

SUSTAINABLE DEVELOPMENT REPORT 2010



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To meet the world's new energy challenges, Vallourec provides innovative tubular solutions to ensure the responsible use of resources. Sustainable development is one of the cornerstones of Vallourec industrial strategy.

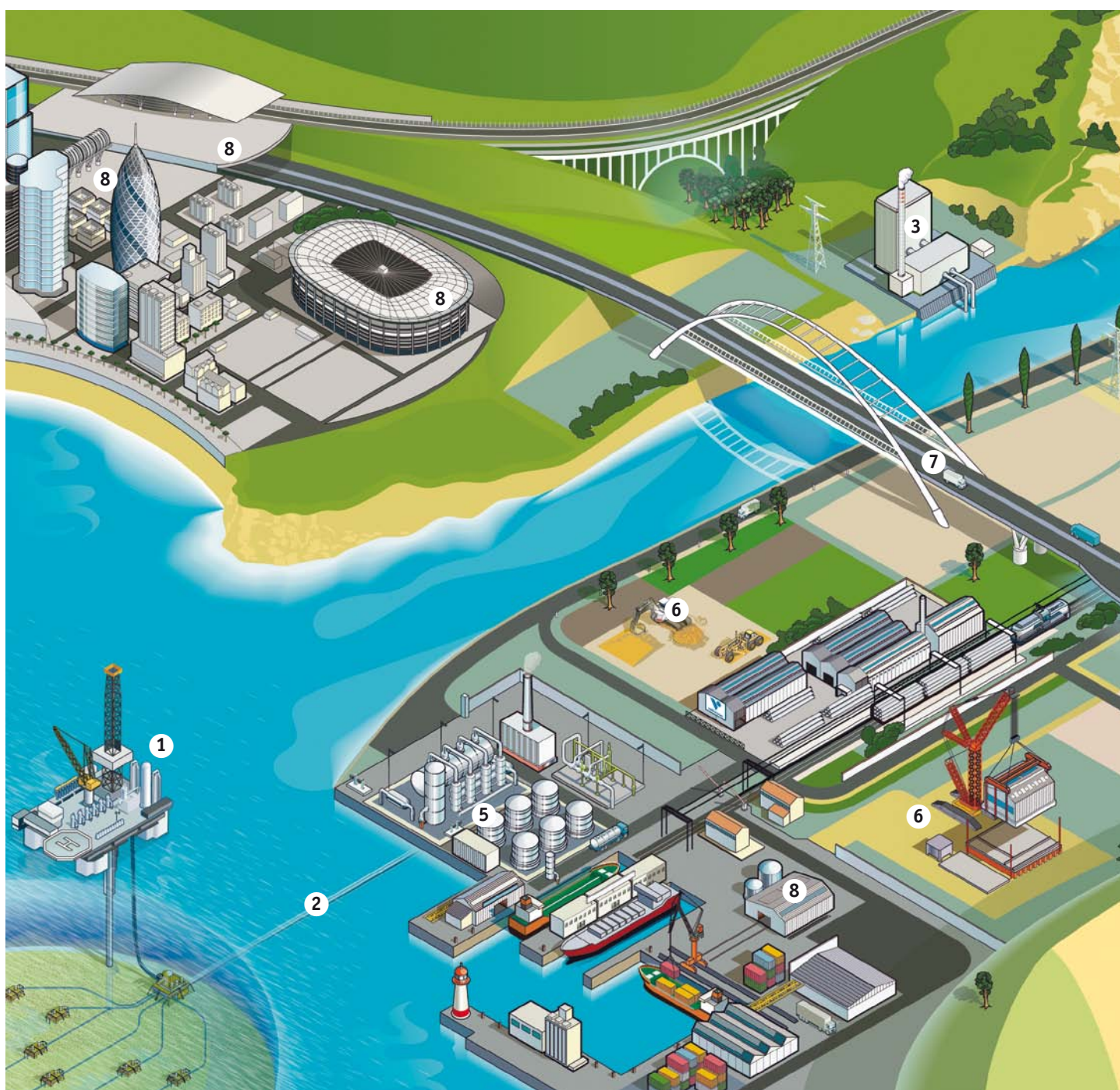
The Group focuses on three main objectives:

- Help our customers achieve their performance and safety objectives;*
- Ensure the health and safety of all our employees and respect all stakeholders;*
- Reduce our environmental footprint by making economical use of the resources that we need for our activities.*

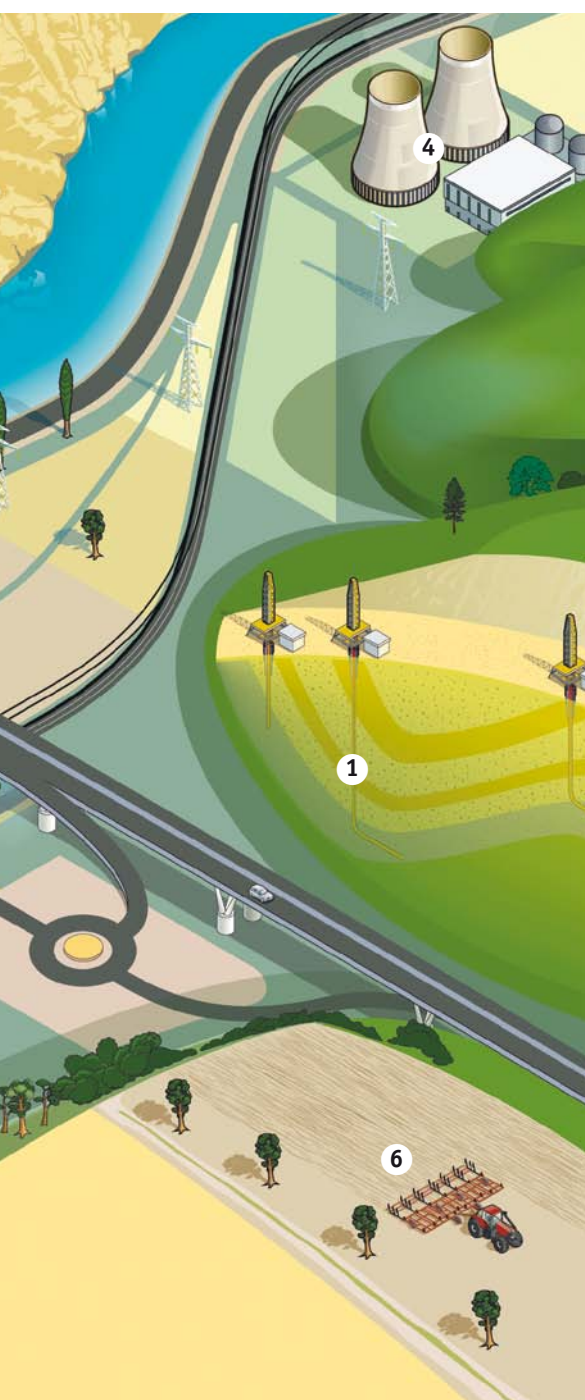
PROFILE

A MAJOR PLAYER IN PREMI

Vallourec is the world's leading supplier of tubular products and solutions for the most complex environments, operating primarily in the energy markets, and in particular the oil and gas, power generation and petrochemicals industries. It also has expertise in industrial applications in the mechanical engineering, automotive and construction sectors. Working closely with customers, Vallourec harnesses its very high-performance products, quality services and network of local representatives to provide the most appropriate solutions for their requirements.



UM TUBULAR SOLUTIONS



KEY FIGURES

More than
50 production facilities in over 20 countries

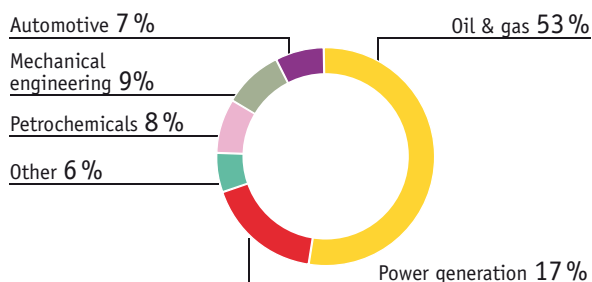
20,600 employees

€4,491 million in sales in 2010

78% of sales in the energy sector (oil and gas, power generation and petrochemicals)

74% of sales outside the European Union

SALES BY BUSINESS

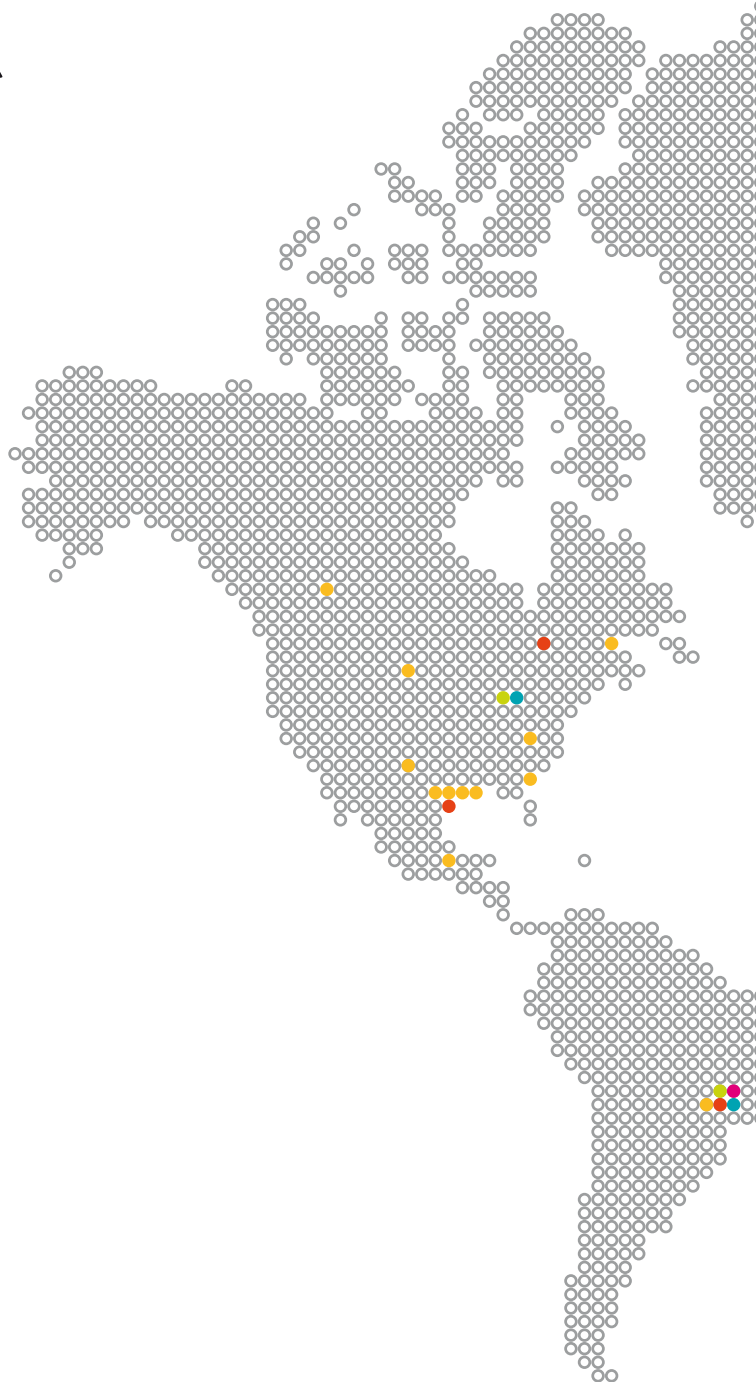


1. Tubes and connections for drilling and oil and gas well equipment: drill tubes, casing, tubing, VAM premium connections. **2.** Tubes for undersea oil and gas well line pipes and links: flow-lines, risers. **3.** Tubes for thermal power plant equipment. **4.** Tubes for nuclear power plant equipment. **5.** Tubes for petrochemical plants and process industries. **6.** Tubes for mechanical engineering. **7.** Tubes for the automotive and transport industries. **8.** Tubes for construction.

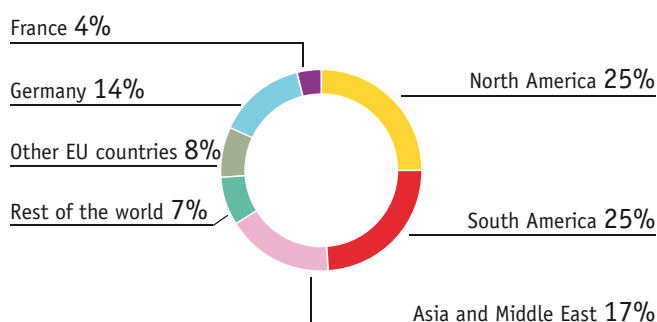
INTERNATIONAL PRESENCE

CLOSE TO OUR CUSTOMERS – WORLDWIDE

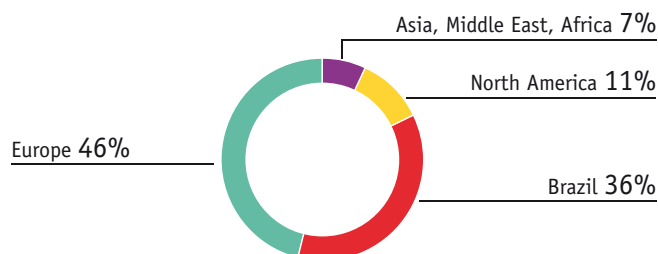
In addition to modern, high-performance industrial facilities worldwide, Vallourec operates local sales and service offices as well as a network of VAM licensees in the field of oil and gas connexions. This comprehensive network enables the Group to serve its customers directly and provide them with appropriate premium solutions.



SALES BY REGION



WORKFORCE BY REGION



LIST OF LOCATIONS

Europe

GERMANY

- Düsseldorf-Rath
- V & M Deutschland
- Düsseldorf-Reisholz
- V & M Deutschland
- Huckingen
- HKM (Hüttenwerke Krupp Mannesmann)*
- Krefeld
- Valti GmbH
- Mülheim
- V & M Deutschland

FRANCE

- Aulnoye-Aymeries
- V & M France
- Vallourec Mannesmann
- Oil & Gas France
- VAM Drilling France
- Cosne-sur-Loire
- VAM Drilling France
- Déville
- V & M France
- La Charité
- Valti
- Mitry-Mory
- Serimax
- Montbard
- Valti
- Valinox Nucléaire

Maubeuge

- Interfit
- Saint-Saulve
- V & M France
- V & M France
- Tarbes
- VAM Drilling France
- Venarey-les-Laumes
- Valtimet
- Vallourec Umbilicals*
- Villers-Cotterêts
- Serimax

NETHERLANDS

- Heerhugowaard
- Vallourec Mannesmann
- Oil & Gas Nederland

UNITED KINGDOM

- Aberdeen
- Serimax
- Vallourec Mannesmann
- Oil & Gas UK
- Bellshill
- Vallourec Mannesmann
- Oil & Gas UK
- Evanton
- Serimax

RUSSIA

- Moscow
- Serimax Russia
- V & M Rus

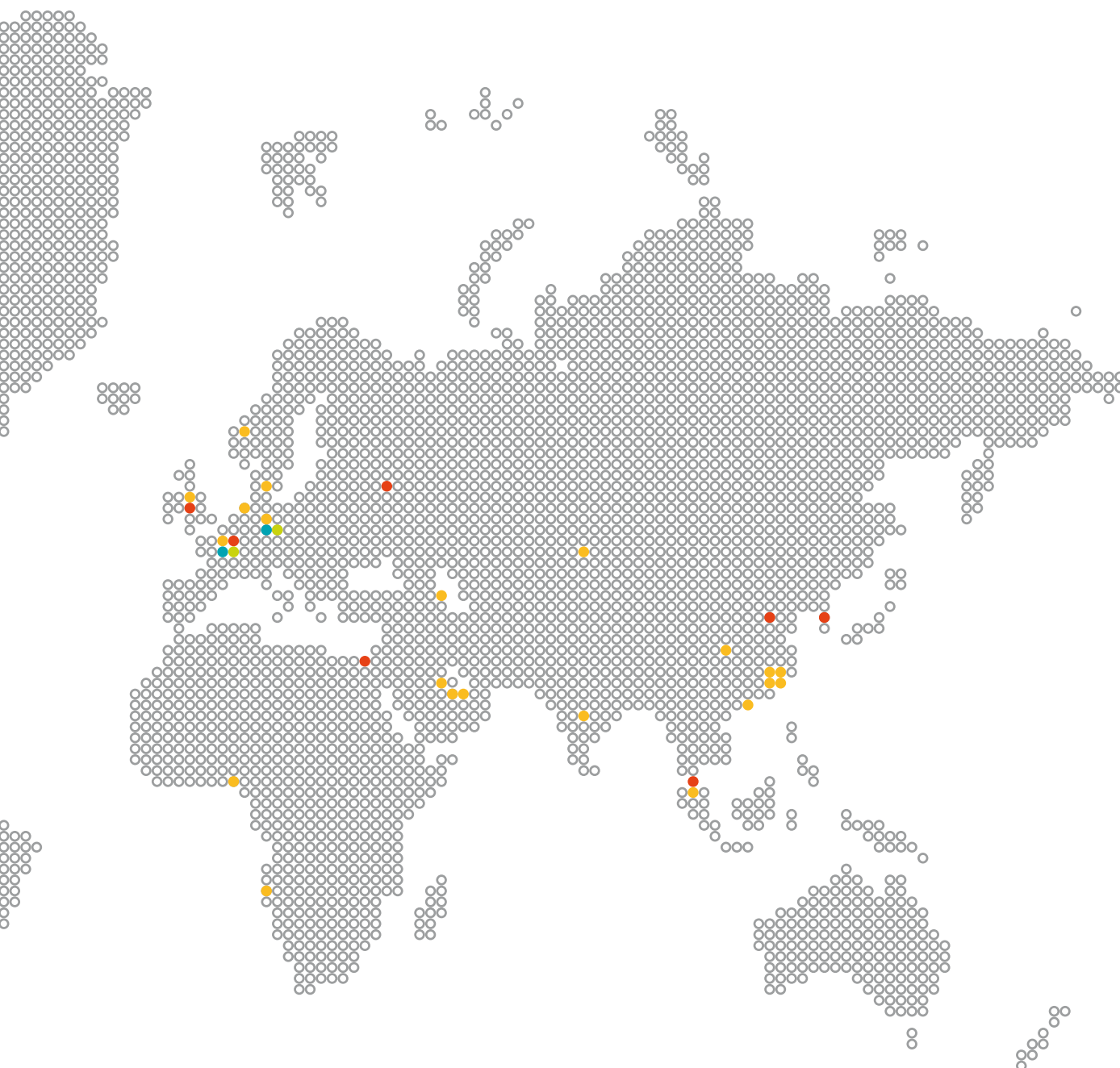
North America

CANADA

- Nisku
- VAM Canada
- St-John
- VAM Canada
- Vallourec Tubes Canada

UNITED STATES

- Brunswick (GA)
- Valtimet HPT
- Broussard (LA)
- V & M Tube Alloy
- Casper (WY)
- V & M Tube Alloy
- Houma (LA)
- V & M Tube Alloy
- Houston (TX)
- Serimax LLC
- V & M Star
- V & M USA Corp
- VAM USA
- VAM Drilling USA
- V & M Tube Alloy
- Morristown (TN)
- Valtimet Inc.
- Muskogee (OK)
- V & M Star
- Youngstown (OH)
- V & M Star
- V & M Star
- V & M Two**



MEXICO
Veracruz
● VAM Mexico

South America

BRAZIL

Belo Horizonte
● V & M do Brasil
● V & M do Brasil
● V & M do Brasil
● VAM Drilling Brasil
Brumadinho
● V & M Mineração
Curvelo
● V & M Florestal
Jeceaba
● Vallourec & Sumitomo
Tubos do Brasil**
Rio de Janeiro
● Serimax do Brasil

Asia / Middle East / Africa

CHINA

Changzhou
● V & M Changzhou
● VAM (Changzhou) Oil & Gas
Premium Equipments
● Changzhou Carex
Valinox Components
● Changzhou Valinox
Great Wall Welded Tubes
Guangzhou
● Valinox Nucléaire
Tubes Guangzhou**
Beijing
● V & M Beijing
Xi'an
● Xi'an Baotimet Valinox Tubes*
SOUTH KOREA
Bupyeong
● Poonsang Valinox*

MALAYSIA

Pasir Gudang
● Serimax Malaysia

INDIA

Hyderabad
● CST Valinox

INDONESIA

Batam
● PT Citra Tubindo

SINGAPORE

● Serimax Singapore

SAUDI ARABIA

Dammam
● V & M Al Qahtani Tubes**

UNITED ARAB EMIRATES

Dubai
● VAM Drilling Middle East
Abu Dhabi
● VAM Drilling Protocols Oil Equipment

NIGERIA

Onne
● VAM Onne*

RESEARCH CENTRES

Europe

GERMANY
Vallourec Research Düsseldorf
Vallourec Research Riesa

FRANCE

Vallourec Research Aulnoye

North America

UNITED STATES
Vallourec Research Houston

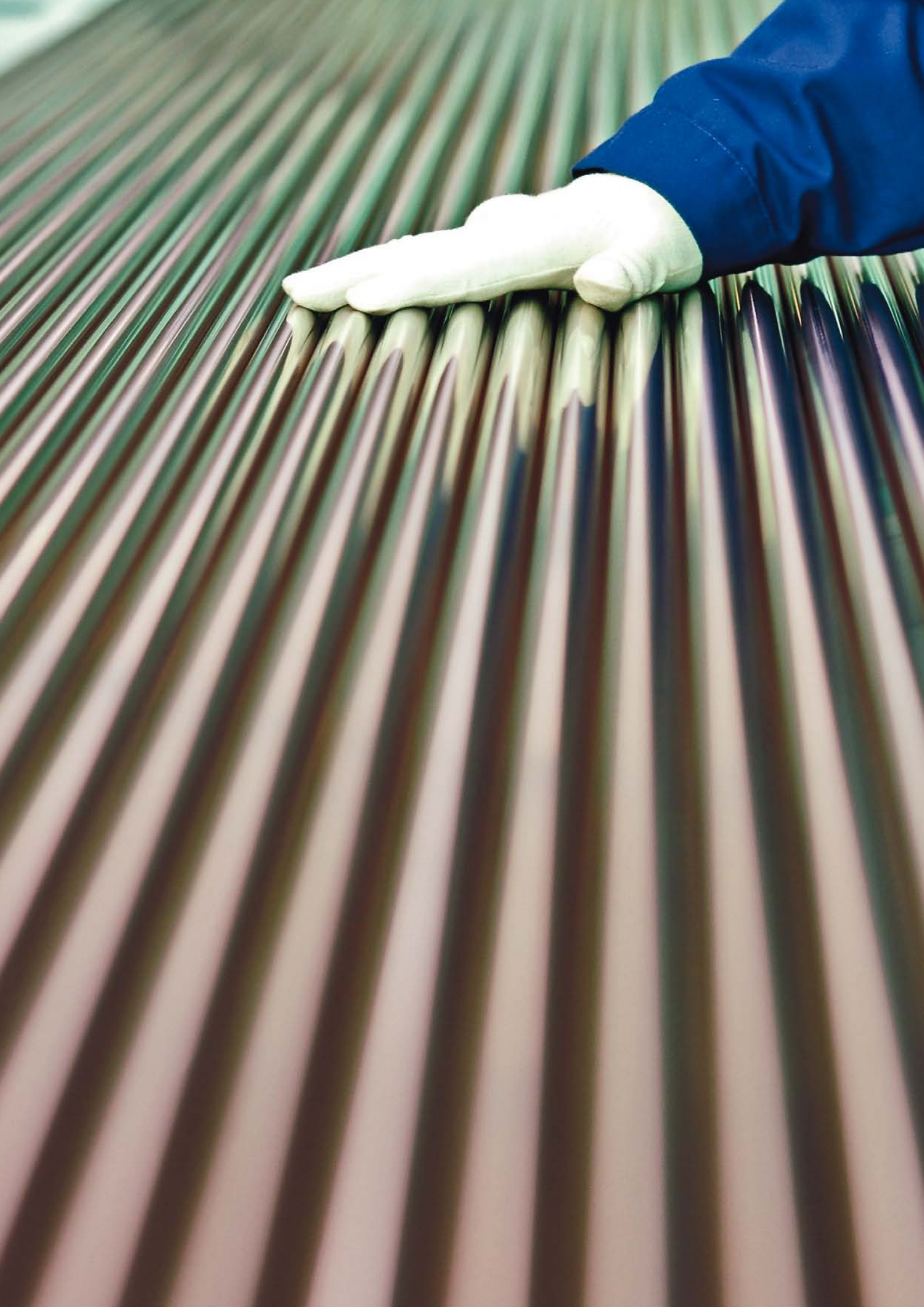
South America

BRAZIL
Vallourec Research Belo Horizonte

LEGEND

- Finishing units
- Steel mills
- Pipe mills
- Forest and mine
- Sales and service offices

* Non-integrated sites
(see "Methodology Note")
** Sites under construction.





EDITORIAL

TACKLING CHALLENGES FACING THE ENERGY INDUSTRY – PREPARING FOR THE FUTURE

If the world is to meet the needs of a growing population and support economic development in emerging nations, it must face the

huge challenge of managing and making best use of the planet's energy resources at the same time as reducing the environmental footprint of human activity.

Vallourec is helping to meet this challenge by providing technological expertise to enable production of increasingly hard-to-access hydrocarbons and to optimize the energy efficiency of power plants.

Safety is our overriding priority, and we are proud to have reduced the frequency of accidents involving our employees by a factor of three over the last three years. We also firmly believe that our products play a significant role in enabling our customers to operate safely and efficiently. Day in, day out, all over the world, Vallourec personnel play their part by working with our customers to develop ever more reliable solutions, higher-performance products and innovations to satisfy future needs.

As the leader in its markets and a major global industrial operator and economic player, Vallourec is well aware of its own responsibilities. We therefore remain committed to improving our environmental performance year after year, whether in terms of our carbon emissions, the proportion of renewable energy that we use or the percentage of our industrial waste that is recovered. These achievements are described in the report.

In a cyclical industry such as ours, we understand the importance of constructive labour relations. In this respect, we pay particular attention to developing our employees' skills, valuing their expertise, and promoting talent by providing career opportunities for the men and women working for and joining the Group.

Lastly, at a time when we are investing in major strategic projects in Brazil, China, the United States, France and the Middle East, we are careful to ensure that these new locations blend into the surrounding economic, environmental and social fabric. Similarly, we make a point of welcoming the many new people joining the Group, who enhance our cultural diversity and expertise and help us pursue our shared goal of being widely acknowledged as a responsible player in the energy sector.

Philippe Crouzet
Chairman of the
Management Board

INTERVIEW

“WE SET OURSELVES AMBITIOUS YET REALISTIC TARGETS”

What are Vallourec's ambitions in terms of sustainable development?

The Group has four stated ambitions: operate as a responsible corporate citizen; merit the trust of our employees; use the resources we need sparingly; and enable our customers to achieve their objectives. The principles set out in the Code of Ethics being rolled out throughout the Group are closely related to these aims. To make these commitments clear to all our partners, we also signed the Global Compact in 2010.

How are you putting your policy into practice?

We try to share our ambitions by presenting sustainable development issues to employees in a pragmatic, credible way. It is important for individual employees to realize that they can play their part while doing their job, and that their actions can strengthen the company's business model. Over the past two years, we have set up almost 350 continuous improvement teams at our plants. These CITs have focused on three areas that were given priority status because they concern all employees: personal safety, energy efficiency and health risks posed by chemical use. Management involvement in this type of initiative is crucial. Accordingly, our Sustainable Development Committee now includes senior management representatives, and in particular the Management Board.

How do you measure the results of your action?

Whenever it is possible to quantify the effects of the Vallourec policy, we introduce performance indicators and set ambitious yet realistic improvement targets, consistent with Vallourec's strategy of continuous improvement. This was reflected in the 5% decrease in carbon emissions per tonne produced in 2010. Clearly, therefore, our "CAPTEN+" programme is much more than just another energy savings plan, because it will



Jean-Louis Merveille,
Sustainable Development Director

enhance safety, ensure compliance with our commitments and deliver more effective control over our resources. I firmly believe that these objectives hold the key to lasting performance benefits, and I am therefore very confident for the future. We also hope that Vallourec employees understand the reasons for our action and feel proud to be involved. I was therefore particularly satisfied to learn that, in a staff survey, the vast majority of our employees stated that they approved our strategy and considered the company to be respectful of its environment.





STRATEGY AND COMMITMENTS

LONG-TERM COMMITMENT

Vallourec has organized its sustainable development strategy around two major commitments – the introduction of a rigorous code of ethics and signing the United Nations Global Compact.

OUR CODE OF ETHICS – THE “VALLOUREC WAY”

Core values

Vallourec drew up a formal code of ethics in 2009, as a binding thread among all employees. This document – the “Vallourec Way” – ensures that the core values essential to the Group’s operation are methodically disseminated all over the world. The code provides pragmatic guidance to all employees in their everyday working lives.

Integrity and transparency. Integrity is the *sine qua non* for all Vallourec decisions and practices. Ensuring confidence among co-workers, transparency implies the circulation of clear, objective and timely information.

Standards and professionalism underpin Vallourec’s success in a global marketplace characterized by a race for performance. These values are the foundation of the Group’s sustainable growth ambitions.

Performance and responsiveness. The key to satisfying Vallourec’s customers is constant innovation, coupled with high-quality, high-performance products and services. Our staff must therefore be responsive to changing market conditions.

Respect for people, their dignity and their diversity is crucial to Vallourec employees. As well as enriching the lives of individual employees, this attitude enhances our collective performance. Respect begins with safety, a fundamental priority for the Group.

Joint commitment. All Vallourec employees make a collective contribution to drive the Group’s growth. This shared goal is based on solidarity, loyalty, attentiveness to others, teamwork and the sense of responsibility.

Implementation launched in 2010

In late 2010, Vallourec ran information and awareness-raising campaigns for all employees as a prelude to the introduction of the code of ethics. A booklet entitled *Living our Values* was distributed to employees, illustrating Vallourec values through practical examples and personal accounts. This booklet, available in six languages, is in essence a code of conduct. In parallel, a poster campaign was conducted at all Vallourec sites, and *Vallourec Way* presentation meetings were organized by managers and Human Resources departments.

ETHICS COMPLIANCE PROGRAMME

In keeping with the ethics strategy of Vallourec, the Group has launched a worldwide programme to ensure compliance with standards and regulatory requirements relating to corruption, competition law and the environment. This programme, which is currently being implemented, will be accompanied by an awareness-raising campaign aimed at plant managers and senior executives, as well

ENCOURAGE ETHICAL DIALOGUE

“After rolling out the Code of Ethics, which is currently underway, we will put it into practice with the key focus on ‘ethical dialogue’. The goal is to find the most appropriate solutions for ethical problems by fostering discussions between the employees involved and their superiors or local Human Resources managers. At Vallourec, ethics primarily centres on sharing common values and training staff in the rules of the game.”

Denis Husson, Manager, Code of Ethics



as other managers whose activities are subject to such regulations. “Vallourec aims not only to ensure compliance with applicable statutory and regulatory requirements, but to encourage all employees to adopt our values and achieve the stated progress targets”, says Philippe Dupeyré, General Counsel.

COMMITMENT TO THE UNITED NATIONS

By signing the United Nations Global Compact in 2010, Vallourec agreed to uphold a set of principles among its employees and stakeholders and to promote their progress.

A coherent worldwide message

The Global Compact is an initiative of the UN aimed at encouraging international companies to agree to adopt, uphold and apply – in their respective spheres of influence – a set of fundamental values relating to human rights, labour practices, the environment and anti-corruption measures. As of 1 January 2011, 6,287 businesses worldwide (including 620 in France) had made this commitment.

Companies signing the Global Compact undertake to make year-by-year progress in relation to one or more principles (see inset). This implies introducing or maintaining a continuous improvement programme, backed by in-house and external communication relating to the company's undertakings and achievements.

In 2010, Vallourec set goals in terms of pursuing our safety improvement strategy (via the Cap Ten Safe project) and implementing a Group-wide code of ethics.

10

The number of principles that Global Compact member companies agree to uphold in their operations and strategies.



GLOBAL COMPACT PRINCIPLES

• Human rights

- Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and
- Make sure that they are not complicit in human rights abuses.

• Labour rights

- Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- The elimination of all forms of forced and compulsory labour;
- The effective abolition of child labour; and
- The elimination of discrimination in respect of employment and occupation.

• Environment

- Businesses should support a precautionary approach to environmental challenges;
- Undertake initiatives to promote greater environmental responsibility; and
- Encourage the development and diffusion of environmentally friendly technologies.

• Transparency and anti-corruption

- Businesses should work against corruption in all its forms, within their sphere of influence.

ORGANIZATION

MANAGING A PROGRESS STRATEGY

“Deciding” and “doing” are the two basic steps in any progress. In order to effectively orchestrate the Group’s sustainable development strategy, Vallourec has set up two new, dedicated structures over the past two years: a Sustainable Development Committee and an operational Department dedicated to Sustainable Development.

CLOSE SUPERVISION

The Management Board created a dedicated committee in 2009 to oversee Vallourec’s sustainable development policy. The Sustainable Development Department created in 2010 is responsible for implementing the measures decided by this committee.

An open, responsible Sustainable Development Committee

The Sustainable Development Committee, chaired by Jean-Yves Le Cuziat, who is Managing Director of the E&I division and a member of the Executive Committee, defines Vallourec’s strategic orientations and priority projects, ensures that they are coherent and supervises their implementation throughout the Group. The committee, which meets five times a year, includes the director of each division, representatives from support departments and two members of the Management Board. Involvement by senior management is a key success factor. In 2010, as well as deciding to join the Global Compact,

the committee took action to move the Group forward in terms of energy efficiency, best practices relating to the environment and biodiversity, preventing and controlling chemical risks, stakeholder identification and responsible purchasing.

At the local level, sustainable development policy is implemented by the management team of each business unit, consistent with corporate management guidelines. If necessary, policy may be adapted to reflect local contexts and activities, as long as the basic principles of the Vallourec Management System (see opposite) are upheld.

A proactive operational department

The main missions of the Sustainable Development Department are to:

- Identify challenges and risks, listen to stakeholders and represent Vallourec;
- Oversee production of short- and long-term action plans by the departments concerned;
- Supervise the implementation of actions approved by the committee;
- Develop awareness of sustainable development issues among all employees.

The Sustainable Development Department is a small unit with direct management responsibility for the Environment Department and for running the “GreenHouse” energy efficiency project (see page 48). The Department’s role also involves working closely with all divisions, support functions and countries, to ensure that all business units understand the practical role they play in implementing the sustainable development policy.

The Sustainable Development Department manages the network of Environment managers at Vallourec’s larger facilities, as well as the network of energy managers appointed at industrial facilities.

GOVERNANCE

In 1994, Vallourec adopted a dual governance system with a Supervisory Board and a Management Board. The Supervisory Board, chaired by Jean-Paul Parayre, has eight independent members out of a total of eleven. Its role is to define the strategic orientations of the Group’s activities and oversee their implementation. It fulfils this mission in accordance with the recommendations issued in the AFEP-MEDEF¹ code of corporate governance. The Board is advised by three special committees: the Audit and Finance Committee, the Appointments, Remuneration and Governance Committee and the Strategy Committee. For more information, refer to the 2010 Registration Document or visit our website at www.vallourec.com

1. French federations of private enterprises.



Vallourec's head office in Boulogne-Billancourt.

PAVING THE WAY TO CO-RESPONSIBILITY

“For several years, we have been implementing practical measures – such as reducing water consumption and rolling out the GreenHouse project – at our facilities throughout the Group. Sustainable development concerns are opening up new opportunities for us. It is now time to unify and coordinate the many environmental, social initiatives conducted throughout the Group. The mission of the Committee that I chair is to pave the way to responsible business, taking into consideration our natural and human environment and adopting a long-term view of Vallourec's activities.”

Jean-Yves Le Cuziat, Chairman of the Sustainable Development Committee



PROPRIETARY METHODOLOGY

Vallourec uses a proven proprietary methodology to implement its sustainable development policy: the Vallourec Management System (VMS). This management system, which was introduced to further enhance Group performance, is part of a broader continuous improvement strategy covering all Vallourec sectors and management levels. VMS is therefore an appropriate vehicle for addressing sustainable development issues. The system is organized around three main elements:

- Steering committees, which are responsible for implementing management directives and monitoring results,
- Action plans,
- Cross-departmental, multidisciplinary Continuous Improvement Teams (CITs), which coordinate the efforts of volunteers – in some cases from different facilities – to achieve a shared target of improving performance and processes.

The Sustainable Development Department also organizes an annual convention on each continent, attended by plant managers, quality and HSE managers, etc. The aim of this conference is to encourage operational personnel to share their ideas and to spread best practices. These events – which feature presentations on environmental or safety-related topics, for example, followed by best practice workshops – are now seen as important vectors of Vallourec sustainable development policy.

TARGETS AND RESULTS

PRECISE, MEASURABLE PERFORMANCE INDICATORS

Over time, Vallourec has introduced annual performance indicators for each area of sustainable development. These indicators are used to track performance and progress throughout the Group.

	Strategy
ECONOMIC RESPONSIBILITY	Competitiveness and sustainable development
Profitability: EBITDA/Sales ratio	Ensure a margin above 15% at the trough of the cycle
Financial strength: net debt/equity	Maintain a healthy balance sheet at all times
R&D budget	Maintain our technological lead
Equity owned by employees	Involve employees with the Group's results and strategy
Dividend	Remunerate shareholders over the long term by distributing 1/3 of net earnings
SOCIAL RESPONSIBILITY	Long-lasting human relationships
Employees	Make new employees feel welcome
Staff turnover	Encourage stable employment
Safety	Reduce the frequency of accidents by adopting best practices
Training	Anticipate requirements and changing skills
Manager performance	Introduce annual assessment interviews for all executives
ENVIRONMENTAL RESPONSIBILITY	Reduce the ecological footprint of our activities
Water	Decrease water consumption
Electricity	Improve energy efficiency via the GreenHouse project
Gas	
CO₂ emissions	
Waste recovery	Maximize waste recovery

* LTIR : Lost Time Injury Rate (see definition on p.38).

** Processed tonne.

n.m : not measured.

Unit	2009	2010	Page
%	22	20.6	20
%	- 9.9	7.9	20
€ million	65	70	22
%	2.6	3.4	30
%	38.6	37.3	31
Unit	18,567	20,561	34
%	9	7	34
LTIR*	5.27	3.16	39
Hours	520,000	650,000	36
%	n.m	66	37
m ³ /t**	2.2	1.7	56
kWh/t	366	328	48
kWh/t	810	697	48
kg/t	226	199	50
%	n.m	86	54



ENSURING SUSTAINABLE GROWTH AND COMPETITIVENESS

ECONOMIC RESPONSIBILITY

For Vallourec, economic responsibility goes hand in hand with competitiveness, growth and sustainability. Profits and cash flow generated by the Group's activities enable Vallourec to grow independently, by financing industrial, technological and human investments, and by developing innovative products and manufacturing processes. The added value thus created is then distributed among stakeholders.

VALUE CREATION STRATEGY

PLAYING FOR THE LONG TERM

Vallourec has a long-term value creation strategy based on operating in prosperous energy markets, strengthening the Group's market positions in regions of dynamic growth and developing premium and innovative tubular solutions.

MARKET POSITIONING BASED ON PREMIUM PRODUCTS

Due to the complexity of oil and gas installations and growing environmental concerns, there is considerable demand for innovative solutions in the energy markets. In this context, Vallourec has steadily strengthened its offer of premium tubular solutions segment, primarily for energy markets. This policy has been supported by investing heavily in R&D and by modernizing and expanding the Group's industrial facilities.

TARGETING HIGH-GROWTH REGIONS

As Vallourec grows internationally, it pays special attention to strengthening its industrial and commercial presence in regions and market segments that offer high growth potential. A number of acquisitions in recent years, together with decisions to invest in new production capacity, particularly in Brazil, the United States, the Middle East and China, are helping the Group to penetrate local growth markets while also enhancing competitiveness.

Competitive strengths

Having an extensive network of local facilities puts Vallourec in a stronger position to serve its customers' requirements and is a significant competitive advantage. The Group has the expertise to offer a comprehensive range of services, from the design of products to their on-site use. In 2010, Serimax, the world leader in the provision of welding solutions for offshore line pipes, was acquired as part of this strategy, enabling the Group to expand its offer for deepwater offshore applications.

A NEW CUSTOMER-ORIENTED SAVINGS PLAN

Vallourec business levels recovered strongly in 2010. Sales volume rose by 26% compared with 2009 and plants operated at high capacity, particularly during the second half of the year. This did not prevent the Group from pursuing its efforts to achieve lasting improvements in operational efficiency.

Encouraging progress

To improve competitiveness in 2008, Vallourec introduced the three-year "Cap Ten" cost savings programme. The aim of this programme was to generate cost savings of more than €200 million by 2010. Nearly 1,500 continuous improvement teams (CIT) around the world took part in the programme, which ultimately yielded pre-inflation cost savings of €280 million by the end of 2010.

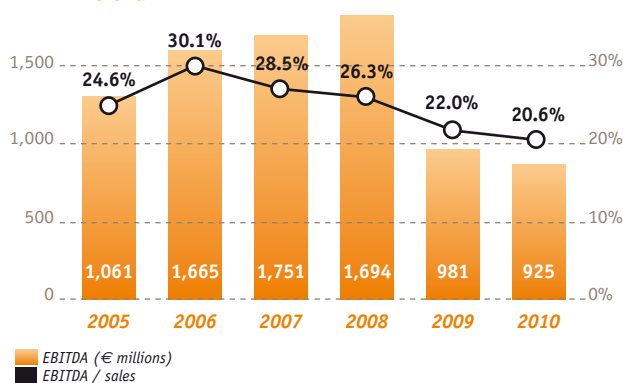
In early 2011, Vallourec launched CAPTEN+, a new three-year programme with a broader scope, aimed at improving operational efficiency, quality, service and customer satisfaction. This programme also seeks to reduce the environmental footprint of the Group's industrial activities. The new target is to generate cost savings of €300 million by the end of 2013.

RESPONSIBLE PURCHASING POLICY

Introducing an efficient, responsible purchasing policy is an effective means of boosting competitiveness. After conducting a survey focusing on the practices of each division's purchasing departments, the corporate Purchasing department launched the "Sustainable Procurement" project. This initiative is organized in three stages: classify suppliers by risk level; adjust the list to reflect previous experience with suppliers; and define individual action plans based on the risk levels thus identified. In 2011, when the project is implemented, the Group will begin a certification process.

In parallel, Vallourec launched an "upstream" risk assessment initiative, with particular focus on risks relating to access to resources and raw materials (iron ore prices, scarcity of certain alloys, changing energy prices, etc.).

EBITDA trend



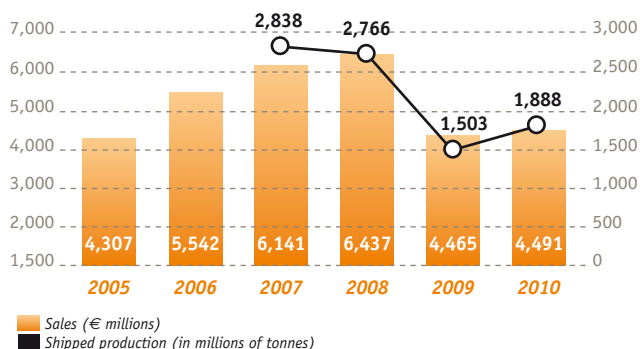
Due to a combination of savings plans and a flexible cost structure, the EBITDA margin (EBITDA/sales) remained high in spite of the marked slowdown caused by the 2008 economic crisis.



A SOUND FINANCIAL POSITION

Vallourec has a solid balance sheet and limited debt, achieved through prudent financial management. This strong financial position means that the Group can continue to grow across the successive economic cycles while still also paying dividends to shareholders.

Sales history



After a 31% decrease in sales in 2009 and a drop of 46% in sales volume, 2010 was a year of stable sales and a rebound in activity (sales volume +26%).

THE VALLOUREC GROUP IN MOTION

- 1997** Creation of V & M Tubes by merging the seamless tube businesses of Vallourec (55%) and Mannesmann (45%) in a joint venture.
- 2000** Acquisition of Mannesmann's Brazilian business, renamed V & M do Brasil.
- 2002** Acquisition of North Star Steel, renamed V & M Star, in the United States.
- 2005** Vallourec gains full control of V & M Tubes with the acquisition of Mannesmann's 45% stake.
- 2006** Creation of VAM Drilling following the acquisition of the American company Omsco and the purchase of SMFI in France. Vallourec became the world number two in drill pipes.
- 2007** Development of Vallourec's operations in China, with the construction of a finishing unit for power plant tubes and an OCTG threading unit.
- 2007** Decision to invest in a new integrated plant in Brazil (VSB).
- 2008** Acquisition of three premium OCTG companies in the United States.
- 2009** Increase in Vallourec's participating interest in PT Citra Tubindo, the leader in premium OCTG threading in Indonesia.
- 2009** Development in the Middle East, via acquisitions of drill pipe businesses (DPAL and then Protocols).
- 2010** Start of construction of an OCTG threading unit in Saudi Arabia.
- 2010** Decision to invest in a new pipe mill in the United States, to support the development of unconventional gas drilling.
- 2010** Acquisition of Serimax in France.
- 2010** New developments in China, including an expansion in capacity at V & M Changzhou, a new Valinox Nucléaire investment project in Nansha and the acquisition of 19.5% of Tianda Oil Pipe.



INNOVATION

STANDING OUT FROM THE CROWD

Making innovation a key element of its strategy ensures that Vallourec will be able to overcome future technological challenges, maintain its premium positioning and penetrate new markets. Vallourec has invested in additional human and technical resources to implement this policy.

ADDITIONAL R&D RESOURCES

Vallourec is very attentive to the needs of the market, operating a global R&D policy based on cross-divisional research and expertise centres as well as development teams working in the Group's subsidiaries. This policy also relies on numerous partnerships, close cooperation with customers, sharing best practices, and assistance from laboratories and universities.

As customers gain access to increasingly competitive and extensive offerings, Vallourec is redoubling its efforts in three key areas: manufacturing processes, products and services.

Greater coherence

To increase the coherence of its research capabilities, the Group reorganized all of its Technology, R&D and Innovation activities to form a single department (TRDI) in early 2010. This new department supervises the five Vallourec research centres. In all – when staff at the various divisions and plants are included – more than 500 engineers and technicians work for Vallourec research teams. The annual R&D budget continues to grow, exceeding €70 million in 2010.

Rolling processes

In order to innovate for the most complex applications, Vallourec set up a unique pilot research centre in Riesa, Germany, devoted to hot-process tube rolling. Vallourec Research Riesa is the only industrial pilot centre of its kind in the world, equipped with a state-of-the-art tube rolling mill and other heat treatment machinery. This facility accelerates the development of new rolling processes without disrupting the operation of the Group's plants. The new R&D centre extends over more than 2,000 sq. m and is staffed by a team of highly experienced specialists.

OVERCOMING NEW CHALLENGES

Developing innovative premium solutions is essential, enabling Vallourec to satisfy the requirements of its customers, which are constantly faced with new challenges, such as those posed by shale gas and carbon dioxide storage.

TECHNOLOGICAL LEADERSHIP BUILT ON EXPERIENCE AND INNOVATION

“By operating an ambitious innovation strategy, we are able to respond to increasingly specific requests from our customers and anticipate their future needs. Our emphasis on innovation is also one of Vallourec’s competitive advantages. Our technological leadership is the result of decades of experience backed by a major R&D and innovation effort aimed at improving the performance of our processes and the quality of our steel, tubes and connections, as well as creating new products. Today, the major challenge for the Group is to provide global solutions based on high-performance manufacturing processes, optimized costs and environmentally-friendly practices.”

Christoph Prasser, Chief Technology Officer



Supporting growth in shale gas production in the United States

Industrial-scale production of shale gas is well under way in the United States, and by 2030 may account for almost 60% of the country’s gas supplies. Shale gas is extracted via a well shaft that includes a long horizontal section, which generates very high torque forces that must be withstood by pipe connections. Specially developed for use in shale basins, the research centre in Houston, Texas, developed a special threaded connection for shale gas in record time to handle these new deposits. This compact connection, known as the VAM SG®, delivers the premium gas tight performance customers expect from VAM® as well as exceptional torsional strength, making it an ideal solution for the difficulties involved with this type of drilling.

Carbon dioxide capture and storage

Carbon dioxide capture and storage technologies recover carbon dioxide present in combustion fumes from industrial facilities or in process gases. The carbon dioxide can then be removed and injected in a suitable storage location.

Vallourec is participating in research into carbon dioxide capture and storage in underground geological formations, for which tubular solutions are necessary. This research

concerns deep-lying saline aquifers, empty oil and gas reservoirs, as well as deep tunnels in disused coal mines, which offer the largest storage capacities.

Vallourec is a partner in the France Nord project, which is studying the feasibility of establishing a pilot infrastructure for carbon dioxide transportation and storage in the sedimentary basin in the Centre-Nord region of France. This project – selected and supported by ADEME, the French environment and energy agency – is being run as a partnership between industrial companies and French and European research institutions.



5

Research centres support Vallourec innovation projects. These facilities are located in Aulnoye in France, Düsseldorf and Riesa in Germany, Houston in the United States (VAM development centre), and Belo Horizonte in Brazil.



A NEW CUTTING-EDGE BUSINESS IN DEEPWATER OFFSHORE APPLICATIONS

In February 2011, Vallourec announced the start-up of Vallourec Umbilicals, a new subsidiary located in Venarey-les-Laumes (France). The term umbilicals relates to structures comprising tubes, cables and optical fibres, derived from high-technology laser, ultrasound and X-ray processes. They are used to connect seabed equipment to a control station on the surface. The stainless steel seamless tubes manufactured by Vallourec Umbilicals for use in umbilical products are an innovative addition to the Group’s range of premium products for the energy markets.



PREON® used for the building frames at the VSB plant.

● ● ● INNOVATIVE, ENVIRONMENTALLY-FRIENDLY PRODUCTS

For a number of years, Vallourec has been developing products in anticipation of a range of emerging environmental protection needs.

Non-polluting coatings

Cleanwell®. *Dope* is a lubricant widely used when connecting tubes in the oil and gas industry. The Cleanwell® range of coatings which are applied directly to the threaded connections at the manufacturing plant provide a grease-free solution.

Environmental safety

VM125SS steel grade. Developing steel grades resistant to corrosion by hydrogen sulphide (H₂S) and carbon dioxide is essential for the oil and gas industry. The VM125SS grade offers outstanding resistance, making it possible to operate safely in increasingly complex environments.

Welding solutions for offshore line pipes. The flow lines through which oil and gas is piped from the seabed up to floating oil rigs are subjected to very powerful forces. The welding solutions provided by Serimax are suitable for use in the most critical conditions.

Reduced carbon dioxide emissions

Ferritic (VM12) and austenitic (TX304HB) grades. These steel grades, designed for use at high temperatures, are extremely resistant to steam oxidation. Such performance is crucial for applications in ultra-supercritical thermal power plants, which operate at much higher temperatures and pressures than conventional power plants. By enabling the construction of more efficient power plants that emit less carbon dioxide per GWh generated, these steel grades play a part in preserving our climate.

Lighter structures

PREON® is a patented tubular roof frame system developed for industrial and commercial buildings. Round or rectangular-sectioned tubes are assembled to form strong but lightweight architectural structures. Benefits of the system include the ability to create large spans. The resulting structures require fewer raw materials and energy during the construction process.

MSH angle sections for overhead cranes. This technology uses hot-rolled rectangular hollow sections to decrease the cost of both manufacturing and installing overhead cranes, while at the same time delivering higher performance than with conventional solid-beam technologies, as a result of the reduced weight of these tubular structures.

R&D FOCUSED ON FORESTS

In Brazil, V & M Florestal, a subsidiary of V & M do Brasil, operates a eucalyptus plantation, producing charcoal to burn in the blast furnaces at the Brazilian steel mill. The company is a pioneer in managing this type of plantation, and is at the technological cutting edge in its field. In particular, the company has an R&D team with more than 40 people working exclusively on this activity.

Solving both economic and ecological challenges

V & M Florestal began cultivating its first plantations in 1969, in the north-west part of the Brazilian State of Minas Gerais, a region of poor soil and low rainfall. V & M Florestal R&D teams sought ways to boost productivity in the plantations by selecting species suited to these difficult conditions, and by conducting research in a wide range of other areas, including soil analysis and fertilization, plantation management and protection, disease and pest treatments, as well as improvements in the trees' genetic stock and the quality of their wood. This research significantly enhanced plantation productivity, which rose from 7 m³ of wood per hectare per year in the early 1980's to approximately 50 m³ per hectare per year today.

These advances have been accompanied by specific initiatives aimed at maintaining areas of natural vegetation, preserving biodiversity, and recycling fertilizer produced as part of the process.

As a result of its R&D efforts, V & M Florestal has considerably increased the quantity of biomass produced, which has had a highly positive impact both on the ecosystem and on operating costs.



V & M Florestal.

7x

*Increase in plantation productivity
in the past 30 years.*



CLEANWELL® DRY, THE NEW GREASE-FREE SOLUTION FOR VAM PREMIUM CONNECTIONS

Faced with growing demand for grease (dope)-free products, particularly in the North Sea, the Cleanwell® range of coatings is being expanded to cover an increasingly wide spectrum of applications. The new "Cleanwell® Dry" is a totally dry coating designed for use in offshore, arctic and desert applications, an eco-friendly, safer, cleaner and more effective solution.

INVESTMENTS AND ACQUISITIONS

MOVING FORWARD ON ECO-INVESTMENT

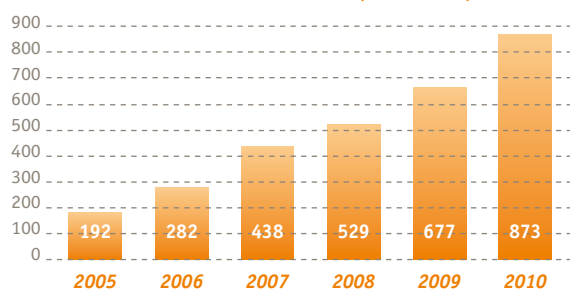
In 2010, Vallourec once again stepped up its investments, making several strategic acquisitions. Although the Group's actions are guided by the desire to strengthen its positions in growth regions, sustainable development issues are also taken into account.

A RECORD YEAR FOR INVESTMENT

Notwithstanding the global economic crisis, Vallourec has considerably stepped up its strategic investments in recent years, in order to strengthen its market position as the leader in premium tubular solutions while also enhancing its competitiveness. This investment policy was made possible by the Group's strong financial situation and effective cost control policy.

From an operational perspective, Vallourec goals include enhancing the Group's industrial and commercial reach in regions with high growth potential, focusing even more closely on customers' requirements and improving quality of service. Many major projects have recently been launched, including the extension of the Valinox Nucléaire plant in France, the construction of the VSB plant in Brazil (now at the startup stage), additional investments in production capacity in China, and the construction of a state-of-the-art tube mill in the United States.

Vallourec's industrial investments (€ millions)



To prepare for the future, Vallourec has steadily increased its industrial investment, in spite of the economic crisis of 2008. A total of almost €3 billion has been invested since 2005.

HEALTH, SAFETY AND ENVIRONMENT INVESTMENTS

From major projects to the upgrade of production facilities, Vallourec makes sure that its investment projects respect the environment.

An assessment is conducted prior to each new project in order to gauge any environmental impacts. Vallourec pays special attention to limiting noise both inside and outside workshops, collecting runoff water – thereby avoiding the need to extract water from the natural environment and recycling all waste. More generally, the Group favours all measures that improve the facility's energy efficiency and reduce carbon dioxide emissions.

Energy savings by design

The new VSB plant in Brazil incorporates technologies that use gases produced by the industrial process to supply 22% of the plant's requirements, and systems that recover the energy released by motor braking. In addition, the building's PREON® structure makes use of high-performance, lightweight and easily-installed Vallourec tubes and is equipped with noise abatement solutions.

When designing the extension to the Valinox Nucléaire plant in France, no effort was spared to save energy: high-efficiency motors; electronic control for the hydrogen furnaces; the hydrogen required for the production process is produced on-site to avoid transportation; and in workshops, the intensity of natural light is taken into consideration by the neon lighting control system. Environmental protection measures at the site include noise abatement solutions, runoff water recovery ponds, a leak containment pond and a waste recycling facility. The company is currently assessing solutions for preserving biodiversity in the vicinity of the site.

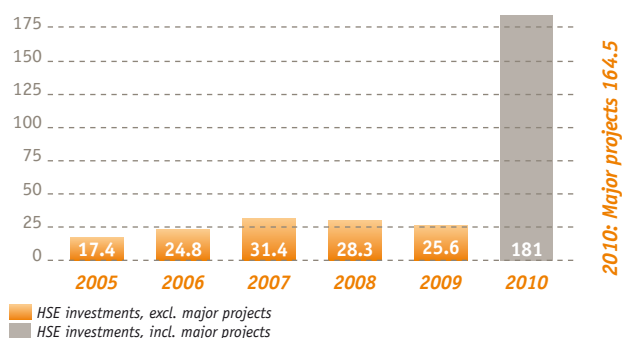
Vallourec also invests to upgrade existing facilities, in particular to optimize the energy efficiency of heating installations (such as improved insulation for furnaces and heat treatment lines), to reduce water consumption by using runoff water recovery and recycling ponds, to improve waste collection and recycling, and to limit noise pollution by reducing noise at its source.





View of VSB, Jeceaba (Brazil).

Trend in HSE investments (€ millions)



Excluding major projects, Vallourec invested €16.5 million in health, safety & environment (HSE) measures in 2010. When major projects are included, this amount rises to €181 million, representing more than 20% of total investment by the Group.

20%

Share of the Group's industrial investment devoted to HSE performance improvements.



A STATE-OF-THE-ART PIPE MILL IN YOUNGSTOWN

The plant currently under construction in Youngstown (Ohio, United States) is Vallourec's response to strong growth in the North American OCTG market. The new facility will initially be equipped to produce 350,000 tonnes of small-diameter seamless tubes with potential to be increased to 500,000 tonnes at a later date. For this investment in the construction of a new pipe mill, Vallourec wanted to apply the most advanced eco environmental techniques employed in European industry. From the outset, particular attention was paid to selecting the most energy-efficient and environmentally-friendly equipment (burners, closed-circuit cooling towers, air compressors, etc.). It should also be noted that the plant is being built on a rehabilitated brownfield site.



Serimax – Welding on a barge in the China Sea.



ACQUISITIONS – CLEARLY-DEFINED OBJECTIVES

The Group is pursuing a strategy of targeted acquisitions aimed at increasing its local presence or accessing specific technology and expertise enabling it to expand its premium offering. Examples of this targeted approach include the acquisition of a majority holding in PTCT in Indonesia, the acquisitions of DPAL and Protools in the Middle East, as well as a participating interest in Tianda Oil Pipe in China, and the acquisition of Serimax in France.

Improved local coverage

The acquisition of a 19.5% stake in Tianda Oil Pipe in China increases Vallourec's presence in the world's second-largest OCTG market. Under the terms of a cooperation agreement, Vallourec's VAM Changzhou plant is to provide a local premium threading service for tubes manufactured

by Tianda Oil Pipe for the Chinese market. Tianda's new rolling mill puts the two companies in strong positions to benefit from the rapid growth forecast for the Chinese oil and gas market.

Enhanced premium offering

Through the acquisition of Serimax in 2010, Vallourec has expanded its offering in the area of deepwater offshore applications, by providing customers with new services which complement the products sold by the Group's other business units.

AN ACQUISITION METHODOLOGY THAT INCLUDES HSE CONSIDERATIONS

At Vallourec, risk assessments conducted for proposed acquisitions cover various aspects of sustainable development. For the Serimax project, for example, a comprehensive on-site review was conducted to assess any health, safety and environmental (HSE) risks, in addition to the economic considerations examined by conventional due diligence studies.

Concerning safety, in addition to performance indicators, which are benchmarked against Vallourec indicators (LTIR and TRIR*), the audit considers the standard of risk reduction procedures and initiatives (in terms of reporting, risk prevention, communication, training, workshops, etc.), and assesses the level of commitment by management.

€1.6 billion.

Total value of strategic acquisitions by Vallourec since 2005.

SUCCESSFULLY INTEGRATING SERIMAX INTO THE VALLOUREC GROUP

“Given the natural fit between the respective businesses of Serimax and Vallourec, integrating the teams from the two companies did not pose any problems. As the world leader in integrated welding solutions, we share the same service culture as Vallourec, and we are combining our efforts in terms of innovation for the benefit of our shared customers. From an operational perspective, bringing Serimax expertise to Vallourec business units is generating some interesting opportunities.”

David Williams, Chairman of Serimax



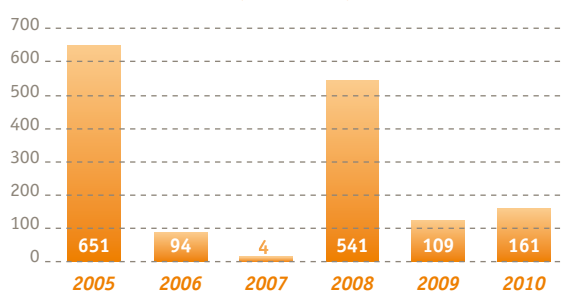
Opening ceremony in August 2010 for the extension to the V & M Changzhou plant.

Potential health risks are identified by conducting a detailed analysis of the list of products used, and by analyzing the quality of the atmosphere in workshops. In the event of non-compliance with applicable standards, the audit verifies the corrective measures to be implemented.

Regarding the environment, Vallourec ensures that all major facilities obtain ISO 14001 certification and assesses the scale of any environmental issues relating to the business of the target company. The Group also verifies the quality of a target company's performance indicators and checks that they are monitored correctly. Lastly, a search is performed to reveal any legal contentions. In each of these three areas, corrective measures may be envisaged and costed if the audit concludes that such action is necessary, particularly if material risks are involved.

* LTIR: Lost Time Injury Rate; TRIR: Total Reported Injury Rate.

Financial investments (€ millions)



In recent years, Vallourec has made a series of acquisitions that have enhanced the Group's local presence and expanded its offering.

SERIMAX: CUSTOM WELDING SOLUTIONS

Serimax is an international group that designs and manufactures integrated welding solutions for offshore line pipe applications for the most extreme conditions. The group, which employs 800 people, has its head office in France and welding shops in the United States, France, the United Kingdom and Malaysia. Serimax recently opened sales offices in Russia and Brazil in response to growing demand in those countries. In 2009, Serimax carried out 50 projects in more than 20 different countries, generating total sales of €152 million.



SHAREHOLDER RELATIONS

ESTABLISHING A CONSTRUCTIVE DIALOGUE

Vallourec seeks to build lasting relationships with all individual shareholders and institutional investors, whatever their nationality. In parallel, the Group ensures that value is shared among all stakeholders, with particular emphasis on clarity and transparency.

EARNING THE CONFIDENCE OF INDIVIDUAL SHAREHOLDERS AND EMPLOYEES

The Group strives for a trust-based relationship with its shareholders, including individual investors and employees. The role of Vallourec's Investor Relations department is to provide information about the Group's results and outlook in a fair and transparent way.

All shareholders have access to a range of documents at the Vallourec website (www.vallourec.com). These publications include:

- The Annual Report (*The Essentials*), Shareholder's Guide and Sustainable Development Report,
- All information provided to the financial markets (quarterly results, press releases, finance and strategy presentations, audio and video broadcasts),
- All regulatory information (Registration Document, half-yearly report, information concerning the Annual Shareholders' Meeting).

Value 10 – A success story

More than 13,000 Vallourec employees in eight countries (Brazil, Canada, China, France, Germany, Mexico, the UK and United States), representing almost 70% of the Group's total workforce, have participated in Vallourec's global employee share ownership plan, known as Value 10. This operation has been a resounding success, with a higher employee participation rate than previous initiatives. More than 3% of the Group's capital is now owned by its employees, and the decision was made to nominate Pascale Chargrassé at the Annual Shareholders' Meeting to represent the interests of Vallourec employee shareholders in her capacity as a member of the Supervisory Board.

REGULAR MEETINGS WITH ANALYSTS AND INVESTORS

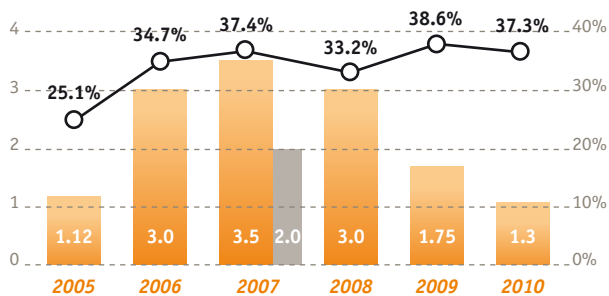
The Investor Relations department regularly organizes meetings with institutional investors, financial analysts and Socially Responsible Investment (SRI) analysts, both in France and elsewhere. In particular, these meetings include:

- Quarterly financial statements presented by the members of the Management Board during a conference call and at a face-to-face meeting held in Paris to present the annual and half-yearly results,
- Roadshows at which Management Board members and representatives of the Investor Relations department regularly meet portfolio managers and financial analysts in Europe and North America,
- Conferences for investors specializing in the oil sector,
- An annual Investor Day event, at which the Group's strategy and businesses are presented to institutional investors and analysts,
- A presentation for SRI investors, to accompany the publication of the Sustainable Development Report.

DIVIDEND POLICY

To encourage long-term shareholder loyalty, Vallourec aims for a long-term average dividend payout ratio of approximately 33% of net income, Group share. For the third consecutive year, shareholders will have the option to receive payment of the dividend as shares, benefitting from a 10% discount on the price of their new shares.

Dividend history

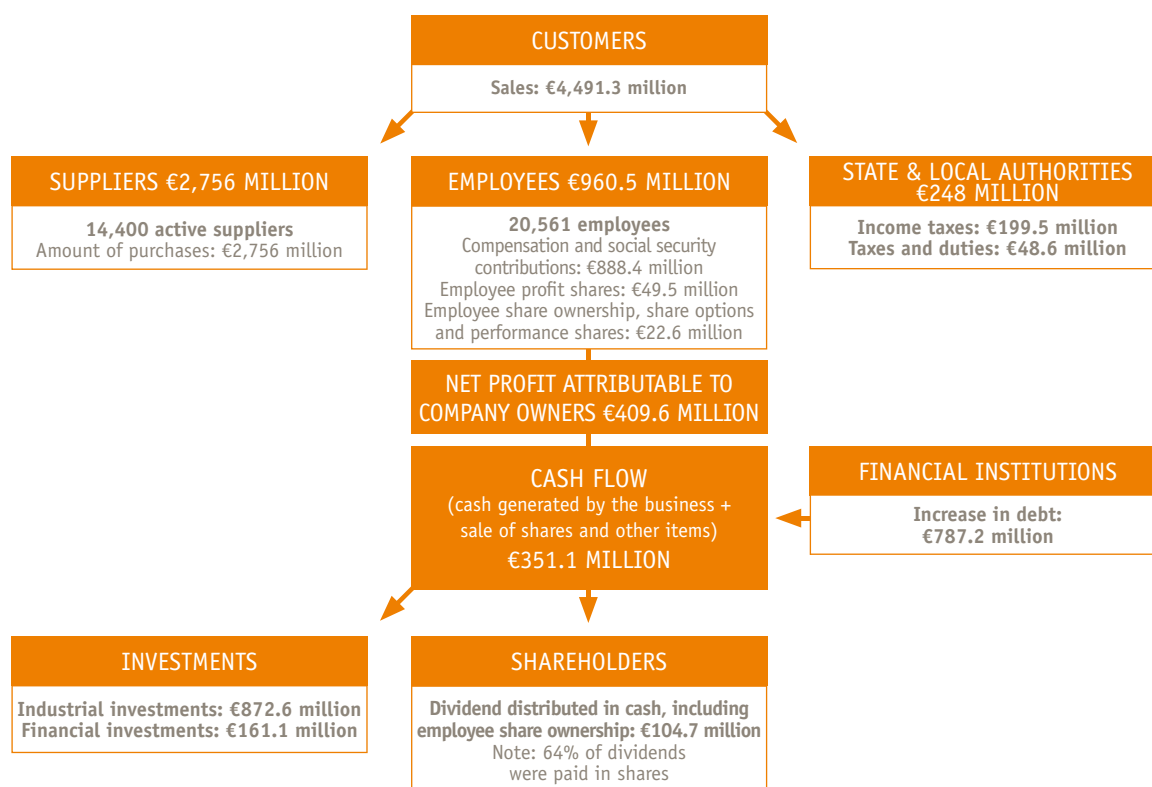


■ Ordinary dividend⁽¹⁾ (in euros per share)
 ■ Payout ratio⁽²⁾ (in percentage of earnings per share)
 ■ Exceptional distribution of 4 July 2007

(1) The amount paid out in dividends was recalculated to take account of the 2:1 stock split distributed on 9 July 2010.
 (2) Calculation of the payout ratio does not take account of the exceptional distribution of 4 July 2007.

It has been decided to ask the Annual Shareholders' Meeting to approve payment of an ordinary dividend of €1.30 per share for financial year 2010, with the option to receive payment in cash or shares. The proposed dividend corresponds to a payout ratio of 37.3%.

VALUE ALLOCATION AMONG STAKEHOLDERS





A LONG-TERM APPROACH TO HUMAN RELATIONSHIPS

SOCIAL RESPONSIBILITY

Vallourec pays particular attention to its relations with employees, including career development and knowledge management aspects, and operates a fair and motivating remuneration policy. The Group strives to maintain the highest standards of health and safety in order to protect its employees, and lives up to its responsibilities with respect to local communities all around the world.



EMPLOYMENT AND WORKFORCE DATA

CAPITALIZING ON COHESIVE FACTORS

Vallourec's growth is driven by the quality of its workforce. The Group is therefore particularly attentive to employee recruitment and integration, and to employees' remuneration and sense of belonging to a team.

A GROWING WORKFORCE

As of 31 December 2010, Vallourec employed 20,561 people at its production facilities and service offices (this figure includes employees on permanent and fixed-term contracts). Headcount increased by 11% compared with 2009, largely due to the acquisition of the Serimax Group (800 employees). A recovery in business levels in most countries also prompted an increase in the number of temporary workers, which by the end of 2010 almost matched the figure for the end of 2008.

This situation varied significantly between geographic

regions, however. Europe, where the number of employees remained largely stable, now accounts for less than half (46%) of the Group's total workforce. Brazil – where the workforce expanded by 21% as a consequence of recovery and the ramping-up of activity at the new VSB plant – is now home to more than a third (36%) of all employees. In North America (+7%) and Asia (+13%), the increases were essentially the result of Serimax joining the Group. The distribution of employees by category remained relatively stable although it should be noted that as a result of requalifying certain positions, the proportion of executives increased relative to the proportion of intermediate managerial staff.

Planning for changes in the age pyramid

The age structure of employees at Vallourec's European plants is such that 15% of employees are over 55 years old. Vallourec is preparing for a wave of retirements by developing a proactive skills management strategy. The aim is to ensure that knowledge and skills are transferred within the Group, by expanding the training available to young employees and by implementing a dedicated action plan to encourage older employees to continue working.

"OPINION" – PROMISING RESULTS

"The "Opinion" surveys conducted in France and China in 2010 were very well received by employees, with an 84% response rate. For us, this participation is first and foremost a sign of trust in the Group. The initial results reveal that employees are genuinely proud to work for Vallourec and feel a sense of loyalty. The survey also reveals a positive perception of the Group's image and reputation, and employees are generally satisfied with Vallourec's organization, management and communication. Although there are still many issues with room for improvement, this show of confidence bodes well for our future success."

François Curie, Human Resources Director



MOTIVATING COMPENSATION

Vallourec offers employees fair, motivating remuneration packages that reflect local employment market conditions and include profit-sharing mechanisms.

In 2010, total payroll (excluding temporary workers) was €960 million, up almost 17% compared with 2009 owing to the recovery in business levels. This remuneration was composed as follows:

- €633 million in wages and salaries,
- €49 million in employee profit-sharing payments,
- €21 million for costs relating to share subscription and share purchase options and performance shares,
- €257 million in social security charges.

LABOUR RELATIONS AND STAFF REPRESENTATION

Vallourec is firmly committed to maintaining a rich, constructive dialogue between management and employees, in accordance with applicable legislation in each country in which the Group operates.

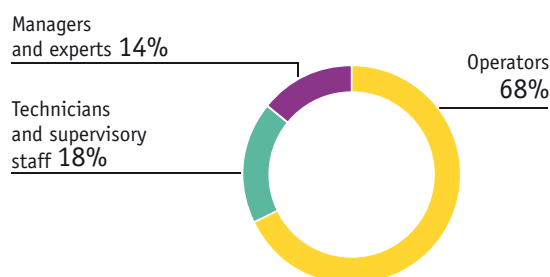
A European committee of 30 French, German and British employee representatives is regularly briefed about Vallourec's activities, results and strategy in Europe and the rest of the world.

Vallourec has introduced a number of tools in recent years to support its international expansion and in particular to facilitate the integration of employees from newly-acquired companies. These tools include a database of employee occupations and skills, and employee satisfaction surveys have also been conducted.

"OPINION" – AN IN-HOUSE EMPLOYEE SATISFACTION SURVEY

The "Opinion" satisfaction survey, first carried out in Brazil, aims to measure the degree of motivation and commitment of all employees, based on an individual questionnaire containing 80 items. The purpose of the exercise is to identify any sources of dissatisfaction and take appropriate action to improve the situation.

EMPLOYEES BY CATEGORY



Two-thirds of the Group's employees are operators. The proportion of managerial staff increased, largely as a result of requalifying certain positions.

+11%
Workforce growth in 2010.



CAREERS

ENCOURAGING JOB SATISFACTION

An international company with multiple businesses knows that developing skills and expertise, assessing short- and medium-term requirements, managing career paths, stimulating mobility and encouraging knowledge sharing are clear priorities. Day after day, human resources management plays an important role in the growth of Vallourec.

SMOOTHER CAREER PATHS

The energy markets will be faced with major challenges during the 21st century. To overcome these challenges, Vallourec is counting on its employees to exercise a wide range of professions in an environment dominated by technological innovations.

The diversity of Vallourec employees' backgrounds is an invaluable asset, and the Group's many human-scale organizations help them to work autonomously, adding to their sense of responsibility and job satisfaction. Vallourec constantly strives to ensure that the motivation and dedication shown by its employees is rewarded with frequent, personalized career opportunities, whether in France or elsewhere. Employees are offered training in new trade skills to encourage them to pursue their vocational goals and facilitate their career advancement within the Group.

Training in the mutual interests of the employee and the Group

Vallourec training policy aims to reconcile the needs of the Group with the career aspirations of its employees. In 2010, expenditure in this area was equivalent to 3%

AN INITIATIVE IN LINE WITH GROUP STRATEGY

“For Vallourec, the benefits of a Knowledge Management strategy are undeniable: productivity improves by standardizing practices; feedback is used to improve product quality; and knowledge becomes permanent as it is shared. Our best practice communities deliver all the advantages of networking. By dispensing with hierarchical barriers, they give centre stage to experts and accelerate communication. For employees, this results in very significant time savings, greater expertise and enhanced performance.”

Séverine Ozange, Group KM manager



of payroll, and 650,000 hours of training were provided to 70% of the Group's employees. Although managers and technicians were the categories that benefitted most, blue collar workers spent more time in training due to the emphasis placed on technical courses.

Standardizing the talent management process

For many years, Vallourec has been using performance evaluation systems for managers in all countries in which it operates. Over the last two years, the Group's Human Resources department has been taking steps to standardize these assessment processes, by setting job baselines for each profession and specifying technical and managerial skills, and by standardizing the system of individual targets and the manager interview process. A new human resources management system – named Talent 360 – was launched in January 2011 to facilitate this standardization. In 2012, this tool will be expanded to other staff categories in France.

KNOWLEDGE MANAGEMENT AT VALLOUREC

The ability to develop, secure and make rational use of knowledge held by multiple subsidiaries on different

continents is a key performance factor for large enterprises. Over the last few years, as Vallourec continues to expand internationally, developing and acquiring new expertise, it has been implementing a comprehensive knowledge and expert management strategy, primarily via a network of best practice communities. Use of the Group's electronic knowledge management platform has increased greatly since it was launched in 2001. This platform currently has nearly 35 communities and 2,200 members, who have made nearly 20,000 contributions since launch. The platform is a valuable tool for implementing the Group's collaborative working strategy.

650,000

Number of training hours received by Vallourec employees in 2010.



MANAGERS RETURN TO THE CLASSROOM

"Vallourec University" was inaugurated in 2011 – initially for Vallourec executives and line managers – as a new training and knowledge-sharing centre, with a particular focus on helping people become effective leaders. Its main missions are to promote an understanding of the Group's values and encourage excellence. The courses – on topics such as leadership and team management, project management, customer relationship management, change management and sharing a strategic vision – feature a combination of theory and practice. Training sessions will initially be conducted on an itinerant basis, although the Vallourec intranet currently being deployed will subsequently provide access to e-learning programmes.



SAFETY

AIMING FOR ZERO ACCIDENT

Safety is a fundamental value for Vallourec, which redoubled its efforts in this area in 2010. The aim was to mobilize the entire workforce in order to make decisive progress. The results have largely exceeded expectations.

A PERVASIVE SAFETY CULTURE

Safety is an absolute priority for Vallourec, which has successfully implemented a systematic action plan.

Cap Ten Safe – Essential leverage

The Cap Ten Safe plan, which was launched in late 2008, has been managed in strict compliance with the principles of the Vallourec Management System (VMS): full support by the management team; involvement of all personnel; and the introduction of performance indicators. The plan focuses on three main areas:

- Building a safety management system based on OHSAS 18001 audits and the certification of more than 90% of Vallourec industrial facilities.
- Assessing risks and forming continuous improvement teams at each site.

- Developing a pervasive safety culture including organizing safety visits: more than 3,000 managers around the world have now received specific training, and over 60,000 safety inspections have been arranged since 2008.

The Group's safety performance has improved considerably since Cap Ten Safe was introduced. The consolidated accident frequency rate, or LTIR (lost time injury rate: number of accidents requiring time off work, per million hours worked) fell from 9.3 in 2008 to 3.2 in 2010, considering all individuals working at our facilities, including temporary workers.

Vallourec's goal is to achieve an LTIR of 2 in 2012, and to considerably reduce the number of accidents without lost day.

Safety Day – A global safety awareness day

In 2010, a Group-wide Safety Day was organized for the first time, to encourage even greater commitment by employees. Numerous events attended by management were organized at Vallourec plants, partly to increase employee awareness of safety risks and corresponding best practices, but also to present awards acknowledging the effectiveness of safety-oriented continuous improvement teams. All employees were also given a safety brochure published in the languages of every country in which the Group operates.

SAFETY DAY – ANOTHER SIGN OF THE IMPORTANCE GIVEN TO SAFETY

“Organizing a worldwide Safety Day helped us to remain focused on achieving our safety improvement targets. This was the first such event staged by the Group. I was impressed by the commitment and motivation shown by all employees taking part in the various workshops, which included basic first aid, fire response training, road safety initiatives, and presentations of new systems at our plants. This goes to show how important safety is to our employees, and encourages me to believe that further progress can be achieved.”

Franck Vedel, Safety manager, CapTen Safe project manager



EVERYDAY COMMITMENT BY PERSONNEL

Continuous improvement teams (CIT) play a major role in Vallourec's safety performance. When Cap Ten Safe was launched in 2008, there were 58 CITs focused on safety. By 2010, that figure had risen to 278, almost a fivefold increase.

The importance of the "Hands Free" CITs

The Group continued to roll out "Hands Free" CITs across all Vallourec plants in 2010. More than 50% of industrial accidents still involve employees' hands. One solution involves reducing the number of occasions on which an operator touches tubes with his or her hands. This is the principle behind the "Hands Free" CIT. With the aid of photos representing the processes, operators describe the circumstances in which they touch tubes. After ranking the causes, the CIT can look for ways to minimize or eliminate these manual operations. Best practices were then passed on through communication

campaigns at a number of facilities, including the V & M Changzhou plant in China, for example.

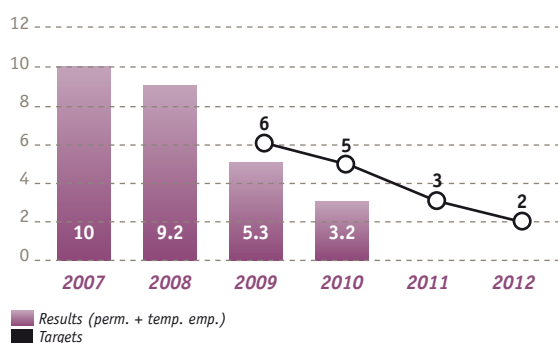
Overhead cranes in Brazil – Eliminating the risk

In 2010, a continuous improvement team was set up in Brazil to find ways to reduce the risks involved with overhead crane operation at the hot-rolling mill. The CIT focused its efforts on improving communication between the crane operator and personnel on the ground by introducing two-way radios and by simplifying handling operations, for example by devising a new system for transporting waste skips.

MOVING UP A GEAR

Building on the success achieved in previous years, Vallourec launched the CAPTEN+ Safe plan with new safety targets (a target LTIR of less than 3 days has been set for 2011), to increase the level of vigilance and involvement by staff and to achieve further progress.

Accident frequency rate (LTIR, Lost Time Injury Rate)



The Cap Ten Safe project launched in the second half of 2008 was an immediate success. The project was carried over into 2010, and the targets, although ambitious, were exceeded by a considerable margin, as shown in the chart above.

3.2

The accident frequency rate (LTIR) recorded by Vallourec in 2010.



HEALTH

ANTICIPATING RISKS

Vallourec is extremely vigilant regarding health-related risks, including exposure to hazardous substances and stress, which is often responsible for psychosocial disorders. Preventive or corrective action is taken where necessary.

DETECTING PSYCHOSOCIAL RISKS

In the context of the publication of the Légeron-Nasse report on stress in the workplace, a psychosocial risk assessment was conducted at Vallourec's French facilities in 2010. After consulting with trade unions, a three-part action plan was implemented involving: a survey of stress levels among employees; an information and awareness campaign for 1,000 managers and supervisory staff; and an enhanced stress watch system with the support of occupational physicians.

Note that this initiative was inspired by experience in Brazil. In this area, Vallourec's local business units already have an appropriate organization supported by psychologists and dedicated programmes.

CLOSER MONITORING OF CHEMICALS

Correctly monitoring and managing substances that are potentially hazardous for employees is critically important for Vallourec. The risks associated with the use of products are studied at every stage of the manufacturing process. The Chemsafe programme introduced in 2010 focuses on chemical risks.

Risk mapping

After an initial stage that involved raising awareness by personnel and providing training, Chemsafe's primary focus has been product monitoring. The aim is to catalogue products in a software application in order to produce a risk map, taking into account the precise conditions in which products are used. More than 5,000 chemicals have been recorded, 50 of which pose significant risks. Data is published online and the chemical watch system has been rolled out across the Group, facilitating widespread adoption of best practices.

Substituting the most hazardous products is naturally a priority. Vallourec suppliers have therefore been asked to provide products that do not contain hazardous substances. For example, degreasing spray units that originally used CMR⁽¹⁾ solvents have been replaced with sprays that do not contain solvents or CMR products.

The Group's strategy also involves monitoring the adoption of new products, which are systematically evaluated and

A KEY ROLE FOR OCCUPATIONAL PHYSICIANS

“As an occupational physician, my role involves making a significant contribution to preventing chemical risks to employees' health. In recent years, particularly since the introduction of the REACH programme, department managers, research engineers and end users are all much more aware of this issue than before, and the substitute products have proven their effectiveness. The medical monitoring that I provide in Aulnoye is particularly thorough if an employee is exposed to hazardous products. In such cases, we produce an exposure sheet for traceability purposes and perform additional examinations to ensure that any exposure is minimal and within statutory limits. I have received toxicology training, which has proved invaluable for our "Chemsafe" initiative. I also take part in discussions with fellow doctors in Saint-Saulve and Montbard, and I sincerely hope that progress achieved at local level benefits the Group as a whole.”

Doctor El Haddad, occupational physician at the Aulnoye plant



their use is subject to prior approval from safety and HSE managers, as well as the occupational physician. To facilitate this task, some facilities have installed database software to identify hazardous substances in products. If a particular substance poses a major risk, the product is banned and the supplier is asked to propose a substitute product.

Last but not least, employees are monitored by medical services based at Vallourec facilities. Their knowledge of the Group's products and processes is invaluable when it comes to monitoring exposure (see personal account above).

Europe sets the example

In Europe, the introduction of the REACH⁽²⁾ regulation is offering a real opportunity to expand the Group's chemical safety knowledge.

Following an initial "pre-registration" phase, the second phase of the REACH programme (2009-2010) required manufacturers and importers of chemicals to prepare a comprehensive file describing the potential hazards entailed by the users of such substances. Accordingly, Vallourec maintained a close dialogue with suppliers to ensure that all product applications were included in the study. Furthermore, in its capacity as a producer, Vallourec was part of the "slag"⁽³⁾ consortium and fulfilled its obligations concerning the registration of the two slag products sold by the Group.

(1) CMR: Carcinogenic, mutagenic and reprotoxic.

(2) REACH: Registration, Evaluation, Authorization and restriction of Chemicals.

(3) "Slag" is a carbonate by-product of the steel-making process.



1,000

Number of managers in France who received training in recognizing psychosocial risks in 2010.



CIVIC RESPONSIBILITY STRATEGY

OUR ROLE IN THE COMMUNITY

Vallourec is aware of the integral role its facilities play within their surroundings. The Group's strategy of fair, balanced growth involves behaving responsibly towards neighbouring communities and contributing to local residents' wellbeing.

A WIDE RANGE OF INITIATIVES

In view of their size and locations, Vallourec facilities have a significant influence on surrounding communities. Local residents, elected representatives and interest groups near plants often have a wide range of social, economic or environmental expectations. Therefore our primary goal is to establish relationships based on mutual trust and understanding. The first contribution the Group can make to a local community is to recruit its workforce locally whenever possible.

Vallourec business units have launched a variety of initiatives to support the development of these communities. Vallourec's Brazilian subsidiaries, for example, are very active in this area, arranging training for young people and organizing numerous cultural events (see pages 44 and 45). In the United States, the V & M Star plant in Youngstown, Ohio, also performs charity work and provides support to families of employees experiencing financial difficulties.

Alizé®, Solidarity between businesses

The Alizé® programme was set up six years ago to promote mutual assistance and cooperative development by and between companies in the same employment basin. The principle is simple: large enterprises provide their expertise to SMEs⁽¹⁾ in their region, free of charge, when asked for a technical opinion or assistance developing their businesses. The Vallourec plants in France's Burgundy region (Valinox Nucléaire, Valtimet, Valti and Vallourec Umbilicals) are among the 14 large enterprises that have agreed to support this initiative. Since Alizé® was established, 38 SMEs have received support from members, representing a total of 294 days of free consulting services.

Youngstown – Reindustrializing an employment basin

Through its V & M Star subsidiary, Vallourec has been operating in Youngstown for a number of years. The decision to invest in a new high-end pipe mill for small-diameter tubes was guided by the plant's proximity to major shale gas deposits. With this 650 million dollar investment, Vallourec will create several hundred new jobs to become the region's largest employer. In this way, the Group is contributing to the economic development of a region which has suffered from the gradual loss of its industrial base and a chronic job shortage.

President Obama visited Vallourec's Youngstown plant to give a speech on economic policy and highlight the effectiveness of his recovery plan. He confirmed both his attachment to this region and the importance he gave the Vallourec project. In parallel, the two cities where the pipe mill is located received federal support to upgrade the railway line and access roads leading to the site.

GOING THE EXTRA MILE

Vallourec wishes to encourage civic responsibility by setting out a clear set of principles. A detailed survey of current practices at the Group's facilities is currently in progress, with the aim of cataloguing the initiatives in this area and identifying stakeholders' expectations in local contexts (see personal accounts). This will enable the Group to establish guidelines in this area.

(1) Small, Medium-sized Enterprises.



CIVIC RESPONSIBILITY – RESULTS OF THE IN-HOUSE SURVEY

Here are few personal reflections relating to civic responsibility.

“Our action must be appropriate to the facility concerned. Activities necessary for implementing a partner-focused strategy in communities such as Youngstown and Houma are different from those required for our operations in Houston's industrial districts. At the same time, it is important to share best practices.”

Chuck Hoose, V & M Star
(Houston, Texas, US)

“We have decided to break with the traditional culture of discretion. French industry needs to rebuild its image, and explain its purpose and responsibilities.”

Jean-Marie Gros, V & M France
(CTIV in Valenciennes, France)

“We have a proactive attitude to local communities and organizations. We have set up a public affairs committee to strengthen and expand our initiatives beyond this area.”

Eric Shuster, V & M Star
(Youngstown, Ohio, US)

“Promoting our values to the community can have positive effects both inside and outside the company.”

Dr Markus Ring, V & M Deutschland
(Mülheim, Germany)

“A civic responsibility strategy is essential for our industry. We are doing a lot, but we would like to do more.”

Norbert Keusen, V & M Deutschland
(Rath, Germany)

294

The number of days of consulting services offered by Vallourec to SMEs since the Alizé® programme was first set up.



BRAZIL

HARMONIOUS LOCAL GROWTH

Vallourec's Brazilian business units – renowned for their production of "green tubes" through a process which uses plant biomass – have created a proactive social and civic policy. Their many and varied initiatives have been delivering results for several years.

V & M DO BRASIL – WIDE-RANGING INITIATIVES

Major impact on society

With its 4,400 employees, V & M do Brasil (VMB) is now the biggest employer in Belo Horizonte, the capital city of Minas Gerais, the State with the third-largest regional economy in Brazil. This business unit, including its two main subsidiaries – V & M Florestal and V & M Mineração – generates a total of 6,100 direct jobs. It attaches great importance to the motivation and sense of belonging of its Brazilian employees, and to developing their abilities.

Constantly striving to blend with local communities

V & M do Brasil and its two subsidiaries make a steady, transparent effort to maintain good long-term relationships with all neighbouring communities in 24 different municipalities in north-east Minas Gerais. Regular meetings are held with community representatives in order to define a framework for local development initiatives.

This approach, which targets issues such as education, the arts, sports and environmental preservation, provides practical projects such as entertainment productions, workshops, conferences and trade shows. These initiatives directly or indirectly benefit tens of thousands of Minas Gerais residents: in 2010, V & M do Brasil took part in no fewer than 59 social and cultural projects involving 668 different activities.

Similarly, the Sidertube foundation has established numerous programmes to enhance the quality of life of employees and their families.

Some of these initiatives are particularly emblematic. For example, in 2010 V & M Florestal helped to set up a cancer treatment centre that will benefit the populations of 51 municipalities in its catchment area. The company also invested in an anti-drugs programme for 2,700 students.

AN ARTS CENTRE IN BELO HORIZONTE

In Belo Horizonte city centre, the disused Cine Teatro Brasil cinema is to be given a new lease of life. The venue, which had been closed for a decade, was bought in 2006 by the Sidertube foundation – a not-for-profit organization that manages V & M do Brasil's social and cultural projects to facilitate the local population's access to arts productions. Now that the restoration of the facade is complete, the renovation of the interior of the building is currently underway. The work has uncovered original art deco frescoes beneath the paintwork which have now been restored. The building, renamed the V & M do Brasil Cultural Center, will be opening its doors in 2012. In the interim, a website devoted to cinema culture is to be created to showcase this heritage building.

The company supports many such projects through direct financial contributions and/or via tax exemption mechanisms. The budget for this assistance was R\$11.3 million (€4.8 million).

VSB OPERATES A PROACTIVE CIVIC RESPONSIBILITY STRATEGY

Vallourec & Sumitomo Tubos do Brasil (VSB), which has created 10,000 jobs during the plant's construction, will employ 1,500 people when it enters its operational phase. The company is aware of the facility's importance to local communities, and has decided to develop close relationships with them even before production begins. It has formed a plan to provide support to five municipalities, which are home to a total of around 20,000 people. This plan includes provisions for healthcare, teaching programmes for schools and cultural activities, craft training, support for neighbourhood security initiatives and information bulletins for local populations. For example, in São Brás do Suaçuí, a new arts centre will feature a municipal library, a telecentre

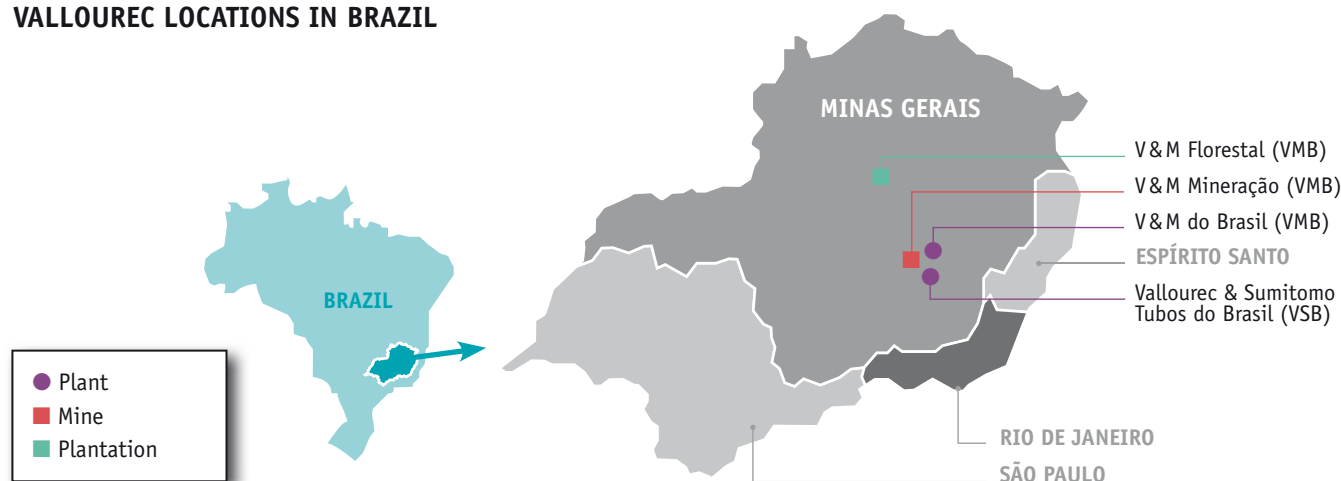
offering free internet access, and an archaeological museum that houses items discovered at the site where the VSB plant is being built.

Numerous cultural activities were organized as part of the "Tempo Sustentavel" programme (literally: "it is time for sustainability") in 2010, including theatrical productions and musical performances for children.

250,000

Number of people living within the sphere of influence of the Barreiro plant.

VALLOUREC LOCATIONS IN BRAZIL





REDUCING THE ECOLOGICAL FOOTPRINT OF OUR ACTIVITIES

ENVIRONMENTAL RESPONSIBILITY

The goal of Vallourec's sustainable development policy is to significantly decrease the environmental impact of the Group's activities. Vallourec is implementing a continuous improvement strategy and has set itself a series of targets aimed at reducing energy, water and raw material consumption, limiting environmental emissions and recovering waste.

GREENHOUSE PROJECT

SAVING ENERGY

The aim of the GreenHouse project is to significantly reduce Vallourec's consumption of electricity and natural gas, and by extension the Group's greenhouse gas emissions, which are a factor in global warming.

METHODOLOGY

The Vallourec Executive Committee is aware of the need to reduce the amount of energy used by the Group's industrial activities, and has set a target of cutting gas and electricity consumption by at least 20% by 2020; the performance and product portfolio of 2008 constitute the baseline for this target. This goal will be achieved by implementing a rigorous methodology based on the Vallourec Management System (see p. 15).

Sharing best practices

In 2010, the GreenHouse project was implemented to encourage the sharing of best practices and roll out

the best available technologies. "Energy managers" in each business unit received specific training in energy efficiency. Vallourec also established best practice communities specializing in thermal and electric processes, compressed air usage and refractory material selection, and 60 continuous improvement teams (CIT) focusing exclusively on energy performance went to great lengths to identify appropriate solutions (see examples opposite).

Measuring and monitoring energy consumption

Energy efficiency diagnostic audits were performed; these revealed the need to implement real-time consumption measurements for a better understanding of consumption profiles to assist decision-making.

Investing in thermal equipment

As part of its 2010 action plan, Vallourec performed energy diagnostic audits at the Group's ten most energy-intensive facilities and carried out 30 heat balance assessments at its heat treatment furnaces (see diagram opposite). An investment plan is currently being drawn up based on the results of these assessments.

Exploring new avenues

Lastly, Vallourec has conducted research into potential applications of renewable energy in our industrial processes, as well as heat recovery and carbon dioxide sequestration solutions.

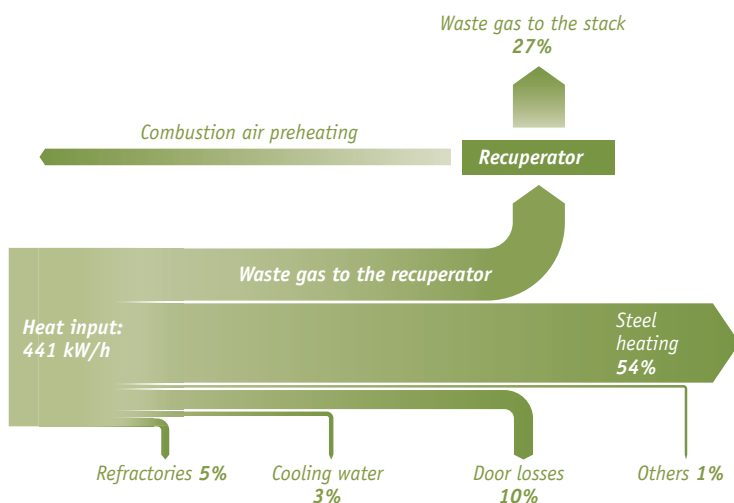
ENCOURAGING RESULTS THROUGHOUT THE GROUP

The methodology implemented via the GreenHouse project yielded positive results in 2010. After considering the lower level of activity than in the baseline year (2008) and the higher proportion of premium products (which require more energy to produce), average energy consumption was 1,022 kWh per tonne produced per plant for the entire Group in 2010; this figure represents an energy efficiency improvement of more than 5% over the 2008 baseline figure.

12 GWh of gas saved at the Saint-Saulve pipe mill

A continuous improvement team was set up at the pipe mill in Saint-Saulve (France), to reduce natural gas consumption by its billet heating furnace. The main task of the CIT was to implement best practices already identified by Vallourec, in order to optimise furnace idle periods during the week and on weekends, and to limit energy consumption during the heating process. As a result of these initiatives, energy consumption by these installations was reduced by a total of 12 GWh over the course of the year, saving the equivalent of 2,000 tonnes of carbon dioxide emissions.

Example of a furnace heat balance



Furnace heat balance studies reveal energy losses and enable the necessary work to be carried out to improve furnace heating efficiency.



V & M Tube Alloy delivers a 10% electricity saving

A CIT at the V & M Tube Alloy facility in Sommermeyer (Houston, Texas) enabled electricity consumption to be reduced by at least 10%. The most significant initiatives in this area included covering and isolating the phosphating tanks, creating additional light tubes in the production shop, fixing leaks and lowering the operating pressure of the compressed air system.

More than 63 GWh saved at V & M do Brasil

V & M do Brasil set up an "energy efficiency" department in 2010, tasked with coordinating action in the field: nine CITs were either set up or reassigned to research potential energy savings. Preliminary diagnostic assessments were carried out at workshops and heat balance studies were conducted for the largest facilities. By implementing these GreenHouse initiatives, V & M do Brasil achieved energy savings of more than 63 GWh (equivalent to almost €5 million) in 2010.

20%

The GreenHouse project aims to achieve a 20% reduction in the amount of energy consumed per tonne produced by 2020.



Next-generation burners.

VALLOUREC GROUP ENERGY CONSUMPTION

Electricity

- Electricity represents 20% of the Group's total energy consumption.
- The two electric arc furnaces (in France and the United States) account for more than 40% of electricity consumption.
- The Group's 10 rolling mills located in Germany, Brazil, the United States and France account for a further 35%.

Gas

- Natural gas accounts for 42% of the Group's total energy consumption.

Charcoal

- This energy source, used by the Brazilian plants to convert iron ore into cast iron, represents 36% of the Group's total energy consumption.

Other energy sources (2%)



ENVIRONMENTAL EMISSIONS

ACTIVE ON EVERY FRONT

Controlling emissions of greenhouse gases, vapour and particulate matter, soil pollution and audible nuisances have long been priorities for Vallourec. The Group's approach focuses on preserving the environment and the wellbeing of local residents.

CARBON ASSESSMENT OF ACTIVITIES SINCE 2007

In order to limit greenhouse gas emissions and contribute to combat global warming, Vallourec has carried out annual carbon assessments of its activities since 2007. These studies are conducted by in-house specialists, with contributions from the environment and energy correspondents in all countries in which the Group operates. All calculations are performed in accordance with available methodologies. A comprehensive review of our approach will be carried out in 2011 with the assistance of independent consulting specialists.

European quotas

The Saint-Saulve steel mill in France is the only plant concerned by the implementation of the "ETS" European directive on management of carbon dioxide quotas over the period 2008-2012. It has an annual quota of

106,037 tonnes of CO₂ and actual emissions in 2010 totalled 62,963 tonnes of CO₂. The difference is mainly attributable to a decrease in production and to efforts to optimise the loading plan.

From 2013, the European directive will also apply to the Group's pipe mills and finishing units in France and Germany. Implementation of these quotas is currently in the process of being approved by the European Parliament.

INNOVATIVE SOLUTIONS FOR REDUCING CARBON DIOXIDE EMISSIONS

Vallourec uses biomass as an energy source to operate the Group's blast furnaces in Brazil, and uses electricity to melt scrap metal in its electric arc furnaces at steel mills in France and in the United States. Carbon dioxide emissions from these installations are significantly lower than those from traditional coke-based processes.

Brazil – Case study

V & M do Brasil is the world's only seamless tube manufacturing plant to use biomass as its main source of energy for steel output. The company cultivates eucalyptus plantations that supply charcoal to produce this energy. As the trees grow, they consume carbon dioxide and release oxygen. This "closed circuit" process results in a complete photosynthesis-based energy production and consumption cycle that has a positive impact on the greenhouse effect.

Vallourec owns a 230,000-hectare property, on which it grows approximately 120,000 hectares of eucalyptus, at a ratio of one hectare of native forest for every one and a half hectares of plantation. Land is worked on a seven-year cycle, with the company using one seventh of the plantation to produce charcoal each year. Similarly, one seventh of the forest is replanted each year.

Carboval – A new way forward

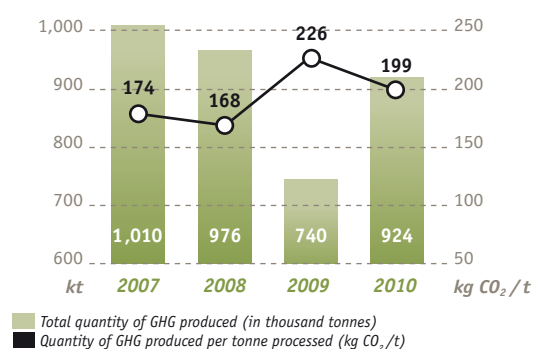
The Group is developing new processes to reduce greenhouse gas emissions from its charcoal-making furnaces in Brazil. Carboval is an innovative, non-polluting carbonisation process ideally suited to the production of charcoal for use as fuel in V & M do Brasil's plants. A pilot vertical steel charcoal kiln built in 2008 to produce 7,500 tonnes of charcoal per year has increased process efficiency and optimized the quality of the resulting charcoal. Eucalyptus wood produces extremely pure charcoal with a particularly high heating value. The process also burns all the greenhouse gases, making it self-sufficient in terms of electricity and avoiding harmful atmospheric emissions.

V & M do Brasil wins an environmental management award

The use of biomass is only one of several environmental initiatives by V & M do Brasil. In 2010, the company received the PMGA (Prêmio Mineiro de Gestão Ambiental) award, which was created in 2005 by the Brazilian Quality Association (UBQ) with support from the State of Minas Gerais and from the Brazilian Environment ministry. The award aims to encourage businesses to implement an organized environmental management strategy based

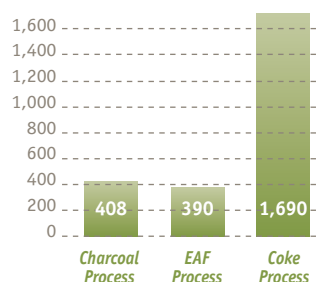


Greenhouse gas emissions trend (scope 1)



The chart above shows the results of the Vallourec carbon assessment, expressed in thousand tonnes of carbon dioxide equivalent (kt eq CO₂).

Comparison of carbon emissions (kg CO₂ eq/t steel)



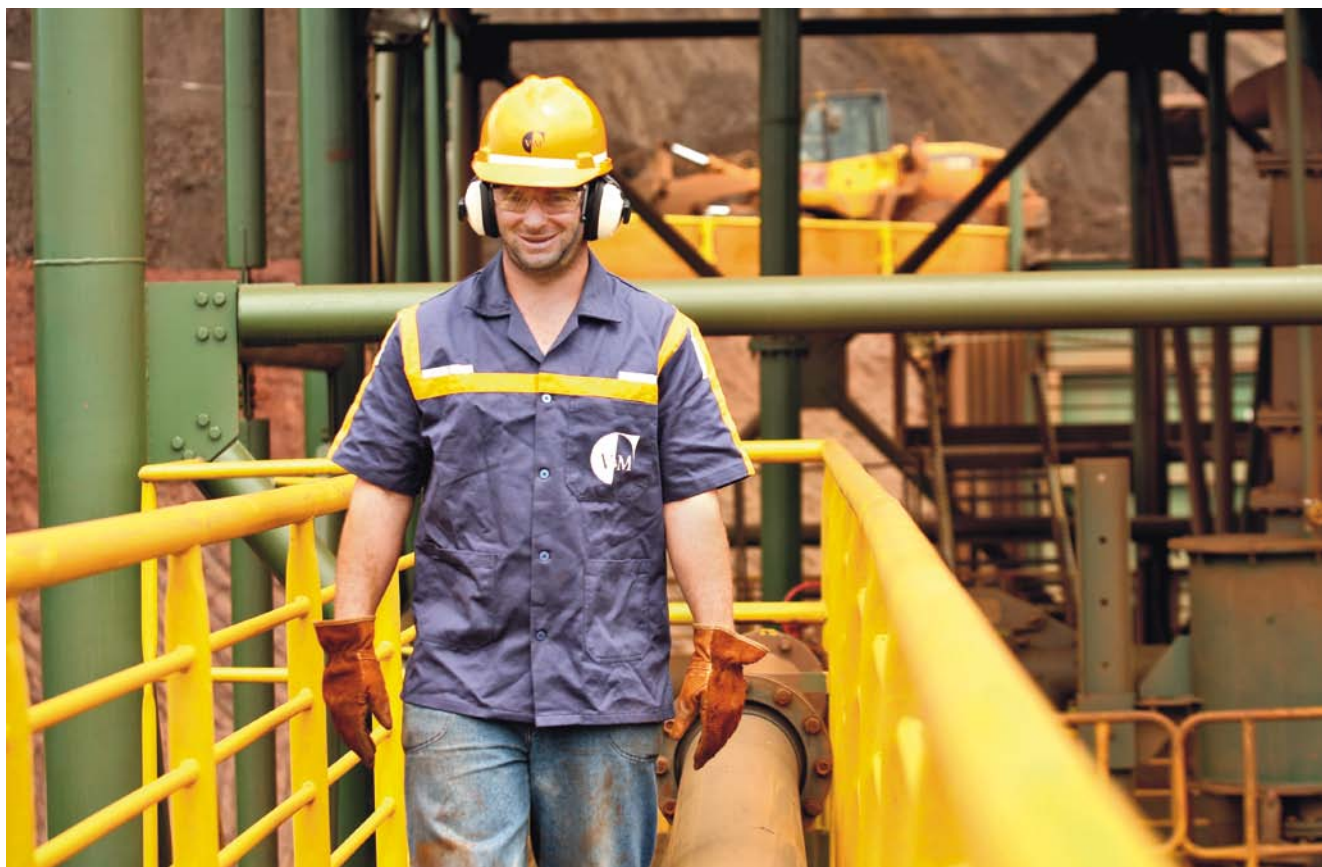
Carbon dioxide emissions from an electric process (as used at Vallourec steel mills in France and the United States) are equivalent to those of a charcoal process (Brazil) whereas the coke process emits four times more CO₂.

Carbon assessment – Scope definitions

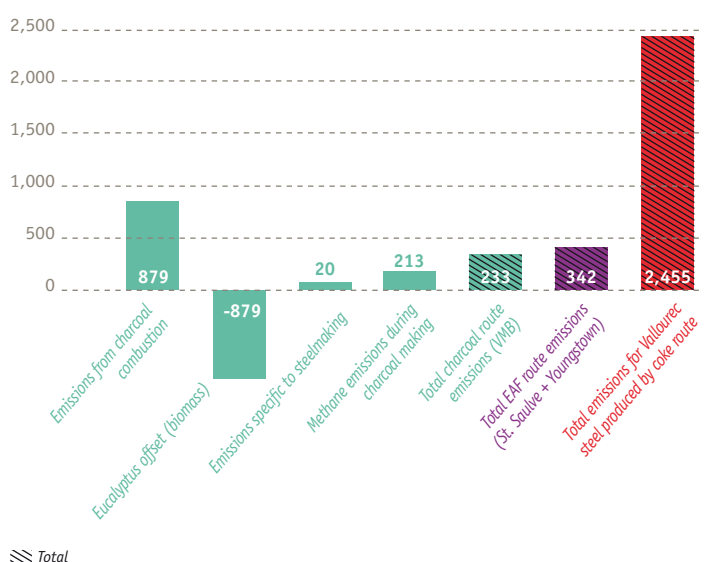
The table below shows the results of the 2010 carbon assessment, arranged in three different scopes (1, 2 and 3). The table also indicates which types of greenhouse gas emissions are included in the calculations for each scope.

Scope	Activity	Sources included in calculation	2009 results Tonnes CO ₂ e	2010 results Tonnes CO ₂ e
Scope 1 Direct emissions	<ul style="list-style-type: none"> - Production at electric-arc steel mills (Saint-Saulve in France and Youngstown in the United States) - Production at the Belo Horizonte steel mill in Brazil - Combustion in furnaces - In-house transportation and handling - Charcoal-making, used in Brazil instead of coke 	<ul style="list-style-type: none"> - Natural gas combustion - Methane emissions (estimated) - Iron and steel production - Oil consumption 	739,804	924,248
Scope 2 Indirect emissions / Electricity	<ul style="list-style-type: none"> - Production of electric power consumed by our industrial activities 	<ul style="list-style-type: none"> - Purchased electricity 	326,876	451,320
Scope 3 Indirect emissions / Others	<ul style="list-style-type: none"> - Steel purchases - External transportation (estimated) - Personnel transportation (estimated) - Waste emissions (estimated) 	<ul style="list-style-type: none"> - Steel production by Vallourec suppliers - Oil consumption - Waste processing 	1,058,419	1,835,131

The results obtained at scope 1 in 2010 were consistent with the increase in volumes. The rise in steel purchases from HKM (for the coke process) in 2010 accounts for the increase at scope 3.



Comparison of CO₂ emissions (CO₂ eq./thousand tonnes)



Using charcoal rather than coke makes for a very good carbon assessment, because the quantity of carbon dioxide emitted during steel production is more than offset by the amount absorbed by the forest.



on continuous improvement. For Alexandre Lyra, Chief Executive Officer of V & M do Brasil, this award is in recognition of the considerable efforts made by the company in the area of environmental conservation: "All areas of our business are involved in sustainable development initiatives. We consider the consequences of our activity on local communities and devise ways to minimise these impacts while still providing outstanding products to our customers."

LIMITING OTHER ATMOSPHERIC EMISSIONS

In order to preserve air quality in the vicinity of its plants, Vallourec systematically measures atmospheric emission levels and employs appropriate solutions for each type of emission associated with its manufacturing activities.

Reducing vapour emissions

Vallourec's facilities are equipped with vapour capture and treatment systems in compliance with regulatory requirements.

Volatile organic compounds (VOC) may be emitted during tube finishing operations. Wherever possible, the Group seeks to eliminate VOC emissions by phasing in alternative products such as water-based varnishes. If no substitution is possible, emissions are recovered and treated to ensure compliance with applicable standards.

Capturing dust

Electric arc furnaces are the main source of particulate emissions. The Group regularly upgrades its dust capture

TACKLING SPORADIC NOISE

“As the Rath plant is located very close to residential areas, numerous procedures and techniques have been introduced to protect local residents from noise pollution. In 2010, we installed a system to detect and record sporadic noises, such as audible warning signals or the sound of tubes banging together. If the noise measured by this system exceeds the permitted limits, the causes are analysed and corrective action taken immediately.”

Burkhard Niemöller, Environment manager, V & M Deutschland (Rath, Germany)



systems to counter these releases. In particular, Vallourec recently invested in a dust suction and filtering system at its plant in Youngstown (United States). The new system is twice as efficient as the existing installation.

Pipe mills and finishing plants also generate dust from hot rolling mills as well as tube grinding and polishing installations. Machinery is fitted with sealing, suction and filtering systems to capture particulate emissions at the source, and rooftop systems capture and treat diffuse emissions.

Furthermore, roads have been surfaced with concrete or polymer finishes to prevent the release of dust due to movements by lorries and other vehicles.

REGULAR SOIL MONITORING

The Group regularly commissions research into soil pollution risks at its European facilities; no sites are currently classified as requiring decontamination. In certain cases, piezometric sensor-based underground water monitoring has been introduced.

Whilst soil and underground water monitoring are not mandatory at Vallourec's plants in North America, the Group carries out local pollution risk studies as best practice.

In Brazil, where waste was stored at the Barreiro facility in the past, a recycling plan has been implemented, and piezometric sensors have been installed to enable underground water monitoring.

Lastly, in China, Vallourec is not aware of any soil contamination issues, not least because the Group's facilities are of recent construction.

PROACTIVE ON NOISE ISSUES

Many Vallourec activities are inherently noisy. Although noise is generated by steel mill furnaces, by billet cutting and storage activities, the rolling process and all finishing operations, numerous solutions exist to minimize or totally eliminate noise.

Tackling the problem at source

Vallourec's methodology consists in measuring the noise

emitted by workshops and compiling indicators based on that data, in order to analyse the source profiles and produce an action plan. Depending on the nature of the issues at local level, plants may measure noise inside the plant and/or at the site boundary, or even at the homes of nearby residents if applicable. In some cases, the systems used are not only able to measure noise in particular places but also determine its source. In addition, simulation software is used to assess the respective benefits of various sound insulation systems and choose the best solutions. The action being taken by the Group is targeted first and foremost at decreasing noise at its source. For example, certain plants are replacing pneumatically-controlled movement actuators with quieter hydraulic systems, and rubber is being placed between tubes to prevent noise caused by tubes striking each other. Where it is impossible or too impractical to decrease noise at its source, corrective action is taken by establishing barriers (containment screens around machinery, noise-abating walls, etc.).

In parallel to these efforts, Vallourec supplies employees with ear plugs to limit the health impacts of noise in plants. Wearing earplugs in work areas is a mandatory requirement. To make them more comfortable, these earplugs are adapted to the individual's ear, and incorporate filters that allow certain sound frequencies to pass through, in order to facilitate communication. Systematic medical monitoring helps to prevent noise-related health problems.



WASTE MANAGEMENT

EXPLORING NEW PROCESSES

As is the case for all metal-working and steelmaking businesses, the Group's production activities generate large quantities of very different types of waste. Particular attention is therefore paid to correctly managing waste, with a recovery target of 95% of all waste.

GOALS AND A METHODOLOGY FOR ACHIEVING THEM

The Group produced 630,000 tonnes of industrial waste in 2010, nearly 90% of which was non-hazardous waste such as slag and scale. Particular attention is paid to the remaining fraction, which consists of hazardous waste (dust, oil and oily sludge). The total waste volume is recorded on a monthly and annual basis, by waste type and by site, in order to prevent performance drift and to be able to establish in-house benchmarks as part of a continuous improvement process. Vallourec aims to decrease waste volumes through more effective control over industrial processes and related constraints – in particular, the Group intends to

reduce hazardous wastes – and recover as much waste as possible, avoiding recourse to landfill and reducing waste processing and disposal costs.

CONCLUSIVE RESULTS

In 2010, a study focusing on the five most important types of waste in terms of volumes and costs was conducted at various Vallourec plants, in order to compare the volumes generated, the types of treatment employed and the associated costs, and the waste management strategies implemented at each plant. In most cases, the differences observed between facilities were due to the local context (locally-based waste subcontractors or, conversely, the need to transport waste over long distances, which considerably increases costs). Other differences were attributable to differences in the legal status of different waste products, which varies according to the geographical location of the plants. Lastly, differences in industrial processes explains the variations in waste volumes and costs.

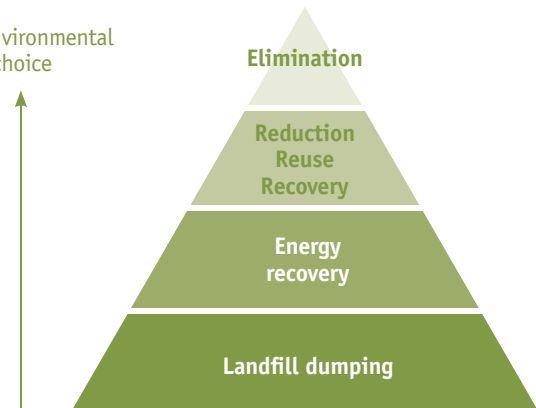
Following this study, working groups were set up to carry out in-house benchmarking and circulate best practices. New treatment processes are planned to enable facilities to recover more waste. The aim is to progress from a

situation where energy is recovered as the waste is incinerated to one in which waste is reprocessed to form co-products suitable for use in other production processes. Each facility takes action to recover its waste whenever possible: for example, the Group's steel mills recycle a large proportion of the scrap metal consisting of unused offcuts from Vallourec tube mills (see inset). Steelmaking slag, the largest category of waste by tonnage, can be reused as backfill in the construction industry, thereby reducing the need for quarrying in the natural environment.

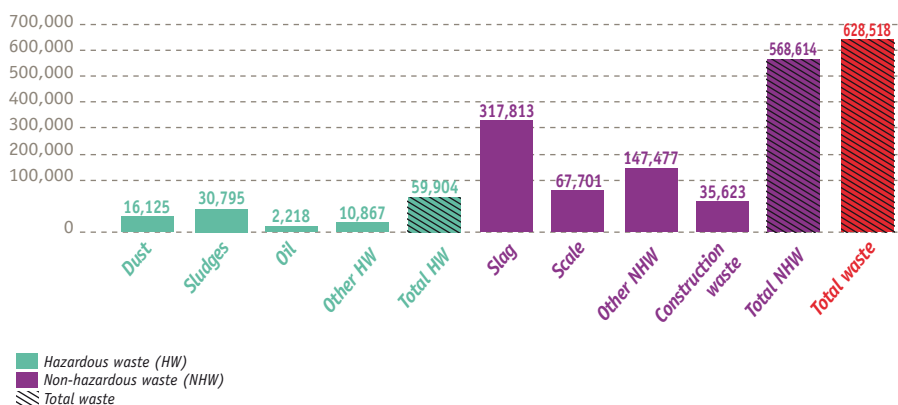
The sustained efforts made in recent years are yielding results, and the Group as a whole now recovers 86% of its waste. Results vary widely between sites, however, and it is essential for Vallourec to improve this rate. The Group's target is to achieve a 95% recovery rate in three years.

Maximum waste recovery

Best environmental choice



Quantity of waste generated in 2010 (tonnes)



86%

Percentage of waste recovered¹ by the Group in 2010.

1. "Recovery" includes using waste as a form of energy, reprocessing it for subsequent reuse, or simply eliminating waste at source. Only landfill dumping and incineration without energy recovery are considered not to be forms of recovery.



EUROSCRAP – AN AMBITIOUS PROJECT

Launched in 2009 and rolled out across European mills in 2010, the Euroscrap project aims to recover the maximum value from recycling the scrap metal that is produced in its mills.

This is to be achieved by optimizing sorting at tube mills in order to supply steel mills with scrap suitable for making various grades of steel. At the initiative of project managers at the Group's tube mills, a communication plan and methodology were implemented to inform plant personnel, assess the feasibility of sorting, implement an operational solution and create an efficient supply chain to the steel mills. For their part, the steel mills studied how their furnace loads could be adjusted to optimise this recycling without entailing any technical risks.

Although its basic idea of using offcuts within the Group to create new raw material is simple and has already been put into practice, Euroscrap is expected to achieve significant gains through multidisciplinary collaboration between experienced personnel in a well-coordinated project. This intelligent approach to recycling should serve as an example throughout the Group, demonstrating that global, collaborative management can deliver impressive results.



WATER

SAFEGUARDING A PRECIOUS RESOURCE

Water is a major issue in any sustainable development strategy, and improving our management of this resource is a top priority for Vallourec. Our plants are making regular progress in terms of limiting water consumption and controlling the quality of water discharged into the environment.

REDUCING WATER CONSUMPTION

Water is essential in many manufacturing processes at Vallourec plants. It is mainly used to cool hot-process equipment such as billet furnaces, tube rolling machinery and heat treatment furnaces, which account for more than half of total requirements, and to cool tubes during heat treatment operations (25% of requirements). Water is also used during surface treatments, pressure testing, non-destructive tube examinations and for cooling production equipment. Vallourec has invested in numerous water recycling and runoff water recovery solutions over the past ten years.

The investment by VAM Drilling at its Tarbes plant, enabling the facility to no longer draw cooling water for its equipment from the water table (see account in inset), is a perfect illustration of the Group's efforts in this area.

Consumption has fallen steadily over the last ten years, from 13.89 million cubic metres in 2000 to 8.08 million cubic metres in 2010, i.e. a decrease of 42% over the period. The overall goal is to significantly reduce discharge by adopting clean technologies that reduce and recycle waste water. This will further decrease water consumption and the quantities of pollutants released into the environment.

ENSURING EFFLUENT QUALITY

Industrial water from most Vallourec plants is discharged into the municipal sewer system and then treated at the municipal waste water treatment plants. The goal for these plants is clearly to reduce the quantity of water discharged while ensuring consistent quality.

In certain cases – in particular at the facilities operated by V & M France, the V & M Deutschland plant in Rath (Germany), and the V & M Star plant in Houston (United States) – water is discharged into the environment after

DRAWING LESS WATER FROM THE WATER TABLE

“We invested in two consecutive projects to convert the water cooling installation for the heat treatment shop and press shop at the Tarbes plant to a closed-circuit system. Our aim was to eliminate the need to draw water from the water table. After analysing the various possible solutions, we opted to install two refrigeration units in a closed-circuit primary system, to ensure that cooling water temperatures are constant all year round. Installing the new systems has reduced the plant's industrial water consumption from 150 m³/tonne to 10 m³/tonne.”

Yohann Bacque, QSE manager at the Vam Drilling plant in Tarbes



processing at an on-site treatment station.

Effluents discharged from plants comply with local regulations. Effluent quality is checked regularly and monitored by administrative authorities that verify compliance with requirements relating to the following parameters:

– Suspended solids (SS)

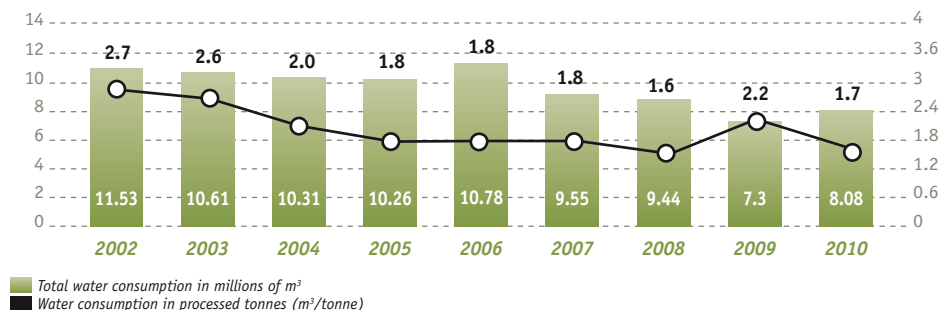
– Chemical oxygen demand (COD)

– Total hydrocarbons (HCT)

– Metals (particularly iron, zinc, chromium and nickel)

The Group decided to launch a water plan in 2010, to identify best practices in terms of water consumption and management. Several improvement measures were identified and are being phased in across the Group.

History of Group water consumption



After increasing in 2009 as a consequence of below-capacity plant operation, consumption per tonne produced decreased to 1.74 m³/tonne in 2010, a rate close to the 2008 figure despite output being 18% lower.



V & M FLORESTAL: 15% LESS WATER AT THE EUCALYPTUS NURSERY

A continuous improvement team (CIT) was set up in 2010 to study and reduce water consumption at the eucalyptus nursery operated by V & M Florestal (Brazil). In the light of this research, numerous initiatives were implemented, including replacing the substrate in which saplings are planted. The new substrate retains moisture more effectively, resulting in water savings of up to 30%. Overall, the series of measures adopted by the CIT reduced the nursery's water consumption per sapling by 15%.



BIODIVERSITY

PROTECTING ANIMAL AND PLANT LIFE

The UN declared 2010 to be the "International Year of Biodiversity" in order to raise the public profile of an issue of great concern. Vallourec is acutely aware of the implications of this environmental issue and began implementing practical measures long before the UN appeal. The Group's Brazilian plants illustrate best practice in this area.

350

The number of bird species identified by V & M Florestal.

IN BRAZIL...

Certain Vallourec activities have a direct link with biodiversity, and the Group has been taking very practical steps in this area for a number of years.

A good example is the case of V & M Florestal, a Brazilian subsidiary of V & M do Brasil that cultivates eucalyptus plantations. Every effort is made to preserve biodiversity using simple methods such as maintaining ecological corridors between the native forest and plantations, to ensure that wildlife movements are not impeded.

Diversified plant and wildlife

The company has set up programmes to monitor plant species and wildlife in the surrounding forests, in conjunction with the University of Minas Gerais and Lavras. It teamed up with several partners to carry out research on local birds: 350 different species were reported, representing 40% of the total number of species listed as being present in the State of Minas Gerais. Research on bees revealed that they have adapted well. Last but not least, a few endangered species of mammals were identified by a mammal monitoring programme. Another V & M do Brasil subsidiary, V & M Mineração,

PROMPTING GREATER AWARENESS

“All Vallourec facilities, according to their respective characteristics, need to think about the progress to be achieved in terms of biodiversity. My role as Environment Director is to bring about this greater awareness. The Groupwide survey on biodiversity issues carried out in 2010 is a reflection of corporate citizenship concerns. This survey was launched, symbolically, during the UN year of biodiversity, and will provide the basis for forthcoming action by the Group.”

Jean-Luc Dupuis, Vallourec Environment Director



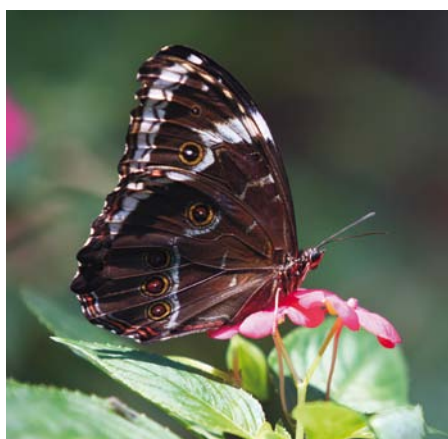
operates a mining business based in the town of Brumadinho, around 50 km from the Barreiro industrial complex. The company is deeply committed to environmental restoration in mining regions. Accordingly, in 2010, some 100,000 square meters of mined surfaces were returned to nature after being planted with species of trees, grasses and leguminous plants native to the region. Over the years, the company has restored more than 1.7 million square metres of mining land.

... AND ELSEWHERE

Practical initiatives were also implemented in France, at the Valtimet facility in Burgundy. Environmental maintenance work was carried out at a 19th century gravel pit, where a build-up of silt was threatening the ecosystem. Vegetation was selectively cut back to preserve slow-growing species, and silt was removed to create a spawning ground for aquatic wildlife.

ROLLING OUT BEST PRACTICES

Vallourec intends to roll out best practices such as these through its sustainable development strategy. A comprehensive survey of the Group's main industrial sites was carried out in 2010, based on experience acquired in Brazil. The first stage involved identifying vulnerable watercourses, nature reserves, green belts, threatened species, etc. This phase of the study revealed that the Group is not subject to any critical problems. Even so, Vallourec considers that individual sites, notwithstanding their very different natures, may see fit to develop their own biodiversity analyses.



A SHOW OF UNITY AT THE NAGOYA CONFERENCE

In October 2010, some 18,000 people attended the global conference in Nagoya, a keynote event in the International Year of Biodiversity. This event was followed by many others, including a symposium in Paris organized by the association "Entreprises pour l'Environnement", at which Vallourec spoke about its experience in Brazil. These events highlighted the business world's growing interest in protecting nature. There are many reasons for this enthusiasm: companies are guided not only by strong social demand and ethical choices, but also by increasing regulatory pressures, particularly in Europe, where a European directive stipulating offset measures or restoration in case of environmental damage was issued in 2004 and embodied in French law in the 2008 Corporate Social Responsibility Act (*loi sur la responsabilité des entreprises* – LRE).



CHINA

A WEALTH OF BEST PRACTICES

In China, the economic boom has led to a range of serious environmental problems. The Chinese authorities have responded by introducing unprecedented measures to use natural resources more efficiently. These decisions were anticipated by local Vallourec personnel.

EFFORTS ACROSS THE BOARD

In 2010, a working group made up of representatives from the main Vallourec business units operating in China identified the local priorities in the area of environmental responsibility. By applying the Vallourec Management System approach and setting up continuous improvement teams (CIT), all aspects of the Group's activities were examined.

Electricity consumption

With the encouragement of the Chinese government and support from the GreenHouse project, all Vallourec plants in China set up CITs to identify ways to reduce electricity consumption in 2010.

V & M Changzhou was able to decrease its consumption by 15% compared with 2009, in particular by improving the lighting at its premises and by searching for and fixing leaks in the compressed air system. The Changzhou Carex Valinox Components plant achieved a 30% reduction in three months, essentially by changing its air conditioning system settings and optimizing its use of the most energy-intensive machinery. Lastly, VAM Changzhou introduced a number of simple measures, including adjusting the air conditioning setpoint based on the outside temperature (for example, if the outside temperature exceeds 30°C, the interior temperature is maintained at 26°- 28°C), optimizing use of the compressed air system by using a smaller, more energy-efficient compressor whenever the painting line was not in operation. The plant lighting system was also improved, by modifying the light switch unit in the production shop to provide more versatile lighting control depending on the activities being carried out. Implementing the CIT's recommendations enabled the plant to reduce its electricity consumption by 23% compared with 2009.

Waste

V & M Changzhou set up a CIT to optimize raw material usage by increasing production yields.

AN AWARD-WINNING IMPROVEMENT AND KNOWLEDGE-SHARING STRATEGY

“As a subsidiary of a multi-national company, it was particularly important for V & M Changzhou to set a good example for environmental issues. The Group adopted a continuous improvement strategy (continuous improvement teams, benchmarks, etc.) to facilitate this task. We also organized a conference in order to share our experience with other businesses in our sector, and this may have been what prompted the local authorities to present us with an "environmentally-friendly business" award, of which we are very proud. I should add that we also received an award for our safety performance, which is equally important to us. As these awards show, our company upholds the Chinese principle of a harmonious society.”

Hailey Wu, HSE engineer, V & M Changzhou



Water

The main Vallourec facilities in China compared their respective water management systems in order to identify best practices. Examples include the water recycling system operated by V & M Changzhou; the use of demineralized water for pressure and cooling tests at Changzhou Valinox Great Wall Welded Tubes; and the decision by Changzhou Carex Valinox Components to use a new detergent for its tube washing process, enabling the quantity of water used to be reduced by almost half.

initiatives, V & M Changzhou organized a conference with local companies, which was attended by government representatives from the city of Chun Jiang. In January 2011, the local authorities presented V & M Changzhou with an "environmentally-friendly business" award, to encourage the company to pursue its progress strategy (see inset).

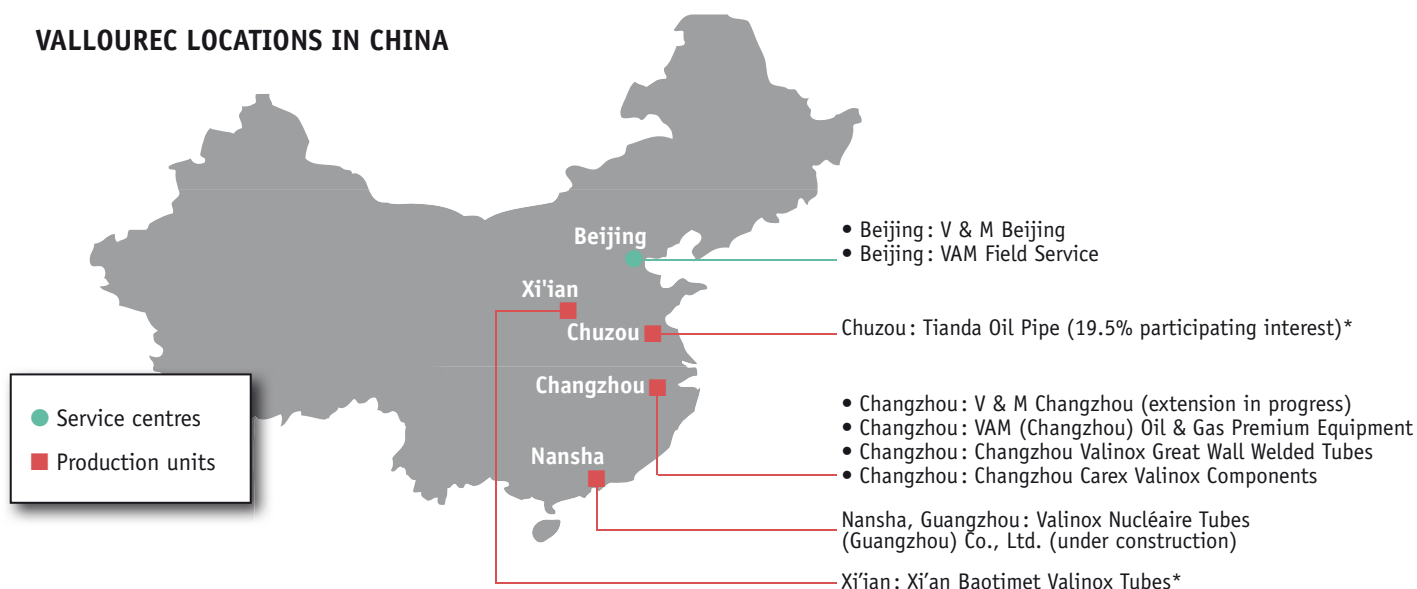
V & M CHANGZHOU WINS AN ENVIRONMENTAL AWARD

In order to leverage the company's environmental strategy and enable other organizations to develop similar

-23%

Reduction in VAM Changzhou electricity costs between 2009 and 2010.

VALLOUREC LOCATIONS IN CHINA



* Non-integrated

METHODOLOGY NOTE

The purpose of the Sustainable Development report is to inform shareholders and the general public about the action taken by Vallourec to preserve the environment and protect our employees. The report is based on data from the systems deployed in the Group's facilities world-wide. This publication is the result of a meticulous reporting strategy based on procedures that ensure that the information provided is consistent and transparent.

Reporting scope

The environmental and safety reporting scopes are determined according to rules set by Vallourec's Sustainable Development department, as embodied in the corresponding procedure:

1. The scope includes sites with an industrial activity. It therefore excludes the "Vision IT" centre in Saint-Saulve, the administration offices in Boulogne (France), Rath (Germany) and Houston (Texas, United States), respectively, as well as all sales offices. For the purpose of consolidating safety indicators, all sites except small sales and commercial offices were included in the scope.
2. The scope includes sites owned by Vallourec for at least six months. This rule applies in the event of an acquisition or disposal.
3. The scope includes sites that carried out an industrial activity during the financial year. It excludes facilities that are under construction or have not been operating for at least six months (for example Vallourec & Sumitomo Tubos do Brasil).
4. The scope includes facilities where Vallourec holds more than 50% of the voting rights. Conversely, the scope excludes sites where Vallourec holds only a minority interest.

The social reporting scope is established by Vallourec's Human Resources department. The scope includes the same companies as in the financial scope, except for:

1. companies with fewer than 5 employees.
2. companies in which Vallourec does not have a majority interest (*i.e.* more than 50% of voting rights).

Indicator baseline

Vallourec developed its baseline in keeping with the proposals described in the *Global Reporting Initiative* (GRI), the purpose of which is to develop globally applicable directives for reporting economic, environmental and social performance by companies, government agencies and non-governmental organizations. The environmental and safety performance indicators and their numbering system have been incorporated into the ERMIT unified web-based reporting system, which tracks indicators on a monthly basis. A description and methodology sheet has been produced in the Group's four main working languages (*i.e.* English,

French, German and Portuguese) and supplied by the Sustainable Development department to its network of correspondents.

With regard to safety indicators, Vallourec refers to the guidelines set out in the *Occupational Safety and Health Act* (1970, USA)⁽¹⁾, which aims to ensure that employees do not encounter obvious health or safety hazards in the workplace. To ensure accurate, consistent reporting of the two world-recognized indicators (*i.e.* the accident frequency rate (LTIR) and the severity rate (SR)), the Group has issued certain requirements relating to their definition, due to variations in the corresponding regulations between countries.

Regarding social performance indicators, a precise, standardized definition has been produced (and recorded in a procedure) for use by the whole Group.

These indicators are recorded monthly for each company, in an Excel file. Data is consolidated first at country level, under the responsibility of the local Human Resources correspondent, before being consolidated at corporate level by the Human Resources department.

Consolidation and inspections

Concerning environmental performance indicators, the Sustainable Development department performs checks on the quality (in terms of schedule compliance, accuracy and exhaustiveness) of reporting for each site at the end of the quarter and financial year and requests any explanations that may be necessary in order to properly understand the indicators. This stage is crucial, both for the quality of the final report and for the assurance afforded by monitoring the indicators at corporate and local level. The Sustainable Development department produces quarterly summaries for each site, division, and country, in order to check and compare data.

Safety indicators are checked and then distributed to all sites and the Sustainable Development department on a monthly basis.

Each month, the Human Resources department checks the collected social performance data and sends a summary to the Vallourec Executive Committee and the Director of each division.

Consolidation principles

1. Companies over which the Group exerts a significant influence (> 50%) are not accounted for in accordance with the equity method. All sites within the reporting scope that are wholly- or partly-owned by Vallourec are treated the same way for reporting consolidation purposes, *i.e.* as if they are wholly-owned by the Group.
2. Prudence concept: data is consolidated on the basis of cautious assessments, to avoid any reputation- and transfer-related risks.
3. The accruals concept: each financial year is treated in isolation.

Limits of the methodology and special cases

Indicators are subject to a few exceptions regarding the application of the aforementioned rules. These exceptions are summarized in the table below.

	Subject	Plants	Description
SCOPE	Determination of the reporting scope: compliance with rule n° 1	V & M Mineração	The industrial activity at the V & M Mineração facility in Brazil is very different to those of the other Vallourec sites, <i>i.e.</i> , the production of iron ore to supply one part of V & M do Brazil integrated site. Its environmental indicators are tracked as in any other plant, but they are not consolidated at corporate level. They are nevertheless listed separately in the data tables. All safety and civic performance indicators, however, were consolidated with the other Vallourec results.
	Discharged water quality	V & M France Saint-Saulve (steel mill & pipe mill), Déville and Aulnoye, VAM Drilling Tarbes, V & M Deutschland Rath, V & M Star Houston	The discharged water quality indicators (SS, COD, TH and total metals) are only consolidated for sites that release water directly into the environment after processing at an on-site treatment plant. These indicators were calculated based on a mathematical average of the pollutant concentrations. Samples are collected quarterly in Germany and the United States, and at least weekly in France.
ENVIRONMENTAL INDICATORS	Scrap	All	Vallourec considers scrap to be a "co-product", and it is therefore not included in waste indicator and recycling rate calculations.
	Sludge from blast furnaces and steel-making processes	V & M do Brasil	In Brazil, sludge generated in blast furnaces is classified as non-hazardous, and is a totally different type of waste to pipe mill sludge.
	Dust from blast furnaces and steel-making processes	V & M do Brasil	In Brazil, dust generated in blast furnaces is classified as non-hazardous, and is a totally different type of waste to other dust produced in North American and French steel plants.
	Methane	V & M Florestal	For the purpose of estimating methane emissions, in the absence of more accurate data, calculations are based on the statistical study included by the company named "Plantar" in its Project Concept Document, approved and registered as a CDM project at the UNFCCC (cf. pages 90-94, 183-188 of the document available at: http://cdm.unfccc.int/UserManagement/FileStorage). According to this study, methane emissions created by the process depend on the efficiency with which wood is burnt in the furnaces, <i>i.e.</i> the ratio of the final mass of charcoal (after combustion) to the initial mass of the wood.
	Water consumption	V & M Mineração	Water consumption at the site is considered to include all drainage water pumped during extraction operations.
SOCIAL PERFORMANCE INDICATORS	Number of employees receiving training	All	The definition used in 2010 is not the same as in the corporate reporting procedure: the figure shows the number of employees who received a combined total of at least seven hours of training or more (<i>i.e.</i> the equivalent to one day's training). The 2010 reporting scope for this indicator includes all business units included in the social performance reporting scope with the exception of Serimax, PT Citra Tubindo, V & M Mineração and Vallourec & Sumitomo Tubos do Brazil, <i>i.e.</i> approximately 85% of the Group's consolidated workforce.
	Turnover	All	The turnover indicator is calculated as being the sum of departures by employees on permanent contracts during the financial year, divided by the total number of permanent employees at the year-end. The following reasons for leaving the Group were included: retirement, resignation, redundancy and other reasons (including death, change of category, termination of contract by agreement and interrupted trial periods).

Production calculations

The expression **"tonne processed"** refers to a tonne of output from each plant (number of units of work produced at the plant), whether in the form of raw steel, hot tubes or fully finished cold tubes. The production figures for each plant are added together to yield the Vallourec Group's total output in tonnes processed.

In the case of integrated sites such as V & M Star in Youngstown and V & M do Brasil in Belo Horizonte, the total output is the sum of the plant's steel and tube production figures. Iron ore production by V & M Mineração and charcoal production by V & M Florestal are not included in the total Vallourec production figure.

The expression **per tonne shipped** refers to the tonnage dispatched to our customers during the course of the year: this is the official production figure included in the Group's trading results.

Presentation of environmental data in this report

Environmental data is systematically expressed in absolute values and relative values in charts and performance

tables. Relative values are expressed relative to production volumes, stated "per tonne processed".

Carbon assessment

The carbon inventory is based on the methodology for calculating greenhouse gas emissions developed by the French environment and energy agency, ADEME. When conducting our carbon assessment, all emission factors were taken from the most appropriate sources available, considering the geographic location of each plant. Due to the large number of emission factors used and the variety of sources to which they refer, it was decided not to describe everything in detail in this report. Comprehensive information is available from Vallourec's Sustainable Development department.

Although every care was taken in the production of this carbon assessment, it was necessary to make a small number of estimations in order to calculate the greenhouse gas emissions from some of Vallourec's industrial sites. Wherever there is uncertainty regarding a particular result, Vallourec has adopted a cautious approach, systematically applying the most pessimistic emissions scenarios.

QUANTIFIED RESULTS

DISCHARGED WATER QUALITY

	Indicator	Unit	Limit	2004	2005	2006	2007	2008	2009	2010
ENVIRONMENTAL PERFORMANCE	Suspended solids									
	Total quantity	tonnes/year		30.25	30.44	40.72	45.02	34.97	41.90	41.08 ✓
	Relative values	gr/tonne processed		16.46	15.95	19.37	23.32	20.67	12.78	8.85
		mg/l water discharged	30.00 mg/l	8.70	9.05	12.34	9.80	9.43	11.95	11.28 ✓
	COD									
	Total quantity	tonnes/year		64.29	80.37	66.60	91.90	61.26	73.28	80.21 ✓
	Relative values	gr/tonne processed		34.98	42.11	31.68	47.60	36.20	22.36	17.28
		mg/l water discharged	100.00 mg/l	18.49	23.88	20.18	20.00	16.53	20.90	22.03 ✓
	HC									
	Total quantity	tonnes/year		3.35	2.00	1.55	3.29	1.79	2.30	2.14 ✓
	Relative values	gr/tonne processed		1.82	1.05	0.74	1.71	1.06	0.70	0.46
		mg/l water discharged	5.00 mg/l	0.96	0.59	0.47	0.72	0.48	0.66	0.59 ✓
	TOTAL METALS									
	Total quantity	tonnes/year		1.47	2.26	1.42	1.72	1.86	3.98	4.14 ✓
	Relative values	gr/tonne processed		0.80	1.19	0.67	0.89	1.09	1.21	0.89
		mg/l water discharged	15.00 mg/l	0.42	0.67	0.43	0.37	0.50	1.14	1.14 ✓

ENVIRONMENTAL PERFORMANCE - V & M MINERAÇÃO

	Indicator	Unit	2005	2006	2007	2008	2009	2010
ENVIRONMENTAL PERFORMANCE (1)	WATER CONSUMPTION							
	Surface/Ground water	m³/year	3,094,266	2,945,222	4,107,344	3,317,045	3,549,906	4,023,776 ✓
	Total	m³/year	3,094,266	2,945,222	4,107,344	3,317,045	3,549,906	4,023,776 ✓
		m³/tonne	0.8	1.1	1.0	0.8	1.1	1.0
	WASTE VOLUME							
	Non-hazardous waste	tonnes/year	n.m.	n.m.	n.m.	155	222	145 ✓
	Hazardous waste	tonnes/year	n.m.	n.m.	n.m.	257	145	85 ✓
	Total waste	tonnes/year	n.m.	n.m.	654	412	367	230 ✓
		kg/tonne	n.m.	n.m.	0.2	0.1	0.1	0.1
	ENERGY							
	Electricity	GWh/year	11.5	12.7	15.4	17.2	17.3	21.3 ✓
		kWh/tonne	2.9	4.8	3.8	4.2	5.2	5.2
	CARBON DIOXIDE							
	Total emissions	tonnes/year	27,430	29,014	35,851	26,785	18,420	17,206 ✓
		kg/tonne	6.8	10.9	8.9	6.5	5.6	4.2

n.m. = Not measured

(1) The municipal water and natural gas indicators are not applicable to V & M Mineração. Discharged water is not yet measured. The safety performance indicators are consolidated with the Vallourec Group as a whole.

GROUP PERFORMANCE

Indicator		Unit	2004	2005	2006	2007	2008	2009	2010
PRODUCTION									
	tonnes processed		5,272,369	5,641,856	6,079,970	5,379,997	5,815,294	3,273,973	4,642,266
	tonnes shipped					2,838,400	2,766,400	1,503,000	1,888,000
SALES									
	€ million					6,141	6,437	4,464	4,491
ENVIRONMENTAL PERFORMANCE	WATER CONSUMPTION								
	Municipal water	m ³ /year	1,888,333	1,943,894	2,142,429	2,075,217	3,939,111	2,816,353	3,413,161 ✓
	Surface/Ground water	m ³ /year	8,420,339	8,312,177	8,636,050	7,479,055	5,504,920	4,509,957	4,665,643 ✓
	Total	m ³ /year	10,308,672	10,256,071	10,778,479	9,554,272	9,444,031	7,326,310	8,078,804 ✓
		m ³ /tonne processed	2.0	1.8	1.8	1.8	1.6	2.2	1.7
		m ³ /tonne shipped				3.4	3.4	4.9	4.3
	DISCHARGED WATER								
	Total discharged water	m ³ /year	4,483,054	4,741,881	5,181,164	6,138,381	5,880,281	4,830,400	4,903,721 ✓
		m ³ /tonne processed	0.9	0.8	0.9	1.1	1.0	1.5	1.06
		m ³ /tonne shipped				2.2	2.1	3.2	2.60
	WASTE VOLUME								
	Non-hazardous waste	tonnes/year	361,781	362,401	486,677	570,644	606,597	465,047	568,614 ✓
	Hazardous waste	tonnes/year	156,364	157,320	182,877	150,675	75,773	47,745	59,904 ✓
	Recycled waste (%)	%							86
	Total waste	tonnes/year	518,145	519,721	669,555	721,320	682,370	512,793	628,518 ✓ ⁽¹⁾
		kg/tonne processed	98	92	110	134	117	157	135
		kg/tonne shipped				254	247	341	333
	ENERGY								
	Natural gas	GWh/year	3,633	3,817	4,096	3,693	3,687	2,652	3,238 ✓
		kWh/tonne processed	689	676	674	686	634	810	697
		kWh/tonne shipped				1,301	1,333	1,764	1,715
	Electricity	GWh/year	1,680	1,713	1,787	1,668	1,680	1,197	1,521 ✓
		kWh/tonne processed	319	304	294	310	289	366	328
		kWh/tonne shipped				588	607	796	806
	CO ₂								
	Total emissions ⁽²⁾	tonnes/year	766,702	791,414	849,148	828,468	976,209	739,807	924,248 ✓
		kg CO ₂ eq./tonne processed	145	140	140	174	168	226	199
		kg CO ₂ eq./tonne shipped				356	353	492	490
SAFETY	ACCIDENT FREQUENCY RATE (LTIR)								
	LTIR Vallourec Staff	%	7.96	7.66	6.53	8.08	7.79	4.88	2.90 ✓
	LTIR Vallourec Staff + Temporary Workers	%				10.04	9.28	5.27	3.16 ✓
	SEVERITY RATE (SR)								
	SR Vallourec Staff	%	0.42	0.42	0.29	0.40	0.38	0.33	0.20 ✓
SOCIAL AND CIVIC	HUMAN RESOURCES ⁽³⁾								
	Employees	N	17,484	17,542	18,217	16,874	18,561	18,567	20,561 ✓
	Number of employees who received training	N							12,691 ✓
	Number of hours of training	N						520,000	650,346 ✓
	% of managers receiving a performance interview	%							66
	Turnover	%					6	9	7

(1) This total does not include exceptional waste from previous years: in 2010 = 26,057 tonnes of exceptional hazardous waste (V & M do Brasil - 26,050 tonnes + VMD Mülheim - 7 tonnes).

(2) The results for 2002 to 2006 include only natural gas combustion and emissions from steel-making processes. The figure for 2007 represents the complete Vallourec inventory, including emissions relating to internal transportation but excluding V & M Florestal methane emissions, which have only been reported since the start of 2008.

(3) Indicators added to the scope in 2010, but not checked by CITs in previous years. The values for previous years (shown in italics) are provided for guidance only.

✓ : Indicators that were verified by the Statutory Auditors in 2010.

STATUTORY AUDITORS' REPORT

providing limited assurance on a selection of environmental, social and safety indicators of the Vallourec Group for fiscal year 2010

As requested and in our capacity as Statutory Auditors of the Vallourec Group, we performed a review in the aim of providing limited assurance on a selection of environmental, social and safety performance indicators⁽¹⁾ ("the Data") selected by the Vallourec Group and identified by the ✓ symbol on pages 64 to 65 of the Sustainable Development Report for fiscal year 2010.

This is a free translation into English of the original report issued in the French language and is provided solely for the convenience of English-speaking readers.

The conclusions expressed below relate solely to this Data and not to all the indicators presented.

The Data was prepared under the responsibility of the Sustainable Development Department for the environmental and safety Data, and the Human Resources Department for the social Data in accordance with the Health Safety Environment, Social and CO₂ inventory reporting procedures ("the Protocols") which are available for consultation at Vallourec's head office. The reporting methodology provided on pages 62 and 63 of the 2010 Sustainable Development Report specifies the data collection or calculation methodologies used to calculate the published performance indicators. It is our responsibility, based on the work performed, to express a conclusion on the selected Data.

Nature and scope of the review

We conducted our review in accordance with the ISAE 3000 standards, in compliance with applicable professional guidelines in France.

We planned and performed the assurance engagement described below to provide limited assurance that the selected Data are free of material misstatement. A higher level of assurance would have required a more extensive review. For the selected Data, we have:

- assessed the Protocols with respect to their relevance, reliability, neutrality, understandability and completeness.
- interviewed the people in charge of the enforcement of the Protocols at the Holding company and at the seven selected sites⁽²⁾.
- carried out detailed work at the seven selected sites covering 16 to 56% of the Group's consolidated data. The choice of this sample was carried out according to their contribution to the consolidated data, to their activities, to their locations and to the results of our work in previous

years. For those sites, we ensured that the Protocols had been understood and implemented. We verified calculations on a sample data, performed consistency controls and reconciled data with the supporting documentation.

- tested a sample of calculations and verified the Data consolidation at Group level.

The environment and sustainability specialists of our organisation assisted us in the completion of our work.

Comments

We would like to make the following comments regarding the procedures related to the reporting Protocols for environmental, social and safety data:

- The Protocols have been completed since last year. They now clarify the rules applicable to social data collection. However, the calculation methodology and definition of the indicator "Total number of training attendees" should be detailed in order to ensure that all sites are reporting data in the same manner.
- The internal control environment has been improved at Group data consolidation level. However, it should be further strengthened with a better enforcement of control procedures at site level.

Conclusion

Based on our review, we did not identify any material misstatements which could call into question the fact that the environmental, social and safety performance indicators mentioned in pages 64 to 65 of the 2010 Sustainable Development Report, identified by the ✓ symbol, have not, in all material respects, been prepared in accordance with the abovementioned Protocols.

The Statutory Auditors

Paris La Défense, 20 April 2011
KPMG Audit
Division of KPMG S.A.

Jean-Paul Vellutini
Partner

Philippe Grandclerc
Partner

Neuilly-sur-Seine, 20 April 2011
Deloitte & Associés

Jean-Paul Picard
Partner

Jean-Marc Lumet
Partner

1) Environmental performance indicators: Municipal water consumption, surface/groundwater consumption, water discharge, hazardous waste quantities, non-hazardous waste quantities, natural gas consumption, electricity consumption, CO₂ emissions (scopes 1 and 2), suspended solids, chemical oxygen demand, total hydrocarbons, total metals in water.

Social performance indicators: workforce as at 12/31/2010, total number of training attendees, total number of training hours.

Safety indicators: frequency rate, severity rate of occupational accidents.

2) VMOG Aulnoye, Valti Montbard and V & M Saint-Saulve steelworks (only for water withdrawal, suspended solids, chemical oxygen demand, total hydrocarbons, total metals, total recordable incidence rate, severity rate, Vallourec workforce as at 12/31/2010) in France, V & M Deutschland Rath in Germany, V & M Star Youngstown and V & M Tube Alloy Houma in the United States, and VAM Mexico in Mexico.

PROCESS OVERVIEW

Input	Processes	Products	Environmental aspects	Environmental monitoring	Units concerned
Charcoal Iron ore	Steel plant BOF - Blast furnaces - LD converter - Ladle furnace - Continuous casting	Steel billets	- Emissions: greenhouse gases, dust, noise - Consumption: water, energy - Waste: sludge, slag, scrap	- Dust emission monitoring filters - Waste elimination, recycling and recovery - Energy efficiency technologies - Noise control systems	V & M do Brasil (BR) V & M Florestal (BR) V & M Mineração (BR)
Scrap	Steel plant EAF - Electric arc furnace - Ladle furnace - Continuous casting	Steel billets	- Emissions: dioxins, greenhouse gases, dust, noise - Consumption: water, energy - Waste: sludge, slag, scrap	- Wastewater treatment plants - Waste elimination, recycling and recovery - Energy efficiency technologies - Noise control systems	V & M Star Youngstown (US) V & M France Saint-Saulve (FR)
Steel billets	- Heating furnaces - Hot rolling mills	Hot-rolled tubes	- Emissions: greenhouse gases, noise - Consumption: water, energy - Waste: wastewater (metals and oils), scale	- Wastewater treatment plants - Waste elimination, recycling and recovery - Energy efficiency technologies - Noise control systems	V & M Star (US) V & M Tubes (FR, GER) Valti (FR) V & M do Brasil (BR)
Hot-rolled tubes	- Quench & tempering - Surface treatment - Cold-pilgering - Finishing & assembling - Dispatching	Seamless tubes	- Emissions: acidic vapours, volatile organic compounds (VOC) - Consumption: water, energy - Waste: phosphate sludge, wastewater	- Wastewater treatment plants - Waste elimination, recycling and recovery - Energy efficiency technologies - Noise control systems - Acidic vapour and VOC treatment	V & M Star (US) V & M Tubes (FR, CN, GER) Valti (FR) V & M do Brasil V & M Oil & Gas (FR, UK, CN) VAM Drilling (FR, US, UK, Asia) V & M Tube Alloy VAM (US, CN, FR) Valtimet (US, FR) Interfit (FR)

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