implemented to improve energy efficiency and renewable energy use › Greenhouse gas emissions › Adaptation to consequences of climate change
Labor topics	› Territorial, economic and social impact of company activity on local populations › Consideration, in the relationship with subcontractors and suppliers of their social and environmental responsibility › Action taken to combat corruption

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 intrinsic to the operation of information and internal control systems, we cannot completely rule out the possibility that a material irregularity 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.

3. Reasonable assurance on a selection of CSR Information

Nature and scope of the work

For the information selected by the Group and identified by the symbol ☑, our audit consisted of work of the same nature as described in paragraph 2 above for CSR information considered the most important, but in more depth, particularly regarding the number of tests.

The selected sample represents on average 73% of quantitative labor information and on average 64% of quantitative environmental information identified by the symbol ☑.

We believe that this work enables us to provide reasonable assurance on the information selected by the Group and identified by the symbol ☑.

Conclusion

In our opinion, the information selected by the Group and identified by the symbol ☑ is fairly presented, in all material respects, in accordance with the Guidelines.

Paris-La Défense, 17 March 2015

KPMG S.A.

Philippe Arnaud

Partner

Climate Change
and Sustainable Development Department

Catherine Porta

Partner

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

Environmental results of Vallourec Mineração and of the VSB pelletization unit

2014 results		Unit	Vallourec Mineraçaõ	Vallourec & Sumitomo Tubos do Brasil pelletization unit – (56%)
Production		metric ton	4,392,533	545,493
Natural gas		kWh	-	211,229,404
		kWh/metric ton	-	387.2
Electricity		kWh	40,975,694	34,116,331
		kWh/t	9.3	62.5
Water intake	Water tables	m^3	3,880,320	-
	Surface	m^3	522,442	299,424
	TOTAL	m^3	4,402,762	299,424
	TOTAL/metric ton	**m^3/metric ton**	**1.00**	**0.55**
Discharged water		m^3	-	71,497
		m^3/t	-	0.13
Waste generated	Non-hazardous	metric tons	632	5,466
	Hazardous	metric tons	99	3,442
	TOTAL	metric tons	731	8,909
	TOTAL/metric ton	**kg/t**	**0.17**	**16.33**
Recovered waste	Not recovered	metric tons	260	5,411
	Recovery rate	%	64	39
CO_2 Emissions	Scope 1	metric tons of CO_2 equivalent	16,780	39,100
	Scope 2	metric tons of CO_2 equivalent	2,631	10,156
	TOTAL	metric tons of CO_2 equivalent	19,411	49,256
	TOTAL/metric ton	**kg CO_2 equivalent/metric ton**	**4.42**	**90.30**

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.

Vallourec & Sumitomo Tubos do Brasil operate a pelletization unit (processing of iron ore to improve the performance of the blast furnaces). This unit, which operates at its nominal capacity, supplies VSB and other Brazilian metallurgists.

Appendix 3 – Methodological Note

Designed to inform shareholders and the greater public about the actions taken by Vallourec in favor of sustainable development, Chapter 4 of the Registration Document targets compliance with the Grenelle 2 act of 12 July 2010, and in particular Articles L.225-102-1, R.225-104 and R.225-105 of the French Commercial Code *(Code de commerce français)*. The information contained herein is derived from database systems deployed worldwide, at each site concerned.

All of the CSR information published in Chapter 4 of the Registration Document was verified by an Independent Third Party Body, whose report appears on page 99 of this document.

These assertions clearly explain the Group's CSR strategy, as well as its actions in these areas.

INDICATORS

Vallourec defined its guidelines by reproducing the list of CSR information that appears in Article R.225-101-1 of the French Commercial Code *(Code de commerce français)*. Other indicators were constructed based on those published by the Global Reporting Initiative (GRI), 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 on a monthly basis for each site. In France, this collection occurs with the help of the SAP application in France, Ultipro in the United States, and using Excel sheets in the other companies. Consolidation is done first by country, under the responsibility of the 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 Saint-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 at least six months, a circumstance which did not arise in 2014;
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;
6. the social reporting scope includes companies belonging to the tax consolidation scope. 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

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 Management and to all sites. This year, the environmental data for December 2014 was extrapolated using that of October and November, after a historical analysis showed that the discrepancies were not significant.

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

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 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 production indicator is published in the Group's results.

Environmental data are routinely expressed in absolute and relative terms, in both graphs and tables of quantified results.

Relative values are divided either by production, expressed as metric tons of tubes processed (which allows different sites to be compared) or metric tons of tubes shipped, expressed as metric tons of tubes (which helps in estimating the environmental footprint of tubes shipped to customers).

VERIFICATION OF CSR INFORMATION

All of the CSR information published in Chapter 4 of the Registration Document was verified by an Independent Third Party Body. A selection of indicators identified by the symbol ☑ was covered by more in-depth verifications, with a check at the reasonable assurance level. For each piece of information 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 No· 1)	Vallourec Mineração and the pelletization unit of Vallourec & Sumitomo Tubos do Brasil (VSB)	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). The same goes for the VSB pelletization unit, which supplies the Group's blast furnaces as well as outside customers. Their 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. Conversely, the safety and social indicators of Vallourec Mineração and the pelletization unit, along with the carbon emissions, are consolidated with all of the Group's other results.
Wastewater quality	Vallourec Tubes France (Saint-Saulve, Déville and Aulnoye steel and tube mills), Vallourec Drilling Tarbes, Vallourec Tubes Deutschland Rath, Vallourec Star Houston, PT Citra Tubindo, VSB	Indicators for monitoring wastewater quality (SPM, COD, TH and metals) are consolidated for sites that discharge wastewater directly into the environment after internal processing at their effluent treatment 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.
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 8606 project at UNFCCC: "Carbonization Project – Mitigation of Methane Emissions in the Charcoal Production of V & M Florestal, Minas Gerais, Brazil", which is 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 in furnaces (Appendix 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	As of 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 a workplace accident in the United States	All	In the United States, lost days for workplace 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 for accounting for lost days.
Social data of PT Citra Tubindo (PTCT)	PTCT	The social data for PTCT was extrapolated using the data for the month of December.

Appendix 4 – Concordance table between the information required under Article 225-105-1 of the French Commercial Code and the information in this chapter

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1.	Total number and breakdown of employees by gender, age and geographical segment	4.2.1.1 (p. 64-66)
2.	New hires and dismissals	4.2.1.2 (p. 67-69)
3.	Compensation and changes thereto	4.2.4 (p. 74-75)
b) Organization of work		
4.	Organization of working time	4.2.1.3 (p. 69)
5.	Absenteeism	4.2.1.3 (p. 69)
c) Employee relations		
6.	Dialog between employers and employees, including procedures for informing, consulting and negotiating with staff	4.2.3.1 (p. 72-73)
7.	Review of collective bargaining agreements	4.2.3.1 (p. 72-73)
d) Health and safety		
8.	Health and safety conditions at work	4.2.2 (p. 70-72)
9.	Review of agreements with trade unions or employee representatives on health and safety in the workplace	4.2.2 / 4.2.3.1 (p. 70-72 / 72-73)
10.	Workplace accidents, including their frequency and severity, and occupational illnesses	4.2.2 (p. 70-72)
e) Training		
11.	Training policies implemented	4.2.5.2 (p. 76-77)
12.	Total number of training hours	4.2.5.2 (p. 76)
f) Equal opportunity		
13.	Measures taken to promote gender equality	4.2.6.1 (p. 78)
14.	Measures taken to promote the employment and integration of the disabled	4.2.6.2 (p. 78)
15.	Anti-discrimination policy	4.1.3 / 4.2.6 (p. 64 / 77-78)
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16.	Respect for freedom of association and right to collective bargaining	4.1.3 (p. 64)
17.	Elimination of discrimination in respect of employment and occupation	4.1.3 (p. 64)
18.	Elimination of forced or compulsory labor	4.1.3 (p. 64)
19.	Effective abolition of child labor	4.1.3 (p. 64)
2ND ENVIRONMENTAL INFORMATION		
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21.	Employee training and information on environmental protection	4.4.1.4 (p. 83-84)
22.	Resources devoted to the prevention of environmental risks and pollution	4.4.1 / 5.1.2.1 (p. 83-84 / 112-113)
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	4.4.1.5 (p. 84) and Note 16 to the financial statements (p. 173)
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25.	Waste prevention, recycling and elimination measures	4.4.3.3 (p. 92-94)
26.	Consideration of noise and other forms of pollution related to a specific activity	4.4.3.4 (p. 94-95)

c) Sustainable use of resources		
27.	Water consumption and water supply according to local constraints	4.4.2.3 (p. 86-88)
28.	Consumption of raw materials and measures to improve efficiency in their use	4.4.2.2 (p. 85-86)
29.	Energy consumption, measures to improve energy efficiency and use of renewable energy	4.4.2.4 (p. 88-90)
30.	Land use	4.4.3.2 (p. 91)
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35	On neighbors or local populations	4.3.3 / 4.3.4 (p. 80-81 / 81-82)
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37.	Partnership or sponsorship actions	4.3.4 (p.81-82)
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39.	Significance of subcontracting and consideration of suppliers' and subcontractors' CSR policies	4.3.3 (p.80-81)
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40.	Actions to prevent corruption	4.3.3.3 / 4.1.2 (p.81 / 63)
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Appendix 5 – Summary of environmental and corporate social indicators

ENVIRONMENTAL INDICATORS

Indicators	Units	2010	2011	2012	2013	2014
Production	Metric tons processed	4,642,266	5,175,558	4,959,229	5,456,271	5,508,079
	Metric tons shipped	1,888,000	2,251,000	2,092,000	2,159,000	2,322,800
Water intake	m^3/year	8,078,804	8,628,862	8,360,710	8,786,030	☑7,831,288
	m^3/metric ton processed	1.74	1.67	1.69	1.61	1.42
	m^3/metric ton shipped	4.28	3.83	3.99	4.07	3.37
Water discharged	m^3/year	4,903,721	5,257,296	5,596,360	5,494,232	4,087,062
	m^3/metric ton processed	1.06	1.02	1.13	1.01	0.74
	m^3/metric ton shipped	2.6	2.34	2.68	2.54	1.76
	Total metals mg/L emitted	1.14	1.11	1.09	0.81	1.29
Emissions						
Volatile Organic Compounds (VOC)	metric tons	NC	550	506	519	603
VOC kg	kg/metric ton processed	NC	0.11	0.10	0.10	0.11
Nitrogen oxide emissions (NOx)	metric tons	NC	667	650	703	729
NO_X kg	kg/metric ton processed	NC	0.13	0.13	0.13	0.13
Waste						
Total waste [(a)]	tons/year	628,518	665,813	654,969	626,406	668,914
	kg/metric ton processed	135	129	132	115	121
	kg/metric ton shipped	333	296	313	290	288
Non-hazardous waste	Metric tons/year	588,614	616,828	604,425	572,669	628,005
Hazardous waste	Metric tons/year	59,904	48,985	50,544	53,737	40,909
% hazardous waste	%	9.5	7.4	7.7	8.6	6.1
% recovered waste	%	86	89	91	92.7	☑93.5
Energy						
Natural gas	GWh/year	3,238	3,496	3,257	3,708	☑3,751
	kWh/metric ton processed	697	675	657	680	681
	kWh/metric ton shipped	1,715	1,553	1,557	1,717	1,615
Electricity	GWh/year	1,521	1,598	1,603	1,812	☑1,873
	kWh/metric ton processed	328	309	323	332	340
	kWh/metric ton shipped	806	710	766	839	806
CO_2 [(b)]						
Total emissions (scope 1)	Metric tons/year	961,264	1,050,778	1,007,967	1,127,592	☑1,273,427
	kg CO_2 eq./ metric ton processed	207	203	203	207	231
	kg CO_2 equivalent/ metric ton shipped	509	467	482	522	548

(a) 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).

(b) The methane emission factor has been reviewed according to official values as of 2010.

2014 GREENHOUSE GAS EMISSIONS ANALYSIS

		Summary of emissions in metric tons of CO_2 equivalent							
Scope	**Type of emissions**	**Emissions excluding biomass**	**Emissions related to biomass**	**Methane emissions**	**N_2O emissions**	**Metric tons of CO_2**	**Kg CO_2/ metric ton processed**	**% partial**	**% total**
Scope 1 Direct emissions	Natural gas combustion	733,016	819,867	-	-	733,016	133	58%	15%
	Methane emissions	-	-	345,967	-	345,967	63	27%	7%
	Steel production	141,323	-	-	-	141,323	26	11%	3%
	Internal transportation	53,121	-	-	-	53,121	10	4%	1%
	TOTAL SCOPE 1	**927,460**	**819,867**	**345,967**	**-**	**☑1,273,427**	**231**	**100%**	**26%**
Scope 2 Indirect emissions due to energy use	Electricity purchased	696,610	-	-	-	696,610	126	100%	14%
	TOTAL SCOPE 2	**696,610**	**-**	**-**	**-**	**☑696,610**	**126**	**100%**	**14%**
Scope 3 Other indirect emissions	External transportation	670,657	-	-	-	670,657	122	23%	14%
	Waste treatment	197,644	-	-	-	197,644	36	7%	4%
	Employee transportation	75,912	-	-	-	75,912	14	3%	2%
	Purchases of materials, goods and services	1,605,366	-	-	-	1,605,366	291	56%	33%
	Emissions related to industrial equipment	177,936	-	-	-	177,936	32	6%	4%
	Emissions related to the transportation of energy	162,367	-	-	-	162,367	29	6%	3%
	TOTAL SCOPE 3	**2,889,882**	**-**	**-**	**-**	**2,889,882**	**525**	**100%**	**59%**
GRAND TOTAL		**4,513,951**	**819,867**	**345,967**	**-**	**4,859,918**	**882**	**-**	**-**

SOCIAL INDICATORS

	2010	2011	2012	2013	2014
Workforce	20,561	22,204	23,177	24,053	☑23,709
Turnover (%)	7	8	10	9	12

	2010	2011	2012	2013	2014
Safety					
LTIR [a]	3.16	2.79	2.6	2.26	☑1.32
TRIR [b]	12.8	9.4	7.1	5.51	4.23
Severity rate	0.2	0.11	0.11	0.12	0.06
Training					
Number of employees having participated in a training session	12,691	16,027	15,942	14,912	14,537
Number of training hours	650,346	677,931	597,379	582,000	513,597

(a) LTIR (Lost Time Injury Rate): number of accidents with lost time per million hours worked.

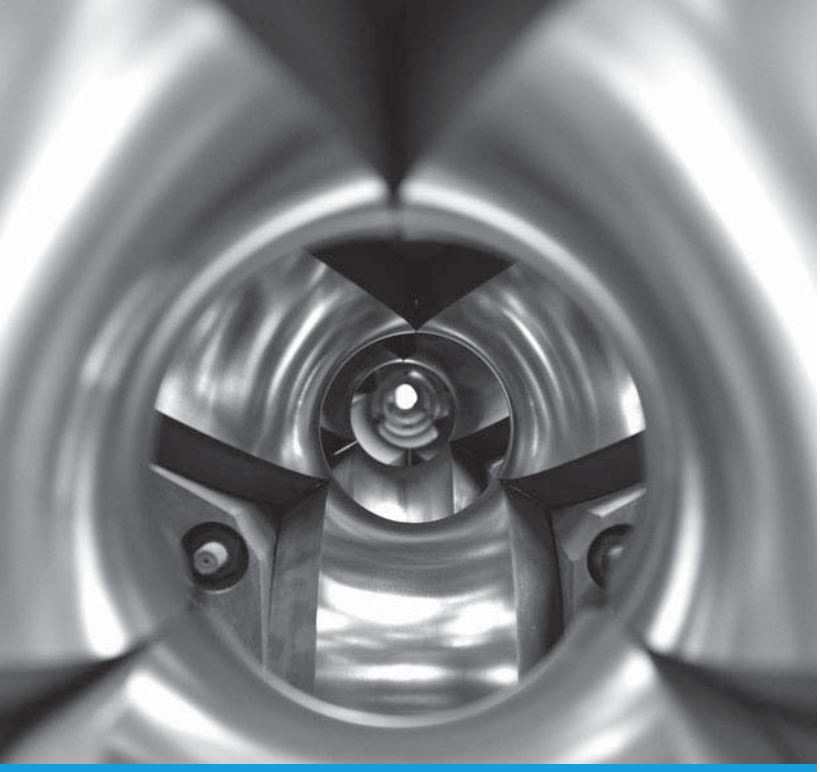
(b) TRIR (Total Recordable Injury Rate): number of accidents declared per million hours worked.

% of women (permanent employees)

	Worker		Technical and supervisory staff		Managers		Total	
	2013	2014	2013	2014	2013	2014	2013	2014
Europe	2%	2%	33%	33%	21%	21%	11%	11%
Brazil	5%	6%	29%	28%	23%	24%	10%	11%
Asia	15%	17%	26%	28%	19%	16%	19%	20%
NAFTA	1%	1%	29%	31%	19%	21%	10%	10%
TOTAL	**4%**	**4%**	**30%**	**30%**	**21%**	**21%**	**11%**	**☑ 11%**

Breakdown between permanent and temporary staff

	Permanent		Short-term contracts (excluding apprentices)		Temporary	
	2013	2014	2013	2014	2013	2014
Europe	9,251	9,190	97	92	849	840
Brazil	8,255	8,226	30	4	18	37
Asia	1,792	1,481	906	346	500	97
NAFTA	2,921	3,156	233	0	98	408



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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 likely, as at that date, to have a material adverse impact on the Group, its business, financial position, earnings or growth.

5.1 Risk factors

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, inspection or inquiry by any authority whatsoever, other than the one mentioned in Note 16 to the consolidated financial statements, 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 Operational risks

As far as the Group is aware, there are currently no specific identified operational 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.

5.1.2.1 Industrial and environmental risks

DESCRIPTION OF THE INDUSTRIAL AND ENVIRONMENTAL RISKS

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 pay 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 the principles in its Sustainable Development Charter and Environmental Policy, which were approved by the Management Board in 2014, 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 risk for the environment. The possibility of an environmental accident that could have a material impact on the continuing operation of the sites concerned and the Group's financial position cannot therefore be ruled out.

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.

EVALUATION OF INDUSTRIAL AND ENVIRONMENTAL RISKS

Operating entities assess the industrial and environmental risks of their activities before developing them, and then regularly during operations. They comply with the regulatory requirements of the countries in which the 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 industrial 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 the site's activities on the health of neighboring populations. They are performed using common methodologies. In countries that implement authorization procedures and monitor project progress, 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 2.12 to the financial statements.

In 2014, the Group, with the assistance of a specialized firm, conducted an analysis of the inherent risks of climate change. This study notably relied on available scientific information and existing national adaptation plans. For each of the Group's major industrial basins, it identified risks and estimated their probability of occurrence and severity. It is now up to each site to define the measures to be taken as concerns personnel and equipment in order to reasonably prepare for the identified risks. The study also highlighted that the supply chain is likewise subject to these climate risks. It will be the responsibility of the Purchasing Department to examine the measures to be adopted with the suppliers most concerned.

MANAGEMENT AND TRACKING OF INDUSTRIAL AND ENVIRONMENTAL RISKS

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 staff and heightening the awareness of all parties involved, as well as by implementing a policy of environmentally friendly investments that reduce industrial risk.

5.1.2.2 Other operational risks

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. Health and safety management is a priority for the Group and a fundamental value for Vallourec.

Driven by a determination to act on all safety levers, in 2014 Vallourec renewed its three-year program (2014-2016) on safety improvement, entitled "CAPTEN+ Safe". In late 2014, the LTIR was 1.3, thereby affirming the Group's ongoing progress in the area. Although the Group did suffer two fatal accidents in 2014, it remains very committed to safety issues.

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

- safety management committees at all levels of the Company;
- safety visits conducted by supervisory staff at all organizational levels;
- ongoing risk assessment for safety concerns and preventive actions;
- continuous improvement teams (CITs) on safety issues;
- the roll out of a specific action plan to prevent fatal accidents.

As regards health, the Group pursued its action program with a view to reducing physical hardship at work and preventing psychosocial and chemical risks (see Chapter 4 "Corporate Social Responsibility", Section 4.2.2. "Health and safety" above).

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 believed they had 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 DEPENDENCE ON PARTICULAR CUSTOMERS

In 2014, the Group generated 29% of sales from its five biggest customers (see Chapter 3, Section 3.1.10.2 "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.

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. 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 along 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. This could reduce Group margins and have a negative impact on earnings.

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.

RISKS RELATED TO DEFECTIVE OR FAULTY PRODUCTION

The Group's positioning in the market for premium tubular 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, lead to an interruption of business for customers or third parties or cause 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.

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

- implementing 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;
- applying a continuous improvement approach driven by Vallourec Management System (VMS), and based on three pillars: Total Quality Management (TQM) plans, steering committees and continuous improvement teams (CITs);
- implementing, since 2012, the CAPTEN+ Quality program, which uses pilot plants to create a set of best practices that can then be rolled out in all plants; and
- contractually limiting its liability, to the extent possible.

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 assets 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.

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 roll out of regular external audits to prevent damage, including from equipment breakdowns, fires, explosions and natural disasters; and
- in addition: the main sites have adopted 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.

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.).

However, Vallourec has launched a plan to strengthen its internal control mechanism over three years (2013-2015), in an effort to better structure and coordinate existing procedures (see "Report from the Supervisory Board Chairman", Appendix 1 to Chapter 7 of this Registration Document).

The essential values of Vallourec also incorporate an ethical component. Its requirements are taken into account in the Group's Code of Ethics, in effect since 2009 and very broadly disseminated to all employees.

RISKS RELATED TO NEW PRODUCTION UNITS

The Group has also worked to modernize and substantially strengthen its industrial resources in recent years.

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 complex projects could experience delays, budget overruns or non-compliance when the various facilities are commissioned. This would in turn lead to damage, loss 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 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. 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.

The Group has put in place a number of Human Resource management programs designed to limit the possible impact of these risks, such as performance appraisals, succession planning for key people in each division and programs to develop future leaders. These programs are monitored regularly by the Group Management Committee.

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.

5.1.3 Strategic risks

5.1.3.1 Risks linked to the cyclical nature of the tube market

The tube 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.

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, mechanical engineering 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 among some of its over 50 production sites in more than 20 countries,

- the reduction of fixed costs at each of its sites, and
- the capacity to broadly adjust variable costs as activity evolves.

5.1.3.2 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 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 connections for OCTG tubes. These patented connections 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 connections and tubes;
- 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.

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.

5.1.3.3 Risks related to intellectual property

The risks 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 protect and 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 and defending 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 and defending 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.

5.1.3.4 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.

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 the protection of trade secrets (coordinated by the Security Department, which is backed by regional experts and a site security officer).

5.1.3.5 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.

Although the Group takes great care when drafting and negotiating acquisition, sale and partnership development 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.

5.1.3.6 Call options stipulated in certain industrial cooperative agreements linking Vallourec to Nippon Steel & Sumitomo Metal Corporation (NSSMC) (1) (previously Sumitomo Metal Industries – SMI) and Sumitomo Corporation

Certain industrial cooperative agreements linking Vallourec to Nippon Steel & Sumitomo Metal Corporation (NSSMC) 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 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 (VSB) 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 and Gas France (VOGFR), Vallourec Tubes, or Vallourec, NSSMC has the right to cancel the Research and Development contract entered into by VOGFR 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, as VOGFR benefits from the same rights in the event of a change in control of NSSMC. If NSSMC exercises its right of cancellation, it will also be entitled to continue to use the VAM® trademark for three years from the date of such cancellation.

5.1.3.7 Risks related to the Group's 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.

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.

5.1.4 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.

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

5.1.4.1 Market risks

INTEREST RATE RISKS

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

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. This loan was repaid early on 27 October 2014.

In December 2009, Vallourec & Sumitomo Tubos do Brasil, which is 56% owned by the Group, contracted a loan from BNDES (Banco Nacional de Desenvolvimento Econômico e Social). As at 31 December 2014, BRL 162.1 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:

- in 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;
- in September 2014, a €500 million bond, maturing in September 2024, with a fixed annual coupon of 2.25%.

As at 31 December 2014, financial debt exposed to changes in variable interest rates was €507.4 million (about 18.8% of total debt). No other significant fixed-rate credit facility will reach contractual maturity in the 12 months following the 2014 reporting date, apart from the outstanding amount, as at 31 December 2014, of €310.5 million in commercial paper with a maximum 12-month maturity, and various credit facilities granted to the Brazilian and Chinese subsidiaries (€109 million).

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 €5.1 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 2014 and 2013:

Total debt as at 31/12/2014

In € thousand	Other borrowings	Cash
Fixed rate on date granted	2,186,145	-
Variable rate on date granted swapped to fixed rate	0	-
Fixed rate	2,186,145	-
Variable rate	507,372	1,146,913
TOTAL	**2,693,517**	**1,146,913**

Total debt as at 31/12/2013

In € thousand	Other borrowings	Cash
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**

FOREIGN EXCHANGE RISK

Foreign currency translation risk

The assets, liabilities, revenues and expenses of the Group's subsidiaries are expressed in various currencies. The Group's 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 2014, 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 €54.8 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 (€287.7 million at 31 December 2014) which, in recent years, have been mainly linked to movements in the US dollar and Brazilian real.

Foreign currency translation reserve – Group share

In € thousand	31/12/2013	31/12/2014
USD	(18,363)	158,184
GBP	(12,407)	(8,728)
BRL	(513,799)	(479,818)
CNY	29,153	50,497
Other	(9,984)	(7,839)
	(525,400)	**(287,704)**

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

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 countries where they operate.

The main foreign currency involved is the US dollar (USD): a significant portion of Vallourec's transactions (approximately 38.7% of Group sales in 2014) 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 income 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.

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 canceled hedges.

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 with regard to commercial transactions – Exchange rate risk

In € thousand	31/12/2013	31/12/2014
Forward exchange contract: forward sales	2,015,532	1,622,654
Forward exchange contract: forward purchases	124,312	143,360
Currency options: sales	-	-
Currency options: purchases	-	-
Raw materials and energy: call options	-	-
TOTAL	**2,139,844**	**1,766,014**

Contract maturities at 31/12/2014

Contracts on commercial transactions *In € thousand*	Total	< 1 year	1 to 5 years	> 5 years
Exchange contracts: forward sales	1,622,654	1,536,021	86,633	-
Exchange contracts: forward purchases	143,360	131,853	11,507	-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Raw materials and energy: call options	-	-	-	-
TOTAL	**1,766,014**	**1,667,874**	**98,140**	**-**

Forward sales correspond mainly to sales of US dollars (€1,622 million of the €1,766 million total). These contracts were transacted at an average forward EUR/USD rate of 1.32 and an average forward USD/BRL rate of 2.53. In 2014, as in 2013, 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 398.3 million (€297.0 million) and for CNY 162.8 million (€19.2 million).

These instruments are intended to hedge 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 2015 and 2016, as and when the hedged loans and borrowings mature.

CREDIT RISKS

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 and other 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 2014 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 €69.7 million at 31 December 2014, or 6.3% 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 commercial collection policy.

In addition, at 31 December 2014, outstanding trade receivables amounted to €869.5 million, or 78.3% of total net trade receivables. The following table provides an analysis by maturity of these trade receivables:

As at 31 December 2014	0 to 30 days	30 to 60 days	60 to 90 days	90 to 180 days	Over 180 days	Total
Outstanding receivables *(in € million)*	542.0	187.4	41.7	97.3	1.1	869.5

Equity risk

Treasury shares held by Vallourec as at 31 December 2014 include (i) shares assigned to cover allocation plans for certain employees and executive 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 executive corporate officers of the Group, Vallourec holds:

- 45,755 treasury shares acquired on 5 July 2001, mainly after the definitive allocation 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 allocation in 2012 of 3,680 shares under the performance share plan of 31 July 2010; and the definitive allocation 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 allocation of 2,095 shares, 65,304 shares under the performance share plan of 31 July 2009;
- 3,094 treasury shares acquired in 2008 as part of the share buyback program of 4 June 2008, after the definitive allocation in 2011 of 26,844 shares and the definitive allocation in 2013 of 70,050 under the performance share plan of 17 December 2009;
- 194,160 treasury shares acquired in 2011 as part of the share buyback program 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, 53,643 shares under the performance share plan of 15 March 2010, 38,286 shares under the 2-4-6 Plan of 2010;
- 305,400 treasury shares acquired in 2012 under the share buyback program of 31 May 2012, after allocation of 64,972 shares under the performance share plan of March 2012, 29,628 shares under the 2-4-6 share plan of 2012;
- 300,000 treasury shares acquired in 2014.

  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.

  On 8 April 2014, by a rider to the liquidity contract, Vallourec decided to make an additional cash contribution in the amount of €12,500,000.

  Under the liquidity contract, as at 31 December 2014, Vallourec held 925,000 shares for a value of €9.897 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 2014.

5.1.4.2 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 2014, the maturities of current bank loans and other borrowings totaled €911,644 thousand; the maturities of non-current bank loans and other borrowings totaling €1,781,873 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
As at 31/12/2013	**127,921**	**25,494**	**669,997**	**37,092**	**518,588**	**1,379,092**
Finance leases	12,709	12,951	29,341	6,415	40,159	101,575
Other non-current financial debts	23,023	664,031	13,238	407,038	572,968	1,680,298
AS AT 31/12/2014	**35,732**	**676,982**	**42,579**	**413,453**	**613,127**	**1,781,873**

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, the subsidiaries in Brazil (see below).

Market financing is arranged exclusively by Vallourec.

IN EUROPE

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 repaid early on 27 October 2014.

In February 2014, Vallourec took out a multi-currency revolving credit facility for an amount of €1.1 billion, maturing in February 2019, plus two one-year extension options. This credit line is available for the Group's general funding purposes. It replaces the €1 billion credit line maturing in February 2016. At 31 December 2014, this line had not been drawn.

In addition to the financing put in place by Vallourec, Vallourec Tubes has six medium-term bilateral lines of €100 million each, maturing in July 2017. As at 31 December 2014, none of these six lines had been 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 2014, Vallourec had an outstanding €310.5 million for maturities from one to 12 months. 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 bond issues 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.

On 30 September 2014, Vallourec issued a €500 million bond, maturing in September 2024, with a fixed annual coupon of 2.25%.

As at 31 December 2014, the market value of these fixed-rate bonds was €674.8 million, €420.1 million, €62.2 million, and €518.7 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 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. Amortization began on 15 February 2012. As at 31 December 2014, the residual amount outstanding on this loan was BRL 162.1 million.

In 2010, this same company concluded a finance lease with a nominal value of BRL 570 million relating to equipment needed to operate the plant at Jeceaba. As at 31 December 2014, the residual amount outstanding on this finance lease was BRL 396.2 million.

IN THE UNITED STATES

The Group's US companies have a set of bilateral bank lines that were renewed in 2014 for a total of USD 300 million. The amount used as at 31 December 2014 totaled USD 135.6 million. 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 2014, the residual amount of this contract was USD 51.0 million.

As at 31 December 2014, 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 2014.

5.2 Management and risk tracking mechanism

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 risk management policy in place. The Risk Management Department is responsible for rolling out 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. These risks may be legal, operational, strategic or financial. All Group divisions have applied this policy since 2007. The 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).

5.3 Insurance policy

The Group's policy in terms of protection against accidental risks is based on an operational program of constructing, rolling out and leading preventative actions, supplemented by insurance policies. 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.

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

- property insurance;
- civil liability insurance.

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

- to take out shared insurance policies to ensure, firstly, the consistency of transferred risks and insurance coverage purchased and, secondly, 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.

The risk management and insurance policy consists of defining, in 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, and deciding whether to maintain the financial consequences of such events within the Group or transfer them to the insurance market.

The Group's insurance policy consists of defining the overall insurance coverage policy for the Group's activities, notably using the analysis of the statement of requirements of the subsidiaries, and selecting and structuring adequate insurance solutions, with the help of an internal provider (the broker Assurval, a wholly-owned subsidiary of Vallourec) and external providers (brokers, consultants, insurers).

Implementation of the risk insurance policy is closely coordinated with the risk management policy. It notably 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 light of the guarantees provided, the exclusions, limits, sub-limits and deductibles.

Key actions in 2014 focused on:

- pursuing an active policy, aimed at reducing the frequency and severity of accidental risks of fire or explosion at industrial sites, and detecting other exposure to natural or environmental catastrophes; over the last fiscal year, more than 80% of the insured values were included in a multirisk audit carried out by the insurer's loss prevention engineers, under the framework of a plan to conduct annual visits to the Group's major industrial sites;
- implementing a mechanism for distributing casualty premiums according to the subsidiary scoring criteria established by the insurer with a bonus/malus depending on the score, in an effort to encourage subsidiaries to fine-tune their objectives for preventing damage from fire/equipment breakdowns;
- communicating detailed information on the Company to the insurance and reinsurance markets.

The Group takes out global insurance coverage for all its subsidiaries for third party liability and physical loss. The amounts covered vary according to the financial risks defined in the loss scenario, arbitration decisions of whether to keep the risk internal or use external coverage, 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.

5.3.1 Insurance for property damage and business interruption

This insurance covers all direct physical loss to the Group's property, not subject to 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 2014.

Deductibles applied to physical loss range from €15,000 to €1,000,000 per claim, according to the severity of the risk concerned.

The Group program provides 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.

5.3.2 Civil liability insurance

5.3.2.1 General civil liability insurance

This insurance covers the Group for 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, as well as for professional civil liability.

The indemnity also includes a limit on liability.

In respect of both property and civil liability insurance, contracts are split between a main Group contract and local contracts integrated into the main contract. The Group contract prevails where terms or limits differ from those of local contracts issued by the leading insurer.

The insured cap for general civil liability and products was raised in 2009, 2011, 2012 and 2014, to take account of the increased size of the Group and the prevailing levels of compensation on the market in this area.

5.3.2.2 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. An assistance-repatriation insurance policy for employees seconded abroad covers all Group subsidiaries.

5.3.2.3 Civil liability of corporate officers

The Group has taken out liability insurance covering corporate officers against the risk of 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.

The policy described above 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.



6

Assets, financial position and results

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6.1 Consolidated financial statements

6.1.1 Vallourec Group's statement of financial position

In € thousand	Notes	31/12/2013	31/12/2014
NON-CURRENT ASSETS			
Net intangible assets	1	206,153	165,910
Goodwill	1	494,923	332,218
Gross property, plant and equipment	2.1	5,837,658	6,406,246
Less: accumulated amortization, depreciation and provisions	2.1	(1,686,945)	(2,882,997)
Net property, plant and equipment	2.1	4,150,713	3,523,249
Biological assets	2.2	178,005	213,923
Associates	3	172,712	184,125
Other non-current assets	4	436,962	435,064
Deferred tax assets	5	187,301	223,102
TOTAL		**5,826,769**	**5,077,591**
CURRENT ASSETS			
Inventories and work in progress	6	1,423,439	1,490,031
Trade and other receivables	7	1,098,773	1,145,654
Derivatives – assets	8	91,788	28,211
Other current assets	9	296,105	343,155
Cash and cash equivalents	10	563,313	1,146,913
TOTAL		**3,473,418**	**4,153,964**
TOTAL ASSETS		**9,300,187**	**9,231,555**

In € thousand	Notes	31/12/2013	31/12/2014
EQUITY	12		
Capital		256,319	261,196
Additional paid-in capital		929,055	991,846
Consolidated reserves		3,706,223	3,823,895
Reserves, financial instruments		27,584	(64,507)
Foreign currency translation reserve		(525,400)	(287,704)
Net income for the period		261,860	(923,594)
Treasury shares		(55,129)	(57,773)
Equity, Group share		**4,600,512**	**3,743,359**
Non-controlling interests	**14**	**385,431**	**426,253**
TOTAL EQUITY		**4,985,943**	**4,169,612**
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	15	1,379,091	1,781,873
Employee benefits	18	182,118	244,282
Provisions	16	12,475	13,437
Deferred tax liabilities	5	209,418	256,246
Other long-term liabilities	17	212,992	215,426
TOTAL		**1,996,094**	**2,511,264**
CURRENT LIABILITIES			
Provisions	16	137,615	162,996
Overdrafts and other short-term borrowings	15	814,881	911,644
Trade payables		832,899	806,856
Derivatives – liabilities	8	24,066	173,300
Tax liabilities		38,889	57,626
Other current liabilities	19	469,800	438,257
TOTAL		**2,318,150**	**2,550,679**
TOTAL EQUITY AND LIABILITIES		**9,300,187**	**9,231,555**

6.1.2 Consolidated income statement

In € thousand	Notes	2013	2014
Revenue	22	5,578,314	5,700,536
Cost of sales [(a)]	23	(4,035,733)	(4,248,149)
Sales, general and administrative costs [(a)]	24	(559,459)	(567,154)
Other [(a)]	25	(63,099)	(29,982)
EBITDA		**920,023**	**855,251**
Depreciation of industrial assets	27	(269,736)	(310,713)
Other depreciation and amortization	27	(73,223)	(50,596)
Impairment of assets and goodwill	28	(26,050)	(1,103,700)
Asset disposals, restructuring costs and non-recurring items	28	(17,204)	(50,830)
OPERATING INCOME/(LOSS)		**533,810**	**(660,588)**
Financial income		25,111	43,141
Interest expenses		(110,450)	(132,226)
Net interest expense		(85,339)	(89,085)
Other financial income and expenses		773	36,480
Other discounting expenses		(6,309)	(9,587)
NET FINANCIAL INCOME/(LOSS)	**29**	**(90,875)**	**(62,192)**
PRE-TAX INCOME/(LOSS)		**442,935**	**(722,780)**
Income tax	30	(147,659)	(157,654)
Share in net income/(loss) of associates	32	3,574	2,487
NET INCOME/(LOSS) FROM CONTINUING OPERATIONS		**298,850**	**(877,947)**
CONSOLIDATED NET INCOME/(LOSS)		**298,850**	**(877,947)**
Attributable to non-controlling interests		36,990	45,647
Group share		**261,860**	**(923,594)**
Group share:			
Earnings per share	13	2.1	(7.3)
Diluted earnings per share	13	2.1	(7.3)

(a) Before amortization and depreciation.

6.1.3 Statement of comprehensive income

In € thousand	Notes	2013	2014
CONSOLIDATED NET INCOME/(LOSS)		**298,850**	**(877,947)**
Other comprehensive income:			
Actuarial gains and losses on post-employment benefits	18	12,588	(59,117)
Tax attributable to actuarial gains and losses on post-employment benefits		(4,679)	13,882
Items that will not be reclassified to profit or loss		**7,909**	**(45,235)**
Exchange differences on translating net assets of foreign entities	12 and 14	(475,851)	289,099
Change in fair value of hedging financial instruments		12,528	(104,834)
Change in fair value of available-for-sale securities		20,252	(12,382)
Tax relating to the change in fair value of hedging financial instruments		(4,621)	24,975
Tax attributable to the change in fair value of available-for-sale securities		(100)	100
Items that may be reclassified subsequently to profit or loss		**(447,792)**	**196,958**
OTHER COMPREHENSIVE INCOME/(LOSS) (NET OF TAX)		**(439,883)**	**151,723**
TOTAL COMPREHENSIVE INCOME/(LOSS)		**(141,033)**	**(726,224)**
Attributable to non-controlling interests		22,136	95,533
Group share		**(163,169)**	**(821,757)**

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 income or loss for the period	Total equity, Group share	Non-controlling interests	Total equity
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 retirement commitments	-	-	7,515	-	-	-	-	7,515	394	7,909
Available-for-sale financial assets	-	-	-	-	20,152	-	-	20,152	-	20,152
Other comprehensive income/(loss)	-	-	*7,515*	*(460,377)*	*27,833*	-	-	*(425,029)*	*(14,854)*	*(439,883)*
2013 NET INCOME/(LOSS)	**-**	**-**	**-**	**-**	**-**	**-**	**261,860**	**261,860**	**36,990**	**298,850**
Comprehensive Income/(loss)	-	-	*7,515*	*(460,377)*	*27,833*	-	*261,860*	*(163,169)*	*22,136*	*(141,033)*
Appropriation of 2012 net income/(loss)	-	-	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 [(a)]	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**
Change in foreign currency translation reserve	-	-	-	237,696	-	-	-	237,696	51,403	289,099
Financial instruments	-	-	-	-	(79,809)	-	-	(79,809)	(50)	(79,859)
Actuarial gains and losses on retirement commitments	-	-	(43,768)	-	-	-	-	(43,768)	(1,467)	(45,235)
Available-for-sale financial assets	-	-	-	-	(12,282)	-	-	(12,282)	-	(12,282)
Other comprehensive income/(loss)	-	-	*(43,768)*	*237,696*	*(92,091)*	-	-	*101,837*	*49,886*	*151,723*
2014 NET INCOME/(LOSS)	**-**	**-**	**-**	**-**	**-**	**-**	**(923,594)**	**(923,594)**	**45,647**	**(877,947)**
Comprehensive Income/(loss)	-	-	*(43,768)*	*237,696*	*(92,091)*	-	*(923,594)*	*(821,757)*	*95,533*	*(726,224)*
Appropriation of 2013 net income/(loss)	-	-	261,860	-	-	-	(261,860)	-	-	-
Change in share capital and additional paid-in capital	3,840	45,326	-	-	-	-	-	49,166	-	49,166
Change in treasury shares	-	-	(8,365)	-	-	(2,644)	-	(11,009)	-	(11,009)
Dividends paid	1,037	17,465	(103,280)	-	-	-	-	(84,778)	(54,890)	(139,668)
Share-based payments	-	-	16,034	-	-	-	-	16,034	-	16,034
Changes in consolidation scope and other	-	-	(4,809)	-	-	-	-	(4,809)	179	(4,630)
POSITION AS AT 31 DECEMBER 2014	**261,196**	**991,846**	**3,823,895**	**(287,704)**	**(64,507)**	**(57,773)**	**(923,594)**	**3,743,359**	**426,253**	**4,169,612**

(a) 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	Net income or loss for the period	Non-controlling interests
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 retirement commitments	394	-	-	-	394
Available-for-sale financial assets	-	-	-	-	-
Other comprehensive income/(loss)	*394*	*(15,474)*	*226*	-	*(14,854)*
2013 NET INCOME/(LOSS)	**-**	**-**	**-**	**36,990**	**36,990**
Comprehensive Income/(loss)	*394*	*(15,474)*	*226*	*36,990*	*22,136*
Appropriation of 2012 net income/(loss)	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**
Change in foreign currency translation reserve	-	51,403	-	-	51,403
Financial instruments	-	-	(50)	-	(50)
Actuarial gains and losses on retirement commitments	(1,467)	-	-	-	(1,467)
Available-for-sale financial assets	-	-	-	-	-
Other comprehensive income/(loss)	*(1,467)*	*51,403*	*(50)*	-	*49,886*
2014 NET INCOME/(LOSS)	**-**	**-**	**-**	**45,647**	**45,647**
Comprehensive Income/(loss)	*(1,467)*	*51,403*	*(50)*	*45,647*	*95,533*
Appropriation of 2013 net income/(loss)	36,990	-	-	(36,990)	-
Dividends paid	(54,890)	-	-	-	(54,890)
Changes in consolidation scope and other	179	-	-	-	179
POSITION AS AT 31 DECEMBER 2014	**342,219**	**37,548**	**839**	**45,647**	**426,253**

6.1.6 Statement of cash flows

In € thousand	2013	2014
Adjustments:		
Consolidated net income (including non-controlling interests)	**298,850**	**(877,947)**
Net amortization, depreciation and provisions	379,503	1,534,951
Unrealized gains and losses linked to changes in fair value	(6,316)	(26,458)
Income and expenses linked to share options and equivalent	19,796	16,034
Capital gains and losses on disposals	10,051	8,151
Share of net income in associates	(3,574)	(2,487)
Dividends reclassified as cash flows from investing activities	(4,063)	(2,774)
Cash flow from operating activities after net financial cost and taxes	**694,247**	**649,470**
Net financial cost	85,339	89,085
Tax expense (including deferred taxes)	147,659	157,654
Cash flow from operating activities before net financial cost and taxes	**927,245**	**896,209**
Interest paid	(110,450)	(132,226)
Tax paid	(133,081)	(124,342)
Interest received	25,111	43,141
Cash flow from operating activities	**708,825**	**682,782**
Change in operating working capital requirements	(182,675)	(20,449)
NET CASH FLOW FROM OPERATING ACTIVITIES (1)	**526,150**	**662,333**
Cash outflows for acquisitions of property, plant and equipment and intangible assets	(543,747)	(368,328)
Cash outflows for acquisitions of biological assets	(23,248)	(19,852)
Cash inflows from disposals of property, plant and equipment and intangible assets	49,111	4,276
Impact of acquisitions (changes in consolidation scope)	-	-
Cash of subsidiaries acquired (changes in consolidation scope)	-	-
Impact of disposals (changes in consolidation scope)	-	-
Cash of subsidiaries sold (changes in consolidation scope)	-	-
Other cash flows from investing activities	9,253	8,740
NET CASH FLOW FROM (USED IN) INVESTING ACTIVITIES (2)	**(508,631)**	**(375,164)**
Increase and decrease in equity	69,224	49,166
Dividends paid during the year		
› Dividends paid in cash to shareholders in the parent company	(36,383)	(84,774)
› Dividends paid to non-controlling interests	(26,547)	(78,174)
Movements in treasury shares	(17,189)	(11,009)
Proceeds drawn from new borrowings	2,125,722	2,740,897
Repayments of borrowings	(2,029,756)	(2,331,722)
Change in percentage interest in controlled companies	-	-
Other cash flows from financing activities	(29,481)	(29,679)
CASH FLOW FROM FINANCING ACTIVITIES (3)	**55,590**	**254,705**
Impact of changes in exchange rates (4)	(56,441)	22,489
CHANGE IN CASH (1 + 2 + 3 + 4)	**16,668**	**564,363**
Opening net cash	**527,677**	**544,345**
Closing net cash	**544,345**	**1,108,708**
Change	16,668	564,363

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 2014

In € thousand	Notes	31/12/2013	Change	31/12/2014
Gross cash (1)	10	563,312	583,601	1,146,913
Bank current accounts in debit and overdrafts (2)	15	18,967	19,238	38,205
CASH (3) = (1) - (2)		**544,345**	**564,363**	**1,108,708**
Gross financial debt (4)	15	2,175,005	480,307	2,655,312
NET FINANCIAL COST = (4) - (3)		**1,630,660**	**(84,056)**	**1,546,604**

STATEMENT OF CHANGES IN NET DEBT IN 2013

In € thousand	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 COST = (4) - (3)		**1,613,867**	**16,793**	**1,630,660**

6.1.7 Notes to the consolidated financial statements for the year ended 31 December 2014

In € thousand unless stated otherwise

A – Consolidation principles

1. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2014, including the related notes to the consolidated financial statements, were approved by Vallourec's Management Board on 19 February 2015 and will be submitted for approval at the Shareholders' Meeting.

Pursuant to EC Regulation 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 2014. These financial statements are available on the Company's website: www.vallourec.fr.

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 measurement methods have been applied consistently to the periods presented, with the exception of:

New mandatory standards

- amendments to IAS 32, which are intended to specify the principles relating to offsetting financial assets and liabilities;
- amendment to IAS 36 – Impairment of Assets, relating to recoverable amount disclosures for non-financial assets;
- amendment to IAS 39 – Financial Instruments: Recognition and Measurement, relating to the novation of derivatives and the continuation of hedge accounting.

IFRS 10,11 and 12 must be applied as of 1 January 2014.

Replacing IAS 31 – Interests in Joint Ventures, and SIC interpretation 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers, IFRS 11 redefines the treatment to be applied to joint arrangements.

IFRS 11 eliminates the proportionate consolidation method, now distinguishing between two types of joint arrangements:

- joint arrangements qualified as joint operations, in which the parties have direct rights over the assets, and obligations in terms of the entity's liabilities. They are recognized as shares of assets, liabilities, income and expenses controlled by the Group. A joint operation may or may not be performed through a distinct entity;
- joint arrangements that have been qualified as joint ventures, in which the parties exercising joint control over the entity have rights over the latter's net assets. They are consolidated by the Group using the equity method.

Application of IFRS 11 has no effect on the scope of the Group's entities, which are currently consolidated using the equity method. Furthermore, the analysis conducted by the Group led to qualifying the partnerships set up through Vallourec & Sumitomo Tubos do Brasil, VAM Changzhou Oil & Gas Premium Equipments and VAM Holding Hong Kong as joint operations.

IFRS 12 – Disclosure of Interests in Other Entities: this new standard explains the information to be provided as notes for joint arrangements and associates.

The Group's consolidated financial statements as at 31 December 2014 are not impacted by the other new standards which must be applied starting on 1 January 2014.

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 2015.

The Group is currently assessing the potential impact of first-time adoption of some of these texts, notably IFRIC 21 – Levies, relating to the recording of a liability as a tax or duty payable, and the Amendment to IFRS 11 – Joint Arrangements, whose purpose is to clarify the recording of the Group's operations under the framework of joint operations:

- IFRIC 21 had no material impact on the financial statements as at 31 December 2014;
- as concerns the Amendment to IFRS 11, the impact of its application on the consolidated financial statements as at 31 December 2014 would primarily translate to a €155 million drop in revenue in consideration for purchases; a €165 million drop in non-current assets, in consideration for other provisions and long-term liabilities, and a drop in trade receivables of €33 million, in consideration for trade payables.

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 2.16).

2.2 Use of estimates and judgment

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 measurement of property, plant and equipment, intangible assets, goodwill, financial assets, derivative financial instruments, inventories and work in progress, provisions and deferred taxes.

The Group must use assumptions and judgments to evaluate the level of control in certain associates, notably to define relevant activities and identify substantive rights, as well as the type of joint arrangement in question for a jointly controlled business. These judgments are revised if facts and circumstances change.

2.3 Consolidation of subsidiaries

The consolidated financial statements include the financial statements of Vallourec and its subsidiaries for the period from 1 January to 31 December 2014.

2.3.1 CONTROLLED ENTITIES

Subsidiaries are fully consolidated from the date of acquisition. They cease to be consolidated when control is transferred outside the Group.

Definition

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.

There is control when the Group (i) holds power over an entity, (ii) is exposed to or is entitled to variable returns due to its connections with the entity and (iii) has the capacity to exercise its power over the entity so as to influence the amount of the returns it obtains.

Accounting method

The consolidated financial statements include all of the assets, liabilities, and comprehensive income of the subsidiary.

Non-controlling interests represent the share of interest which is not directly or indirectly attributable to the Group. The results and other items of comprehensive income are divided between the Group and non-controlling interests. The comprehensive income of the subsidiaries is divided between the Group and the non-controlling interests, including when this distribution results in allocating a loss to the non-controlling interests.

Changes in the percent interest in subsidiaries that do not result in a change of control are considered transactions impacting equity, as they are transactions that are performed with shareholders acting in this capacity.

The effects of these transactions are recorded in equity for the net tax amount and thus do not have an impact on the Group's consolidated income statement.

These transactions are moreover presented in the cash flow statement under financing or investment operations, as applicable.

The financial results of acquired companies are included in the consolidated income statement from their effective acquisition dates. The results of companies sold are included until the date control ceases.

Cash flows on the income statement and statement of financial position related to intra-Group commercial and financial transactions are eliminated.

2.3.2 CONSOLIDATION OF JOINT OPERATIONS

Definition

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Joint operations

The Group, as a co-participant in a joint operation, records the following items as concerns its interests in the joint operation:

- its assets, including its share of the assets that are jointly held, where applicable;
- its liabilities, including its share of the liabilities that are jointly held, where applicable;
- the income it has drawn from the sale of its share of the production that is generated by the joint operation;
- the expenses it has incurred, including its share of the expenses jointly incurred, where applicable.

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, established in compliance with IFRS.

The most significant joint operation is Vallourec & Sumitomo Tubos do Brasil (VSB). The qualification of this entity as a joint operation is underpinned by the legal form and the terms of the joint arrangement:

- Vallourec is affiliated by a contractual agreement with Sumitomo. The entities have joint control of VSB. To that end, the unanimous agreement of both joint operators is needed to make strategic decisions related to the activity, in order to appoint members of the Management Committee, approve the budget, or validate any decision relating to the operational activities of VSB;
- Vallourec has direct rights over VSB's production; the latter is only intended for Vallourec's and Sumitomo's use, in proportion to their respective interest, without direct access to the external market. The parties sharing control have agreed to use a predefined volume of supplies from VSB;
- Vallourec also has obligations ("take or pay" clauses and clauses to hedge fixed costs of VSB), jointly with its partner.

2.3.3 INTERESTS IN JOINT VENTURES AND ASSOCIATES

Definition

Associates are companies in which the Group exercises significant influence over operating and financial policies without having control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group's investments in joint ventures and associates are accounted for using the equity method.

Associates

The equity method provides for an investment in an associate being initially recorded at cost, and then subsequently adjusted for the change in the Group's share in the income and other comprehensive income of the associate.

An investment is recorded under the equity method as of the date when the entity becomes an associate or joint venture. When an associate or joint venture is acquired, the difference between the cost of the investment and the Group share in the net fair value of the identifiable assets and liabilities of the entity is recorded under goodwill. In the event that the net fair value of the identifiable assets and liabilities of the entity is higher than the cost of the investment, the difference is recorded under income.

Shares in the net income of associates are incorporated in the net income of the activities pursued, whether or not their activities are an extension of the Group's activities.

Impairment testing

The provisions of IAS 39 - Financial Instruments: Recognition and Measurement, apply to determine whether or not it is necessary to perform an impairment test for its investment in an associate. If necessary, the total book value of the investment (including goodwill) undergoes impairment testing according to the provisions prescribed by IAS 36 - Impairment of Assets.

Loss of significant influence or joint control

Whenever the investment no longer constitutes an associate, the equity method is no longer applied. Any retained interest in the former associate that constitutes a financial asset, is measured at fair value on the date the interest ceases to be an associate or joint venture.

In cases where an investment in an associate becomes an investment in a joint venture and, conversely, the equity method continues to apply and the entity does not remeasure the retained interest at fair value.

2.4 Foreign currency translation

2.4.1 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 reporting 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 International Financial Reporting Standards, 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.

2.4.2 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 paragraph 2.16.4), 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 the difference between these rates and the rates at which the transactions were initially recorded are included in financial income or loss.

2.5. Property, plant and equipment and biological assets

2.5.1 MEASUREMENT AT COST NET OF DEPRECIATION AND IMPAIRMENT

Except when acquired as part of a business combination, and in the case of biological assets, property, plant and equipment are recorded at their acquisition or production cost. They are not subject to remeasurement. 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 paragraph 2.9).

2.5.2 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.

2.5.3 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.

2.5.4 AMORTIZATION AND DEPRECIATION

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

Main categories of property, plant and equipment	Straight-line depreciation Useful life
Buildings	
Administrative and commercial buildings	40
Industrial buildings/Infrastructure	30
Fixtures and fittings	10
Technical plant, equipment and tools	
Industrial plants	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.

2.5.5 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.

2.5.6 IMPAIRMENT

Property, plant and equipment are tested for impairment in accordance with IAS 36 - Impairment of Assets (see paragraph 2.9 below).

2.5.7 BIOLOGICAL ASSETS

The Group owns biological assets in Brazil, which mainly consist of eucalyptus plantations cultivated for the Group's coke requirements. They are measured 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 reporting date.

2.6 Leases

Assets financed by finance leases, which transfer almost all of the risks and rewards of ownership to the Group, are capitalized on the statement of financial position 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 paragraph 2.5) or the lease term, whichever is shorter.

Leases under which the lessor retains almost 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.

2.7 Goodwill

The Group measures goodwill as the surplus of:

- 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 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 at least equal to its net carrying amount (see paragraph 2.9 – 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' commissions, legal and due diligence fees and other professional or consultancy fees, are expensed when they are incurred.

2.8 Intangible assets

2.8.1 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 development 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 2014 as in 2013, no costs incurred on major projects were identified that met the standard's criteria.

2.8.2 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.

2.8.3 IMPAIRMENT

Intangible assets are tested for impairment in accordance with the provisions of IAS 36 – Impairment of Assets (see paragraph 2.9).

2.9 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 reporting date.

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.

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.

To perform impairment tests, the assets are grouped into Cash-Generating Units (CGUs). CGUs are standard groups of assets whose ongoing use generates cash inflows which are largely independent of the cash inflows generated by 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 (formerly 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.

2.10 Inventories and work in progress

Inventories are valued at the lesser of cost or net realizable value, and provisions 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 expenses, 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 expenses. Production costs comprise raw materials, factory supplies and labor, and direct and indirect industrial overheads attributable to processing and production, based on normal capacity. General and administrative expenses are excluded from this measurement.

2.11 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.

2.12 Provisions

A provision is recognized when, at the reporting 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 reporting 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 reporting date. They are determined based on the best estimate of the expense likely to be required to settle the obligation.

2.13 Retirement commitments 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 reporting date.

Provisions are recognized for retirement commitments and similar obligations 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 commitments 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, benefits 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 statement of financial position net of plan assets measured at fair value (if applicable).

2.14 Share-based payments

IFRS 2 "Share-based Payment" requires the measurement and recognition of the benefits arising from share option and performance share allocation 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 measurement. The number of options taken into account in measuring the plan is adjusted at each reporting date to reflect the probability of the beneficiaries' continued service at the end of the vesting period.

- Some members of executive management and employees benefit from the share subscription or share purchase options that entitle them to purchase an existing share or to subscribe to a capital increase at an agreed price.

  Options must be measured using the Black & Scholes model on the date they are awarded.

- Some members of executive management and employees benefit from share allocation plans where vesting conditions are related to performance criteria (percentage of consolidated EBITDA). These plans are measured using a binomial model to project share prices.
- Vallourec offers employee shareholding plans reserved for its employees. These plans are measured using a binomial model to project share prices.

2.15 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.

2.16 Financial instruments

Financial instruments include financial assets and liabilities as well as derivatives.

The presentation of financial instruments is defined by IFRS 7 and IAS 32. The measurement and recognition of financial instruments are governed by IAS 39 and IFRS 13.

Changes in the fair value of derivatives are recognized in the financial statements. Changes in the fair value of hedged items are also recognized at each reporting date (see paragraph 2.16.4 – Derivatives and hedge accounting).

In addition, in accordance with IAS 32, the sale of puts to non-controlling interest shareholders 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.

2.16.1 FINANCIAL ASSETS (EXCLUDING HEDGE DERIVATIVES)

Financial assets include:

- non-current financial assets: other associates 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 statement of financial position:

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 for which changes in fair value are recognized in income or loss

This category of assets includes:

- assets held for transactional purposes, i.e. that have been acquired by the business with the aim of generating short-term income; in the Group, the assets concerned are all cash assets (investment securities, cash and cash equivalents, etc.).

  Investment securities (French SICAV and FCP mutual funds, etc.) are measured at fair value at the reporting 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;
- asset derivative instruments that are not expressly designated as hedging instruments.

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 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 trade receivables is usually equal to their historical cost.

Loans to employees are measured using the effective interest rate method applied to estimated future cash flows until the maturity dates of the loans.

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 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. They are recorded at their cost and undergo impairment testing when the consolidated financial statements are prepared;
- listed shares measured at their fair value at the reporting date. This fair value is determined based on the stock market price at the reporting 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 this case, the corresponding loss is definitively recorded under income.

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 reporting 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.

2.16.2 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.

2.16.3 FINANCIAL LIABILITIES

The Group's financial liabilities include bank loans which bear interest, bond issues and finance leases, as well as liability derivatives.

Borrowings are classified as current liabilities for the portion to be repaid within 12 months after the reporting 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 expenses 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 reporting 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 using 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.

2.16.4 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

Group exposure to foreign exchange risk on commercial transactions

In addition to the hedging of certain financial liabilities (see paragraph 2.16.3), 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 revenue 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 income 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 reporting 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 statement of financial position 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 reporting date, changes in the hedging instrument with respect to its date of implementation are measured at fair value and recognized on the statement of financial position as derivative 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 reporting 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.

Revenue (purchases) from hedged forecast transactions (purchase orders) is recognized at the spot rate on the hedge inception date. 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 reporting 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 reporting 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 statement of financial position, the change in the intrinsic value of the hedging instrument previously recognized in equity is recorded in financial income or loss. Changes in the value of the hedging instrument and the receivable or debt covered then have a symmetrical impact on financial income or loss.

2.17 Income tax

Income tax expense comprises current tax and deferred tax.

In accordance with IAS 12, deferred taxes are recognized, using the liability method, for temporary differences existing at the reporting 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 retirement commitments 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 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 reporting date.

Deferred taxes are not discounted to present value.

Current and deferred tax expenses 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 paragraph 2.16.4 and actuarial gains and losses on post-employment obligations in 2.13 – Retirement and similar obligations).

Deferred taxes are presented on separate lines in the statement of financial position 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 reporting date, appear reasonably likely to recover these assets in the foreseeable future.

2.18 Revenue

Revenue 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 reporting 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 paragraphs 2.4.2 and 2.16.4 for the procedures for recognizing sales denominated in foreign currencies.

2.19 Determination of operating income

The income statement format used by the Group employs a classification by function.

Operating income or loss is calculated as the difference between pre-tax revenues and expenses other than those of a financial nature or relating to the income or losses of associates, and excluding any income or losses from 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 paragraph 2.9);

- significant restructuring expenses or those related to adjustments to headcount in respect of major events or decisions;
- capital gains or losses on disposals;
- revenue and expenses resulting from major litigation, significant roll-out operations or capital transactions (e.g. costs of integrating a new activity).

2.20 Earnings per share

Earnings per share are calculated by dividing consolidated net profit or loss by the weighted average number of shares outstanding during the fiscal 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 the "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 plants 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 (including Oil & gas, power generation, chemicals and petrochemicals, automotive and mechanical engineering);
- 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:

- the 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 income and results as well as selected information on the assets, liabilities and capital expenditure for fiscal years 2014 and 2013.

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 2014 and 2013.

B – Consolidation scope

	% interest 31/12/2013	% control 31/12/2013	% interest 31/12/2014	% control 31/12/2014
Fully consolidated companies				
Kestrel Wave Investment Ltd – Hong Kong	100.0	100.0	100.0	100.0
P.T. Citra Tubindo Tbk – Indonesia	78.2	78.2	78.2	78.2
Premium Holding Limited – Hong Kong	100.0	100.0	100.0	100.0
Serimax Angola Ltd – United Kingdom	100.0	100.0	100.0	100.0
Serimax Australia Pty Ltd – Australia	100.0	100.0	100.0	100.0
Serimax Do Brazil Serviços de Soldagem e Fabricaçao Ltda – Brazil	100.0	100.0	100.0	100.0
Serimax Field Joint Coating Ltd – United Kingdom	-	-	60.0	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	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	100.0	100.0	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
Valinox Nucléaire S.A.S. – France	100.0	100.0	100.0	100.0
Valinox Nucléaire Tubes (formerly Valinox Nucléaire Tubes Guangzhou Co. Ltd) – China	100.0	100.0	100.0	100.0
Vallourec (Changzhou) Co. Ltd. (formerly V & M Changzhou) – China	100.0	100.0	100.0	100.0
Vallourec Asia Pacific Corp Pte Ltd (formerly V & M Tubes Asia Pacific) – Singapore	100.0	100.0	100.0	100.0
Vallourec Automotive Components (Changzhou) Co., Ltd (formerly Changzhou Carex Valinox Components) – China	95.0	100.0	95.0	100.0
Vallourec Bearing Tubes (formerly Valti) – France	100.0	100.0	100.0	100.0
Vallourec Beijing (formerly V & M Beijing) Co. Ltd – China	100.0	100.0	100.0	100.0
Vallourec Canada Inc. (formerly VAM Canada) – Canada	100.0	100.0	100.0	100.0
Vallourec Deutschland GmbH (formerly V & M Deutschland) – Germany	100.0	100.0	100.0	100.0
Vallourec Drilling Oil Equipment Manufacturing LLC (VDOEM) (formerly VAM Drilling Protools Oil Equipment Manufacturing LLC) – United Arab Emirates	100.0	100.0	100.0	100.0
Vallourec Drilling Products France (formerly VAM Drilling France) – France	100.0	100.0	100.0	100.0
Vallourec Drilling Products Middle East FZE (formerly VAM Drilling Middle East FZE) – Dubai	100.0	100.0	100.0	100.0
Vallourec Drilling Products USA (formerly VAM Drilling USA) Inc. – United States	100.0	100.0	100.0	100.0
Vallourec Fittings (formerly Interfit) – France	100.0	100.0	100.0	100.0
Vallourec Florestal Ltda (formerly V & M Florestal) – Brazil	100.0	100.0	100.0	100.0
Vallourec Heat Exchanger Tubes (formerly Valtimet SAS) – France	95.0	95.0	95.0	95.0
Vallourec Heat Exchanger Tubes (Changzhou) Co., Ltd (formerly Changzhou Valinox Great Wall Welded Tubes) – China	62.5	100.0	62.5	100.0
Vallourec Heat Exchanger Tubes Asia (formerly Valinox Asia) – France	62.5	65.8	62.5	65.8

	% interest 31/12/2013	% control 31/12/2013	% interest 31/12/2014	% control 31/12/2014
Vallourec Heat Exchanger Tubes Inc. (formerly Valtimet Inc.) – United States	95.0	100.0	95.0	100.0
Vallourec Heat Exchanger Tubes Ltd (formerly CST Valinox) – India	95.0	100.0	95.0	100.0
Vallourec Holdings Inc. (formerly V & M Holdings Inc.) – United States	100.0	100.0	100.0	100.0
Vallourec Industries Inc. – United States	100.0	100.0	100.0	100.0
Vallourec Middle East FZE (formerly Vallourec & Mannesmann Middle East FZE) – United Arab Emirates	100.0	100.0	100.0	100.0
Vallourec Mineração Ltda (formerly V & M Mineração) – Brazil	100.0	100.0	100.0	100.0
Vallourec Nigeria Ltd (formerly VAM Onne) – Nigeria	100.0	100.0	100.0	100.0
Vallourec O and G Nigeria Ltd (formerly VMOG Nigeria) – Nigeria	100.0	100.0	100.0	100.0
Vallourec Oil & Gas (China) Co., Ltd. (formerly VMOG China) – China	100.0	100.0	100.0	100.0
Vallourec Oil & Gas France S.A.S. (formerly VM Oil and Gas France) – France	100.0	100.0	100.0	100.0
Vallourec Oil & Gas Nederland B.V. – Netherlands	100.0	100.0	100.0	100.0
Vallourec Oil & Gas UK Ltd (formerly VM Oil and Gas UK) – United Kingdom	100.0	100.0	100.0	100.0
Vallourec Oil & Gas Mexico SA de CV (formerly VAM Mexico) – Mexico	100.0	100.0	100.0	100.0
Vallourec One S.A.S. (formerly V & M One) – France	100.0	100.0	100.0	100.0
Vallourec Russia (formerly Vallourec & Mannesmann Rus.) – Russia	100.0	100.0	100.0	100.0
Vallourec S.A. – France	100.0	100.0	100.0	100.0
Saudi Seamless Pipes Factory Company Ltd – Saudi Arabia	100.0	100.0	100.0	100.0
Vallourec Services S.A. (formerly V & M Services) – France	100.0	100.0	100.0	100.0
Vallourec Star LP (formerly 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	100.0	100.0
Vallourec Tube-Alloy LP (formerly V & M Tubes Alloy) – United States	100.0	100.0	100.0	100.0
Vallourec Tubes France S.A.S. (formerly V & M France) – France	100.0	100.0	100.0	100.0
Vallourec Tubes S.A.S. (formerly V & M Tubes) – France	100.0	100.0	100.0	100.0
Vallourec Tubos do Brasil S.A. (formerly 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 Uruguay (formerly V & M Uruguay) – Uruguay	100.0	100.0	100.0	100.0
Vallourec USA Corporation (formerly V & M USA Corp) – United States	100.0	100.0	100.0	100.0
VAM Far East – Singapore	51.0	51.0	51.0	51.0
VAM Field Services Angola – Angola	100.0	100.0	100.0	100.0
VAM Field Services Beijing – China	51.0	51.0	51.0	51.0
VAM USA – United States	51.0	51.0	51.0	51.0
Joint operations				
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
Associates				
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

There was no significant change in scope during fiscal years 2014 and 2013.

C – Notes to the financial statements (in € thousand)

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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				
As 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	-
As at 31/12/2013	**92,171**	**442,991**	**535,162**	**494,943**
Acquisitions	435	4,423	4,858	-
Disposals	(50)	(193)	(243)	-
Impact of changes in exchange rates	1,719	48,469	50,188	55,359
Other changes	5,530	(1,201)	4,329	692
AS AT 31/12/2014	**99,805**	**494,489**	**594,294**	**550,994**
AMORTIZATION AND IMPAIRMENT				
As at 31/12/2012	**(52,395)**	**(228,464)**	**(280,859)**	**(23)**
Net amortization expenses for the fiscal year	(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)	(1)	-
As at 31/12/2013	**(57,381)**	**(271,628)**	**(329,009)**	**(20)**
Net amortization expenses for the fiscal year	(7,866)	(32,252)	(40,118)	-
Impairment (see Notes 2.3, 27 and 28)	(4,410)	(18,724)	(23,134)	(204,148)
Disposals	50	192	242	-
Impact of changes in exchange rates	(934)	(35,431)	(36,365)	(14,608)
Other changes	(879)	879	-	-
AS AT 31/12/2014	**(71,420)**	**(356,964)**	**(428,384)**	**(218,776)**
NET VALUES				
As at 31/12/2013	**34,790**	**171,363**	**206,153**	**494,923**
AS AT 31/12/2014	**28,385**	**137,525**	**165,910**	**332,218**

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.

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).

Other than goodwill, there are no intangible assets with indefinite useful lives.

Goodwill

Cash-generating unit (CGU) (see paragraph 2.9 – "Impairment of property, plant and equipment and intangible assets") *In € thousand*	Vallourec do Brasil	Vallourec North America	Vallourec Europe	Serimax	Other	Total
As 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
As at 31/12/2013	**3,133**	**289,994**	**160,246**	**36,316**	**5,234**	**494,923**
Impact of changes in exchange rates	3	36,296	4,778	-	366	41,443
Impairment (see Notes 2.3, 27 and 28)	-	(33,707)	(165,024)	-	(5,417)	(204,148)
Acquisitions	-	-	-	-	-	-
AS AT 31/12/2014	**3,136**	**292,583**	**-**	**36,316**	**183**	**332,218**

The impairment tests as at 31 December 2014 are presented in Note 2.3.

NOTE 2.1 Property, plant and equipment

In € thousand	Land	Buildings	Technical installations, industrial equipment and tools	Assets under construction	Other tangible assets	Total
GROSS VALUES						
As 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)
As at 31/12/2013	**108,992**	**865,717**	**4,147,396**	**424,936**	**290,616**	**5,837,658**
Acquisitions	12	8,110	57,218	226,268	53,519	345,127
Disposals	(48)	(1,898)	(32,159)	(3,740)	(28,413)	(66,258)
Impact of changes in exchange rates	3,553	49,076	207,150	21,197	11,823	292,799
Other changes	5,817	51,716	315,379	(340,255)	(35,737)	(3,080)
AS AT 31/12/2014	**118,326**	**972,721**	**4,694,984**	**328,406**	**291,808**	**6,406,246**
DEPRECIATION AND IMPAIRMENT						
As at 31/12/2012	**(27,069)**	**(180,761)**	**(1,189,048)**	**(1,104)**	**(115,876)**	**(1,513,858)**
Net depreciation expenses for the fiscal year	(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
As at 31/12/2013	**(24,296)**	**(204,598)**	**(1,327,810)**	**(1,227)**	**(129,014)**	**(1,686,945)**
Net depreciation expenses for the fiscal year	(1,241)	(36,799)	(242,702)	-	(31,116)	(311,858)
Impairment losses	(1,468)	(159,257)	(704,309)	(3,210)	(7,615)	(875,859)
Disposals	-	1,453	24,749	-	28,396	54,598
Impact of changes in exchange rates	(605)	(8,810)	(48,269)	(248)	(5,061)	(62,993)
Other changes	-	(153)	(149)	-	362	60
AS AT 31/12/2014	**(27,610)**	**(408,164)**	**(2,298,490)**	**(4,685)**	**(144,048)**	**(2,882,997)**
NET VALUES						
As at 31/12/2013	**84,696**	**661,119**	**2,819,586**	**423,709**	**161,602**	**4,150,713**
AS AT 31/12/2014	**90,716**	**564,557**	**2,396,494**	**323,721**	**147,760**	**3,523,249**

Capital expenditure excluding changes in scope

In € thousand	2013 Intangible assets and property, plant and equipment	2013 Biological	2014 Intangible assets and property, plant and equipment	2014 Biological (see Note 2.2.)
Europe	182,490	-	143,511	-
North America	191,743	-	95,347	-
South America	182,480	22,988	87,272	19,852
Asia	42,847	-	21,503	-
Other	739	-	2,352	-
TOTAL	**600,299**	**22,988**	**349,985**	**19,852**
	623,287		369,837	
Note 1: acquisition of intangible assets	45,914	-	4,858	-
Note 2.1: acquisition of property, plant and equipment	554,385	22,988	345,127	19,852
Total industrial capital expenditure	**600,299**	**-**	**349,985**	**-**
Changes in fixed asset liabilities and partner contributions [(a)]	(56,552)	260	18,343	-
TOTAL	**543,747**	**23,248**	**368,328**	**19,852**
Statement of cash flows: capital expenditure paid out during the year:	566,995		388,180	

(a) In 2013, the change in fixed asset liabilities included 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 €157 million as at 31 December 2014.

In 2013, Vallourec Star concluded a finance lease agreement with a nominal value of USD 64.3 million maturing in five years.

NOTE 2.2 Biological assets

Change in biological assets *In € thousand*	2013	2014
As at 1 January	**196,134**	**178,005**
Investments	22,988	19,852
Changes due to remeasurement	10,183	34,965
Net depreciation expenses for the period	(7,488)	(9,333)
Reclassification to inventory	(8,126)	(10,525)
Foreign exchange differences	(35,686)	959
AS AT 31 DECEMBER	**178,005**	**213,923**

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.

As at 31 December 2014, the Company cultivated approximately 113,022 hectares of eucalyptus over a total area of 232,776 hectares.

In 2014, Vallourec Florestal posted revenue of €84.7 million, compared with €83.7 million in 2013.

NOTE 2.3 Impairment of property, plant and equipment, and intangible assets

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 paragraph 2.9 – 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.

Discount rate

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

The main components of weighted average cost of capital are:

- a market risk premium;
- a risk-free rate corresponding to the average rate on treasury bills in each region. This rate, which is between 2.6% and 2.7%, 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 1.2 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 8.1% for Vallourec Europe, 8.3% for Vallourec North America, 10.5% for Vallourec do Brasil, 8.6% for Vallourec & Sumitomo do Brasil, and 8.4% for Serimax.

Future cash flows

Since the final months of 2014, the Group has faced a particularly difficult economic climate. Some of Vallourec's markets have been affected by the unexpected and persistent drop in the prices of Brent and WTI, which have had an impact on the activity of our Oil & Gas customers. This reduction in activity, along with the stricter selection of investments in oil and gas companies, and the arrival of new competitors, has significantly altered competitiveness, profitability of activities and future cash flows. This is notably the case in the EAMEA region, for certain markets of products that are less differentiated.

These market changes have been analyzed as indications of impairment requiring the implementation of impairment tests for all CGUs, including those that do not contain intangible assets with an unlimited useful life.

The 2015-2019 forecasts of the strategic plan presented to the Supervisory Board as part of the annual preparation process were revised after the reporting date in order to take into account changes that simultaneously affected sale prices, volumes, costs of raw materials and changes in foreign currencies. In its five-year plan, the Group used assumptions for 2015 and 2016, notably for the barrel and exchange rates, that were consistent with the data recorded in early 2015. Its assumptions also included a return to normal volume and price levels by 2019 for the Oil and Gas business, considering that oil operators' costs fall concurrently.

2019 is considered a normalized year, a year of convergence towards a balance in the price of oil. This year is projected to infinity by applying a growth rate of 1.5% to 2%, depending on the CGU. This growth rate takes into account long-term inflation and growth forecasts for Vallourec's main markets, particularly Oil & gas.

The values in use of the Group's CGU assets were calculated using these new forecasts, which were presented to the Supervisory Board.

The impairment tests performed in this deteriorated economic climate led the Group to record impairment losses for:

- the Vallourec Europe CGU, comprising of the assets of several subsidiaries which take part in the production cycle of the products marketed by this CGU: a steel mill in France, rolling mills in France and Germany, and tube finishing lines.

  A €539 million impairment loss was recorded, including €165 million for the total goodwill of this CGU, and €374 million for intangible assets and depreciable industrial assets;
- the VSB CGU, comprising 56% of the assets of the Brazilian joint operation, as well as upstream support assets in Brazil (Mining and Forestry) and downstream assets of entities that market its products after a finishing operation, where necessary.

  An impairment loss of €522 million was recorded for Vallourec's share in the depreciable industrial assets of the VSB joint operation.

An analysis of the sensitivity of the calculation to a change in parameters was performed by two CGUs, Vallourec Europe and VSB.

Sensitivity analyses *In € thousand*		Vallourec Europe	VSB
Net values before impairment		2,369	1,417
Impairment loss		(539)	(522)
Currency translation		(11)	8
Net values after impairment		**1,819**	**903**
WACC sensitivity	+0.5 points	1,689	830
	-0.5 points	1,976	996
EBITDA sensitivity	-10% per year	1,570	790
	+10% per year	2,073	1,023

Similar sensitivity analyses were conducted on other CGUs. They did not result in a scenario where an impairment loss would have to be recorded at the end of December 2014.

Furthermore, a €41 million impairment loss was recorded for isolated assets, including €40 million for intangible assets and goodwill, mainly related to Drilling activities in the United States, and €1 million for other industrial assets.

NOTE 3 Associates

The Group's main associates (individual carrying amount greater than €50 million) are listed below.

In € thousand	HKM	Tianda Oil Pipe	Other	Total
Activity	Steel mill	Tube manufacturing		
Business location	Germany	China		
As at 31/12/2013	**72,688**	**54,334**	**45,690**	**172,712**
Capital increase	4,000	-	1,213	5,213
Impact of changes in exchange rates	-	4,892	5,401	10,293
Dividends paid	(6)	(3,219)	(3,323)	(6,548)
Other	-	-	(32)	(32)
Contribution to net income of the period	6	1,439	1,042	2,487
AS AT 31/12/2014	**76,688**	**57,446**	**49,991**	**184,125**

As at 31 December 2014, only HKM and Tianda Oil Pipe were identified as significant associates of the Group.

The condensed financial data (100%) for these companies is presented below.

HKM *In € thousand*	31 December 2013	31 December 2014
Non-current assets	662,453	648,882
Current assets	738,761	659,829
Non-current liabilities	299,680	337,312
Current liabilities	738,096	587,961
Net assets	**363,438**	**383,438**
Sales	2,501,577	2,410,968
Operating income	29,247	1,771
Net income from continuing operations	31	28
Other comprehensive income	-	-
Total comprehensive income	-	-
Dividends paid to the Group	7	6

The reconciliation of the condensed financial data from the HKM associate with the book value of the Group's interests in this associate is as follows:

HKM *In € thousand*	**31 December 2013**	**31 December 2014**
Net assets	363,438	383,438
Group's percentage interest in HKM	20%	20%
Goodwill	-	-
Other	-	-
Value of investments in equity affiliates	72,688	76,688
HKM net income (loss)	31	28
Group's percentage interest in HKM	20%	20%
Share of net income	6	6

Tianda Oil Pipe is listed on the Hong Kong Stock Exchange. The price of the share totaled HKD 1.30 as at 31 December 2014, compared with HKD 1.23 as at 31 December 2013.

Tianda Oil Pipe *In € thousand*	**31 December 2013**	**31 December 2014**
Non-current assets	158,016	157,559
Current assets	223,629	225,356
Non-current liabilities	31	-
Current liabilities	102,976	87,564
Net assets	**278,637**	**295,351**
Sales	405,371	352,072
Operating income	7,958	9,281
Net income from continuing operations	5,262	7,398
Other comprehensive income	(62)	136
Total comprehensive income	5,974	7,535
Dividends paid to the Group	620	3,219

The reconciliation of the condensed financial data from the Tianda Oil Pipe associate with the book value of the Group's interests in this associate is as follows:

Tianda Oil Pipe *In € thousand*	**31 December 2013**	**31 December 2014**
Net assets	278,637	295,351
Group's percentage interest in Tianda Oil Pipe	19.50%	19.45%
Goodwill	-	-
Other	-	-
Value of investments in equity affiliates	54,334	57,446
Tianda Oil Pipe income	5,262	7,398
Group's percentage interest in Tianda Oil Pipe	19.5%	19.45%
Share of net income	1,026	1,439

The Group likewise holds interests in other associates (which, considered individually, are not significant) for an overall book value of €50 million as at 31 December 2014, compared with €46 million as at 31 December 2013.

NOTE 4 Other non-current assets

In € thousand	Other investments in equity instruments	Loans	Other financial assets	Other	Total
As 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)
As at 31/12/2013	**85,513**	**6,184**	**40,836**	**304,429**	**436,962**
Gross value	73,885	6,713	41,571	314,375	436,544
Provisions	(1,176)	-	(304)	-	(1,480)
AS AT 31/12/2014	**72,709**	**6,713**	**41,267**	**314,375**	**435,064**

As at 31 December 2014, 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 USD 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 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.

As at 31 December 2014, the fair value of these shares, based on their NAV of €71.9 million, showed a loss of €10 million recognized in equity. For the record, the NAV of these shares as at 31 December 2013 was €84.4 million and generated a gain of €2.4 million recognized in equity.

Other financial investments assets consist mainly of interest-bearing security deposits, particularly paid in connection with tax disputes in Brazil (€27 million as at 31 December 2014; see also Note 16).

Other non-current assets consist mainly of €136.6 million in deferred tax receivables in Brazil and the United States and a €164.7 million shareholder loan granted to Vallourec & Sumitomo Tubos do Brasil, which was recorded as a joint operation.

Maturities of other non-current assets *In € thousand*	1 to 5 years	5 years or more	Total
GROSS VALUES AS 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**
GROSS VALUES AS AT 31/12/2014			
Loans	4,143	2,570	6,713
Other investments in equity instruments	-	82,259	82,259
Other financial assets	212,707	134,865	347,572
TOTAL	**216,850**	**219,694**	**436,544**

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)*, etc.;
- non-recurring: cancellation of regulated provisions, employee profit-sharing, non-tax deductible provisions for contingencies and liabilities 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 retirement commitments, non-tax deductible provisions for assets and remeasurements of assets acquired in connection with a business combination.

Deferred taxes are recognized using the 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. This contribution therefore applies to fiscal years 2011 to 2014. The rate of this contribution was changed to 10.7%.

The deferred tax rates used for French companies in 2014, unchanged from 2013 are 34.43% for current tax and 0% for long-term capital gains and losses.

The other deferred tax rates used in 2014, unchanged from 2013, are 31.6% for Germany, 34% for 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	2013	2014
Deferred tax assets	187,301	223,102
Deferred tax liabilities	209,418	256,246
NET DEFERRED TAX ASSETS/(DEFERRED TAX LIABILITIES)	**(22,117)**	**(33,144)**

Presentation of deferred taxes by type:

As at 31/12/2014 *In € thousand*	**Assets**	**Liabilities**	**Net deferred tax liabilities**
Non-current assets	-	220,467	-
Other assets and liabilities	-	19,797	-
Inventories	34,225	-	-
Employee benefits	55,732	-	-
Derivatives	7,294	-	-
Distributable reserves and foreign currency translation reserves	-	1,851	-
NET BALANCE	**97,251**	**242,115**	**(144,864)**
Recognition of tax losses	111,720	-	111,720
TOTAL	**208,971**	**242,115**	**(33,144)**

As at 31/12/2013 *In € thousand*	**Assets**	**Liabilities**	**Net deferred tax liabilities**
Property, plant and equipment and intangible 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) as at 31 December 2014 and 31 December 2013 are broken down as follows:

As at 31/12/2014 *In € thousand*	Gross value	Corresponding deferred tax	Recognized deferred tax	Unrecognized or impaired deferred tax
Tax loss carryforwards	916,497	287,833	111,720	176,113
Other tax assets	-	-	111,382	229,930
TOTAL TAX ASSETS	**-**	**287,833**	**223,102**	**406,043**
Tax liabilities	-	-	(256,246)	-
TOTAL TAX LIABILITIES	**-**	**-**	**(256,246)**	**-**
TOTAL	**-**	**-**	**(33,144)**	**406,043**

As at 31/12/2013 *In € thousand*	Gross value	Corresponding deferred tax	Recognized deferred tax	Unrecognized deferred tax
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 relate mainly to Vallourec & Sumitomo Tubos do Brasil, the French tax group, Vallourec Changzhou (China), Vallourec Star (United States) and Tubos Soldados Atlântico (Brazil).

The deferred tax assets (DTAs) are recognized when there is reasonable assurance of being able to recover these deferred tax assets in the foreseeable future. When it is estimated that allocating these carryforwards to future taxable profits would be uncertain, no DTA is recognized and, where applicable, the DTAs existing at the opening date are impaired.

The amount of deferred tax relating to tax loss carryforwards that was not recognized or impaired, €176 million, mainly comprises €90 million in unrecognized deferred taxes and €86 million in impaired deferred taxes in 2014, relating to deferrable losses capitalized as at 31 December 2013 for the French tax group. These analyses are based on the forecasts used in the impairment testing.

In the case of Vallourec & Sumitomo Tubos do Brasil, a structure dedicated to our partner Nippon Steel & Sumitomo Metal Corp. and to ourselves, the analyses conducted concluded with reasonable assurance that the net deferred tax assets could be recovered within a period of more than 10 years, but less than the average useful life of the industrial assets (in the amount of €85 million).

Changes in deferred taxes are broken down as follows:

Net deferred tax assets/(liabilities) *In € thousand*	2013	2014
AS AT 1 JANUARY	**23,440**	**(22,117)**
Impact of changes in exchange rates	(9,351)	(17,113)
Recognized in net income	(27,649)	(28,037)
Recognized in reserves	(8,320)	37,684
Other	(237)	(3,561)
AS AT 31 DECEMBER	**(22,117)**	**(33,144)**

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 commitments and similar obligations.

NOTE 6 Inventories and work in progress

In € thousand	Raw materials and merchandise	Goods in production	Intermediate and finished goods	Total
GROSS VALUES				
As 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
As at 31/12/2013	**555,431**	**510,681**	**472,523**	**1,538,635**
Changes in inventories recognized in the income statement	(8,953)	51,273	672	42,992
Impact of changes in exchange rates	19,022	44,000	11,709	74,731
Other changes	(10,192)	6,771	10,524	7,103
AS AT 31/12/2014	**555,308**	**612,725**	**495,428**	**1,663,461**
IMPAIRMENT				
As 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
As at 31/12/2013	**(46,106)**	**(20,688)**	**(48,402)**	**(115,196)**
Impact of changes in exchange rates	(1,718)	(1,447)	(1,105)	(4,270)
Allowances [(a)]	(61,601)	(9,048)	(18,566)	(89,215)
Reversals of provisions	20,878	5,384	9,601	35,863
Other changes	(659)	-	47	(612)
AS AT 31/12/2014	**(89,206)**	**(25,799)**	**(58,425)**	**(173,430)**

(a) Provisions for inventories of raw materials and consumables include a €21 million impairment loss for spare parts related to industrial assets (see Note 2).

Net values *In € thousand*	Raw materials and merchandise	Goods in production	Intermediate and finished goods	Total
As at 31/12/2013	509,325	489,993	424,121	1,423,439
AS AT 31/12/2014	**466,102**	**586,926**	**437,003**	**1,490,031**

NOTE 7 Trade and other receivables

In € thousand	Advances and partial payments on orders	Trade and other receivables (gross) [(a)]	Provisions for impairment	Total
As 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
Increase in provisions	-	-	(5,606)	(5,606)
Reversals of provisions	-	-	4,640	4,640
Other changes	1	1	248	250
As at 31/12/2013	**10,835**	**1,101,860**	**(13,922)**	**1,098,773**
Changes in scope of consolidation	-	1,742	-	1,742
Impact of changes in exchange rates	(469)	59,427	(810)	58,148
Changes in gross values	25,105	(34,172)	-	(9,067)
Increase to provisions	-	-	(7,140)	(7,140)
Reversals of provisions	-	-	5,811	5,811
Other changes	-	(19)	(2,594)	(2,613)
AS AT 31/12/2014	**35,471**	**1,128,838**	**(18,655)**	**1,145,654**

(a) See paragraph 2.16.1 – Accounting principles and methods for details on recognition and measurement methods.

NOTE 8 Financial instruments

Financial assets and liabilities

Financial assets and liabilities are measured and presented in the statement of financial position in accordance with the various categories specified by IAS 39.

8.1 IMPACT OF IAS 32 AND IAS 39 ON EQUITY AND NET INCOME

As explained in paragraph 2.16 – Accounting principles and methods, the main impacts of IAS 32 and IAS 39 relate 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 other effects of the transition to IAS 32 and IAS 39 have had little impact on the financial statements (measurement 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 remeasured at the spot rate as at 31 December.

From a net asset position of €67.7 million as at 31 December 2013, hedging assets moved to a net liability position of -€145.1 million as at 31 December 2014.

The €106.6 million decrease in the intrinsic value of hedges of forecast sales and purchases in foreign currencies and the €75.4 million decrease in the intrinsic value of hedges of foreign currency receivables and payables are mainly due to fluctuations in the euro against the U.S. dollar in fiscal year 2014.

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.

Statement of financial position items *In € thousand*	As at 31/12/2013	As at 31/12/2014	Changes in 2014		
			Total	Reserves	Net income
1 – Derivatives [(a)]					
Changes in the intrinsic value of forward sales of currencies and forward purchases [(b)] associated with order books and commercial tenders	34,917	(71,636)	(106,553)	(104,586)	(1,967)
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with trade receivables (and accounts payable [(b)])	20,117	(55,329)	(75,446)	-	(75,446)
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with financial receivables (and financial payables)	10,270	(29,459)	(39,729)	-	(39,729)
Recognition of premium/discount	(1,023)	9,077	10,100	(182)	10,282
Recognition of changes in fair value of interest rate swaps	-	-	-	-	-
Changes in values linked to hedging instruments set up under employee share ownership schemes	3,441	2,259	(1,182)	(66)	(1,116)
SUBTOTAL: DERIVATIVES	**67,722**	**(145,088)**	**(212,810)**	**(104,834)**	**(107,976)**
› of which derivatives – assets	91,788	28,211	-	-	-
› of which derivatives – liabilities	24,066	173,300	-	-	-
2 – Receivables (payables) hedged in currencies –translation gain/loss					
Measurement as at the reporting date exchange rate (trade payables [(b)] and accounts receivable)	(32,030)	52,584	84,614	-	84,614
Measurement as at the reporting date exchange rate (financial liabilities and accounts receivable)	2,546	30,529	27,983	-	27,983
IMPACT OF HEDGING TRANSACTIONS	**38,238**	**(61,975)**	**(100,213)**	**(104,834)**	**4,621**
3 – Measurement of other investments in equity instruments at fair value	**5,626**	**(6,321)**	**(11,947)**	**(11,947)**	**-**
TOTAL	**43,864**	**(68,296)**	**(112,160)**	**(116,781)**	**4,621**

(a) Assets and liabilities offset in this table: + = asset, ( ) = liability.

(b) Non-significant amounts.

The change in the fair value of financial instruments hedging foreign exchange risk, which affected equity as at 31 December 2013, was €34.9 million. In 2014, around 87% of the positive change in fair value attached to the order book and commercial tenders at the end of 2013 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 as at 31 December 2013, which were fully or partially unwound or converted into receivables during 2014.

This corresponds mainly to the hedges of receivables in US dollars, which represent over 93% of the hedges with an impact on equity as at 31 December 2013.

Statement of financial position items *In € thousand*	As at 31/12/2012	As at 31/12/2013	Changes in 2013 Total	 Reserves	 Net income
1 – Derivatives [(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 finance payables)	12,055	10,270	(1,785)	-	(1,785)
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 (b)) hedged in currencies – translation gain/loss					
Measurement as at the reporting date exchange rate (trade payables [(b)] and accounts receivable)	(713)	(32,030)	(31,317)	-	(31,317)
Measurement as at the reporting date exchange rate (financial liabilities 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 – Measurement of other investments in equity instruments at fair value	**(14,482)**	**5,626**	**20,108**	**20,108**	**-**
TOTAL	**8,877**	**43,864**	**34,987**	**31,223**	**3,764**

(a) Assets and liabilities offset in this table: + = asset, ( ) = liability.

(b) Non-significant amounts.

The change in the fair value of financial instruments hedging foreign exchange risk, which affected equity as 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 as 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 as at 31 December 2012.

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 (conversion and transactions), credit and equity risk. Liquidity risk is addressed in Note 15.

Interest rate risk

Management of medium- and long-term financing within the euro zone is centralized at Vallourec and the sub-holding company Vallourec Tubes.

Total liabilities

As at 31/12/2014 *In € thousand*	Other borrowings	Cash
Fixed rate on date granted	2,186,145	-
Variable rate on date granted swapped to fixed rate	-	-
Fixed rate	**2,186,145**	**-**
Variable rate	**507,372**	**1,146,913**
TOTAL	**2,693,517**	**1,146,913**

As at 31/12/2013 *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**

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

The amount of loans with fixed rates on the dates granted primarily consists of bonds and commercial paper issued by Vallourec:

- on 7 December 2011, a €650 million bond issue, maturing in February 2017, with a fixed annual coupon of 4.25%;
- in August 2012, two long-term private bond issues for a total of €455 million. The amounts and terms of these two private bond issues are €400 million for seven years with an annual coupon of 3.25% for one, and €55 million for 15 years with an annual coupon of 4.125%;
- on 30 September 2014, a €500 million bond issue, maturing in September 2024, with a fixed annual coupon of 2.25%;
- outstanding commercial paper in the amount of €311 million.

Furthermore, in December 2009, Vallourec & Sumitomo Tubos do Brasil, which is 56% owned by the Group, took out a loan with BNDES (Banco National de Desenvolvimento Economico e Social). As at 31 December 2014, BRL 162 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.

As at 31 December 2014, financial liabilities exposed to changes in variable interest rates amounted to €507 million (about 19% of total liabilities).

No significant line of fixed rate financing will reach contractual maturity during the 12 months after 31 December 2014, except for:

- €311 million in outstanding commercial paper maturing in more than one year;
- €109 million for various lines of financing in the Group's subsidiaries.

Given the Group's interest rate risk hedging policy, the impact of a 1% rise in short-term rates in the euro zone, on Brazilian and Chinese rates and UK and US money market rates would result in a €5.1 million increase in the Group's annual financial expenses, based on an assumption of complete stability of the financial liabilities 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's 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 2014, 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 €55 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 (- €287.7 million as at 31 December 2014) 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*	31/12/2013	31/12/2014
USD	(18,363)	158,184
GBP	(12,407)	(8,728)
Brazilian real (BRL)	(513,799)	(479,818)
Chinese yuan (CNY)	29,153	50,497
Other	(9,984)	(7,839)
TOTAL	**(525,400)**	**(287,704)**

Transaction risk

The Group is subject to exchange rate risks due to its business exposure linked to sales and purchase transactions entered into by some of its subsidiaries in currencies other than their functional currency.

The main foreign currency involved is the US dollar (USD): a significant portion of Vallourec's transactions (approximately 38.7% of Group revenue in 2014) are invoiced in US dollars by companies whose functional currency is not the US dollar.

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

1. there is an adjustment phenomenon on sales prices denominated in US dollars, which is related to market conditions in the various sectors of activity in which Vallourec operates;
2. certain sales and purchases, even though they are denominated in euros or Brazilian reals, 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 canceled hedges.

We estimate that a 10% rise or fall in the currencies used in all hedges implemented by the Group would result in a €111 million decrease or increase in the intrinsic value recognized in consolidated equity as at 31 December 2014. 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.

As at 31 December 2014, 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*	**2013**	**2014**
Forward exchange contract: forward sales	2,015,532	1,622,654
Forward exchange contract: forward purchases	124,312	143,360
Currency options: sales	-	-
Currency options: purchases	-	-
Raw materials and energy: call options	-	-
TOTAL	**2,139,844**	**1,766,014**

Contract maturities as at 31 December 2014

Contracts on commercial transactions *In € thousand*	**Total**	**< 1 year**	**1 to 5 years**	**> 5 years**
Exchange contracts: forward sales	1,622,654	1,536,021	86,633	-
Exchange contracts: forward purchases	143,360	131,853	11,507	-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Raw materials and energy: call options	-	-	-	-
TOTAL	**1,766,014**	**1,667,874**	**98,140**	**-**

Forward sales correspond mainly to sales of US dollars (€1,622 million of the €1,766 million total). These contracts were transacted at an average forward EUR/USD rate of 1.32 and an average forward USD/BRL rate of 2.53.

In 2014, as in 2013, 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 398.3 million (€297 million) and for CNY 162.8 million (€19.2 million).

These instruments are intended to hedge either the debt denominated in USD, or the foreign currency loans set up 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 2015 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 statement of financial position (foreign currency translation risks).

Credit risks

Vallourec is subject to credit risk on financial assets for which no impairment provision has been made and for which 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 and other receivables;
- derivatives that have a positive fair value;

1. 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);
2. Security deposits and tax receivables due to the Group in Brazil: there is no specific risk with respect to these receivables, even if the outcome of the disputes is unfavorable, since the risk has already been assessed and a provision recognized for these receivables, and the funds have already been paid in full or in part;
3. 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 2014 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 €69.7 million as at 31 December 2014, or 6.3% 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.

Vallourec remains subject to country risk which could impact the payment of some of its receivables.

In addition, as at 31 December 2014, trade receivables not yet due amounted to €869.5 million, or 78.3% of total net trade receivables;

4. As concerns the derivatives that have a positive fair value, the Group only deals with first-rate counterparties. The credit risk is considered to be insignificant.

The following table provides an analysis by maturity of these trade receivables:

As at 31 December 2014 *In € million*	**0 to 30 days**	**30 to 60 days**	**60 to 90 days**	**90 to 180 days**	**> 180 days**	**Total**
Trade receivables outstanding	542.0	187.4	41.7	97.3	1.1	869.5

Equity risk

Treasury shares held by Vallourec as at 31 December 2014 include:

Shares allocated to various share ownership plans for some of the Group's employees, executive management and corporate officers.

In this context, Vallourec holds:

- 45,755 treasury shares acquired 5 July 2001, after the definitive allocation of 73,985 shares in 2011, 3,680 shares in 2012, 67,172 shares in 2013 and 66,727 shares in 2014 under the various performance share plans;
- 3,094 treasury shares acquired in 2008 after the definitive allocation of 26,844 shares in 2011, 70,050 shares in 2013 and 12 shares in 2014, under the various performance share plans;
- 194,160 treasury shares acquired in 2011 under the share buyback plan of 7 July 2011, upon the definitive allocation of 27,534 shares in 2012, 86,377 shares in 2013 and 91,929 shares in 2014, under the various performance share plans;
- 305,400 treasury shares acquired in 2012 under the share buyback plan of 31 May 2012, upon the definitive allocation of 94,600 shares in 2014, under the various performance share plans;
- 300,000 treasury shares acquired in 2014.

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.

Additionally, Vallourec signed a liquidity contract with Rothschild & Cie Banque in 2012. It was implemented under the annual general authorization for the share buyback program approved by the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014 (fourteenth resolution).

On 8 April 2014, Vallourec committed to a supplementary contribution of €12.5 million, €5 million of which were paid at the end of 2014 in order to allow Rothschild & Cie Banque to ensure its continued participation under the contract.

As at 31 December 2014, the liquidity account at Rothschild & Cie Banque comprised the following:

- 925,000 shares with a value of €21 million;
- €9,896,943.

Classification and measurement of financial assets and liabilities

The amounts recognized in the statement of financial position are based on the measurement methods used for each financial instrument.

2014 *In € thousand*	Notes	Category [a]	Gross value at 31/12/2014	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed equity interests		AFS	71,869	-	71,869	-
Other equity interests		AFS	2,016	-	2,016	-
Loans		L&R	6,713	6,713	-	-
Other financial assets		L&R/AHM [b]	41,571	41,571	-	-
Trade and other receivables	**7**	**L&R**	**1,128,838**	**1,128,838**	**-**	**-**
Derivatives – assets	**8**					
Hedging financial instruments		CFH	8,060	-	8,060	-
Hedging financial instruments [f]		A-FVTPL	20,151	-	-	20,151
Speculative financial instruments		A-FVTPL	-	-	-	-
Other current assets	**9**	**L&R**	**343,155**	**343,155**	**-**	**-**
Cash and cash equivalents	**10**	**A-FVTPL**	**1,146,913**	**-**	**-**	**1,146,913**
LIABILITIES						
Bank loans and other borrowings [c] [e]	**15**	**AC-EIR**	**318,784**	**318,784**	**-**	**-**
Other	**15**	**AC-EIR**	**639,291**	**639,291**	**-**	**-**
Finance leases	**15**	**AC-EIR**	**101,575**	**101,575**	**-**	**-**
Bond issues	**15**	**AC-EIR**	**1,595,662**	**1,595,662**	**-**	**-**
Overdrafts and other short-term borrowings [d] [e]	**15**	**AC-EIR**	**38,205**	**38,205**	**-**	**-**
Trade and other payables		**AC**	**806,856**	**806,856**	**-**	**-**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	78,648	-	78,648	-
Hedging financial instruments		L-FVTPL	94,652	-	-	94,652
Speculative financial instruments		L-FVTPL	-	-	-	-
Other current liabilities	**19**	**AC**	**438,257**	**438,257**	**-**	**-**

(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 10, Value 11, Value 12, Value 13 and Value 14 warrants, whose fair value as at 31 December 2014 was €2.1 million.

Financial instruments measured at fair value are classified by category on the basis of their measurement 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.).

2014 Statement of financial position headings and classes of instruments *In € thousand*	Category	Total fair value on statement of financial position	Fair value		
			Listed prices (A)	Internal model with observable inputs (B)	Internal model with unobservable inputs
ASSETS					
Listed equity interests	AFS	71,869	71,869	-	-
Other equity interests	AFS	2,016	-	2,016	-
Derivatives – assets					
Hedging financial instruments	CFH	8,060	-	8,060	-
Speculative financial instruments	L-FVTPL	-	-	-	-
Cash and cash equivalents	A-FVTPL	1,146,913	1,146,913	-	-
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	173,300	-	173,300	-
Speculative financial instruments	L-FVTPL	-	-	-	-

2013 *In € thousand*	Notes	Category [a]	Gross value at 31/12/2013	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed equity interests		AFS	84,370	-	84,370	-
Other equity interests		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		CFH	40,057	-	40,057	-
Hedging financial instruments [f]		A-FVTPL	51,731	-	-	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**	**-**	**-**
Finance leases	**15**	**AC-EIR**	**108,352**	**108,352**	**-**	**-**
Bond issues	**15**	**AC-EIR**	**1,096,223**	**1,096,223**	**-**	**-**
Overdrafts and other short-term borrowings [d] [e]	**15**	**AC-EIR**	**18,967**	**18,967**	**-**	**-**
Trade and other receivables		**AC**	**832,899**	**832,899**	**-**	**-**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	6,059	-	6,059	-
Hedging financial instruments [f]		L-FVTPL	18,007	-	-	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 as at 31 December 2013 was €3.5 million.

Financial instruments measured at fair value are classified by category on the basis of their measurement 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.).

2013 Statement of financial position headings and classes of instruments *In € thousand*	Category	Total fair value on statement of financial position	Fair value		
			Listed prices (A)	Internal model with observable inputs (B)	Internal model with unobservable inputs
ASSETS					
Listed equity interests	AFS	84,370	84,370	-	-
Other equity interests	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	-	-	-	-

NOTE 9 Other current assets

In € thousand	Employee-related receivables and recoverable payroll taxes	Tax receivables excluding income tax	Prepaid expenses	Government, income tax	Other receivables	Total
As 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)
Provision allowances or reversals	-	-	-	-	(24,744)	(24,744)
Other changes	74	35,410	5,521	15,528	76,611	133,144
As at 31/12/2013	**4,117**	**97,689**	**39,496**	**32,271**	**122,532**	**296,105**
Impact of changes in exchange rates	(14)	749	2,454	(240)	2,382	5,331
Provision allowances or reversals	-	-	-	-	20,397	20,397
Other changes	1,848	7,229	8,659	12,427	(8,841)	21,322
AS AT 31/12/2014	**5,951**	**105,667**	**50,609**	**44,458**	**136,470**	**343,155**

NOTE 10 Cash and cash equivalents

In € thousand	Investment securities (gross)	Cash and cash equivalents	Total
As at 31/12/2012	**293,140**	**253,020**	**546,160**
Impact of changes in exchange rates	(41,174)	(15,703)	(56,877)
Other changes	131,858	(57,829)	74,029
As at 31/12/2013	**383,824**	**179,488**	**563,312**
Impact of changes in exchange rates	7,060	16,439	23,499
Other changes	415,601	144,501	560,102
AS AT 31/12/2014	**806,485**	**340,428**	**1,146,913**

"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

There were no business combinations in 2014 or 2013.

NOTE 12 Equity

CAPITAL

Vallourec's issued capital is comprised of 130,597,975 ordinary shares with a nominal value of €2 per share, fully paid-up, compared with 128,159,600 as at 31 December 2013.

2014

On 25 June 2014, the option for payment of the dividend in shares, approved by the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014, resulted in the creation of 518,416 new shares issued at the price of €35.69, for a capital increase of €18.5 million, including additional paid-in capital net of expenses.

On 16 December 2014, under the Value 14 employee share ownership plan 1,919,959 new shares were subscribed at a price of €25.62 for the leveraged scheme and €24.12 for the classic plan, for a capital increase of €49.2 million, including additional paid-in capital net of expenses.

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.

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
As at 31/12/2012	**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)
As at 31/12/2013	**(18,363)**	**(12,407)**	**(513,799)**	**29,153**	**(9,984)**	**(525,400)**
Change	176,547	3,679	33,981	21,344	2,145	237,696
AS AT 31/12/2014	**158,184**	**(8,728)**	**(479,818)**	**50,497**	**(7,839)**	**(287,704)**

Main exchange rates used (euro/currency): translation of statement of financial position items (reporting date rate) and income statement items (average rate)

For €1.00	USD	GBP	BRL	CNY
2013				
Average rate	1.33	0.85	2.87	8.16
Reporting date rate	1.38	0.83	3.26	8.35
2014				
Average rate	1.33	0.81	3.12	8.19
Reporting date rate	1.21	0.78	3.22	7.54

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	2013	2014
Net income (loss) attributable to ordinary shareholders for basic earnings per share	**261,860**	**(923,594)**
Weighted average number of ordinary shares for basic earnings per share	125,632,911	128,141,863
Weighted average number of treasury shares for basic earnings per share	(1,101,787)	(821,193)
Weighted average number of shares for earnings per share	124,531,124	127,320,670
EARNINGS PER SHARE *(in €)*	**2.1**	**(7.3)**
Earnings per share comparable to 2014 *(in €)*	2.1	-
Dilution effect – share purchase and subscription options and performance shares	1,155,374	0
Weighted average number of ordinary shares for diluted earnings per share	125,686,498	127,320,670
DILUTED EARNINGS PER SHARE *(in €)*	**2.1**	**(7.3)**
Earnings per share comparable to 2014 *(in €)*	2.1	-

Dividends paid during the year	2013	2014
› for the previous fiscal year *(in €)*	0.69	0.81
› interim dividend for the current fiscal year *(in €)*	-	-

NOTE 14 Non-controlling interests

In € thousand	Reserves	Translation difference	Net income	Total
As at 31/12/2013	362,296	(13,855)	36,990	385,431
AS AT 31/12/2014	**343,058**	**37,548**	**45,647**	**426,253**

Contribution at reporting date *In € thousand*	31 December 2013	31 December 2014
Main American entities [(a)]	341,105	379,116
Other	44,326	47,137
TOTAL	**385,431**	**426,253**

(a) Non-controlling interests primarily consist of Sumitomo Corp. and Nippon Steel Sumitomo Metal Corp.

Contribution to net income *In € thousand*	31 December 2013	31 December 2014
Main American entities [(a)]	31,345	43,175
Other	5,645	2,472
TOTAL	**36,990**	**45,647**

(a) Non-controlling interests primarily consist of Sumitomo Corp. and Nippon Steel Sumitomo Metal Corp.

The amounts presented are the amounts which appear in the financial statements for wholly-owned entities, which were prepared in accordance with IFRS, upon fair value adjustments made at the time of acquisition, and adjustments for standardization with the Group's accounting principles.

Main American entities *In € thousand*	31 December 2013	31 December 2014
Current assets	385,389	429,929
Non-current assets	1,393,960	1,577,955
Current liabilities	273,890	317,464
Non-current liabilities	149,501	199,506
NET ASSETS	**1,355,958**	**1,490,914**
Non-controlling interests	341,105	379,116
Revenue	1,070,328	1,317,634
Net income	108,627	169,830
Other comprehensive income (loss)	(51,022)	162,753
TOTAL COMPREHENSIVE INCOME	**57,605**	**332,583**
Net income attributable to non-controlling interests	31,345	43,175
Other items of comprehensive income attributable to non-controlling interests	(12,897)	44,202
Cash flow from operating activities	137,077	267,520
Cash flow used in investing activities	(145,855)	(92,092)
Cash flow from (used in) financing activities	47,423	(221,606)
Impact of changes in exchange rates	3,060	5,376
NET CASH FLOWS	**41,705**	**(40,802)**

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 November 2008, Vallourec took out a €100 million loan from Crédit Agricole Group, for an initial term of six years (due end of October 2015). This loan was repaid early on 27 October 2014.

In February 2014, Vallourec took out a multi-currency revolving credit facility for an amount of €1.1 billion, maturing in February 2019, plus two one-year extension options. This credit line is available for the Group's general funding purposes. This replaces the €1 billion credit line maturing in February 2016. As at 31 December 2014 this line had not been drawn.

In addition to the financing put in place by Vallourec, Vallourec Tubes has six medium-term bilateral lines of €100 million each, maturing in July 2017. As at 31 December 2014, 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 as 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 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.

As at 31 December 2014, Vallourec's outstanding debt with maturities of up to one year amounted to €310.5 million. 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 bonds totaling €455 million. The amounts and terms of these two private bond issues are €400 million for seven years with an annual coupon of 3.25%, and €55 million for 15 years with an annual coupon of 4.125% .

On 30 September 2014, Vallourec issued an initial €500 million bond, maturing in September 2024, with a fixed annual coupon of 2.25%.

The market values of these fixed-rate bonds are €674.8 million, €420.1 million, €62.2 million and €518.7 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.

As at 31 December 2014, the Group complied with its covenants and the terms and conditions for obtaining and maintaining all of the above facilities. 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. Amortization began on 15 February 2012. BRL 162.1 million of this loan had been used as at 31 December 2014.

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. As at 31 December 2014, the residual amount outstanding on this finance lease was BRL 396.2 million.

In the United States

The Group's US companies have a set of bilateral bank lines that were renewed in 2014 for a total of USD 300 million. The amount used as at 31 December 2014 totaled USD 135.6 million. These facilities with maturities of less than one year 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. As at 31 December 2014, the residual amount outstanding on this finance lease was USD 51.0 million.

Financial liabilities – non-current liabilities

In € thousand	Bank borrowings	Finance leases	Bond issue	Other financial liabilities	Total
As at 31/12/2012	**221,005**	**93,524**	**1,094,286**	**1,459**	**1,410,274**
New debt	15,232	42,604	1,937	5,479	65,252
Repayments	(47,564)	(11,813)	-	413	(58,964)
Impact of changes in exchange rates	(15,085)	(15,805)	-	(10,547)	(41,437)
Other changes	-	(158)	-	4,124	3,966
As at 31/12/2013	**173,588**	**108,352**	**1,096,223**	**928**	**1,379,091**
New debt	19,885	-	499,439	-	519,324
Repayments	(110,086)	(11,569)	-	(40,820)	(162,475)
Impact of changes in exchange rates	916	5,478	-	39,927	46,321
Other changes	-	(686)	-	298	(388)
AS AT 31/12/2014	**84,303**	**101,575**	**1,595,662**	**333**	**1,781,873**

Financial liabilities – current liabilities

In € thousand	Bank overdrafts	Accrued interest on bank overdrafts	Bank borrowings (< 1 year)	Accrued interest on bank borrowings	Other financial liabilities (< 1 year)	Total
As 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
As at 31/12/2013	**18,923**	**44**	**190,713**	**31,433**	**573,768**	**814,881**
Reclassifications	-	-	-	-	384	384
Impact of changes in exchange rates	2,018	1	18,272	27	6,513	26,831
Other changes	17,254	(35)	25,496	2,196	24,637	69,548
AS AT 31/12/2014	**38,195**	**10**	**234,481**	**33,656**	**605,302**	**911,644**

DEBT BY CURRENCY

	USD	EUR	BRL	Other	Total
As at 31/12/2013 – in thousands of currency unit	422,034	1,563,883	950,884	N/A	N/A
As at 31/12/2013 – in € thousands	306,021	1,563,883	291,897	32,171	2,193,972
As at 31/12/2014 – in thousands of currency unit	**556,832**	**1,950,411**	**725,308**	**N/A**	**N/A**
AS AT 31/12/2014 – IN € THOUSANDS	**458,638**	**1,950,411**	**225,202**	**59,266**	**2,693,51**

Breakdown by maturity of non-current loans and other financial liabilities (> 1 year)

In € thousand	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
As at 31/12/2013	**127,921**	**25,494**	**669,997**	**37,092**	**518,587**	**1,379,091**
Finance leases	12,709	12,951	29,341	6,415	40,159	101,575
Other non-current financial liabilities	23,023	664,031	13,238	407,038	572,968	1,680,298
AS AT 31/12/2014	**35,732**	**676,982**	**42,579**	**413,453**	**613,127**	**1,781,873**

Breakdown by maturity of current loans and other financial liabilities

2014 *In € thousand*	< 3 months	> 3 months and < 1 year	Total
Bank borrowings	24,283	210,199	234,482
Other borrowings	105,388	486,735	592,123
Finance lease liabilities	1,165	12,013	13,178
Accrued interest on borrowings	24,437	9,219	33,656
Bank overdrafts (negative cash and cash equivalents)	38,205	-	38,205
AS AT 31/12/2014	**193,478**	**718,166**	**911,644**

Debt by interest rate

The following table groups the current and non-current portions of bank and other financial liabilities.

In € thousand	Rate < 3%	Rate 3 to 6%	Rate 6 to 10%	Rate < 10%	Total
As 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	3,585	1,893,032
Variable rate	271,397	13,131	13,406	3,006	300,940
TOTAL	**599,712**	**1,543,451**	**44,218**	**6,591**	**2,193,972**
As at 31/12/2014					
Fixed rate on date granted	829,822	1,320,029	36,294	-	2,186,145
Variable rate on date granted swapped to fixed rate	-	-	-	-	-
Fixed rate	829,822	1,320,029	36,294	-	2,186,145
Variable rate	471,264	1,799	26,642	7,667	507,372
TOTAL	**1,301,086**	**1,321,828**	**62,936**	**7,667**	**2,693,517**

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 and to the €500 million bond issue.

NOTE 16 Provisions

Non-current liabilities	Provisions for environmental risks
As 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
As at 31/12/2013	**12,475**
Provisions for the period	763
Provisions used	(18)
Impact of changes in exchange rates	115
Other	102
AS AT 31/12/2014	**13,437**

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**
As 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
As at 31/12/2013	**35,746**	**43,493**	**558**	**25,713**	**32,105**	**137,615**
Provisions for the period	35,746	28,009	22,008	13,353	13,056	112,172
Provisions used	(26,793)	(45,111)	(301)	(4,877)	(6,236)	(83,318)
Other reversals	-	-	-	-	(2,105)	(2,105)
Impact of changes in exchange rates	164	1,170	-	(110)	460	1,684
Changes in consolidation scope and other	(3,261)	(2)	-	402	(191)	(3,052)
AS AT 31/12/2014	**41,602**	**27,559**	**22,265**	**34,481**	**37,089**	**162,996**

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 reporting 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 241 million, interest included, at 31 December 2014). 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 reporting date, with none being individually material.

For 2014 and 2013, 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

As at 31/12/2012	**196,835**
Impact of changes in exchange rates	(39,842)
Other changes	55,999
As at 31/12/2013	**212,992**
Impact of changes in exchange rates	2,467
Other changes	(33)
AS AT 31/12/2014	**215,426**

Other long-term liabilities are primarily composed of other non-operating liabilities of more than one year and a €164.7 million shareholder loan granted to Vallourec & Sumitomo Tubos do Brasil, a joint operation.

The change in this item in 2013 was 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

In € thousand	Germany	France	United Kingdom	Other	Total
As at 31/12/2013					
Present value of the obligation	**231,709**	**49,325**	**116,795**	**64,133**	**461,962**
Retirement benefits	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)
NET LIABILITY	**98,008**	**43,144**	**(284)**	**41,250**	**182,118**
As at 31/12/2014					
Present value of the obligation	**282,228**	**57,275**	**153,075**	**84,323**	**576,901**
Retirement benefits	256,778	54,639	153,075	78,690	543,182
Early retirement commitments	8,939	-	-	-	8,939
Long-service awards and medical benefits	16,511	2,636	-	5,633	24,780
Fair value of plan assets	(147,164)	(7,706)	(149,691)	(28,058)	(332,619)
NET LIABILITY	**135,064**	**49,569**	**3,384**	**56,265**	**244,282**

The main actuarial assumptions used for the measurement of post-employment benefit obligations, taking account of the plans' durations, are as follows:

Main actuarial assumptions	Germany	France	United Kingdom	Other
As at 31/12/2013				
Discount rate	3.50%	3.50%	4.40%	from 5% to 11.76%
Actual 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%
As at 31/12/2014				
Discount rate	1.70%	1.70%	3.40%	from 4% to 12.3%
Long-term return on plan assets	1.70%	1.70%	3.40%	from 4% to 12.3%
Salary increase rate	2.00%	1.69%	3.35%	from 3% to 10%

Commitments are valued by the Group's independent actuaries. The assumptions used take account of the specific characteristics of the plans and companies concerned.

Experience gains and losses in 2014 generated €0.7 million in losses for the Group (compared with €11.8 million in losses in 2013).

In 2015, the Group expects to pay €28 million of benefits under defined benefit plans, including €16.7 million in Germany, €3.9 million in the United Kingdom, €3.8 million in France and €1.8 million in Brazil.

Plans that are fully or partially outsourced represented a total obligation of €486 million as at 31 December 2014 for assets of €333 million.

In the euro zone, the discount rate is based on the iBoxx index (AA-rated corporate bonds with a maturity of more than 10 years, estimated on the date the obligations are measured). This index uses a basket of bonds of financial and non-financial companies. The rates have not been restated to reflect credit risk not factored into the selected bond baskets. In 2014, a general drop in discount rates resulted in an overall increase in liabilities, generating actuarial losses for the year of €78.1 million.

Actual returns on plan assets exceeded estimates by €24.7 million.

FRANCE

Obligations in France correspond mainly to retirement benefits, supplemental pension plans and long-service award-type benefits.

On 31 December 2014, a sensitivity test was performed on the discount rate, which found that a 1% change would result in a change of about €5.1 million in these obligations.

On 14 September 2005, a supplemental pension plan with its own plan assets was set up for executive 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. As at 31 December 2014, the remaining obligation amounted to €12.8 million for assets of €7.5 million.

GERMANY

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

On 31 December 2014, a sensitivity test was performed on the discount rate, which found that a 1% change would result in a change of about €28.4 million in these obligations.

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.

On 31 December 2014 a sensitivity test was performed on the discount rate, which found that a 1% change would result in a change of about €27.3 million on these obligations.

BRAZIL

In Brazil, employers help to fund termination benefits and long-service awards. Retirement benefits are partially outsourced in a pension fund with total assets of €1.1 million in 2013 (vs. €0.9 million in 2013). A €0.4 million contribution was paid (€0.4 million in 2013).

MEXICO

Obligations in Mexico are not material for the Group.

UNITED STATES

The assumption of increased medical benefits is regressive from 2015 to 2021: from 7.0% to 4.0% for assets and retirees.

There were no significant events during 2014 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.

Expenses incurred during the year include the additional rights acquired for an additional year of service, the change in existing rights at the beginning of the 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 expenses are broken down as follows:

Expenses for the fiscal year

In € thousand	Germany	France	United Kingdom	Other	Total
As at 31/12/2013					
Current service cost	5,090	3,443	2,081	3,768	14,382
Interest expense on obligation	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) for the year	3,181	(269)	-	(1,003)	1,909
Cost of past services	(7,454)	-	-	-	(7,454)
Impact of any reduction or liquidation	-	(393)	-	-	(393)
NET EXPENSE	**3,880**	**4,374**	**2,026**	**5,005**	**15,285**
ACTUAL RETURN ON PLAN ASSETS	**734**	**90**	**12,892**	**2,882**	**16,598**

In € thousand	Germany	France	United Kingdom	Other	Total
As at 31/12/2014					
Current service cost	8,177	3,124	3,019	3,311	17,631
Interest expense on obligation	7,817	1,690	5,214	5,389	20,110
Actual return on plan assets	(4,680)	(216)	(5,353)	(1,289)	(11,538)
Net actuarial losses/(gains) for the year	3,998	(1,546)	-	4	2,456
Cost of past services	-	15	-	-	15
Impact of any reduction or liquidation	-	-	-	-	-
NET EXPENSE	**15,312**	**3,067**	**2,880**	**7,415**	**28,674**
ACTUAL RETURN ON PLAN ASSETS	**12,963**	**157**	**21,385**	**1,746**	**36,251**

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

Changes in related assets *In € thousand*	Germany	France	United Kingdom	Other	Total
As 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
Actual 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)
As at 31/12/2013	**133,701**	**6,181**	**117,079**	**22,883**	**279,844**
Value of assets	133,701	6,181	117,079	22,883	279,844
Actual return on assets	12,963	157	21,385	1,746	36,251
Contributions	500	1,537	5,912	1,265	9,214
Benefits paid	-	(169)	(3,744)	(846)	(4,759)
Acquisitions, disposals, liquidations	-	-	-	(142)	(142)
Impact of changes in exchange rates	-	-	9,059	3,152	12,211
AS AT 31/12/2014	**147,164**	**7,706**	**149,691**	**28,058**	**332,619**

Change in the obligation *In € thousand*	Germany	France	United Kingdom	Other	Total
As at 31/12/2012	**241,076**	**53,243**	**106,454**	**77,593**	**478,366**
Current service cost	5,090	3,443	2,081	3,768	14,382
Interest expense	7,391	1,721	4,490	3,159	16,761
Employee contributions	-	-	668	78	746
Actuarial losses/(gains) generated during the year	-	-	-	-	-
Remeasurements:					
› 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	-	-	-	-	-
Benefit payments	(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)
AS AT 31/12/2013	**231,709**	**49,325**	**116,795**	**64,133**	**461,962**

Changes in the obligation *In € thousand*	Germany	France	United Kingdom	Other	Total
As at 31/12/2013	**231,709**	**49,325**	**116,795**	**64,133**	**461,962**
Current service cost	8,177	3,124	3,019	3,311	17,631
Interest expense	7,817	1,690	5,214	5,389	20,110
Employee contributions	-	-	813	72	885
Actuarial losses/(gains) generated during the year	-	-	-	-	-
Remeasurements:					
› experience-related adjustments	1,035	(1,649)	336	1,027	749
› actuarial gains and losses arising from changes in demographic assumptions	-	2,795	1,908	2,597	7,300
› actuarial gains and losses arising from changes in financial assumptions	47,910	5,667	19,570	4,842	77,989
Acquisitions/disposals	1,232	-	-	264	1,496
Benefit payments	(15,652)	(3,677)	(3,744)	(3,182)	(26,255)
Plan amendments	-	-	-	-	-
Foreign exchange differences	-	-	9,164	5,870	15,034
Other	-	-	-	-	-
AS AT 31/12/2014	**282,228**	**57,275**	**153,075**	**84,323**	**576,901**

Movements during the year in net liabilities recognized on the statement of financial position were as follows:

Change in net liability *In € thousand*	Germany	France	United Kingdom	Other	Total
NET LIABILITY/(ASSET) AT 31/12/2012	**106,532**	**49,607**	**1,435**	**57,458**	**215,032**
Total expense for the period	3,880	4,374	2,026	5,005	15,285
Amount recognized in Other comprehensive income – remeasurement	(283)	(4,252)	1,109	(9,162)	(12,588)
Benefits or contributions to 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
NET LIABILITY/(ASSET) AT 31/12/2013	**98,008**	**43,144**	**(284)**	**41,250**	**182,118**
Total expense for the period	15,312	3,067	2,880	7,415	28,674
Amount recognized in Other comprehensive income – remeasurement	36,663	8,399	5,782	8,273	59,117
Benefits or contributions to funds	(16,151)	(5,041)	(5,099)	(3,547)	(29,838)
Impact of changes in exchange rates	-	-	105	2,610	2,715
Changes in scope and other	1,232	-	-	264	1,496
NET LIABILITY/(ASSET) AT 31/12/2014	**135,064**	**49,569**	**3,384**	**56,265**	**244,282**

Plan assets are broken down as follows:

United Kingdom	31/12/2014 Proportion	31/12/2013 Proportion
Equities (UK and overseas)	47.00%	53.00%
Bonds	20.00%	32.00%
Real Estate	14.00%	9.00%
Other (cash and index-linked gilts)	19.00%	6.00%

United States	31/12/2014 Proportion	31/12/2013 Proportion
Equities	51.00%	58.00%
Bonds	38.00%	33.00%
Real Estate	-	-
Other	11.00%	9.00%

Germany	31/12/2014 Proportion	31/12/2013 Proportion
Equities	28.60%	-
Bonds	71.40%	100.00%
Real Estate	-	-
Other	-	-

In France, 100% of the assets are placed in the general assets of an insurance company.

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 reporting date:

In € million	1% increase	1% decrease
Discount rate	(71)	88
Salary increase rate	20	(17)
Guaranteed rate of pension increase	41	(35)

Amounts expensed for defined contribution plans *In € thousand*	Production staff	Directors, managers, technical and supervisory staff	Total
As 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**
As at 31/12/2014			
Employer's share of retirement contributions	7,080	12,324	19,404
Life insurance paid by the employer	12,884	7,989	20,873
Other retirement contributions	432	648	1,080
TOTAL	**20,396**	**20,961**	**41,357**

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 2014 for some executive management 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	2014 Plan
Grant date	03/09/2007	01/09/2008	01/09/2009	01/09/2010	01/09/2011	31/08/2012	02/09/2013	15/04/2014
Maturity date	03/09/2011	01/09/2012	01/09/2013	01/09/2014	01/09/2015	01/03/2017	03/03/2018	15/04/2018
Expiration date	03/09/2014	01/09/2015	01/09/2019	01/09/2020	01/09/2021	30/08/2020	01/09/2021	15/04/2022
Number of beneficiaries at outset	65	9	303	349	743	387	406	399
Exercise price in euros	95.30	91.77	51.67	71.17	60.71	37	46.15	38.53
Number of options granted	294,600	143,600	578,800	512,400	684,521	530,400	602,465	373,550

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	2013	2014
Total at beginning of period	2,655,087	3,183,279
Options distributed	602,465	373,550
Options exercised	-	-
Options not exercised at expiration date	-	(277,600)
Options canceled [a]	(74,273)	(89,180)
TOTAL AT END OF PERIOD	**3,183,279**	**3,190,049**
Options available for exercise	944,800	1,104,600

(a) Beneficiaries who have left the Group.

The following table provides a breakdown by plan of the number of unexpired options:

	2013	2014
2007 Plan	277,600	-
2008 Plan	143,600	143,600
2009 Plan	523,600	523,600
2010 Plan	481,900	437,400
2011 Plan	637,214	621,302
2012 Plan	516,900	500,504
2013 Plan	602,465	593,343
2014 Plan	-	370,300

Measurement of Plans [a] *In € thousand*	2007 Plan	2008 Plan	2009 Plan	2010 Plan	2011 Plan	2012 Plan	2013 Plan	2014 Plan
Expense for fiscal year 2007	705	-	-	-	-	-	-	-
Expense for fiscal year 2008	2,912	711	-	-	-	-	-	-
Expense for fiscal year 2009	1,817	1,445	820	-	-	-	-	-
Expense for fiscal year 2010	1,561	895	1,581	694	-	-	-	-
Expense for fiscal year 2011	1,083	746	1,321	2,253	853	-	-	-
Expense for fiscal year 2012	-	768	1,493	638	1,175	176	-	-
Expense for fiscal year 2013	-	-	815	1,162	882	511	450	-
Expense for fiscal year 2014	-	-	-	444	815	11	1,153	503
Accrued Expense as at 31 December 2014	**8,078**	**4,565**	**6,030**	**5,191**	**3,725**	**698**	**1,603**	**503**
Assumptions								
Share price at allocation date	€99.00	€95.42	€50.65	€70.34	€62.93	€36.87	€46.33	€39.69
Volatility [b]	35.00%	35.00%	43.00%	35.00%	35.00%	35.00%	30.00%	30.00%
Risk-free rate [c]	4.20%	4.40%	2.39%	2.60%	3.01%	1.92%	2.16%	1.72%
Exercise price	€95.30	€91.77	€51.67	€71.17	€60.71	€37.00	€46.15	€38.53
Dividend rate [d]	3.75%	3.50%	5.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Fair value of the option [e]	€29.10	€31.79	€17.11	€24.05	€18.50	€9.36	€10.41	€8.60

(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.

(e) The fair value for the Management Board and the Operational Committee is €7.85 for the 2014 plan.

Performance share allocation plans

CHARACTERISTICS OF THE PLANS

The Vallourec Management Board authorized performance share plans from 2008 to 2014 for some employees and corporate officers of the Group.

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):

	Allocation 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
2014 Plan [l]	15/04/2014	3 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	1,758	413,597
2014 2-4-6 Plan [m]	15/04/2014	3 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	21,677	130,062
Value 14 Plan	16/12/2014	4.6 years		768	3,960

(a) Definitive allocation 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 number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(b) Definitive allocation 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 allocation 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 allocation 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 allocation 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 allocation 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 revenue 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 allocation 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 revenue on a like-for-like basis; and the performance of the Vallourec share on the regulated NYSE 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 allocation 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 allocation 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 revenue 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 allocation 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 revenue on a like-for-like basis; and the performance of the Vallourec share on the regulated NYSE 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 allocation 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 allocation 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 revenue 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 allocation 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 revenue on a like-for-like basis; and the performance of the Vallourec share on the regulated NYSE 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 allocation 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.

(l) Definitive allocation of shares in 2017 for French residents and members of the Management Board, and in 2018 for non-French residents. For all beneficiaries (excluding Board members), it will be based on the ratio of consolidated EBITDA to consolidated revenue achieved by the Group in 2014, 2015 and 2016. 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 1.25. For members of the Executive Committee, final allocation shall depend on the following four criteria, assessed in 2014, 2015 and 2016: the rate of return on capital employed (ROCE), compared with the ROCE in the budget, consolidated revenue on a like-for-like basis, as compared with the revenue in the budget, the relative stock market performance of the Vallourec share on the regulated NYSE Euronext market in Paris, as compared with a benchmark panel, and the relative EBITDA performance as compared with the same panel as for the previous criterion. 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.

(m) Definitive allocation of shares in 2017 for French residents and in 2018 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2014 to 31 December 2016. 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 canceled	Theoretical number of shares acquired or being vested	Number of shares delivered
Value 09 Plan	69,400	(4,074)	65,326	65,326
03/2010 Plan	190,540	(22,837)	167,703	153,643
07/2010 Plan	4,280	-	4,280	3,938
Value 10 Plan	83,462	(3,087)	80,375	-
2-4-6 Plan	72,588	(4,860)	67,728	67,728
2011 Plan	214,271	(14,611)	199,660	58,069
Value 11 Plan	6,462	(717)	5,745	-
2011 2-4-6 Plan	78,318	(7,782)	70,536	28,308
2012 Plan	286,718	(18,385)	268,333	64,972
2012 2-4-6 Plan	130,116	(8,094)	122,022	29,628
Value 12 Plan	4,395	(270)	4,125	-
2013 Plan	295,225	(9,460)	285,765	-
2013 2-4-6 Plan	130,464	(3,558)	126,906	-
Value 2013 Plan	4,028	-	4,028	-
2014 Plan	413,597	(2,898)	410,699	-
2014 2-4-6 Plan	130,062	(474)	129,588	-
Value 2014 Plan	3,960	-	3,960	-

Measurement of Plans [(a)] *In € thousand*	**Value 08 Plan**	**2009 Plan**	**Value 09 Plan**	**1-2-3 Plan**	**03/2010 Plan**	**07/2010 Plan**
Expense for fiscal year 2008	17	-	-	-	-	-
Expense for fiscal year 2009	414	271	83	63	-	-
Expense for fiscal year 2010	411	459	692	1,671	3,544	58
Expense for fiscal year 2011	412	290	657	1,639	3,368	128
Expense for fiscal year 2012	366	14	689	865	1,648	28
Expense for fiscal year 2013	32	17	563	693	1,139	44
Expense for fiscal year 2014	-	-	324	-	(357)	5
Accrued Expense as at 31 December 2014	**1,652**	**1,051**	**3,008**	**4,931**	**9,342**	**263**
Assumptions						
Share price at allocation date	€41.08	€46.15	€59.50	€60.50	€72.65	€74.71
Volatility [(b)]	40%	40%	40%	40%	40%	40%
Risk-free rate [(c)]	3.03%	2.37%	2.40%	2.24%	2.01%	1.67%
Dividend rate [(d)]	7.30%	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 measure the fair value of the shares granted. 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 were determined based on analysts' expectations (external information) and the Group's dividend policy.

Measurement of Plans [a] *In € thousand*	Value 10 Plan	2-4-6 Plan	2011 Plan	Value 11 Plan	2011 2-4-6 Plan	2012 Plan
Expense for fiscal year 2010	136	127	-	-	-	-
Expense for fiscal year 2011	1,088	1,654	3,673	-	-	-
Expense for fiscal year 2012	1,134	1,530	2,560	51	1,095	2,994
Expense for fiscal year 2013	1,033	564	(80)	39	892	970
Expense for fiscal year 2014	1,084	521	527	51	450	1,084
Accrued Expense as at 31 December 2014	**4,475**	**4,396**	**6,680**	**141**	**2,437**	**5,048**
Assumptions						
Share price at allocation date	€72.77	€72.87	€78.98	€41.01	€45.53	€47.50
Volatility [b]	40%	40%	35%	35%	35%	35%
Risk-free rate [c]	1.93%	1.78%	2.69%	2.07%	2.13%	1.36%
Dividend rate [d]	3.00%	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 measure the fair value of the shares granted. 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 were determined based on analysts' expectations (external information) and the Group's dividend policy.

Measurement of Plans [a] *In € thousand*	2012 2-4-6 Plan	Value 12 Plan	2013 Plan	2013 2-4-6 Plan	Value 13 Plan	2014 Plan
Expense for fiscal year 2012	1,267	7	-	-	-	-
Expense for fiscal year 2013	1,541	22	2,053	860	2	-
Expense for fiscal year 2014	1,093	25	1,436	451	32	2,219
Accrued Expense as at 31 December 2014	**3,901**	**54**	**3,489**	**1,311**	**34**	**2,219**
Assumptions						
Share price at allocation date	€47.50	€34.15	€37.50	€37.50	€42.51	€39.69
Volatility [b]	35%	35%	30%	30%	30%	30%
Risk-free rate [c]	1.36%	0.91%	0.85%	0.85%	0.90%	0.93% and 0.66%
Dividend rate [d]	3%	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	€32.68 (French residents) or €35.14 (non-French residents)

(a) The binomial model of projecting share prices has been used to measure the fair value of the shares granted. 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 were determined based on analysts' expectations (external information) and the Group's dividend policy.

Measurement of Plans [a] *In € thousand*	2014 2-4-6 Plan	Value 14 Plan
Expense for fiscal year 2014	552	3,611
Accrued Expense as at 31 December 2014	**552**	**3,611**
Assumptions		
Share price at allocation date	€39.69	€29.68
Volatility [b]	30%	24%
Risk-free rate [c]	0.93% or 1.72% and 0.66%	0.23%
Dividend rate [d]	3%	3%
Fair value of the share	€29.08 (French residents) or €35.14 (non-French residents)	€25.49

(a) The binomial model of projecting share prices has been used to measure the fair value of the shares granted. 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 were determined based on 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
As 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
As at 31/12/2013	**259,755**	**67,079**	**64,298**	**7,143**	**71,525**	**469,800**
Impact of changes in exchange rates	5,996	1,077	1,332	249	5,908	14,562
Other changes	13,573	(16,392)	(18,707)	1,148	(25,727)	(46,105)
AS AT 31/12/2014	**279,324**	**51,764**	**46,923**	**8,540**	**51,706**	**438,257**

Changes in other current liabilities are primarily due to the change in dividends payable to non-controlling interest shareholders.

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
As at 31/12/2013				
HKM	2,610	460,688	130	92,245
Rothschild & Cie [(a)]	-	60	-	-
Joint operations	26,581	135,798	4,613	84,732
As at 31/12/2014				
HKM	1,864	405,729	-	81,948
Rothschild & Cie [(a)]	-	247	-	-
Joint operations	42,537	198,854	51,402	93,586

(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 2014 with Rothschild & Cie relate to a financial consultancy agreement to assist the Management Board.

Additionally, Vallourec has a liquidity contract with Rothschild & Cie, which was established in 2012. It was implemented under the annual general authorization for the share buyback program approved at the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014 (fourteenth resolution).

On 8 April 2014, Vallourec made a supplementary contribution of €12.5 million, in an effort to allow Rothschild & Cie Banque to ensure its continued participation under the contract.

As at 31 December 2014, the following means appeared in the liquidity account at Rothschild & Cie Banque:

- 925,000 shares with a value of €21 million;
- €9,896,943.

COMPENSATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The total compensation paid to members of the Executive Committee, as constituted at 31 December (16 people in 2014, compared with 14 in 2013), as well as retirement commitments at the reporting date, were as follows:

In € thousand	2013	2014
Compensation and benefits in kind	6,162	8,045
Share-based payments [(a)]	1,514	993
Pension commitments	1,236	1,569
Supplementary pension commitments	7,380	9,330

(a) Information provided based on the 2014, 2013, 2012, 2011 and 2010 share subscription option, performance share and employee share ownership plans.

Share subscription or share purchase options (Note 18) allocated to members of the Executive Committee as at 31 December

	2013 [a]	2014 [a]
Subscription options allocated 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	
Subscription options allocated on 1 September 2008 exercisable from 1 September 2012 through 1 September 2015	100,400	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	100,400	100,400
Subscription options allocated on 1 September 2009 exercisable from 1 September 2013 through 1 September 2019	118,800	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	118,800	118,800
Subscription options allocated on 1 September 2010 exercisable from 1 September 2014 through 1 September 2020	108,900	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	108,900	108,900
Subscription options allocated on 1 September 2011 exercisable from 1 September 2015 through 1 September 2021	108,716	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	108,716	108,716
Subscription options allocated on 31 August 2012, exercisable from 1 September 2016 through 1 September 2022	51,000	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	51,000	51,000
Subscription options allocated on 2 September 2013, exercisable from 3 April 2018 through 1 September 2021	111,000	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	111,000
Subscription options allocated on 15 April 2014, exercisable from 15 April 2018 through 15 April 2022	-	67,800
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	-	67,800

(a) Plan figures have been 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

	2013 [(a)]	2014 [(a)]
Value 09 Plan of 17 December 2009		
Theoretical number of shares allocated	24	-
Theoretical number of shares allocated	-	24
15 March 2010 Plan		
Theoretical number of shares allocated	24,480	24,480
Number of shares vested during the year	-	1,242
31 July 2010 Plan		
Theoretical number of shares allocated	4,000	4,000
Number of shares vested during the year	-	-
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	48	48
Number of shares vested during the year	-	6
30 March 2011 Plan		
Theoretical number of shares allocated	25,200	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	54	54
Number of shares vested during the year	42	-
30 March 2012 Plan		
Theoretical number of shares allocated	28,518	28,518
Number of shares vested during the year	-	4,315
2-4-6 Plan of 30 March 2012		
Theoretical number of shares allocated	66	66
Number of shares vested during the year	-	42
Value 12 Plan of 18 November 2012		
Theoretical number of shares allocated	-	-
29 March 2013 Plan		
Theoretical number of shares allocated	28,833	28,833
2-4-6 Plan of 29 March 2013		
Theoretical number of shares allocated	66	66
Value 13 Plan of 14 November 2013		
Theoretical number of shares allocated	-	-
Plan of 15 April 2014		
Theoretical number of shares allocated	-	58,730
2-4-6 Plan of 15 April 2014		
Theoretical number of shares allocated	-	78
Value 14 Plan of 14 November 2014		
Theoretical number of shares allocated	-	-

(a) Plan figures have been restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares.

As regards retirement commitments for executive management, there is no specific plan. Executive managers are covered by the Group's supplemental pension plan (under Article 39 [of the French General Tax Code]) introduced in 2005 (Note 18).

As at 31 December 2014, no loans or guarantees had been granted to executive management by the parent company or its subsidiaries.

NOTE 21 Contingent liabilities and commitments

For its activities in Europe, the Group was granted a greenhouse gas emissions allowance of 441,518 metric tons in 2014.

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-statement of financial position commitments received (excluding financial instruments)

In € thousand	2013	2014
Firm non-current asset orders	11,272	7,373
Guarantees and commitments received	124,116	98,575
Other commitments received	32,512	14,691
TOTAL	**167,900**	**120,639**
OFF-STATEMENT OF FINANCIAL POSITION COMMITMENTS GIVEN (EXCLUDING FINANCIAL INSTRUMENTS)	**525,696**	**480,581**

Commitments given by maturity

In € thousand	2014	< 1 year	> 1 year	> 5 years
Statement of financial position				
Long-term financial liabilities	2,693,517	911,644	1,168,746	613,127
Off-statement of financial position				
Market guarantees and letters of credit given	157,904	129,925	27,979	-
Other securities, mortgages and pledges given	87,533	5,880	506	81,147
Long-term lease	76,164	11,980	25,078	39,106
Firm asset orders given	4,905	2,901	-	2,004
Other obligations	154,075	63,099	73,852	17,124
TOTAL	**480,581**	**213,785**	**127,415**	**139,381**

In € thousand	2013	< 1 year	> 1 year	> 5 years
Statement of financial position				
Long-term financial liabilities	2,193,972	814,881	860,504	518,587
Off-statement of financial position				
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 lease	72,613	9,134	21,865	41,614
Firm 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**

The joint venture agreement signed by the two shareholders, Vallourec and Sumitomo, provides that each will have the option of buying 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 Revenue

In € thousand	2013	2014
Sales in France	180,715	178,050
Sales in Germany	461,538	438,071
Other EU countries	423,018	473,732
North America (NAFTA)	1,462,206	1,746,660
South America	1,184,521	918,802
Asia	1,462,147	1,434,061
Rest of the world	404,169	511,160
TOTAL	**5,578,314**	**5,700,536**

NOTE 23 Cost of sales

In € thousand	2013	2014
Direct cost of sales	(401,467)	(313,053)
Cost of raw materials consumed	(1,587,917)	(1,752,600)
Labor costs	(902,630)	(947,237)
Other manufacturing costs	(1,123,062)	(1,272,426)
Change in non-raw material inventories	(20,657)	37,167
TOTAL	**(4,035,733)**	**(4,248,149)**
Depreciation and amortization	(269,736)	(310,713)
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**(4,305,469)**	**(4,558,862)**

NOTE 24 Sales, general and administrative costs

In € thousand	2013	2014
Research and Development costs	(87,384)	(95,743)
Sales and marketing costs	(101,602)	(104,557)
General and administrative costs	(370,473)	(366,854)
TOTAL	**(559,459)**	**(567,154)**
Depreciation and amortization	(73,223)	(50,596)
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**(632,682)**	**(617,750)**

Personnel expenses and average headcount of consolidated companies

Personnel expenses *In € thousand*	2013	2014
Wages and salaries	(809,422)	(856,646)
Employee profit-sharing	(56,544)	(54,143)
Expenses related to share subscription and share purchase options and performance shares	(19,797)	(16,034)
Share subscription option plan of 1 September 2009	(815)	-
Share subscription option plan of 1 September 2010	(1,162)	(444)
Share subscription option plan of 1 September 2011	(882)	(815)
Share subscription option plan of 30 August 2012	(511)	(11)
Share subscription option plan of 2 September 2013	(450)	(1,153)
Share subscription option plan of 15 April 2014	-	(503)
Value 08 employee share ownership plan of December 2008 including the bonus share plan of 16 December 2008	(32)	-
Performance share allocation plan of 31 July 2009	(17)	-
Value 09 employee share ownership plan of 12 December 2009 including the bonus share allocation plan of 12 December 2009	(563)	(324)
1-2-3 performance share allocation plan of 17 December 2009	(693)	-
Performance share allocation plan of 15 March 2010	(1,139)	357
Performance share allocation plan of 31 July 2010	(44)	(5)
Value 10 employee share ownership plan of 17 November 2010 including the bonus share allocation plan of 17 November 2010	(1,033)	(1,084)
2-4-6 performance share allocation plan of 3 December 2010	(564)	(521)
Performance share allocation plan of 30 March 2011	80	(527)
Value 11 employee share ownership plan of 18 November 2011 including the bonus share allocation plan of 18 November 2011	(39)	(51)
2-4-6 performance share allocation plan of 18 November 2011	(892)	(450)
Performance share allocation plan of 30 March 2012	(970)	(1,084)
2-4-6 performance share allocation plan of 30 March 2012	(1,541)	(1,093)
Value 12 employee share ownership plan of 12 November 2012 including the bonus share allocation plan of 12 November 2012	(22)	(25)
Performance share allocation plan of 29 March 2013	(2,053)	(1,436)
2-4-6 performance share allocation plan of 29 March 2013	(860)	(451)
Value 13 employee share ownership plan of 14 November 2013 including the bonus share allocation plan of 14 November 2013	(5,595)	(32)
Performance share allocation plan of 15 April 2014	-	(2,219)
2-4-6 performance share allocation plan of 15 April 2014	-	(552)
Value 13 employee share ownership plan of 14 November 2014 including the bonus share allocation plan of 14 November 2014	-	(3,611)
Social security costs	(300,932)	(309,313)
TOTAL	**(1,186,695)**	**(1,236,136)**

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.

2014

An employee share ownership plan was offered to all employees. In order to meet the legal and fiscal requirements of each country, 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 expense resulting from the benefit granted to the employee under the terms of the ESOP is measured on the allocation 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 measurement of the option protecting the initial investment are added.

Characteristics of Value plans	2012	2013	2014
Allocation date	12 November 2012	14 November 2013	14 November 2014
Maturity date of plans	3 July 2017	2 July 2018	1 July 2019
Reference price	€32.23	€43.47	€30.14
Subscription price	€25.78	€34.78	€24.11
Subscription price for leveraged scheme	-	€36.95	€25.62
Discount	20%	15% and 20%	15% and 20%
Total amount subscribed	85,617	69,223	49,166
Total number of shares subscribed	3,319,835	1,874,453	1,919,959
Total discount	21,413	12,259	8,702
Multiple per share			
› Leveraged company mutual fund plan (FCPE levier)	7.2	6.8	7.8
› Share and SAR plan	6.2	4.9	5.7
› Cash and SAR plan	7.2	6.3	7.5
Measurement assumptions			
Volatility [(a)]	30%	30%	24%
Risk-free rate [(b)]	0.91%	0.90%	0.23%
Annual dividend rate [(c)]	3.00%	3.00%	3.00%
Total IFRS 2 expense [(d)]	**11,804**	**5,593**	**3,610**

(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 €3.6 million in 2014 compared to €5.6 million in 2013.

The IFRS 2 expense resulting from the Stocks Appreciation Rights (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 10	Value 11	Value 12	Value 13	Value 14
Measurement date	31 December 2014	31 December 2014	31 December 2014	31 December 2014	31 December 2014
Maturity date	1 July 2015	1 July 2016	1 July 2017	1 July 2018	1 July 2019
Share price at the measurement date	€22.75	€22.75	€22.75	€22.75	€22.75
Multiple per share					
› Share and SAR plan	4.8	6.2	6.06	4.9	5.7
› Cash and SAR plan	6	7.2	7.2	6.3	7.5
Measurement assumptions					
Volatility[a]	45%	42%	39%	39%	38%
Risk-free rate[b]	0.00%	0.00%	0.03%	0.10%	0.19%
Annual dividend rate[c]	3.00%	3.00%	3.00%	3.00%	3.00%
IFRS 2 Expense for the period[d]	**149**	**(87)**	**(1,133)**	**(422)**	**383**

(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.

Remeasurement of the SAR employee benefit liabilities resulted in income of €1.1 million reported in personnel expenses.

In accordance with IAS 39, 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 10	Value 11	Value 12	Value 13	Value 14
Measurement date	31 December 2014	31 December 2014	31 December 2014	31 December 2014	31 December 2014
Maturity date	1 July 2015	1 July 2016	1 July 2017	1 July 2018	1 July 2019
Share price at the measurement date	€22.75	€22.75	€22.75	€22.75	€22.75
Multiple per share					
› Share and SAR plan	4.8	6.2	6.06	4.9	5.7
› Cash and SAR plan	6	7.2	7.2	6.3	7.5
Measurement assumptions [a]					
Implied volatility	45%	42%	38%	38%	38%
Interest rate	0.06%	0.06%	from 0.06% to 0.21%	from 0.06% to 0.27%	from 0.06% to 0.34%
Annual dividend *(in €)*	€0.70	€0.70	€0.70	€0.70	€0.70
IAS 39 income for the period	151	(65)	(1,135)	(365)	354

(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 expenses for €1 million in 2014 since it is intended to cover income associated with SARs (see above).

Average headcount of consolidated companies [a]	2013	2014
Managers	3,249	3,533
Technical and supervisory staff	4,092	4,120
Production staff	14,927	15,411
TOTAL	**22,268**	**23,064**

(a) The headcount of companies recognized as joint operations is included based on the percentage interest held by the Group.

Group headcount as at 31 December 2014 was 23,157 people, compared with 22,912 as at 31 December 2013.

NOTE 25 Other

In € thousand	2013	2014
Employee profit-sharing and bonuses	(56,544)	(54 143)
Fees for concessions and patents	29,022	34,432
Other income and expenses	(35,577)	(10,271)
TOTAL	**(63,099)**	**(29,982)**

Provision allowances, net of reversals *In € thousand*	2013	2014
Provision allowances net of reversals included in EBITDA amounted to	(4,904)	(38,862)

NOTE 26 Fees paid to the statutory auditors and members of their networks

	KPMG		Deloitte	
Amount in € thousand (excluding tax)	2013	2014	2013	2014
Audit				
Statutory audit, certification, examination of parent company and consolidated financial statements				
Issuer	218	220	210	212
%	19%	19%	12%	12%
Fully consolidated subsidiaries	839	817	1,470	1,489
%	73%	70%	86%	87%
Other services directly associated with the statutory audit				
Issuer	69	70	14	0
%	6%	6%	1%	0%
Fully consolidated subsidiaries	19	52	6	14
%	2%	4%	0%	1%
SUB-TOTAL	**1,145**	**1,159**	**1,700**	**1,715**
%	100%	100%	100%	100%
Other services provided by audit networks to fully consolidated subsidiaries				
Legal, tax, payroll	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%	0%
SUB-TOTAL	**0**	**0**	**0**	**0**
%	0%	0%	0%	0%
TOTAL	**1,145**	**1,159**	**1,700**	**1,715**

NOTE 27 Accumulated depreciation and amortization

In € thousand	2013	2014
By function		
Depreciation of industrial assets	(269,736)	(310,713)
Depreciation and amortization – Research and Development	(8,767)	(10,931)
Depreciation and amortization – Sales and Marketing Department contracts	(39,186)	(19,454)
Depreciation and amortization – General and administrative expenses	(25,270)	(20,211)
TOTAL	**(342,959)**	**(361,309)**
By type		
Net amortization of intangible assets (see Note 1)	(60,998)	(40,118)
Net depreciation of property, plant and equipment (see Note 2)	(274,472)	(311,858)
Net depreciation and amortization of biological assets	(7,489)	(9,333)
TOTAL	**(342,959)**	**(361,309)**

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, restructuring costs and non-recurring items

In € thousand	2013	2014
Reorganization measures (net of expenses and provisions)	(3,151)	(25,176)
Gains and losses on disposals of non-current assets and other	(14,053)	(25,654)
TOTAL	**(17,204)**	**(50,830)**

In € thousand	2013	2014
Impairment of intangible assets (see Note 1)	-	(23,134)
Impairment of property, plant and equipment (see Note 2)	-	(875,859)
Impairment of goodwill (see Note 1)	-	(204,148)
Other impairment of assets	(26,050)	(559)
TOTAL	**(26,050)**	**(1,103,700)**

In 2013, 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	2013	2014
Financial income		
Income from investment securities	23,952	40,935
Income from disposals of investment securities	1,159	2,206
TOTAL	**25,111**	**43,141**
Interest expenses	**(110,450)**	**(132,226)**
Other financial income and expenses		
Income from securities	4,063	2,774
Income from loans and receivables	2,736	5,218
Exchange (losses) and gains and changes in premiums/discounts	(8,147)	29,741
Provision allowances, net of reversals	(755)	(2,915)
Other financial income and expenses	2,876	1,662
TOTAL	**773**	**36,480**
Other discounting expenses		
Interest expense pension obligations	(5,610)	(9,096)
Financial income from discounted assets and liabilities	(699)	(491)
TOTAL	**(6,309)**	**(9,587)**
FINANCIAL INCOME (LOSS)	**(90,875)**	**(62,192)**

NOTE 30 Reconciliation of theoretical and actual tax expense

Breakdown of the tax expense *In € thousand*	2013	2014
Current tax expense	(120,009)	(129,615)
Deferred taxes (see Note 5)	(27,650)	(28,039)
NET EXPENSE	**(147,659)**	**(157,654)**
Consolidated net income (loss)	295,276	(880,432)
Tax expense	(147,659)	(157,654)
CONSOLIDATED NET INCOME (LOSS) BEFORE TAX	**442,935**	**(722,778)**
Statutory tax rate of consolidating company (see Note 5)	34.43%	34.43%
Theoretical tax	(152,503)	248,852
Impact of main tax loss carryforwards	(26,964)	(343,897)
Impact of permanent differences	20,438	(45,320)
Other impacts	(4,072)	(4,751)
Impact of differences in tax rates	15,442	(12,538)
NET EXPENSE	**(147,659)**	**(157,654)**
ACTUAL TAX RATE	**33%**	**- 22%**

The rate of - 22% primarily reflects non-recurring items which led to the non-recognition of deferred tax assets, as detailed below.

The impact of tax loss carryforwards mainly concerns the impairment of deferred tax assets (DTAs) for the year, along with those previously recorded in the tax losses of the French tax group. Additionally, there was impairment of DTAs due to losses in value on the assets of the CGUs VSB and Vallourec Europe (see Notes 2.3, 27 and 28).

Permanent differences consist mainly of the net income attributable to non-controlling interests, withholding taxes and the change in the share of costs and expenses with regard to dividend distributions, along with the impact of free share allocations.

Other impacts were mainly due to the non-recognition of deferred tax assets on impairment of assets relating to the consolidated CGU Vallourec Sumitomo Tubos do Brasil, and the CGU Vallourec Europe.

Differences in taxation mainly reflect the range of tax rates applied in each country (France 34.4%, Germany 31.6%, United States 36.5%, Brazil 34.0%, China 25.0% and Saudi Arabia, 20%.

NOTE 31 Segment information

OPERATING SEGMENTS

The following tables provide information on the income and results for each operating segment, as well as certain information on the assets, liabilities and investments for the 2014 and 2013 fiscal years.

Information on results, assets and liabilities by operating segment

2014 *In € thousand*	Seamless tubes	Specialty Products	Holdings & miscellaneous [(a)]	Inter-segment transactions	Total
Income statement					
Sales to external customers	5,479,222	220,405	909	-	5,700,536
EBITDA	886,494	20,178	(47,343)	(4,078)	855,251
Depreciation and amortization	(341,403)	(18,574)	(1,667)	335	(361,309)
Impairment of assets and goodwill	(1,003,618)	(5,931)	(9,128)	(85,023)	(1,103,700)
Asset disposals and restructuring costs	(50,650)	(397)	217	-	(50,830)
OPERATING INCOME (LOSS)	**(509,177)**	**(4,724)**	**(57,921)**	**(88,766)**	**(660,588)**
Unallocated income					79,621
Unallocated expenses					(141,813)
Pre-tax income					(722,780)
Income tax					(157,654)
Net income of associates					2,487
Consolidated net income					(877,947)
Statement of financial position					
Non-current assets	4,905,839	200,178	3,871,431	(3,899,857)	5,077,591
Current assets	2,840,832	154,260	132,063	(120,104)	3,007,051
Cash	590,764	19,802	1,266,624	(730,277)	1,146,913
TOTAL ASSETS	**8,337,435**	**374,240**	**5,270,118**	**(4,750,238)**	**9,231,555**
Equity	3,535,242	129,566	3,152,155	(3,073,604)	3,743,359
Non-controlling interests	418,049	6,154	-	2,050	426,253
Long-term liabilities	1,679,434	50,492	1,602,271	(820,933)	2,511,264
Current liabilities	2,704,710	188,028	515,692	(857,751)	2,550,679
TOTAL LIABILITIES	**8,337,435**	**374,240**	**5,270,118**	**(4,750,238)**	**9,231,555**
Cash flows investments					
Property, plant and equipment, intangible assets and biological assets (excluding cash out flows)	358,187	11,286	364	-	369,837
Other information					
Average headcount	21,707	206	1,151	-	23,064
Personnel expenses	(1,127,448)	(60,577)	(48,111)	-	(1,236,136)

(a) Vallourec and Vallourec Tubes.

The impairment losses recorded as at 31 December 2014 (see Note 2.3) primarily concerned the seamless tubes sector.

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	-	(17,204)
OPERATING INCOME (LOSS)	**610,932**	**(18,576)**	**(50,856)**	**(7,690)**	**533,810**
Unallocated income					25,884
Unallocated expenses					(116,759)
Pre-tax income					442,935
Income tax					(147,659)
Net profit of equity affiliates					3,574
Consolidated net income					298,850
Statement of financial position					
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	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 investments					
Property, plant and equipment, intangible assets and biological assets (excluding cash out flows)	584,927	34,363	3,997	-	623,287
Other information					
Average headcount	20,927	1,144	197	-	22,268
Personnel expenses	(1,082,855)	(43,884)	(59,956)	-	(1,186,695)

(a) Vallourec and Vallourec Tubes.

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).

2014 *In € thousand*	Europe	North America	South America	Asia	Rest of the world	Total
Revenue						
Sales to external customers	1,089,853	1,746,660	918,802	1,434,061	511,160	5,700,536
Statement of financial position						
Property, plant & equipment, intangible assets and biological assets (net)	892,614	1,705,941	1,292,475	340,736	3,534	4,235,300
Cash flows						
Property, plant and equipment, intangible assets and biological assets	143,511	95,347	107,124	21,503	2,352	369,837
Other information						
Average headcount	9,939	2,992	7,342	2,712	79	23,064
Personnel expenses	(679,425)	(241,229)	(264,509)	(48,390)	(2,583)	(1,236,136)

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
Statement of financial position						
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 expenses	(661,408)	(219,679)	(262,385)	(41,313)	(1,910)	(1,186,695)

NOTE 32 Share in net income of associates

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

In € thousand	2013	2014
HKM	6	6
Poongsan Valinox	380	(246)
Subsidiaries of P.T. Citra Tubindo	2,222	1,577
Tianda Oil Pipe	1,026	1,439
Xi'an Baotimet Valinox Tubes	(60)	(289)
TOTAL	**3,574**	**2,487**

NOTE 33 Subsequent events

In February 2015, Vallourec obtained a one-year extension on its renewable multi-currency line of credit in the amount of €1.1 billion, with the new expiration date set for February 2020.

6.2 Parent company financial statements

6.2.1 Statement of financial position

Assets

In € thousand	31/12/2013	31/12/2014
NON-CURRENT ASSETS		
Intangible assets	414	414
Property, plant and equipment	129	93
Equity interests	2,056,410	3,056,437
Treasury shares	19,402	21,285
Long-term investments	80,403	73,396
Receivables, loans and other investments	1,011,756	1,700,000
TOTAL I	**3,168,514**	**4,851,624**
CURRENT ASSETS		
Trade receivables	1,469	2,597
Other receivables	1,523,063	338,425
Investment securities	37,826	39,279
Cash and cash equivalents	6	22
Prepaid expenses	695	4,530
Deferred expenses	8,711	9,264
Translation differences – unrealized losses	0	4
TOTAL II	**1,571,770**	**394,121**
TOTAL ASSETS (I+II)	**4,740,284**	**5,245,746**

Equity and liabilities

In € thousand	31/12/2013	31/12/2014
EQUITY		
Capital	256,319	261,196
Additional paid-in capital	932,745	995,536
Revaluation reserve	634	634
Reserves	83,738	84,381
Retained earnings	1,528,008	1,687,409
Interim dividend		
Net income/(loss) for the period	263,324	159,162
TOTAL I	**3,064,768**	**3,188,318**
Provisions for contingencies and liabilities	27,739	20,457
Financial liabilities	1,561,225	1,948,884
Operating liabilities	4,134	7,671
Other liabilities	82,418	80,415
Translation differences – unrealized gains	0	-
TOTAL II	**1,675,516**	**2,057,427**
TOTAL EQUITY AND LIABILITIES (I+II)	**4,740,284**	**5,245,746**

6.2.2 Income statement

In € thousand	31/12/2013	31/12/2014
Revenue	10,478	7,114
Provision reversals and expenses transferred	11,030	15,584
Other income	964	947
External services	(10,038)	(11,962)
Taxes and similar	(1,272)	(990)
Personnel expenses	(5,713)	(5,099)
Other operating expenses	(773)	(12,176)
Amortization, depreciation and provisions	(13,183)	(7,338)
OPERATING INCOME (LOSS)	**(8,507)**	**(13,920)**
Financial income	**340,091**	**236,824**
From equity interests	268,705	183,075
Other long-term securities and receivables	46,639	47,724
Other interest and similar income	775	518
Provision reversals and financial expenses transferred	22,547	5,503
Foreign exchange gains	1,425	4
Net income on disposal of investment securities	0	0
Financial expenses	**(69,697)**	**(74,434)**
Amortization and provisions	(5,417)	(16,802)
Interest and similar expense	(55,138)	(57,628)
Foreign exchange losses	(9,142)	(5)
Net capital gain/loss on disposal of marketable securities		
FINANCIAL INCOME	**270,394**	**162,390**
NET INCOME FROM CONTINUING OPERATIONS BEFORE TAX	**261,887**	**148,470**
Exceptional income	255	5,317
Exceptional expenses	(9,659)	(1,646)
EXCEPTIONAL INCOME (LOSS)	**(9,404)**	**3,671**
Income tax	10,841	7,022
NET INCOME (LOSS)	**263,324**	**159,162**

6.2.3 Notes to the parent company financial statements for the year ended 31 December 2014

In € thousand unless stated otherwise.

Notes to the statement of financial position (before allocation) for the year ended 31 December 2014, which totals €5,245.7 million, and to the income statement, which shows a net income of €159.2 million.

The fiscal year runs for 12 months, from 1 January to 31 December.

Vallourec prepares the consolidated financial statements.

A – Significant events, measurement methods and comparability of financial statements

On 25 June 2014, the option for payment of the dividend in shares, approved by the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014, resulted in the creation of 518,416 new shares issued at the price of €35.69, for a capital increase of €18.5 million, including additional paid-in capital net of expenses.

On 16 December 2014, under the Value 14 ESOP, 1,919,959 new shares were subscribed at a price of €25.62 for the leveraged plan and €24.12 for the standard plan, for a capital increase of €49.2 million, including additional paid-in capital net of expenses.

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

B – Accounting principles

The parent company financial statements are prepared in accordance with French GAAP (ANC Regulation No. 2014-03) and the fundamental accounting concepts (true and fair view, comparability, going concern, accuracy, reliability, conservatism and consistency of accounting methods).

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at their acquisition cost.

ASSOCIATES

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

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

Provisions for impairment of equity interests are calculated with reference to their value in use, which takes account of various criteria such as their consolidated net assets, profitability, share price and the company's growth outlook.

TREASURY SHARES

Treasury shares recorded in non-current assets on the statement of financial position comprise:

- shares allocated to the Group's various share ownership plans for some employees, executive management 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 contingencies and liabilities.

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 statement of financial position as follows:

- treasury shares acquired before 2008 and available for allocation to employees are classified as non-current 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 non-current 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 this 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

Income and expenses 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 statement of financial position 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-statement of financial position items at each reporting date.

PROVISIONS FOR CONTINGENCIES AND LIABILITIES

Retirement pensions

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

Retirement benefits

Commitments in respect of benefits paid to retiring employees are measured based on an actuarial calculation and provisioned as a liability in the statement of financial position.

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 bargaining agreements.

The following assumptions are used:

- discount rate of 1.7% (including inflation);
- inflation rate of 1.69%;
- staff turnover rate variable according to age and category;
- TPG05 H/F mortality table.

Commitments in respect of retirement benefits 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 statement of financial position. As at 31 December 2014, the discount rate was 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 were valued). This index uses a basket of bonds of financial and non-financial companies.

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 reporting date.

A provision for contingencies and liabilities has been recognized at each reporting 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, executive management and corporate officers of Vallourec and its subsidiaries.

Other provisions

All disputes (technical, tax, etc.) and risks have been recognized as provisions for the estimated probable risk at the reporting date.

EXCEPTIONAL INCOME AND EXPENSES

In general, exceptional income and expenses comprise amounts of an extraordinary nature, i.e. those that fall outside the scope of the Company's continuing operations.

C – Notes to the statement of financial position

1. MOVEMENTS IN NON-CURRENT ASSETS

Non-current assets *In € thousand*	31/12/2013	Acquisition allowances	Disposal reversals	31/12/2014	Revaluation reserve	Related parties
INTANGIBLE ASSETS	**414**	**0**	**0**	**414**	**-**	**-**
Trademarks	414	-	-	414	-	-
PROPERTY, PLANT AND EQUIPMENT	**129**	**0**	**(36)**	**93**	**23**	**-**
Land	93	-	-	93	23	-
Buildings	113	-	-	113	-	-
Depreciation of buildings	*(113)*	-	-	*(113)*	-	-
Construction in progress	36	-	(36)	0	-	-
ASSOCIATES	**2,056,410**	**1,000,027**	**0**	**3,056,437**		**3,056,437**
Associates	2,056,410	1,000,027	-	3,056,437	-	3,056,437
Provisions for associates	-	-	-	0	-	-
LONG-TERM INVESTMENTS & TREASURY SHARES	**99,805**	**332,339**	**(337,463)**	**94,681**	**-**	**-**
Long-term investments	81,947	-	-	81,947	-	-
Provisions for long-term investments	*(1,544)*	*(8,551)*	*1,544*	*(8,551)*	-	-
Treasury shares	21,302	347,098	(340,907)	27,493	-	-
Provisions for treasury shares	(1,900)	*(6,208)*	*1,900*	*(6,208)*	-	-
RECEIVABLES, LOANS, OTHER INVESTMENTS	**1,011,756**	**700,000**	**(11,756)**	**1,700,000**	**-**	**1,700,000**
Loans	1,000,000	700,000	-	1,700,000	-	1,700,000
Accrued interest	11,756	-	(11,756)	0	-	-
TOTALS	**3,168,514**	**2,032,365**	**(349,255)**	**4,851,624**	**23**	**4,756,437**

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 in the development of the VAM® line of premium joints. These partnerships are strategic for Vallourec.

The value of these shares at 31 December 2014, based on the average share price in December 2014, was €73.4 million (compared with €80.4 million in late 2013). The impairment loss of €8.6 million was recorded as a provision for impairment under financial income (loss) (compared with €1.5 million at 2013 year-end).

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 28 May 2014 (fourteenth 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's decision *(Autorité des Marchés Financiers)* dated 21 March 2011.

In 2014, under the liquidity contract, total purchases involved 8,952,505 shares, representing 6.86% of share capital at 31 December 2014, for a total of €347,098,114.60 and a weighted average price of €38.77 per share. Total sales involved 8,502,505 shares, representing 6.51% of share capital at 31 December 2014, for a total of €339,133,426.00 and a weighted average price of €39.89 per share.

In 2014, this liquidity contract generated a net capital loss of €1.4 million.

As at 31 December 2014, the following means appeared in the liquidity account at Rothschild & Cie Banque:

- 925,000 shares with a value of €21 million;
- €9,896,943.

b) Other treasury shares

As at 31 December 2014, treasury shares acquired before 2008 and available for allocation to employees amounted to €0.2 million, classified in non-current assets.

In 2014, Vallourec definitively allocated 66,727 shares under various performance plans.

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 bears fixed rate interest of 4.6% *per annum* and matures on 31 December 2015.

On 11 December 2014, this loan was modified, increasing its amount to €1,700 million, reducing its interest rate to 3.8% and extending its maturity to 31/12/2017.

2. INVESTMENT SECURITIES

Investment securities include:

Mutual and investment funds

In € thousand	31/12/2013	31/12/2014	Measurement at 31/12/2014	Loss provisioned	Unrealized gain
Mutual and investment funds	2,999	7,999	8,025	-	26
TOTAL	**2,999**	**7,999**	**8,025**	**0**	**26**

Vallourec uses euro and US dollar cash pooling with its main European companies and centralized currency hedging for US dollar sales with Vallourec Tubes.

Cash is invested in risk-free money market funds. Vallourec only enters into financial transactions with leading financial institutions.

Treasury shares

In € thousand	31/12/2013	Acquisition allowance	Disposal reversal	31/12/2014
Treasury shares	33,827	7,438	(10,985)	30,280
Impairment provision	-	-	-	-
TOTAL	**33,827**	**7,438**	**(10,985)**	**30,280**

In 2014, Vallourec acquired 300,000 of its own shares, with a value of €7.4 million.

These treasury shares were recorded in investment securities: they are allocated to members of staff, executive management or corporate officers of the Group under the performance share allocation plan, and free share allocation plans for employees of the Group.

In this context, Vallourec holds:

- 45,755 treasury shares acquired on 5 July 2001, after the definitive allocation of 73,985 shares in 2011, 3,680 shares in 2012, 67,172 shares in 2013 and 66,727 shares in 2014 under the various performance share plans;

- 3,094 treasury shares acquired in 2008 after the definitive allocation of 26,844 shares in 2011, 70,050 shares in 2013 and 12 shares in 2014, under the various performance share plans;
- 194,160 treasury shares acquired in 2011 under the share buyback plan of 7 July 2011, upon the definitive allocation of 27,534 shares in 2012, 86,377 shares in 2013 and 91,929 shares in 2014, under the various performance share plans;
- 305,400 treasury shares acquired in 2012 under the share buyback plan of 31 May 2012, upon the definitive allocation of 94,600 shares in 2014, under the various performance share plans;
- 300,000 treasury shares acquired in 2014.

As at 31 December 2014, Vallourec held 848,409 treasury shares (including 45,755 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 ASSET RECEIVABLES & PAYABLES	**1,700,000**	-	**1,700,000**	-	**1,700,000**
OPERATING RECEIVABLES	**2,597**	**0**	**1,441**	**2,597**	**0**
Advances & deposits paid to suppliers	7	-	-	7	-
Trade & other receivables	2,100	-	1,441	2,100	-
Other operating receivables	490	-	-	490	-
OTHER RECEIVABLES	**338,425**	**0**	**286,721**	**338,425**	0
Receivables related to tax consolidation	6,307	-	6,307	6,307	-
Government – Corporate income tax	51,704	-	-	51,704	-
Intercompany cash advance	276,393	-	276,393	276,393	-
Other receivables	4,021	-	4,021	4,021	-
TOTAL	**2,041,022**	**-**	**1,988,162**	**341,022**	**1,700,000**

Loans granted during the year: €1,700 million

Loans repaid during the year: €1,000 million

Receivables represented by commercial paper: None.

Payables *In € thousand*	**Gross value**	**Accrued payables**	**Related parties**	**< 1 year**	**> 1 year**	**> 5 years**
BORROWINGS	**1,948,884**	**33,372**	**0**	**343,884**	**1,050,000**	**555,000**
Bond issues	1,605,000	-	-	-	1,050,000	555,000
Bank loans and borrowings	33,372	33,372	-	33,372	-	-
Commercial paper	310,500	-	-	310,500	-	-
Other loans and borrowings	12	-	-	12	-	-
Intercompany cash advance	-	-	-	-	-	-
OPERATING LIABILITIES	**7,671**	**3,529**	**2,459**	**7,671**	**0**	**0**
Trade payables	4,233	1,021	2,459	4,233	-	-
Tax & social security liabilities	3,435	2,508	-	3,435	-	-
Customer advances & deposits	3	-	-	3	-	-
OTHER LIABILITIES	**80,415**	**262**	**38,795**	**80,415**	**0**	**0**
Tax liabilities	0	-	-	-	-	-
Other liabilities	80,415	262	38,795	80,415	-	-
TOTAL	**2,036,970**	**37,163**	**41,254**	**431,970**	**1,050,000**	**555,000**

Financial liabilities

BOND ISSUES

On 7 December 2011, Vallourec issued an initial bond issue for €650 million maturing in February 2017, with a fixed annual coupon of 4.25%.

In August 2012, Vallourec also issued two long-term private bond issues totaling €455 million. The amounts and terms of these two private bond issues are €400 million for seven years with an annual coupon of 3.25% for one, and €55 million for 15 years with an annual coupon of 4.125% for the other.

On 30 September 2014, Vallourec issued a €500 million bond, maturing in September 2024, with a fixed annual coupon of 2.25%.

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 & BORROWINGS

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 repaid early on 27 October 2014.

In February 2014, Vallourec took out a multi-currency revolving credit facility for an amount of €1.1 billion, maturing in February 2019, plus two one-year extension options. This replaces the €1 billion credit line maturing in February 2016. As at 31 December 2014 this line had not been drawn.

COMMERCIAL PAPER

In addition to this bank financing, the 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 2014, Vallourec had outstandings of €310.5 million for maturities of up to one year. This commercial paper program is rated A-2 by Standard & Poor's.

4. BOND ISSUE COSTS

In accordance with the method recommended by the French national accounting board *(Conseil National de la Comptabilité)*, bond issue costs are spread in a straight line over the life of the bonds concerned.

In € thousand	31/12/2013	Increase	Decrease	31/12/2014
Bond issue costs	8,711	2,526	(1,973)	9,264

5. EQUITY

Changes in equity were as follows:

In € thousand	Number of shares	Capital	Net income/(loss) for the period	Additional paid-in capital and reserves	Equity
Position as at 31/12/2012	**124,946,356**	**249,893**	**294,316**	**2,224,395**	**2,768,604**
Allocation of 2012 net income/(loss)	-	-	(294,316)	294,316	0
Capital increase	3,213,244	6,426	-	111,917	118,343
Revaluation reserve	-	-	-	-	0
Dividend paid	-	-	-	(85,503)	(85,503)
Interim dividend	-	-	-	-	0
2013 net income/(loss)	-	-	263,324	-	263,324
Change	*3,213,244*	*6,426*	*(30,992)*	*320,730*	*296,164*
Position as at 31/12/2013	**128,159,600**	**256,319**	**263,324**	**2,545,125**	**3,064,768**
Allocation of 2013 net income/(loss)	-	-	(263,324)	263,324	0
Capital increase	2,438,375	4,877	-	62,791	67,668
Revaluation reserve	-	-	-	-	0
Dividend paid	-	-	-	(103,280)	(103,280)
Interim dividend	-	-	-	-	0
2014 net income/(loss)	-	-	159,162	-	159,162
Change	*2,438,375*	*4,877*	*(104,162)*	*222,835*	*123,550*
POSITION AS AT 31/12/2014	**130,597,975**	**261,196**	**159,162**	**2,767,960**	**3,188,318**

Vallourec's issued capital comprises 130,597,975 ordinary shares with a nominal value of €2 per share fully paid-up at 31 December 2014, compared with 128,159,600 shares with a par value of €2 each at 31 December 2013.

On 25 June 2014, the option for payment of the dividend in shares, approved by the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014, resulted in the creation of 518,416 new shares issued at the price of €35.69, for a capital increase of €18.5 million, including additional paid-in capital net of expenses.

On 16 December 2014, under the Value 14 ESOP, 1,919,959 new shares were subscribed at a price of €25.62 for the leveraged scheme and €24.12 for the standard plan, for a capital increase of €49.2 million, including additional paid-in capital net of expenses.

6. EMPLOYEE SHARE OWNERSHIP

Share subscription plans

CHARACTERISTICS OF THE PLANS

The Vallourec Management Board authorized share subscription plans from 2007 to 2014 for some executive management 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	2014 Plan
Allocation date	03/09/2007	01/09/2008	01/09/2009	01/09/2010	01/09/2011	31/08/2012	02/09/2013	15/04/2014
Maturity date	03/09/2011	01/09/2012	01/09/2013	01/09/2014	01/09/2015	01/04/2017	01/04/2018	15/04/2018
Expiration date	03/09/2014	01/09/2015	01/09/2019	01/09/2020	01/09/2021	30/08/2020	01/09/2021	15/04/2022
Number of beneficiaries at outset	65	9	303	349	743	387	406	399
Exercise price in euros	95.30	91.77	51.67	71.17	60.71	37	46.15	38.53
Number of options allocated	294,600	143,600	578,800	512,400	684,521	530,400	602,465	373,550

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	2013	2014
Total at beginning of year	2,655,087	3,183,279
Options distributed	602,465	373,550
Options exercised	-	-
Options not exercised at expiration date	-	(277,600)
Options canceled [(a)]	(74,273)	(89,180)
TOTAL AT END OF YEAR	**3,183,279**	**3,190,049**
Options available for exercise	944,800	1,104,600

(a) Beneficiaries who have left the Group.

The following table provides a breakdown by plan of the number of unexpired options:

	2013	2014
2007 Plan	277,600	-
2008 Plan	143,600	143,600
2009 Plan	523,600	523,600
2010 Plan	481,900	437,400
2011 Plan	637,214	621,302
2012 Plan	516,900	500,504
2013 Plan	602,465	593,343
2014 Plan	-	370,300

Performance share allocation plans

CHARACTERISTICS OF THE PLANS

The Vallourec Management Board authorized performance share allocation plans from 2007 to 2014 for some employees 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
2014 Plan [l]	15/04/2014	3 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	1,758	413,597
2014 2-4-6 Plan [m]	15/04/2014	3 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	21,677	130,062
Value 14 Plan	16/12/2014	4.6 years		768	3,960

(a) Definitive allocation 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 allocation 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 allocation 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 allocation 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 allocation 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 allocation 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 revenue 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 allocation 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 revenue on a like-for-like basis in the period;

– and the relative performance of the Vallourec share on the regulated NYSE 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 allocation 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 allocation 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 revenue 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 allocation 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 revenue on a like-for-like basis in the period;

– and the relative performance of the Vallourec share on the regulated NYSE 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 allocation 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 allocation 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 revenue 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 allocation 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 revenue on a like-for-like basis in the period;

– and the relative performance of the Vallourec share on the regulated NYSE 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 allocation 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.

(l) Definitive allocation of shares in 2017 for French residents and members of the Management Board, and in 2018 for non-French residents. For all beneficiaries (excluding Board members), it will be based on the ratio of consolidated EBITDA to consolidated revenue achieved by the Group in 2014, 2015 and 2016. 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 1.25. For members of the Executive Committee, final allocation shall depend on the following four criteria, assessed in 2014, 2015 and 2016: the rate of return on capital employed (ROCE), compared with the ROCE in the budget, the consolidated revenue on a like-for-like basis, as compared with the revenue in the budget, the relative stock market performance of the Vallourec share on the regulated NYSE Euronext market in Paris, as compared with a benchmark panel, and the relative EBITDA performance as compared with the same panel as for the previous criterion. 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 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(m) Definitive allocation of shares in 2017 for French residents and in 2018 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2014 to 31 December 2016. 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 canceled	Theoretical number of shares acquired or being vested	Number of shares delivered
Value 09 Plan	69,400	(4,074)	65,326	65,326
03/2010 Plan	190,540	(22,837)	167,703	153,643
07/2010 Plan	4,280	-	4,280	3,938
Value 10 Plan	83,462	(3,087)	80,375	-
2-4-6 Plan	72,588	(4,860)	67,728	67,728
2011 Plan	214,271	(14,611)	199,660	58,069
Value 11 Plan	6,462	(717)	5,745	-
2011 2-4-6 Plan	78,318	(7,782)	70,536	28,308
2012 Plan	286,718	(18,385)	268,333	64,972
2012 2-4-6 Plan	130,116	(8,094)	122,022	29,628
Value 12 Plan	4,395	(270)	4,125	-
2013 Plan	295,225	(9,460)	285,765	-
2013 2-4-6 Plan	130,464	(3,558)	126,906	-
Value 2013 Plan	4,028	-	4,028	-
2014 Plan	413,597	(2,898)	410,699	-
2014 2-4-6 Plan	130,062	(474)	129,588	-
Value 2014 Plan	3,960	-	3,960	-

7. PROVISIONS FOR CONTINGENCIES AND LIABILITIES

The change in provisions for risks, liabilities and expenses is shown below:

	31/12/2013	Allowances	Reversals used	Reversals of provisions no longer needed	31/12/2014
Provisions for contingencies and liabilities	0	4	-	-	4
Retirement provisions	280	82	-	-	362
Provisions for supplemental pension commitments	889	627	(787)	-	729
Provisions for performance share expenses	26,570	6,628	(13,836)	-	19,362
TOTAL	**27,739**	**7,341**	**(14,623)**	**0**	**20,457**
› Recognized in operating profit	-	7,341	(14,623)	0	-
› Recognized in exceptional income	-	-	-	-	-

Disputes are provisioned to the extent of the estimated probable cost at the reporting 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 (2010, 2011, 2012, 2013 and 2014) totaled €19.4 million.

Retirement provisions

Total retirement commitments, net of plan assets, totaled €0.6 million at 31 December 2014.

Actuarial losses and past service costs not recognized totaled €0.2 million. The commitments not recognized in the statement of financial position 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 discount rate.

Provisions for supplemental retirement commitments

Total pension commitments, net of plan assets, totaled €2 million at 31 December 2014.

Actuarial losses and past service costs not recognized totaled €1.2 million. The commitments not recognized in the statement of financial position 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 retirement commitments mainly reflects a €0.63 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 borrowings at a fixed interest rate.

Information on foreign exchange risk

As at 31 December 2014, Vallourec was not exposed to exchange rate risk.

D – Notes to the income statement

1. OPERATING INCOME

Revenue

Revenues of €7.1 million mainly correspond to the Group's reinvoicing of the costs of employee performance share plans (€4.0 million) and related services to its subsidiary Vallourec Tubes (€2.5 million).

Other operating income:

Vallourec invoiced fees totaling €0.90 million for the use of its trademark.

2. FINANCIAL INCOME AND EXPENSES CONCERNING AFFILIATED COMPANIES

Financial expenses: none.

Financial income: €230,083 thousand.

3. EXCEPTIONAL INCOME (LOSS):

There was an exceptional gain of €3.7 million.

This primarily consisted of:

- a net expense of €1.4 million on the liquidity contract;
- income of €5.1 million corresponding to the transfer of the usufruct for the Vallourec trademark to Vallourec Tubes.

E – Other information

COMPOSITION OF AVERAGE HEADCOUNT

The Company employs 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 *(Code général des impôts)*.

This agreement has been renewed automatically for five-year periods since 1999.

In 2014, the scope of the tax group included: Vallourec, Assurval, Vallourec Fitting (formerly Interfit), Vallourec Bearing Tubes (formerly Valti), Vallourec Heat Exchanger Tubes (formerly Valtimet), Vallourec Université France (formerly Valsept), Vallourec Umbillicals, Valinox Nucléaire, Vallourec Tubes (formerly Vallourec & Mannesmann Tubes), Vallourec Drilling France (formerly VAM Drilling France), Vallourec Tubes France (formerly V & M France), Vallourec Oil & Gas France (formerly V & M Oil & Gas France), Vallourec One (formerly V & M One), Vallourec Services (formerly 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 expense equivalent to the amount they would have borne in the absence of tax consolidation.

The tax savings of €41.3 million resulting from the allocation of losses generated by the subsidiaries was recognized in other liabilities and not in net income.

Any income resulting from tax consolidation recorded by Vallourec corresponds mainly to the allocation to consolidated net income of the losses generated by Vallourec itself and tax loss carryforwards used by Vallourec.

In 2014, tax income recorded in the income statement was €7.0 million.

The Vallourec tax group reported a loss in 2014 and its tax loss carryforward was €351 million at the end of 2014.

Increase and decrease in future tax liabilities

Nature of temporary differences *In € thousand*	Amount as at 31/12/2014 (basis)
Increase	-
Decrease	**-**
Provision for retirement commitments	1,091
Provision for employee share ownership arrangements	10,957
Provision for paid leave	19
Solidarity social security contribution provision	13
Unrealized gains on UCITS	-

Breakdown of income tax between income (loss) from recurring operations and non-recurring income (loss)

In € thousand	Pre-tax income	Tax due	Consolidated net income
Recurring	148,470	-	148,470
Non-recurring	3,671	-	3,671
SUB-TOTAL	**152,141**	**0**	**152,141**
Expense specific to Vallourec	-	0	0
Income relating to Tax consolidation	-	7,021	7,021
TOTAL VALLOUREC	**152,141**	**7,021**	**159,162**

COMPENSATION OF MEMBERS OF ADMINISTRATIVE AND MANAGEMENT BODIES

Administrative bodies

Attendance fees paid during the year amounted to €0.5 million.

Management bodies

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

OFF-STATEMENT OF FINANCIAL POSITION COMMITMENTS

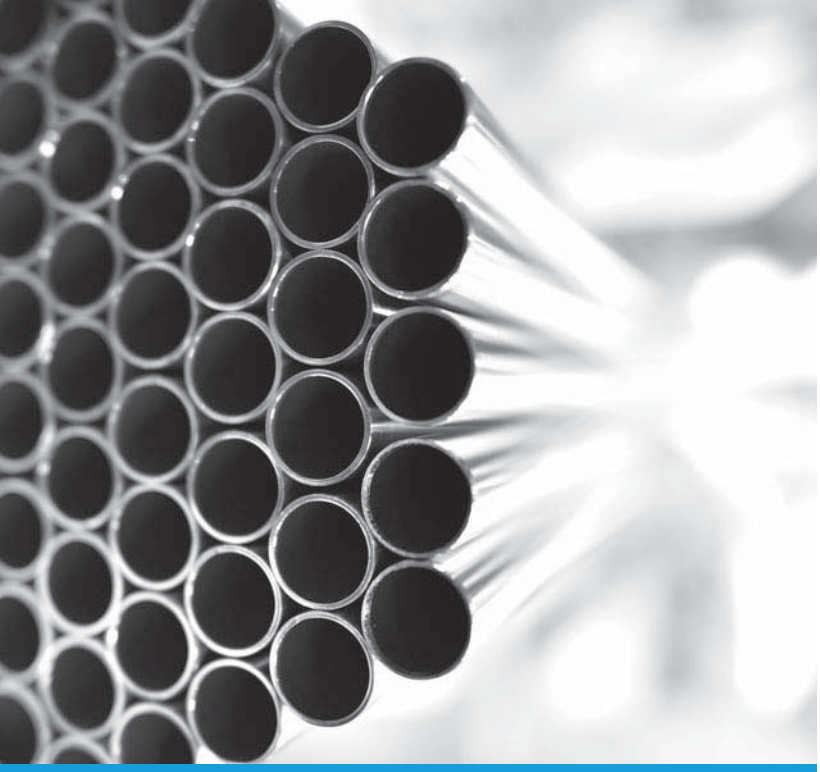
Off-statement of financial position commitments are as follows:

- retirement benefits: €249 thousand (actuarial loss);
- supplemental retirement allowances: €1.2 million (actuarial loss);
- long-term vehicle leases: €53 thousand.

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

SUBSEQUENT EVENTS

In February 2015 Vallourec obtained a one-year extension on its renewable multi-currency line of credit in the amount of €1.1 billion, with the new expiration date set for February 2020.



7

Corporate governance

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7.1 Composition and operation of the Management and Supervisory Boards

The Ordinary and Extraordinary Shareholders' Meeting held on 14 June 1994 approved the adoption of a dual management structure with a Supervisory Board and a Management Board.

This structure is based on the separation of the management functions, which are the responsibility of the Management Board, from the supervision of that management, which is the responsibility of the Supervisory Board, the representative body of the shareholders:

- the Management Board, which is a collegial body, is responsible for managing the Group using the powers conferred on it by statutory and regulatory provisions and the Group's 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

THE MANAGEMENT BOARD

As at 31 March 2015, the Management Board is comprised of the following three members:



Mr. Philippe CROUZET

Chairman of the Management Board

Date of birth: 18 October 1956
Date of first appointment: 1 April 2009
Date appointment most recently renewed: 15 March 2012
Date on which appointment ceases: 15 March 2016
Vallourec shares held: 22,875
Nationality: French



Mr. Jean-Pierre MICHEL

Member of the Management Board – Chief Operating Officer

Date of birth: 17 May 1955
Date of first appointment: 1 April 2006
Date appointment most recently renewed: 15 March 2012
Date on which appointment ceases: 15 March 2016
Vallourec shares held: 7,239
Nationality: French



Mr. Olivier MALLET

Member of the Management Board

Date of birth: 14 July 1956
Date of first appointment: 30 September 2008
Date appointment most recently renewed: 15 March 2012
Date on which appointment ceases: 15 March 2016
Vallourec shares held: 10,127
Nationality: French

Mr. Philippe CROUZET

Chairman of the Management Board

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

Positions currently held

- Chairman of the Management Board of Vallourec [(a)]* (since 2009)
- Chairman of Vallourec Tubes [(a)] (since 2009)
- Director of Vallourec Tubos do Brasil S.A. [(a)] (Brazil) (since 2009)
- Director and member of the Nuclear Commitment Monitoring Committee of Électricité de France* (since 2009)

Positions expired within the last five years

- Chairman and member of the Supervisory Board of V & M France [(a)] (up to 2012)
- Director of VMOG France [(a)] (up to 2012)
- Director of Finalourec [(a)] (Luxembourg) (up to 2010)

Mr. Philippe Crouzet does not receive any compensation as a corporate officer of Vallourec's direct or indirect subsidiaries.

Mr. Jean-Pierre MICHEL

Member of the Management Board – Chief Operating Officer

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 Group (Plant Management, Management Control and Chairman of various Divisions)
- Member of the Management Board (since 2006) and COO (since 2009) of Vallourec

Positions held by Mr. Jean-Pierre MICHEL

Positions currently held

- Member of the Management Board and COO of Vallourec [(a)]* (since 2006 and 2009 respectively)
- COO and Director of Vallourec Tubes [(a)] (since 2006)
- Director of Vallourec Heat Exchanger Tubes [(a)] (since 2006)
- Director of Vallourec Services [(a)] (since 2006)
- Director of Vallourec Heat Exchanger Tubes Asia [(a)] (since 2004)
- Manager of Vallourec One [(a)] (since 2004)
- Director of Vallourec Tubos do Brasil S.A. [(a)] (Brazil) (since 2008)
- Director of Vallourec & Sumitomo Tubos do Brasil [(a)] (Brazil) (since 2007)
- Director of Vallourec Industries Inc. [(a)] (United States) (since 2001)
- Director of Vallourec Holdings Inc. [(a)] (United States) (since 2004)
- Director of VAM USA LLC [(a)] (United States) (since 2009)
- Chairman of the Supervisory Board of Vallourec Deutschland GmbH [(a)] (since 2009)
- Member of the Executive Committee of Vallourec Star, LP [(a)] (United States) (since 2002)
- Director of Vallourec USA Corporation [(a)] (United States) (since 2000)
- Director of Vallourec Drilling Products USA, Inc. [(a)] (United States) (since 2005)
- Director of Vallourec Oil & Gas UK Ltd [(a)] (United Kingdom) (since 2000)
- Director of Esso Société Anonyme Française* (since 2014)

Positions expired within the last five years

- Member of the Supervisory Board of V & M France [(a)] (up to 2012)
- Director of VMOG France [(a)] (up to 2012)
- Director of Valti [(a)] (up to 2012)
- Director of Interfit [(a)] (up to 2012)
- Director of Valinox Nucléaire [(a)] (up to 2012)
- Director of VAM Drilling France [(a)] (up to 2012)
- Chairman of the Board of Directors of Finalourec [(a)] (Luxembourg) (up to 2010)

Mr. Jean-Pierre Michel does not receive any compensation as a corporate officer of Vallourec's direct or indirect subsidiaries.

(a) Offices held in relation to the Group.

** Listed company (for terms pending).*

Mr. Olivier MALLET

Member of the Management Board

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 Head 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

Positions currently held
- Member of the Management Board of Vallourec [(a)]* (since 2008)
- Chairman and COO of Vallourec Services [(a)] (since 2008)
- COO and Director of Vallourec Tubes [(a)] (since 2008)
- Director of Vallourec Heat Exchanger Tubes [(a)] (since 2008)
- Chairman of Vallourec Holdings Inc. [(a)] (United States) (since 2009)
- Member of the Supervisory Board of Vallourec Deutschland GmbH [(a)] (Germany) (since 2008)
- Director of Vallourec Tubos do Brasil S.A. [(a)] (Brazil) (since 2008)
- Director of Vallourec Canada Inc. [(a)] (Canada) (since 2008)
- Director of Vallourec Holdings Inc. [(a)] (since 2008)
- Director of Vallourec USA Corporation [(a)] (United States) (since 2008)
- Director of Vallourec Tube-Alloy, LLC [(a)] (since 2008)
- Chairman (since 2009) and Director (since 2008) of Vallourec Industries Inc. [(a)]
- Director of Vallourec Drilling Products USA, Inc. [(a)] (United States) (since 2008)
- Member of the Executive Committee of VAM USA LLC [(a)] (since 2009)
- Member of the Executive Committee of Vallourec Star, LP [(a)] (United States) (since 2008)

Positions expired within the last five years
- Member of the Supervisory Board of V & M France [(a)] (up to 2012)
- Director of Vallourec Mannesmann Oil & Gas France [(a)] (up to 2012)
- Director of Interfit [(a)] (up to 2012)
- Director of Valti [(a)] (up to 2012)
- Director of Finalourec [(a)] (Luxembourg) (up to 2010)

Mr. Olivier Mallet does not receive any compensation as a corporate officer of Vallourec's direct or indirect subsidiaries.

(a) Offices held in relation to the Vallourec Group.

** Listed company (for terms pending).*

OPERATIONAL MANAGEMENT

Vallourec's long-term strategy centers around three guiding principles:

- a **premium position:** Vallourec is constantly expanding its offering of premium products, services and solutions to meet the most complex challenges of its customers and maintain its technological progress in increasingly competitive markets;
- a **local presence:** Vallourec is extending its presence worldwide, increasing its contact with growing markets and with its customers;
- **competitiveness:** the Group is always attentive to improving its competitiveness, notably through cost reduction programs.

To implement its strategic guidelines and key decisions, the Management Board relies on the Group Management Committee (GMC), which has been in place since 3 February 2014.

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. At the date of filing this Registration Document, it is comprised of the following nine members [1]:

- 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 Europe Region, to which the Upstream, Powergen and Industry Divisions belong;
- Mr. Nicolas de Coignac, Director of the North America Region, which comprises all operations of the area as well as the Drilling Division;
- Mr. François Curie, Director of Group Human Resources;
- Ms. Stéphanie Fougou, Director of Group Legal Affairs;
- Mr. Didier Hornet, Director of the Eastern Hemisphere Region (including the Middle East, Africa and Asia), and including the OCTG EAMEA and Pipe Project activities; and
- Mr. Alexandre Lyra, Director of the South America Region, to which the Brazil division belongs.

In an effort to simplify the operational management, the Operational Committee was dissolved on 31 December 2014 [2].

7.1.1.2 The Supervisory Board

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 that 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 twelve members, who have a variety of experience gained primarily in an international environment, which is a source of enrichment. Furthermore, 33% of these members are female and 25 % are of foreign nationality (Brazilian, 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 himself or herself in a conflict of interest situation, even a potential one, concerning a subject to be debated by the Board, the Board ensures, with the support of the Appointments, Compensation and Governance Committee, that the information concerning this subject is not communicated to the member in question.

(1) As part of its competitiveness plan, which Valens announced to the market on 24 February 2015, the Management Board established a Lean Management system for four geographic segments, effective as of 1 April 2015. This led to a change in the operational responsibilities of Messrs. Philippe Carlier, Nicolas de Coignac, Didier Hornet and Alexandre Lyra who were, until 31 March 2015, in charge of the (i) Upstream – Industry, (ii) Powergen – Speciality Powergen – Pipe Project, (iii) OCTG and (iv) Brazil sectors respectively.

(2) The Operational Committee monitored major projects and programs that had an impact on the Group's operating performance. It held meetings once a month, which were presided over by Mr. Philippe Crouzet. It was comprised of nine members of the Group Management Committee (see above) along with seven other members, as follows: Mr. Flavio de Azevedo, Director of Technology, Research, Development and Innovation – Mr. Dirk Bissel, Director of the Drilling Productions Division – Mr. Andreas Denker, Director of the Industry Division – Mr. Pierre Frentzel, Director of Strategic Projects – Mr. Jean-Yves Le Cuziat, Director of Strategic Marketing & Sourcing – Ms. Laurence Pernot, Director of Group Communications – Mr. Dominique Richardot, Director of the Pipe Projects Division.

The internal regulations of the Supervisory Board and the Appointments, Compensation and Governance Committee contain specific provisions designed to prevent the risk of conflicts of interest. Therefore, 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 it, 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. Ensuring 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 themselves, thereby encouraging each person's action and involvement. To that end, the Chairman of the Board, like her predecessor, encourages the participation of the members and sees to it that each member can express their opinion.

MEMBERS OF THE SUPERVISORY BOARD AS AT 31 MARCH 2015

As at 31 March 2015, the Supervisory Board is comprised of 12 members and one Non-voting Board member *(Censeur)*.

	Year of birth	Date first appointed	Date appointment most recently renewed	Date of end of term	Other main appointments held
Chairman					
Vivienne Cox	1959	31/05/2010	OSM 28/05/2014	2018 OSM to approve financial statements as at 31/12/2017	Director of BG Group Plc and Pearson Plc
Vice-Chairman					
Patrick Boissier	1950	15/06/2000	OSM 07/06/2011	2015 OSM to approve financial statements as at 31/12/2014	Chairman of GICAN
Members					
Cédric de Bailliencourt	1969	28/05/2014	-	2018 OSM to approve financial statements as at 31/12/2017	CFO of Bolloré group
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
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
Jean-François Cirelli	1958	13/05/2009	OSM 31/05/2012	2016 OSM to approve financial statements as at 31/12/2015	Member of the Supervisory Board of Vallourec
Michel de Fabiani	1945	10/06/2004	OSM 28/05/2014	2018 OSM to approve financial statements as at 31/12/2017	Director of BP France and Valeo, and member of the Supervisory Board of Valco
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
Anne-Marie Idrac	1951	07/06/2011	-	2015 OSM to approve financial statements as at 31/12/2014	Director of Saint-Gobain Bouygues and Total
Henri Poupart-Lafarge	1969	28/05/2014	-	2018 OSM to approve financial statements as at 31/12/2017	Executive Vice-Chairman and Chairman of the Group Alstom Transport Sector
Pierre Pringuet [(a)]	1950	23/02/2015	-	2016 OSM to approve financial statements as at 31/12/2015	Vice Chairman of the Board of Directors of Pernod Ricard, Director of Iliad, Avril and Cap Gemini and Chairman of AFEP
Alexandra Schaapveld	1958	31/05/2010	OSM 28/05/2014	2018 OSM to approve financial statements as at 31/12/2017	Member of the Supervisory Board of Holland Casino, Bumi Armada Berhad and Société Générale
Non-voting member					
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

(a) In its meeting on 23 February 2015, the Supervisory Board provisionally appointed Mr. Pierre Pringuet as a Supervisory Board member to replace Mr. Edward G. Krubasik, outgoing. The ratification of the appointment of Mr. Pierre Pringuet will be proposed at the Annual Shareholders' Meeting on 28 May 2015 for the remaining duration of his predecessor's term, i.e until the 2016 Shareholders' Meeting called to approve the financial statements for fiscal year 2015.

PRESENTATION OF SUPERVISORY BOARD MEMBERS

1 Ms. Vivienne COX
Chairman of the Supervisory Board
Chairman of the Strategy Committee

2 Mr. Patrick BOISSIER
Vice-Chairman of the Supervisory Board
Member of the Appointments, Compensation and Governance Committee

3 Mr. Cédric de BAILLIENCOURT
Member of the Supervisory Board

4 Mr. Olivier BAZIL
Member of the Supervisory Board
Chairman of the Finance and Audit Committee
Member of the Strategy Committee

5 Ms. Pascale CHARGRASSE
Member of the Supervisory Board representing the employee shareholders
Member of the Appointments, Compensation and Governance Committee

6 Mr. Jean-François CIRELLI
Member of the Supervisory Board
Member of the Strategy Committee

7 Mr. Michel de FABIANI
Member of the Supervisory Board
Chairman of the Appointments, Compensation and Governance Committee

8 Mr. José Carlos GRUBISICH
Member of the Supervisory Board
Member of the Strategy Committee

9 Ms. Anne-Marie IDRAC
Member of the Supervisory Board
Member of the Appointments, Compensation and Governance Committee

10 Mr. Henri POUPART-LAFARGE
Member of the Supervisory Board
Member of the Finance and Audit Committee

11 Mr. Pierre PRINGUET
Member of the Supervisory Board

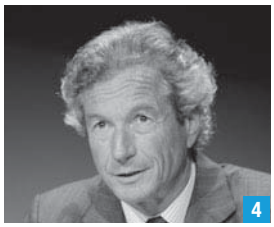
12 Ms. Alexandra SCHAAPVELD
Member of the Supervisory Board
Member of the Finance and Audit Committee
Member of the Appointments, Compensation and Governance Committee

13 Mr. François HENROT
Non-voting Board member of the Supervisory Board


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HONORARY CHAIRMEN

1 Mr. Jean-Paul PARAYRE
Honorary chairman of Vallourec since 31 May 2013

2 Mr. Arnaud LEENHARDT
Honorary chairman of Vallourec since 15 June 2000


1


2

Ms. Vivienne COX

Chairman of the Supervisory Board
Chairman of the Strategy Committee

Date of birth: 29 May 1959
Nationality: British
Vallourec shares held: 1,951

Business address:
Vallourec
27, avenue du Général Leclerc
92100 Boulogne-Billancourt

Expertise and managerial experience:
- A graduate of Oxford University and INSEAD and holding an Honorary Doctorate 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

Positions currently held

- Chairman of the Supervisory Board of Vallourec*
- Director, Chairman of the Reputation and Responsibility Committee, member of the Audit Committee, the Appointments Committee, and the Compensation Committee (since 2012) and Senior Independent Director (since 2013) of Pearson Plc*
- Director and member of the Sustainable Development Committee, the Compensation Committee and the Appointments Committee of BG Group Plc* (since 2012)
- Lead Independent Director of the Department for International Development of the British government (since 2010)
- Manager B of Stena International Sarl (Luxembourg) (since 2014)

Positions expired within the last five years

- Member of the Board of Directors and Appointment and Compensation Committee of INSEAD (up to 2013)
- Director and member of the Appointments Committee and the Sustainable Development Committee of Rio Tinto Plc (up to 2014)
- 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)
- Director of the Climate Group (up to February 2015)

Mr. Patrick BOISSIER

Vice-Chairman of the Supervisory Board
Member of the Appointments, Compensation and Governance Committee

Date of birth: 18 February 1950
Nationality: French
Vallourec shares held: 609

Business address:
60, rue de Monceau
75008 Paris

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

Positions currently held

- Member and Vice-Chairman of the Vallourec Supervisory Board*
- Chairman of the Construction and Naval Activities Industry Group (Groupement des Industries de la Construction et des Activités Navales – GICAN)
- Manager of the SARL CAP21 Conseil
- Director of Institut Français de la Mer

Positions expired within the last five years

- Chairman & CEO of DCNS (up to 2014)
- Member of the Supervisory Board of Steria Group (up to 2014)
- Director of the National Maritime Museum (Musée National de la Marine) (up to 2013)

Mr. Cédric de BAILLIENCOURT

Member of the Supervisory Board of Vallourec

Date of birth: 10 July 1969
Nationality: French
Vallourec shares held: 500

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
- 18 years with the Bolloré group as Director of Shareholding (since 1996), COO (since 2002) and Vice-Chairman of Financière de l'Odet, Vice-Chairman of Bolloré (since 2002), CFO of Bolloré group since 2008

Positions held by Mr. Cédric de BAILLIENCOURT

Positions currently held

- Member of the Supervisory Board of Vallourec*
- Vice-Chairman and COO of Financière de l'Odet [(a)]*
- Vice-Chairman of Bolloré [(a)]*
- Chairman of the Management Board of Compagnie du Cambodge [(a)]*
- Chairman of the Boards 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 (former 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 d'Ouessant [(a)], Bluestorage (former 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)], Compagnie de Pont l'Abbé [(a)]

(a) Position held within the Bolloré group.

** Listed company (for terms pending).*

- 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 Board of Directors of the National Maritime Museum, African Investment Company [(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)]
- Member of the Supervisory Board of Sofibol [(a)]
- Permanent representative of Bolloré on Socotab's Board [(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
- Chairman of Redlands Farm Holding
- Chairman of the Board of Directors of Plantations des Terres Rouges [(a)], PTR Finances [(a)] and SFA [(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 (former Intercultures), Socfinde, Terrasia, Socfin (former Socfinal), Induservices SA, Centrages, Immobilière de la Pépinière, Agro Products Investment Company

Positions expired within the last five years

- 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)
- Director of Saga [(a)] (up to 2010)
- Permanent representative of Bolloré Participations on the Board of Sogescol [(a)] (up to 2012)
- Permanent representative of Bolloré on the Supervisory Board of Vallourec (up to 2014)
- Chairman of Financière de Bréhat [(a)] (up to 2014)
- Permanent representative of Financière V on the Board of Société Anonyme Forestière et Agricole (SAFA) [(a)] (up to 2014)
- 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 Bolloré Participations on the Board of Plantations des Terres Rouges [(a)] (up to 2010)
- Director of Champ de Mars Investissements, Financière Nord Sumatra (up to 2013)
- Permanent representative of SAFA on the Board of SAFA Cameroun (up to 2014) [(a)]
- Permanent representative of Bolloré Participations on the Board of Socfinco (up to 2014)

Mr. Olivier BAZIL

Member of the Supervisory Board
Chairman of the Finance and Audit Committee
Member of the Strategy Committee

Date of birth: 22 September 1946
Nationality: French
Vallourec shares held: 1,213

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

Positions currently held

- Member of the Supervisory Board of Vallourec*
- Director of Legrand*
- Member of the Supervisory Board of Michelin*
- Director of Château Palmer
- Director of Firmenich International

Positions expired within the last five years

- COO and Vice-Chairman of the Board of Directors of Legrand (up to 2011)
- Director of Legrand France (up to 2011)
- 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)

(a) Position held within the Bolloré group.

* *Listed company (for terms pending).*

Ms. Pascale CHARGRASSE

Member of the Supervisory Board representing the employee shareholders
Member of the Appointments, Compensation and Governance Committee

Date of birth: 10 July 1960
Nationality: French
Vallourec shares held: 505

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

Positions currently held

- Member of the Supervisory Board of Vallourec*

Mr. Jean-François CIRELLI

Member of the Supervisory Board
Member of the Strategy Committee

Date of birth: 9 July 1958
Nationality: French
Vallourec shares held: 681

Business address:
29, rue du Colisée
75008 Paris

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, COO of GDF SUEZ up to November 2014

Positions held by Mr. Jean-François CIRELLI

Positions currently held

- Member of the Supervisory Board of Vallourec*

Positions expired within the last five years

- Vice-Chairman, COO 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)
- 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)
- Director of Suez-Tractebel (Belgium) (a)

Mr. Michel de FABIANI

Member of the Supervisory Board (1)
Chairman of the Appointments, Compensation and Governance Committee

Date of birth: 17 June 1945
Nationality: French
Vallourec shares held: 575

Business address:
Chambre de Commerce Franco-britannique
10, rue de la Bourse
75001 Paris

Expertise and managerial experience:
- Graduate of the École des Hautes Études Commerciales (HEC)
- 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

Positions currently held

- Member of the Supervisory Board of Vallourec*
- Director of BP France
- Director of Valeo*
- Member of the Supervisory Board of Valco
- Vice-Chairman of the Franco-British Chamber of Commerce
- Director of EBtrans (Luxembourg)
- Chairman of Hertford British Hospital Corporation (United Kingdom)

Positions expired within the last five years

- Director of Rhodia (up to 2011)

(a) Office held within the GDF SUEZ group – expired in November 2014.

* *Listed company (for terms pending).*

(1) Following a proposal from the Bpifrance Participations (former 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 Bpifrance Participations.

Mr. José Carlos GRUBISICH

Member of the Supervisory Board
Member of the Strategy Committee

Date of birth: 19 February 1957
Nationality: Brazilian
Vallourec shares held: 2,000

Business address:
Eldorado Brasil Celulose S.A.
Avenida Marginal Direita do Tiete, 500
CEP 05118-100, 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

Positions currently held

- Member of the Supervisory Board of Vallourec*
- Chairman of Eldorado Brasil Celulose S.A. (since 2012)
- Director of Halliburton* (since 2013)

Positions expired within the last five years

- Non-voting member of the Supervisory Board of Vallourec (up to 2012)
- Chairman & CEO of Brazilian company ETH Bioenergia S.A. (bioenergy) (up to 2012)
- Member of the Board of Braskem S.A. (up to 2012)

Ms. Anne-Marie IDRAC

Member of the Supervisory Board
Member of the Appointments, Compensation and Governance Committee

Date of birth: 27 July 1951
Nationality: French
Vallourec shares held: 513

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)
- Chairman of the CSR club of the Institut Français des Administrateurs

Positions held by Ms. Anne-Marie IDRAC

Positions currently held

- Member of the Supervisory Board of Vallourec*
- Director of Bouygues* (since 2012)
- Director of Total* (since 2012)
- Director of Saint-Gobain* (since 2011)

Positions expired within the last five years

- Director of Mediobanca (Italy) (up to 2014)

Mr. Henri POUPART-LAFARGE

Member of the Supervisory Board
Member of the Finance and Audit Committee

Date of birth: 10 April 1969
Nationality: French
Vallourec shares held: 600

Business address:
Alstom Transport
48, rue Albert Dhalenne
93482 St-Ouen Cedex France

Expertise and managerial experience:
- Graduate of the École Polytechnique (1988), the École Nationale des Ponts et Chaussées and the Massachussetts Institute of Technology
- Deputy in the Treasury Department of the Ministry of Economy and Finance, and later a technical adviser in the office of the Minister of Economy and Finance (1994-1997)
- Since 1998, in the Alstom group*: Head of Investor Relations (1998-1999), Head of Management Control (1999-2000), Senior Vice-President in charge of Finance for the Transmission and Distribution sector (2000-2004), Group CFO (2004-2010), President of the Alstom Grid sector (2010-2011), Group Executive Vice-Chairman and Chairman of the Transportation sector (since 2011)
- Director of Rhodia (2010-2011)

Positions held by Mr. Henri POUPART-LAFARGE

Positions currently held

- Member of the Supervisory Board of Vallourec*
- Director of Alstom Transport SA (since 2012)
- Director of Transmashholding (TMH)

Positions expired within the last five years

- Director of Rhodia (2010-2011)

* *Listed company (for terms pending).*

Mr. Pierre PRINGUET

Member of the Supervisory Board (1)

Date of birth: 31 January 1950
Nationality: French
Vallourec shares held: 1,000

Business address:
Pernod Ricard
12, place des États-Unis
75116 Paris

Expertise and managerial experience:
- Graduate of the École Polytechnique and Engineer for the French Mines Inspectorate (Corps des Mines)
- Began career in public service, from 1976 to 1987: In charge of an industry and mining engagement with the prefect of the Lorraine region (1976-1978); Head of financial procedures and social relations with the Industry Department (1979-1982); Chief Engineer of Mines (1981); Technical adviser with the office of the Minister of Land Management and Planning, and later the Minister of Agriculture (1981-1985); Director of Agricultural and Food Industries with the French Ministry of Agriculture (1985-1987)
- Since 1987, in the Pernod Ricard group: Director of Development of the Pernod Ricard group (1987-1989); Managing Director of Société pour l'Exportation de Grandes Marques (SEGM), a subsidiary of the Pernod Ricard group (1989-1996); Chairman & CEO of Pernod Ricard Europe (1997-2000); Deputy CEO of Pernod Ricard (2000-2005); Director of Pernod Ricard (since 2004); COO of Pernod Ricard (2005-2008); Managing Director of Pernod Ricard (2008-2015)
- Since 2012, President of the French Association of Private Companies (Association Française des Entreprises Privées – AFEP)

Positions held by Mr. Pierre PRINGUET

Positions currently held

- Member of the Supervisory Board of Vallourec*
- Vice-Chairman of the Board of Directors of Pernod Ricard*
- Director of Iliad*
- Director of Avril
- Director and member of the Appointments and Compensation Committee and member of the Ethics and Governance Committee of Cap Gemini*
- President of the Association Française des Entreprises Privées (AFEP)
- President of AgroParisTech
- President of the Association of Mining Engineers (Association Amicale des Ingénieurs des Mines – AAIM)
- President of the Scotch Whisky Association

Positions expired within the last five years

- Managing Director of Pernod Ricard (2008-February 2015)
- Chairman of Comité Sully, an association for the promotion of the French agrifood industry (up to January 2015)

Ms. Alexandra SCHAAPVELD

Member of the Supervisory Board
Member of the Finance and Audit Committee
Member of the Appointments, Compensation and Governance Committee

Date of birth: 5 September 1958
Nationality: Dutch
Vallourec shares held: 700

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
- Head of 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

Positions currently held

- Member of the Supervisory Board of Vallourec*
- Director of Société Générale*
- 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

- Member of the Supervisory Board of the University of Amsterdam and University Medical Center (up to 2012)

NON-VOTING BOARD MEMBER OF THE SUPERVISORY BOARD

Mr. François HENROT

Non-voting Board member (Censeur) of the Supervisory Board

Date of birth: 3 July 1949
Nationality: French
Vallourec shares held: 546

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)

* *Listed company (for terms pending).*

(1) At its 23 February 2015 session, Vallourec's Supervisory Board coopted Mr. Pierre Pringuet as a member of the Supervisory Board, replacing Mr. Edward G. Krubasik, who resigned.

Positions held by Mr. François HENROT

Positions currently held

- Non-voting member of the Supervisory Board of Vallourec*
- Chairman of Rothschild group investment bank [a]
- Managing Partner of Rothschild & Cie [a]
- Member of the Supervisory Board of Rexel*
- Member of the Board of Yam Invest N.V. (Netherlands)
- Chairman of the Board of Copeba (Belgium)

Positions expired within the last five years

- Member of the Supervisory Board of Vallourec (up to 2010)
- Managing Partner of Rothschild & Cie Banque (up to 2011) [a]
- Member of the Supervisory Board of 3 Suisses (up to 2013)

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 positions in the US. 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 has made 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 tube mill in Ohio at the end of 2012.

Positions held by Mr. Jean-Paul PARAYRE

Positions currently held

- Director of Société Financière du Planier

Positions expired within the last five years

- Member of the Supervisory Board of Peugeot SA (up to 2014)
- 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)
- Director of Bolloré (up to 2013)
- Chairman of the Supervisory Board of Stena Maritime [b] (up to 2013)
- Manager B of Stena International Sarl (Luxembourg) [b] (up to 2013)

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

Positions currently held

- Director of Fénie Brossette* (Morocco)
- Honorary Chairman of UIMM
- Honorary Chairman of Vallourec*

Positions expired within the last five years

- Non-voting member of the Supervisory Board of Vallourec (up to 2010)
- Member of the Supervisory Board of Fives (formerly Fives-Lille) (up to 2011)

OFFICES OF MEMBERS OF THE SUPERVISORY BOARD WHICH ENDED IN 2014 AND 2015

Mr. Edward-Georg KRUBASIK (1)

Member of the Supervisory Board

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

(a) Position held within the Rothschild group.

(b) Position held within the Stena group.

* *Listed company (for terms pending).*

(1) At its 23 February 2015 session, Vallourec's Supervisory Board coopted Mr. Pierre Pringuet as a member of the Supervisory Board, replacing Mr. Edward G. Krubasik, who resigned.

Positions held by Mr. Edward-Georg KRUBASIK

Positions expired within the last five years

- Member of the Supervisory Board of Vallourec (up to February 2015)
- Member of the Central Advisory Board of Commerzbank (Germany) (up to 2014)
- Member of the Supervisory Board of Asahi Tec (Japan) (up to 2013)
- Chairman of Honsel AG (Germany) (up to 2010)

BOLLORÉ GROUP

Member of the Supervisory Board

Business address:
Tour Bolloré
31-32, quai de Dion Bouton
92811 Puteaux

Positions held by BOLLORÉ GROUP

Positions currently held

- 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 CSTO SA

Positions expired within the last five years

- Director of CSA TMO Holding [(a)] (up to 2014)
- Member of the Supervisory Board of Vallourec (up to 2014)
- Director of Blue Solutions (former 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)
- Director of SDV Mauritanie SA (up to 2012)
- Director of Abidjan Terminal (formerly SETV up to 2011)

7.1.2 Operation of the Management and Supervisory Boards

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 2015, 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 compliance with the law, bylaws and internal regulations, obtain the prior authorization of the Supervisory Board in certain cases (See 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;

(a) Position held within the Bolloré group.

** Listed company (for terms pending).*

- granting to executive management 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 *(Code de commerce)* (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 share 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 attendance 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 2014, the Supervisory Board met ten 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 2014 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, through its Chairman, 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 dialog 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 ensures, with the support of the Appointments, Compensation and Governance Committee, 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 at 31 March 2015, it consisted of 12 members appointed by the Shareholders' Meeting with the exception of Mr Pierre Pringuet, appointed by the Supervisory Board on 23 February 2015 to replace Mr. Edward G. Krubasik, who resigned. The ratification of his appointment will be proposed at the Shareholders' Meeting on 28 May 2015.

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 they are 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 belong, 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 [(1)];
- 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 trading";
- 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)* 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 2014 fiscal year are presented in the Chairman of the Supervisory Board's Report (see Appendix 1 to this Chapter 7 below).

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 Practices, etc.) and the Group's activities. At the request of members, visits are arranged to plants in France and abroad. In 2014, a Supervisory Board meeting was held in Pittsburgh, Pennsylvania (United States), thereby allowing members to visit a drilling unit and the new Youngstown plant.

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. During the first quarter of 2015, all of the Board members were asked to participate in a training program on the exploration-production chain and techniques given by the Institut Français du Pétrole.

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 2014

In 2014, the Supervisory Board met ten times, i.e. three more meetings than in 2013. The absence rate was extremely low and absent members generally gave power to a proxy so that they could be represented (see the Chairman of the Supervisory Board's Report below, Appendix 1 to this Chapter 7). The average length of the meetings was approximately 3 hours 30 minutes. The meeting of 6 November 2014 was exclusively dedicated to examining strategy.

7.1.2.4 Independent members and members associated with the Company

The annual review of the independence of members of the Supervisory Board was conducted by the Supervisory Board on 23 February 2015, at the recommendation of the Appointments, Compensation and Governance Committee. The Supervisory Board considered all of the criteria of the AFEP-MEDEF Code to evaluate the independence of its members, namely:

- not being an employee or executive corporate officer of the Company, nor an employee or director of a company consolidated with it, and not having been in such a position for the preceding five years;

(1) Starting on the day of their appointment, members of the Supervisory Board must hold at least 50 Vallourec shares. The 450 additional shares must be acquired by 31 December of the year following the year they take office, in order to allow them to use their attendance fees to acquire them. These provisions do not apply to the member representing employee shareholders.

- not being an executive corporate officer in a company in which the Company directly or indirectly holds a directorship or in which an employee, appointed as such, or an executive corporate officer of the Company (currently or who was in such a position less than five years ago) holds a directorship;
- not being (directly or indirectly) a customer, supplier, investment banker, lending banker:
  - of the Company or its Group, or
  - for which the Company or its Group represents a significant portion of activity;
- not having a close family connection with a corporate officer;
- not having been Statutory Auditors of the Company during the last five years;
- not being members of the Company's Board for more than twelve years;
- not participating, as a major shareholder's representative, in the Company's control.

The Supervisory Board has debated whether or not to assess the relationship maintained by Board members with Vallourec or its Group, along with the potential conflicts of interest this could generate, as being significant. Within this framework it has conducted a more specific in-depth examination of the following members, upon which it issued the findings below:

- Pascale Chargrasse, who represents employee shareholders on Vallourec's Supervisory Board, has been an employee of the Group since 1985 and should thus be considered a non-independent member in application of the criteria of the AFEP-MEDEF Code. The Supervisory Board nevertheless noted that the AFEP-MEDEF Code excluded employee shareholders from the analysis of independent members, and thus did not recognize Pascale Chargrasse when determining the rate of independent members;
- Jean-François Cirelli was, up to November 2014, COO of the GDF SUEZ group, a customer of the Vallourec Group. The Supervisory Board noted that the business relationship resulting therefrom in 2014 was not significant in terms of amount (less than 0.5% of Vallourec's consolidated sales) and did not call Jean-François Cirelli's independence into question;
- Anne-Marie Idrac is a director of Total, a customer of the Group. The Supervisory Board noted that the business relationship resulting therefrom in 2014 was not very significant in terms of both the amount (less than 3.5% of the Group's consolidated sales) and as compared to the panel of the Group's customers, and thus confirmed Anne-Marie Idrac's independence;
- Alexandra Schaapveld is director of Société Générale, a banking institution of the Group. The Supervisory Board noted that the bank advances from Société Générale drawn by Vallourec in 2014 were insignificant both in terms of amount (less than 0.7% of the Group's gross debt) and as compared to the other external financing of the Group, and thus confirmed Alexandra Schaapveld's independence;
- Vivienne Cox is Chairman of the Supervisory Board. The AFEP-MEDEF Code does not make any presumption as to the non-independence of a Chairman of the Supervisory Board, a position which is analogous to that of the Chairman of the Board of Directors. This approach is consistent with the balance of dual corporate governance in which the Supervisory Board has a role, and which is essentially based on controlling the action of the Management Board, and governed by a principle of non-interference in management, in principle avoiding all risk of a conflict of interest, unless one of the other criteria for evaluating independence applies. In its recommendation of 11 December 2014, the French securities regulator *(Autorité des Marchés Financiers)* nevertheless wanted to transpose to Chairmen of Supervisory Boards the requirements for Chairmen of Boards of Directors in terms of independence and, to that end, asked that the independence of a Chairman of a Supervisory Board be justified in detail. In this context, the Supervisory Board confirmed Vivienne Cox's independence for the following reasons:
  - Vivienne Cox joined Vallourec's Supervisory Board in 2010, after having spent her entire career outside of the Group,
  - Vivienne Cox was not an employee of Vallourec, nor an executive corporate officer of the Group,
  - the companies in which Vivienne Cox performs a corporate office have insignificant business relationships with the Group (less than 0.5% of revenue), or do not have any business relationship with it,
  - Vivienne Cox collects fixed compensation, excluding any variable compensation related to results which could impact the objectivity of her judgment;
- Patrick Boissier has been a member of the Supervisory Board since 15 June 2000, or for more than 12 years. As concerns the AFEP-MEDEF Code, this lengthy term is only likely to call the independence of a member into question at the expiration of an office during which the 12-year term has been exceeded, and not at the date of the twelfth anniversary of the corporate office. Patrick Boisser's term of office as member of the Supervisory Board was renewed during the General Shareholders' Meeting of 7 June 2011 for a four-year term, to begin after the General Shareholders' Meeting of 28 May 2015, after which he will be considered to no longer be independent. Consequently, the Supervisory Board has noted that as at 31 December 2014, Patrick Boissier's independent cannot be called into question with regard to the criteria of the AFEP-MEDEF Code.

The business relationships maintained between (i) the companies (excluding the Group) in which the other members of the Supervisory Board hold offices, on the one hand, and (ii) the Group, on the other, were reviewed but deemed insignificant with regard to their amount, which was less than 0.25% of the Group's revenue.

Based on these findings, it appears, as at 31 December 2014, that 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%, as at year-end 2013.

In compliance with the recommendations of the French securities regulator *(Autorité des Marchés Financiers)*, the table below presents the position of each of the members of the Supervisory Board, as at 31 December 2014, with regard to the criteria of independence examined by the Supervisory Board and its Appointments, Compensation and Governance Committee:

	Not having been an employee or executive corporate officer during the five preceding years	Not having cross-director-ships	Not having significant business relationships	Not having a close family connection with a corporate officer	Not having been Statutory Auditor of the Company during the last five years	Not having been a member of the Supervisory Board for more than 12 years	Not representing a shareholder with more than 10% of share capital	Qualification used by the Board
Ms. Vivienne Cox	Y	Y	Y	Y	Y	Y	Y	Independent
Mr. Patrick Boissier	Y	Y	Y	Y	Y	Y	Y	Independent
Mr. Cédric de Bailliencourt	Y	Y	Y	Y	Y	Y	Y	Independent
Mr. Olivier Bazil	Y	Y	Y	Y	Y	Y	Y	Independent
Ms. Pascale Chargrasse	N	Y	Y	Y	Y	Y	Y	Not Independent
Mr. Jean-François Cirelli	Y	Y	Y	Y	Y	Y	Y	Independent
Mr. Michel de Fabiani	Y	Y	Y	Y	Y	Y	Y	Independent
Mr. José-Carlos Grubisich	Y	Y	Y	Y	Y	Y	Y	Independent
Ms. Anne-Marie Idrac	Y	Y	Y	Y	Y	Y	Y	Independent
Mr. Edward G. Krubasik [a]	Y	Y	Y	Y	Y	Y	Y	Independent
Mr. Henri Poupart-Lafarge	Y	Y	Y	Y	Y	Y	Y	Independent
Ms. Alexandra Schaapveld	Y	Y	Y	Y	Y	Y	Y	Independent

Y: means that the independence criterion has been met.

N: means that the independence criterion has not been met.

(a) At its 23 February 2015 meeting, Vallourec's Supervisory Board coopted Mr. Pierre Pringuet as a member of the Supervisory Board, replacing Mr. Edward G. Krubasik, who resigned.

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.

As at 31 December 2014, the composition of the Supervisory Board was as follows (excluding Non-voting Board members):

- four women (Vivienne Cox, Pascale Chargrasse, Anne-Marie Idrac and Alexandra Schaapveld) and eight men, i.e. a proportion of women above 33%;
- four people of foreign nationality –Vivienne Cox (British), Alexandra Schaapveld (Dutch), Edward G. Krubasik [1] (German) as well as José-Carlos Grubisich (Brazilian) – i.e. a proportion of foreign national members of 33%. Following the coopting of Mr. Pierre Pringuet by the Supervisory Board meeting of 23 February 2015, this rate stood at 25% as at 31 March 2015.

In the self-assessment conducted in 2014, it was recommended that efforts continue to be made to diversify the profiles and skills of the Supervisory Board members (see the Chairman of the Supervisory Board's Report below, 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.

(1) At its 23 February 2015 meeting, Vallourec's Supervisory Board coopted Mr. Pierre Pringuet as a member of the Supervisory Board, replacing Mr. Edward G. Krubasik, who resigned.

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 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 the composition of the Committee is changed earlier. 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 2015, it consisted of three members: Mr. Olivier Bazil (Chairman), Ms. Alexandra Schaapveld and Mr. Henri Poupart-Lafarge, all independent. The Board Chairman, who since 28 May 2014 is no longer a member of this Committee, nevertheless continued to attend all of its meetings.

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 above, Section 7.1.1.2 "The Supervisory Board"). 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 compliance with Article L.823-19 of the French Commercial Code *(Code de commerce)*. 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.

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 contingent liabilities and 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 2014, 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. On 3 November 2014, the Finance and Audit Committee met with the Statutory Auditors; the members of the Management Board were not present.

The Finance and Audit Committee may also 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 reporting to the Supervisory Board accordingly.

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 2014 the meeting of the Committee reviewing the half-yearly financial statements 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 are not intended to and do not replace the Company bylaws or the laws and regulations governing commercial companies.

Activities of the Finance and Audit Committee in 2014

In 2014, the Committee also examined and formed opinions on the following issues:

- 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 2013;
- review of the 2014 assumptions;
- changes in accounting principles and the accounting policies used for preparing the year-end 2014 financial statements;
- the budget for 2015;
- the internal and external audit plans and their results;
- change in working capital requirements;
- exposure to risks, notably through the examination of 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;
- contingent liabilities and commitments and, specifically, retirement commitments;
- the Value 14 employee share ownership offer;
- the Group's compliance policy;
- the foreign exchange policy;
- sensitivity to the foreign exchange risk and the policy for hedging transactions;
- information systems and, specifically, the Group's ERP management policy;
- the supply policy and the costs of purchasing raw materials; and
- the Group's tax policy.

The Statutory Auditors attended all meetings of the Finance and Audit Committee for fiscal year 2014, with the exception of the one on 9 June 2014. 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 presentation on risk exposure and significant contingent liabilities and commitments of the Group was made by the Heads of Finance, together with the Head of Risk Management.

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 2015, it consisted of five members: Mr. Michel de Fabiani (Chairman) and Mr. Patrick Boissier, and Ms. Pascale Chargrasse (employee shareholder representative), Ms. Anne-Marie Idrac and Ms. Alexandra Schaapveld. They are all independent (1).

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.

(1) In compliance with the recommendations of the AFEP-MEDEF Code, Ms. Pascale Chargrasse, who represents employee shareholders, was not counted.

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.

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 attendance 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 shares and share subscription or share 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 Group Mangement Committee, the Committee is informed of their appointments, of the 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 six times in 2014 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 2014

In 2014, the Committee also examined and formed opinions on the following issues:

- Management Board member compensation for 2013, 2014 and 2015, as well as the report on 2014 compensation in view of implementing the "Say on Pay" mechanism;
- 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 supplementary retirement plan benefiting senior executives and members of the Management Board;
- the Management Board succession plan, notably in case of an unforeseeable vacancy;
- Vallourec's policy on enabling the personnel to share in the Group's net profit (the Value 14 international employee share ownership offer, the "2-4-6" global performance share plans, and performance share plans, and share subscription options to managers (including members of the Group Mangement Committee));

- the policy on compensation of the main senior executives who are not corporate officers;
- the Group's human resources strategy;
- policy on the composition of the Supervisory Board;
- annual evaluation of the Supervisory Board and Committees;
- compliance of Group governance with the recommendations of the AFEP-MEDEF Code;
- the composition of the Supervisory Board and its Committees;
- the independence of the Board members;
- regulatory changes in terms of governance and, specifically, those pursuant to Law No. 2014-384 of 29 March 2014 aimed at restoring the real economy; and
- the annual report of the French securities regulator *(Autorité des Marchés Financiers)* regarding business governance and executive management compensation, and the annual report of the Higher Committee on Corporate Governance.

STRATEGY COMMITTEE

Composition

The Strategy Committee is comprised of a minimum of three members and a maximum of five members. As at 31 March 2015, it consisted of four members: Ms. Vivienne Cox (Chairman), Mr. Olivier Bazil, Mr. Jean-François Cirelli and Mr. 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; and

(ii) 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 four times in 2014 with an average effective attendance rate of 87.5%.

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

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 is to ensure the strict application of the bylaws.

There may not be more than two Non-voting Board members. They attend meetings of the Supervisory Board and take part in discussions in an advisory capacity.

As at 31 March 2015, Mr. François Henrot held the office of Non-voting Board member.

7.1.3 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.

7.1.4 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.

7.1.5 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 and the Company providing for the granting of benefits.

7.1.6 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 they 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 themselves in a conflict of interest situation, even a potential one, concerning a subject to be debated by the Board, the Board ensures, with the support of the Appointments, Compensation and Governance Committee, that the 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.

7.1.7 Declaration on 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. 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 2014, 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 2014.

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)*

The following table summarizes the compensation due and the valuation of the share subscription options and performance shares allocated during the fiscal years 2013 and 2014.

In €	Fiscal year 2013	Fiscal year 2014
Mr. Philippe Crouzet, Chairman of the Management Board		
Compensation due for the fiscal year (see *b)* below in paragraph 7.2.1.1)	1,324,485	1,415,750
Valuation of multi-year variable compensation allocated	-	-
Valuation of options allocated during the year (see *c)* below in paragraph 7.2.1.1) [(a)]	343,530	142,085
Valuation of performance shares allocated during the year (see e) below *in paragraph 7.2.1.1)* [(b)]	281,517	473,841
TOTAL	**1,949,532**	**2,031,676**
Mr. Jean-Pierre Michel, Chief Operating Officer		
Compensation due for the fiscal year (see *b)* below in paragraph 7.2.1.1)	709,932	691,695
Valuation of multi-year variable compensation allocated	-	-
Valuation of options allocated during the year (see c) *below* in paragraph 7.2.1.1) [(a)]	156,150	66,725
Valuation of performance shares allocated during the year (see e) below in paragraph 7.2.1.1*)* [(b)]	138,403	222,984
TOTAL	**1,004,485**	**981,404**
Mr. Olivier Mallet, Chief Financial Officer		
Compensation due for the fiscal year (see *b)* below in paragraph 7.2.1.1)	646,132	693,165
Valuation of multi-year variable compensation allocated	-	-
Valuation of options allocated during the year (see c) *below* in paragraph 7.2.1.1) [(a)]	124,920	66,725
Valuation of performance shares allocated during the year (see e) *below* in paragraph 7.2.1.1) [(b)]	112,600	222,984
TOTAL	**883,652**	**982,874**

(a) All share subscription options allocated to members of the Management Board in 2014 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 €38.53.

(b) All the performance shares allocated to members of the Management Board in 2013 and 2014 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)*

	Fiscal year 2013		Fiscal year 2014	
In €	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	798,000	798,000
Annual variable compensation	560,000	275,000	613,346	560,000
Multi-annual variable compensation	-	-	-	-
Extraordinary compensation	-	-	-	-
Attendance fees	-	-	-	-
Benefits in kind [(a)]	4,493	4,493	4,404	4,404
TOTAL	**1,324,493**	**1,039,493**	**1,415,750**	**1,362,404**
Mr. Jean-Pierre Michel, Chief Operating Officer				
Fixed compensation	450,000	450,000	450,000	450,000
Annual variable compensation	255,000	132,000	236,763	255,000
Multi-annual variable compensation	-	-	-	-
Extraordinary compensation	-	-	-	-
Attendance fees	-	-	-	-
Benefits in kind [(a)]	4,932	4,932	4,932	4,932
TOTAL	**709,932**	**586,932**	**691,695**	**709,932**
Mr. Olivier Mallet, Chief Financial Officer				
Fixed compensation	400,000	400,000	420,000	420,000
Annual variable compensation	240,000	125,000	267,704	240,000
Multi-annual variable compensation	-	-	-	-
Extraordinary compensation	-	-	-	-
Attendance fees	-	-	-	-
Benefits in kind [(a)]	6,132	6,132	5,461	5,461
TOTAL	**646,132**	**531,132**	**693,165**	**665,461**

(a) The benefit in kind measured corresponds to the 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 2014 in the 2014 Supervisory Board report on Management Board compensation (see Appendix 2 to this Chapter 7) and, for fiscal year 2013, in the Supervisory Board report on Management Board compensation (Appendix 2, Chapter 7 of the 2013 Registration Document).

c) SHARE PURCHASE OR SUBSCRIPTION OPTIONS ALLOCATED DURING THE FISCAL YEAR 2014 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)*

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
Philippe Crouzet	2014 Plan 15/04/2014	Share subscription options	€142,085	18,100 *i.e. 0.014% of share capital* [b]	€38.53	From 15/04/2018 to 15/04/2022 (inclusive)
Jean-Pierre Michel	2014 Plan 15/04/2014	Share subscription options	€66,725	8,500 *i.e. 0.007% of share capital* [b]	€38.53	From 15/04/2018 to 15/04/2022 (inclusive)
Olivier Mallet	2014 Plan 15/04/2014	Share subscription options	€66,725	8,500 *i.e. 0.007% of share capital* [b]	€38.53	From 15/04/2018 to 15/04/2022 (inclusive)
TOTAL			**€275,535**	**35,100 *i.e. 0.027% of share capital*** [b]		

(a) The number corresponds to the factor 1, which is equivalent to performance target. A higher performance coefficient cannot be applied.

(b) On the basis of share capital at 31 December 2014.

The share subscription options allocated to members of the Management Board in 2014 are subject to performance conditions assessed over four years and measured based on the following four quantified criteria:

- the estimated rate of return on capital employed (ROCE) for fiscal years 2014, 2015, 2016 and 2017, compared with the expected rate of return on capital employed, which is recorded in the budget for 2014, 2015, 2016 and 2017 (40% weighting);
- the sales for fiscal years 2014, 2015, 2016 and 2017, compared with the sales recorded in the budget for fiscal years 2014, 2015, 2016 and 2017 (30% weighting);
- the relative performance of Vallourec shares between fiscal years 2014 and 2017, compared to a reference panel comprised of Tenaris, TMK and Vallourec (15% weighting); and
- the relative performance of Vallourec's EBITDA between fiscal years 2014 and 2017, compared to the same panel as mentioned 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 will vary from 0 to 1. The number of options granted shall be nil below a level of performance which corresponds to the minimum threshold; it shall be 1 if the performance target 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 SHARE PURCHASE OPTIONS EXERCISED DURING 2014 BY EACH MEMBER OF THE MANAGEMENT BOARD

No members of the Management Board exercised share subscription or purchase options in 2014 under the share subscription option or purchase plans created in previous years.

e) PERFORMANCE SHARES ALLOCATED DURING THE FISCAL YEAR 2014 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)*

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
Philippe Crouzet	2014 Plan 15/04/2014	15,300 *i.e. 0.012% of share capital* [b]	€473,841	15/04/2017	15/04/2019	Yes
Jean-Pierre Michel	2014 Plan 15/04/2014	7,200 *i.e. 0.006% of share capital* [b]	€222,984	15/04/2017	15/04/2019	Yes
Olivier Mallet	2014 Plan 15/04/2014	7,200 *i.e. 0.006% of share capital* [b]	€222,984	15/04/2017	15/04/2019	Yes
TOTAL		**29,700 *i.e. 0.023% of share capital*** [b]	**€919,809**			

(a) The number corresponds to the factor 1, which is equivalent to performance target. It may be increased by applying a performance factor of 1.33 if performance target is exceeded.

(b) On the basis of share capital at 31 December 2014.

The performance shares granted to members of the Management Board in 2014 are subject to performance conditions assessed over three years and measured based on the following four quantified criteria:

- the estimated rate of return on capital employed on a consolidated basis (ROCE) for the fiscal years 2014, 2015 and 2016, compared with the ROCE recorded in the budget for the fiscal years 2014, 2015 and 2016 (40% weighting);
- consolidated sales at consistent foreign exchange rates and with a consistent scope for the fiscal years 2014, 2015 and 2016, compared with the sales recorded in the budget for the fiscal years 2014, 2015 and 2016 (30% weighting);
- the relative stock market performance of Vallourec shares between fiscal years 2014 and 2016, compared to a reference panel comprised of Tenaris, TMK and Vallourec (15% weighting); and
- the relative performance of the consolidated EBITDA between the fiscal years 2014 and 2016, 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 to 1.33. The number of performance shares allocated shall be nil below performance corresponding to the minimum threshold; it shall be 1.33 in the event of outperformance of the objective. 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 2014 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)*

Name of executive corporate officer	Plan number and date	Number of shares that became available during the fiscal year	Vesting conditions [(a)]
Philippe Crouzet	2010 Plan 15/03/2010	8,280	2,070
Jean-Pierre Michel	2010 Plan 15/03/2010	4,048	1,012
Olivier Mallet	2010 Plan 15/03/2010	3,312	828
TOTAL	-	**15,640**	**3,910**

(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 Assessment Period for the performance share allocation plan, which began on 30 March 2012, ended on 30 March 2014. The shares that were initially allocated under this plan, within the context of the twenty-sixth resolution that was approved by the Shareholders' Meeting of 7 June 2011, were subject to three performance conditions, which were assessed for the 2012 and 2013 fiscal years:

- the ratio of consolidated EBITDA to consolidated sales (weighting of 40%): a coefficient of 0 (no shares acquired) applied if the average ratio achieved in 2012 and 2013 was less than 14%; the coefficient was 1 if the average was higher than 18% and 1.33 if the average was 21% or higher;
- growth of consolidated sales (weighting of 30%): a coefficient of 0 (no shares acquired) applied if 2013 sales were less than €6.120 billion; the coefficient was 1 if sales were at least €6.532 billion and 1.33 if sales were €6.670 billion or higher;
- the relative stock market performance of Vallourec shares 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 2012 performance share plan	Philippe Crouzet	Jean-Pierre Michel	Olivier Mallet	Total
Number of performance shares allocated on 30 March 2012 [(a)]	9,023	4,436	3,609	17,068
Number of performance shares vested on 30 March 2014 after performance conditions applied	1,463	719	585	2,767
Percentage of performance shares vested on 30 March 2014 compared to the number of performance shares initially allocated on 30 March 2012	16.2%	16.2%	16.2%	16.2%

(a) The number corresponds to the factor 1, which is equivalent to performance target. It could be increased by applying a coefficient of 1.33 if performance target is exceeded.

g) HISTORY OF SHARE SUBSCRIPTION OR SHARE PURCHASE OPTIONS ALLOCATED (ACCORDING TO THE FORMAT OF TABLE 8 RECOMMENDED BY THE AFEP-MEDEF CODE AND THE FRENCH SECURITIES REGULATOR *(AUTORITÉ DES MARCHÉS FINANCIERS)*

The history of the share subscription or share purchase options allocated appears in paragraph 7.3.1.1 of this Chapter.

h) HISTORY OF PERFORMANCE SHARE ALLOCATIONS (ACCORDING TO THE FORMAT OF TABLE 9 RECOMMENDED BY THE AFEP-MEDEF CODE AND THE FRENCH SECURITIES REGULATOR *(AUTORITÉ DES MARCHÉS FINANCIERS)*

The history of the performance shares granted appears in paragraph 7.3.1.2 of this Chapter.

i) SHARE SUBSCRIPTION OR SHARE 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)*

	Total number of options granted/shares subscribed or purchased	Weighted average exercise price *(in €)*	Share subscription or share purchase option plans
Options granted during the year to the ten Group employees to whom the largest number of options was allocated	44,700	38.53	15 April 2014 share subscription options plan
Options exercised during the year by the ten Group employees who purchased or subscribed for the largest number of options in this way	-	-	-

The definitive granting of subscription options issued under the plan put in place on 15 April 2014 is entirely subject to conditions of performance and continuous service.

For grants to employees (other than members of the Operational 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 Operational Committee, performance is assessed over four years and measured based on the following four quantified criteria:

- the estimated rate of return on capital employed (ROCE) for 2014, 2015, 2016 and 2017, compared with the expected rate of return on capital employed, which is recorded in the budget for 2014, 2015, 2016 and 2017 (40% weighting);
- the sales for 2014, 2015, 2016 and 2017, compared with the sales recorded in the budget for 2014, 2015, 2016 and 2017 (30% weighting);
- the relative performance of Vallourec shares between fiscal year 2014 and fiscal year 2017, compared to a reference panel comprised of Tenaris, TMK and Vallourec (15% weighting); and
- the relative performance of Vallourec's EBITDA between fiscal year 2014 and fiscal year 2017, compared to the same panel as mentioned above (15% weighting).

j) SUMMARY OF DEPARTURE MECHANISMS AND STATUS OF MEMBERS OF THE MANAGEMENT BOARD (ACCORDING TO THE FORMAT OF TABLE 10 RECOMMENDED BY THE AFEP-MEDEF CODE AND TABLE 11 RECOMMENDED BY THE FRENCH SECURITIES REGULATOR *(AUTORITÉ DES MARCHÉS FINANCIERS)*

	Employment contract		Supplementary retirement scheme [e]		Payments or benefits due or likely to become due for 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 retirement scheme, see 7.2.2.2 below.

(f) For a description of the payments or benefits that are due or that may be due as a result of a termination or change of office, see the 2014 Supervisory 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 2014 Supervisory Board Report on compensation of the members of the Management Board which appears in Appendix 2 to this Chapter 7.

7.2.1.2 Attendance fees and other compensation collected by the members of the Supervisory Board and Committees in 2014

PARTICIPATION AT THE MEETINGS OF THE SUPERVISORY BOARD

The total amount for attendance fees that the Supervisory Board divided among its members in 2014 is recorded under the annual budget for attendance fees of €650,000 authorized by the Ordinary Shareholders' Meeting of 28 May 2014 (thirteenth resolution).

The principal for the amount of attendance 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 attendance 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 as of 1 January 2014 to set the fixed portion to €12,000 (i.e. 1/3 of the attendance fees) and the variable portion based on attendance at €21,000 (i.e. 2/3 of the attendance fees).

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 (attendance fees and fixed compensation) were combined, with only the remaining annual fixed compensation of €320,000. This approach, which had the effect that potential variations linked to attendance were no longer taken into account, 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. They are 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 attendance 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.

PARTICIPATION IN COMMITTEE MEETINGS

In 2014, the members and Chairman of each of the Committees received, as part of the aforementioned €650,000 annual budget, additional attendance fees based on their actual attendance at meetings of said Committees, at the rate of €2,500 per meeting. The Chairman additionally collected an annual fixed portion of €12,500 pertaining to the Finance and Audit Committee, and €6,250 pertaining to the Strategy Committee and the Appointments, Compensation and Governance Committee.

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 attendance fees allocated to the Supervisory Board.

ATTENDANCE FEES AND OTHER COMPENSATION RECEIVED BY THE MEMBERS AND NON-VOTING MEMBER 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 of the Supervisory Board *In €*		Amounts due and paid in 2013	Amounts due and paid in 2014
Ms.	Vivienne Cox (Chairman of the Board as of the Shareholders' Meeting of 30 May 2013)	204,233 [(a)]	320,000
Mr.	Cédric de Bailliencourt (member since 28/05/2014)	N/A	19,800
Mr.	Olivier Bazil	56,900	65,900
Mr.	Patrick Boissier	45,025	60,500
Ms.	Pascale Chargrasse	36,007 [(b)]	48,000 [(c)]
Mr.	Jean-François Cirelli	36,134	38,400
Mr.	Michel de Fabiani	54,233	52,150
Mr.	José Carlos Grubisich	38,230	38,800
Mr.	François Henrot	27,243	26,700
Ms.	Anne-Marie Idrac	42,802	48,000
Mr.	Edward G. Krubasik [(1)]	29,339	30,900
Mr.	Jean-Paul Parayre (Chairman of the Board up to the Shareholders' Meeting of 30 May 2013)	129,929 [(d)]	N/A
Mr.	Henri Poupart-Lafarge (member since 28/05/2014)	N/A	29,600
Ms.	Alexandra Schaapveld	40,579	50,500
	Bolloré, represented by Mr. Cédric de Bailliencourt	29,339	13,200
TOTAL		**769,993**	**842,450**

(a) Including €58,233 in attendance 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).

(b) This amount is in addition to the fixed and variable compensation and the value of the 65 performance shares received in 2013 by Ms. Pascale Chargrasse under her employment contract with the Group, for a total of €55,943.

(c) This amount is in addition to the fixed and variable compensation and the value of the 65 performance shares received in 2014 by Ms. Pascale Chargrasse under her employment contract with the Group, for a total of €2,284.10.

(d) Including €25,929 in attendance fees and €104,000 for the Supervisory Board chairmanship (fixed portion of attendance 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).

(1) At its 23 February 2015 session, Vallourec's Supervisory Board coopted Mr. Pierre Pringuet as a member of the Supervisory Board, replacing Mr. Edward G. Krubasik, who resigned.

7.2.2 Compensation and retirement commitments of the Group's Executive Management

7.2.2.1 Compensation of the Group's main senior executives

The total amount of direct and indirect compensation of all kinds paid in 2014 by the Group's French and foreign companies in respect of all the Group's primary senior executives (i.e. the members of the Operational Committee as composed in 2014 excluding the members of the Management Board) amounted to €5,304,091. The variable portion represented 31.3% of the total.

The expense for the share subscription options and performance shares allocated to the Group's main senior executives during the year and recognized in the 2014 income statement was €280,000.

7.2.2.2 Retirement commitments

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. 38 people as at 31 December 2014), 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 2014 are as follows:

Members of the Management Board	Reference compensation as at 31 December 2014	Annual potential rights for 2014	Total annual potential rights as at 31 December 2014 (a)	Cap on potential rights (b)	Length of service conditions
Mr. Philippe Crouzet	€798,000	2%	11.50%	20%	36 months
Mr. Jean-Pierre Michel	€450,000	2%	17.34%	20%	36 months
Mr. Olivier Mallet	€420,000	1.8%	11.05%	20%	36 months

(a) As a percentage of the reference compensation (basic compensation excluding variable portion).

(b) Limited to 20% of the average basic compensation for the last three years, excluding the variable portion and limited to four 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 executive corporate officers took into account the benefits under the supplementary retirement scheme.

Details of retirement commitments for members of the Operational Committee are provided in Note 20 to the consolidated financial statements in Section 6.1 of this Registration Document.

7.3 Executive management 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 2014, this was policy was determined during the Supervisory Board meetings of 26 February (Value 14 employee share ownership plan and the performance share and share subscription option plans for managers) and 2 April 2014 (performance share plan for all staff). The Supervisory Board also determined, at its meeting on 26 February 2014, 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 4 March and 14 April 2014 (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 2014 the Group therefore renewed:

- for the seventh consecutive year (see below, Section 7.3.3 “Employee share ownership”), a Value employee share ownership plan, called Value 14, for the benefit of employees and those with similar rights from most companies of the Vallourec Group in Germany, Saudi Arabia, Brazil, Canada, China, United Arab Emirates, the United States, France, India, Malaysia, Mexico, the United Kingdom and Singapore;
- for the sixth consecutive year (see below Section 7.3.3 “Employee share ownership”), an international share allocation plan subject to a period of time worked for the Company, and performance therein, for a maximum of six shares per beneficiary, for 21,677 employees of Vallourec entities in Germany, Brazil, Canada, 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, 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 performance target. Some figures have been adjusted, where necessary, to take account of the stock split on 9 July 2010.

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 assume the formal commitment of not using operations to hedge their risks on either options or shares resulting from the exercise of options, or on 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 trading”.

7.3.1.1 Share subscription and/or purchase options

	2007 Plan	2008 Plan	2009 Plan
Date of Shareholders' Meeting	6 June 2007	6 June 2007	4 June 2009
Date of Management Board meeting	3 September 2007	1 September 2008	1 September 2009
Number of beneficiaries when plan implemented	65	9	303
Total number of shares that can be subscribed, including the number that can be subscribed by:	294,600	143,600	578,800
› Mr. Philippe Crouzet:	N/A	N/A	44,000 i.e. 0.03% of share capital
› Mr. Jean-Pierre Michel:	22,000 i.e. 0.02% of share capital	24,000 i.e. 0.02% of share capital	20,000 i.e. 0.02% of share capital
› Mr. Olivier Mallet:	N/A	46,000 i.e. 0.04% of share capital	16,000 i.e. 0.01% of share capital
Percentage of share capital that may potentially be allocated to members of the Management Board [(a)]	0.02% [(a) (b)]	0.05% [(a) (b)]	0.06% [(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	64,000	45,600	48,000
Total potential dilution of the plan at allocation date [(b)]	0.23% [(b)]	0.11% [(b)]	0.44% [(b)]
Date from which options may be exercised	3 September 2011	1 September 2012	1 September 2013
Expiration date of exercise period	3 September 2014	1 September 2015	1 September 2019
Exercise price [(c)]	€95.30	€91.77	€51.67
Performance conditions	No	Yes[(d)]	Yes [(e)]
Exercise procedures	-	-	-
Number of shares subscribed	-	-	-
Total number of options canceled or expired since the grant date	294,600	0	55,200
Options remaining as at 31 December 2014	0	143,600	523,600
Total potential dilution of plan as at 31 December 2014 [(b)]	0%	0.11%	0.40%

(a) Based on the composition of the Management Board as at 31 March 2015.

(b) On the basis of the 130,597,975 shares making up share capital at 31 December 2014.

(c) Average price of the Vallourec share in the 20 trading days preceding the allocation date, without discount.

(d) Performance condition: ratio of the Group's consolidated EBITDA to consolidated sales for the 2008 and 2009 fiscal years.

(e) Performance condition: Ratio of the Group's consolidated EBITDA to consolidated sales for the 2009, 2010 and 2011 fiscal years.

(f) Performance condition: Ratio of the Group's consolidated EBITDA to consolidated sales for the 2010, 2011, 2012 and 2013 fiscal years.

(g) Performance condition: Ratio of the Group's consolidated EBITDA to consolidated sales for the 2011, 2012, 2013 and 2014 fiscal years.

(h) The definitive allocation 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 allocations to employees (other than members of the Operational 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 allocations to members of the Operational 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 employed 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.

2010 Plan	2011 Plan	2012 Plan	2013 Plan	2014 Plan
4 June 2009	4 June 2009	31 May 2012	31 May 2012	31 May 2012
1 September 2010	1 September 2011	31 August 2012	2 September 2013	15 April 2014
349	743	387	406	399
512,400	684,521	530,400	602,465	373,550
33,000 i.e. 0.03% of share capital	33,000 i.e. 0.03% of share capital	0	33,000 i.e. 0.03% of share capital	18,100 i.e. 0.010% of share capital
15,000 i.e. 0.01% of share capital	15,000 i.e. 0.01% of share capital	0	15,000 i.e. 0.01% of share capital	8,500 i.e. 0.007% of share capital
12,000 i.e. 0.009% of share capital	12,000 i.e. 0.009% of share capital	0	12,000 i.e. 0.009% of share capital	8,500 i.e. 0.007% of share capital
0.05% [a] [b]	0.05% [a] [b]	0% [a] [b]	0.05% [a] [b]	0.03% [a] [b]
51,800	52,300	53,800	46,565	44,700
0.39% [b]	0.52% [b]	0.41% [b]	0.46% [b]	0.29% [b]
1 September 2014	1 September 2015	1 April 2017	3 March 2018	15 April 2018
1 September 2020	1 September 2021	31 August 2020	1 September 2021	15 April 2022
€71.17	€60.71	€37	€46.15	€38.53
Yes [f]	Yes [g]	Yes [h]	Yes [i]	Yes [j]
-	-	-	-	-
-	-	-	-	-
75,000	63,219	29,896	9,122	3,250
437,400	621,302	500,504	593,343	370,300
0.33%	0.48%	0.38%	0.45%	0.28%

(i) The definitive allocation 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 allocations to employees (other than members of the Operational 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 Operational 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 employed 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.

(j) The definitive allocation of the subscription options issued under the plan put in place on 15 April 2014 is entirely subject to conditions of performance and continuous service. For grants to employees (other than members of the Operational 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 Operational 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 employed 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.

7.3.1.2 Performance share and free share allocation plans

PERFORMANCE SHARE PLANS

	2010 plan	2011 plan
Date of Shareholders' Meeting	4 June 2008	4 June 2008
Date of Management Board meeting	15 March 2010 and 31 July 2010	30 March 2011
Number of beneficiaries when plan implemented	850	1,157
Total number of shares that can be acquired, including the number that can be subscribed by:	194,820 (c)	214,271 (i)
› Mr. Philippe Crouzet:	9,000 (d) i.e. 0.007% of share capital	9,023 (j) i.e. 0.007% of share capital
› Mr. Jean-Pierre Michel:	4,400 (e) i.e. 0.003% of share capital	4,436 (k) i.e. 0.003% of share capital
› Mr. Olivier Mallet:	3,600 (f) i.e. 0.003% of share capital	3,609 (l) i.e. 0.003% of share capital
Percentage of share capital that may potentially be allocated to Members of the Management Board (a) (b)	0.01%	0.01%
Total number of performance shares allocated to the ten employees who are not corporate officers and to whom the largest number of options shares was allocated	11,380 (g)	7,995 (m)
Total potential dilution of the plan at the respective date (b)	None	None
Performance conditions	Yes (h)	Yes (n)
Vesting period end-date	15 March and 31 July 2012 or 2014	30 March 2013 or 2015
Holding period end-date	15 March and 31 July 2014	30 March 2015
Total number of performance shares canceled or expired since the grant date	22,837	14,611
Performance shares remaining as at 31 December 2014	None (plans expiring on 15 March 2014 and 31 July 2014)	199,660
Total potential dilution of plan as at 31 December 2014 (b)	None	None

(a) Based on the composition of the Management Board as at 31 March 2015.

(b) On the basis of the 130,597,975 shares making up share capital at 31 December 2014.

(c) i.e. 259,111 shares based on the maximum factor of 1.

(d) i.e. 9,000 shares based on the maximum factor of 1.

(e) i.e. 4,400 shares based on the maximum factor of 1.

(f) i.e. 3,600 shares based on the maximum factor of 1.

(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.

(i) i.e. 269,204 shares based on the maximum factor of 1.25 or 1.33, as applicable.

(j) i.e. 12,000 shares based on the maximum factor of 1.33.

(k) i.e. 5,900 shares based on the maximum factor of 1.33.

(l) i.e. 4,800 shares based on the maximum factor of 1.33.

(m) i.e. 9,994 shares based on the maximum factor of 1.25.

(n) 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.

(o) i.e. 357,712 shares based on the maximum factor of 1.25 or 1.33, as applicable.

(p) i.e. 12,000 shares based on the maximum factor of 1.33.

(q) i.e. 5,900 shares based on the maximum factor of 1.33.

2012 plan	2013 plan	2014 plan
7 June 2011	31 May 2012	31 May 2012
30 March 2012	29 March 2013	15 April 2014
1,591	1,647	1,758
286,718 [o]	295,225 [u]	413,597 [x]
9,023 [p] i.e. 0.007% of share capital	9,023 i.e. 0.007% of share capital	15,300 i.e. 0.01% of share capital
4,436 [q] i.e. 0.003% of share capital	4,436 i.e. 0.003% of share capital	7,200 i.e. 0.006% of share capital
3,609 [r] i.e. 0.003% of share capital	3,609 i.e. 0.003% of share capital	7,200 i.e. 0.006% of share capital
0.01%	0.01%	0.02%
7,898 [s]	10,955 [v]	29,015 [y]
None	None	None
Yes [t]	Yes [w]	Yes [z]
30 March 2014 or 2016	29 March 2016 or 2017	14 April 2017 or 2018
30 March 2016	29 March 2018	14 April 2018 or 2019
18,385	9,460	2,898
268,333	285,765	410,699
None	None	None

(r) i.e. 4,800 shares based on the maximum factor of 1.33.

(s) i.e. 10,505 shares based on the maximum factor of 1.33.

(t) Performance conditions: 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 allocations to members of the Management Board and the Operational 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 Euronext Paris regulated market compared with a reference panel.

(u) i.e. 371,389 shares based on the maximum factor of 1.25 or 1.33, as applicable.

(v) i.e. 14,570 shares based on the maximum factor of 1.33.

(w) Performance conditions: 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 allocations to members of the Management Board and the Operational 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 employed 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.

(x) i.e. 521,863 shares based on the maximum factor of 1.25 or 1.33, as applicable.

(y) i.e. 38,590 shares based on the maximum factor of 1.33.

(z) Performance conditions: for grants to employees, performance is assessed over fiscal years 2014, 2015 and 2016 and is dependent on achieving a ratio of the Group's consolidated EBITDA to consolidated sales. As concerns allocations to members of the Management Board and the Operational Committee, performance is assessed for the 2014, 2015 and 2016 fiscal years, and measured based on the following four criteria: the expected rate of return on capital employed on a consolidated basis, the growth of consolidated sales on a like-for-like basis and budget, as well as the relative stock market performance of the Vallourec share, and the performance of consolidated EBITDA against a panel of comparable companies.

International performance share allocation plans for employees [1]

	2-4-6 plan (2010)	2-4-6 plan (2011)	2-4-6 plan (2012)	2-4-6 plan (2013)	2-4-6 Plan (2014)
Date of Shareholders' Meeting	4 June 2008	7 June 2011	7 June 2011	31 May 2012	31 May 2012
Grant date by the Management Board	3 December 2010	18 November 2011	30 March 2012	29 March 2013	15 April 2014
Number of beneficiaries when plan implemented	12,098	13,053	21,686	21,744	21,677
Maximum total number of performance shares	72,588	78,318	130,116	130,464	130,062
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 shares was allocated	60	60	60	60	60
Potential dilution	None	None	None	None	None
Performance condition	*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)*	*Ratio of consolidated EBITDA to consolidated sales (2014, 2015 and 2016)*
Vesting period	2 or 4 years	2 or 4 years	2 or 4 years	3 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	4,860	7,782	8,094	3,558	474
Performance shares as at 31 December 2014	None (plan ended 3 December 2014)	70,536	122,022	126,906	129,588

(1) For a description of these plans, see Section 7.3.3 – "Employee Shareholding".

FREE SHARE ALLOCATION PLANS

Free share allocation plans (without performance conditions) have been implemented only under the terms of the "Value" employee share ownership offers (see 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 employer matching contribution granted to other employees and those with similar rights of the Vallourec Group's French companies.

	Value 09 Plan	Value 10 Plan	Value 11 Plan	Value 12 Plan	Value 13 Plan	Value 14 Plan
Date of Shareholders' Meeting	4 June 2009	4 June 2009	7 June 2011	31 May 2012	31 May 2012	28 May 2014
Grant date by the Management Board	17 December 2009	3 December 2010	18 November 2011	6 December 2012	10 December 2013	16 December 2014
Number of beneficiaries when plan implemented	8,097	9,632	841	737	732	768
Total number of shares free of charge	69,400	83,462	6,462	4,395	4,028	3,960
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 executive management members	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 shares was allocated	120	120	80	60	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	4,074	3,087	717	270	0	0

The valuation of performance share and free share allocation 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	2010	2011	2012	2013	2014
	3.23	3.22	2.40	2.56	0

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	2010	2011	2012	2013	2014
	46.28	10.23	10.23	6.58	18.9

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 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 employer matching contribution over the last five fiscal years were as follows:

	2010		2011		2012		2013		2014	
In € million	PEE	PERCO	PEE	PERCO	PEE	PERCO	PEE	PERCO	PEE	PERCO
	2.4 [a]	0.4 [a]	3.1 [b]	0.6 [b]	3.6 [c]	0.7 [c]	4.1 [d]	0.6 [d]	4.5 [e]	0.8 [e]

(a) Including €1,047,964 for the Value 10 operation.

(b) Including €1,161,716.91 for the Value 11 operation.

(c) Including €2,077,757.23 for the Value 12 operation.

(d) Including €1,923,536.19 for the Value 13 operation.

(e) Including €1,560,675.87 for the Value 14 operation.

7.3.3 Employee shareholding

7.3.3.1 International employee share ownership plans

Every year 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 2013, see Section 6.3.3 "Employee share ownership" in the 2011 Registration Document and Section 7.3.3 "Employee share ownership" in the 2012 and 2013 Registration Document).

In 2014, the Value 14 plan was offered in thirteen countries (Brazil, Canada, China, France, Germany, Mexico, the United Arab Emirates, the United Kingdom, United States, Saudi Arabia, India, Malaysia and Singapore) and resulted in a capital increase on 16 December 2014, for a gross total of €49.2 million through the issue of 1,919,959 new shares at a subscription price per share of €24.12 for the traditional scheme and €25.62 for the leveraged scheme, in accordance with the authorizations granted to the Management Board by the Shareholders' Meeting of 28 May 2014 in its fifteenth, sixteenth and seventeenth resolutions. Nearly 15,000 employees in the thirteen countries concerned, i.e. 64% of eligible employees, chose to subscribe to the Group's share offering. The shares owned by employees as a result of the offering represented 7.61% of Vallourec's share capital at 31 December 2014 compared with 7.37% at 31 December 2013.

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, India, the United Arab Emirates and the United Kingdom participating in the Value 14 plan, the Management Board at the same time implemented, under the terms of the Value 14 offering, a free share allocation plan for new or existing shares, involving a maximum of 3,960 shares, i.e. 0.003% of 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 Saudi Arabia, Canada and the United States (excluding employees of VAM USA LLC) in Malaysia and Singapore, who took part in a share +SAR share offering under the Value 14 plan.

The seven international employee share ownership plans offered since 2008 have proved highly successful given their average subscription rate of 66% and raised employee share ownership from 0.16% at 31 December 2007, to 7.61% at 31 December 2014. 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, the Supervisory Board welcomed Ms. Pascale Chargrasse as a member of the Supervisory Board representing employee shareholders. The renewal of Ms. Pascale Chargrasse's office for a four-year term will be proposed to the General Shareholders' Meeting on 28 May 2015.

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", "Value 13" and "Value 14" 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 "1-2-3 plan" at its launch in 2009, then "2-4-6 plan" 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 2014, 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 130,062 performance shares, representing 0.10% of share capital as at 31 December 2014, a maximum of six shares per beneficiary, for 21,677 employees of Vallourec entities in Germany, Brazil, Canada, 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 2010 to 2014, see above, Section 7.3.1.2 – Performance share allocation plans).

APPENDICES

Appendix 1 – The report of the Chairman of the Supervisory Board concerning the composition of the Board and the application of the principle of balanced representation of men and women on it, the conditions for preparing and organizing its work and the risk management and internal control procedures implemented by Vallourec

In accordance with the provisions of Article L.225-68 of the French Commercial Code, the Chairman of the Supervisory Board of Vallourec (hereinafter referred to as "Vallourec" or the "Company") presents this report to the shareholders, detailing:

- the composition of the Supervisory Board and the application of the principle of balanced representation of men and women on 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 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.

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 Risks and Internal Control Department and the Human Resources Department.

It was presented to the Finance and Audit Committee on 19 February 2015 and approved by the Supervisory Board on 23 February 2015.

A – Supervisory Board: composition, international representation, balanced 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 2014 Registration Document dealing with corporate governance, which is an integral part of this report.

In 2014, the Board met ten times, i.e. three more meetings than in 2013. The average length of its meetings was approximately 3 hours 30 minutes. The meeting of 6 November 2014 was exclusively dedicated to examining the strategic plan.

In order to ensure that Board members are able to attend meetings, the schedule of meetings for the year is prepared approximately one year in advance.

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 95% on average for the meetings held in 2014.

Dates of Board meetings (fiscal year 2014)	Attendance rate
26 February	11/11 (100%)
2 April	9/11 (82%)
7 May	11/11 (100%)
27 May	10/11 (91%)
19 June	12/12 (100%)
30 July	12/12 (100%)
19 September	10/12 (83%)
5 November	11/12 (92%)
6 November	12/12 (100%)
17 December	12/12 (100%)

The individual attendance rate for Supervisory Board meetings, calculated as a ratio of the number of meetings that each of the members actually attended to the total number of Board meetings, as an average throughout 2014 for each Board member, was as follows:

Members of the Supervisory Board in 2014	Attendance Rate [(a)]
Ms. Vivienne Cox	10/10 (100%)
Mr. Cédric de Bailliencourt [(a)]	6/6 (100%)
Mr. Olivier Bazil	9/10 (90%)
Mr. Patrick Boissier	10/10 (100%)
Ms. Pascale Chargrasse	10/10 (100%)
Mr. Jean-François Cirelli	9/10 (90%)
Mr. Michel de Fabiani	9/10 (90%)
Mr. José Carlos Grubisich	8/10 (80%)
Mr. Henri Poupart-Lafarge [(a)]	6/6 (100%)
Ms. Anne-Marie Idrac	10/10 (100%)
Mr. Edward G. Krubasik	9/10 (90%)
Ms. Alexandra Schaapveld	10/10 (100%)
Bolloré, represented by Mr. Cédric de Bailliencourt [(a)]	4/4 (100%)

(a) Prorata temporis *up to the expiration of the office or as of the appointment, as applicable.*

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, except in certain cases, 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 7.1.6 of the 2014 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 completed a formalized evaluation of its operations. For 2014, this evaluation was managed by the Board Secretary, under the supervision of the Appointments, Compensation and Governance Committee, within the framework of the individual discussions with each of the members, and based on a questionnaire containing seven governance topics.

The summary of the Board members' responses, which was communicated to the Board members and discussed during the 23 February 2015 session, demonstrates the great satisfaction of members about the evolution of the Board's operation, both in terms of the fluidity of discussions and the pertinence and effectiveness of the content addressed, as well as consideration of ideas for improvements which were identified during the previous self-assessment. To that end, all members emphasized the quality of the Board meeting of 6 November 2014, which was dedicated to strategy and, more generally, the increase in the time and information devoted to the Group's strategic issues. The positive actions undertaken to ensure that diversity is maintained and skills supplemented were also appreciated. For the future, the following areas of improvement were recommended in particular:

- pursuing diversification of profiles and expertise within the Supervisory Board;
- a Board examination of the talent management process.

Regarding business operations, in 2014 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, competition, market developments, financing policy, the conduct of major projects, the Group's corporate social responsibility, the strategic plan, the 2014 budget, the Group's policy on equal pay and gender equality at work, and projects and negotiations underway.

As regards the Governance plan, the Supervisory Board examined the following subjects in particular:

- compensation of the three members of the Management Board for 2013, 2014 and 2015, as well as the report on 2014 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 14 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 (including members of the Group Management 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 Management Board succession plan, notably in case of an unforeseeable vacancy;
- the Group's Human Resources strategy;
- policy on the composition of the Supervisory Board;
- annual evaluation of the Supervisory Board and Committees;
- compliance of Group governance with the recommendations of the AFEP-MEDEF Code;
- the composition of the Supervisory Board and its Committees;
- the independence of the Board members;
- regulatory changes in terms of governance and, specifically, those pursuant to Law No. 2014-384 of 29 March 2014 aimed at restoring the real economy; and
- the annual report of the French securities regulator *(Autorité des Marchés Financiers)* regarding business governance and executive management compensation, and the annual report of the Higher Committee on Corporate Governance.

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 publications 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 28 May 2014 shows that 1,912 shareholders were present, represented or voted by post, owning a combined total of 76,799,811 shares with voting rights out of 126,881,488, i.e. 60.52% of shares with voting rights, and 83,680,827 voting rights out of 134,074,256, i.e. 62.41% 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 9,249,347 shares representing the 13,674,479 voting rights, which is 7.2% of the capital and 10.2% 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 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 2014 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 share capital (see Section 2.1.9 of the 2014 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 proper 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) (former Sumitomo Metal Industries) [1] on 26 February 2009 (see Section 2.3.1 of the 2014 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 General Shareholders' Meeting of 28 May 2015 will be asked to renew this prohibition and to suspend the Management Board's ability to use draft resolutions to increase the Company's share capital (with the exception of capital increases reserved for employees or the allocation of medium/long-term incentive instruments (performance shares and options) submitted to the Shareholders' Meeting of 28 May 2015) during a takeover period on shares of the Company, except with the prior authorization of the Shareholders' Meeting.

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 2015.

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 5.1.3 "Strategic risks" of the 2014 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 2014 Registration Document – Subsequent events), and the bond issues of December 2011, August 2012 and September 2014 (see Section 2.2.6 "Non-equity instruments" of the 2014 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 Mr. Jean-Pierre Michel and Mr. Olivier Mallet, members of the Management Board, are described in the Supervisory Board's Report on the 2014 compensation of the members of the Management Board, which appears in Appendix 2 to Chapter 7 of the 2014 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 2014 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".

Risks maps are in place for each of the Divisions and for the Management Board. Each 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 "Management and risk tracking mechanism" of the 2014 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.

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, compliance with 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 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. 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 allow the Group's new employees to review the Code of Ethics during their first few months at the company, a specific e-learning program aimed at employees that have joined the Group since January 2012 was launched in April 2014. The goal of this project was to allow employees to better adopt ethical values and principles for issues relating to their daily professional practices.

In order to support implementation of the Code of Ethics by all Vallourec employees, in particular managers, a Code of Ethics Officer has been appointed for the Group. This Officer 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;
- ascertaining 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
- preparing an annual report for the Chairman of the Management Board on the Code of Ethics' implementation.

The Code of Ethics Officer reports to the Chairman of the Management Board. They rely on a network of local correspondents, organized by geographical zones. These contacts report back to the Ethics Officer periodically on the duties delegated to them.

An Ethics Committee, led by the Code of Ethics Officer, meets with the representatives of the functional departments (Compliance Officer, 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

Consistent with the principles set out in the Code of Ethics and with the commitments of the United Nations Global Compact 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.

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 instructor-led training continued internationally in 2014, an e-learning program was implemented from the second quarter of 2014 to educate all of the Group's technical and supervisory staff, and managers about the laws and regulations concerning competition, the fight against corruption and environmental protection.

The Group's General Counsel likewise acts as Compliance Officer. To that end, she serves on the Ethics Committee.

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 clearly define the prerequisite approval levels for commitments entered into by any Group entity. It may not constitute a departure from the statutory and regulatory provisions.

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 of enabling it to carry out its business under the best possible conditions in the face of competition and 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 Conduct 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 new 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, they update and keeps available for the French securities regulator (*Autorité des Marchés Financiers* – AMF) three insider lists (Top Managers, Internal Insiders, External Insiders). Insiders are required to refrain from trading Vallourec securities during closed periods and all persons possessing privileged information are required to refrain from trading securities even outside of closed periods.

3.1.6 Procedure for media relations

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.

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.

In 2014, the Group drew specific attention to preparing, disseminating and monitoring a self-assessment mechanism on internal control. This is now used in all companies within the risk management and internal control scope (see paragraph 4 below). This tool centers around a new set of internal control guidelines, which were developed by Vallourec using objectives which go beyond the reliability of financial information. It is based on an analysis of the internal control risks inherent in key processes and to the identification of their key control points. In order to prepare them, Vallourec relied on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) in its 2013 edition, and on the provisions of the Reference Framework of the French securities regulator *(Autorité des Marchés Financiers)* in its 2010 edition. Specific controls were included to prevent fraud.

The results of the self-assessment were communicated to each of the functional departments concerned: management control, treasury-financing, finance, industrial investments, quality-safety, sustainable development, purchasing, information systems, human resources, communications, legal affairs. They revealed that certain rules relating to information systems, traveler safety, communications or ethics are not always well-known or followed.

The corrective actions vary from one entity to the next, and depend on the priorities the entities have set for themselves. The most frequent action plans, with a high priority, concern implementing procedures that are linked to information systems, purchasing, human resources and communications. They are coordinated at the Division level, with the support of the functional departments if needed.

The interventions of the Internal Audit Department incorporate as their objective evaluating the quality of self-assessment of the level of internal control approved by each company supervisory.

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 contingent liabilities and 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 statement of financial position 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;
- centralized cash management in Chinese yuan for the main Chinese companies at Vallourec Beijing Co. Ltd; and
- centralized cash management in US dollars for some US companies at 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 are 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 policy.

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.

3.2.2 Other key internal control mechanisms

3.2.2.1 Industrial capital expenditure

The Group Management 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.

The Large Project Office (LPO), a functional department created in 2013, became fully operational mid-2014. The LPO intervened in major industrial projects underway in order to implement "best practices" of governance and management. The goal is to reliably complete them, notably as concerns costs, quality and time frames.

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, in particular by implementing a standard problem resolution method for the annual progress plan;
- 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 the areas of health and safety, quality and environment, and "Lean Management". Lean Management aims to improve performance in terms of productivity, level of stock and time to complete orders. Grouped together under the Industrial Excellence Department, these functional departments assist the Group's entities in rolling out the VMS, sharing and capitalizing on "best practices", and developing managers' expertise.

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 above, 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 2014 Vallourec renewed its three-year program (2014-2016) 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 4.2.2.1 "Safety" of the 2014 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 above, 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 a member of the Group Management Committee, which is associated with the Sustainable Development Department.

Since 2014, the Sustainable Development Department annually presents the Group Management Committee with a five-year strategic plan. Its main provisions, approved by the Supervisory Board during its meeting of 30 July 2014, were incorporated into the Group's strategic guidelines.

At the operational level, the Sustainable Development Department submits the decisions to be implemented by the Divisions and functional departments to the Group Management Committee.

The Sustainable Development Department communicates the information required in application of the law of 12 July 2010, the "Grenelle 2" law, the purpose of which is to emphasize the Company's commitment to corporate social, environmental, societal and ethical issues, as well as the progress achieved, in Chapter 4 of the Registration Document.

Under this framework, the Sustainable Development Department examines with the Divisions and functional departments the potential paths of progress in terms of Sustainable Development and Social Responsibility. It 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 objective of the ISO 14001 certification of all 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 20% before 2020, based on the 2008 guidelines. From this perspective, it adjusts practices and ensures that the operational entities invest in new equipment. These actions were also aimed at reducing greenhouse gas emissions.

Since 2013, several sites, including those of Barreiro, Saint-Saulve and Vallourec Oil & Gas UK Ltd, have obtained ISO 50001 certification for energy management.

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 Purchasing

In 2014, 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 overall 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 customer, who is required to approve it against an analysis of comparative offers.

The emphasis on formalizing procedures and establishing e-learning have also allowed the entire Purchasing Department to gain further knowledge on risk management and internal control.

3.2.2.7 Information systems

The multi-year audit plan for the information system security of the Group was renewed for the 2014-2018 period, and its scope was expanded to new regions, such as the Middle East.

In 2014, the Information Systems Department strengthened its capacity to detect attempts at intrusion by putting in place network observation mechanisms for all regions. The plan concerning safety, primarily that of the lower applications layers, which are close to production workshops, progressed in France. It will be extended, as planned, to Germany, and then to the other geographical segments of the Group.

Furthermore, a hard disk encryption solution for laptops has been rolled out since 2013.

Actions to educate employees on protecting information and assisting in major projects related to risk management and internal control likewise concerned:

- a training program on protecting information;
- the commissioning of the SAP application at Vallourec Star LP and its roll-out at Vallourec Oil and Gas France;
- the adoption of a digital, secure solution for the organization and maintenance of Supervisory Boards.

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.

Within the context of talent management, the Human Resources Department identifies key positions in the Group, analyzes the risks of misconduct, and then consequently prepares development and succession plans. Furthermore, Human Resources (HR) management ensures that there is an available group of people who have the necessary expertise and abilities to perform the duties with which they have been entrusted.

Various control activities relating to the Human Resources process are monitored in cooperation with the Head of Internal Control of the Group's HR Department.

After completing the 2013 international employee satisfaction survey, and an in-depth discussion of the Human Resources standards that followed, the Group's Human Resources Department continues to ensure that the founding elements of Vallourec's Human Resources policy are respected and well-established.

In 2014, an area of expertise relating to internal control was added to the guidelines by business line for all interdisciplinary duties actively contributing to risk control. This expertise will henceforth form part of the annual performance review process.

The HR internal control questionnaire provided to the Group's Human Resources services to measure the quality of their operations was incorporated into the self-assessment mechanism in which the main HR functions participated in 2014. Based on the qualitative and quantitative responses received, the Group's Human Resources Department will conduct audits in 2015, during which it will follow the corrective action plans or plans for improvement.

3.2.2.9 Commercial relationships

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 policies

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 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 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 true and fair view 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 AND INTERNAL CONTROL

The head of risk management and internal control 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 provides methodological support to the Company's operational and functional departments. In 2014, Vallourec adopted a new, "Internal Control" function, for which the head of risk management is responsible. The aim is to maintain the momentum established by the plan to strengthen the internal control mechanism, and to turn it from a project into a sustainable structure.

5.5 HEAD OF INTERNAL AUDITING

The Internal Audit Department 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 in January 2014, concerns the following five topics: term of internal audit; duty to report on actions and responsibilities, internal audit authority; independence of internal audit 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 2014, the Internal Audit Department pursued its improvement plan, launched in 2013, which is aimed at making significant progress in the structuring of the internal audit process. The greatest strides made in 2014 related to:

- standardizing the communication of its results;
- standardizing 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 (see above, 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 treatment 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

The principles and rules for determining the compensation of corporate officers are shown in Chapter 7 to the 2014 Registration Document, the 2014 Supervisory Board Report on the compensation of members of the Management Board (Appendix 2 of Chapter 7) and the release dated 27 February 2015, which is available on Vallourec's website (www.vallourec.com), which forms an integral part of this report.

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 of the 2014 Registration Document, which is an integral part of this report.

The AFEP-MEDEF Corporate Governance Code is available on the MEDEF's website (www.medef.com).

Appendix 2 – Supervisory Board's report on the 2014 compensation of members of the Management Board

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 at the Shareholders' Meeting on 28 May 2015, regarding the compensation due or allocated with regard to the fiscal year ended 31 December 2014 to 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 that requires specific expertise developed 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 2014, the CNRG consisted of five members, four 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;
- Ms. Anne-Marie Idrac, independent member; and
- Ms. Alexandra Schaapveld, 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 annual, medium- and long-term 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 that 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 policy 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 Group Management Committee and more generally of the compensation policy for the Group.

The 2014 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 conditions. 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 medium- 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:

- **recognition of short-, medium- 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);
- **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 medium- and long-term incentive equity instruments);
- **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 the median of the sample;
- **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;
- **structure of employee compensation consistently applied 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 22,875 Vallourec shares.

Mr. Jean-Pierre Michel and Mr. 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 7,239 and 10,127 Vallourec shares.

2.3 COMPONENTS OF MANAGEMENT BOARD MEMBERS' COMPENSATION

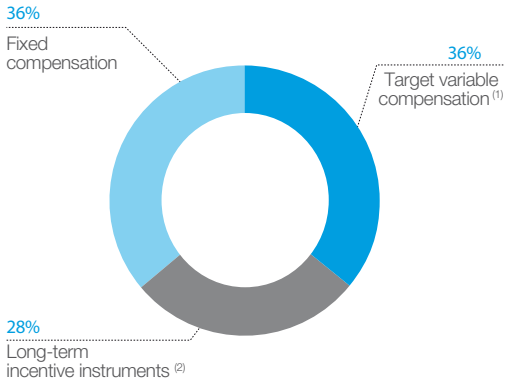
2.3.1 Weight of the components of Management Board members' compensation

The primary components of the compensation of members of the Management Board, along with their purposes, are defined as follows:

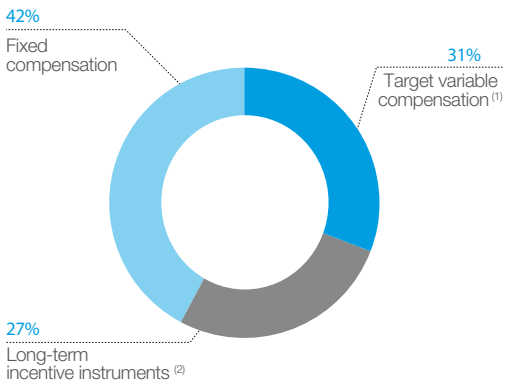
Component	Purposes
Fixed portion	Role and responsibility of each member of the Management Board
Variable portion	Linked to short-term performance by the achievement of annual objectives
Performance shares	Linked to medium-term performance and alignment with shareholders' interests
Stock options	Linked to long-term performance and alignment with shareholders' interests

For 2014 target, the respective weight of each of these elements is as follows:

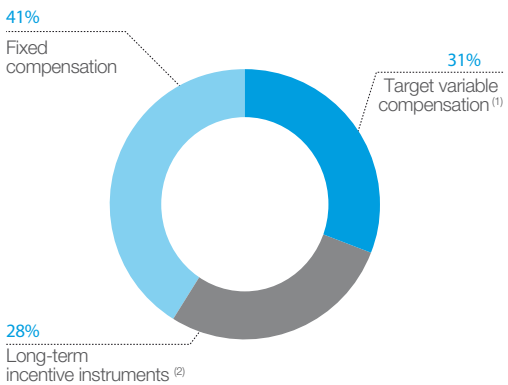
Mr. Philippe CROUZET



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 2014 according to the accounting valuation under IFRS, for April 2014.

2.3.2 Fixed portion

The fixed portion is determined every year based on the responsibility assumed by each member of the Management Board and on Vallourec's business sector, which is cyclical by nature. 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 is based on the fixed portion, the Supervisory Board devotes particular attention to ensuring that the fixed portion is reasonable.

On these bases, the fixed portions of the three Management Board members – portions that will remain unchanged until the end of their terms of office on 15 March 2016 – have changed as follows:

- **the fixed portion of Mr. Philippe Crouzet's compensation,** which totaled €760,000 for 2013, has not changed at his request, since he took office in 2009. This fixed portion rose to €798,000 (or a 5% increase) as from 1 January 2014. The Supervisory Board deemed this reassessment of the fixed portion appropriate for the following reasons:
  - the new internal organization of key functions, in effect since 3 February 2014, increases Mr. Philippe Crouzet's direct responsibilities since all of the Group's operational divisions now report directly to him,
  - compensation surveys conducted by an independent consultant under the responsibility of the Appointments, Compensation and Governance Committee, revealed a positioning significantly below the median, especially for the fixed portion,
  - Mr. Philippe Crouzet's fixed portion has not been increased since he took office in 2009. The percentage increase set in 2014 (5%) appears reasonable given the general salary increases of the Group's French employees which averaged 14% over the same period;
- **the fixed portion of Mr. Jean-Pierre Michel's compensation,** defined in 2008, was raised in 2012 by 4.65% to €450,000. Since then, it has remained unchanged;
- **the fixed portion of Mr. Olivier Mallet's compensation** was raised to €420,000 (an increase of 5%) effective 1 January 2014. The Supervisory Board deemed this reassessment of the fixed portion appropriate given the significant strengthening of the role of the finance and control functions, as part of the new organisation of the Group management bodies since February 3, 2014, which has led to a substantial increase in Mr. Mallet's responsibilities.

With regard to the general salary increases of French employees between 2009 and 2014, the changes in the fixed portions for members of the Management Board over the same period seem moderate, as the table below attests.

Change in the fixed compensation of French employees of the Group and members of the Management Board for the period 2009-2014 for the full year

Management Board member	2009	2010	2011	2012	2013	2014	Total change
Philippe Crouzet	€760,000	€760,000	€760,000	€760,000	€760,000	€798,000	+5% over the period
Jean-Pierre Michel	€430,000	€430,000	€430,000	€450,000	€450,000	€450,000	+4.65% over the period
Olivier Mallet	€375,000	€375,000	€375,000	€400,000	€400,000	€420,000	+12% over the period
Total salary increase budget for the Group's employees (2009 to 2014 budgets)							+14.2% over the period

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, it corresponds to a percentage of the fixed portion and contains minimum thresholds, below which no payment is made; target levels when the objectives set by the Supervisory Board are met, and maximum levels when target objectives have been exceeded. With regard to the 2014 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 Mr. Jean-Pierre Michel and Mr. Olivier Mallet, the variable portions could vary from 0 to 75% of their target fixed portions and attain 100% if maximum objectives were achieved. In summary, the elements of monetary compensation of the members of the Management Board were as follows:

	Philippe Crouzet, Chairman of the Management Board	Jean-Pierre Michel, Member of the Management Board	Olivier Mallet, Member of the Management Board
Fixed portion *In €*	798,000	450,000	420,000
Target variable portion *As a % of fixed portion*	100%	75%	75%
Maximum variable portion *As a % of fixed portion*	135%	100%	100%

The variable portions are subordinate to achievement of several precise and previously established objectives of a quantitative or 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.

In 2014, quantitative objectives represented 70% of the target variable portion of Mr. Philippe Crouzet, Mr. Jean-Pierre Michel and Mr. Olivier Mallet.

The objectives taken into account to determine 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. Given the Management Board's expected commitment to issues involving the Group's social, corporate and environmental responsibility, for the 2014 variable portion of the compensation of all Management Board members, the Supervisory Board, at the CNRG's recommendation, has introduced two quantitative performance objectives regarding social performance, one hinging on safety and the other on waste recovery.

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 target variable portion.

In this context, the variable portions of each Management Board member for the 2014 fiscal year were determined as follows:

	Members of the Management Board		
2014 variable portion	**Philippe Crouzet**	**Jean-Pierre Michel**	**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: 60%	Weight in target variable portion: 45%	Weight in target variable portion: 45%
EBITDA	This criterion varied from 0 to 20% if the target was attained and could be established as a maximum of 27%.	This criterion varied from 0 to 15% if the target was attained and could be established as a maximum of 20%.	This criterion varied from 0 to 15% if the target was attained and could be established as a maximum of 20%.
Consolidated net profit or loss, Group share	This criterion varied from 0 to 20% if the target was attained and could be established as 27% as a maximum.	This criterion varied from 0 to 15% if the target was attained and could be established as 20% as a maximum.	This criterion varied from 0 to 15% if the target was attained and could be established as 20% as a maximum.
Management of inventory, trade receivables and trade payables	This criterion varied from 0 to 10% if the target was attained and could be established as 13.5% as a maximum.	This criterion varied from 0 to 7.5% if the target was attained and could be established as 10% as a maximum.	This criterion varied from 0 to 7.5% if the target was attained and could be established as 10% as a maximum.
Free cash flow	This criterion varied from 0 to 10% if the target was attained and could be established as 13.5% as a maximum.	This criterion varied from 0 to 7.5% if the target was attained and could be established as 10% as a maximum.	This criterion varied from 0 to 7.5% if the target was attained and could be established as 10% as a maximum.
Average rate of achievement of financial performance objectives with regard to their weight in the target variable portion	41%	41%	41%
Total in absolute value of financial performance objectives	€327,064	€137,763	€128,579
Operating performance objectives	Weight in target variable portion: 40%.	Weight in target variable portion: 30%.	Weight in target variable portion: 30%.
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 2013.	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 2013.	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 2013.
Waste recovery	These criteria varied from 0 to 5% from the target, and could be established as 6.75% as a maximum.	These criteria varied from 0 to 3.75% from the target, and could be established as 5% as a maximum.	These criteria varied from 0 to 3.75% from the target, and could be established as 5% as a maximum.
Pillars of progress	This qualitative criterion based on competitiveness and international development was assessed by the Supervisory Board. It varied 0 to 30% from the target, and could be established as 40.5% as a maximum.	This qualitative criterion based on industrial excellence and industrial project performance was assessed by the Supervisory Board. It varied 0 to 22.5% from the target, and could be established as 30% as a maximum.	This qualitative criterion based on internal control, organization of the finance function and operational control was assessed by the Supervisory Board. It varied 0 to 22.5% from the target, and could be established as 30% as a maximum.
Average rate of achievement of operating performance objectives with regard to their weight in the target variable portion	36%	29%	44%
Total in absolute value of operating performance objectives	€286,282	€99,000	€139,125
Variable portion set by the Supervisory Board	€613,346	€236,763	€267,704
Percentage of the variable portion set by the Supervisory Board in relation to the target variable portion	77%	70%	85%

(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 total 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

2.3.4.1 Performance shares and options granted in 2014

In an industrial group for which capital expenditure projects might have a distant time frame for achieving profitability, medium- and long-term incentive equity instruments seem particularly appropriate. Consequently, the Group has used a dynamic policy for many 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 linked to long-term performance.

In 2014, the Supervisory Board thus authorized the renewal of:

- for the sixth consecutive year, an international plan to grant, subject to continuous service and performance conditions, a maximum of six shares per beneficiary, for 21,677 employees from Vallourec Group entities located in Germany, Brazil, Canada, 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 eighth consecutive year, a plan to grant, subject to continuous service and performance conditions, a maximum number of 413,597 performance shares, to benefit 1,755 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 eighth consecutive year, a plan to grant, subject to continuous service and performance conditions, a maximum number of 373,550 share subscription options, to benefit 396 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 0.70% of share capital as at 31 December 2014, the portion granted to members of the Management Board was set at 7.06% of the total allocations, and 0.05% of 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 incentive instruments). After analyzing the economic and fiscal environment and various market practices, the Supervisory Board, at the CNRG's recommendation, for all long-term incentive instruments allocated for 2014, reduced the proportion of share subscription options by approximately 33% and increased the proportion of performance shares by the same percentage so that the value of the options and performance shares allocated to members of the Management Board in 2014 represented 33% and 66% respectively of the total value of the long-term incentive instruments allocated to them for that same period. Taking into account this new balance between performance shares and options applicable to all Group beneficiaries, the number of performance shares and options allocated to Olivier Mallet increased for the same reasons as those stated in paragraph 2.3.2 above.

The performance shares granted to members of the Management Board in 2014 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 employed on a consolidated basis (ROCE) for the fiscal years 2014, 2015 and 2016, compared with the ROCE recorded in the budget for the fiscal years 2014, 2015 and 2016 (40% weighting);
- consolidated sales at consistent foreign exchange rates and with a consistent scope for the fiscal years 2014, 2015 and 2016, compared with the sales recorded in the budget for the fiscal years 2014, 2015 and 2016 (30% weighting);
- stock relative performance of Vallourec shares between the fiscal years 2014 and 2016, compared to a reference panel comprised of Tenaris, TMK and Vallourec (15% weighting); and
- relative performance of the consolidated EBITDA between the fiscal years 2014 and 2016, 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. It shall be null below performance corresponding to the minimum threshold; it shall be 1.33 in the event of outperformance of the objective. This target performance 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 2014 for performance corresponding to coefficient 1 was 15,300 for Mr. Philippe Crouzet and 7,200 for Mr. Jean-Pierre Michel. The number of shares granted to Mr. Olivier Mallet increased to 7,200 for the same reasons as those stated in 2.3.2 above.

The share subscription options granted to members of the Management Board in 2014 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 employed (ROCE) for 2014, 2015, 2016 and 2017, compared with the expected rate of return on capital employed, which is recorded in the budget for the 2014, 2015, 2016 and 2017 years (40% weighting);
- the sales for 2014, 2015, 2016 and 2017, compared with the sales recorded in the budget for 2014, 2015, 2016 and 2017 (30% weighting);
- relative performance of Vallourec shares between fiscal year 2014 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 2014 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. It shall be nil below performance corresponding to the minimum threshold; it shall be 1 if a performance target is achieved. This target performance 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 2014 for performance corresponding to coefficient 1 was 18,100 for Mr. Philippe Crouzet and 8,500 for Mr. Jean-Pierre Michel. The number of options allocated to Mr. Olivier Mallet increased to 8,500 for the same reasons as those stated in 2.3.2 above.

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%. For allocations that will occur in 2015, this weighting, which is already high, shall be increased to 50%, while the panel, which the Supervisory Board deemed too narrow, will be extended to 14 industrial companies.

2.3.4.2 Performance shares definitively vested in 2014

The period for assessing the performance share allocation plan, which began on 30 March 2011, ended on 30 March 2014. The shares that were initially allocated under this plan, within the context of the twenty-sixth resolution that was approved by the Shareholders' Meeting of 7 June 2011, were subject to three performance conditions, which were assessed for the 2012 and 2013 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 2012 and 2013 was less than 14%; the coefficient was 1 if the average was at least 18% and 1.33 if the average was 21% or higher;
- growth of consolidated sales (weighting 30%): a coefficient of 0 (no shares acquired) applied if 2013 sales were less than €6.120 billion; the coefficient was 1 if sales were at least €6.532 billion and 1.33 if sales were €6.670 billion or higher;
- stock market relative performance of 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 2012 performance shares plan Members of the Management Board	Philippe Crouzet	Jean-Pierre Michel	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 2014 after performance conditions applied	1,463	719	585	2,767
Percentage of shares vested on 30 March 2014 against the maximum number of performance shares initially allocated on 30 March 2012	16.2%	16.2%	16.2%	16.2%

(a) Based on a coefficient 1, corresponding to the performance target.

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 moreover agree not to use 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. 121 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. 38 people as at 31 December 2014), 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 2014 are as follows:

Members of the Management Board	Reference compensation at 31 December 2014	Annual potential rights for 2014 [a]	Total annual potential rights as at 31 December 2014 [b]	Limit on potential rights	Length of service conditions
Philippe Crouzet	€798,000	2%	11.50%	20%	36 months
Jean-Pierre Michel	€450,000	2%	17.34%	20%	36 months
Olivier Mallet	€420,000	1.8%	11.05%	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 2014, the mechanisms linked to the termination of duties of the three members of the Management Board remained the same as in 2013.

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 2012, 2013 and 2014 fiscal years, the PC would be set at 30, 61 and 51 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 set out 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 Mr. Jean-Pierre Michel and Mr. Olivier Mallet, members of the Management Board

The Supervisory Board, in its session of 11 December 2013, reviewed the departure mechanism for Mr. Jean-Pierre Michel and Mr. Olivier Mallet, members of the Vallourec Management Board and holders of an employment contract with Vallourec Tubes which was suspended during their terms of office.

After having (i) acknowledged Mr. Jean-Pierre Michel and Mr. 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 Mr. Jean-Pierre Michel and Mr. 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 2014, to 18 months' fixed and variable compensation in the event his employment contract is breached for a reason other than serious misconduct, i.e. a theoretical amount of €818 thousand [(1)].

(1) 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 (6.5 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 2014, 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 misconduct, or a theoretical amount of €46 thousand (1).

Given this situation, the Supervisory Board decided that Mr. Olivier Mallet could further benefit from a 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 (1/12th 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 2012, 2013 and 2014 fiscal years, the PC would be set at 38, 69 and 60 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 circumstances, 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 was approved by 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 2014 to each of the three Management Board members

3.1 COMPENSATION DUE OR ALLOCATED FOR THE FISCAL YEAR ENDED 31 DECEMBER 2014 TO MR. PHILIPPE CROUZET

Components of compensation due or allocated for the fiscal year ended 31 December 2014	Value submitted to advisory vote	Presentation
Fixed compensation	€798,000	Unchanged since 2009 his entry into office in 2009, the fixed portion of Mr. Philippe Crouzet's compensation was increased in 2014 by 5% to €798,000. The Supervisory Board deemed this reassessment of the variable portion appropriate for the reasons stated in paragraph 2.3.2 of this report.
Annual variable compensation	€613,346	See paragraph 2.3.3 of this report for a description of the annual variable compensation.
Deferred variable compensation	N/A	There is no deferred variable compensation.
Extraordinary compensation	N/A	There is no extraordinary compensation.
Long-term incentive equity instruments	Options = €142,085 (accounting valuation for target achievement)	18,100 options granted for target achievement, or 0.01% of share capital as at 31 December 2014. This grant was authorized by the Supervisory Board meeting of 26 February 2014, 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 = €473,841 (accounting valuation for target achievement)	15,300 performance shares granted for target achievement, or 0.012% of share capital as at 31 December 2014. This grant was authorized by the Supervisory Board on 26 February 2014, 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	N/A	Mr. Philippe Crouzet does not receive attendance fees for corporate offices held within the Vallourec Group.
Valuation of benefits of any kind	€4,404 [(a)]	Car
Components of compensation due or awarded during the fiscal year ended that are or were voted on by the Shareholders' Meeting under the related party 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 related party 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 related party 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 related party 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 related party agreements. See paragraph 2.3.7 of this report for a description of the supplementary retirement plan.

(a) Carrying amount of €11,727.

3.2 COMPENSATION DUE OR ALLOCATED FOR THE FISCAL YEAR ENDED 31 DECEMBER 2014 TO MR. JEAN-PIERRE MICHEL

Components of the compensation due or allocated for the fiscal year ended 31 December 2014	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	€236,763	See paragraph 2.3.3 of this report for a description of the annual variable compensation.
Deferred variable compensation	N/A	There is no deferred variable compensation.
Extraordinary compensation	N/A	There is no extraordinary compensation.
Long-term incentive equity instruments	Options = €66,725 (accounting valuation for target achievement)	8,500 options granted for target achievement, or 0.007% of share capital as at 31 December 2014. This grant was authorized by the Supervisory Board meeting of 26 February 2014, 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 = €222,984 (accounting valuation for target achievement)	7,200 performance shares granted for target achievement, or 0.006% of share capital as at 31 December 2014. This grant was authorized by the Supervisory Board meeting of 26 February 2014, 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	N/A	Mr. Jean-Pierre Michel does not receive attendance fees for corporate offices held within the Vallourec Group.
Valuation of all benefits in kind	€4,932 [(a)]	Car
Components of compensation due or awarded during the fiscal year ended that are or were voted on by the Shareholders' Meeting under the related party agreements and commitments procedure	**Value submitted for vote**	**Presentation**
Termination payment	N/A	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	N/A	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.

(a) Carrying amount of €14,281.

3.3 COMPENSATION DUE OR ALLOCATED FOR THE FISCAL YEAR ENDED 31 DECEMBER 2014 TO MR. OLIVIER MALLET

Components of the compensation due or allocated for the fiscal year ended 31 December 2014	Value submitted for an advisory vote	Presentation
Fixed compensation	€420,000	Unchanged since 2012, the fixed portion of Mr. Olivier Mallet's compensation was increased by 5% in 2014 to total €420,000. The Supervisory Board deemed this reassessment of the fixed portion of compensation appropriate for the reasons stated in paragraph 2.3.2 of this report.
Annual variable compensation	€267,704	See paragraph 2.3.3 of this report for a description of the annual variable compensation.
Deferred variable compensation	N/A	There is no deferred variable compensation.
Extraordinary compensation	N/A	There is no extraordinary compensation.
Long-term incentive equity instruments	Options = €66,725 (accounting valuation for target achievement)	8,500 options granted for target achievement, or 0.007% of share capital as at 31 December 2014. This grant was authorized by the Supervisory Board meeting of 26 February 2014, 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 = €222,984 (accounting valuation for target achievement)	7,200 performance shares granted for target achievement, or 0.006% of share capital as at 31 December 2014. This grant was authorized by the Supervisory Board meeting of 26 February 2014, 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	N/A	Mr. Olivier Mallet does not receive attendance fees for corporate offices held within the Vallourec Group.
Valuation of all benefits in kind	€5,461 [(a)]	Car
Components of compensation due or awarded during the fiscal year ended that are or were voted on by the Shareholders' Meeting under the related party 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 approved by the Shareholders' Meeting held on 28 May 2014, in its fifth resolution, in conformity with the procedure for related party agreements. See paragraph 2.3.8.2 of this report for a description of the termination payment scheme.
Non-compete compensation	N/A	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 related party agreements. See paragraph 2.3.7 of this report for a description of the supplementary retirement plan.

(a) Carrying amount of €15,732.

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 executive 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 7.1.1.1 above of the 2014 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 retirement plans for corporate officers meet several conditions including that *"the beneficiary is a corporate officer or employee of the company at the time of their retirement and claim of benefits under the rules in force".*	The supplemental retirement 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 retirement 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 financial statements for the first half of the year 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.
Paragraph 21.1 of the AFEP-MEDEF Code recommends that the method for compensating Board members *"[take into] account, according to the terms that [the Board] defines, the effective participation of the [members] on the Board and in the Committees, and thus that it [contain] a variable portion".*	Since 1 January 2014, the structure of the Board Chairman's compensation does not contain a variable portion taking any variations linked to attendance into account. Indeed, all of the components of her compensation, which prevailed up to year-end 2013 (attendance fees and fixed annual compensation) were added to only produce a single fixed annual compensation. The Supervisory Board considers that this method of compensation is reasonable and consistent to the extent that the Board Chairman performs duties and procedures which go well beyond merely attending the Board and Committee meetings. We nevertheless emphasize, for all practical purposes, that in 2014 the Board Chairman was present at all meetings of the Board, the Strategy Committee and the Finance and Audit Committee (even though as of 28 May 2014 she was no longer a member of this Committee).
Paragraph 23.2.4 of the AFEP-MEDEF Code recommends *"proceeding with the allocation [of share options and performance shares] during the same calendar periods".*	In 2014, the schedule of share option allocations, traditionally set in September, was modified to coincide with the schedule for allocating performance shares and communicating salary increases and bonuses. This exceptional modification, definitively established for the future, had the purpose of instituting a single meeting regarding the various components of employee compensation.

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 2014

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 €)*
Gérard Terneyre, Director of Strategy	Shares	Disposal	02/01/2014	09/01/2014	Euronext Paris	39.0645	39,064.5
Gérard Terneyre, Director of Strategy	Shares	Disposal	03/01/2014	09/01/2014	Euronext Paris	39.5	39,500
Gérard Terneyre, Director of Strategy	Shares	Disposal	06/01/2014	09/01/2014	Euronext Paris	39.5974	39,597.4
Gérard Terneyre, Director of Strategy	Shares	Disposal	08/01/2014	09/01/2014	Euronext Paris	39.9415	39,941.5
Cédric de Bailliencourt, permanent representative of Bolloré SA, member of the Supervisory Board	Shares	Acquisition	14/05/2014	15/05/2014	Euronext Paris	40.7922	10,198.05
Cédric de Bailliencourt, permanent representative of Bolloré SA, member of the Supervisory Board	Shares	Acquisition	19/05/2014	20/05/2014	Euronext Paris	38.285	9,571.25
Individual connected to Jean-Pierre Michel, member of the Management Board – Managing Director	Shares	Disposal	06/10/2014	10/10/2014	Euronext Paris	34.58	6,916
Individual connected to Jean-Pierre Michel, member of the Management Board – Managing Director	Shares	Disposal	12/11/2014	04/12/2014	Euronext Paris	30.065	30,065
Jean-Pierre Michel, member of the Management Board	Shares	Disposal	21/11/2014	04/12/2014	Euronext Paris	30.105	91,398.78



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8.1 Oil & Gas

The Oil & Gas market is described in Section 3.1.9.1 of this Registration Document ("Information on the competitive position of the Company – Oil & Gas").

In 2014, global expenditure on exploration and production totaled USD 680 billion [1], a 5.8% increase compared with 2013. Even though the price of Brent was on average USD 99/b in 2014 [2] (compared to USD 109/b in 2013), it began to erode as of September, and then dropped very sharply in late November 2014, dipping below USD 50/b in early 2015. This evolution led oil operators to reconsider their budgets and investment priorities. According to Barclays, world exploration and production expenses for 2015 are estimated at USD 619 billion [1], an 8.8% drop from 2014 (based on the average price of Brent, USD 70/b and of WTI, USD 65/b in 2015). Furthermore, Barclays is predicting a more considerable drop in exploration and production expenses if the price of oil was to stabilize at the levels observed in early 2015, or if it was to further deteriorate during the year.

In the longer term, according to the report issued by the International Energy Agency (IEA), world oil demand should rise from approximately 90 million barrels per day (mb/d) in 2013 to 96 mb/d in 2020 and 104 mb/d in 2040 [4]. By 2040, 38 mb/d should come from oil fields to be developed or discovered, thereby making exploration and production expenses necessary to meet the demand for oil. Indeed, conventional gross oil production in the existing fields should drop 58% by 2040. Worldwide growth in oil production should, during the next ten years, primarily come from Brazil and the United States, where Vallourec is strongly established.

In the United States, the average number of rigs [5] in 2014 rose to 1,862 units, representing a 5.7% increase compared with the 1,761 rigs in 2013. The number of active rigs reached a peak of 1,931 units in September 2014 to stand at 1,840 units in late December 2014 (compared with 1,757 units in late December 2013, a rise of 4.7%). In late 2014, the significant drop in the price of WTI was reflected by a drop in the number of active rigs, which has expanded in early 2015. In addition, at the end of March, 1,048 rigs were active[6], representing a 43.0% fall compared with December 2014.

The proportion of oil rigs rose in 2014 (up 11.2% compared with the 2013 average) with an average of 1,527 active rigs, compared with 1,373 units in 2013. In late December 2014, nearly 81% of the rigs were for oil drilling, compared with 79% the previous year. Gas drilling dropped by 13.2%, reaching an average of 333 active rigs in 2014. During the first half of 2014, the difficult winter resulted in an increase in gas prices (Henry Hub), to above USD 4/Mbtu (US dollars per million British thermal units). Despite the drop to around USD 3/Mbtu [3] during the last few days of 2014, gas prices rose to an average of USD 4.2/Mbtu, a 12.5% increase compared with 2013, a level that was too low to trigger a significant recovery of gas drilling.

The increased efficiency of the rigs, allowing more wells to be drilled per unit, and the increase in well length, were factors that were favorable to tube consumption. In 2014, the average number of wells per onshore rig [7] was 5.2, which had stabilized compared with 2013, and was above the 4.9 wells on average in 2012.

In the Gulf of Mexico, the number of drilling platforms stood at 33 units at the end of March 2015 [6], compared with 56 units at the end of December 2014 and 59 units at the end of December 2013.

Sustained by the increased local demand, Vallourec has benefited from a significant increase in its volumes throughout the year in the United States. The ramping up of the new rolling mill in Youngstown, Ohio indeed allowed Vallourec to better meet the needs of its customers in terms of products, services and lead time. With this favorable environment, the price of OCTG contracts rose during the second half of 2014.

In the rest of the world, the international active rig count [8] was 1,311 units in late 2014, down 1.8% compared with year-end 2013. The average international active rig count nevertheless rose 3.1% in 2014 compared with 2013.

In Brazil, in June 2014, the Group's main Brazilian customer, Petrobras, informed Vallourec of its decision to eliminate most of its tube inventories by the end of the year. This temporary adjustment impacted the Group's results in the second half of 2014, although it did not challenge the long-term positive outlook, Brazil being one of the main areas of growth for deepwater offshore activities.

(1) Barclays Capital – Global 2015 E & P Spending Outlook – published 8 January 2015.

(2) Price of Brent. Thomson Reuters – 2014 average, data collected in January 2015.

(3) Price of gas (Henry Hub). Thomson Reuters – 2014 average, data collected in January 2015.

(4) IEA – World Energy Outlook 2014 – New Policies Scenario – published in November 2014.

(5) Baker Hugues (number of active rigs in the United States) – December 2014.

(6) Baker Hugues (number of active rigs in the United States) – March 2015.

(7) Baker Hugues (number of wells per onshore rig in the United States) – December 2014.

(8) Baker Hugues (number of active international rigs = excluding North America) – December 2014.

Operations in Brazil continued to be driven by Petrobras' five-year investment plan (USD 221 billion, including USD 154 billion for exploration and production between 2014 and 2018 [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 in Brazil should thus go from 2.1 mb/d in 2013 to 4.9 mb/day in 2025, and approximately 5.7 mb/d in 2040 [2]. The portion of world oil produced in deep water should gradually grow from 7% in 2013 to 11% in 2040, reaching a level of approximately 11 mb/d [2]. Brazil, by contributing more than 50% of world oil production in deep waters by 2040, is set to become the leading world oil producer in deep water.

In the EAMEA region [3]**,** the level of activity was down in the North Sea, due to the suspension or cancellation of some projects by international oil operators. Conversely, offshore operations remained well oriented in West Africa.

Full year sales grew thanks to exceptional orders recorded in 2013, notably in the Middle East, where the operator Saudi Aramco had expressed very significant needs for premium products.

Vallourec's sales in the fourth quarter were nevertheless affected by the low level of orders recorded since the second quarter of 2014. This results from some oil operators adjusting their inventories, such as Saudi Aramco, as well as from the postponement of certain projects, along with an increased competition. In late 2014-early 2015, the drop in oil prices prompted international oil operators to be increasingly selective in choosing projects to be developed in the region. Nevertheless, in the medium term, major investment programs have become necessary to offset depletion, maintain or increase export capacities, and meet the growing domestic demand for oil and gas, in Abu Dhabi and Saudi Arabia for example.

8.2 Power generation

Conventional energy

The demand for new conventional plants remained weak in Europe and the United States during 2014, while it continued to progress well in Asia.

In Europe, despite uncertainties about the prevailing environmental policies, certain projects for the construction of coal-fired power plants are planned, notably in Poland.

In the United States, in an environment marked by stringent environmental regulations designed to limit carbon emissions, the use of gas-fired power plants is favored. This trend was strengthened by the low gas prices.

In Asia, energy needs continue to boost the demand for new, high-performance thermal power plants. Numerous coal or gas-fired plants are planned, for example in the Philippines, Vietnam, Indonesia and even Malaysia. South Korea is also a dynamic player in the development of new internationally installed capacity. These projects are nevertheless occurring in a very competitive environment.

In order to meet growing demand for electricity, China will continue to install new coal-fired power plant capacity, at a rate that has nevertheless slowed as compared with the last decade. China wants to diversify its energy mix, which is very dependent on coal, and reduce its share to 62% of the energy mix by 2020, compared with approximately 67% in 2014 [4]. India is currently poised as a major player in the development of new coal-fired power plant capacity. In its baseline scenario, the IEA forecasts additional coal-fired power plant installed capacity worldwide of approximately 1,400 GW (gigawatts) between 2014 and 2040. China and India should alone represent more than 60% of new capacity [2].

(1) Petrobras: Business and Management Plan 2014-2018 – 26 February 2014.

(2) IEA – World Energy Outlook 2014 – New Policies Scenario – published in November 2014.

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

(4) Action Plan for Energy Development (2014-2020) – People's Republic of China (State Council).

Nuclear energy

Following the Fukushima incident of March 2011, some countries had decided to review their nuclear energy policies. Nevertheless, the need for numerous countries to reduce their CO_2 emissions has for several years benefited to the recovery of the nuclear energy market.

In Europe, the United Kingdom has launched a vast nuclear program targeting an additional capacity of the nuclear fleet in operation of 16 GW by 2030. The first new-generation nuclear power plant planned should be in operation by 2023 (1). 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 (megawatts) reactors.

In line with the commitments made in September 2014 in terms of CO_2 emissions reduction, China has confirmed its target to reach an installed nuclear capacity of 58 GW in 2020, compared with 15 GW in 2013 (2).

Lastly, new nuclear power plant projects are planned in Asia (India, South Korea, Southeast Asia) and the Middle East (Turkey, Saudi Arabia, United Arab Emirates). According to a report that was recently published by the IEA (3), approximately forty countries worldwide could envision nuclear energy programs.

8.3 Other applications

The environment remained very competitive in the petrochemicals market, in particular in the United States, the Middle East and Asia, where the number of projects continues to increase. In Europe, the weak activity of the petrochemicals market observed in the recent years was confirmed in 2014.

In Europe, non-energy markets (Mechanical engineering, Automotive, Construction and Other) have been affected by the still very competitive environment and continuing pressure on prices. Macroeconomic indicators reflect a persistent fragility of the economic environment in the region.

In Brazil, the macroeconomic environment clearly deteriorated in 2014, resulting in a drop in sales for non-Oil and gas activities. In 2014, GDP growth (gross domestic product) was nill, while industrial production was down 2.9% (4).

8.4 Raw materials

In 2014, iron ore spot prices dropped considerably from those recorded in 2013, worsening over the course of the year. In 2015, average iron ore prices are expected to be significantly lower than in 2014.

Contrary to iron ore, scrap metal prices remained stable in Europe (5) and the United States (6) until the third quarter of 2014. Scrap metal prices considerably dropped as from the fourth quarter of 2014. In 2015, prices are expected to be pushed downwards.

(1) Nuclear Power in the United Kingdom, World Nuclear Association.

(2) Action Plan for Energy Development (2014-2020) – People's Republic of China (State Council).

(3) IEA – World Energy Outlook 2014 – "Potential Newcomers" – published in November 2014.

(4) IHS Global Insight, January 2015.

(5) Scrap E40 – France – CRU.

(6) Shredded Scrap – USA – CRU.

8.5 Foreign currency

The Group remains sensitive to volatility in foreign currencies (Brazilian real, US dollar) against the euro, and recorded a negative transaction effect related to less favorable hedged rates for 2014 deliveries as compared with the previous year, notably for sales in US dollar.

In 2014, the depreciation of the Brazilian real against the US dollar had a positive impact on the competitiveness of Vallourec's Brazilian entities, allowing the Group to benefit from a positive transaction effect. Nevertheless, in 2014, the weakening of the real against the euro compared with 2013 had a negative translation effect on the Group's results.

Considering the EUR/USD and USD/BRL parities in line with the levels observed in late 2014/early 2015, deliveries should begin to benefit from the appreciation of the US dollar against the euro and the Brazilian real, primarily in the second half of 2015.

8.6 Market trends and outlook for 2015

Vallourec Oil & Gas deliveries are expected to be heavily impacted in 2015 by the downturn in the oil markets:

- **In the EAMEA region,** Vallourec expects volumes and product mix to be significantly down in 2015. The slowdown of orders recorded in 2014 results in a low backlog entering in 2015. Destocking from some customers, in particular Saudi Aramco, is ongoing. Oil price weakness should further weigh on tender activities, and is likely to result in pricing pressure, notably for the less differentiated products. The EAMEA oil market is principally served by VSB and the European mills, where loads are therefore expected to be substantially reduced.
- **In the USA,** WTI price fall is severely impacting the US rig count, which may decline between 40% and 50% when compared with the end of 2014. This will result in lower OCTG consumption, destocking from distributors, and pressure on prices. Vallourec expects a sharp drop in its 2015 volumes.
- **In Brazil,** Petrobras announced in January a reduction of its 2015 capex, which will lead to a lower drilling activity compared with 2014, while maintaining a strong focus on development in pre-salt basins. The decisions to be taken by the new Management of Petrobras are not yet known.

The competitive environment for Power Generation and Industry & Other operations in Europe remains challenging, and Industry & Other operations in Brazil will continue to suffer from the depressed macroeconomic environment. In 2015, average iron ore prices are expected to be significantly lower than in 2014.

In order to face the drop in volumes, various flexibility levers have been activated. In addition, Vallourec is also implementing measures to adapt its working capital to a reduced level of activity.

Immediate and structural measures in the mills will result in a reduction of approximately 15% of the working hours, including a reduction of approximately 7% of the workforce in 2015 compared with 2014.

The strengthening of the US dollar versus the euro and the Brazilian real should benefit the Group, notably in the second half of 2015.

As a result of these initiatives and despite a sharp drop in activity, based on current market conditions and currency trends, Vallourec targets a positive free cash flow generation in 2015.

8.7 Valens, a two-year competitiveness plan

Over the second half of 2014, Vallourec teams have been working extensively on the design of a two-year plan to re-shape the Group's cost base and optimize its cash generation. The oil price decrease and its foreseeable consequences have reinforced the need for Vallourec to take bold steps. This has led to the scope of the plan (named Valens) being wider.

Valens is a substantial cost cutting and cash use optimization program to be implemented over the next two years, and will be a major contributor to restore Vallourec's competitive position. It includes the following:

- **Reduction of 2014 cost base by €350 million** [(1)] over the period 2015-2016, or 10% of added costs [(2)]:
  - based on more than 400 cost reduction initiatives already identified;

(1) Full year effect in 2017, based on 2014 cost base and volumes.

(2) Representing a 10% drop in manufacturing costs and direct costs on sales (including around 60% variable costs) and a 14% decrease in sales, general and administrative costs (mainly fixed costs).

- addressing all areas of costs (Raw materials, Manufacturing and Direct costs on sales, SG&A);
- covering the full scope of the Group's activities (all Divisions and regions);
- with a global project organization structure and dedicated resources to support the implementation reporting to the management committee;

- **capex capped at €350 million p.a.** (premiumization/business development: €100 to €150 million; maintenance: €200 to €250 million including forestation for €25 million) compared to the previously announced capex target of €450 million, an optimized level to maintain and grow the business.
- leaner organization centered around four regions with central monitoring of industrial resources.

8.8 Capital allocation framework

In 2014, Vallourec has demonstrated its ability to generate high levels of free cash and is proposing to its shareholders to maintain a stable dividend. In addition to Valens, Vallourec is introducing a new capital allocation framework driven by value creation.

After interest payments and tax, surplus cash will be utilized in the following order of priorities:

- financing and maintaining growth: working capital and capital expenditure to maintain the company and continue growth, under reinforced discipline of value creation;
- payment of dividend and other forms of return of capital to shareholders;
- while managing the balance sheet conservatively to maintain an investment grade rating and ensure operating flexibility.

These measures will all contribute to the improvement of Vallourec's ability to generate cash and increase its return on capital employed (ROCE [(1)]). Vallourec's target is to generate a ROCE that exceeds weighted average cost of capital (WACC) in 2018, under normalized oil market conditions.

The Group is taking important decisions to provide shareholders with a path to value creation. Having invested heavily in its industrial operations in the past, Vallourec is now focused on capex discipline, cash generation and sound capital allocation.

(1) ROCE is defined as EBITDA minus Depreciation and other non-cash items post tax shield divided by Capital Employed (sum of the Net Fixed Assets and Operating Working Capital, minus Goodwill).



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9.1 Statutory Auditors' reports for fiscal year 2014

9.1.1 Statutory Auditors' report on the financial statements

Year ended 31 December 2014

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 at your Shareholders' Meeting, we hereby report to you for the year ended 31 December 2014, 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 2014 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 equity 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 and the documents addressed to Shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L.225-102-1 of the French Commercial Code ("*Code de commerce*") relating to remunerations and benefits received by the directors and any other commitments made in their favor, 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, 17 March 2015

The Statutory Auditors,

Deloitte & Associés
Jean-Marc Lumet

KPMG Audit
Department of KPMG SA
Catherine Porta

9.1.2 Statutory Auditors' report on the consolidated financial statements

Year ended 31 December 2014

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 at your Shareholders' Meeting, we hereby report to you for the year ended 31 December 2014, 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 2014 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II. Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code ("*Code de commerce*") relating to the justification of our assessments, we draw your attention to 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 2014, we considered that these significant assumptions and estimates concern goodwill, intangible assets and property, plant and equipment (notes A-2.7 to A-2.9), provisions (note A-2.12) and retirement benefits and similar obligations (note A-2.13):

- concerning goodwill, intangible assets and property, plant and equipment, we have examined the methods used to perform impairment tests that lead your group to account for an impairment loss of €1,104 million as disclosed in note C-28 to the consolidated financial statements. We have examined the data and key assumptions used for the determination of recoverable amounts, assessed the sensitivity of the measurements to these assumptions as well as the procedure for approving these estimates by management. We also reviewed the calculation made by the Group and verified that note C-2.3 to the consolidated financial statements provide appropriate disclosure;
- concerning 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.

Paris La Défense and Neuilly-sur-Seine, 17 March 2015

The Statutory Auditors,

Deloitte & Associés
Jean-Marc Lumet

KPMG Audit
Department of KPMG SA
Catherine Porta

9.1.3 Statutory Auditors' report on related party agreements and commitments

Shareholders' Meeting held to approve the financial statements for the year ended 31 December 2014

*This is a free translation into English of the Statutory Auditors' report on related party 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 related party 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 related party 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 other such agreements and commitments. It is your responsibility, pursuant to Article R.225-58 of the French Commercial Code ("*Code de Commerce*"), to assess the relevance 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.

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 checking the consistency of the information provided to us with the relevant source documents.

Agreements and commitments submitted for approval at the Shareholders' Meeting

AGREEMENTS AND COMMITMENTS AUTHORIZED DURING THE YEAR

We hereby inform you that we have not been advised of any agreement or commitment authorized during the year to be submitted for approval at the Shareholders' Meeting pursuant to Article L.225-86 of the French Commercial Code ("*Code de commerce*").

Agreements and commitments previously approved at the Shareholders' 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 at 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 to introduce 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 points 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 points 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 EBITDA that is 25% lower than budgeted EBITDA, and 30 points for 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 with 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 with 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 territorial 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 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.

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 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 points 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 points 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.

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 on 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 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, 17 March 2015

The Statutory Auditors,

Deloitte & Associés
Jean-Marc Lumet

KPMG Audit
Department of KPMG SA
Catherine Porta

9.1.4 Statutory Auditors' report, prepared in accordance with Article L.225-235 of the French Commercial Code ("*Code de commerce*"), on the report of the Chairman of the Supervisory Board

Year ended 31 December 2014

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 of 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 the 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 2014.

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 the French Commercial Code, 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 the French Commercial Code, 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 the French Commercial Code.

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by Article L.225-68 of the French Commercial Code.

Paris La Défense and Neuilly-sur-Seine, 17 March 2015

The Statutory Auditors,

Deloitte & Associés
Jean-Marc Lumet

KPMG Audit
Department of KPMG SA
Catherine Porta

9.2 Subsidiaries and directly-held equity interests of Vallourec as at 31 December 2014

In € thousand Companies	Capital	Other equity before allocation of income (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	Income (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. €2,612 million)										
I. Subsidiaries (at least 50%-owned)										
French company	-	-	-	-	-	-	-	-	-	-
Vallourec Tubes – 27, avenue du Général Leclerc 92100 Boulogne-Billancourt	1,023,949	2,082,949	100%	3,056,429	3,056,429	1,976,393	-	57,091	(491,223)	182,033
B) Subsidiaries and equity interests with a carrying amount of less than 1% of Vallourec's capital (i.e. €2,612 million)										
I. Subsidiaries (at least 50%-owned)										
French companies	-	-	-	-	-	-	-	-	-	-
Assurval – 27, avenue du Général Leclerc 92100 Boulogne-Billancourt	10	407	99%	8	8	-	-	706	181	-
II. Equity interests (10%- to 50%-owned)										
a) French companies										
b) Foreign companies										
c) Long-term investments										
French companies	-	-	-	-	-	-	-	-	-	-
Foreign companies	-	-	-	-	-	-	-	-	-	-
Sumitomo Metal Industries	-	-	0.37%	81,947	73,396	-	-	-	-	-

9.3 Financial results for the last five years

In euros	2010	2011	2012	2013	2014
CAPITAL					
Share capital	**235,888,164**	**242,868,818**	**249,892,712**	**256,319,200**	**261,195,950**
Number of ordinary shares in issue	117,944,082	121,434,409	124,946,356	128,159,600	130,597,975
Number of preference dividend shares (without voting rights) in issue	-	-	-	-	-
Maximum number of new shares to be issued:					
› by converting bonds	-	-	-	-	-
› by exercise of subscription rights	1,511,800	2,151,887	2,655,087	3,183,279	3,277,041
› by bond redemption	-	-	-		
Revenues, excluding VAT	3,938,925	6,334,458	10,507,997	10,477,780	7,113,746
Income (loss) before tax, employee profit-sharing, depreciation and amortization, and provisions	505,369,693	475,723,170	305,645,524	238,748,107	158,212,497
Income tax	(15,030,740)	(8,022,363)	(4,666,973)	(10,840,983)	(7,021,640)
Employee profit-sharing for the year	-	-	-	-	-
Income (loss) after tax, employee profit-sharing, depreciation and amortization, and provisions	515,485,566	458,554,435	294,316,536	263,323,882	159,162,352
Distributed earnings	**153,327,307**	**157,864,732**	**86,212,986**	**103,809,276**	**105,784,360**
EARNINGS PER SHARE					
Income after taxes and employee profit-sharing but before amortization and provisions	4.41	3.98	2.48	1.95	1.27
Income (loss) after tax, employee profit-sharing, depreciation and amortization, and provisions	4.37	3.78	2.36	2.05	1.22
Dividend allotted to each existing share	**1.30**	**1.30**	**0.69**	**0.81**	**0.81**
Adjusted dividend per share	**1.30**	**1.30**	**0.69**	**0.81**	**0.81**
WORKFORCE					
Average number of employees during the fiscal year	6	7	7	7	7
Amount of payroll costs for the year	3,220,974	3,149,976	2,013,521	2,994,504	3,194,083
Payroll-related costs (social security, employee benefits, etc.)	1,746,856	1,406,613	1,150,021	2,718,063	1,905,112

9.4 Concordance tables and information incorporated by reference

9.4.1 Concordance table comparing the Registration Document and Appendix I to EC Regulation No. 809/2004 of 29 April 2004

Appendix I of European Regulation			Registration Document Chapters/Sections	Pages
1.	**Persons responsible**			
	1.1	Names of persons responsible	1.1	6
	1.2	Declaration of persons responsible	1.2	6
2.	**Statutory Auditors**			
	2.1	Name and address of the statutory auditors	1.3	7
	2.2	Information on the resignation of statutory auditors	N/A	N/A
3.	**Selected financial information**			
	3.1	Historical financial information	Profile / 3.1.4 / 3.1.7 / 6.1 / 6.2	4-5 / 41 / 126-198 / 199-210
	3.2	Interim financial information	N/A	N/A
4.	**Risk factors**		**5**	**112-124**
5.	**Information about the issuer**			
	5.1	History and development of the Company	3.1	28-52
	5.1.1	Legal and commercial name	2.1.1	10
	5.1.2	Location and registration number of the issuer	2.1.2	10
	5.1.3	Date of incorporation and term of the issuer	2.1.3	10
	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	10
	5.1.5	Significant events in the issuers' business development	3.1 / 3.1.4	28-51 / 41
	5.2	Investments	3.2	52-53
	5.2.1	Main investments made	3.2.2.1	53
	5.2.2	Main investments pending	3.2.2.1	53
	5.2.3	Major investments planned by the issuer	3.2.2.2	53
6.	**Business overview**			
	6.1	Principal activities	3.1.3 / 3.1.4 / 3.3	31 / 41 / 54-59
	6.1.1	Nature of transactions by the issuer and its principal activities	3.1.2 / 3.1.4	30 / 41
	6.1.2	New product	3.3	54-59
	6.2	Principal markets	3.1.7	46
	6.3	Exceptional events	3.1.5	45
	6.4	Dependency with regard to patents, licenses, agreements and processes	3.1.10	51
	6.5	Group's competitive position	3.1.9	50
7.	**Organizational chart**			
	7.1	Brief Description of the Group	3.1.3	32
	7.2	List of significant subsidiaries	3.1.3/6.1.B	31-41 / 144-145

Appendix I of European Regulation			Registration Document Chapters/Sections	Pages
8.	**Property, plant and equipment**			
	8.1	Main property, plant and equipment	3.1.7.1 / 6.1 (Notes 2.1 et 21)	46 / 126
	8.2	Environmental issues that may affect the Group's utilization of its property, plant and equipment	3.1.7.2 / 4.4	50 / 83
9.	**Operating and financial review**			
	9.1	Financial position	3.1.4	41
	9.2	Operating income		
	9.2.1	Significant factors affecting the operating income of the issuer	3.1.4	41
	9.2.2	Explanation of significant changes in net sales or revenues	3.1.4	41
	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	31 / 41 / 112-124
10.	**Capital resources**			
	10.1	Information on capital resources	6.1.4	130
	10.2	Sources and amounts of cash flows	6.1.6	132
	10.3	Borrowing requirements and financial structure	6.1 (Note 15)	170
	10.4	Restriction on the use of capital	6.1 (Note 15)	170
	10.5	Expected sources of funding	6.1 (Note 15)	170
11.	**Research and development, patents and licenses**		**3.3**	**54**
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	280-284
	12.2	Known trends, demands, commitments or uncertainties or events that are reasonably likely to materially affect the prospects of the issuer	8	280-284
13.	**Profit forecasts or estimates**			
	13.1	Disclosure of the main assumptions on which the issuer has based its forecast or estimate	N/A	N/A
	13.2	Report prepared by the auditors	N/A	N/A
	13.3	Development of the forecast or estimate	N/A	N/A
	13.4	Declaration on the validity of a forecast previously included in a prospectus	N/A	N/A
14.	**Supervisory and management bodies**			
	14.1	Composition of the supervisory and management bodies	7.1.1 / 7.1.3	212 / 233
	14.2	Conflicts of interest in supervisory and management bodies	7.1.3 / 7.1.4 / 7.1.5 / 7.1.6	233
15.	**Compensation and benefits of corporate officers**			
	15.1	Compensation and benefits in kind	7.2 / 7 (Appendix 2)	234 / 262
	15.2	Pensions or other benefits	6.1 (Note 18) / 7.2.2 / 7.3	174 / 242
16.	**Practices of management and supervisory bodies**			
	16.1	Expiration date of current terms	7.1.1	212
	16.2	Service agreements binding members of the Company's supervisory and management bodies	7.1.5	233
	16.3	Information about the Supervisory Board's committees	7.1.2.6	228
	16.4	Declaration of compliance with the corporate governance regime in force	7.1.7 / 7 (Appendix 1) / 7 (Appendix 3)	233 / 251 / 276

Appendix I of European Regulation			Registration Document Chapters/Sections	Pages
17.	**Employees**			
	17.1	Staff	4.2.1	64
	17.2	Shareholdings, options, allocation of performance shares concerning the management and supervisory bodies	6.1 (Note 20) / 7.2.1 / 7.3.1	185 / 234 / 243
	17.3	Arrangements for employee share ownership	7.3	242
18.	**Major shareholders**			
	18.1	Identification of major shareholders (holding more than 5% of capital)	2.3.1	18
	18.2	Existence of different voting rights	2.1.8 / 2.3.1	11 / 18
	18.3	Ownership or control of the issuer	2.3.1 / 2.3.2	18 / 20
	18.4	Arrangements that, when implemented, may result in a change of control	N/A	N/A
19.	**Related-party transactions**		**6.1 (Note 20)**	**185**
20.	**Financial information concerning the issuer's assets and liabilities, financial condition and profits or losses**			
	20.1	Historical annual financial information	6	126-209
	20.2	Pro forma financial information	N/A	N/A
	20.3	Financial statements	6 / 9.4	126-209 / 295
	20.4	Auditing of the historical annual financial information		
	20.4.1	Statements that the historical financial information has been documented	9.1.1 / 9.1.2	286 / 287
	20.4.2	Indications of other information audited by the statutory auditors	4 (Appendix 1) / 9.1.3 / 9.1.4	99 / 286 / 320 / 321
	20.4.3	Indication of the source and the lack of verification of financial data in the Registration Document that are not derived from the issuer's audited financial statements	N/A	N/A
	20.5	Date of latest financial information	6	126-209
	20.6	Interim and other financial information	N/A	N/A
	20.6.1	Half-year or quarterly financial information	N/A	N/A
	20.6.2	Interim or other financial information	N/A	N/A
	20.7	Dividend policy	2.5	23
	20.7.1	Amount of dividends	2.5	23
	20.8	Legal and arbitration proceedings	5.1.1 / 6.1 (Note 16)	112 / 173
	20.9	Significant changes in the Group's financial or trading position	3.1.1 / 6.1 (Note 32)	28 / 198
21.	**Additional information**			
	21.1	Share capital	2.2.2	12
	21.1.1	Amount of share capital	2.2.2 / 2.2.5	12 / 16
	21.1.2	Shares not representing capital	2.2.6	17
	21.1.3	Treasury shares	2.2.4 / 2.3.1	15 / 18
	21.1.4	Amounts of convertible securities, exchangeable securities or securities with warrants	N/A	N/A
	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	12
	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	18
	21.1.7	History of share capital	2.2.5	16

Appendix I of European Regulation			Registration Document Chapters/Sections	Pages
	21.2	Memoranda and bylaws		
	21.2.1	Description of the corporate purpose	2.1.4	10
	21.2.2	Provisions contained in the bylaws and internal regulations for members of its management and supervisory bodies	2.1 / 2.2.1 / 7.1.2	10 / 11 / 224-228
	21.2.3	Rights, privileges and restrictions attaching to each class of shares	2.2.1 / 7 (Appendix 1)	11 / 271-272
	21.2.4	Actions necessary to change the rights of shareholders	2.2.1	11
	21.2.5	Conditions governing the manner in which Annual and Extraordinary Shareholders' Meetings are convened	2.1.8	11
	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)	251-261
	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	11
	21.2.8	Conditions imposed by the bylaws and internal regulations governing changes in the capital, where such conditions are more stringent than is required by law	2.2.1	11
22.	**Material contracts (review)**		**3.3.1 / 5.1.4 / 6.1 (Note 15) / 6.1 (Note 32)**	**54 / 107 / 170 / 198**
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	N/A	N/A
	23.2	Information from a third party	N/A	N/A
24.	**Publicly available documents**		**2.1.5 / 2.6**	**10 / 23**
25.	**Information on holdings**		**9.3**	**322**

9.4.2 Concordance table between Vallourec's Registration Document and the annual financial report

Annual financial report		Registration Document Chapters/Sections	Pages
1.	Parent company financial statements	6.2	199-209
2.	Group consolidated financial statements	6.1	126-198
3.	Statutory Auditors' report on the parent company financial statements	9.1.1	286
4.	Statutory Auditors' report on the consolidated financial statements	9.1.2	287
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 (*Code de commerce*)	9.4.3	299
6.	Statement by the person responsible for the annual financial report	1.2	6
7.	Statutory Auditors' fees (Article 222-8 of the General Regulations of the French securities regulator – *Autorité des Marchés Financiers*)	6.1 (Note 26)	193
8.	Report of the Chairman of the Supervisory Board on the Board's composition and application of the principle of balanced representation of women and men on it, 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)	251-261
9.	Statutory Auditors' report on the report of the Chairman of the Supervisory Board (Article 222-9 of the General Regulations of the French securities regulator – *Autorité des Marchés Financiers*)	9.1.4	292

9.4.3 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	3.1.3	31-40
2.	Results of the Group – Financial position and performance indicators	3.1.3 / 3.1.4 / 3.1.5	31-45
3.	Changes to the presentation of the annual financial statements or the valuation methods applied in prior years	6.1	126-198
4.	Material events between the reporting date and the date the report was prepared	3.1.1	28
5.	Foreseeable developments and the Company's outlook	8	280-284
6.	Payment periods for suppliers and customers	3.1.3.2	31
7.	Amount of dividends paid during the past three years	2.5	23
8.	Vallourec results table for the last five financial years	9.3	294
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	112-124
10.	Use of financial instruments by the Group, where it is relevant for the assessment of its assets, liabilities, financial position and income or loss	2.2.6 / 5.1.4	17 / 117
11.	Significant equity stakes in companies headquartered in France	N/A	N/A
12.	Injunctions or monetary penalties for anti-competitive practices	N/A	N/A
13.	Research and development activities	3.3	54
14.	Corporate social responsibility	4	61-110
15.	Mandates and functions of corporate officers	7.1.1	212
16.	Compensation of corporate officers	7.2.1	234
17.	Allocation of stock options	7.3.1.1	243
18.	Allocation of shares free of charge or performance shares	7.3.1.2	243
19.	Summary of securities transactions made by executives	7 (Appendix 4)	277
20.	Composition of share capital	2.3.1	18
21.	Employee share ownership	2.3.1 / 7.3.3	18 / 250
22.	Share repurchases	2.2.4.1	15
23.	Measures having an impact in the event of a takeover bid	7 (Appendix 1)	251
24.	Share transfers made to regularize cross-shareholdings or takeovers of such companies	N/A	N/A
25.	Summarizing authorizations valid for capital increases and use made of these authorizations during fiscal year 2014	2.2.3	12
26.	Adjustments of the rights of holders of transferable securities giving access to capital or options	N/A	N/A
27.	Report of the Chairman of the Supervisory Board on the Board's composition and application of the principle of balanced representation of women and men on it, 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 General Regulations of the French securities regulator – *Autorité des Marchés Financiers*)	7 (Appendix 1)	251

9.4.4 Information Included by Reference

In accordance with Article 28 of European Commission (EC) 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 2013, the Statutory Auditors' reports thereon, and the management report, presented respectively in Section 6.2 (pages 194-207), Section 6.1 (pages 116-193), Sections 9.2.1 to 9.2.4 (pages 315-320) and Section 9.1.1 (page 304) of the 2013 Registration Document filed with the AMF on 14 April 2014 under No. D.14-0358; and
- 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 9.1.1 (page 262) of the 2012 Registration Document filed with the AMF on 24 April 2013 under No. D.13-0419.

9.5 Other periodic information required under the General Regulations of the French securities regulator – *Autorité des Marchés Financiers*

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 balanced representation of women and men on it, 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 General Regulations of the French securities regulator – *Autorité des Marchés Financiers*)	7 (Appendix 1)	251-262
Statutory Auditors' report on the report of the Chairman of the Supervisory Board (Article 222-9 of the General Regulations of the French securities regulator – *Autorité des Marchés Financiers*)	9.1.4	292
Statutory Auditors' fees (Article 222-8 of the AMF's General Regulations)	6.1 (Note 26)	193
Description of the share buyback program (Article 241-2 of the AMF's General Regulations)	2.2.4	15-16

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A French limited liability company (société anonyme)
with Management and Supervisory Boards and issued capital of €261,195,950