2016_03_08_V3_CL

2015 Registration Document

and annual financial report

vallourec

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Registration Document including the annual financial report
Fiscal year 2015

The original version of this Registration Document *(document de référence)* in French was filed with the French securities regulator (*Autorité des Marchés Financiers*) on 16 March 2016 in accordance with Article 212-13 of its General Regulations. It may be used in connection with a financial transaction if supplemented by an Information Notice authorized by the French securities regulator (*Autorité des Marchés Financiers*). This document was prepared by the issuer and is the responsibility of those who signed it.

Copies of this Registration Document are available free of charge from Vallourec, at 27, avenue du Général Leclerc, 92100, Boulogne-Billancourt, Cedex – France, Vallourec's website (http://www.vallourec.com) and on the website of the French securities regulator (*Autorité des Marchés Financiers*) (http://www.amf-france.org).

This Registration Document includes all the elements of the annual financial report mentioned in Section I of Article L.451-1-2 of the French *Code monétaire et financier* and Article 222-3 of the General Regulations of the French securities regulator (*Autorité des Marchés Financiers*). A concordance table showing the documents referred to in Article 222-3 of the General Regulations of the French securities regulator (*Autorité des Marchés Financiers*) and the corresponding sections of this Registration Document is included on page 311.

Profile

€3.8Md
of sale

€82M
de dépenses R&D en 2015

90% fewer
decrease in the accidents frequency rate between 2008 and 2015

Listed in CSR indices:
Euronext Vigeo
(France 20, Europe 120, Eurozone 120 and World 120)
and
FTSE Russell
(Footsee4Good)

A world leader in its markets, Vallourec provides tubular solutions that are the benchmark reference for the energy sector and other applications that present the most demanding challenges. Its tubes, connections and innovative services make the most complex projects possible, from oil and gas wells in extreme environments to next generation power plants to bold architectural projects and high-performance mechanical engines.

To ensure its long-term development, return to profitable growth and strengthen its leadership, Vallourec aims to **improve the competitiveness both of its industrial set-up and its offer.** The Group will, at the same time, establish a stronger and sound financial structure for implementing the crucial structural actions that will enable it to **radically reshape itself.** It is for this reason that **Vallourec launched early 2016 a transformation plan** that includes a number of major strategic initiatives (see Chapter 3 - page 51). At the same time as it rolls out these measures to take place in stages between 2016 and 2018, the Group is strengthening the fundamentals that form its bond of trust with its customers, in particular safety, quality and innovation.

Main Vallourec locations

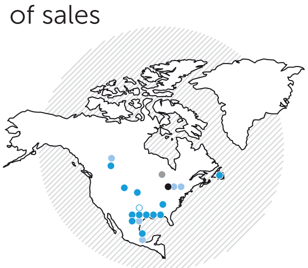
Presence in
more than 20 countries

20,000
employees

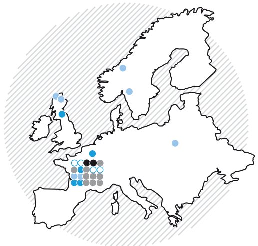
Over 50
production sites

6
Research and test centers

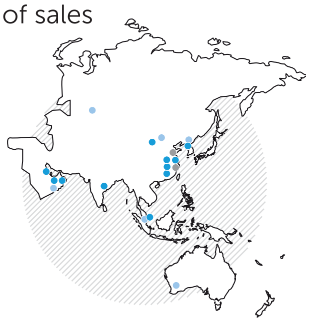
North America
29%
of sales



Europe
22%
of sales



Asia and the Middle East
22%
of sales

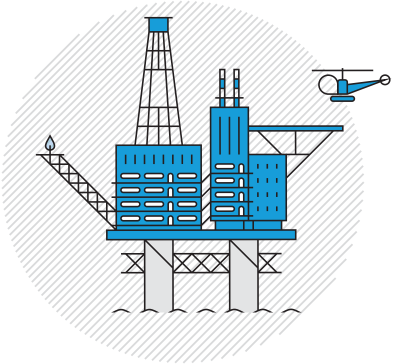


South America
16%
of sales

Africa and rest of the world
11%
of sales

● Steel mills ● Tube mills ● Finishing units ○ R&D centers ● Sales offices and services ◍ Plantation and Mine

Three major markets



OIL AND GAS

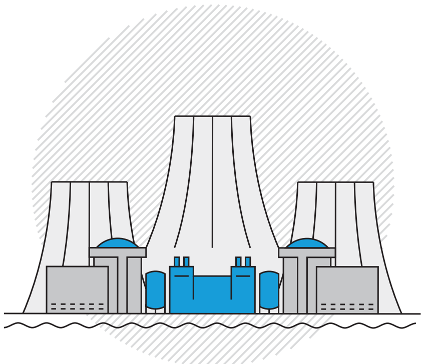
including Petrochemicals

Premium tubes, connections and services for exploration and operation of oil and gas fields, including the most complex ones.

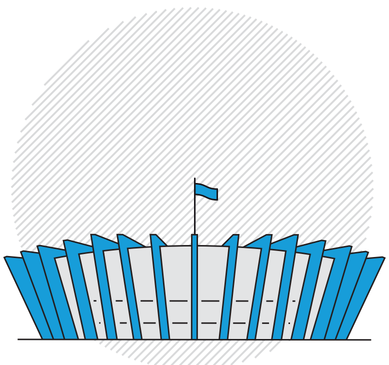
- **Exploration and production**
  - Casing, tubing and Premium VAM® connections
  - Drill pipes
  - Risers
  - Services
  - Accessories
- **Transport for oil and gas**
  - Offshore and onshore line pipes
  - Welding solutions and service for offshore and onshore projects
- **Tubes for umbilicals**
  - Premium welded stainless steel tubes with high mechanical characteristic
- **Hydrocarbon processing industry**
  - Pipes and fittings for industrial fluid and hydrocarbon processing
- **The most reliable solutions for extreme environments:** deep wells, corrosive environments, deviated and horizontal wells, HP/HT (high pressure/high temperature) and others...

The full range of tubes required for the construction of both nuclear and conventional power plants.

- **Leader in the market of conventional and nuclear thermal power plants with a complete range of tubes**
  - Seamless carbon and alloy steel tubes
  - Seamless nickel-alloy tubes
  - Welded titanium and stainless steel tubes
  - Services
- **Strong commitment to reducing CO_2 emissions for last generation conventional power plants (supercritical and ultra-supercritical)**



POWER GENERATION



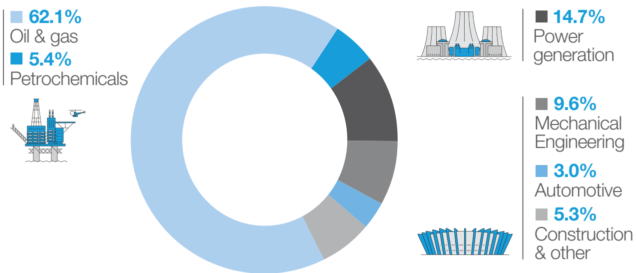
INDUSTRY

Light and resistant tubes for a wide range of applications.

- **Hollow sections, tubes and hollow bars for industrial markets:**
  - mechanical engineering: cranes, hydraulic cylinders, agricultural machinery, OCTG mechanical, etc.
  - automotive: all vehicle types, both light and heavy
  - construction: bridges, stadiums, airport terminals, exhibition halls, etc.
- **Development of steel grades suited to a wide range of applications for the industry markets**

Key financial and activity indicators

SALES BY ACTIVITY IN 2015



	Unit	2013	2014	2015
Sales volumes	kt	2,159	2,323	1,411
Sales	€ million	5,578	5,701	3,803
EBITDA	€ million	920	855	(77)
EBITDA margin	%	16.5	15	-2
Operating income	€ million	534	(661)	(838)
Net income, Group share	€ million	262	(924)	(865)
Net earnings per share	€ million	2.1	(7.3)	(6.6)
Gross capital expenditure	€ million	567	388	268
Free cash flow*	€ million	(41)	274	135
Net debt	€ million	1,631	1,547	1,519
Total equity	€ million	4,986	4,169	3,038

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

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Persons responsible for the Registration Document and financial audit

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1.1 Person responsible for the Registration Document

Mr Philippe Crouzet

Chairman of the Management Board of Vallourec (hereinafter “Vallourec” or “the Company”)

1.2 Statement by the person responsible for the Registration Document

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

I certify that, to the best of my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and results of the Company and all consolidated companies, and that the management report, the various headings of which are provided in the concordance table on page 315 of this Registration Document (Section 9.4.3), presents a true and fair view of the business trends, results and financial position of the Company and all consolidated companies, as well as a description of the main risks and uncertainties to which they are exposed.

I have obtained a completion letter from the Statutory Auditors in which they indicate that they have verified the information relating to the financial position and the financial statements included in this document, and have read the document in its entirety.

The consolidated financial statements for the fiscal year ended 31 December 2013, presented in the 2013 Registration Document filed with the French securities regulator *(Autorité des Marchés Financiers)* under No. D. 14-0358 on 14 April 2014, were the subject of the Statutory Auditors’ report on page 316, which contains the following comment: “Without qualifying our opinion above, we draw your attention to Note A-4 of the notes to the consolidated financial statements, which sets out the change in accounting method introduced by the application, as from 1 January 2013, of the revised IAS 19 – Employee Benefits.”

The consolidated financial statements for the year ended 31 December 2014, presented in the 2014 Registration Document filed with the French securities regulator *(Autorité des Marchés Financiers)* under No. D. 15-0315 on 10 April 2015, were the subject of the Statutory Auditors’ report on page 287, which does not contain any comments.

The consolidated financial statements for the fiscal year ended 31 December 2015, presented in this 2015 Registration Document, were the subject of the Statutory Auditors’ report on page 307 [which contains no comments].

Boulogne-Billancourt, 15 March 2016

Chairman of the Management Board

Philippe Crouzet

1.3 Persons responsible for the financial audit

1.3.1 Statutory Auditors

KPMG SA

Represented by:

Ms Catherine Porta

2, avenue Gambetta
96066 Paris-La Défense Cedex – France

Date of first appointment: 1 June 2006
Date renewed: 31 May 2012

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

Deloitte & Associés

Represented by:

Mr Christophe Patrier

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

Date of first appointment: 1 June 2006
Date renewed: 31 May 2012

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

1.3.2 Alternate Statutory Auditors

KPMG AUDIT IS

Alternate auditor for KPMG SA

2, avenue Gambetta
96066 Paris-La Défense Cedex – France

Date of first appointment: 31 May 2012

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

BEAS

Alternate auditor for Deloitte & Associés

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

Date of first appointment: 11 June 2002
Date renewed: 31 May 2012

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

1.4 Person responsible for the Group's legal affairs

Ms Stéphanie Fougou

Group General Counsel

Vallourec

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

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

Fax: +33 (0)1 49 09 37 85

E-mail: stephanie.fougou@vallourec.com

1.5 Person responsible for the communication of financial information

Mr Etienne Bertrand

Investor Relations and Financial Communications Director

Vallourec

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

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

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

E-mail: etienne.bertrand@vallourec.com

Vallourec website: www.vallourec.com

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2.1 General information on Vallourec

2.1.1 Company name and registered office

Vallourec

27, avenue du Général Leclerc
92100 Boulogne-Billancourt – France
Tel.: +33 (0)1 49 09 35 00

2.1.2 Legal form – Legislation – Trade and Companies Register

Vallourec is a French corporation *(société anonyme)* that opted on 14 June 1994 for a governance structure comprising a Management Board and a Supervisory Board. The Company is registered in the Nanterre (Hauts-de-Seine) Trade and Companies Register under No. 552 142 200 and recorded under APE code 7010Z.

2.1.3 Date of incorporation and term

Vallourec was formed in 1899.

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

2.1.4 Corporate purpose (Article 3 of the bylaws)

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

- all industrial and commercial transactions relating to all means for the preparation and manufacture, by all processes known or that might be subsequently discovered, of metals and any materials that may replace them in all their applications; and
- in general, all commercial, industrial and financial transactions, and transactions in movable and fixed property, directly or indirectly associated with the above purpose.

2.1.5 Consultation of legal documents

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

2.1.6 Fiscal year

The fiscal year is 12 months long. It begins on 1 January and ends on 31 December.

2.1.7 Distribution of profits (Article 15 of the bylaws)

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

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

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

2.1.8 Shareholders' Meetings (Article 12 of the bylaws)

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

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

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

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

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

Consequently:

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

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

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

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

2.2 General information on share capital

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

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

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

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

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

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

2.2.2 Share capital

As at 1 January 2015, the start of the 2015 fiscal year, subscribed, fully paid-up share capital amounted to €261,195,950, divided into 130,597,975 shares with a par value of €2.00 each.

On 25 June 2015, under the fourth resolution of the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2015, the Management Board recorded the final completion of a capital increase through the issue of 3,090,460 new shares (representing 2.37 % of share capital at that date) at a price per share of €19.40 in payment of the 2014 dividend of €0.81 per share. The issue of the new shares resulted in a share capital increase by a nominal amount of €6,180,920, which raised Vallourec's share capital at 25 June 2015 from €261,195,950 to €267,376,870, divided into 133,688,435 shares with a par value of €2.00 each.

At the end of the clearing period for subscriptions to the Value 15 international employee share ownership plan (see Chapter 7 below), at its meeting on 15 December 2015, the Management Board, under the terms of the twenty-first, twenty-second and twenty-third resolutions of the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2015, recorded the final completion of three capital increases in the nominal amounts of €2,143,470, €1,491,594 and €364,930, or an aggregate nominal amount of €3,999,994, through the respective issue of 1,071,735, 745,797 and 182,465 new shares for an aggregate total of 1,999,997 new shares with a par value of €2.00 each at a price per share of €8.32 for the standard plan and €8.83 for the leveraged plan. These transactions had the cumulative effect of increasing share capital from €267,376,870 to €271,376,864. As at 31 December 2015, subscribed, fully paid-up share capital amounted to €271,376,864, divided into 135,688,432 shares with a par value of €2.00 each.

2.2.3 Authorized capital not issued

2.2.3.1 Financial authorizations to issue shares and securities providing access to capital valid as at 31 December 2015

Authorizations to issue shares and securities providing access to the Company's capital valid as at 31 December 2015 were as follows:

	Maximum nominal ceilings on capital increases *(in € or as a percentage of share capital)*	**Maximum nominal amounts of debt securities** *(in €)*	**Date of the Shareholders' Meeting that authorized the transaction**	**Term of authorization**	**Expiration date**
CAPITAL INCREASES WITH SHAREHOLDERS' PREEMPTIVE RIGHTS					
Capital increases with preemptive rights (12th resolution)	104.478 million	1.5 billion	28 May 2015	26 months	28 July 2017
Increase in the amount of the initial issue with preemptive rights (16th resolution)	15 % of the initial issue (a) (b)	15 % of the initial issue (a) (b)	28 May 2015	26 months	28 July 2017
Capital increases through the capitalization of reserves, profit or additional paid-in capital (20th resolution)	78.358 million (a)	N/A	28 May 2015	26 months	28 July 2017
CAPITAL INCREASES WITHOUT SHAREHOLDERS' PREEMPTIVE RIGHTS					
Capital increases without preemptive rights through a public offering or offerings (13th resolution)	26.119 million (a)	1.5 billion	28 May 2015	26 months	28 July 2017
Capital increases without preemptive rights through one or more private placements (14th resolution)	26.119 million (a) (c)	1.5 billion	28 May 2015	26 months	28 July 2017
Capital increases without preemptive rights, carried out under the 13th and/or 14th resolutions, at a price freely set by the Shareholders' Meeting (15th resolution)	10 % of the share capital per year for up to 26.119 million over 26 months (a) (b) (c)	1.5 billion	28 May 2015	26 months	28 July 2017
Increase in the amount of the initial issue without preemptive rights (16th resolution)	15 % of the initial issue (a) (b) (c)	15 % of the initial issue (b)	28 May 2015	26 months	28 July 2017
Capital increases without preemptive rights in compensation for contributions in kind, except in the case of a public exchange offer initiated by the Company (17th resolution)	10 % of the share capital (a) (c)	1.5 billion	28 May 2015	26 months	28 July 2017

	Maximum nominal ceilings on capital increases *(in € or as a percentage of share capital)*	Maximum nominal amounts of debt securities *(in €)*	Date of the Shareholders' Meeting that authorized the transaction	Term of authorization	Expiration date
Capital increases without preemptive rights in consideration for securities contributed in a public exchange offer initiated by the Company (18th resolution)	26.119 million [(a) (c)]	1.5 billion	28 May 2015	26 months	28 July 2017
Capital increases without preemptive rights, carried out as a result of the issue by the Company's subsidiaries of securities giving access to the Company's share capital (19th resolution)	26.119 million [(a) (c)]	1.5 billion	28 May 2015	26 months	28 July 2017
EMPLOYEE SHARE OWNERSHIP PLAN					
Capital increase reserved for members of the Company savings plan, as part of an employee share ownership plan (21st resolution)	5.2 million [(a) (d)]	N/A	28 May 2015	26 months	28 July 2017
Capital increase reserved for employees and those with similar rights of Vallourec Group companies outside France as part of an employee share ownership plan (22nd resolution)	5.2 million [(a) (d)]	N/A	28 May 2015	18 months	28 November 2016
Capital increase reserved for credit institutions and all entities whose purpose is to hold, acquire or dispose of shares as part of an employee share ownership plan (23rd resolution)	5.2 million [(a) (d)]	N/A	28 May 2015	18 months	28 November 2016
Allocation of shares free of charge as part of an employee share ownership offer to replace the employer matching contributions given to French employees (24th resolution)	0.2 % of the share capital [(a)]	N/A	28 May 2015	18 months	28 November 2016
SHARE SUBSCRIPTION OR SHARE PURCHASE OPTIONS AND PERFORMANCE SHARES					
Share subscription or share purchase options granted to employees and corporate officers of the Group (19th resolution)	3 % of the share capital [(a)]	N/A	28 May 2014	38 months	28 July 2017
Performance shares granted to employees and corporate officers of the Group (20th resolution)	3 % of the share capital [(a) (e)]	N/A	28 May 2014	38 months	28 July 2017

(a) This amount or percentage is deducted from the global €104.478 million cap on capital increases with retention of shareholders' preemptive rights.

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

(c) This amount or percentage is deducted from the global €26.119 million cap for capital increases with cancellation of shareholders' preemptive rights.

(d) The aggregate capital increases carried out as part of an employee share ownership offer may not exceed €5.2 million.

(e) This percentage is deducted from the 3 % cap on share capital at the date of the decision to allot the share subscription or share purchase options.

At the Ordinary and Extraordinary Shareholders' Meeting scheduled for 6 April 2016, financial authorizations to issue shares and securities shall be modified, subject to said meeting's approval of the corresponding resolutions within the context of the capital increase operation announced on 1 February 2016 (see Chapter 8 of the Registration Document).

2.2.3.2 Use of financial authorizations to issue shares and securities providing access to the Company's capital as at 31 December 2015

EMPLOYEE SHARE OWNERSHIP PLAN (twenty-first to twenty-fourth resolutions of the Shareholders' Meeting of 28 May 2015)

Under the authorizations for employee share ownership plans, the Management Board, with the approval of the Supervisory Board, extended the Value 15 international employee share ownership plan in 2015, for the eighth year running (for a description of this plan, see Chapter 7, Section 7.3.3 "Employee share ownership"). Under the terms of the twenty-first, twenty-second and twenty-third resolutions of the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2015, the Management Board, at its meeting of 15 December 2015, recorded the final completion of three capital increases in the nominal amounts of €2,143,470, €1,491,594 and €364,930, or an aggregate nominal amount of €3,999,994, representing 1.50 % of share capital at that date, through the respective issue of 1,071,735, 745,797 and 182,465 new shares, for an aggregate total of 1,999,997 new shares with a par value of €2.00 each at a price per share of €8.32 for the standard plan and €8.83 for the leveraged plan. These transactions had the cumulative effect of increasing share capital from €267,376,870 to €271,376,864.

In place of the employer matching contribution benefiting employees and those with similar rights in the Group's French companies, and in Group companies headquartered in Germany, Brazil, Mexico, the United Arab Emirates, India and the United Kingdom, and invested in the Value 15 plan, the Management Board, using the twenty-fourth resolution of the Shareholders' Meeting of 28 May 2015, simultaneously implemented as part of the Value 15 plan a free share allocation plan for new or existing shares for a maximum of 1,715 shares, or 0.001 % of share capital at that date, to benefit Group employees who were not French residents for tax purposes working at companies in the Group headquartered in Canada, the United States (excluding employees of VAM USA LLC), Malaysia, and Singapore who have invested in a "Shares + SAR" plan under the Value 15 plan.

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

PERFORMANCE SHARES (twentieth resolution of the Shareholders' Meeting of 28 May 2014)

Under the twentieth resolution on performance shares passed by the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014, on 15 April 2015 the Management Board, in agreement with the Supervisory Board, decided to allot, subject to continuous service and performance conditions, a target number of 242,826 performance shares [1], i.e. 0.18 % of the share capital as at 31 December 2015, to benefit 494 managers and three members of the Management Board.

The terms and conditions of these plans are set out in 7.3.1.2 "Performance share allocation plans".

SHARE SUBSCRIPTION OR PURCHASE OPTIONS (nineteenth resolution of the Shareholders' Meeting of 28 May 2014)

Under the nineteenth resolution on share subscription or purchase options adopted by the Shareholders' Meeting of 28 May 2014, on 15 April 2015 the Management Board, in agreement with the Supervisory Board, set up a share subscription option plan, subject to continuous service and performance conditions, which provides for the allocation of a target number of 410,350 options [2], or 0.30 % of the share capital as at 31 December 2015, to 483 managers and three Management Board members.

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

2.2.3.3 Potential dilution as at 31 December 2015

Vallourec has not issued any securities giving access to capital.

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

Only the award of share subscription options (see Section 7.3.1.1 below) could, if the options came to be exercised, entail a dilution of shareholders. Based on the number of options currently outstanding, net of those canceled or that have lapsed, potential dilution to shareholders as at 31 December 2015 was 2.11 %.

(1) I.e.306,759 performance shares based on the highest performance coefficient of 1.25 or 1.33, as applicable.

(2) I.e.517,250 options based on the maximum factor of 1.25 or 1.33, as applicable.

2.2.4 Share buyback

2.2.4.1 Information on transactions under the share buyback program during fiscal year 2015

REPURCHASE OF SHARES (excluding liquidity contract)

As at 1 January 2015, Vallourec held 848,409 Vallourec shares, with a nominal value of €2.00, or 0.65 % of its share capital at that date, all assigned to cover free share or performance share allocation plans.

From 1 January to 31 December 2015, Vallourec transferred 154,355 shares under its free share and performance share allocation plans.

Total gross cash flows relating to purchases and disposals/transfers of shares (excluding liquidity contract) from 1 January to 31 December 2015 were as follows:

	Purchases	Transfers/Sales
Number of shares	0	154,355
Average price per share (in €)	0	42.7832
AGGREGATE AMOUNT (IN €)	**0**	**6,603,798.17**

TREASURY SHARES (excluding liquidity contract) AS AT 31 DECEMBER 2015

As at 31 December 2015, Vallourec held 694,054 Vallourec shares, or 0.005 % of its share capital at that date, all assigned to cover free share or performance share allocation plans. The carrying amount of the portfolio as at 31 December 2015 was €23,916,597.23, including a nominal value of €1,388,108 and a market value on the same date of €22,528,489.23.

LIQUIDITY CONTRACT

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

In 2015, as part of this liquidity contract, total purchases were for 450,000 shares, i.e. 0.33 % of the share capital as at 31 December 2015, for a total amount of €8,472,660, and at a weighted average price of €18.8281 per share. There were no sales made in 2015 within the context of the liquidity contract. In 2015, the liquidity contract generated a capital loss of €23,899,766.

As at 31 December 2015, the balance on the liquidity account comprised:

- 1,375,000 shares;
- €1,428,580.

The management fee for the liquidity contract in 2015 was €150,000 (excluding taxes).

TREASURY SHARES

None.

OPEN DERIVATIVE POSITIONS AS AT 31 DECEMBER 2015

None.

2.2.4.2 Description of the 2016-2017 share buyback program, submitted to the Ordinary and Extraordinary Shareholders' Meeting of 6 April 2016 (seventeenth resolution)

This description of the program's purpose, under Articles 241-1 *et seq.* of the General Regulations of the French securities regulator *(Autorité des Marchés Financiers),* is to explain the objectives and the terms and conditions of Vallourec's share buyback program, which will be submitted to the Ordinary and Extraordinary Shareholders' Meeting on 6 April 2016.

ALLOCATION OF VALLOUREC SHARES HELD BY THE COMPANY AS AT 29 FEBRUARY 2016

As at 29 February 2016, Vallourec held 694,000 Vallourec shares, or 0.51 % of share capital at that date, all assigned to cover free share or performance share allocation plans.

Moreover, on the same date, 1,425,000 shares were included in the balance of the liquidity contract with Rothschild & Cie Banque, or 1.05 % of the share capital.

OBJECTIVES OF THE SHARE BUYBACK PROGRAM SUBMITTED TO THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF 6 APRIL 2016

In accordance with the provisions of European Regulation No. 2273/2003 of 22 December 2003 implementing European Directive No. 2003/6/EC of 28 January 2003, and with the market practices accepted by the French securities regulator *(Autorité des Marchés Financiers),* the objectives of the share buyback program submitted for the approval of the Ordinary and Extraordinary Shareholders' Meeting of 6 April 2016 are as follows:

1. to implement any Company share purchase options plan or any similar plan, in accordance with the provisions of Articles L.225-177 *et seq.* of the French Commercial Code *(Code de commerce)*;
2. to allocate or transfer shares to employees for their investment in the Company's development and/or to implement any Company or Group savings plan (or similar plan) as provided for by law, in particular Articles L.3332-1 *et seq.* of the French Labor Code *(Code du travail)*;

3. to allocate shares free of charge or to allocate performance shares under the provisions of Articles L.225-197-1 *et seq.* of the French Commercial Code *(Code de commerce)*;
4. to cover all awards of shares to employees and/or corporate officers of the Group, particularly in the context of international employee share ownership plans or variable compensation;
5. for market making in the secondary market or to increase the liquidity of Vallourec's shares through an investment services provider, under the terms of a liquidity contract that complies with the Code of Conduct *(Charte de déontologie)* issued by the French Association of Financial Markets *(Association Française des Marchés Financiers)*, approved by the French securities regulator *(Autorité des Marchés Financiers)* and in accordance with the market practices accepted thereby;
6. to hold and subsequently deliver shares (in payment, exchange or otherwise) in connection with any later transactions involving acquisitions, and, in particular, mergers, split-offs or contributions, in accordance with the market practices accepted by the French securities regulator *(Autorité des Marchés Financiers)*;
7. to deliver shares upon the exercise of rights attached to securities giving access to share capital by means of redemption, conversion, exchange, exercise of a warrant or any other means; or
8. to cancel some or all of the shares so repurchased, provided that the Management Board has valid authorization from the Shareholders' Meeting allowing it to reduce share capital by canceling the shares acquired as part of a share buyback program.

TERMS OF THE SHARE BUYBACK PROGRAM SUBMITTED TO THE SHAREHOLDERS' MEETING ON 6 APRIL 2016

The table below shows the maximum percentage of capital, the maximum number, and the characteristics of the shares that the Company may acquire under its share buyback program as submitted to the Ordinary and Extraordinary Shareholders' Meeting of 6 April 2016, as well as the maximum unit purchase price:

Share characteristics	Maximum percentage of capital [a]	Maximum number of shares [b]	Maximum unit purchase price *(per share)*
Ordinary shares	10 %	13,568,843	€30

(a) It is stipulated that this percentage applies to capital that will be adjusted, where applicable, to take account of any transactions affecting share capital that may occur after the Shareholders' Meeting of 6 April 2016 and that, in all circumstances, the number of shares that the Company holds at any given time may not exceed 10 % of the shares comprising the Company's capital on the date in question.

(b) This number corresponds to the theoretical number of ordinary shares that the Company could acquire, calculated on the basis of share capital at 29 February 2016, i.e. €271,376,864, divided into 135,688,432 shares. Based on the number of ordinary shares owned by Vallourec at that date (or 2,119,000 shares), Vallourec could acquire 11,449,843 of its own shares.

TERM OF THE SHARE BUYBACK PROGRAM SUBMITTED TO THE SHAREHOLDERS' MEETING OF 6 APRIL 2016

The authorization given to the Management Board to implement the share buyback program will be granted for a term of 18 months from the date of the Shareholders' Meeting of 6 April 2016, until 6 October 2017, subject to the program's approval by the Ordinary Shareholders' Meeting.

2.2.5 Changes in share capital over the past five years

Transaction date	Exercise of subscription options	Number of shares subscribed in cash	Total number of shares after transaction	Nominal amount of capital increase *(in €)*	Paid-in capital *(in €)*	Total share capital after transaction *(in €)*
07/07/2011	–	1,140,338	119,084,420	2,280,676	84,293,785	238,168,840
15/12/201	–	2,349,989	121,434,409	4,699,978	79,664,627	242,868,818
27/06/2012	–	192,112	121,626,521	384,224	5,590,459	243,253,042
06/12/2012	–	3,319,835	124,946,356	6,639,670	78,978,875	249,892,712
25/06/2013	–	1,338,791	126,285,147	2,677,582	46,442,660	252,570,294
10/12/2013	–	1,874,453	128,159,600	3,748,906	65,474,830	256,319,200
25/06/2014	–	518,416	128,678,016	1,036,832	17,465,435	257,356,032
16/12/2014	–	1,919,959	130,597,975	3,839,918	45,325,754	261,195,950
25/06/2015	–	3,090,460	133,688,435	6,180,920	53,774,004	267,376,870
15/12/2015	–	1,999,997	135,688,432	3,999,994	13,647,426	271,376,864

2.2.6 Non-equity instruments

Securities entitling the allocation of debt securities

Since Order 2014-863 of 31 July 2014 relating to Corporate Law, only the Management Board has the power to issue securities entitling their bearers to be allocated debt securities. As at 31 December 2015, no issuance of securities of this kind had been decided upon by the Management Board.

Commercial paper issue program

On 12 October 2011 Vallourec established a commercial paper issue program to meet its short-term financing requirements. This program, updated on 23 June 2015, has the following main characteristics:

Maximum cap on the program	€1 billion
Duration	> 1 day < 365 days
Minimum unit amount	€150,000
Currencies of issue	Euros (€), US Dollars ($)
Paying agent	Crédit Industriel et Commercial
Underwriters	Aurel BGC BNP Paribas BRED Banque Populaire Crédit Agricole CIB CM – CIC Crédit du Nord GFI Securities Limited HSBC France HPC ING Bank NV Kepler Capital Markets Natixis Newedge Group Société Générale CIB TSAF OTC (instead of Viel Tradition) Tullett Prebon LTD
Short-term rating (Standard & Poor's)	B

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

Bond issues

Vallourec has successfully issued:

- on 7 December 2011, a €650 million fixed-rate bond maturing on 14 February 2017 (the "**February 2017 Bonds**"). These bonds have a unit par value of €100,000 and are admitted to trading on the Euronext Paris stock market. They bear interest at an annual fixed rate of 4.25 %, payable in arrears on 14 February each year, and are rated BB+ by Standard & Poor's;
- on 30 July 2012, a €55 million fixed-rate bond maturing on 2 August 2027 (the "**August 2027 Bonds**"). These bonds have a unit par value of €100,000 and bear interest at an annual fixed rate of 4.125 %, payable in arrears on 2 August each year;
- on 31 July 2012, a €400 million fixed-rate bond maturing on 2 August 2019 (the "**August 2019 Bonds**"). These bonds have a unit par value of €100,000 and are admitted to trading on the Euronext Paris stock market. They bear interest at an annual fixed rate of 3.25 %, payable in arrears on 2 August each year, and are rated BB+ by Standard & Poor's;
- on 26 September 2014, a €500 million fixed-rate bond maturing on 30 September 2024 (the "**September 2024 Bonds**"). These bonds have a unit par value of €100,000 and are admitted for trading on the Euronext Paris stock market. They bear interest at an annual fixed rate of 2.25 %, payable in arrears on 30 September each year, and are rated BB+ by Standard & Poor's.

The nominal value and interest on the February 2017 Bonds, August 2027 Bonds, August 2019 Bonds and September 2024 Bonds (the "Bonds") represent direct, unconditional, unsubordinated liabilities, not backed by Vallourec assets, ranked *pari-passu,* without preference among them, with the other present and future unsubordinated Vallourec bonds not backed by assets. Throughout the Bond maturity period, Vallourec has undertaken not to grant any security or guarantee (mortgage, lien, pledge, real surety, etc.) on its assets, income or rights, present or future, to holders of bonds, warrants or transferable securities listed or traded (or that may be listed or traded) on a regulated market, multilateral trading system, over-the-counter market or any other market, unless the same ranking or same surety or guarantee is granted to the Bonds.

These four bond issues specifically include a change-of-control clause that would trigger the mandatory prepayment of the bonds at the request of each bondholder in the event of a change of control of the Company (in favor of a person or a group of people acting in concert) leading to a downgrade of Vallourec's financial rating.

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

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

Rating

On 1 January 2015, the opening date of the 2015 fiscal year, Vallourec's debt was rated BBB/stable/A-2 by Standard & Poor's. On 29 April 2015, Standard & Poor's downgraded Vallourec's rating to BBB-/Watch Negative/A-3. On 22 June 2015, this agency downgraded Vallourec's rating to BB+/stable/B. On 4 August 2015, this agency revised its rating from stable to negative. Accordingly, as at 31 December 2015, the credit rating of Vallourec's debt was BB+/negative/B. On 2 February 2016, Standard & Poor's downgraded Vallourec's credit rating to BB-/negative/B.

2.3 Distribution of share capital and voting rights

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

FY 2013 (as at 31 December)

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

(a) *In a letter received by the French securities regulator* (Autorité des Marchés Financiers) *on 3 December 2013, The Capital Group Companies, Inc. disclosed that on 29 November 2013, it had fallen below the 5 % thresholds of Vallourec's capital and voting rights and held 6,157,216 Vallourec shares.*

(b) *Bpifrance Participation (formerly FSI), jointly with Caisse des Dépôts et Consignations (CDC). In a letter received by the French securities regulator* (Autorité des Marchés Financiers) *on 18 July 2013, the CDC disclosed that it held, directly and indirectly, through Bpifrance Participations SA, which it controls through BPI Groupe SA, 9,144,350 Vallourec shares representing 9,144,350 voting rights.*

(c) *Treasury shares include the shares shown on the balance of the liquidity contract managed by Rothschild & Cie Banque and the shares held by the Company on its own account to cover its plans for the allocation of performance shares and free shares. As a result, the number of treasury shares is subject to change at any time.*

FY 2014 (as at 31 December)

Shareholders	Number of shares	% of share capital	Theoretical number of voting rights	Theoretical % of voting rights	% of exercisable voting rights at Shareholders' Meetings
Public [(a)]	107,147,689	82.05%	109,328,808	77.30%	78.27%
Group employees	9,944,475	7.61%	10,459,678	7.39%	7.49%
Bpifrance Participations SA	6,958,640	5.33%	13,147,895	9.29%	9.41%
CDC savings funds	2,800,628	2.14%	2,800,628	1.98%	2.00%
Group subtotal, CDC [(b)]	**9,759,268**	**7.47%**	**15,948,523**	**11.27%**	**11.41%**
Nippon Steel & Sumitomo Metal Corporation [(c)]	1,973,134	1.51%	3,946,268	2.79%	2.83%
Treasury shares [(d)]	1,773,409	1.36%	1,773,409	1.25%	0.00%
TOTAL	**130,597,975**	**100.00%**	**141,456,686**	**100.00%**	**100.00%**

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

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

(c) *NSSMC and Vallourec have built up strategic R&D partnerships for a number of years, and have entered into a cross-shareholding agreement described in the section 2.3.3 of this Registration Document.*

(d) *Treasury shares include the shares shown on the balance of the liquidity contract managed by Rothschild & Cie Banque and the shares held by the Company on its own account to cover its plans for the allocation of performance shares and free shares. As a result, the number of treasury shares is subject to change at any time.*

FY 2015 (as at 31 December)

Shareholders	Number of shares	% of share capital	Theoretical number of voting rights	Theoretical % of voting rights	% of exercisable voting rights at Shareholders' Meetings
Public [a] [b] [c]	111,123,633	81.90%	113,338,744	77.13%	78.23%
Group employees	10,355,867	7.63%	10,958,019	7.46%	7.56%
Bpifrance Participations SA	7,249,182	5.34%	13,720,260	9.34%	9.47%
CDC Savings Fund Department	2,917,562	2.15%	2,917,562	1.99%	2.01%
Group subtotal, CDC [d]	**10,166,744**	**7.49%**	**16,637,822**	**11.32%**	**11.48%**
Nippon Steel & Sumitomo Metal Corporation [e]	1,973,134	1.45%	3,946,268	2.69%	2.72%
Treasury shares [f]	2,069,054	1.52%	2,069,054	1.41%	0.00%
TOTAL	**135,688,432**	**100.00%**	**146,949,907**	**100.00%**	**100.00%**

(a) *The "Public" part includes the position of Tweedy Browne Company LLC (TBC). According to a letter received by the AMF on 29 January 2015, which was supplemented by a letter received on 2 February 2015, TBC, acting on behalf of clients and the funds it manages, disclosed that on 26 January 2015 it had exceeded Vallourec's 5% capital threshold, holding, on behalf of said clients and funds, 6,534,596 shares and the same number of voting rights, representing as at 31 December 2014 5.004% of the capital and 4.62% of the voting rights of Vallourec. According to a letter received by the AMF on 4 August 2015, TBC, acting on behalf of clients and the funds it manages, disclosed that on 30 July 2015 it had fallen below Vallourec's 5% capital threshold, holding, on behalf of said clients and funds, 6,294,298 shares and the same number of voting rights, which as at 30 June 2015 represented 4.71% of the capital and 4.35% of the voting rights.*

To the Company's knowledge, TBC is registered with the Securities and Exchange Commission as an investment advisor and as such would not hold any share for its own account and would not exercise, barring a specific agreement with its clients, the voting rights attached to the shares recorded in the individual accounts of its clients.

(b) *The "Public" part includes the Deutsche Bank AG position. According to a letter that was received by the AMF on 4 December 2015, supplemented by a letter received on 7 December 2015, Deutsche Bank AG disclosed that on 30 November 2015, following a purchase of Vallourec shares on the market, it had exceeded Vallourec's 5% capital threshold, holding 7,206,835 Vallourec shares, representing as at 30 June 2015 5.39% of the capital and 4.97% of the voting rights, distributed as follows: 2,905,075 shares held directly, or 2.17% of the capital and 2.00% of the voting rights, and 4,301,760 shares held by assimilation of derivatives contracts, or 3.32% of the capital and 2.97% of the voting rights.*

(c) *The "Public" part includes the Crédit Agricole SA position. According to a letter that the AMF received on 9 December 2015, supplemented by a letter received on 10 December 2015, Crédit Agricole SA disclosed that, on 7 December 2015, through Crédit Agricole Corporate and Investment Bank (CA CIB) and CA Vita, which it controls, it had indirectly exceeded the 5% threshold on Vallourec share capital and voting rights, holding 10,056,323 Vallourec shares, representing as at 30 June 2015 7.52% of the capital and 6.94% of the voting rights. The crossing of this threshold resulted from CA CIB trading positions that were recorded as part of the Value employee share ownership plans. The 10,056,323 shares disclosed by Crédit Agricole are broken down as follows: 9,383,808 shares by assimilation of derivatives contracts, representing as at 30 June 2015 7.02% of the capital (Value plans), 298,235 shares held directly, or approximately 0.22% of the capital and 374,280 shares held directly by CA Vita representing 0.28% of the capital (life insurance subsidiary of the Crédit Agricole group).*

(d) *Bpifrance Participations, jointly with Caisse des Dépôts et Consignations (CDC). In a letter received by the AMF on 30 April 2014, CDC and Bpifrance Participations SA clarified that they were each acting alone, and CDC declared that there was no collaboration with Bpifrance Participations SA.*

(e) *Nippon Steel & Sumitomo Metal Corporation (NSSMC) and Vallourec have built up strategic partnerships for a number of years, and have entered into a cross-shareholding agreement described in Section 2.3.3 of this Registration Document. As at 31 December 2015, NSSMC held 1,973,134 Vallourec shares, or a 1.45% stake in the share capital of Vallourec; likewise, Vallourec held 3,468,759 shares of NSSMC (this figure takes into account the 10:1 stock split on the nominal price of NSSMC shares, which occurred on 1 October 2015 (1 share for every 10 held)), or a 0.37% stake in the share capital of NSSMC.*

(f) *Treasury shares include the shares shown on the balance of the liquidity contract managed by Rothschild & Cie Banque and the shares held by the Company on its own account to cover its plans for the allocation of performance shares and free shares. Consequently, the number of treasury shares held is subject to change at any time.*

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

As at 31 December 2015, Vallourec's free float percentage was 81.91 %.

2.3.2 Other persons exercising control over Vallourec

None.

2.3.3 Agreement between Vallourec and Nippon Steel & Sumitomo Metal Corporation

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

The provisions of the Agreement provide preferential terms of sale, whose key feature is a reciprocal right of first refusal in the event that either partner indicates its intent to sell its shareholding to a third party. The Agreement is available on the website of the French securities regulator (Autorité des Marchés Financiers): http://inetbdif.amf-france.org/inetbdif/viewdoc/affiche.aspx?id=46519&txtsch

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

The agreements entered into on 1 February 2016, described in chapter XX, have strengthened the industrial cooperation and capital ties between Vallourec and NSSMC. The Agreement, however, remains in force and the reciprocal right of first refusal still applies to the equity interests acquired by Vallourec and NSSMC pursuant to the said Agreement.

2.4 Market for Vallourec's shares

2.4.1 Stock market

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

The Vallourec share forms part of the shares listed on the SBF 120, Next 150, Euronext Vigeo World 120, Euronext Vigeo Europe 120, Euronext Vigeo France 20 and FTSE 4 Good indexes.

FTSE classification: engineering and industrial capital goods.

The February 2017, August 2019 and September 2024 Bonds are admitted for trading on the Euronext Paris stock market under ISIN codes FR0011149947, FR0011302793 and FR0012188456 respectively (see above Section 2.2.6 "Non-equity instruments").

2.4.2 Other potential markets

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

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

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

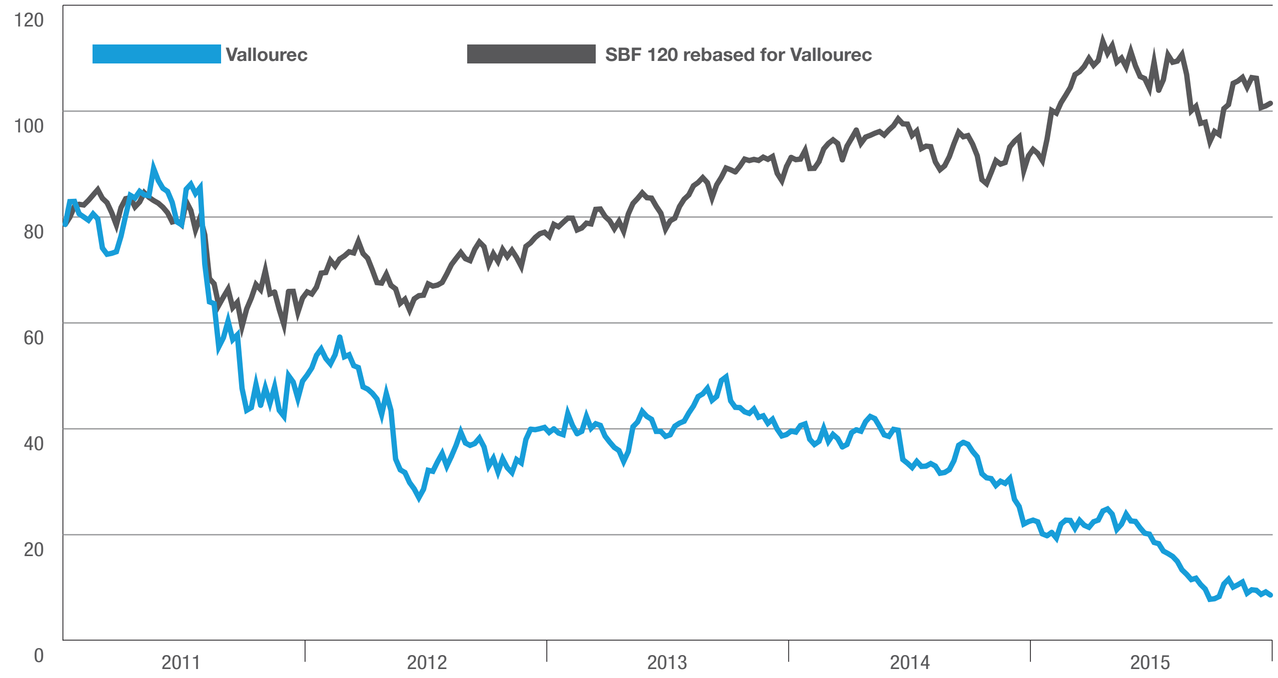
- by phone: (800) 990-1135 (general) or (651) 453-2128 (if calling from outside the USA);
- by e-mail: jpmorgan.adr@wellsfargo.com, or by mail at the following address:

  JP Morgan Service Center
  JP Morgan Chase & Co.

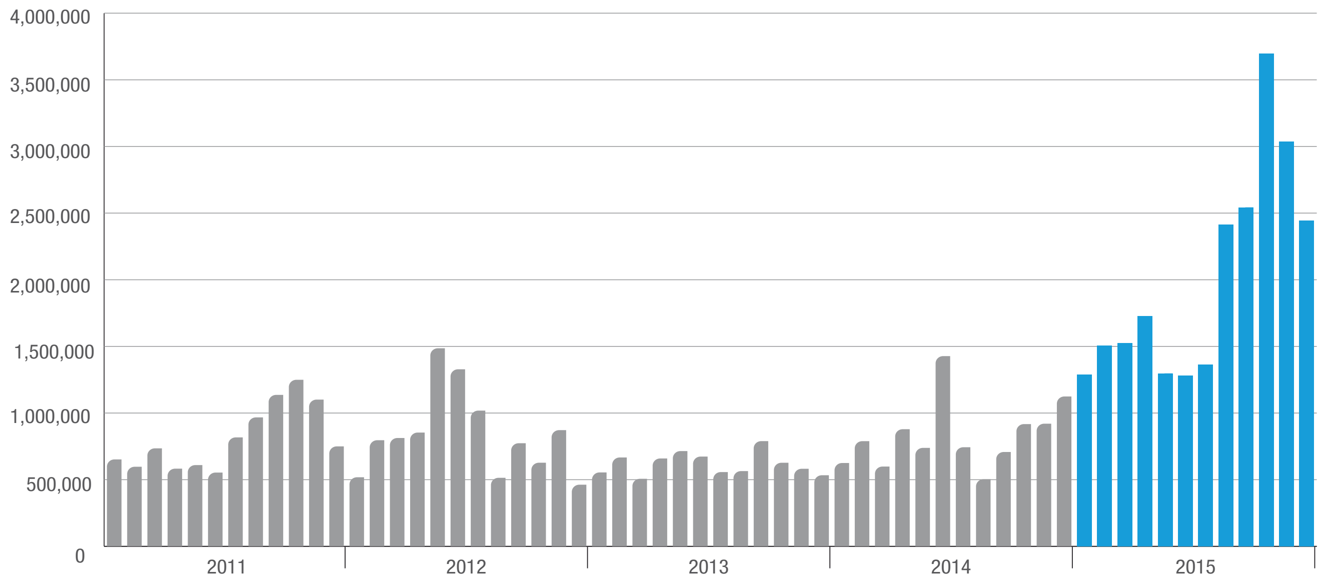
  P.O. Box 64504
  St Paul, MN 55164-0504
  USA

2.4.3 Volumes traded and price performance

Adjusted Vallourec share price performance in the last five years compared to the SBF 120 index



Adjusted monthly average volumes traded per day



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

In €	2011	2012	2013	2014	2015
Adjusted number of shares (as at 31 December)	121,434,409	124,946,356	128,159,600	130,597,975	135,688,432
Highest price	89.58	58.24	51.01	43.26	26.79
Lowest price	38.34	25.69	33.05	21.23	7.63
Average (closing) price for the year	68.33	40.05	41.55	34.80	16.43
Year-end price	50.16	39.49	39.60	22.75	8.60
Market capitalization (year-end price)	6,091,149,955	4,934,131,598	5,075,120,160	2,971,103,931	1,166,920,515

Source: Euronext.

Movements in Vallourec share price and trading volume from January 2015 to February 2016

	Price in €			Transaction volume			
				Monthly total		Daily average	
	Highest	Lowest	Last	Number of shares	Capital in € billion	Number of shares	Capital in € billion
2015							
January	22.99	17.98	19.37	27,069,541	0.54	1,289,026	0.03
February	23.88	19.38	21.20	30,129,561	0.66	1,506,478	0.03
March	23.70	20.50	22.73	33,555,170	0.74	1,525,235	0.03
April	26.79	19.00	21.00	34,554,013	0.81	1,727,701	0.04
May	24.15	20.14	22.51	25,951,637	0.58	1,297,582	0.03
June	23.71	17.81	18.32	28,196,869	0.57	1,281,676	0.03
July	18.65	14.75	14.97	31,324,271	0.51	1,361,925	0.02
August	15.02	10.69	11.42	50,679,033	0.63	2,413,287	0.03
September	11.55	7.63	7.92	55,951,682	0.54	2,543,258	0.02
October	12.20	8.01	10.10	81,303,984	0.83	3,695,636	0.04
November	11.65	8.77	9.73	63,774,818	0.62	3,036,896	0.03
December	9.80	7.89	8.60	53,747,776	0.46	2,443,081	0.02
2016							
January	8.45	3.85	4.05	92,549,074	0.52	4,627,454	0.03
February	4.95	4.21	4.90	94,292,760	0.39	4,490,131	0.02

Source: Euronext.

2.4.4 Pledging of issuer's shares

None.

2.5 Dividend policy

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

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

Given the negative result of fiscal year 2015, it will be proposed at the Shareholder's Meeting of 6 April 2016 (third resolution) to not pay a dividend for fiscal year 2015.

The average payout ratio of the last five years is 32.6 %.

Based on the par value of the Vallourec share as at 31 December 2015, the dividends per share paid for the last five years are as follows:

In € per share	Gross income	Tax credit	Net dividend	Payout ratio (a)
2011	1.30	none	1.30 (b)	39.4 %
2012	0.69	none	0.69 (b)	39.7 %
2013	0.81	none	0.81 (b)	39.6 %
2014	0.81	none	0.81 (b)	44.3 %
2015 (c)	0	none	0	–

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

(b) Note that the Ordinary and Extraordinary Shareholders' Meetings of 7 June 2011, 31 May 2012, 30 May 2013, 28 May 2014 and 28 May 2015 gave each of the Company's shareholders the option to receive payment of the dividend in cash or in shares, in accordance with the laws and regulations in force.

(c) Submitted for the approval of the Shareholders' Meeting of 6 April 2016.

2.6 Financial disclosure policy

The Group's priority is to maintain lasting, trustworthy relations with all its shareholders, whether individual or institutional, French or foreign. The role of the Investor Relations and Financial Communication team is to facilitate shareholders' access to accurate and precise information that faithfully reflects the Group's activities, results, outlook and strategic developments.

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

2.6.1 Information available to all shareholders

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

- the activity report, Vallourec at a glance brochure, Shareholders' Guide and letters to shareholders;
- all financial and strategic information issued to the financial markets, including quarterly results, press releases, presentations and audio and video conference rebroadcasts;
- all the regulated information disclosed under the European Transparency Directive of 15 December 2004, which specifically comprises:
  - the Registration Document, including the annual financial report and half-year report filed with the French securities regulator *(Autorité des Marchés Financiers),*
  - the documents relating to the Shareholders' Meeting (Notice of Meeting, draft resolutions, voting form, meeting brochure);
- all Group press releases, presentations and publications are available under the Media heading.

This information may be sent by mail following a request made on the Group website or addressed to the Investor Relations and Financial Communication Department by e-mail, telephone or letter.

2.6.2 Relations with institutional investors and financial analysts

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

- **each quarter, a conference call is organized** when the financial results are released. Members of the Management Board present the results and answer questions from analysts and investors. The conference call is broadcast live and rebroadcast on the Group's website;
- **each year, a conference is held in Paris,** upon release of the Group's annual results;
- **each year, Vallourec participates in several events on socially responsible investment (SRI).** These meetings with investment funds and SRI analysts contribute to the Group's progress in the field of sustainable development;
- **an Investor Day is organized on a regular basis,** where a presentation is made to the financial community on the Group's strategy, products and operations. Accessible to everyone in the form of a video recording that is available on the Group's website, Investor Day allows investors and analysts to have detailed discussions with the Management Board and the operational supervisors on a wide range of topics, outside of the periods for reporting results. In 2013, Vallourec held its Investor Day in the United States with a tour of the new plant in Youngstown, Ohio.

Moreover, **many events are organized throughout the year between the Group's executive management and the financial community.** In 2015, Vallourec's executive management and the Investor Relations and Financial Communications team took part in nearly 290 meetings and conference calls and devoted some 31 days to roadshows and conferences, mostly dedicated to the Oil & Gas sector, at the world's leading financial centers, mainly in Europe and the United States.

2.6.3 Relations with individual shareholders

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

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

Shareholders' Meeting

The Annual Shareholders' Meeting, which in 2015 was held at the former Paris Stock Exchange (Palais Brongniart), is a key opportunity for dialog about the Group's performance over the year between individual shareholders and the Group's executive management. The Investor Relations and Financial Communications team is also available to assist shareholders in their efforts to vote and participate in the Shareholders' Meeting.

Shareholders' Meetings

In June 2015, Vallourec participated in an informational meeting dedicated to individual shareholders in Nantes. This meeting took place in the presence of other companies from the Oil & Gas sector in the form of a conference-debate. It gathered together several hundred current and potential shareholders, enabling them to deepen their knowledge of the Group's activities and of the Oil & Gas services sector.

Shareholders' Club

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

Within the framework of the Club, approximately twenty shareholders were invited to Vallourec's headquarters in Boulogne-Billancourt on 26 March 2015 to attend a presentation on the activities and financial results of the Group given by the Investor Relations and Financial Communications Director. This presentation was followed by a question-and-answer session.

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

Newsfeed

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

Toll-free number

Vallourec has provided its shareholders with a toll-free phone number (0800 505 110). Free of charge from any landline in mainland France, the number allows shareholders to gain access to information such as the financial agenda, as well as to hear a commentary on the most recent publication of the Group's results. The toll-free number also allows shareholders to get in touch with the Investor Relations and Financial Communications team, or BNP Paribas Securities Services, if the shareholder has registered shares or is interested in acquiring such shares.

Directly registered shares

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

- **free management:** direct registered shareholders are totally exempt from custody fees as well as other fees associated with the routine management of their shares such as:
  - conversion to bearer shares and share transfers,
  - changes to legal status: transfers, gifts, inheritance, etc.,
  - securities transactions (capital increases, share allocations, etc.),
  - dividend payments;
- **brokerage fees** of 0.25 % of the amount of the transaction up to €200,000 and 0.15 % above €200,000 (with a minimum of €4.10);
- **a guarantee of receiving personalized information:** the directly registered shareholder will receive personalized information on:
  - Shareholders' Meetings, and will systematically be sent the Notice of Meeting, a single form for postal voting or by proxy, a request for an admission card, and legal documentation,
  - securities management (issue of purchase and sale orders, etc.), securities transactions organized by Vallourec, etc. To this effect, as well as for other information, a team of dedicated operators is available to shareholders continuously from 8:45 a.m. to 6:00 p.m. (Paris time), Monday to Friday, on +33 (0)1 40 14 80 17;
- **easy access to the Shareholders' Meeting:** all registered shareholders are automatically invited to Shareholders' Meetings and, to vote, need not go through the prior formality of requesting a certificate of shareholding;
- **a dedicated website,** Planetshares My Shares, can be accessed on a PC or tablet at https://planetshares.bnpparibas.com. This site allows you to:
  - manage assets,
  - issue orders,
  - participate in the Shareholders' Meeting,
  - directly download all communication relating to assets (portfolio trading, transaction notices, etc.).

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

- by mail from the following address:

  BNP PARIBAS SECURITIES SERVICES
  Corporate Trust Services
  Relations Actionnaires Vallourec
  9, rue du Débarcadère
  93761 Pantin Cedex – France
- by telephone on: +33 (0)1 40 14 80 17
- by fax on: +33 (0)1 55 77 34 17

2.6.4 Contact for Investor Relations and Financial Communications

Investor Relations and Financial Communications Department

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

2.6.5 2016 financial calendar (dates subject to change)

6 April 2016	Shareholders' Meeting
3 May 2016	Release of results for Q1 2016
28 July 2016	Release of results for Q2 and H1 2016
8 November 2016	Release of results for Q3 and 9M 2016

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4

Corporate social responsibility information

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

1. Within this context, since 2014 the Sustainable Development Department has used a 5-year strategic plan for Sustainable Development and Corporate Social Responsibility (2015-2020), which is integrated into the strategic guidelines of the Group, and monitored by the Supervisory Board. This strategic plan was again presented to the Group Management Committee in June 2015, and was the subject of a discussion with the Strategic Committee of the Supervisory Board in October 2015.

   It relies on the following seven cornerstones:

   - strengthening governance in Sustainable Development and CSR;
   - setting medium-term objectives and publishing them;
   - increasing consideration of Sustainable Development issues in the Group's business model;
   - involving more employees in their daily actions to promote CSR;
   - developing the Group's social commitments;
   - strengthening the on-going actions for progress;
   - obtaining institutional recognition of the efforts made.

2. This Chapter 4 outlines Vallourec's commitments in the area of Corporate Social Responsibility (CSR). It describes the policies implemented by the Group and the principles that guide them. It sets out the actions taken in terms of safety, health and human resource management, the relationships developed with the local authorities and populations, as well as the efforts made to preserve the environment, in compliance with the Grenelle 2 Law of 12 July 2010, establishing a national environmental commitment, and the Law of 16 June 2011 to fight against discrimination and promote diversity. The Group is committed to providing detailed information on the results of its actions. It therefore reports, with a global scope, on the 42 topics listed in Article R.225-105-1 of the French Commercial Code *(Code de commerce)*. A concordance table between the information required under this Article and the information presented herein can be found in Appendix 4 to this Chapter.

   Other indicators were constructed based on those published by the Global Reporting Initiative (GRI), which aims to facilitate CSR reporting indicators for global companies.

   Unless otherwise specified in the text, all information contained in this Chapter refers to Vallourec, all of its subsidiaries as defined by Article L.233-1 of the French Commercial Code, and the companies it controls as defined by Article L.233-3 of the French Commercial Code. We should note that the individual indicators of the consolidated entities, excluding consolidated indicators, namely Vallourec Mineração and the pelletization unit established on the site of Vallourec & Sumitomo Tubos do Brasil (see below Section 4.4.1.6 "Specific cases"), are presented in Appendix 2 to this chapter.

   This information demonstrates the Group's commitment to Corporate Social Responsibility and highlights the results of its key actions. The way that this information was gathered and the limitations of this type of data collection are described in the methodological notes found in Appendix 3 of this Chapter. One of the Statutory Auditors conducted audits with a moderate level of assurance as to all of the information presented in this Chapter, and issued an opinion with reasonable assurance on selected indicators which resulted in the report which appears in Appendix 1 to this Chapter. **The indicators that were verified with a reasonable level of assurance are preceded in the text and in the appendices by the symbol ☑**.

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

   It is this information that forms the basis for the periodic evaluations of the main non-financial agencies or specialized SRI funds, such as Vigeo-Eiris, RobecoSam, MSCI Sustainalytics and Guilé. Even though each of these bodies has its own evaluation methods, the overall finding, determined by an expert, is a rating of B+ on a scale from A to D. This assessment is consistent with the "advanced" level of the Global Compact which the Group now meets. It is also appropriate to mention that the Group is specifically listed in the Euronext Vigeo France 20, Euronext Vigeo Europe 120, Euronext Vigeo World 120 and FTSE4Good indexes.

4. In order to progress, the Group relies on the Vallourec Management System (VMS), the basic purpose of which is to improve the Group's performance in all of its operating procedures, be it sales, product and equipment design, manufacturing, flow management, or support functions like human resources management, administration and finance, information systems and the areas of quality, health, safety and environment known as QHSE.

   The goal of this system is to develop risk prevention, control process variability and improve their efficiency. It uses numerous specific tools such as Lean Management and the six sigma method, and strives to strengthen project management methods. This also ensures that initiatives are consistent with the strategic plan and that they deliver continuous progress. It also ensures that the requirements for managing quality (ISO 9001, ISO/TS 16949, API and ASPE), health and safety (OHSAS 18001), the environment (ISO 14001) and energy (ISO 50001) are taken into account.

4.1 Ethics and compliance

The organization of ethics and compliance now falls under the Group's Legal Department. The position of Ethics and Compliance Officer is held by the Group's Legal Director, who helps implement the Code of Ethics and determines, with the Ethics Committee, which she leads, the internal compliance policies. The Ethics and Compliance Officer reports to the Chairman of the Management Board.

The Ethics Committee is comprised of representatives from the functional departments (Legal, Purchasing, Human Resources, Share Ownership, etc.) and the operating divisions. It must hold meetings at least once per quarter in order to determine, at the initiative of the Ethics and Compliance Officer, the ethics and compliance guidelines and ensure they are effectively rolled out.

The Ethics and Compliance Officer relies on a network of 13 local correspondents who are organized by geographic regions, as well as on the legal managers from the operating divisions or regions. These local ethics correspondents are tasked with disseminating the values and principles of the Group's Code of Ethics in entities worldwide, and with making sure that the internal procedures are properly applied. In 2015, management of the network of local correspondents was strengthened: they participated in bi-monthly information meetings which were organized by the Ethics and Compliance Officer, at which internal procedures were presented, along with the current regulatory issues regarding the fight against corruption, or competition rules. The local ethics correspondents periodically reported on their activity to the Ethics and Compliance Officer, primarily through a system of formal reports. In the United States, a telephone line was provided to employees who wished to anonymously provide information on non-compliance with the ethics and compliance rules.

An ethics and compliance newsletter is disseminated monthly to the main senior executives of the Group, to the Ethics Committee members, to local ethics correspondents and to the legal managers of regions or divisions.

In 2015, three new procedures were adopted and rolled out within the Group: the procedure relating to sales agents, the procedure relating to gifts and invitations, and the procedure relating to sponsorship and sponsoring, local partners, lobbying and political life. These procedures formalize the principles and guidelines that were already contained in the Global Legal Compliance Program, which has been rolled out globally since 2011.

Non-compliance with anti-corruption laws and regulations, or with competition rules, exposes the Group's employees to disciplinary sanctions and even termination.

4.1.1 Code of Ethics

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

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

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

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

Vallourec's Code of Ethics applies to all Group consolidated companies. Each employee is personally responsible for implementing its values and principles and complying with the rules it sets out.

The various reporting lines ensure that it is communicated to all Group employees. For this purpose, it was translated into five languages. It has also been published on the Company's intranet and website to affirm the Group's values with regard to third parties.

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

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

To support the application of the Code of Ethics by all employees, especially managers and executives, the Ethics and Compliance Officer has been assigned the following duties:

- assisting Group companies in communicating the Code of Ethics;
- coordinating actions to educate new employees on the Code of Ethics;
- helping to define the procedures for implementing the Code of Ethics;
- ascertaining any difficulties in interpreting or applying the Code of Ethics that are raised by staff; to that end, the Officer receives information relating to breaches of the principles of responsibility; and
- preparing an annual report for the Chairman of the Management Board on the Code of Ethics' implementation.

A new version of the Code of Ethics is being prepared and should be rolled out within the Group in 2016. This second version, while maintaining the existing values and principles of action for employees, customers, suppliers and stakeholders, aims to adapt the Code of Ethics to the internal procedures published in 2015, which relate to sales agents, gifts and invitations, and sponsorship and sponsoring, local partners, lobbying and political life.

4.1.2 Compliance program

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

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

Training initiatives were continued at a global level in 2015, particularly in France, Brazil and Singapore for Group subsidiaries located in the Asia-Pacific region. An e-learning program has also been rolled out since 2014, in an effort to educate all technical and supervisory staff, and managers of the Group, about the laws and regulations on competition, the fight against corruption and environmental protection.

The principles enumerated under the Global Legal Compliance Program were formalized in 2015 under the internal procedures relating to sales agents, gifts and invitations, and sponsorship and sponsoring, local partners, lobbying and political life.

4.1.3 Promotion of and compliance with international agreements

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

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

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

4.2 Social policy

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

4.2.1 Group workforce

4.2.1.1 Changes and distribution

BREAKDOWN OF THE WORKFORCE BY AGE, GENDER AND GEOGRAPHICAL AREA

As at 31 December 2015, ☑ 20,964 employees worked at more than 50 production sites or under service contracts with Vallourec (short-term or permanent contracts). The balance between incoming and outgoing workers that was recorded in 2015 highlights a considerable change in workforce compared to year-end 2014 (- 2,745) which is related to the global plan to adapt to the sharp drop in volumes[(1)].

Breakdown by geographical area

	Number of employees	
Country	**2014**	**2015**
Brazil	8,401	7,412
France	5,198	4,950
Germany	3,935	3,762
United States	2,707	1,926
Indonesia	735	528
China	702	657
United Kingdom	631	476
Mexico	361	297
Saudi Arabia	255	187
United Arab Emirates	182	173
Malaysia	170	167
India	106	103
Other regions	326	326

Workforce as at 31 December (permanent and short-term contracts)	2014	2015	Change 2014/2015	2014 breakdown	2015 breakdown
Europe	9,815	9,275	- 5,00 %	41 %	44 %
Brazil	8,401	7,412	- 12 %	35 %	35 %
NAFTA (United States, Canada, Mexico)	3,156	2,274	- 28 %	13 %	11 %
Asia	1,829	1,571	- 14 %	7 %	7 %
Middle East	438	361	- 17 %	2 %	2 %
Africa	70	71	NS	NS	NS
TOTAL	**23,709**	**20,964**	**- 11 %**	**100 %**	**100 %**

(1) À fin 2015, les effectifs des sociétés intégrées, hors intérimaires, se sont établis à 19 307. Pour plus de détails, se référer à la page XXX du présent Document de référence.

Breakdown by gender

As at 31 December 2015, the Group had 2,351 women under permanent contracts, which represents 12 % of the total permanent workforce. Marginally present in the category of production staff, women mainly hold administrative and commercial positions. They represent one-third of the Group's technical and supervisory staff, and one-fifth of its managers.

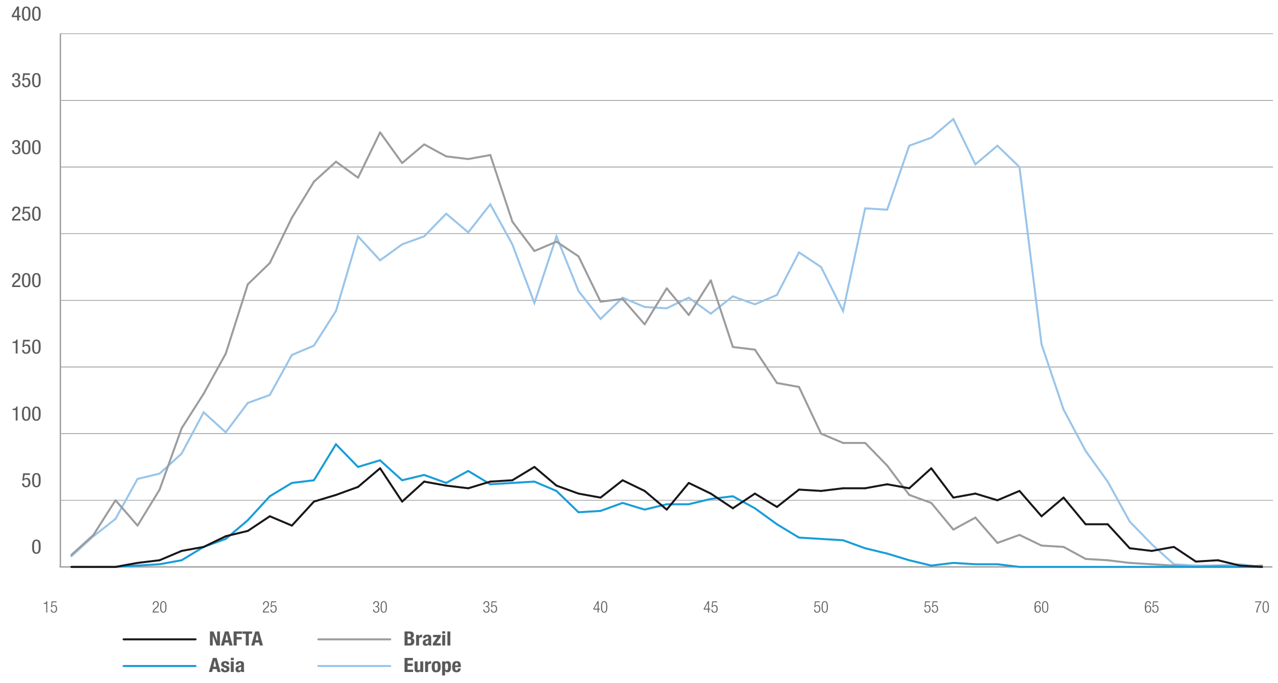
% of women (permanent employees)	Production staff		Technical and supervisory staff		Managers		Total	
	2014	2015	2014	2015	2014	2015	2014	2015
Europe	2 %	2 %	33 %	32 %	21 %	21 %	11 %	11 %
Brazil	6 %	6 %	28 %	29 %	24 %	24 %	11 %	11 %
Asia	17 %	15 %	28 %	29 %	16 %	17 %	20 %	20 %
NAFTA	1 %	1 %	31 %	29 %	21 %	17 %	10 %	12 %
WORLD	**4 %**	**4 %**	**30 %**	**30 %**	**21 %**	**21 %**	**11 %**	**12 %**

Breakdown by age

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

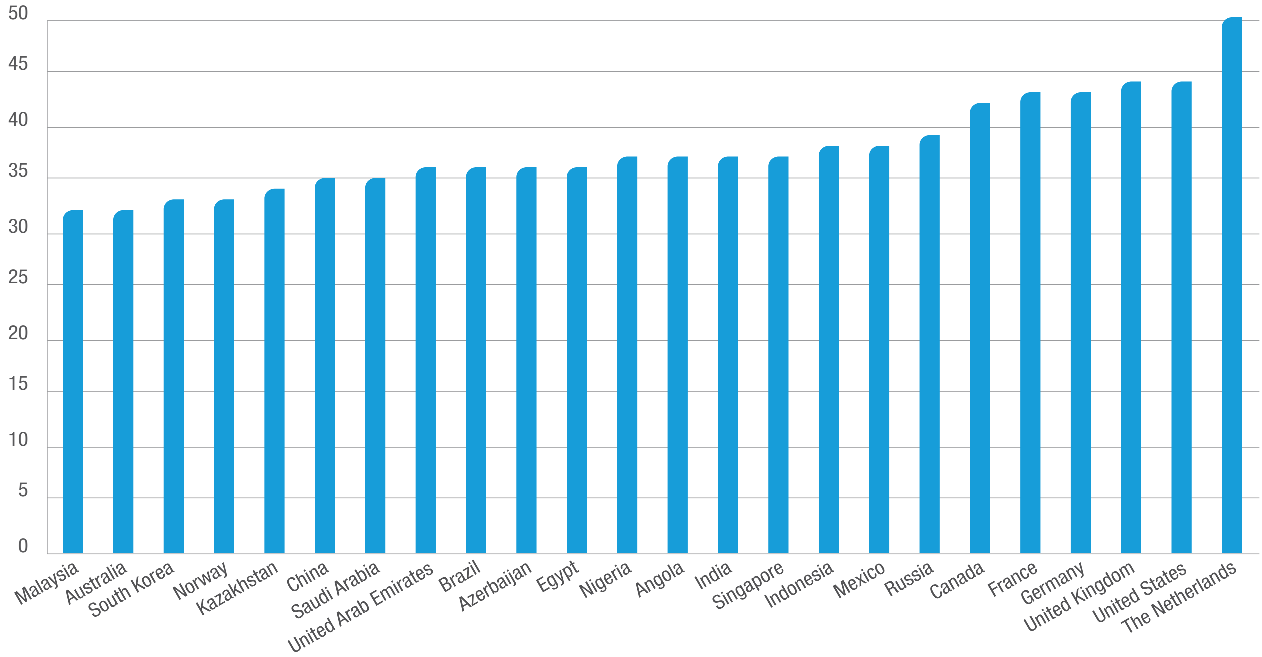
The Brazilian employee population is young, with a strong concentration in the 25 to 35-year-old segment. In the NAFTA region, the distribution of the population among the various age categories is well balanced. Asia has practically no employees older than 55. Conversely, Europe is marked by a strong presence of employees aged between 50 and 58 years.

Breakdown of the workforce by age ☑



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

Average age by country



BREAKDOWN OF THE WORKFORCE BY PROFESSIONAL CATEGORY AND TYPE OF CONTRACT

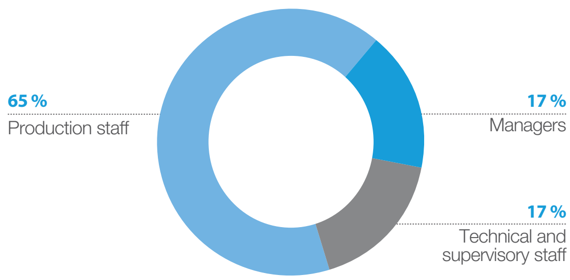
Breakdown by professional category

Production staff represents two-thirds of the permanent workforce.

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

Managers (17 % of the permanent workforce) have a proportionately higher representation in France (21 % of the workforce) compared with the rest of the world, due to the headquarters in Boulogne-Billancourt (France), where the Group's management teams and support functions are based.

Breakdown of workforce by category in 2015



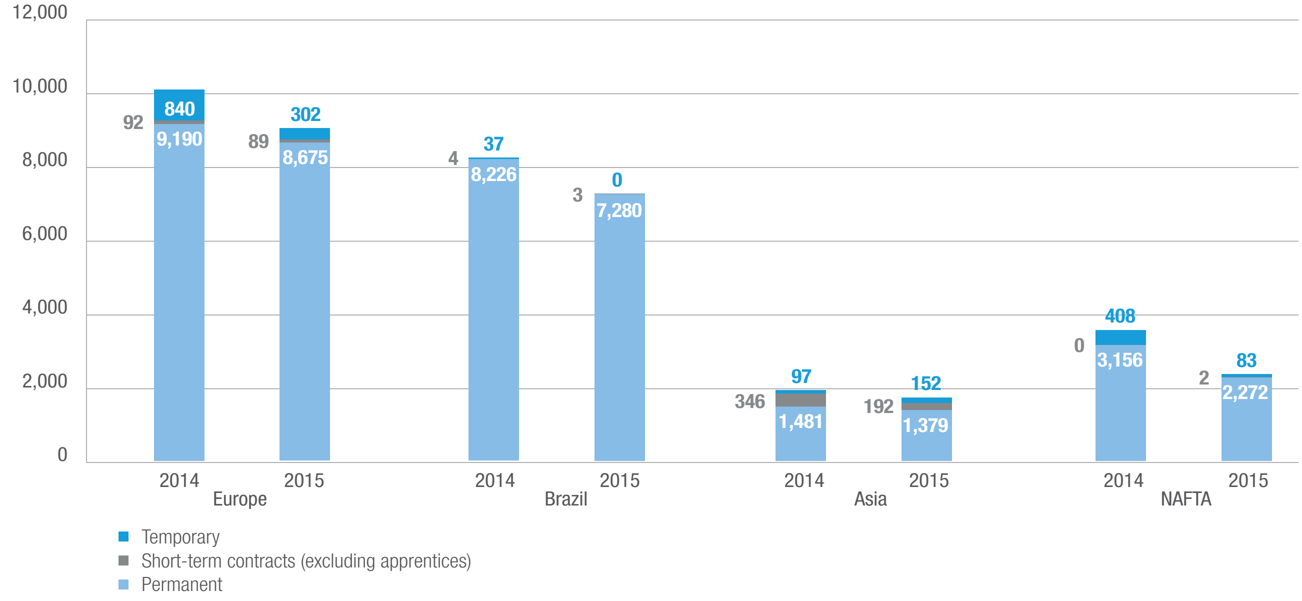
Breakdown by type of contracts

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

At Group level, the temporary staff in 2015 was 6.8 % of the total workforce, with Brazil remaining far below the average due to the rarity of temporary contracts. It should be noted that, as 2015 was marked by a strong drop in business, there was thus a significant reduction in temporary workers.

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

Breakdown between permanent and temporary staff



4.2.1.2 Entries and departures

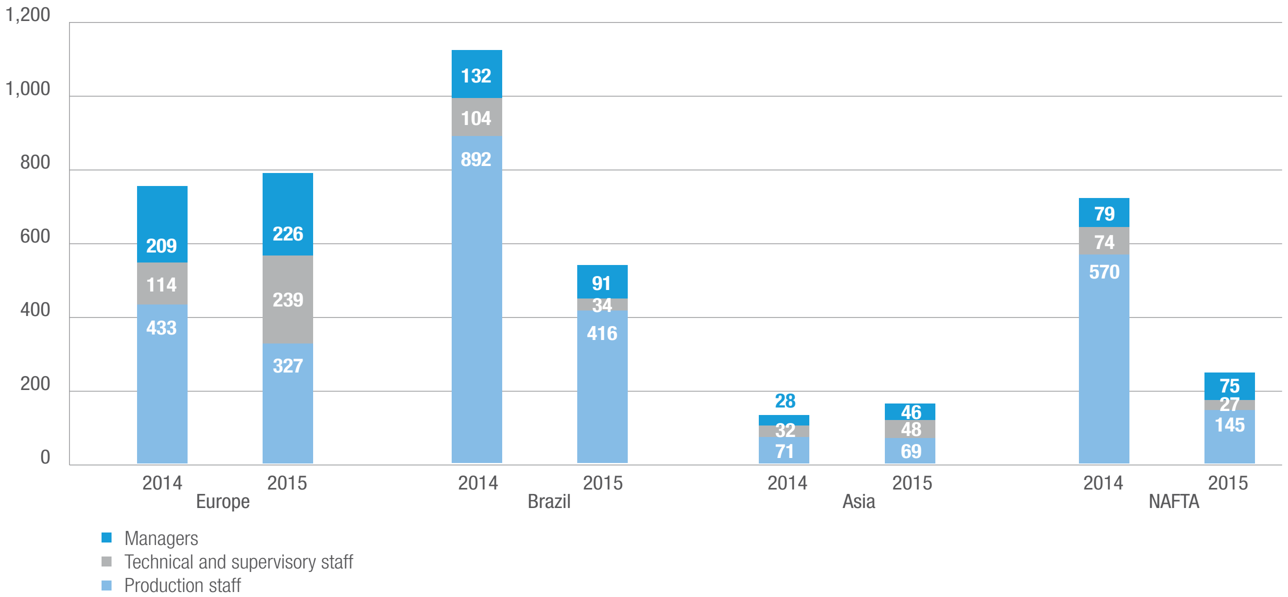
HIRES ☑ AND TRANSFERS

2015 was primarily marked by a significant drop in the Group's registered staff in the majority of our subsidiaries, due to the sharp drop in their workloads.

In Europe this drop was 5 %, in Brazil it was 12 %, and in the NAFTA zone it was 28 %.

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

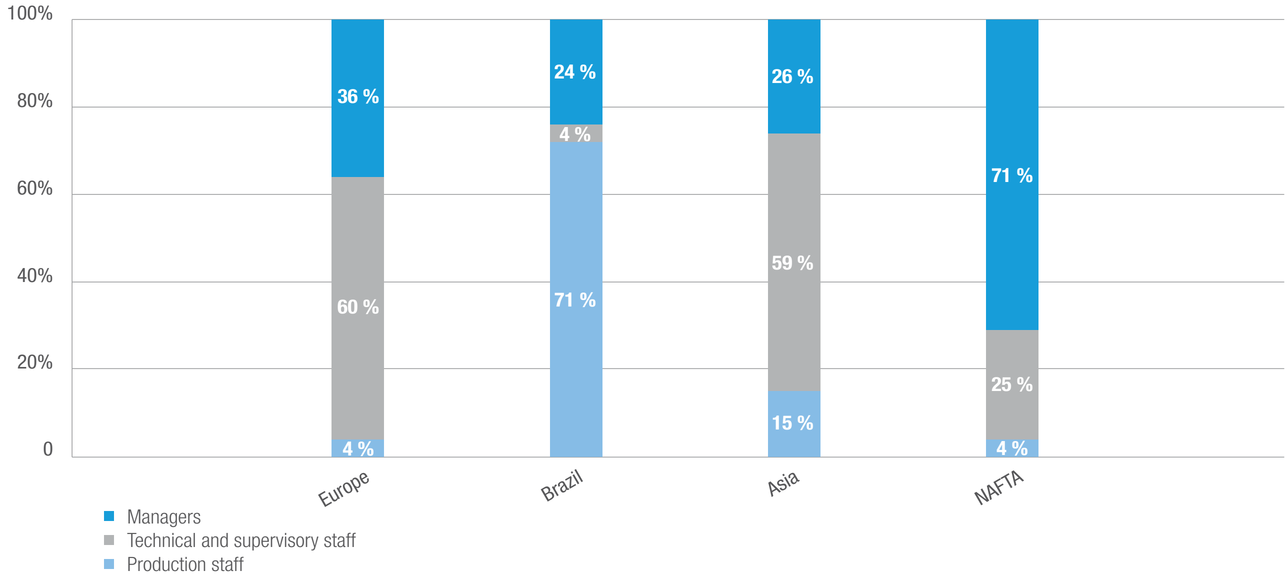
Breakdown of new hires by professional category



The United States and Brazil reduced their staff by 29 % and 12 % respectively, primarily in the category of production staff.

In Europe, the staff reductions represented 5 % of the registered staff due to the non-replacement of natural departures and eliminations of posts that were related to the 2014 restructuring plan. These staff reductions do not take into account staff reductions envisaged under the restructuring plan announced in the first half of 2015.

Breakdown of new hires of women by professional category in 2015



DEPARTURES

In 2015, an average of ☑ 17 % of employees under permanent contracts left the Group, a rate that was higher than the one at year-end 2014 (12 %). This increase affects all professional categories identically.

Departures primarily concerned the United States, Brazil, as well as Europe.

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

Turnover rate

Turnover rate *(% departures compared with permanent workforce)*	2014	2015
Brazil	14 %	18 %
Asia	9 %	13 %
Europe	9 %	9 %
NAFTA	17 %	48 %
TOTAL, VALLOUREC GROUP	**12 %**	**17 %**

Reasons for termination of employment contract

	Retirement		Resignation		Dismissal		Other reasons	
	2014	2015	2014	2015	2014	2015	2014	2015
Europe	53 %	34 %	20 %	21 %	13 %	27 %	14 %	15 %
Brazil	16 %	NS	12 %	4 %	70 %	93 %	2 %	1 %
Nafta	4 %	4 %	51 %	20 %	37 %	71 %	8 %	1 %
Asia	5 %	19 %	69 %	55 %	21 %	8 %	5 %	17 %
TOTAL, GROUP	**24 %**	**10 %**	**27 %**	**17 %**	**41 %**	**64 %**	**8 %**	**5 %**

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

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

In the United States, departures in 2015 were primarily due to adaptation measures.

In Europe, departures in 2015 were simultaneously due to retirements, resignations, and departures related to the restructuring plan announced in 2014.

4.2.1.3 Organization of working time

RATE OF WORK

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

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

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

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

In 2015, in order to meet the need to adapt to economic conditions, whenever possible hourly cycles were reduced to 2 × 8 from 3 × 8, or to 3 × 8 from 5 × 8.

WORK HOURS

The following table shows the number of hours worked and the average number of overtime hours worked in the last two years. It is based, for each country, on the number of hours worked by the permanent workforce. France had to resort to short-time work programs (223,000 hours) due to below-normal activity.

	Average number of hours worked per employee		Including average number of overtime hours worked per employee during the year	
	2014	**2015**	**2014**	**2015**
Germany	1,497	1,404	117	50
Brazil	2,021	2,017	118	74
China	2,128	2,033	219	226
United States	2,244	2,263	403	189
France	1,509	1,484	34	16
Mexico	2,692	2,624	236	46
United Kingdom	2,192	2,353	188	229

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

INDIVIDUAL WORKING ARRANGEMENTS AND PART-TIME WORK (FRANCE)

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

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

ABSENTEEISM

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

Rate of absenteeism	2014	2015
Europe	5.6 %	6.4 %
Brazil	3.0 %	3.6 %
NAFTA	1.4 %	2.6 %
Asia	1.5 %	2 %
TOTAL	**3.5 %**	**4.3 %**

4.2.2 Health and safety

4.2.2.1 Safety

Commitment to responsible performance

> Ensure the safety and protect the health of our employees

> Offer each employee good working conditions

INDICATOR

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

2015 OBJECTIVE

To achieve a **TRIR of 4.0.**

ACHIEVEMENT OF THE 2015 OBJECTIVE

The Group exceeded its objective and achieved a **TRIR of 3.25**. Between 2008 and 2014, the TRIR and the Lost Time Injury Rate (LTIR) decreased by 90 %.

2016 OBJECTIVE

To continue efforts to reduce the **TRIR to 3.0.**

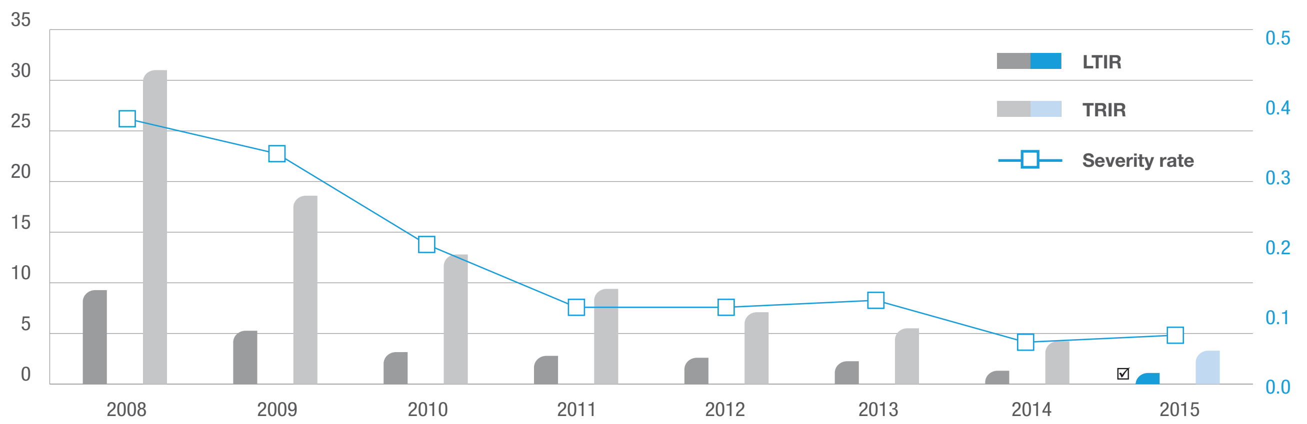
Safety is the Group's No. 1 priority, and it aims to become a benchmark and a model for success in this area. At the end of 2015, certified OHSAS [1] sites represented 99.2 % of production in metric tons.

In 2008, the Group launched an ambitious three-year safety improvement program (2008-2010), called "CAPTEN Safe". Motivated by a desire for a breakthrough in safety management, this program allowed the Group's performance to considerably improve (see graph below). Building on this success and with the aim of continuous, on-going improvement in the Group's safety culture, in 2011 Vallourec created a new three-year (2011-2013) safety improvement program called "CAPTEN+ Safe", which allowed it to increase its performance in safety matters. Between 2008 and 2015, the Lost Time Injury Rate (LTIR) decreased by 86 %.

The Group also decided to monitor the total recordable injury rate with and without lost days (TRIR) [2], which fell from 31 in 2008 to 3.25 in 2015. At each site, "near miss" situations are thoroughly documented, analyzed and reported by supervisory staff.

At year-end 2015, the LTIR [2] was ☑ 1.24 and the accident severity rate [3] was 0.07, both clearly down from 2014. The Group also celebrated no fatalities in 2015, which is the first year since 2007 with no fatalities.

Change in Safety Indicators



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

(2) Based on Group employees and temporary workers.

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

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

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

- establishing safety management committees at all levels of the Company;
- safety inspections (more than 32,000 inspections in 2015);
- on-going risk assessment for safety concerns and preventive actions;
- continuous improvement teams (CITs) focused on safety issues (300 CITs were set up in 2015).

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

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

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

- observation of the risk management system and assessment of performance in the field;
- on-site safety inspection by the Director of each site, accompanied by the safety manager, including a review of how local project groups operate, and ensuring that the 12 "Golden Rules" of safety are understood and strictly followed;
- the mentoring of female employees with potential by senior managers of the Group.

Education and training about safety rules is mandatory for all new employees of the Group and includes frequent follow-ups. Temporary personnel receive the same safety training as permanent staff. In the United States, Brazil and Europe, an original e-learning safety training program has been introduced, which the Group uses to regularly test employees' knowledge and understanding of the safety rules.

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

In 2015, the Vallourec Oil & Gas France plant in Aulnoye plant received the safety prize for the actions established and their results: no lost time accidents have been recorded for 505 days.

[note by translator - is it really only "female" employees who are being mentored, and not "male" ones as well?]

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

The "Safe Start®" program, which concerns the individual attitudes of employees and their ability to take initiative in a risk situation, was launched in 2012 and continued in 2015.

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

4.2.2.2 Health

PREVENTION OF CHEMICAL RISK

The safe use of chemical products and substances is of critical concern to Vallourec. The database containing their details is regularly updated to ensure rigorous monitoring of developments and reactions and thus prevent harmful effects. All products or substances entering production sites are monitored and authorized by local HSE managers. Medical services are regularly called in to provide a full risk assessment. Legally required checks on the atmosphere in the work environment were conducted and this information is included in risk assessments.

PRODUCT SUBSTITUTE PLANS

Plans to substitute critical products have been defined and, in conjunction with R&D and the suppliers, the HSE teams have devised test and qualification programs for substitute products. These programs can sometimes take a long time, and in some cases require the manufacturing processes to be adapted or adjusted. At the end of 2015, 74 % (60 % in 2014) of the 429 substances identified as CMR [1] had been replaced [2]. Changes in legislation in Europe, and the improved knowledge about the toxicity of substances has increased the number of products that have been identified as CMR. The four specific action plans that have been rolled out at the Group level, which continue to progress, concern:

a) refractory ceramic fibers: Vallourec has written and circulated a single set of instructions for all countries. The materials containing this type of fiber present in furnaces will be progressively disposed of during maintenance operations when an alternative solution is available. In 2015, despite the drop in business, certain sites continued their RCF substitution and maintenance programs. This allowed us to attain a 58 % substitution rate in RCF-identified areas;

b) leaded grease: tests and qualifications are underway to replace grease containing lead used on threading that is not subjected to high temperature;

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

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

c) chrome-plated mandrels: a “semi-industrial” test was performed to validate an alternative solution to chrome-plated mandrels. In 2015, the low factory load did not allow industrial process tests to be performed;

d) nickel phosphates: a fine-tuned solution was validated with one of the suppliers and applied at the Vallourec Oil and Gas France site. Other solutions were tested with two other suppliers at the Vallourec Oil and Gas UK site, and at the Rath site, in order to cover global distribution. VAM Houston also began testing substitution solutions, and is gradually changing all of its lines. The test results are positive at the moment, although R&D validations still need to be performed.

Lastly, the impact of chemical risk is likewise studied from the initial stage of R&D and investment projects, in an effort to take account of all prevention criteria that should be associated therewith. Several R&D and investment projects were also validated from a chemical risk point of view, and the most at-risk areas were monitored and validated at each stage, through to industrialization on-site.

4.2.3 Social relations

4.2.3.1 Employer-employee dialog

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

- At the European level, the dialog occurs at several levels:
  - a European committee, comprised of 30 French, German and British representatives meets at least once a year, alternating between France and Germany. It meets with Management, which provides information about changes in the Group’s activities, results and strategy;
  - a European Committee bureau is also in session five times a year, and regularly meets with Management to discuss the Group’s future, along with other European issues. In 2015, several exceptional Bureau meetings were held, at which French and German consultants participated. These meetings allowed the Bureau members to fully grasp the economic and industrial issues impacting the Group’s competitiveness, as well as the action plans envisaged;
  - additionally, European employee shareholders are represented by a Supervisory Board for employee shareholding funds. They meet with management twice a year. An employee representative is chosen from among them, who then serves on Vallourec’s Supervisory Board.
- In France:

  The Group Committee has 20 representatives chosen by the trade unions from among those serving on the Company works councils and meets once a year with the Management Board. It receives general information on the Group (review of financial statements, activity, investments, etc.). It is assisted by a certified public accountant. It is also involved in managing employee benefits and savings plans. In each company, works councils or central works councils, elected consultative committees or staff delegates, as well as health and safety and working conditions committees are associated with the business or institution’s management. The works councils manage social activities (participation in the financing of health contracts, organization of travel, Christmas gifts, sporting activities, etc.). The union organizations, which obtained more than 10 % of the votes at the corporate and works council elections, are the management contacts for the negotiations. In 2015, employment negotiations resulted in the signing of agreements at almost all of the companies, while the employer-employee dialog at Group level concerned:

  - an agreement regarding the alignment of objective categories;
  - negotiation regarding reconciliation of the disability and death benefit obligations for the various professional categories.

  Negotiations also began in September 2015 with union organizations representing the Vallourec Group to implement social measures accompanying the plan to sell the steel mill, and to restructure the Group in France, with a view to safeguarding its competitiveness in the European sectors. The negotiations, which were conducted with the union organizations in parallel with the roll-out of the consulting information procedure of the works councils and the Central Works Council, allowed the measures that had initially been planned to be improved.
- In Germany, employee relations are organized according to the principles of co-determination, in accordance with the Law on Works Councils of 15 January 1972 *(Betriebsverfassungsgesetz)*.

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

  An economic committee *(Wirtschaftsausschuß)* assists the works council. It holds meetings once a month, which are attended by the employer. The managers have a specific consulting body: the *Sprecherausschuß*.

  In 2015, the main agreements or negotiations concerned salaries (negotiation conducted at the business line level), provisional management of needs in terms of workforce, disabled workers, information technology charter and social networks, interest rates of retirement guarantees. The discussions generally concerned the measures for adapting to the new production load, primarily centering on not replacing departures, the rules on short-time work programs, and reductions of hours to adapt to said load.
- In the United Kingdom, employees are represented through four trade unions, three of which represent the production workforce and one the administrative and technical workforce. In 2015, negotiations concerned the salary policy, bonuses, seniority benefits and selection criteria in the event that there was a need to proceed with economic lay-offs.

- In Brazil, most employees are represented by a trade union. The *Conselho Representativo dos Empregados* (CRE) (Employee Representative Board) provides employee representation and facilitates joint discussions on such internal matters as safety, working conditions, promotions and transfers. The trade unions are represented by employees, appointed by the union and paid by Vallourec. The negotiations conducted in 2015 at the professional business line level did not result in an agreement as to the salary policy at the business line level, and Vallourec unilaterally applied the measures proposed. Additionally, agreements regarding the conditions for establishing short-time work programs with a "total for a limited period" as well as for the reductions in hours to adapt to the new load, were signed with the union organizations of Vallourec Tubos do Brasil (VBR) and Vallourec & Sumitomo Tubos do Brasil (VSB).

  Specific bodies in charge of improving safety with employee-elected representatives also meet every month.
- In Mexico, the union mainly represents production staff and employees who are covered by collective bargaining agreements. The union, for which dues and membership are mandatory, can propose candidates for hire from among these employees, a list of whom is drawn up in accordance with the agreements. Negotiations concern salaries and benefits in kind. An agreement was reached for 2015 relating to this topic.
- In the United States, as required by law, employees regularly vote on the type of employee representation they prefer and have consistently voted against having a trade union. A new employee consultation held in 2014 again confirmed this choice. Employer-employee dialog is thus carried out in frequent meetings in the field between management and personnel.
- In China, the national union is represented at the plant by an employee who is the management's contact on all personnel matters. If there is no union representative, employer-employee dialog occurs through direct contact between the production staff and management via *ad hoc* forums. In 2015, there were no specific negotiations with the union organization represented in one of our Changzhou entities.

4.2.3.2 Internal survey on employee satisfaction (Opinion)

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

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

4.2.3.3 Group internal communications

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

- *Vallourec Inside* is the Group's intranet, which reaches around 12,000 employees in some 20 countries. It delivers information, in real time, on strategy, targets and results, and showcases the achievements of teams worldwide. A bi-monthly e-newsletter presents site news. *Vallourec Inside* also gives everyone the opportunity to connect through employee networks where they can work together and enhance responsiveness and performance. More than 3,600 individuals have connected via 220 web forums dedicated to specific Group issues (manufacturing processes, business activities, research and innovation);
- *Vallourec Info,* the magazine for all employees, provides an overview of the latest Group news in each country's language. Key information is also rapidly communicated by posters displayed in all Group sites;
- communication on specific projects seeks to educate employees about key issues in the Group – safety, ethics and values, and the environment – and involves them in important matters such as subscribing to the Value employee share ownership plan, or the launch of the Opinion employee satisfaction survey, major projects that impact the life of the Group, etc.;
- at annual conventions or local meetings, the Group's management team visits local managers to share information and gather feedback.

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

4.2.4 Compensation and benefits

4.2.4.1 Payroll

In 2015, Group payroll costs, excluding temporary staff, totaled €1,119 million (vs. €1,236 million in 2014) and included:

- €796 million for salaries (€856 million in 2014);
- €33 million for employee profit sharing (€54 million in 2014);
- €4 million for expenses associated with share subscription or share purchase options and performance shares (€11 million in 2014);
- €284 million in social security costs (€312 million in 2014).

The 9.5 % decrease in payroll compared to the previous year is the result of the effects of the 2014 restructuring plan.

Breakdown of payroll costs by country:

	Breakdown of total payroll costs	
	2014	2015
Germany	22 %	23 %
Brazil	21 %	18 %
China	1 %	1 %
United States	18 %	19 %
France	29 %	29 %
Mexico	1 %	1 %
United Kingdom	4 %	4 %
Other	4 %	5 %
TOTAL	**100 %**	**100 %**

4.2.4.2 Employee profit sharing

Profit sharing plans are designed to associate employees with the Company's performance. In 2015, this amounted to €21 million.

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

4.2.4.3 Employee shareholding

In 2015, the Group renewed a Value employee shareholding plan, known as Value 15, benefiting employees in 12 countries, for the eighth consecutive year. More than one out of every two employees, or 55.3 % of eligible employees, chose to subscribe to the proposed share offering. This participation rate demonstrates the loyalty of Vallourec's employees to their company and their confidence in the Group's strategy and future. Shares held by employees represented 7.63 % of Vallourec's share capital as at 31 December 2015, against 7.61 % as at 31 December 2014.

4.2.4.4 Other benefits

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

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

4.2.5 Employee development

4.2.5.1 Talent management process

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

TALENT 360

Annual interviews

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

In countries where this tool is in place, the rate of completion of annual performance interviews among managers is on average over ☑ 94 %.

In 2015, the talent management process was harmonized and extended to non-managers.

Job posting

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

EMPLOYEE REVIEW AND SUCCESSION PLANS

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

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

Vallourec has also made more widespread use of succession plans in an effort to ensure that key positions are filled by people with the necessary expertise.

EXPERT PROGRAM

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

The Expert Program encourages and values individual career paths in these areas, and allows Vallourec to develop its competitiveness to satisfy increasingly demanding markets. To date, this program has allowed more than 300 experts to be recognized through the Group.

4.2.5.2 Training

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

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

In 2015, more than 473,000 hours were devoted to professional employee training (data collected through the "LMS" unique training management system, including for classroom training sessions that were only given at the Group level, along with those in main location countries: Germany, Brazil, United States and France).

Employees who trained at least 3 hours in the classroom, or who completed at least one e-learning training session

	Production staff		Technical and supervisory staff		Managers		Total	
	2014	2015	2014	2015	2014	2015	2014	2015
TOTAL GROUP	**38 %**	**46 %**	**11 %**	**13 %**	**12 %**	**18 %**	**61 %**	**76 %**

In 2015, each Group employee completed an average of 22.5 hours of training, compared to 22 hours in 2014. Shorter-format distance training allows a larger number of employees access. The share of distance training has now reached 4 % of the total training hours.

Type of training provided

	Total number of training hours in 2015	%	Total number of training hours in 2014	%	Increase
Leadership	51,861	11 %	62,509	14 %	- 17 %
Training by position	29,355	6 %	21,381	5 %	37 %
Languages	16,272	3 %	21,040	5 %	- 23 %
Operational Excellence	334,807	71 %	285,167	66 %	17 %
including HSE	*147,545*	*31 %*	*136,065*	*31 %*	*8 %*
On-demand training	40,714	9 %	43,575	10 %	- 7 %
TOTAL	**473,009**	**100 %**	**433,671**	**100 %**	**9 %**

On a like-for-like basis, the training completed in the system increased 9 %. It should be noted that 2015 marks a change in the method of tracking the training. As a reminder, the Group recorded 513,597 training hours in 2014.

There is a clear increase in training programs by position aimed at the professional development of employees and a decrease in language training, due to the greater personalization of training curricula.

VALLOUREC UNIVERSITY

Since its creation in 2011, Vallourec University's goal has been to be a center of excellence where employees and customers can meet to create and share in a common culture and build on their knowledge through continuous learning. Its purpose is to strengthen the values that are most important to Vallourec today: focus on the customer, agility, transparency, innovation and respect for people and cultural differences.

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

All of the training programs that are launched and rolled out by Vallourec University must meet the following objectives:

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

To achieve these objectives, Vallourec University has developed four principles – experiment, share, learn and apply – as the basis of all its training. Participants have the opportunity to discuss their experiences and gain new knowledge by alternating theoretical and practical modules and by applying and adapting the methods they have learned to their specific needs. Training is systematically related to the strategic objectives of the Group, its Divisions and its teams.

Vallourec University offers customized training and seeks to develop skills across the Group to fit with the Group's strategy. Its learning center is based on four key pillars:

- leadership, which prepares for the management of specific challenges encountered in management and leadership roles;
- on-demand training, which is focused on topics that are important to Vallourec, such as project management, communications, language skills, digital skills or even finance for non-specialists;
- functional training aimed at improving practical and technical skills for each business line;
- training for operational excellence, which provides expertise on processes and technologies in the context of the Group's priorities and guidelines, in particular in order to contribute to the performance of the Company and the development of a unified corporate culture.

The activities of Vallourec University are structured around two areas: the Learning Center and External Stakeholders. The Learning Center is the main area and covers all training initiatives. Its modules are implemented at national and international levels, aimed at the continuous development and improvement of employee skills to meet the specific requirements of each level of responsibility and in the various geographical areas. They systematically integrate the Group's priorities, such as managing change, focusing on the customer, and innovation.

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

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

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

In 2015, 5,390 employees participated in international training programs, either in-class or remotely.

2015 was also marked by a ramping up of distance training and the adoption of new learning practices. E-learning safety and management programs were rolled out for the target audiences. The number of distance training hours totaled 18,602 hours in 2015 (hours recorded by the Learning Management System), or nearly 4 % of the total training hours.

APPRENTICESHIP AND WORK-STUDY VOCATIONAL TRAINING

To ensure the transfer and enhancement of know-how in the context of Europe's demographic imbalance, and to attract more young talent with a training program geared to the needs of its activities, the Group operates a dynamic apprenticeship program in both Germany, with an average of 250 apprentices in 2015 (262 in 2014), and France, where an average 200 work-study trainees pursued their vocational curriculum in 2015. In Brazil, there was an average of approximately 180 apprentices in 2015.

4.2.6 Diversity and equal opportunities

Within the context of rolling out the Code of Ethics (see above, Section 4.1. "Ethics and compliance"), a program to educate all employees on the issue of discrimination was completed using examples from daily life.

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

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

4.2.6.1 Diversity

GENDER EQUALITY

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

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

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

- the percentage of women in line management positions in production, sales and Research and Development: as at 31 December 2015, 15 % of these positions were held by women;
- the number of women who currently hold a leadership position: as at 31 December 2015, 10 % of leadership roles were filled by women;
- le *mentoring* de collaboratrices à potentiel par des cadres dirigeants du Groupe.

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

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

In the Middle East, in early 2015, a young Saudi Arabian woman was promoted to Head of Human Resources of the Vallourec Saudi company, based in Dammam.

CULTURAL DIVERSITY

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

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

4.2.6.2 Equal opportunities

DISABILITIES

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

SENIORS

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

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

4.3 Relations with stakeholders

4.3.1 Relations with employees

Commitment to responsible performance

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

INDICATOR

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

2015 RESULTS

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

The next survey should take place in 2016.

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

4.3.2 Relations with customers

4.3.2.1 Profile of customers

The Group has an extensive customer portfolio.

- Its Oil & Gas customers are:
  - national oil companies such as ADNOC, Aramco, Petrobras, CNOOC, and international companies like Exxon and Total;
  - engineering and construction oil service companies such as Subsea 7 and Technip;
  - American distributors such as Champions Pipe & Supply, Chickasaw, Pipeco, Premier Pipe and Pyramid Tubular.
- On the Power Generation market:
  - builders of thermal and nuclear plants such as Areva, Dong Fang, Doosan and Mitsubishi Hitachi Power Services.
- On the Industrial market:
  - tube manufacturers or distributors such as Salzgitter and ThyssenKrupp.

The Group's main 20 customers appear on page XX of the Registration Document. In 2015, the five largest customers accounted for 24 % of the Group's revenue.

4.3.2.2 The Commercial Excellence program

As part of its **"Commercial Excellence"** program, the Group tries to continuously strengthen its proximity to customers. The Key Account Managers (KAMs), true customer ambassadors, allow Vallourec to gain a very detailed understanding of customer needs. There have therefore been regular face to face meetings between the KAMs and customers for the purposes of getting feedback.

In order to respond to the expectations identified, and optimize the creation of value for the benefit of those customers, Vallourec combines product innovation with services, and offers its expertise. This is mainly done by analyzing the customer's value chain, in order to propose appropriate solutions: optimization/choice of product design, project management, scheduling, delivery time periods, storage, inspection, maintenance, repair, etc. Furthermore, Vallourec innovates by developing steel and alloys that are increasingly high performing, which are resistant to unequal pressure and temperature levels, and have adapted mechanical features (strength, weldability, elasticity, etc.). To that end, the Group develops specific R&D programs and multi-Division initiatives. Lastly, this approach aims to include an evaluation of the environmental impact of products throughout their useful industrial life, from manufacture to dismantlement.

Customer satisfaction is of critical concern to Vallourec: offering the best product at the best price, delivered on-time and in conformity with all customer expectations.

Response time to a request for a quote, product quality and delivery time limits are the main criteria for customer satisfaction and are extensively monitored by the Group.

In fact, the Group regularly performs **satisfaction surveys**. This process, launched by Corporate Marketing, is conducted by the Divisions, and allows customer satisfaction rates to be measured. Using an IT tool, each Division develops very detailed knowledge of its customers' experience.

Satisfaction is measured according to various criteria, and actions are consequently taken to improve satisfaction or, where applicable, remedy dissatisfaction. For example, if the recently conducted customer studies are used as the basis, Vallourec obtains a **score of around 4.5/5.**

This approach is inseparable from the Group's efforts to raise the level of quality of its products as well as that of the associated services. For example, the amount of time for processing defects in quality or logistics has been considerably accelerated. **Claims** are systematically and fully processed. Regardless of their type, all claims are processed in the same way: Vallourec takes steps, which are completely transparent to the customer, to remedy the problem that has been detected and to ensure that any actual or perceived defect never occurs again. In 2015, the Group was therefore able to **reduce the number of customer claims related to quality by half**.

Measures for consumer health and safety

This topic is not applicable to Vallourec's activities. Indeed, the products manufactured by the Group are designed for other manufacturers who use or transform them. They are sold either directly to the end customer, or to distributors who sell them on for various applications. They are never supplied to individual consumers. Moreover, the products are made of steel, a metal that does not present any danger to health.

4.3.3 Relations with subcontractors and suppliers

Commitment to responsible performance

> Establish a network of reliable and responsible suppliers

INDICATOR

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

2015 RESULTS

As at 31 December 2015, **nearly 650 suppliers** were involved in the process, with a particular focus this year on emerging countries or regions that are newer to Vallourec (China and the Middle East, and certain categories of suppliers in Brazil).

2016 OBJECTIVE

To involve a total of **900 suppliers** in the Group's formal evaluation process, and in all cases **all of the so-called "critical" suppliers**, in other words, those directly impacting the Vallourec product or its production process.

In 2015, the Group's purchases reached €2,872 million; the geographical breakdown was as follows: 40 % in Europe, 18 % in North America, 26 % in South America and 16 % in the rest of the world.

4.3.3.1 Local purchases

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

Local purchases, with an estimated total of €1.3 billion in 2015, represented approximately 45 % of purchases (a stable share from year to year) and directly contributed to supporting the local economy. These were mainly for scrap metal, temporary work, certain IT services, subcontracting, maintenance and supply services, and ordinary services to meet production and non-production needs. The distance between suppliers' locations and the plants they serve is not over 80 km, so they can usually respond to requests the same day if needed.

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

Subcontracting purchases represented an amount that was analogous to local purchases (€1.3 billion). These concerned either industrial finishing or control services, or services that were needed for the processes to be properly performed. These subcontracting purchases were for the most part local, given the quality and responsiveness requirements that providers must satisfy. These services corresponded to a significant number of very qualified jobs that helped strengthen the local industrial fabric, although it is not easy to evaluate their number. A significant portion of these local subcontractors were considered in the CSR evaluation of Vallourec's suppliers.

4.3.3.2 Responsible purchasing policy

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

Within this context, a Supplier Quality and Performance Department established several tools and processes during these past three years which aim to better monitor suppliers, their choices and their performance: establishing purchasing strategies by category, a formal contracting process, management of supplier quality, measurement of supplier performance; and supplier risk analysis. All of these new processes directly emphasize criteria such as Corporate Social Responsibility (CSR), sustainable development, ethical conduct and safety.

In 2015, pursuant to this policy, Vallourec:

- conducted more than 600 audits or supplier risk analyses at all of its sites. This effort will continue in 2016 with the same objectives, but with increased precision. To do so, an entirely new set of stronger, harmonized audit guidelines was prepared in 2015, including, very significantly, sustainable development, ethics and safety criteria;
- continued the formal and systematic evaluation of suppliers (production and non-production) based on CSR and environmental criteria, still with the help of a specialized firm. As at 31 December 2015, nearly 650 suppliers were incorporated in this project, and nearly 250 of them, representing more than 30 % of Vallourec's expense, were at the end of the process, with a complete evaluation and progressive action plans. This assessment showed that 51 % of the suppliers evaluated already publish a formal report on their energy consumption and greenhouse gas emissions, 68 % publish a report on their health, safety and environment (HSE) indicators, and 30 % are ISO 14001 certified;
- fine-tuned a specific innovative process to anticipate supplier risks. A score card on the matter is continually updated and reviewed monthly by the Group's Purchasing Department Committee. In 2015, this monitoring allowed the risks identified for 10 of the Group's global suppliers to be eliminated (not counting the equivalent procedures for quite a few regional or local suppliers, which are more difficult to account for). Furthermore, several e-learning training modules were developed and established to train buyers and their internal customers on all aspects of supplier risk. In 2015, all of Vallourec's buyers completed these training programs;
- launched and established a specific project to strengthen and standardize methods and tools related to supplier qualification and development (supplier classification, process for creating and validating a new supplier, managing claims, audits and on-going improvement plans), all including a strengthened CSR section;
- established a specific information system for integrated management of purchases and suppliers, with visibility at all levels, from local to global. This system, which will be ramped up in 2016, contains in particular a specific data sheet for each supplier, in which sustainable development and safety criteria feature strongly.

Vallourec's requirements for sustainable development, ethics and safety have been part of the main messages delivered to suppliers during the "Top Management Meetings" (TMM) that have been regularly organized with the Group's largest suppliers.

In accordance with the new U.S. laws and European directives, Vallourec has likewise committed to monitoring potential "Conflict Minerals" coming out of certain African countries which could be used by its suppliers. The Group's policy consists (i) of making sure, in accordance with the Group's Code of Ethics and the Sustainable Development Charter and the Environmental Policy, that none of these minerals is used directly or indirectly and (ii) where certain cases are detected, of finding solutions to replace them. This monitoring campaign, which in 2014 involved 1,500 suppliers worldwide, was significantly expanded to cover nearly 2,300 suppliers in 2015. These suppliers were all subject to this survey's analytical matrix. The summary of responses to the questionnaires sent out and analyzed using special software did not show that Group products contained any conflict minerals from the African countries in question. The survey will be further strengthened in 2016, and paired with audits of supplier responses.

4.3.3.3 Anti-corruption actions

All suppliers are aware of and have access to the Group's Code of Ethics, particularly through Vallourec's website. Vallourec's systematic evaluation of suppliers based on CSR criteria, initiated in 2013 (see above), showed that 35 % of its suppliers have also formally established a Code of Ethics or a Business Ethics Charter.

Moreover, in relations with local stakeholders and suppliers in 2015, there were no comments or complaints related to respect for the values set out in the Group's Code of Ethics.

4.3.4 Support of local communities

4.3.4.1 Local community support policy

Vallourec has initiated numerous relationships with local stakeholders in its activities, such as professional organizations and local authorities, residents' associations and groups with a social or environmental objective related to its sites' activity. Although no overall systematic evaluation of the quality of relations between our sites and the local communities has yet been performed, relationships are considered to be good and no conflicts have arisen. Social actions are mainly conducted in countries such as Brazil and Indonesia where the expectations of the local residents are strongest and where social systems are less developed than in Western countries. With the exception of these two countries, the Group receives few requests for support.

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

- consistency of actions undertaken within a single region;
- regular, high quality discussions;
- priority given to actions supported by the Group's employees;
- preference for actions that support education, healthcare and local development.

It should be mentioned that the strategic 5-year plan for Sustainable Development provides for establishing a formal framework for social actions. With the aim of furthering discussion on the subject, an exhaustive list of actions taken at all sites is currently underway.

4.3.4.2 Actions undertaken

A. In Brazil, for historic, cultural and regulatory reasons, and because the Barreiro site is situated in the midst of a very urbanized district in Belo Horizonte, relations with local stakeholders, and particularly modest populations, have for several years followed a structured process in close collaboration with local authorities, backed by tax incentives. The very numerous actions include economic development, cultural and sporting programs.

These include the following:

- "education volunteers", who provide educational support directly to young children, in particular for scientific subjects, through employee volunteers from Vallourec Tubos do Brasil (VBR);
- organization of a cultural, social and athletic circuit for local municipalities;
- economic development project for villages located close to the Vallourec Florestal farms;
- school environmental training program;
- the specific school support program known as "comunidade viva", with volunteers from Vallourec Tubos do Brasil (VBR).

This specific program has proved effective since 2005. During the 2011-2014 period, nearly 5,000 young people directly benefited from the programs, and more than 10,000 benefited indirectly, in particular the families of employees. In 2015 alone, there were 1,000 young people who directly benefited from the program, and 18,000 who indirectly benefited from it. These programs represented more than 6,500 training hours. The very practical results are length of education, which went from 5.6 years in 2005 to 8.8 years in 2015, with a rate of integration into the workplace that went from 45 to 53 %, accompanied by a very considerable increase in family income.

The outstanding effort over the past several years to restore a historic movie theater in the city center has allowed the Belo Horizonte metropolis to become a major cultural center; the Cine Theatro Brasil Vallourec has become incredibly successful, and since it opened to the public in October 2013, it has welcomed nearly 700 artistic events, including exhibitions, and dance, music and theater shows, attracting nearly 500,000 visitors.

Since its inception, Vallourec & Sumitomo Tubos do Brasil (VSB) has also implemented programs that offer economic and cultural support to local populations, as part of agreements with local authorities that are similar to those developed by VBR. VSB also sponsored municipal teams in combating fires, and supported events organized by local authorities.

Lastly, in order to better appreciate the communities' perception of the Brumadinho mine, an in-depth study on the opinions and expectations of people residing nearby was conducted in 2014 based on questionnaires and individual interviews with residents, merchants, elected officials, officers and associations. This information was communicated in 2015 to the administrative authority issuing the permit to operate the mine, and allowed the environmental education program that was offered to local residents to be adapted.

B. In Indonesia, the subsidiary P.T. Citra Tubindo TBK has for many years been involved in large-scale programs that provide educational and medical assistance to the people, financing for sporting and cultural equipment, as well as environmental protection actions and support to underprivileged populations. Nearly 9,000 people were involved in 2015. It should be noted that the primary action consists of subsidizing the new Nongsa hospital.

C. In Europe and the United States, given the level of development of social infrastructures, corporate initiatives are for limited amounts and tend, in general, to support university, cultural and sporting initiatives, to finance social and charitable causes, to renovate cultural centers, to support the local economic fabric or even subsidize environmental restoration programs.

In the Valenciennes, Aulnoye-Aymeries and Montbard basins, the Group has participated in the Alizé programs which consisted, for large and medium-sized local businesses, of (i) contributing *pro bono* expertise to SMEs by providing consulting from managers and (ii) coordinating projects categorized as part of the “Metal Valley Rural Excellence Division”. Within this framework, the Group invested, in 2015, in nearly 8 support actions, which mainly concerned assistance in the field of industrial organization.

In the Düsseldorf region of Germany, for example, numerous cultural or sports associations are supported, as well as daycares and preschools. Another initiative worth noting is an important program to support employees and their families concerning preventive health, particularly nutritional and physical fitness best practices.

D. In 2015, approximately €4.5 million were donated to fund partnerships, down from 2014 (€6.6 million). This reduction is clearly due to the drop in business at sites, and their resources. A currency translation effect should also be noted, in particular the depreciation of the Brazilian real due to the consolidation in euros of the efforts of the various units. Therefore, at constant exchange rates, the amounts allocated would have reached nearly €5.2 million. In volume, efforts therefore only decreased by a little more than 20 % from 2014, or less than production or revenue.

4.3.5 Relations with shareholders and investors

Commitment to responsible performance

> Satisfy our shareholders over the long term

INDICATOR

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

2015 OBJECTIVE

Obtain a rating of **A-.**

ACHIEVEMENT OF THE 2015 OBJECTIVE

The Group earned a **B+ rating, which is slightly below the objective the Group had set for itself**. Management of risks and environmental effectiveness are fields where the Group can still improve.

2016 OBJECTIVE

Obtain a **B+ rating, given the low level of business anticipated in 2016, and upcoming significant changes in scope.**

The Group’s priority is to maintain lasting, trustworthy relations with all its shareholders, whether individual or institutional, French or foreign. It strives to give them access to exact, precise and accurate information, particularly with regard to its activities, results, outlook and strategic developments. Accordingly, and with on-going concern for clarity and transparency, numerous dedicated communications media are available, and regular meetings are arranged throughout the year.

In 2015, the Group participated in 290 meetings and telephone conferences with institutional investors and financial analysts. Each year, it also meets with SRI (Socially Responsible Investment) funds and analysts. This approach contributes to the Group’s improvement in the area of sustainable development.

Vallourec’s Shareholders’ Club also allows shareholders to participate in events (conferences, discovery workshops, plant visits) in order to deepen their knowledge and understanding of the Group’s activities. This plan, which promotes discussions, allows Vallourec to strengthen the close connections with its individual shareholders, and helps it to better respond to the concerns and expectations of its shareholders.

The entire scheme used by the Group for shareholders and investors is presented in Sections 2.6.2 “Relations with institutional investors and financial analysts” and 2.6.3 “Relations with individual shareholders” of this Registration Document.

4.4 Environmental commitment

The environmental data included in the 2015 environmental reporting scheme concerns all of the subsidiaries controlled by the Group. However, given the industrial size of the Vallourec & Sumitomo Tubos do Brasil plant, only 56 % of the data from this plant is consolidated (percentage corresponding to Vallourec's share of the capital).

4.4.1 General environmental policy

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

In 2013, Vallourec created a five-year environmental roadmap for each of the following three Divisions: Upstream, OCTG and Vallourec Tubos do Brasil. This constitutes a strategic Environmental plan for targeted environmental projects (energy, water, waste, noise and chemical hazards) whose purpose is to minimize the Group's environmental footprint. It focuses on defining objectives, determining the necessary resources (including capital expenditures to be made), promoting progress and cost savings, and setting priorities. It is monitored regularly and updated each year. Its horizon is extended annually in one-year increments, and currently concerns the 2015-2020 period.

4.4.1.1 Environmental management

In accordance with Group rules and guidelines, the Director of each site is responsible for setting up an effective environmental management system that is tailored to the local context and the site's activity. The Director also appoints an Environment Manager who heads up all actions in this area. The "Corporate" Environment procedures were updated in 2015, and are accessible on the portal.

The Environment Department, reporting to the Sustainable Development Department, coordinates all environmental initiatives. It is supported by the Environment Managers of the newly created Regions or Divisions and production sites who are responsible for implementing Vallourec's policies locally through:

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

These structures exist in all of the countries. The objective of this new organization was to structure the organizations by region or country in order to better take into account the specific national regulations. Under the Valens adaptation plan, the global workforce now totals nearly 70 full-time equivalent people in production sites for the Group as a whole.

Exchanges among the countries are continuing to develop, fostering significant progress thanks to the benchmarking of performances and solutions, particularly during environmental conferences.

The Environmental Department is also responsible for coordinating and managing these internal benchmarking initiatives, as well as for gathering and consolidating all of the Group's environmental data. The results are consolidated monthly and communicated quarterly to the sites, the management line and Group Management Committee (GMC) members, in the form of a report specific to each entity.

4.4.1.2 Audits and certifications

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

As at 31 December 2015, the Group's main sites were certified ISO 14001, which represents more than 93 % of production. Vallourec & Sumitomo Tubos do Brasil, Vallourec Umbilicals France and Vallourec Canada Inc. are expected to participate in 2016, which would restore the certification rate of the Group's units to the rate achieved in late 2016, i.e. 99 %.

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

4.4.1.3 Legal compliance

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

Through the regular and systematic review of regulatory developments, actions implemented in the context of continuous improvement, new investments or organizational changes can be developed or updated. In France, an environmental regulatory watch has been set up on a dedicated intranet portal accessible by all production sites. This portal facilitates access to information that is useful at the various sites.

4.4.1.4 Training and education

Employee training and education on the environment, sustainable development and energy efficiency is carried out in the plants through poster campaigns, periodic publications, briefings and compliance programs, among other measures. The Global Compliance Program, developed and coordinated by the Group Legal Department, has an educational component on compliance with environmental regulations (see Section 4.1.1 "Code of Ethics" above and the Report of the Chairman of the Supervisory Board below in Appendix 1 to Chapter 7 of this Registration Document).

In 2015, the total number of training hours counted in the LMS system (which excludes small countries) in the field of health, safety and the environment (HSE) was 147,545 hours, or 31 % of total training hours, a very slight 2 % decrease from 2014.

4.4.1.5 Investments

The Group systematically incorporates sustainable development concerns in designing its investment projects. In particular, a health, safety and environment (HSE) analysis is conducted at the beginning of every project to assess the potential impacts and anticipate environmental risks.

A procedure on eco-design rules was established in 2015 as part of the reworking of major project governance. It is intended to highlight the best practices and techniques available for design that meets HSE challenges in the following main areas:

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

In 2015, HSE investments reached €51.26 million, i.e. 20 % of investment expenses in 2015. They primarily concerned:

- improvement in working conditions (ergonomics, noise reduction, lighting and heating);
- ensuring environmental compliance of work equipment (retention and aspiration, water and gas networks, fire protection systems and product storage);
- reduction in energy consumption: improvement in furnaces for heat treatment, automated lighting and building insulation;
- improved water management;
- management of the forest operated by Vallourec Florestal;
- the replacement of hazardous chemical substances;
- layout and safety of plants in terms of roofing, roads and parking;
- renewal of operating permits;
- reforestation projects and plans for carbonization furnaces to produce charcoal as a renewable energy source;
- water drainage projects and plans for construction of metalliferous tailings dams which present an inherent risk of significant damage.

The following main operations are included within the scope of these projects:

- Vallourec Florestal in Brazil invested €4.89 million in the reconstruction and installation of new carbonization furnaces, to arrive at a gravimetric yield of more than 34 %.
- Vallourec Deutschland in Mülheim contributed €0.9 million on the first investment phase to modernize the pellet heating furnace with regenerative burners which will allow for an energy efficiency gain on the order of + 15 %.
- Vallourec Tubos do Brasil rolled out various projects totaling €0.6 million in the industrial water system, which resulted in a reduction of water abstraction of close to 400,000 m^3 (1.44 million m^3 in 2015 compared to 1.84 million m^3 in 2014).

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

4.4.1.6 Specific cases

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

2. The same applies to the "pelletization" unit established at the Vallourec & Sumitomo Tubos do Brasil (VSB) site. This unit, which manufactures pellets using ore produced by Vallourec Mineraçao and other mines, and has high water consumption, supplies the blast furnaces of Vallourec Tubos do Brasil and Jeceaba, as well as other local steel metallurgists. Its level of activity is thus independent of Jeceaba's steel and tube mills. Consequently, the environmental information specific to it is presented separately in Appendix 2.

3. The head office of the Group in Boulogne has also undergone environmental improvements. In January 2016, "BREEAM In Use" certification was obtained at the "very good" level (or 4 out of 6) for the two fields of "Asset Performance" and "Building Management". This classification is even more noteworthy since the building was designed in 2002-2003 and delivered in 2005, and does not meet the HQE criteria. It is simultaneously the result of a regular decrease in water and energy consumption, and the establishment of a collection system which recycles 80 % of waste and, since 2015, recovers the bio-waste produced by the Company cafeteria.

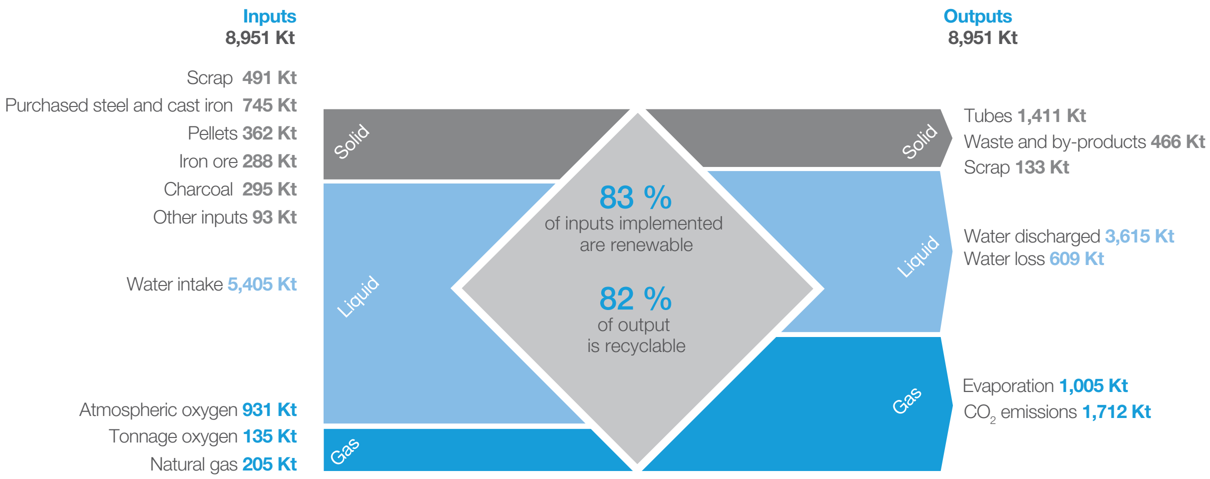
4.4.2 Sustainable use of resources

In 2015, the production level was much lower than that of past years. As a result, all environmental figures are lower than their 2014 values. Conversely, the environmental performance measured by comparing these figures per metric ton processed was down for the simple reason that the quantities implemented are not proportional to production because consumption is fixed. This will result in comments in each of the headings below.

Almost all of the objectives that were set have, consequently, not been attained, for the primary reason that the hypothesis of a reduction in production was assumed to be 10 %, which was unfortunately not the case since production output was down 39 % and "processed" production was down 48 %.

4.4.2.1 Resources implemented

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



Water represents nearly 60 % of total inputs
Direct CO_2 emissions are low
1 metric ton of output results in 331 kg of waste and by-products

This analysis was updated in 2015. The results showed that producing 1.41 million metric tons of tubes requires 8.95 million metric tons of different types of inputs, down 31 % from 2014, while production output decreased 39 %, due to the decrease in water abstraction which now only represents 60.4 % of total inputs. It should be emphasized in this regard that:

- 83 % of the resources consumed are renewable (scrap and steel made from scrap, charcoal, water and oxygen), demonstrating the limited nature of the Group's net environmental footprint, which has remained stable from 2014 to 2015;
- more than 99 % of production-related outputs can be considered recyclable if we consider that the CO_2 emitted is to be absorbed to reconstitute the biomass, or 82 % if this assumption is not adopted.

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

The updated analysis also points out the need to continue to deal with wastewater treatment and industrial waste disposal, areas in which the Group has taken action for several years. Conversely, as concerns carbon emissions, the analysis resulting from an improved knowledge of output specific to the forest the Group cultivates, is very positive.

In 2013, the Group also performed a life cycle analysis of two typical products in the Oil & Gas activity (tubing and casing) in cooperation with an end customer. The ten key impacts evaluated (including carbon, energy, water, resource depletion, toxicity, eutrophication) demonstrated the weak relative impact of the Group's products. The goal is to continue these analyses on other products, in cooperation with other customers. To this end, in 2015 the Group, with the aid of an outside consultancy firm, launched a specific tool designed to perform these types of analyses for products that are already available on the market or which are being created through R&D programs. This tool will be ready for use in the first quarter of 2016.

4.4.2.2 Consumption of raw materials

The steel Vallourec uses to manufacture tubes is primarily prepared in the Group's steel mills (Belo Horizonte and Jeceaba since mid-2014 for the blast furnace process (BOF – Basic Oxygen Furnace), and Jeceaba in Brazil, Youngstown in the United States and Saint-Saulve in France for the electric process (EAF – Electric Arc Furnace). With the latter process, the Group favors the use of recycled scrap over the manufacture of new quantities of steel or cast iron.

Continuous Improvement Groups have been set up to maximize the effectiveness of each process. They focus on the following key areas:

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

Steel mill production in 2015

	Blast furnaces			Electric furnaces		Steel mills
Plant *(metric tons)*	**Iron ore**	**Pellets**	**Charcoal**	**Scrap iron**	**Of which % of internal recycling**	**Scrap and cast iron used**
Vallourec Tubos do Brasil Belo Horizonte	263,921	250,375	226,240	43,780	100	279,326
Vallourec & Sumitomo Tubos do Brazil – Jeceaba (56 % consolidated)	24,301	111,980	68,617	67,397	9	166,132
Vallourec Tubes France – Saint-Saulve	0	0	0	213,418	26	213,418
Vallourec Star – Youngstown	0	0	0	166,293	14	185,850
TOTAL	**288,222**	**362,355**	**294,857**	**490,887**	**27**	**844,727**

We note (i) a considerable improvement in the internal recycling rate for scrap due to the progress achieved at the Youngstown steel mill, (ii) a 54 % reduction in internal production, compared with a 39 % reduction in the number of tubes shipped, which is explained by greater use of external supply sources, in particular at HKM (only a 27 % reduction in steel purchases).

4.4.2.3 Water management

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

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

In recent years, the quality of plant waste has improved and water abstraction has decreased, primarily thanks to the establishment of tools to increase reuse. Abstractions decreased from 10.3 million m^3 in 2004 to 7.83 million m^3 in 2014 (despite the increased load at the new Vallourec & Sumitomo Tubos do Brasil sites, and the new tube mill in Youngstown) and to 5.63 million m^3 in 2015 ☑.

The significant decrease in water abstraction in 2015 is related to the reduced activity, and occurred thanks to the teams' efforts to adapt needs to the new workshop pace (manufacturing stoppages and restructurings leading to a reduction in the times workshops are open - changeover of the Saint Saulve steel mill to 3 × 8 instead of 5 × 8 hourly cycles, for example).

The relative abstraction thus steadily improved over the 2004-2014 period, settling at 1.4 m^3/metric ton processed at year-end 2014, although in 2015 it reached 1.99 m^3/metric ton processed. The investments made in Déville-lès-Rouen should be noted (€€1.5 million in 2 years); this led to a larger reduction in the need for water than expected, at 5.8 m^3/t in 2015 instead of 14 m^3/t before 2013.

Nevertheless, even if production stops, the thermal processes (scrap melting, liquid steel bags, reheating furnaces) require that certain tools with energy consumption and cooling be continually monitored, which explains the shift in ratios. The "fixed portion" of the water needs is thus important, and constitutes a cornerstone of progress in the majority of establishments using hot processes.

Under these conditions, and given the upcoming new industrial footprint of the Group, the 2016 objective will be set during the year.

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

Water intake 2002-2015

Year	Total water intake *(m^3)*	Water intake per metric ton processed *(m^3/metric ton)*
2002	11,526,990	2.71
2003	10,614,854	2.57
2004	10,308,672	1.96
2005	10,256,071	1.82
2006	10,778,479	1.77
2007	9,554,272	1.78
2008	9,444,031	1.62
2009	7,326,310	2.24
2010	8,078,804	1.74
2011	8,628,862	1.7
2012	7,868,009	1.6
2013	8,857,826	1.6
2014	7,831,288	1.4
2015	☑ 5,630,516	☑ 1.99

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

- SPM: suspended particulate matter;
- COD: chemical oxygen demand;
- TH: total hydrocarbons;
- metals (primarily iron, zinc, chrome and nickel). Total metal ratio per volume of water discharged (mg/liter) was 1.23 mg/l in 2015 (1.29 in 2014) for the companies included within the Group's consolidation scope.

ACTIONS TAKEN

Numerous actions to measure and monitor water needs were established in 2015 to reduce specific water consumption (the reduction, or even shutdown of pumps during production stoppages).

At the end of 2014, Vallourec Tubos do Brasil (VBR) launched a plan to reduce the risk of water rationing. This was despite an already very satisfactory industrial water reuse rate of 98 %. VBR is the largest consumer of water in Belo Horizonte, and is extremely dependent on COPASA, the public entity in charge of water distribution.

Due to a chronic drought, the regional government requested that water consumption be reduced 30 % compared to the 2014 benchmark, while envisaging an increase in the price of water. Consequently, VBR implemented an action plan to reduce industrial and domestic water losses, increase internal water recirculation, drill wells and develop internal campaigns to change behavior in order to encourage the saving of water resources, and in particular lower the fixed consumption level. A potential saving of 32 %, reducing water consumption from the public network, was thus identified and by the end of 2015 VBR had already attained a 16 % reduction in its water consumption (2015 average compared to 2014). This led in particular in a €980,000 investment project, which has already been initiated.

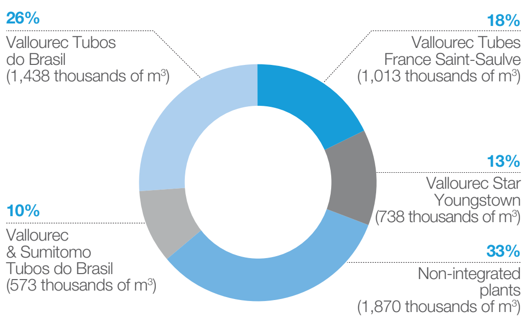
Other noteworthy actions included the following:

- in Brazil, the renovation of the VBR Mineraçao wells and drains with an investment of €770,000 (2015-2016);
- in Changzhou, China, €80,000 were invested to improve rainwater and waste networks;
- in Houston, USA, the water drawing system was modernized with an €180,000 investment.

Lastly, the Valinox Nucléaire networks in Montbard were modified to allow the reuse of rainwater collected throughout the site and stored in dedicated basins.

In 2014, the Group established the full cost of water management for the four integrated steel mill/tube mill sites of VSB, VBR, Youngstown and Saint-Saulve with a specialized provider. These costs, which combine the costs of abstraction, rehabilitation in the natural environment or networks, staff, maintenance, energy, consumables, and amortization and depreciation were higher than original estimates. The resulting specific action plans will be adapted to the Group's new industrial configuration, with the knowledge that a shared cornerstone for improvement consists of developing and establishing "smart" meters at strategic consumption points. This would enable real-time measurements to be taken, and actions to be rapidly implemented, in the event that a shift was noted, because specific knowledge of water consumption and its uses at the sites is a prerequisite for establishing a precise water savings strategy.

Water intake in 2015 by integrated plants (equipped with a steel mill)



THE WATER IMPACT INDEX

Water management is not limited to measuring abstraction in natural environments or municipal networks, or to monitoring the quantity and quality of waste. That is why the Group is tracking and analyzing its "water footprint" thanks to an indicator known as the "Water Impact Index". This indicator takes into account the volumes abstracted and discharged, the quality of the abstracted and discharged water, and stress factors (water scarcity and the hydrological context). The method for measuring the water stress factor was affirmed in 2014 after comparing existing methodologies. Expressed in equivalent m^3 as related to the site's production, it synthetically measures the impact of each site with regard to the available water resources in the basin to which it belongs. A better understanding of the overall impact of using the resources indeed improves the prioritization of actions and investments.

An initial study was conducted in 2012 based on 2011 data, with the participation of a specialized provider, at seven of the Group's sites located in Brazil, the United States, France and Germany. In 2015, calculation of the indicator was repeated at the Group's ten most important sites, from a water resource perspective and based on the 2014 data.

The following sites were analyzed: PTCT in Batam, Indonesia, Vallourec Star in Houston, Vallourec Star in Youngstown (steel and tube mill), Vallourec Tubos do Brasil in Belo Horizonte (steel and tube mill), Vallourec & Sumitomo Tubos do Brasil in Jeceaba (steel and tube mill), Vallourec Deutschland in Rath and Mülheim, Vallourec Tubes France in Saint-Saulve (steel and tube mill) and Vallourec Drilling Products in Tarbes. The sites analyzed represent nearly two-thirds of abstraction. It appears that two of these sites belong to hydrological basins that are subject to water stress.

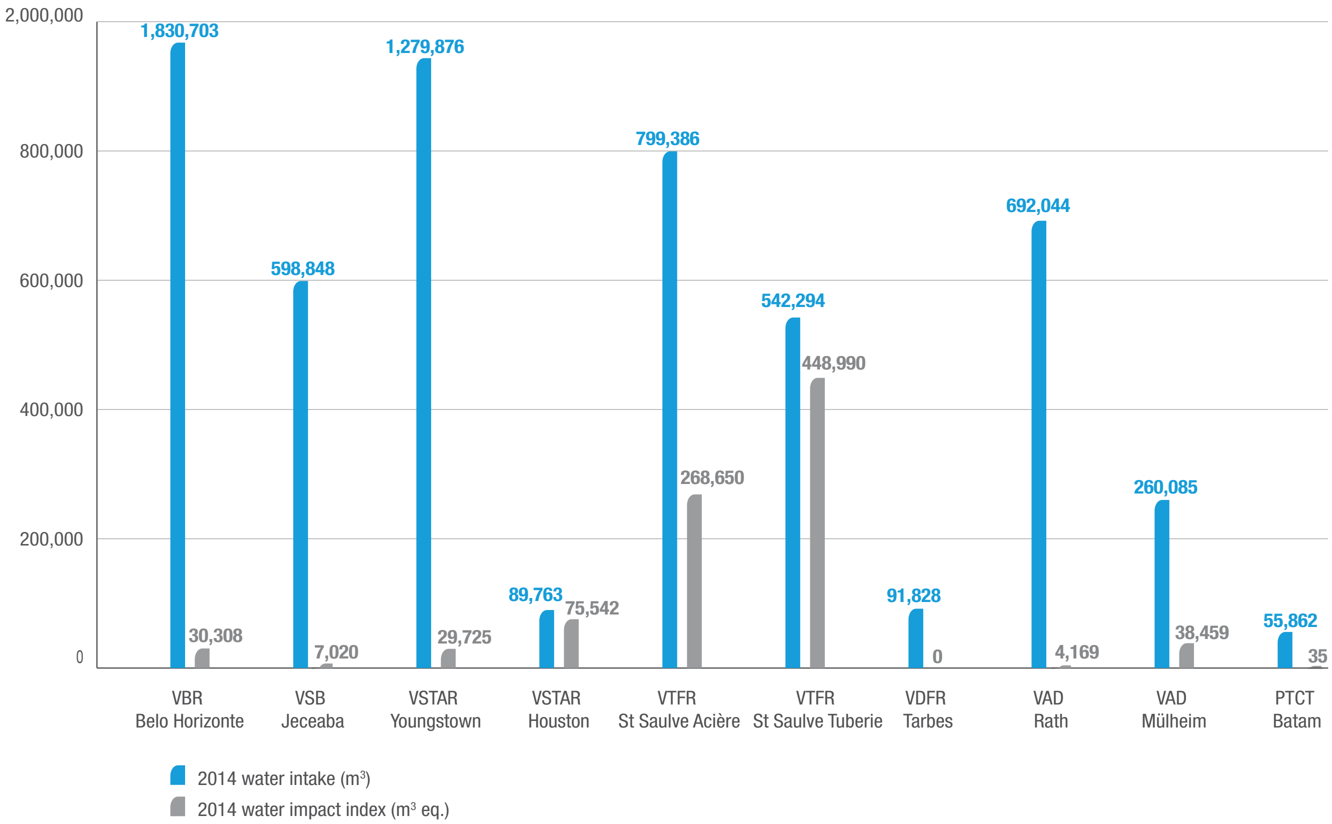
The application of the Water Impact Index demonstrated that the most critical sites were not only those where water abstraction was highest, as the chart below shows.

This chart likewise shows that the equivalent volumes calculated are very low, except for the two sites of Saint-Saulve and Houston, which attests to the Group's responsible water resource management.

An analysis of these reports also suggests areas that need to be improved, along with studies that need to be conducted to improve measurement, reduce abstraction, and improve quality, the recycling rate, and the total cost of managing the resource.

Rainwater collection and its use have already been extensively developed at certain major industrial sites. However, a lack of metering does not allow this to be shown in input, even though it does appear in waste.

2014 water intake and Water Impact Index



4.4.2.4 Energy policy

ENERGY CONSUMPTION

Commitment to responsible performance

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

INDICATOR

kWh/metric ton processed.

2015 OBJECTIVE

Reduce energy consumption to **1,070 kWh/metric ton processed** for all entities within the Group's consolidation scope, excluding pelletization and mines, given the expected 10 % drop in production.

ACHIEVEMENT OF THE 2015 OBJECTIVE

Energy consumption was 2,498 GWh ☑ for natural gas and 1,205 GWh ☑ for electricity, or **1,310 kWh/metric ton processed**.

The Group's energy performance in comparison to the 2015 production conditions cannot be compared to previous years due to the much more significant drop in production level caused by the current oil market crisis, compared to what was used to set the objective. Furthermore, the adaptation measures, such as the reduction of workstations and the prolonged production stoppages, kept fixed consumption at a high level and, consequently, energy ratios per metric ton processed were significantly higher than planned.

2016 OBJECTIVE

Given the new future industrial footprint, the 2016 objective will be set during the year.

In 2015, energy consumption reached €195 million (or 5 % of 2015 revenue), slightly down from the end of 2014 (€249 million), mainly due to the decrease in production level during the period, some long shutdowns for maintenance, as well as foreign currency translation adjustments.

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

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

Energy source	Unit	Renewable Energy	Non-renewable Energy	Total
Electricity purchased	GWh	443	777	1,220
Electricity produced		53	–	53
Natural gas		–	2,628	2,628
Fuel		–	616	616 [(a)]
Charcoal		2,147	–	2,147
TOTAL	***GWH***	**2,642**	**4,022**	**6,664**
Energy consumed	%	40 %	60 %	100 %

(a) Including since 2015, the fuel needed to produce electricity at certain sites, such as PTCT.

Renewables account for 40 % of the energy consumed on a Group scale. This remarkable situation is primarily a result of the energy contained in the charcoal produced by Vallourec Florestal, but also from the hydraulic power that is available in Brazil, from reusing gas from the blast furnaces, and from the tar derived from the carbonization of charcoal to generate power, along with power purchased on other markets from a renewable source. This percentage is up from 2014, thanks to a limited reduction in the supply of Brazilian hydraulic power, despite periods of drought.

THE “GREENHOUSE” PROJECT

In an effort to significantly reduce all energy consumption, as of 2009, the Group established the GreenHouse project, which aims to reduce total gas and power consumption by 20 % by 2020, for an equivalent scope, product mix and level of activity, using 2008 as the reference year. With this project, Vallourec is also acting to promote a “low-carbon” economy, contributing to reducing greenhouse gas emissions.

The GreenHouse project is rigorous in its approach and is supported by Vallourec Management System tools and methodologies (see above). It is one of the levers of the Group’s Energy Policy, published in September 2014, and centers around the following main elements:

- sharing of best practices, led by Practice Communities which include energy and industrial process experts in all energy-related areas (thermal, electrical, compressed air and steam production processes) and the organization of numerous Continuing Improvement Groups acting exclusively in the energy sector to improve the Group’s performance. Seven objectives on the different aspects of energy efficiency have been drafted and issued as a working document for the continuous improvement groups;
- numerous “quick wins” as a specific result of the actions in question;
- the introduction of thermal balances and energy audits:
  - thermal balances to date, covering over 80 % of the Group’s furnaces. The furnace performance analysis helps to identify areas for improvement and to propose investments to increase energy efficiency, such as the installation of regenerative burners, steam heat recovery systems and better insulation,
  - energy audits at the Group’s major sites identify the equipment or workshops that use the most energy and prioritize future actions. It should be noted that certain sites meeting certain criteria were legally required to conduct an initial audit of their energy use prior to 5 December 2015 pursuant to EU Directive 2012/27 relating to energy efficiency; those that were already ISO 50001 certified were exempt from this obligation ;
- a self-assessment system for sites controlled by the project leaders.

The drop in production in 2015 (- 39 % metric tons of output) naturally led to an approximate 34 % drop in the energy consumed in the form of gas and electricity, amounting to 3703 GwH. Specific consumption increased, but proportionately less than the drop in production (see above).

Energy consumption per metric ton processed ☑ was thus 884 kWh/t for gas and 426 kWh/t for electricity (681 kWh/t and 340 kWh/t respectively in 2014), excluding mines and the pelletization unit, or an increase in specific consumption of “only” 28 %.

The energy performance for each year was calculated using straight-line model of consumption, taking into account the production volume and mix effect represented by the percentage of heat treatment compared to the 2008 reference year. Production levels and the organization of production (periods of stoppage and work at a given post) for 2015 do not allow such a model to be used. It is thus difficult to determine the Group’s intrinsic energy performance in 2015, even though the actions at the site level continued to produce effects.

Consequently, given that the Group's industrial footprint will be considerably modified in 2016, it will no longer be possible to refer to the 2008 consumption conditions. A new 2020 objective will thus be established in 2016 based on new assumptions.

THE VALLOUREC ENERGY MANAGEMENT SYSTEM

To take this to the next level and incorporate sustainable energy management into industrial processes, the Group developed the Vallourec Energy Management System based on the methodology of the GreenHouse project and international energy efficiency standard ISO 50001.

As mentioned in its Energy policy, Vallourec promises to certify its primary production facilities under ISO 50001. The sites at the Vallourec Tubos do Brasil, Vallourec Oil & Gas UK, Vallourec Tubes France Saint-Saulve and Aulnoye, Vallourec Deutschland, Valinox Nucléaire France and Vallourec Changzhou plants, for example, were already certified as at 31 December 2015 and represented 47% of production. Other sites have engaged in the same process, and work groups are underway in France, China and Indonesia to obtain ISO 50001 certification in 2016.

The success of the processes, and the sustainability of their results in particular, depend on:

- energy efficiency training: several hundreds of operators were trained in dedicated energy efficiency sessions in France, Brazil and Scotland, with experts from each site.

  Since 2013, Vallourec University, partnering with EDF (Electricité de France), has developed, under a progress initiative aimed at Energy Demand Management ("EDM"), an energy management specialist training program with the aim of improving the technical expertise of the staff in charge of energy efficiency at its French sites. More than 50 specialists have already been trained. The training is given in various technical disciplines, such as compressed air, thermal combustion, industrial cooling, lighting, mechanization and renewable energy;
- a real time metering system, known as "Advanced Metering Management", was implemented at the largest sites in Brazil, France, Germany, Scotland and the United States.

EXPANSION OF ENERGY PERFORMANCE RESEARCH

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

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

4.4.3 Impact and emissions

4.4.3.1 Air quality

To preserve the quality of the air surrounding its plants, the Group systematically measures the levels of atmospheric emissions and implements appropriate solutions to limit each type of emission. The emissions produced by plants are vapors and particles.

VAPORS

- Nitrogen oxide emissions (NO_X) come from furnaces for steel billets and from the heat treatment of tubes. To limit these emissions, all furnaces are fired by natural gas, which is low in emissions, and every year some of the older burners are replaced by "low-NO_X" burners that meet the highest technical specifications for this type of emission. In 2015, there were 485 metric tons of NO_X (729 metric tons in 2014).
- Emissions of volatile organic compounds (VOCs) come from our facilities for tube lubrication, lacquering and painting, and for degreasing and cleaning tubes and machinery parts. They also come from oily vapors from rolling or cold-forming facilities and machine tools. In 2015, the nominal VOC emissions, in other words before retention and filtration, are estimated at 460 metric tons (603 metric tons in 2014). Atmospheric emissions are thus quite a bit lower, and the measures taken show that the emissions comply with the applicable regulations. Actions are put in place every year to reduce VOC emissions at source; these action plans consist of eliminating emissions by using substitute products without VOCs, by coordinating with product suppliers and, if this is impossible, channeling and treating emissions.

  After the progress of these last few years, the main source of the Group's VOC emissions is linked to the temporary protection of OCTG tubes. The effects from limiting VOC emissions in future years will concern the corresponding facilities. Therefore, Vallourec Oil and Gas France made an investment to move towards an aqueous method for the "casing" line. Although the new facility was validated for quality, "marketing" aspects of the project still need to be validated before production actually begins.
- As concerns vapors from surface treatments, facilities are equipped with a treatment and retention system in compliance with applicable regulations.

	2011	2012	2013	2014	2015
VOC emissions *(kg/metric ton processed)*	0.11	0.10	0.09	0.11	0.17
NO_X emissions *(kg/metric ton processed)*	0.13	0.13	0.13	0.13	0.17

The quantity of VOC per total metric ton processed by the Group is nevertheless increasing, due to the fact that the sources of emissions primarily concern Oil & Gas products, and the temporary protection processes, which are less affected by the drop in activity.

PARTICLES

- The main potential sources of particle emissions are steel mill furnaces. Every year, retention systems are improved to continuously reduce the corresponding emissions. For example, in the Vallourec steel mill in Saint-Saulve, which emits dust, in particular during scrap melting in its electric arc furnace, the roofing of the building housing this furnace is enclosed and the dust is drawn up to the baghouses, with an efficiency of more than 99 %, and is then used within the zinc industry. As baghouses do not have an absolute performance level, a low quantity of dust is nevertheless emitted into the environment through the chimneys. The steel mill has measured the impact of dust dispersal and fall-out around its site.
- The conditions for placing refractories in bags were also modified with a view to avoiding the generation of dust. In Youngstown, since the installation of the dust extractors, the working environment has considerably improved. Particle retention is very efficient and abstractions show that the heavy metal content released (chrome, lead, nickel, etc.) is well below the authorized limits.
- Tube mills and finishing plants also produce dust from facilities for hot rolling, grinding and polishing tubes. Processes for sealing, aspiration and filtering are incorporated into the machinery to collect dust at source. Where necessary, these systems can be supplemented by aspiration devices and filters on the roof to capture diffused emissions.
- Trucks, cars and other handling equipment circulating outside the buildings are also a source of dust emissions. To ensure that personnel and neighbors are not inconvenienced by dust clouds, the road surfaces are coated with concrete or polymers.

4.4.3.2 Soil

FRENCH FACILITIES

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

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

Vallourec Drilling Products in Cosne-sur-Loire continued to treat the areas of soil and groundwater contamination on the site.

FACILITIES IN OTHER COUNTRIES

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

In Brazil, the only potential risks relate to the Barreiro plant in areas of the site previously used to store waste. A depot formerly used to store slag (a by-product of the steelmaking process) and a former sludge depot were upgraded and a piezometric sensor-based groundwater monitoring system was introduced. A program to upgrade a former solid industrial waste storage site (wood, plastic, scrap, etc.) was launched in 2004. Its progress is in line with the commitment made to the authorities. Nearly €10 million will have been spent (€8.5 million at the end of 2015, and €1.5 million planned for 2016) to remove polluted soil and have it incinerated. A second section of work, currently being studied, will begin in 2017, to redo the earthwork and drainage of roads.

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

4.4.3.3 Waste and by-product management

Commitment to responsible performance

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

INDICATOR

Percentage of waste recovered.

2015 OBJECTIVE

Reach the rate of **94.5 % of waste recovered** for the Group's full consolidation scope.

ACHIEVEMENT OF THE 2015 OBJECTIVE

The rate of recycled waste reached ☑ **94.8 %** beyond the objective set.

2016 OBJECTIVE

Given the new future industrial footprint, the 2016 objective will be set during the year.

As with all industrial activities, the Group generates significant quantities of various types of waste. In 2015, the Group generated 466,815 metric tons of waste (669,914 metric tons in 2014), 6.1 % of which was hazardous (6.1 % in 2014).

The key indicators for their management, which now include VSB and the new Youngstown tube mill, are as follows:

	2010	2011	2012	2013	2014	2015
Waste *(k of metric tons)*	629	666	655	626	669	467
% waste/production processed	13	13	13	11	12	17
% hazardous waste	9.5	7.4	7.7	8.6	6.1	6.4
% recovery	86	89	91	92.7	93.5	94.8

Due to the drop in business, the volume of waste has decreased significantly, by 31 %. Nonetheless, the actions conducted in 2014 continue to be beneficial and have enabled a 94.8 % recycling rate to be achieved. The breakdown of product waste appears below.

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

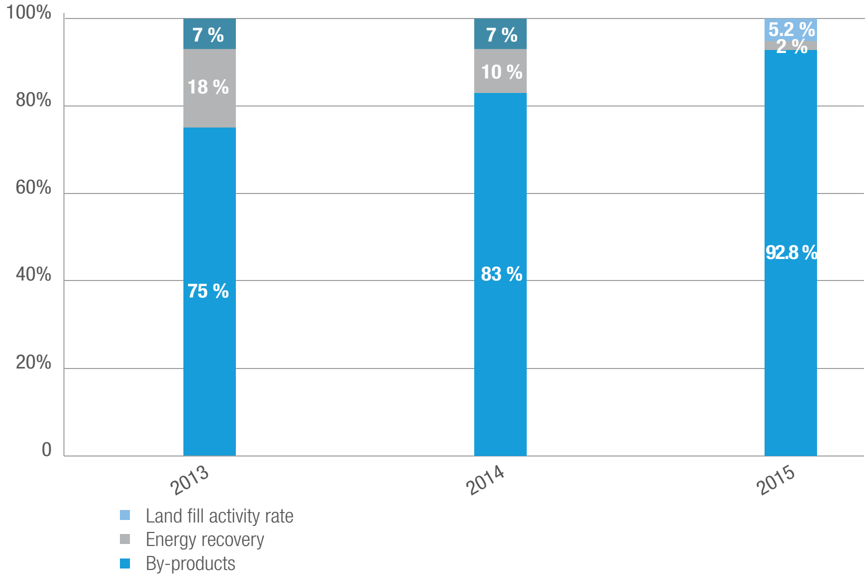
The "By-products" project

Waste management is a major economic and environmental concern for the Group, which considers that most such waste should now be treated as value-added by-products ("by-products") and generate operating revenue. This is the objective of the "By-products" project.

Waste is now understood as a resource to be exploited rather than an unfortunate consequence of production. Depending on its origin and type, it is managed and treated differently in accordance with local regulations, with maximum emphasis on recycling of materials or energy recovery. As the expenses linked to eliminating waste are fairly considerable, it is pleasing to note that the net cost of waste elimination (external expenses less sales income) in relation to metric tons of waste, which had decreased 35 % in 2014 compared to 2013, was almost flat in 2015.

In a spirit of continuous improvement, all waste categories are monitored monthly by each site with the aim of reducing volumes. The percentage of recycled waste in the form of material (by-products) was 92.8 %, that of waste burned to produce energy 2 %, and that of landfill waste 5.2 %.

Waste by end-use



The main levers of progress under the “By-products” project are as follows:

- reduction of waste volumes;
- identification, consolidation and optimization of output for process sludge (from rolling and surface treatment), metallic residues, scale and dust;
- identification of the best channels for recycling blast furnace slag sold to the cement industry, and the sale of metallic waste under multi-year contracts;
- increase in the recovery rate by favoring a recovery of materials rather than energy. VRB and VSB, after tests in 2013, have been using blast furnace sludge as a source of enrichment for the soil in eucalyptus forests, and as raw material for the ceramic industry (more than 29,000 metric tons). It should also be noted that the VBR steel mill sludge is now 100 % recycled, using iron ore particles to manufacture “sinter feed” (9,000 metric tons).

As an example, in 2015 the local teams opened new waste management channels and generated additional revenue by:

- choosing providers according to the type of waste and method of recovery: zinc process for steel mill dust (Saint-Saulve), the use of process sludge and scale by the cement industry (Germany);
- in Brazil the use of certain waste at the pelletization level resulted in savings and, thanks to the optimization of the waste zone structure, VBR reduced the corresponding transportation costs;
- the Saint-Saulve steel mill renegotiated the slag recovery contract with its supplier in order to direct their use towards the most pertinent process according to the technical characteristics of slag, and to increase transparency, although given the weak level of production and the scheduled sale of the steel mill, this interesting initiative was not implemented;
- in France, tube mills optimized the drying of sludge in order to reduce the tonnage to be processed.

HAZARDOUS WASTE TREATMENT

Posing a risk to health and the environment, hazardous waste (classified as such due to the hazardous substances it contains) is subject to special treatment. The percentage relating to all waste, i.e. 6.1 %, has remained constant since 2014.

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

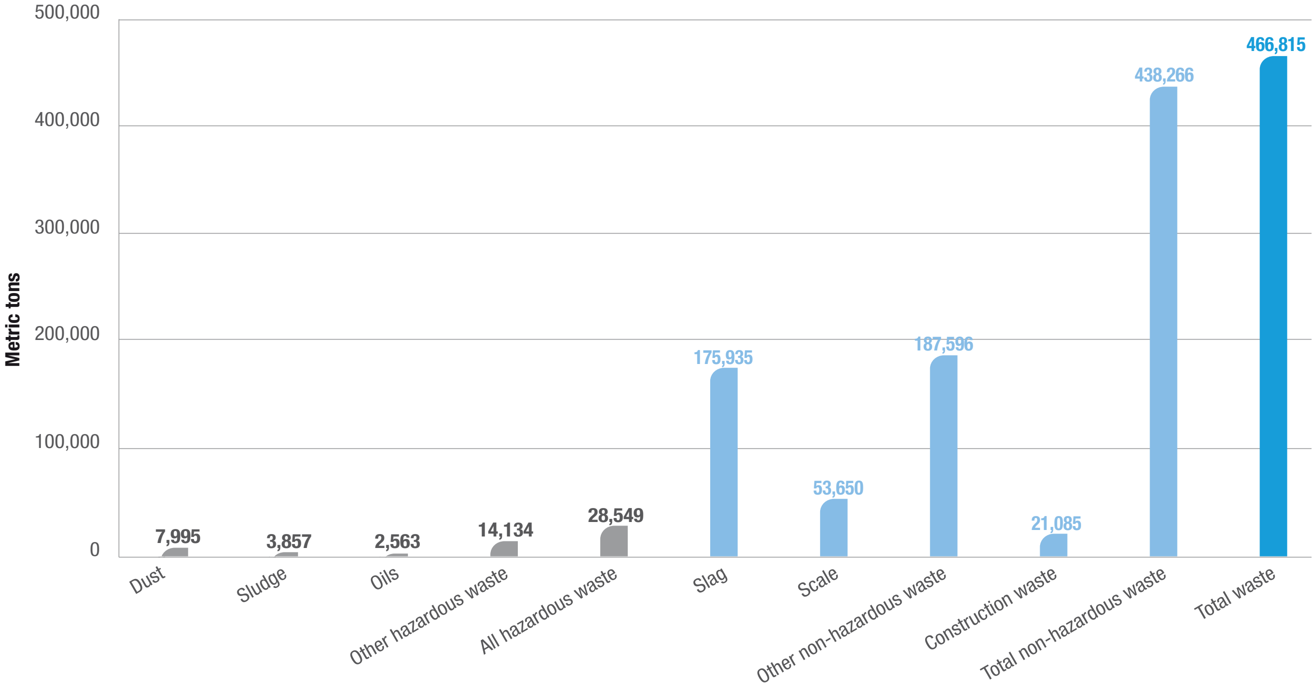
- organic waste (sludge, oils); and
- solid mineral waste (dust).

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

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

WASTE QUANTITY

The waste generated in 2015 is broken down as follows:



4.4.3.4 Noise

Among actions to continue preventing noise pollution, in January 2012 the Sustainable Development Committee defined a noise action plan. This approach is now part of the discussion conducted by the Group in accordance with the Sustainable Development strategic 5-year plan to increase attention paid to employee health by formalizing a Health policy in 2016.

The Group's activities inevitably involve noise. The noise arises from various sources: steel mill furnaces, the cutting and storage of steel bars, the impact between tubes and steel-rolling processes. Several types of action are in place to limit noise, reduce it as far as possible or eliminate it entirely.

Vallourec's intent is thus to protect its employees and also to better respect the environment of the sites.

To determine noise levels, the first task is to identify, measure and analyze the sources of noise. Depending on local constraints, these measurements are taken internally, at the edge of the site, or at neighboring properties, if the plant is situated close to a residential area. At certain sites, very elaborate systems have been installed. They allow noise to be measured at very precise locations and to determine its source. Simulation software is often used to assess the reduction of noise levels that various insulating systems might provide.

The most effective actions are those that allow noise to be reduced at its source. For example, some plants replace pneumatic movement commands by hydraulic movement commands or incorporate rubber between tubes to avoid a much noisier direct impact. Similarly, the tubes are cleaned with Venturi-type nozzles instead of standard nozzles.

If source noise reduction is too much of a constraint or impossible, other actions can be undertaken, such as setting up barriers, containing the machinery or building soundproof walls. To limit the impact of noise on employee health, the Group's plants provide staff with earplugs and make their use a strict requirement in certain work areas. For greater comfort, the earplugs are custom-fitted. They filter certain frequencies to allow people to communicate while substantially reducing the noise from machinery. Employees at risk undergo regular medical checks for very early detection of any hearing loss.

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

- establishing noise maps on the most critical and representative sites of sound levels in different workshops and staff exposure based on their number and the length of time spent working in the areas concerned;
- analyzing and improving behaviors in the workshops;
- referring to best practices for new investments and refittings;
- improving employees' and providers' work conditions;
- reducing disturbance caused to local residents;
- favoring group protection over individual protection measures.

In 2015, 80 % of sites completed noise mapping for both workshops and for outside when local residents live nearby. 50 % of them completed dosimetric measurements. The frequency with which interior or exterior measurements are repeated is, however, still insufficient.

The Capex committee's monthly meeting is also a time to check that the "noise" problem has been taken into due consideration, before authorizing any investment.

During these past three years, a number of specific actions were carried out:

- the partnership with an external provider, an acoustic specialist, established in 2013, continued with a view to performing environmental measurement operations along with workshop measurement operations (dosimetry and mapping). It will be renewed in 2016;
- the work continued in Germany at the Rath site, replacing plasticized surfaces with glass ones at the roof vents. This was at a cost of €400,000 (2015-2016). The gain was approximately one decibel;
- establishment of a system to measure urban background noise at Valinox Nucléaire Montbard for €74,000;
- acoustic insulation of control rooms within VSB;
- replacement of siding (multilayer sandwich with rock wool) at the Saint-Saulve steel mill, and extension of the landscaped ridge (11 m high) between the site (steel mill and tube mill) and the village. Creation of an acoustic chamber around a noisy machine in the "Umbilicals" workshop at Laumes;
- creation of an anti-noise wall in Tarbes.

4.4.4 Climate change

4.4.4.1 Greenhouse gas emissions (see detailed table in Appendix 5)

ANALYSIS OF EMISSIONS

Reducing greenhouse gases and, first of all, being aware of one's emission level, is a goal for Vallourec.

1. The principal action for 2015 in this area was to complete a detailed analysis of the carbon cycle for the forest operated in Brazil, which was conducted with the assistance of university and institutional experts.

   The aim of this study, which has been underway for several years, was to provide evidence that the Company had managed the forest in question responsibly from a carbon emissions standpoint, and that it had a sound methodological basis that would allow it to estimate the emissions with sufficient precision, and, correspondingly, to set a medium-term objective, which has not yet been done.

   The forest area operated by VBR consists of a so-called native forest, which represents approximately one third of the surface area. It is kept as is, while the other portion is cultivated. Every year, about one-seventh of the cultivated forest is cut down for the production of charcoal, and that area is then immediately replanted. As they grow, trees absorb CO_2. The trunks of harvested trees are transformed into charcoal, with a high carbon content, in furnaces designed for that purpose. The charcoal then enters the cast iron manufacturing process needed to manufacture steel in addition to iron ore. This process, which leads to the combustion of charcoal, results in CO_2 emissions. Until now, the generally accepted assumption of the profession in Brazil was that this CO_2 was gradually reabsorbed by the forest during its growth, through the photosynthesis mechanism.

   The aim of the study in question was to specify, over a long period, the quantity of carbon put into play from the two-fold perspective of measuring stock and measuring the intake of carbon and greenhouse gas, taking into account initial deforestation operations. It was conducted by the Sustainable Development Department of VBR, with the assistance of the University of Lavras, Professor Caetano of the University of Viçoza, and with the participation of Prof. Sampaio as an expert consultant from the SR office of the GeoConsult consultancy firm, all under the methodological control of the National Forests Office.

   The study considered the scientific research and data that have been available for the past 30 years, and in particular used the public aerial surveys, which allowed the scope and nature of the native or exploited forest to be reconstituted over this period.

   Particular care was taken, firstly in calculating the emissions at each stage in the processes of exploiting the forest and carbonization, using the scientifically recognized methods, and secondly, with regard to analyzing the phenomena of carbon sequestration in the atmospheric and underground biomass. The study lastly concerned the role of soil from the viewpoint of carbon retention, thanks in particular to on-site measurement initiatives on various kinds of soil, and around stumps and roots of trees at various states of growth. This study will be made public once it is finalized.

   In essence it shows that, for the 1983-2013 period, the forest sequestered 29.6 million metric tons of CO_2 equivalent, after taking into account the particular power of methane as a greenhouse gas emitted during carbonization. It also shows that, after considering the CO_2 emissions during the cast iron manufacturing process in the blast furnaces, the net sequestration over this period is 7.4 million metric tons per year, or on average 250 metric tons per year; even though, until now, due to the conservative assumptions adopted, the estimated annual analysis used an emissions level of approximately 300 thousand metric tons.

   Based on this information, it was thus possible to redefine a method for calculating the carbon analysis of the forest/blast furnace system that was used to establish the Group's carbon analysis in 2015.

2. This analysis is presented in summary form as follows:

Simplified carbon analysis

Type of emissions	2010	2011	2012	2013	2014	2015
Process emissions (scope 1) *(in thousands of metric tons)*	961	1,051	1,008	1,126	1,273	2,902.2
Total sequestration (scope 1) *(in thousands of metric tons)*						- 3,275.7
Total direct emissions in thousands of metric tons (scope 1) *(in thousands of metric tons)*	961	1,051	1,008	1,126	1,273	- 373.5 ☑
Indirect emissions in thousands of metric tons (scope 2) *(in thousands of metric tons)*	451	463	508	580	696.6	422.8 ☑
Indirect emissions in thousands of metric tons (scope 3) *(in thousands of metric tons)*	2,886	3,034	2,963	3,195	2,889.9	1,782.9
TOTAL EMISSIONS *(in thousands of metric tons)*	**4,298**	**4,548**	**4,479**	**4,901**	**4,859**	**1,832.2**
Specific emissions *(in kg/metric tons processed)*	926	879	903	899	882	648

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

The Group uses the EAF (Electric Arc Furnace) manufacturing process, which emits low levels of CO_2at three of its steel mills: Saint-Saulve (France), Youngstown (United States) and Jeceaba (Brazil). This industrial characteristic is, in addition to the sequestration phenomenon described above, one of the important reasons why the emissions have always been moderate, and even appear to be negative today as concerns scope 1.

In terms of scope 2, the indirect emissions resulting from the consumption of electric energy used decreased by nearly 40 % due to the drop in production in the United States and the high carbon content of this energy.

The emissions from scope 3 also decreased by approximately 40 % due to the reduction in steel purchases and the production of industrial waste, which are natural consequences of the drop in the Group's production.

3. With a negative ratio of direct CO_2 emissions per metric ton processed (or per gram of CO_2 per euro of sales), Vallourec is now in an exemplary position as compared to other industrial groups of similar size. In 2016, and given its future new industrial footprint, the Group will establish and publish its emissions objectives for the upcoming years for Scopes 1 and 2.

This is pursuant to the commitment made as part of preparing for the COP 21 as a signatory to the initiative that was launched by 80 international businesses, the so-called "business proposals in view of a 2015 international climate change agreement at COP 21 in Paris" during the Business Climate Summit on 23 June 2015.

Lastly, since 2013, Vallourec has sought to enhance its public reporting in line with the "Carbon Disclosure Project". Its evaluation in terms of transparency and performance has improved, since its ratings between 2012 and 2015 respectively went up from 63 to 98, and from D to C. The results of the study mentioned above, and the publication of carbon objectives should contribute to further raising the rating given regarding our commitment to of a low-carbon economy.

EMISSION REGULATION SYSTEMS

The Saint-Saulve steel mill comes under the scope of the European Directive of 23 April 2009 on the system for the trading of greenhouse gas quotas (ETS – Emissions Trading System) within the European Community. In 2015, the steel mill's allowance was 66,714 metric tons (67,929 metric tons in 2014). Estimated emissions in 2015 of 39,394 metric tons were lower than the allowances for the year as well as those of 2014. This latter improvement is related to a level of production of the steel mill which is below the nominal capacity of the steel mill and to improvements in energy efficiency.

As from 2013, both French and German tube mills and the Vallourec Drilling Products site in Aulnoye have fallen within the scope of Directive No. 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing the European Community Emissions Trading Scheme for the third period. In 2015, allowances for all tube mills totaled 366,443 metric tons, while emissions during the period were estimated at 218,512 metric tons.

It should also be noted that the substantial reduction in the European industrial footprint will necessarily have the effect of modifying the amount of free allowances from which the Group has been able to benefit to date.

The impact of the mechanism on the Group's activity is not limited to consideration of its own emissions. European electricity suppliers are obligated to fully cover their CO_2 emissions with emissions rights, although it is not easy to measure the corresponding impact on the price of electricity supplied. Furthermore, steel suppliers and, in particular HKM, which uses the cast iron coke-ore process, are also obligated to purchase emission quotas. Therefore, given the current low price of these emission quotas, the full impact of the ETS system provisions on the Group's operating costs was almost zero in 2015.

In Brazil, the "Clean Development Mechanism" (CDM) project for power generation from natural gas-fired blast furnaces, which generated more than 170,000 metric tons of CO_2 in carbon credits between 2006 and 2015, was renewed by the relevant UN bodies. The plan to reduce methane emissions, thanks to a better carbonization process, was also approved by these same bodies and affects a total amount of nearly 200,000 metric tons of CO_2 equivalent.

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4.4.4.2 Adaptation to the impact of climate change

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

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

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

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

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

4.4.5 Biodiversity

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

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

4.4.5.1 Actions conducted in Brazil

- The Brazilian subsidiary Vallourec Tubos do Brasil runs the environmental education center in Barreiro, on the outskirts of Belo Horizonte. This 20-hectare center includes three ecosystems: the "cerrado" (savanna), the transitional vegetation, and the "mata atlantica" (Atlantic forest).
- Brazilian subsidiary Vallourec Florestal carries out forestry activities for the production of charcoal, which is used as a source of energy in Brazilian steel mills. It conducts plant and wildlife monitoring programs in cooperation with the universities of Minas Gerais and Lavras, the aim of which is to measure the impact of activities on the natural environment and to establish appropriate management measures with a view to preserving and balancing biodiversity. The maintenance of "ecological corridors" guarantees the free circulation of animals. The Company thus plays a fundamental role in nature conservation, protecting the region's natural ecosystems. With the help of cameras, a monitoring program has identified hundreds of bird species and dozens of mammal species, some of which are endangered.
- Vallourec Mineração performs mining activities in the city of Brumadinho, around 50 kilometers from the Barreiro industrial complex. In order to better control its activities' impact on the natural environment, Vallourec Mineração regularly monitors the biodiversity of its site as well as neighboring areas. A 200-hectare reserve has also been established in the Atlantic forest to serve as a conservation area for numerous animal species (for example, the 148 different bird species that have been counted there).

  The Company also pays special attention to the environmental rehabilitation of mining areas. In 2008, 167,000 m^2 of land used for mining were rehabilitated by planting species native to the region. These areas are now covered with a wide variety of trees, grasses and legumes.
- For several years now, the Group has contributed to the Tamar project, which aims to protect the giant sea turtles in the Ubatuba region on the northeast coast of Brazil. This project, which has been on-going for more than 20 years, has saved more than 5,000 specimens and created a scientific research and training center.

4.4.5.2 Plan for a new test center at Aulnoye-Aymeries

In France, the environmental studies conducted as part of the plan to extend the Aulnoye-Aymeries test center have continued. They have in particular led to the removal and transfer from a number of stations of a protected plant species, in accordance with an action plan approved by the authorities. Protection of the existing ecosystem is also expanding, notably with the establishment of semi-watertight barriers which insulate operating activities from the wasteland used by the protected species of amphibians and reptiles. The oversight plan established in 2014 confirms the effectiveness of the measures taken.

4.4.5.3 Actions taken in Indonesia

For several years, PT Citra Tubindo has been planting trees, specifically fruit trees, and has maintained a mangrove close to the facilities. In 2015, with the help of about 100 local volunteers, more than 1,000 seedlings were planted in the mangrove to develop it. These actions slow coastal erosion, halt the penetration of saltwater towards the interior, and protect the shores from storms, as well as enabling carbon to be retained, and the toxic products contained in the water to be absorbed. These actions are supported by the local populations, academic institutions and students.

APPENDIX

Appendix 1 – Report by one of the Statutory Auditors, appointed as Independent Third Party, on the consolidated Corporate Social Responsibility information presented in the management report

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

To the Shareholders,

In our capacity as Statutory Auditor of Vallourec S.A., appointed as Independent Third Party, accredited by the COFRAC under number 3-1049 (1), we hereby present our report on the consolidated Corporate Social Responsibility information (hereinafter the "CSR Information") for the year ended 31 December 2015, presented in the management report. This report has been prepared in accordance with Article L.225-102-1 of the French Commercial Code *(Code de commerce).*

RESPONSIBILITY OF THE COMPANY

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

INDEPENDENCE AND QUALITY CONTROL

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

RESPONSIBILITY OF THE STATUTORY AUDITOR

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

- attest that the required CSR Information is presented in the management report or, in the event that any CSR Information is not presented, that an explanation is provided in accordance with the third paragraph of Article R.225-105 of the French Commercial Code ("Statement of completeness of CSR Information");
- express limited assurance that the CSR Information, taken as a whole, is presented fairly, in all material respects, in accordance with the Guidelines ("Opinion on the fairness of CSR Information");
- at the request of the Company, provide reasonable assurance, that information selected by the Group and identified by the symbol ☑ in the management report is fairly presented, in all material respects, in accordance with the Guidelines ("Reasonable assurance on a selection of CSR information").

Our work involved the expertise of six people between September 2015 and February 2016 and lasted a total of approximately eleven weeks. We were assisted in our work by our specialists in corporate social responsibility.

We performed the procedures below in accordance with professional auditing standards applicable in France, with the decree dated 13 May 2013 determining the manner in which the independent third party should carry out his work, and with ISAE 3000 (2) concerning our opinion on the fairness of CSR Information.

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

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

1. Statement of completeness of CSR Information

Nature and scope of the work

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

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

For any consolidated information that was not disclosed, we verified that the explanations provided complied with the provisions of Article R.225-105, paragraph 3 of the French Commercial Code.

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

Conclusion

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

2. Opinion on the fairness of CSR Information

Nature and scope of the work

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

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, impartiality and understandability, taking into account best practices, where appropriate;
- verify that a data collection, compilation, processing and control process has been implemented to ensure the completeness and consistency of the CSR Information and review the internal control and risk management procedures followed to prepare the CSR Information.

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

The CSR Information that we considered to be the most important is presented in the table below:

- at parent entity level and sites level, we consulted documentary sources and conducted interviews to substantiate the qualitative information (organization, policy, action), we performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and consolidation of the data. We also verified that the data was consistent by cross-checking it with other information in the management report;
- at the entity level for a representative sample of entities selected [(1)] on the basis of their activity, their contribution to the consolidated indicators, their location and risk analysis, we conducted interviews to verify that the procedures were followed correctly and to identify any undisclosed data, and we performed tests of details, using sampling techniques, in order to verify the calculations made and reconcile the data with the supporting documents. The sample thus selected represents 54 % of the workforce and 18 % of the environmental quantitative information presented.

(1) Labor information excluding safety: PTCT Batam (Indonesia), VCHA Changzhou (China), Palier France, VBR Barreiro (Brazil), VSB (Brazil).

Environmental information: PTCT Batam (Indonesia), VCHA Changzhou (China), VBR Barreiro (Brazil), VSB (Brazil), Vallourec Star Youngtown (United States), VAD Rath Plug Mill (Germany), VAD Rath Pilger Mill (Germany).

Safety information: PTCT Batam (Indonesia), VCHA Changzhou (China), VBR Barreiro (Brazil), VSB (Brazil), Vallourec Mineraçao (Brazil), Vallourec Star Youngtown (United States).

Social indicators	Level of assurance
Headcount as at 31/12	Reasonable
Breakdown of the workforce by age, gender and geographical area	
Hirings	
Departures	
Frequency rate of workplace injuries with lost days	
Percentage of managers who received a performance interview	
Absenteeism rate	
Severity rate of workplace injuries	Limited
Number of employees having participated in a training session	
Number of training hours	

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

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

Qualitative information	
Labor topics	› Organization of social dialog, notably information procedures, staff consulting and negotiation › Health and safety conditions at work › Training policies implemented
Environmental topics	› The organization of the Company to integrate environmental issues and, if appropriate, the assessments and certification process regarding environmental issues › Water consumption and water supply according to local constraints › Energy consumption and measures implemented to improve energy efficiency and renewable energy use › Greenhouse gas emissions
Societal topics	› Territorial, economic and social impact of Company activity on local populations › Terms for entering into a dialog with people or organizations interested in the Company's business › Consideration, in the relationship with subcontractors and suppliers, of their social and environmental responsibility

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

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

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

Conclusion

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

3. Report of reasonable assurance on a selection of CSR Information

Nature and scope of the work

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

The sample selected thus represents between 54 % and 100 % of the workforce, and between 39 % and 71 % of the environmental quantitative information identified by the symbol ☑ presented.

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

Conclusion

In our opinion, the CSR Information selected by the Company and identified by the symbol ☑ in the management report, was fairly presented, in all material respects, in accordance with the Guidelines.

Paris La Défense, XX March 2016

KPMG S.A.

Catherine Porta

Partner

Philippe Arnaud

Partner

Climate Change and & Sustainable Development Department

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

Environmental results of Vallourec Mineração and of the VSB pelletization unit

2015 results		Unit	Vallourec Mineração	Pelletization unit Vallourec & Sumitomo Tubos do Brasil 56 %
Production		Metric tons	4,226,898	483,338
Natural gas		kWh	–	130,351,453
		kWh/t	–	269.6
Electricity		kWh	39,994,954	28,054,913
		kWh/t	9.4	58.04
Water intake	Water tables	m^3	3,197,460	–
	Surface	m^3	220,156	212,378
		m^3	3,417,616	212,378
	TOTAL	**m^3/metric ton**	**0.81**	**0.44**
Discharged water		m^3	–	12,502
		m^3/metric ton	–	0.03
Waste generated	Non-hazardous	Metric tons	247	10,996
	Hazardous	Metric tons	104	236
		Metric tons	351	11,232
	TOTAL	**kg/t**	**0.08**	**23.24**
Recycled waste	Not recycled	Metric tons	56	348
	Recovery rate	%	83.9	96.9
CO2 emission$_s$	Scope 1	metric tons of CO_2 equiv.	16,633	24,131
	Scope 2	metric tons of CO_2 equiv.	5,350	3,753
		metric tons of CO_2 equiv.	21,983	27,884
	TOTAL	**kg of CO_2 equiv./metric ton**	**5.2**	**57.7**

Vallourec Mineração Ltda operates the Pau Branco mine, located in the towns of Nova Lima and Brumadinho in the state of Minas Gerais. The Pau Branco mine has a total area of 1,373 hectares, 32 % of which is an industrial area, 20 % of which is an environmental protection region, and 48 % of which is unused space.

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

Appendix 3 – Methodological note

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

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

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

GUIDELINE INDICATORS

Vallourec defined its guidelines by reproducing the list of CSR information that appears in Article R.225-101-1 of the French Commercial Code *(Code de commerce)*. See concordance table below. Other indicators were constructed based on those published by the Global Reporting Initiative (GRI), which proposes CSR reporting indicators for global companies.

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

Social indicators are also the subject of a precise and standardized Group-wide definition, and covered by a detailed procedure.

- Indicators related to workforce and hours

  The data is automatically collected by the GatheringTools system, and then sent to several SIRH tools, including Qbik (consolidating and management of social data). The Human Resources Department collects this data, which goes through an on-site correspondent.

- Training-related Indicators

  The data is collected in the LMS (Learning Management System). Calculation and consolidation are completed by the Group Training Department: the Vallourec University Department.

REPORTING SCOPE

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

1. industrial sites. The following are thus excluded from environmental reporting: the IT Europe data center in Saint-Saulve, the administrative offices and headquarters, and all sales offices. Research centers are also excluded, with the exception of Vallourec Research Center France, whose activity is more varied. As for the consolidation of safety indicators, all sites are included, with the exception of small sales offices;
2. sites belonging to Vallourec for more than six months. This rule is to be considered when a disposal or acquisition occurs;
3. sites with active industrial operations during the year. This excludes construction sites that have not been in operation for at least six months, a circumstance which did not arise in 2015;
4. sites for which Vallourec owns more than 50 % of the voting rights. Conversely, the sites for which Vallourec has a non-controlling interest are not included in the reporting scope (the case with the HKM steel mill in Germany and the Tianda tube mill in China, both of which are 20 % owned);
5. in light of its size, Vallourec & Sumitomo Tubos do Brasil, 56 % owned by the Group, is consolidated on a proportionate basis for environmental data;
6. the social reporting scope includes companies belonging to the tax consolidation scope. Workforce numbers are 100 % consolidated.

CONSOLIDATION PRINCIPLES

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

Consolidation and auditing

Environmental indicators are consolidated and audited monthly by the Sustainable Development Department (timeliness, fairness, completeness). In case of doubt or inconsistency, the sites involved are questioned and must provide a sufficient explanation to clarify the given indicators, as well as the achievement or shortfall of the targets set for the year. This step is essential to ensure the quality of the reports and the integrity of the indicator monitoring system within a continuous improvement process. In addition, to verify and compare the data, the Sustainable Development Department issues a quarterly summary to Management and to all sites. This year, the environmental data for December 2015 was extrapolated for certain sites from the local data.

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

PRODUCTION CALCULATIONS

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

For consolidated sites, such as Vallourec Star in Youngstown and Vallourec Tubos do Brasil S.A. in Belo Horizonte and VSB, total production is the sum of the steel and tubes produced.

Production of iron ore by Vallourec Mineração and production of charcoal by Vallourec Florestal are, however, not included in the Group's total production.

By "metric ton shipped", Vallourec means the metric tons shipped to customers during the year: This production indicator is published in the Group's results.

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

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

VERIFICATION OF CSR INFORMATION

All of the CSR information published in Chapter 4 of the Registration Document was verified by an Independent Third Party Body. A selection of indicators identified by the symbol ☑ was covered by more in-depth verifications, with a check at the reasonable assurance level. For each piece of information presented, Vallourec has prepared a file to demonstrate a complete and rigorous implementation of its policy.

METHODOLOGICAL LIMITATIONS AND SPECIAL CASES

The following table lists some exceptions or special rules.

Issue	Plants concerned	Description
Determining the reporting scope (Rule No. 1)	Vallourec Mineração and the pelletization unit of Vallourec & Sumitomo Tubos do Brasil (VSB)	Vallourec Mineração in Brazil has a very different activity from the other Vallourec sites (production of iron ore to supply part of the consolidated Brazilian site, Vallourec Tubos do Brasil). The same goes for the VSB pelletization unit, which supplies the Group's blast furnaces as well as outside customers. Their environmental indicators are monitored like any Vallourec plant, but are not consolidated at Group level. They are reported on an individual basis in Appendix 2. Conversely, the safety and social indicators of Vallourec Mineração and the pelletization unit, along with the carbon emissions, are consolidated with all of the Group's other results.
Wastewater quality	Vallourec Tubes France (Saint-Sauvle, Déville and Aulnoye steel and tube mills), Vallourec Drilling Tarbes, Vallourec Tubes Deutschland Rath, Vallourec Star Houston, PT Citra Tubindo, VSB	Indicators for monitoring wastewater quality (SPM, COD, TH and metals) are only consolidated for sites that discharge wastewater directly into the environment after internal processing at their effluent treatment plants. These indicators are calculated based on the weighted average concentration per flows of discharged wastewater. Samples are taken quarterly in Germany and the United States, and at least weekly in France.
Waste	All plants	"Historical" waste (hazardous/non-hazardous) produced prior to the reporting period and stored on site is not counted in the total tonnage of consolidated waste.
Sludge from blast furnaces and steel mill	Vallourec Tubos do Brasil S.A. and VSB	In Brazil, sludge generated by blast furnaces is classified as non-hazardous waste, and is a totally different type of waste from tube mill sludge.
Dust from blast furnaces and steel mill	Vallourec Tubos do Brasil S.A. and VSB	In Brazil, dust generated by blast furnaces is classified as non-hazardous waste, and is a totally different type of waste from that produced by American and French steel mills.
Methane	Vallourec Florestal	When estimating methane emissions, the calculations are based on the statistical study in Appendices 5 and 6 of "Project Design Document Form (CDM PDD) – Version 03" registered as a CDM 8606 project at UNFCCC: "Carbonization Project – Mitigation of Methane Emissions in the Charcoal Production of V & M Florestal, Minas Gerais, Brazil", which is available at: https://cdm.unfccc.int/Projects/DB/BVQI1354824411.24/view According to this study, process methane emissions depend on the gravimetric yield of wood carbonization in furnaces (Appendix 5), or the ratio between the final mass of dry charcoal (after combustion) and the initial mass of wood (Appendix 6).
Water consumption	Vallourec Mineração	As of 2011, on-site water consumption corresponds to process water only.
Raw materials	All plants	Indicators of raw materials (iron ore, iron ore pellets, charcoal, charcoal dust, scrap, cast iron) correspond to the amounts loaded into the furnaces. Scrap is considered by Vallourec as a "co-product" and is not included in either the waste or the recovery rate indicator.
Compensation	All	The "Compensation" indicator is calculated as the sum of staff compensation, social security charges and pension expenses.
Turnover (%)	All	The turnover indicator is calculated as the ratio of the sum of the departures of permanent employees during the reporting period divided by the total permanent workforce at the end of the period. The reasons for departure included are: retirement, resignation, dismissal, and other (death, change of category, contract termination, termination after trial period).
Method of accounting for lost days following a workplace accident in the United States	All	In the United States, lost days for workplace accidents are not counted beyond the 180th day in accordance with OSHA regulations. This accounting method is specific to the United States and differs from the rule recommended by the Group for accounting for lost days.

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

1. CORPORATE SOCIAL INFORMATION		
a) Employment		
1.	Total number and breakdown of employees by gender, age and geographical segment	4.2.1.1 (p. 64-66)
2.	New hires and dismissals	4.2.1.2 (p. 67-69)
3.	Compensation and changes thereto	4.2.4 (p. 74-75)
b) Organization of work		
4.	Organization of working time	4.2.1.3 (p. 69)
5.	Absenteeism	4.2.1.3 (p. 69)
c) Employee relations		
6.	Dialog between employers and employees, including procedures for informing, consulting and negotiating with staff	4.2.3.1 (p. 72-73)
7.	Review of collective bargaining agreements	4.2.3.1 (p. 72-73)
d) Health and safety		
8.	Health and safety conditions at work	4.2.2 (p. 70-72)
9.	Review of agreements with trade unions or employee representatives on health and safety in the workplace	4.2.2/4.2.3.1 (p. 70-72/72-73)
10.	Workplace accidents, including their frequency and severity, and occupational illnesses	4.2.2 (p. 70-72)
e) Training		
11.	Training policies implemented	4.2.5.2 (p. 76-77)
12.	Total number of training hours	4.2.5.2 (p. 76)
f) Equal opportunity		
13.	Measures taken to promote gender equality	4.2.6.1 (p. 78)
14.	Measures taken to promote the employment and integration of the disabled	4.2.6.2 (p. 78)
15.	Anti-discrimination policy	4.1.3 / 4.2.6 (p. 64 / 77-78)
g) Promotion of and respect for the fundamental conventions of the ILO		
16.	Respect for freedom of association and right to collective bargaining	4.1.3 (p. 64)
17.	Elimination of discrimination in respect of employment and occupation	4.1.3 (p. 64)
18.	Elimination of forced or compulsory labor	4.1.3 (p. 64)
19.	Effective abolition of child labor	4.1.3 (p. 64)
2. ENVIRONMENTAL INFORMATION		
a) General environmental policy		
20.	Organization of the Company to take environmental issues and, where appropriate, environmental assessment or certification efforts into account	4.4.1 (p. 83-84)
21.	Employee training and information on environmental protection	4.4.1.4 (p. 83-84)
22.	Resources devoted to the prevention of environmental risks and pollution	4.4.1 and 5.1.2.1 (p. 83-84/112-113)
23.	The amount of provisions and guarantees for environmental risks, provided that such information is not likely to cause serious harm to the Company in an on-going dispute	4.4.1.5 (p. 84) and Note 16 to the financial statements (p. 173)
b) Pollution and waste management		
24.	Measures to prevent, reduce or remediate discharges into the air, water and soil seriously impacting the environment	4.4.3 (p. 90-94)
25.	Waste prevention, recycling and elimination measures	4.4.3.3 (p. 92-94)
26.	Consideration of noise and other forms of pollution related to a specific activity	4.4.3.4 (p. 94-95)

c) Sustainable use of resources		
27.	Water consumption and water supply according to local constraints	4.4.2.3 (p. 86-88)
28.	Consumption of raw materials and measures to improve efficiency in their use	4.4.2.2 (p. 85-86)
29.	Energy consumption, measures to improve energy efficiency and use of renewable energy	4.4.2.4 (p. 88-90)
30.	Land use	4.4.3.2 (p. 91)
d) Climate change		
31.	Greenhouse gas emissions	4.4.4.1 (p. 95-96)
32.	Adaptation to the impacts of climate change	4.4.4.2 (p. 96-97)
e) Biodiversity protection		
33.	Measures to preserve or enhance biodiversity	4.4.5 (p. 97-98)
3. INFORMATION ON CORPORATE COMMITMENTS TO SUSTAINABLE DEVELOPMENT		
a) Regional, economic and social impact of the Company's activity		
34.	On employment and regional development	4.3.3 / 4.3.4 (p. 80-81 / 81-82)
35	On neighbors or local populations	4.3.3 / 4.3.4 (p. 80-81 / 81-82)
b) Relations with persons or organizations with a stake in the Company's activities, including social integration associations, educational institutions, environmental protection associations, consumer associations and local residents		
36.	Conditions for dialog with such people or organizations	4.3.4 (p. 81-82)
37.	Partnership or sponsorship actions	4.3.4 (p. 81-82)
c) Subcontracting and suppliers		
38.	Consideration of social and environmental issues in the purchasing policy	4.3.3 (p. 80-81)
39.	Significance of subcontracting and consideration of suppliers' and subcontractors' CSR policies	4.3.3 (p. 80-81)
d) Fair practices		
40.	Actions to prevent corruption	4.3.3.3 / 4.1.2 (p. 81 / 63)
41.	Measures for consumer health and safety	4.3.2 (p. 79)
e) Other actions		
42.	Promotion of human rights	4.1.3 (p. 64)

Appendix 5 – Summary of workforce-related and environmental indicators

Environmental indicators

Indicators	Units	2010	2011	2012	2013	2014	2015
Production	Metric tons processed	4,642,266	5,175,558	4,959,229	5,456,271	5,508,079	2,826,499
	Metric tons shipped	1,888,000	2,251,000	2,092,000	2,159,000	2,322,800	1,410,865
Water abstraction	m^3/year	8,078,804	8,628,862	8,360,710	8,786,030	7,831,288	☑ 5.630,516
	m^3/metric ton processed	1.74	1.67	1.69	1.61	1.42	1.99
	m^3/metric ton shipped	4.28	3.83	3.99	4.07	3.37	3.99
Water discharged	m^3/year	4,903,721	5,257,296	5,596,360	5,494,232	4,087,062	3,616,090
	m^3/metric ton processed	1.06	1.02	1.13	1.01	0.74	1.28
	m^3/metric ton shipped	2.6	2.34	2.68	2.54	1.76	2.56
	Total metals mg/l. discharged	1.14	1.11	1.09	0.81	1.29	1.23
Waste							
Non-hazardous waste	Metric tons/year	588,614	616,828	604,425	572,669	628,005	438,266
Hazardous waste	Metric tons/year	59,904	48,985	50,544	53,737	40,909	28,549
% recovered waste	%	86	89	91	93	93	☑ 94.8
Total waste [(a)]	Metric tons/year	628,518	665,813	654,969	626,406	668,914	466,815
	kg/metric ton processed	135	129	132	115	121	165
	kg/metric ton shipped	333	296	313	290	288	331
Energy							
Natural gas	GWh/year	3,238	3,496	3,257	3,708	3,751	☑ 2,498
	kWh/metric ton processed	697	675	657	680	681	884
	kWh/metric ton shipped	1,715	1,553	1,557	1,717	1,615	1,771
Electricity	GWh/year	1,521	1,598	1,603	1,812	1,873	☑ 1,205
	kWh/metric ton processed	328	309	323	332	340	426
	kWh/metric ton shipped	806	710	766	839	806	854
CO_2 [(b)]							
Total emissions (scope 1)	Metric tons/year	961,264	1,050,778	1,007,967	1,127,592	1,273,427	☑ - 373,538
	kg CO_2 equiv./metric ton processed	207	203	203	207	231	- 132
	kg CO_2 equiv./metric ton processed	509	467	482	522	548	- 265

(a) *This consolidated total does not include exceptional waste from prior years: in 2010, there were 26,057 metric tons of exceptional hazardous waste (Barreiro: 26,050 metric tons; Mülheim: 7 metric tons).*

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

2015 greenhouse gas emissions analysis

Scope	Type of emissions	Summary of emissions in equivalent metric tons of CO_2							
		Emissions excluding biomass	Emissions related to biomass	Methane emissions	N_2O emissions	Metric tons of CO_2	kg CO_2 / metric ton processed	% partial	% total
Scope 1 Direct emissions	Natural gas combustion	462,141	–	–	–	462,141	164	- 124 %	25 %
	Carbonization process	–	1,120,064	383,924	–	1,503,988	532	- 403 %	82 %
	Atmospheric and underground sequestration	–	(3,275,731)	–	–	(3,275,731)	(1,159)	877 %	-179 %
	Production of iron and steel	46,995	817,892	–	–	864,888	306	- 232 %	47 %
	Internal transportation	71,176	–	–	–	71,176	25	- 19 %	4 %
	TOTAL – Scope 1 ☑	**580,313**	**(1,337,775)**	**383,924**	**–**	**(373,538)**	**(132)**	**100 %**	**- 20 %**
Scope 2 Indirect emissions related to energy consumption	Electricity purchased	422,851	–	–	–	422,851	150	100 %	23 %
	TOTAL – Scope 2 ☑	**422,851**	**–**	**–**	**–**	**422,851**	**150**	**100 %**	**23 %**
Scope 3 Other indirect emissions	External transportation	275,550	–	–	–	275,550	97	15 %	15 %
	Waste treatment	188,472	–	–	–	188,472	67	11 %	10 %
	Employee transportation	59,386	–	–	–	59,386	21	3 %	3 %
	Purchases of materials, goods and services	1,081,630	–	–	–	1,081,630	383	61 %	59 %
	Emissions related to industrial equipment	177,883	–	–	–	177,883	63	10 %	10 %
	Emissions related to the transportation of energy	–	–	–	–	–	–	0 %	0 %
	TOTAL – Scope 3	**1,782,920**	**–**	**–**	**–**	**1,782,920**	**631**	**100 %**	**97 %**
GRAND TOTAL		**2,786,083**	**(1,337,775)**	**383,924**	**–**	**1,832,232**	**648**	**–**	**–**

Social indicators

	2011	2012	2013	2014	2015
Workforce	22,204	23,177	24,053	23,709	☑ 20,964
Turnover (%)	8	10	9	12	17

	2011	2012	2013	2014	2015
Safety					
LTIR [(a)]	2.79	2.6	2.26	1.32	☑ 1.24
TRIR [(b)]	9.4	7.1	5.51	4.23	☑ 3.25
Severity rate	0.11	0.11	0.12	0.06	0.07
Training					
Number of employees having participated in a training session	16,027	15,942	14,912	14,537	15,779
Number of training hours	677,931	597,379	582,000	513,597	473,009

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

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

% of women (permanent employees)

	Production staff		Technical and supervisory staff		Managers		Total	
	2014	2015	2014	2015	2014	2015	2014	2015
Europe	2 %	2 %	33 %	32 %	21 %	21 %	11 %	11 %
Brazil	6 %	6 %	28 %	29 %	24 %	24 %	11 %	11 %
Asia	17 %	17 %	28 %	29 %	16 %	17 %	20 %	20 %
NAFTA	1 %	1 %	31 %	29 %	21 %	17 %	10 %	12 %
TOTAL	**4 %**	**4 %**	**30 %**	**30 %**	**21 %**	**21 %**	**11 %**	**☑12 %**

Breakdown between permanent and temporary staff

	Permanent		Short-term contracts (excluding apprentices)		Temporary	
	2014	2015	2014	2015	2014	2015
Europe	9,190	8,675	92	89	840	302
Brazil	8,226	7,280	4	3	37	0
Asia	1,481	1,379	346	192	97	152
NAFTA	3,156	2,272	0	2	408	83

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Risk factors

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Investors are invited to consider all information featured in this Registration Document, including the risk factors described in this Section, before deciding whether to make an investment. As at the date of this Registration Document, these are the risks, the occurrence of which the Company considers could have a material adverse effect on the Group, its business, financial position, earnings, growth or outlook. The attention of investors is drawn to the fact that other risks may exist that have not been identified as at the date of this Registration Document or which are not considered likely to have a material adverse impact on the Group, its business, financial position, results, growth outlook, the price of Company shares, or on the image of the Group or the Company.

5.1 Risk factors

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

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

5.1.1 Risks linked to the Group's dependence on customers in the oil sector

The recent drop in oil prices had and will continue to have a significant impact on the amounts of investments made by oil & gas companies, which are Vallourec's main customers. This drop in the level of investment amounts was and will continue to have a significant impact on the volumes, income and results of the Group.

The Group's activity is dependent on the level of expenses incurred by oil & gas companies for exploration, production and development of oil and natural gas reserves. In 2015, 62% of the Group's consolidated revenue was earned in the oil & gas sector.

The expenses of oil & gas companies were significantly impacted by the strong drop in world oil prices, which began in late 2014 and became even more pronounced at the end of 2015, resulting in turn from overproduction of oil compared to demand. Therefore, in response to the drop in oil and gas prices, oil & gas companies intensified control of their costs, reducing their expenses and optimizing their stocks, which had a significant impact on the demand for tubes. This drop in the level of investment amounts from oil & gas companies also had the effect of increasing the pressure on tube prices.

The price per barrel of Brent dropped by an average price of USD 99 for fiscal year 2014, with a peak price of USD 115 in June 2014, and an average price of USD 52 for fiscal year 2015. As at 31 December 2015, the price per barrel of Brent was USD 6.6. This drop led to a 13% decrease in the number of drilling rigs internationally (excluding North America), which is capable of reaching 20% and 19% in Latin America and Europe, and to less significant drops in the regions where national companies operate that are less sensitive to the price per barrel (such as the Middle East, where the number of active rigs remained relatively stable). The correlation between the price per barrel and the number of drilling rigs is even more discernible in the United States. West Texas Intermediate went from an average price of USD 93 for fiscal year 2014, with a peak price of USD 107, to an average price of USD 49 for fiscal year 2015, and a price of USD 37 at the end of 2015, which resulted in a 48 drop in the number of active drilling rigs, along with a destocking phenomenon on the part of tube distributors. According to IHS, in its Upstream Report of November 2015, investments in Exploration and Production dropped 27% between 2014 and 2015, to USD 530 billion, and the analysis institute estimates they should further increase by approximately 8% in 2016 compared to 2015, reaching USD 490 billion. According to the Group's internal estimates, the share of tube consumption in a complex and integrated offshore project is less than 2% of the total cost of the project, although this proportion varies according to the complexities and types of drilling. This share may reach up to 9% of the total cost of the project for unconventional onshore drilling in the United States. The drop in Exploration and Production investments thus had a direct impact on the consumption of tubes and on the Group's results. It is difficult to predict how long the current situation will last, whether a lasting imbalance between supply and demand will persist, whether oil prices will maintain their current low level, or to determine if the market climate will further deteriorate.

In 2015, this had a very significant impact on the volumes, revenue, the Group's operating income and the free cash flows. For 2015, the Group recorded a 39% drop in volumes, an operating loss of €77 million and a net loss of €865 million. The share of the net financial debt-to-equity-ratio totaled 50.0% of the equity at the end of 2015, compared to 37.1% at the end of 2014. The Group anticipates that the reduction in investment expenses of the oil & gas companies will continue to impact the Group's financial performance in 2016.

As of early 2015, the Group established the Valens competitiveness plan (see Chapter 3 of this Registration Document), which includes plans to reduce investments, operating costs and capacity. On 1 February 2016, major strategic initiatives were announced to transform the Group's operational organization and improve its competitiveness over the short and long terms (See Chapter 8 of this Registration Document). The Group nevertheless cannot be certain that these measures will be sufficient to limit the impact of the difficult market environment on its operating income or financial position (see section 5.1.9 of this Registration Document). If oil prices were to continue to drop, this could have a significant adverse effect on the Group's activity, operating income, financial position and outlook.

Furthermore, even if oil prices recover, investments by oil and gas companies could be subject to other factors such as changes in the applicable laws and regulations, changes in the political situation or climate conditions. These factors could consequently have a negative impact on the Group's activity, results and outlook.

5.1.2 Risks linked to the cyclical nature of the tube market

The tube market is traditionally subject to cyclical trends which result, on the one hand, from economic changes as described above in the oil and gas sector and, on the other, from macroeconomic conditions which have an impact on the other business sectors of the Group: the sectors of mechanics, the automotive industry construction and power generation which, overall, accounted for 32.5% of consolidated revenues in 2015. These sectors have important business cycles which follow the rhythm of the economic climate and which are likewise influenced by other factors, such as the growth outlook.

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

In order to prevent such risks from occurring, or to limit their impact, the Group implements the following measures:

- diversity of applications for its products in the energy (hydrocarbon, nuclear and wind), petrochemical, automotive, mechanical engineering and construction sectors;
- geographical diversity of its markets worldwide;
- promotion of long-term partnerships with major customers; and
- flexibility, i.e.:
  - the substitution option developed among some of the Group's 50 production sites in more than 20 countries,
  - seeking to reduce fixed costs at each of its sites, and
  - the capacity to broadly adjust variable costs as activity evolves.

5.1.3 Risks related to dependence on particular customers

In 2015, the Group generated 25% of its consolidated revenue from its five biggest customers and 33% of its consolidated revenue from the ten largest customers (see Chapter 3, Section 3.2.2.3 "Main customers" above of this Registration Document). No customer accounts for more than 10% of the Group's consolidated revenue in 2015). Historically, customer loyalty has been strong (no sudden change to another supplier) thanks to good relations with the Group and the quality of its products.

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

Generally, the Group has only very rarely been exposed to a significant risk on outstanding receivables from its main customers. Nevertheless, in a deteriorating world economic environment, the possibility that a worsening of its customers' financial position will expose the Group to the risk of payment default cannot be ruled out.

5.1.4 Risks related to competition

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

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

- in the oil & gas sector, the main differentiating element is premium connections for OCTG tubes in particular. These patented connections ensure perfect sealing for tube columns, thereby meeting customers' safety, environmental and performance requirements. However, strong competition in the OCTG commodity tubes market exerts downward pressure on prices throughout the market, including the prices of premium connections and tubes, in particular the least differentiated ones. Oil companies and, more specifically, International Oil Companies (IOCs), notably the Chinese, aim at developing "low-cost" supplier qualification strategy for products that have become increasingly state-of-the-art. The "low-cost" players have progressed technically and developed premium connections, for the least differentiated categories. This has also had the effect of increasing pressure on the prices of historic operators, the latter having significantly reduced their prices, in an effort to be able to win tenders. This new competition has notably impacted the EAMEA region. The intensification of the competitive landscape in an increasingly globalized seamless tube market could cause losses in market share, and change the Group's volumes, revenue and profitability;

- in other sectors of activity of the Group:
  - in the power generation sector, premium solutions contain high-alloy steel capable of withstanding extreme temperatures and pressure, requiring top-level metallurgical skills and state-of-the-art technology. The Group has noted increased competition in this sector since 2009, in particular on the Chinese market, due to the decision of some customers to give preference to local manufacturers who have upgraded their ranges, potentially at the expense of their technical requirements,
  - in the petrochemical, mechanical engineering, automotive and construction sectors, the Group faces stronger competition as customer requirements are less sophisticated. The Group nevertheless has strong positions in Europe and Brazil, thanks to local operations that enable it to offer short delivery times and related services. It works to innovate so as to create new, differentiated product ranges, such as fine-grain steel for industrial cranes and PREON® solutions for the construction of industrial buildings.

In order to prevent the occurrence of such risks, or limit their impact, the Group implements the following measures:

- a premium-positioning strategy, underpinned by growth, innovation, close relations with customers and competitiveness;
- a major focus on innovation and the development of tubular solutions generating long-term partnerships with highly demanding customers;
- defense of the Group's industrial expertise by patents and protection of trade secrets ; and
- a reduction in its cost base to protect its margin in a competitive environment leading to pressure on prices.

5.1.5 Risks related to the Group's activities in emerging countries

The Group conducts a significant part of its business in emerging countries, in particular because being located close to its customers enables it to improve its responsiveness and to develop appropriate products and services in these countries. The risks associated with performing business in these countries may notably include political, economic, social instability (nationalization and expropriation of assets, uncertainty as to applicable law and application of laws, impact of sanctions, etc.) or financial instability and an increased exchange rate risk. There are also risks for personnel deployed on assignment or permanently (accidents, terrorism, etc.). The Group may not be in a position to take out insurance or hedge against all of these risks, and may also encounter problems in performing its activities in such countries, which could have an impact on its employees and/or results, growth or outlook.

In order to prevent such risks from occurring, or to limit their impact, the Group implements the following measures:

- for personnel deployed on temporary or permanent assignments: systematic health and safety risk assessment procedures, as well as systematic emergency and protection procedures for each of the high-risk countries where the Group frequently deploys personnel; they are specific for other countries but in all cases have the support of recognized outside providers; and
- for the operation of activities exposed to political, economic, social or financial instability and foreign exchange risks: alternative means of production situated in other countries and the development of business continuity plans designed to increase, as far as possible, the resilience of the business at a local level.

5.1.6 Risks related to maintaining advanced technology on key products

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

Third party technological innovations could affect the competitiveness of the Group's existing products and services and have a negative impact on the value of existing patents and the revenue generated by the Group's licenses. The Group's financial results outlook could be affected, and the Group might find itself at a competitive disadvantage if it were unable to develop or access (either alone or through partnerships) new technology, products or services ahead of its competitors, or if its new technology, products or services were not to have the success expected on the market.

Furthermore, the risk that competitors may access some of the Group's manufacturing secrets, or certain innovations that are not yet patented or that are unable to be patented, cannot be ruled out. The procedures established by the Security Department and IT Department, as well as the signing of confidentiality agreements, can limit this risk, although it cannot be completely eliminated. The Group's results and outlook could therefore be affected.

In order to prevent such risks from occurring, or to limit their impact, the Group implements the following measures:

- a major program of investment in new production tools and in innovation, leading to the opening in 2011 of new production centers, R&D units and test stations close to the Group's markets, especially in the United States and Brazil;
- technological oversight allowing systematic access to the most recent techniques and their marketing;
- the protection of inventions by patents in key countries, along with maintenance and defense of these patents (provided by the Intellectual Property Department); and
- protection of know-how, including manufacturing secrets, by systematic confidentiality agreements and dedicated procedures.

5.1.7 Risks related to intellectual property

Risks related to intellectual property primarily stem from:

- disputes brought by third parties against the Group;
- the appropriation of its technologies by competitors; and
- fraudulent use by third parties of its trademarks.

To limit the impact of these risks, the Group has an Intellectual Property Department and a Legal Department composed of qualified and experienced personnel who are responsible for (i) taking the necessary measures to protect and ensure its intellectual property rights are respected, while complying with the rights of third parties, and (ii) educating Group employees on the importance of better protecting and defending its intangible assets.

Preserving the Group's intellectual property also entails protecting its investments in research and development, and its technological edge.

To that end, the Group pursues its efforts at both national and international levels to:

- protect its innovations through patents and secrecy (e.g. confidentiality agreements, specific procedures to maintain trade secrets);
- protect its distinctive signs, such as trade names, domain names and trademarks; and
- preserve the value of its intellectual property through its world network of licensees.

However, the laws and regulations in some countries in which the Group operates do not necessarily provide such extensive and effective protection for intellectual property rights, and/or the means to combat counterfeiting at this time as other countries such as France, Germany or the United States.

That is why the Group is also participating in actions to raise the awareness of the public authorities and other market players concerned, and is simultaneously developing technological trademarking and authentication techniques for there to be greater product traceability, including by intermediate distributors and customers themselves.

These technical actions and solutions are key elements in the counterfeiting prevention policy used by the Group.

Indeed the Group has been faced, as have other tubular products and accessories manufacturers, with the existence of counterfeit products for sale on the market, which use the trademarks of Vallourec and its subsidiaries, and are sometimes even accompanied by false certificates. This situation aims to confuse customers in terms of the source of products, and to thus draw a profit from the Group's investments and reputation. There are thus multiple risks involved: in addition to the risk that is linked to losing customers drawn to cheaper products, there is a material risk of accidents if the counterfeit products have problems with quality, and do not comply with the applicable standards. These risks could have an impact on the Group's image, and, incidentally, on its financial income.

In order to more efficiently combat counterfeiting, the Group created a Counterfeiting Committee in 2015.

If, despite all of the measures taken, the Group were unable to successfully protect, maintain and defend its intellectual property, the Group would risk losing a portion of its technological edge, customers and income sources; this could have a significantly adverse effect on its results and image.

5.1.8 Risks related to the Group's external and internal growth strategy

In pursuing its development policy, the Group has engaged, and could in the future engage in external and internal growth operations, through the acquisition of businesses and companies, and the construction of new production units, as well as the development of partnership. Although the Group examines and defines the details of all investment projects according to a very strict procedure, the underlying assumptions for the profitability of investment projects may be invalidated or the Group may not manage to successfully consolidate the acquired or merged companies. Consequently, the expected benefits of future or already completed external or internal growth operations may not be realized within the expected time frame or to the expected extent, and this could affect the Group's financial position. These operations include risks that are linked to difficulties that can be found in the integration of personnel, activities, technologies and customers.

Although the Group takes great care when drafting and negotiating acquisition, sale and partnership development contracts, and uses guarantees and other methods to hedge against certain risks, it cannot rule out the possibility that a liability, impairment of assets or claim may arise as a result of one of these contracts.

5.1.9 Risks related to the Company's strategic initiatives

On 1 February 2016, the Group announced strategic initiatives in order to accelerate Vallourec's transformation, which has already been underway since the Valens plan was announced in early 2015, and to strengthen the Group's balance sheet (see Chapter 8 of this Registration Document). These strategic initiatives notably aim to:

- streamline the industrial production tool, notably by reducing European capacities by 50%, focusing activities on value-added solutions and products;
- optimize its industrial footprint, developing new highly competitive production centers to be used, in particular in Brazil and China;
- significantly reduce costs in the context of the industrial plan as described below.

As part of implementing these strategic initiatives, Vallourec is scheduled to proceed with €1 billion capital increase, consisting of (i) one issue of bonds redeemable in shares (or "ORA" - *obligations* *remboursables en actions*) reserved to NSSMC and Bpifrance Participations, and (ii) a capital increase, maintaining shareholders' preemptive rights (see Chapter 8 of this Registration Document).

In addition, even though the Group is doing everything possible to achieve the objectives announced in the context of these strategic initiatives, the Group may not attain the objectives expected within the planned timeframes due to numerous reasons, especially those described below. If the Group were unable finalize the capital increase or to effectively implement the strategic initiatives within the time frame envisaged, or if they did not produce the expected results, this could have a significant adverse effect on its results, financial position and outlook. Furthermore, a failure to achieve the objectives of the strategic initiatives or failure to implement the capital increase could increase the cost of the Group's financing and would compromise its ability to return to an investment grade rating and would have a negative impact on the Group's liquidity.

5.1.9.1 Risks related to the global industrial restructuring plan

As part of implementing the industrial restructuring, the Group could encounter numerous difficulties, in particular the following:

- Certain operations announced under these strategic initiatives are subject to the authorization and/or approval of the competent regulatory authorities, in particular in Brazil and China. Any difficulty encountered in the procedure for obtaining these authorizations and/or approvals could have a significant negative effect on the global industrial restructuring project.
- The reorganization of activities in Brazil is notably subject to the condition that the resolutions related to the issuance of the ORAs and the capital increase, maintaining shareholders' preemptive rights, are approved by the Vallourec Shareholders' Meeting, which has been scheduled for 6 April 2016.
- Vallourec is consulting with the representative bodies of the competent personnel, which will provide their opinions about certain operations in the strategic initiatives. Vallourec cannot provide any guarantee that these consultations will be completed according to the planned schedule and cannot rule out that labor disputes might occur that cause significantly lengthy operational disruptions which might have adverse repercussions on the Company's financial situation, results, outlook and image.
- The success of the strategic initiatives is subject to numerous economic uncertainties which are beyond the Group's control. The strategic initiatives should allow the Group to face a difficult market environment which could further deteriorate. Nevertheless, the Group cannot provide any guarantee that these strategic initiatives will be sufficient given the particularly poor economic climate, and cannot guarantee that they will allow it to attain the results it is counting on within the expected time frames.
- The grouping of the production sites, in particular through the merger of Vallourec & Sumitomo Tubos do Brasil and Vallourec Tubos do Brasil, along with the acquisition of Tianda Oil Pipe, could prove more costly and difficult than expected. Furthermore, Vallourec could encounter difficulties in implementing the measures that would allow costs to be reduced and/or might not achieve the operating benefits and savings it is counting on from these operations.
- The Group's customers could turn to other suppliers if they think that the Group's products and services, or the time frame for delivering the Group's products would not meet their expectations following the transfer of production to Brazil or China.
- The Group cannot guarantee that implementing the industrial reorganization will be sufficient given the particularly poor economic climate (particularly if there is a further decline in the oil price, see section 5.1.1. of this Registration Document), nor that it will achieve the results it is counting on within the expected timeframes. If the Group were unable to effectively implement the industrial reorganization or if it did not produce the expected results, this could have a significant adverse effect on its results, financial position and outlook.

5.1.9.2 Risk factors related to the capital increase

The Group may encounter numerous difficulties in implementing the capital increase announced on 1 February 2016, including the following:

- Completing the ORA issue and capital increase maintaining shareholders' preemptive rights assumes that the Company's shareholders will pass the resolutions authorizing these operations at the Shareholders' Meeting scheduled for 6 April 2016. If one or more of these resolutions is denied by the Shareholders' Meeting scheduled for 6 April 2016, the subscription contracts and shareholders' agreements entered into between the Company and, respectively, NSSMC and Bpifrance Participations, on 1 February 2016, would be terminated, and the capital increase would not take place;
- Issuance of the ORAs is subject to the settlement-delivery of the capital increase, maintaining shareholders' preemptive rights, which is itself notably dependent on market conditions. The Group cannot guarantee that all of the conditions will be met to allow the settlement-delivery of the capital increase, maintaining shareholders' preemptive rights, within the time limits prescribed in by the agreements between the parties.

Moreover, the shares underlying the ORAs might only be delivered to NSSMC and Bpifrance Participations after authorization is obtained from the Brazilian competition authority. Without obtaining this authorization, NSSMC and/or Bpifrance Participations, as the case may be, must proceed to transfer a portion of their ORAs to an investment service provider that is in charge of converting the ORAs and selling the underlying shares. The sale of a significant number of the Company's shares on the market, or the market's perception that such a sale is imminent, could have an adverse effect on the market price of the Company's shares.

Furthermore, as of 1 February 2016, NSSMC and Bpifrance Participations each agreed to a contract, subject to certain exceptions, to not transfer shares they hold for a limited duration, and to keep the ORAs as of their issue date for a limited duration (see Chapter 8 of this Registration Document). At the expiration of these commitments to retain shares, or before they expire by th event of a potential release from this commitment, NSSMC and Bpifrance Participations will be free to sell all or part of their shares on the market, which could have an adverse effect on the market price of the Company's shares.

5.1.10 Risks related to the Company's objectives

For the purposes of its operational organization and in order to allocate its resources, Vallourec has set a number of objectives, specifically in terms of generating free cash flow, EBITDA and net debt (see section 3.6 "Outlook" of this Registration Document). These objectives are based on data, assumptions and estimates which Vallourec considers to be reasonable at the date of this Registration Document, due to its forecasts of future market conditions and the impact that is expected by the Group from successfully implementing the Valens competitiveness plan (see Chapter 3 of this Registration Document), and its strategic initiatives, which were announced on 1 February 2016 (see Chapter 8 of this Registration Document) whose associated risks are described in section 5.1.9. of this Registration Document, specifically in its strategic and financing section.

Apart from implementing the strategic initiatives, these data, assumptions and estimates are likely to evolve or be modified during the period considered, due to uncertainties that are linked in particular to the economic environment and, above all, to the expenses of the main players in the oil & gas sector, from which the Group draws the bulk of its revenue. This sector has suffered from a downturn in the economic climate since mid-2014 and there is still uncertainty about exactly when it will recover. Given the changes in the sectors in which the Group is active, it is also hard to assess its outlook and forecast its needs, particularly in terms of capacity and operating resources, technology requirements and product volumes.

Any change in the assumptions presented in chapter 3 of this Registration Document and any unpredictable event might impact the Group's ability to achieve its objectives and could consequently have an adverse effect on the Company share price on the Euronext Paris market.

5.1.11 Risks related to impairments of goodwill and fixed assets

The downturn in the market in which the Group participates, and in particular in the oil & gas sector, has led the Group to record exceptional impairments in goodwill and fixed assets totaling €1,103.7 million in 2014, and €296.2 million in 2015. As at 31 December 2015, goodwill totaled €329.6 million (see Note 1 to the consolidated financial statements). The Group cannot exclude the fact that the occurrence of future events could result in an additional impairment of certain fixed assets and/or goodwill. Potential significant impairments could have an adverse effect on the financial position and results of the Group for the current fiscal year for which such charges could be recorded, and on its liquidity (with regard to the ratio shown in the banking agreements described below in Section 5.1.14.2).

5.1.12 Operating risks

5.1.12.1 Industrial and environmental risks

DESCRIPTION OF THE INDUSTRIAL AND ENVIRONMENTAL RISKS

In the various countries in which the Group operates, particularly in Europe, the United States, Brazil and China, its production activities are subject to numerous environmental regulations that are extensive and constantly changing. These regulations concern, in particular, control of major accidents, the use of chemicals (REACH regulations in Europe), disposal of wastewater, disposal of special industrial waste, air and water pollution, CO_2 emissions and site protection. The Group's activities could, in the future, be subject to even more stringent regulations requiring it to incur expenditures in order to comply with regulations or pay new taxes.

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

The Group is consequently making an effort to strictly comply with these authorizations and, more generally, with the laws and regulations applicable in France and abroad on environmental matters, according to the principles presented in its Sustainable Development Charter and in the Group's Environmental Policy, which the Management Board approved in 2014. The Group is also striving to take all precautions that would allow it to prevent environmental incidents; it should be noted that almost all of the sites are ISO 14001 certified, and that the production of certified sites corresponds to 93% of production. It is noteworthy that this percentage will be close to 100% in 2016, when the Vallourec & Sumitomo Tubos do Brasil site will also be certified. However, the very nature of its industrial activity causes environmental risks. The Group could consequently be faced with an environmental accident that could have a material impact on the continuing operation of the sites concerned, as well as on its financial position.

In addition, the regulatory authorities and courts may require the Group to carry out investigations and clean-up operations, or even restrict its activities or close its facilities temporarily or permanently, and/or pay fines. Given the long industrial past of several of the Group's sites (whether currently in use or obsolete), the soil or ground water may have been polluted and pollution may be discovered or occur in the future. Vallourec could be required to decontaminate the sites concerned. As regards its former activities, the Group could be held responsible in the event of damage to persons or property, which could adversely affect Vallourec's results. To that end, and in application of the regulations, the estimated cost for clean-up of the French sites concerned in the event activity stops totals almost €3 million. The Group's commitment with the Regional Departments for Environment, Land-use Planning and Housing to provide any necessary amounts is covered by a bank guarantee.

EVALUATION OF INDUSTRIAL AND ENVIRONMENTAL RISKS

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

At sites with significant technological risks, risk analyses are performed when new activities are developed and updated, and when significant changes are made to existing installations. They are then periodically updated. To harmonize these analyses and strengthen risk control, the Group has devised a methodology adapted to local regulatory obligations. In France, none of the Group's establishments subject to authorization are classified Seveso 3 at this time, although certain administrative inquiries are underway. Furthermore, each site prepares its own emergency or internal prevention measures depending on the risk analysis relating to the establishment.

Similar measures are taken at the Group's other European industrial sites.

In addition, environmental impact studies are carried out before any industrial development including, in particular, an analysis of the initial state of the site, taking account of its vulnerabilities and the choice of measures to reduce or prevent incidents. These studies also take into account the impact of the site's activities on the health of neighboring populations. They are performed using common methodologies. In countries that implement authorization procedures and monitor project progress, no project is launched until the appropriate authorities approve it based on the studies submitted to them.

All Vallourec entities monitor regulatory changes in order to ensure that they comply at all times with local and international regulations and standards relating to measurement and management of industrial and environmental risk. The accounting data relating to environmental matters is recorded in the Group's consolidated balance sheet under "Provisions" (see Note 17 to the consolidated financial statements). Future expenses for the rehabilitation of sites are recognized by the Group using the accounting principles described in Note 2.12 to the consolidated financial statements.

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

MANAGEMENT AND TRACKING OF INDUSTRIAL AND ENVIRONMENTAL RISKS

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

Vallourec seeks to limit the industrial and environmental risk inherent in its activities by setting up efficient organizational structures and quality, safety and environmental management systems, obtaining certification or assessing its management systems, performing stringent inspections and audits, training staff and heightening the awareness of all parties involved, as well as by implementing a policy of environmentally friendly investments that reduce industrial risks. Each investment project, except for those of little importance, is the subject of a Health, Safety and Environment (HSE) evaluation, according to a precise methodology. The Capex Committee which examines the characteristics of the most important projects on a monthly basis, in view of their approval, devotes systematic attention to this aspect of the projects.

5.1.12.2 Other operational risks

RISKS RELATED TO OCCUPATIONAL SAFETY AND HEALTH

The importance of the industrial labor force to the Group's business makes the management of employees' health and safety particularly vital. Health and safety management is a priority for the Group and a fundamental value for Vallourec. Despite the efforts used by the Group, Vallourec cannot rule out the fact that occupational accidents and illnesses may arise which could, in the case of serious accidents or illnesses, render the Group liable.

Determined to act on all safety levers, in 2015 Vallourec renewed its three-year program on safety improvement, entitled "CAPTEN+ Safe" . At the end of 2015, the Lost Time Injury Rate (LTIR) was 1.24, attesting to the Group's progress in this area. The Group did not have any fatal accidents in 2015, and remains very committed to safety issues.

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

- establishing safety management committees at all levels of the Company;

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

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

In France, some of the Group’s subsidiaries are involved in civil proceedings on the use of asbestos. These proceedings were initiated by some of their employees or former employees who believed they had contracted an occupational illness linked to asbestos, with the aim of obtaining a judgment that would give them supplementary social security benefits. Although the outcome of all the current asbestos-related cases cannot be predicted with reasonable certainty, the Group does not expect them to have a material adverse effect on its financial position. However, the Group cannot be sure that the number of existing cases linked to asbestos, or new cases, will not have material adverse effects on its financial position, or on the image of the Company and the Group. Despite all the attention that the Group pays to the health and safety of its employees, the occurrence of accidents or an increase in occupational illnesses remains a risk.

RISKS RELATED TO AN INDUSTRY THAT CONSUMES RAW MATERIALS AND ENERGY

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

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

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

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

- owning some of its own sources of supply (iron ore mine, eucalyptus plantation in Brazil), and maintaining a variety of external sources of supply wherever possible;
- continuously reducing consumption, particularly by computer-modeling of furnaces and making processes more reliable; and
- passing on the impact of any changes in supply prices on the Group’s revenue through the adjustment of its selling prices.

RISKS RELATED TO DEFECTIVE OR FAULTY PRODUCTION

The Group’s positioning in the market for premium tubular solutions requires the implementation of a demanding quality control program for its products and services. However, the Group cannot totally exclude the possibility that some of its products or services may have production or manufacturing defects, or faults which could potentially cause damage to property, personnel or installations attached to the tubes, lead to an interruption of business for customers or third parties, or cause environmental damage. Although the Group follows quality control procedures for its products and services that meet the most rigorous benchmark requirements in order to provide products and services without production defects or faults, defects or faults could occur in Group products or services. This could potentially require compensation to be paid by the Group, cause a fall in demand for these products and services, or damage their reputation for safety and quality, resulting in a significant impact on the financial position, earnings and image of the Company’s and the Group’s businesses.

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

- implementing a product quality control process that takes account of the requirements of the most rigorous standards such as ISO 9001, ISO/TS, API, EN 10210, and ABNT in Brazil;
- obtaining qualification from the most demanding customers, especially on nuclear and oil markets;
- a continuous improvement approach driven by Vallourec Management System (VMS), and based on three pillars: Total Quality Management (TQM) plans, steering committees and teams working on continuous improvement (CITs);
- additionally, since 2015, management of customer claims was strengthened so as to reduce the risks that defects would reappear as much as possible. To do so, a specific so-called “8D” methodology was put in place;
- contractually limiting its liability, to the extent possible.

RISKS RELATED TO GROUP EQUIPMENT FAILURES

The Group’s success in meeting orders depends on a high level of asset reliability. The Group could nevertheless suffer breakdowns of equipment or unavailability for other reasons such as damage, fire, explosion or a computer virus. Such failures could cause delays in the delivery of orders in progress or subsequent orders for which these assets were to be used. Although the Group follows a regular maintenance program in order to keep all of its assets in good working order, it cannot exclude the possibility that breakdowns could occur. All equipment failures are likely to lead to dissatisfaction on the part of the Group’s customers, have an impact on the cost of orders and, therefore, significantly affect the financial position, results and image of the Company or the Group.

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

- a regular maintenance program to maintain all assets in good working order;
- the roll-out of regular external audits to prevent damage, including from equipment breakdowns, fires, explosions and natural disasters; and
- in addition: the main sites have adopted a business continuity plan (BCP) to reduce the impact of equipment failure on customers and costs, by preparing rapid solutions to restore operations and/or alternative production processes.

RISKS RELATED TO WEAKNESSES IN INTERNAL CONTROL AND/OR RISK OF FRAUD

The Group's international profile requires complex administrative, financial and operational processes at entities with sometimes different levels of maturity in terms of internal control, evolving in a variety of legal environments, and running different information systems. In this context, Vallourec could suffer a risk of internal control, caused by inaccurate and/or inappropriate transactions or operations being carried out. Vallourec could also be the victim of fraud (theft, embezzlement, etc.).

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

The essential values of Vallourec also incorporate an ethical component. Its requirements are taken into account in the Group's Code of Ethics *(Charte d'éthique),* in effect since 2009 and very widely disseminated to all employees. However, there is a risk that the Group and its personnel will act in violation of its applicable laws or Codes of Ethics. The Group also performs business in countries which have a particular risk of exposure to corruption. Such violations could result in material civil and/or criminal sanctions and might have a negative effect on its financial position or image.

RISKS RELATED TO INFORMATION SYSTEMS

The Group uses complex information systems (in particular to manage its sales, logistics, to carry out its accounting and reporting) which are essential for conducting its commercial and industrial activity. Despite a policy to strengthen emergency programs in its information systems and infrastructure, a defect in one of them could have a material adverse impact on the activity, financial position, results or outlook of the Group.

The Group could be the subject of complex attacks targeted on its IT networks. A growing number of companies have indeed recently been the victims of intrusions or attempted intrusions in their information systems. The techniques implemented to hack, disrupt, degrade the quality of or sabotage information systems are constantly evolving; they are sometimes not listed and it is often impossible to identify them before an attack is launched. Despite all of the precautions taken and its multiple means of defense, the Group thus might not be able to protect itself against such hacking techniques, or to rapidly establish an appropriate and effective response system. Any breakdown or interruption in the Group's IT services that is linked to such intrusions or to other factors, would be capable of having a material adverse effect on the activity, financial position, results or outlook of the Group.

RISKS RELATED TO HUMAN RESOURCES

Vallourec's success depends on retaining key personnel within the Group and recruiting qualified staff. It also depends to a large extent on the strong and continuing contribution made by its key executives. If the Group were to lose an important member of its management team, whether to a competitor or for any other reason, this could reduce its capacity to implement its industrial or business strategy successfully.

The Group has put in place a number of Human Resource management programs designed to limit the possible impact of these risks, which have increased in the current economic environment, such as performance evaluations, succession planning for key people in each Division and programs to develop future leaders. These different programs are monitored regularly by the Group Management Committee.

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

5.1.13 Legal risks

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

Certain industrial cooperative agreements linking the Group to Nippon Steel & Sumitomo Metal Corporation (NSSMC) and Sumitomo Corporation contain reciprocal change of control clauses under the terms of which each party has, in certain circumstances, a call option over the other party's interest or right of cancellation, depending on the circumstances, in the event of a change of control of the other party (or of the entity that controls it).

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

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

The agreements entered into on 1 February 2016 (see Chapter 8 of this Registration Document) would, should the latter come into effect, result in the amendment of the reciprocal change of control clauses relating to VSB to take account of the contribution by Vallourec Tubos do Brasil of virtually all of its assets to VSB and therefore the expansion of the scope of activities of VSB. Therefore, NSSMC would, in the event of a change of control of Vallourec Tubes, Vallourec Tubos do Brasil or Vallourec, be entitled to acquire the Jeceaba plant which constitutes the scope of activity of VSB prior to the effective date of the February 2016 agreements. Moreover, the Group would benefit, under certain conditions, from the right to acquire the shares held by the NSSMC group and Sumitomo Corporation in VSB, in the event of a change in control of NSSMC or Nippon Steel and Sumikin Tubos do Brasil (or the entities that control it).

5.1.13.2 Tax risks

As an international group that carries out its activities in numerous countries, the Group has structured its sales, industrial and financial activities in conformity with the various regulatory requirements to which it is subject, and according to its sales, industrial and financial objectives. To the extent that the laws and regulations of the various countries in which the Group's entities are located or operate do not establish clear or definitive guidelines, the tax regime that is applied to its activities, transactions or intragroup restructurings (whether past or future), is or could sometimes be based on interpretations of French or foreign tax laws and regulations. The Group cannot guarantee that these interpretations will not be challenged by the competent tax administrations in the jurisdictions concerned. More generally, any breach of the current tax laws and regulations in the countries in which the Group or Group entities are located or operate could result in adjustments, or the payment of late interest, fines and penalties. Furthermore, the tax laws and regulations could change or be modified through their interpretation and application by the jurisdictions or tax administrations concerned, in particular in the context of joint initiatives occurring on an international or community scale (OECD, G20, European Union).

Each of the preceding elements could result in an increase in the Group's tax burden, and have a material adverse impact on its financial position and results.

The Group's future results, the French and foreign tax rules, and tax controls or disputes could limit the Group's capacity to use its tax losses and thus impact its financial position.

The Group has significant tax losses (for which the accounting impacts are described in Note 5 to the Group's consolidated financial statements for the fiscal year ended 31 December 2015 which appears in Section 6.1 "Consolidated financial statements" of this Registration Document).

The ability to effectively use these losses will depend on a set of factors, including (i) the ability to show tax benefits and the compatibility between the level of benefits attained and the losses incurred, (ii) the limits that apply to any tax losses imposed by the French and foreign laws and regulations, (iii) the consequences of current or future tax controls or disputes, and (iv) any changes in applicable laws and regulations.

The impact of these factors could increase the tax pressure to which the Group is subject, and thus have an adverse effect on its effective tax rate, financial position and results.

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

5.1.13.3 Risks related to disputes

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

To the Group's knowledge, at this time, with the exception of what is taken into account in Note 7 to the consolidated financial statements, there are no governmental, judicial or arbitration proceedings, including any proceedings of which the Company is aware, that are pending or threatened, which could have or have had material effects on the financial position or profitability of the Company and/or Group within the last 12 months. However, there is always the possibility that such a dispute or inspection could arise and then have an impact.

5.1.14 Market risks (interest rate, foreign exchange, credit and equity risks) and liquidity risk

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

A description of market and liquidity risks is also provided in Notes 8 and 16 to the consolidated financial statements, in Chapter 6, Section 6.1 of this Registration Document.

5.1.14.1 Market risks

INTEREST RATE RISK

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

In December 2009, Vallourec & Sumitomo Tubos do Brasil, which is 56% owned by the Group, took out a loan from BNDES [Banco Nacional de Desenvolvimento Econômico e Social]. As at 31 December 2015, BRL 109.5 million of this loan, at a fixed rate of 4.5%, had been drawn. Vallourec & Sumitomo Tubos do Brasil also entered into a fixed-rate finance lease in 2010.

Vallourec issued:

- in December 2011, a €650 million bond, maturing in February 2017, with a fixed annual coupon of 4.25%;
- in August 2012, two long-term private bonds totaling €455 million. The respective amounts and terms of these two private bonds are €400 million for seven years with an annual coupon of 3.25% for one, and €55 million for 15 years with an annual coupon of 4.125% for the other;
- in September 2014, a €500 million bond, maturing in September 2024, with a fixed annual coupon of 2.25%.

As at 31 December 2015, financial debt exposed to changes in variable interest rates was €159.5 million (about 7% of total gross debt). No other material fixed-rate credit facility will reach contractual maturity in the 12 months following the 31 December 2015 reporting date, apart from the outstanding amount, as at 31 December 2015, of €77 million in commercial paper with a maximum 12-month maturity, and various credit facilities (€85 million as at 31 December 2015) granted to the Brazilian and Chinese subsidiaries.

Given the Group's interest rate risk hedging policy, the impact of a 1% rise in interest rates applied to short-term rates in the euro zone, Brazilian and Chinese rates, and British and American money market rates, would result in a €1.6 million increase in the Group's annual financial expenses, based on an assumption of complete stability of the financial debt and constant exchange rates, and after taking into account the effects of any hedging instruments. This impact does not take into account the interest rate risk on commercial paper with a maximum maturity of 12 months and on cash in short-term investments (with a maximum maturity of three months).

The tables below summarize the Group's position with regard to interest rate risk in 2015 and 2014:

Total debt as at 31/12/2015

In € thousand	**Other borrowings**	**Cash**
Fixed rate on date granted	1,990,269	–
Variable rate on date granted swapped to fixed rate	0	–
Fixed rate	1,990,269	–
Variable rate	159,528	630,540
TOTAL	**2,149,797**	**630,540**

Total debt as at 31/12/2014

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

FOREIGN EXCHANGE RISK

Foreign currency translation risk

The assets, liabilities, revenues and expenses of the Group's subsidiaries are expressed in various currencies. The Group's financial statements are presented in euros. The assets, liabilities, revenues and expenses denominated in currencies other than the euro have to be translated into euros at the applicable rate so that they can be consolidated.

If the euro rises (or falls) against another currency, the value in euros of the various assets, liabilities, revenues and expenses initially recognized in that other currency will fall (or rise). Therefore, changes in the value of the euro may have an impact on the value in euros of the assets, liabilities, revenues and expenses not denominated in euros, even if the value of these items in their original currency has not changed.

In 2015, net income, Group share, was generated to a significant extent by subsidiaries that prepare their financial statements in currencies other than the euro (mainly in US dollars and the Brazilian real). A 10% change in exchange rates would have had an upward or downward impact on net income, Group share, of around €16 million. In addition, the Group's sensitivity to long-term foreign exchange rate risk is reflected in the changes that have occurred in recent years in the foreign currency translation reserves booked to equity (-€500.6 million as at 31 December 2015) which, in recent years, have been linked mainly to movements in the US dollar and Brazilian real.

Foreign currency translation reserve – Group share

In € thousand	31/12/2014	31/12/2015
USD	158,184	320,968
GBP	(8,728)	(5,789)
Brazilian real (BRL)	(479,818)	(863,699)
Chinese yuan (CNY)	50,497	58,473
Others	(7,839)	(10,528)
	(287,704)	**(500,575)**

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

Transaction risk

The Group is subject to exchange rate risk due to its business exposure linked to sales and purchase transactions entered into by some of its subsidiaries in currencies other than those of the countries where they operate.

The main foreign currency involved is the US dollar (USD): a significant portion of the Group's transactions (approximately 38.4% of Group revenue in 2015) are invoiced in US dollars by companies whose functional currency is not the US dollar. Exchange rate fluctuations between the euro, the Brazilian real and the US dollar may therefore affect the Group's operating margin. Their impact is, however, very difficult to quantify for two reasons:

- there is an adjustment phenomenon on selling prices denominated in US dollars related to market conditions in the various sectors of activity in which Vallourec operates;
- certain sales and purchases, even though they are denominated in euros, are influenced by the level of the US dollar. They are therefore indirectly and at some time in the future affected by movements in the US currency.

The Group estimates that during a "normalized" period of activity, such as, for example fiscal year 2014, a 10% variation in the euro/US dollar exchange rate would have a transaction impact of approximately €100 million on sales in USD of European subsidiaries. The Group actively manages its exposure to foreign exchange risk to reduce the sensitivity of its net profits to currency fluctuations by setting up hedges once the order is placed and sometimes once a quotation is given.

Orders, and then receivables, payables and operating cash flows, are thus hedged with financial instruments, mainly forward purchases and sales.

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

To be eligible for hedge accounting as defined under IAS 39, the Vallourec Group has developed its cash management and invoicing systems to facilitate the traceability of hedged transactions throughout the duration of the hedging instruments.

As at 31 December of the last two years, forward foreign exchange contracts to hedge foreign currency-denominated purchases and sales amounted to the following:

Hedging contracts with regard to commercial transactions – Exchange rate risk

In € thousand	31/12/2014	31/12/2015
Forward exchange contract: forward sales	1,622,654	1,065,094
Forward exchange contract: forward purchases	143,360	55,879
Currency options: sales	–	–
Currency options: purchases	–	–
Raw materials and energy: call options	–	–
TOTAL	**1,766,014**	**1,120,973**

Contract maturities as at 31/12/2015

Contracts on commercial transactions *In € thousand*	Total	1 year	1 to 5 years	> 5 years
Exchange contracts: forward sales	1,065,094	1,046,815	18,279	–
Exchange contracts: forward purchases	55,879	55,879	–	–
Currency options: sales	–	–	–	–
Currency options: purchases	–	–	–	–
Raw materials and energy: call options	–	–	–	–
TOTAL	**1,120,973**	**1,102,694**	**18,279**	**–**

Forward sales correspond mainly to sales of US dollars (€1,065 million of the €1,121 million total). These contracts were transacted at an average forward EUR/USD rate of 1.18 and an average forward USD/BRL rate of 3.61. In 2015, as in 2014, the hedges entered into generally covered an average period of about 10 months and mainly hedged highly probable future transactions and foreign currency receivables.

In addition to hedges on commercial transactions, Vallourec has, since 2011, implemented forward sales for USD 369.1 million (€281.6 million).

These instruments are intended to hedge the foreign currency loans established by the financial holding company Vallourec Tubes in the currency of the subsidiaries receiving them. The forward purchases and sales mature at various times between 2016 and 2017, as and when the hedged loans and borrowings mature.

CREDIT RISKS

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

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

- security deposits paid in connection with tax disputes and the tax receivables due to the Group in Brazil;
- trade and other receivables;
- derivatives that have a positive fair value:
  - security deposits and tax receivables due to the Group in Brazil: there is no specific risk in respect of these receivables, even if the outcome of the disputes is unfavorable, since the risk has already been assessed and a provision recognized in respect of these receivables, and the funds have already been paid in full or in part,
  - the Group's policy on the impairment of trade and other receivables is to recognize a provision when indications of impairment are identified. The impairment is equal to the difference between the carrying amount of the asset and the present value of expected future cash flows, taking into account the position of the counterparty.

The Group considers that as at 31 December 2015 there is no reason to assume that there is any risk in respect of receivables for which no provision has been made and which are less than 90 days overdue. Trade receivables more than 90 days past due and not impaired amounted to €46.4 million as at 31 December 2015, or 8.7% of the Group's total net trade receivables.

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

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

In addition, as at 31 December 2015, trade receivables not yet due amounted to €350.1 million, i.e. 65.4% of total net trade receivables. The following table provides an analysis by maturity of these trade receivables:

As at 31 December 2015	0 to 30 days	30 to 60 days	60 to 90 days	90 to 180 days	over 180 days	Total
Not due *(in millions of euros)*	183.9	106.8	21.5	33.3	4.6	350.1

Equity risk

Treasury shares held by Vallourec as at 31 December 2015 include (i) shares allotted to cover allocation plans for certain employees and executive corporate officers of the Group and (ii) shares allocated to the liquidity contract account managed by Rothschild & Cie Banque.

(i) Regarding the shares allotted to cover allocation plans for certain employees and executive corporate officers of the Group, Vallourec holds:

- 3,094 treasury shares acquired in 2008 after the definitive allocation of 26,844 shares in 2011, 70,050 shares in 2013 and 12 shares in 2014, under the various performance share plans;
- 85,560 treasury shares acquired in 2011 under the share buyback program of 7 June 2011, upon the definitive allocation of 27,534 shares in 2012, 86,377 shares in 2013, 91,929 shares in 2014, and 108,600 shares in 2015 under the various performance share plans;
- 305,400 treasury shares acquired in 2012 under the share buyback plan of 31 May 2012, upon the definitive allocation of 94,600 shares in 2014, under the various performance share plans;
- 300,000 treasury shares acquired in 2014.

These figures take into account the 2:1 stock split on 9 July 2010. The Management Board, in consultation with the Supervisory Board, has decided to allocate these treasury shares to cover the Group's performance share and employee share ownership plans.

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

In 2015, as part of this liquidity contract, total purchases were for 450,000 shares, i.e. 0.33% of the share capital as at 31 December 2015, for a total amount of €8,472,660, and at a weighted average price of €18.8281 per share. There were no sales made in 2015 within the context of the liquidity contract. In 2015, the liquidity contract generated a capital loss of €23,899,766.

As at 31 December 2015, the balance on the liquidity account comprised:

- 1,375,000 shares;
- €1,428,580.

Vallourec also holds shares in Nippon Steel & Sumitomo Metal Corporation (NSSMC) (see Chapter 6, Consolidated financial statements, Note 4 "Other non-current assets" for a total amount of €81.9 million as at 31 December 2015).

To the best of its knowledge, the Group had no other exposure to equity risk as at 31 December 2015.

5.1.14.2 Liquidity risk

As at 31 December 2015, the maturities of current bank loans and other borrowings totaled €386,842 thousand; the maturities of non-current bank loans and other borrowings totaling €1,762,955 thousand are shown in the table below:

Breakdown by maturity of non-current loans and other borrowings (> 1 year)

In € thousand	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
As at 31/12/2014	**35,732**	**676,982**	**42,579**	**413,453**	**613,127**	**1,781,873**
Finance lease	12,167	30,446	4,877	4,878	25,649	78,017
Other non-current borrowings	690,655	12,236	407,681	9,200	565,166	1,684,938
AS AT 31/12/2015	**702,822**	**42,682**	**412,558**	**14,078**	**590,815**	**1,762,955**

The Group's financial resources are composed of bank financing and market financing.

The majority of long-term and medium-term bank financing has been put in place in Europe through Vallourec and its sub-holding company Vallourec Tubes and, to a lesser extent, the subsidiaries in Brazil (see below).

Market financing is arranged exclusively by Vallourec.

Within the context of the worsening market and results of the Group, Vallourec's rating was downgraded to BB-, outlook negative. This drop could increase the cost of the Group's financing, and, in particular, make it hard to utilize the issuance of investment grade bonds.

IN EUROPE

In February 2014, Vallourec took out a revolving credit facility for an amount of €1.1 billion, maturing in February 2019, plus two one-year extension options. The first one-year extension was granted in February 2015 in the amount of €1.078 billion, and will mature in 2020. As at 31 December 2015, this line had not been drawn.

In June 2015, Vallourec agreed to a bilateral line of €90 million until February 2019 with two one-year extension options. As at 31 December 2015, this line had not been drawn.

In September 2015, Vallourec took out a revolving credit facility for an amount of €400 million, maturing in July 2019, plus one one-year extension option. This line of credit replaces four medium-term bilateral lines of €100 million each, maturing in July 2017. As at 31 December 2015, this line had not been drawn.

In addition to the financing put in place by Vallourec, Vallourec Tubes has two medium-term bilateral lines of €100 million each, maturing in July 2017. As at 31 December 2015, neither of these two lines had been drawn.

Each of these bank facilities requires Vallourec Tubes to maintain its consolidated net debt-to-equity ratio at less than or equal to 75%, calculated as at 31 December each year. In the event that this ratio is not respected, lenders would be entitled to demand early repayment of their credits when the lines are drawn. This ratio [had been] respected as at 31 December 2015, the date on which it stood at 43% as defined in the bank contracts.

As defined in the banking agreements, the "banking covenant" ratio is the ratio between the Group's net consolidated debt and the Group's equity, restated for gains and losses on derivatives and valuation differences (gains and losses on the consolidated subsidiaries in foreign currencies).

A change in control of Vallourec could require the repayment of some or all of the loans to be decided by the participating banks. It is also stipulated that the entire debt will be immediately due and payable if the Group defaults on one of its debt obligations (cross default) or, in the case of a major event, with consequences for the Group's business or financial position and its ability to repay its debt.

In addition to this bank financing, the Group aims to diversify its sources of financing on the markets. For example, Vallourec launched a commercial paper program on 12 October 2011 to meet its short-term needs. The program has a €1 billion ceiling. As at 31 December 2015, Vallourec had an outstanding €77 million for maturities of up to one year. This commercial paper program is [rated B] by Standard & Poor's.

On 14 December 2011, Vallourec issued a €650 million bond maturing in February 2017, with a fixed annual coupon of 4.25%.

In August 2012, Vallourec also issued two long-term private bond issues totaling €455 million. The amounts and terms of these two private placements are €400 million for seven years with an annual coupon of 3.25% for one, and €55 million for 15 years with an annual coupon of 4.125% for the other.

On 30 September 2014, Vallourec issued a €500 million bond, maturing in September 2024, with a fixed annual coupon of 2.25%.

As at 31 December 2015, the market value of these fixed-rate bonds was €664.9 million, €418.6 million, €60.8 million, and €514.5 million, respectively.

These bond issues were intended to diversify and increase the amount and extend the maturity of the financial resources available to the Group.

They specifically include a change of control clause that would trigger the mandatory early redemption of the bonds at the request of each bondholder in the event of a change of control of Vallourec (in favor of a person or a group of people acting jointly), entailing a reduction in the Company's financial rating.

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

IN BRAZIL

In December 2009, Vallourec & Sumitomo Tubos do Brasil, which is currently 56% owned by the Group, took out a loan of BRL 448.8 million from BNDES (Banco Nacional de Desenvolvimento Econômico e Social). This fixed-rate loan at 4.5% is denominated in Brazilian reals and has a term of eight years. Amortization began on 15 February 2012. As at 31 December 2015, the residual amount outstanding on this loan was BRL 109.5 million.

In 2010, this same company entered into a finance lease with a nominal value of BRL 570 million relating to equipment needed to operate the plant at Jeceaba. As at 31 December 2015, the residual amount outstanding on this finance lease was BRL 357.4 million.

IN THE UNITED STATES

The Group's US companies have a set of bilateral bank lines that were renewed in 2015 for a total of USD 300 million. The amount used as at 31 December 2015 totaled USD 79.5 million. These facilities with maturities of less than one year include clauses relating to the debt of each of the companies involved and a change of control clause.

In 2013, Vallourec Star, LP set up a finance lease with a nominal value of USD 63.4 million and a final maturity of five years. As at 31 December 2015, the residual amount of this contract was USD 43.6 million.

As at 31 December 2015, the Group complied with its covenants and the terms and conditions for obtaining and maintaining all of the above facilities.

All the facilities described above adequately covered the Group's liquidity requirements as at 31 December 2015.

5.2 Risk management and tracking mechanism

In addition to the internal control procedures issued by the functional departments and to promote the improvement and expansion of internal control, Vallourec has a risk management policy in place. The Risk Management Department is responsible for rolling out this policy consistently throughout the Group. The Group Risk Manager assists the Divisions in identifying and analyzing their risks, by a periodic method of self-assessment. A mapping of the risks is in place for each of Vallourec's regions and for the Group as a whole. Each mapping describes the main risks, their scenarios, past occurrences and the controls carried out by other companies. These risks may be legal, operational, strategic or financial. All Group Divisions have applied this policy since 2007. These Committees validate the appropriateness and performance of the specific action plans that have been determined for the respective issues that need to be addressed.

The Group Risk Manager organizes centralized reporting on risk management in conjunction with the Risk Managers of the main Divisions.

A more detailed description of the risk management process is included in the Report of the Chairman of the Supervisory Board, drawn up in accordance with the provisions of Article L.225-68 of the French Commercial Code *(Code de commerce)* (see Appendix 1 to Chapter 7 of this Registration Document).

5.3 Insurance policy

The Group's policy in terms of protection against accidental risks is based on an operational program of constructing, rolling out and managing preventative actions, supplemented by insurance policies. This policy is coordinated by the Human Resources Department for the safety of individuals and by the Risks and Insurance Department for all other aspects.

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

- property insurance;
- civil liability insurance.

The Group's policy with regard to establishing insurance coverage for industrial risks is designed to achieve the following objectives:

- to take out shared insurance policies to ensure, firstly, the consistency of transferred risks and insurance coverage purchased and, secondly, to leverage economies of scale, while taking into account the specific characteristics of the Group's different businesses and contractual or legal constraints;
- to optimize thresholds and means of action in the insurance or reinsurance markets by appropriate deductibles.

The risk management and insurance policy consists of defining, in collaboration with the internal structures at each subsidiary, major catastrophic risk scenarios (maximum possible claim), assessing the financial consequences for the Group if the claims materialized, helping implement measures designed to limit the likelihood and the scale of damage, and deciding whether to maintain the financial consequences of such events within the Group or transfer them to the insurance market.

The Group's insurance policy consists of defining the overall insurance coverage policy for the Group's activities, notably using the analysis of the requirements of the subsidiaries, and selecting and structuring adequate insurance solutions, with the help of an internal provider (the broker Assurval, a wholly-owned subsidiary of Vallourec) and external providers (brokers, consultants, insurers).

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

Key actions in 2015 focused on:

- pursuing an active policy, aimed at reducing the frequency and severity of accidental risks of fire or explosion at industrial sites, and detecting other exposure to natural or environmental catastrophes; over the last fiscal year, more than 85% of the insured values were included in a multirisk audit carried out by the insurer's loss prevention engineers, under the framework of a plan to conduct annual visits to the Group's major industrial sites;
- organizing a mechanism for distributing casualty premiums according to the subsidiary scoring criteria established by the insurer with a bonus/malus depending on the score, in an effort to encourage subsidiaries to fine-tune their objectives for preventing damage from fire/equipment breakdowns;
- communicating detailed information on the Company to the insurance and reinsurance markets.

The Group takes out global insurance coverage for all its subsidiaries for third party liability and physical loss. The amounts covered vary according to the financial risks defined in the loss scenario, arbitration decisions as to whether to keep the risk internal or use external coverage, and the insurance conditions offered by the market (available capacity and premium prices). The main insurance contracts that cover all Group Divisions are detailed below.

5.3.1 Insurance for property damage and business interruption

This insurance covers all direct physical loss to the Group's property, not subject to exclusions, as well as any costs and consequential losses.

Deductibles applied to physical loss range from €100,000 to €1,000,000 per claim, according to the severity of the risk concerned.

The Group program provides coverage based on a proportion of the total value or based on contractual limits per claim. In the latter case, the limits are established on the basis of major accidents estimated according to insurance market rules.

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

5.3.2 Civil liability insurance

5.3.2.1 General civil liability insurance

This insurance covers the Group for any liability arising as a result of injury or loss caused to third parties, either resulting from the Group's operations or after delivery of goods or services, as well as for professional civil liability.

The indemnity also includes a limit on liability.

In respect of both property and civil liability insurance, contracts are split between a main Group contract and local contracts integrated into the main contract. The Group contract prevails where terms or limits differ from those of local contracts issued by the lead insurer.

The insured cap for third-party general liability and products was raised in 2011, 2012 and 2014, to take account of the increased size of the Group and the prevailing levels of compensation on the market in this area.

5.3.2.2 Employee benefits

Under the conditions provided for by law and Company-level agreements, insurance programs covering employees against risks related to accidents and medical costs have been put in place at the operating entities. An assistance-repatriation insurance policy for employees seconded abroad covers all Group subsidiaries.

5.3.2.3 Civil liability of corporate officers

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

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

6

Assets, financial position and results

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6.1 Consolidated financial statements

6.1.1 Vallourec Group's statement of financial position

In € thousand	Notes	31/12/2014	31/12/2015
NON-CURRENT ASSETS			
Net intangible assets	1	165,910	148,821
Goodwill	1	332,218	329,569
Gross property, plant and equipment	2.1	6,406,246	6,205,411
Less: accumulated amortization, depreciation and provisions	2.1	(2,882,997)	(3,044,350)
Net property, plant and equipment	2.1	3,523,249	3,161,061
Biological assets	2.2	213,923	154,694
Associates	3	184,125	176,835
Other non-current assets	4	435,064	233,133
Deferred tax assets	5	223,102	148,783
TOTAL		**5,077,591**	**4,352,896**
CURRENT ASSETS			
Inventories and work in progress	6	1,490,031	1,066,165
Trade and other receivables	7	1,145,654	544,904
Derivatives – assets	8	28,211	20,341
Other current assets	9	343,155	307,474
Cash and cash equivalents	10	1,146,913	630,540
TOTAL		**4,153,964**	**2,569,424**
Assets held for sale and discontinued operations	11	–	68,964
TOTAL ASSETS		**9,231,555**	**6,991,284**

In € thousand	Notes	31/12/2014	31/12/2015
EQUITY	13		
Capital		261,196	271,377
Additional paid-in capital		991,846	1,058,872
Consolidated reserves		3,823,895	2,794,668
Reserves, financial instruments		(64,507)	(54,279)
Foreign currency translation reserve		(287,704)	(500,575)
Net income for the period		(923,594)	(864,753)
Treasury shares		(57,773)	(59,642)
Equity, Group share		**3,743,359**	**2,645,668**
Non-controlling interests	**15**	**426,253**	**391,941**
TOTAL EQUITY		**4,169,612**	**3,037,609**
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	16	1,781,873	1,762,955
Employee benefits	19	244,282	224,477
Provisions	17	13,437	10,515
Deferred tax liabilities	5	256,246	216,172
Other long-term liabilities	18	215,426	31,731
TOTAL		**2,511,264**	**2,245,850**
CURRENT LIABILITIES			
Provisions	17	162,996	238,107
Overdrafts and other short-term borrowings	16	911,644	386,842
Trade payables		806,856	523,476
Derivatives – liabilities	8	173,300	152,430
Tax liabilities		57,626	13,981
Other current liabilities	20	438,257	332,854
TOTAL		**2,550,679**	**1,647,690**
Assets held for sale and discontinued operations	11	–	60,135
TOTAL EQUITY AND LIABILITIES		**9,231,555**	**6.991.284**

6.1.2 Consolidated income statement

In € thousand	Notes	2014	2015
Revenue	23	5,700,536	3,803,423
Cost of sales [(a)]	24	(4,248,149)	(3,352,744)
Sales, general and administrative costs [(a)]	25	(567,154)	(512,829)
Other	26	(29,982)	(15,097)
EBITDA		**855,251**	**(77,247)**
Depreciation of industrial assets	28	(310,713)	(302,632)
Other depreciation and amortization	28	(50,596)	(44,279)
Impairment of assets and goodwill	29	(1,103,700)	(296,222)
Asset disposals, restructuring costs and non-recurring items	29	(50,830)	(117,960)
OPERATING INCOME/(LOSS)		**(660,588)**	**(838,340)**
Financial income		43,141	36,764
Interest expenses		(132,226)	(111,695)
Net interest expenses		(89,085)	(74,931)
Other financial income and expenses		36,480	7,423
Other discounting expenses		(9,587)	(7,259)
NET FINANCIAL INCOME/(LOSS)	**30**	**(62,192)**	**(74,767)**
PRE-TAX INCOME/(LOSS)		**(722,780)**	**(913,107)**
Income tax	31	(157,654)	15,178
Share in net income/(loss) of associates	33	2,487	(25)
NET INCOME/(LOSS) FROM CONTINUING OPERATIONS		**(877,947)**	**(897,954)**
CONSOLIDATED NET INCOME/(LOSS)		**(877,947)**	**(897,954)**
Attributable to non-controlling interests		45,647	(33,201)
Group share		**(923,594)**	**(864,753)**
Group share:			
Net earnings per share	14	(7.3)	(6.6)
Net diluted earnings per share	14	(7.3)	(6.6)

(a) Before depreciation and amortization.

6.1.3 Statement of comprehensive income

In € thousand	Notes	2014	2015
CONSOLIDATED NET INCOME/(LOSS)		**(877,947)**	**(897,954)**
Other comprehensive income:			
Actuarial gains and losses on post-employment benefits		(59,117)	20,607
Tax attributable to actuarial gains and losses on post-employment benefits		13,882	(32,257)
Items that will not be reclassified to profit or loss		**(45,235)**	**(11,650)**
Exchange differences on translating net assets of foreign entities	13 and 15	289,099	(172,450)
Change in fair value of hedging financial instruments		(104,834)	27,477
Change in fair value of available-for-sale securities		(12,382)	(8,049)
Tax relating to the change in fair value of hedging financial instruments		24,975	(9,211)
Tax attributable to the change in fair value of available-for-sale securities		100	–
Items that may be reclassified subsequently to profit or loss		**196,958**	**(162,233)**
OTHER COMPREHENSIVE INCOME/(LOSS) (NET OF TAX)		**151,723**	**(173,883)**
TOTAL COMPREHENSIVE INCOME/(LOSS)		**(726,224)**	**(1,071,837)**
Attributable to non-controlling interests		95,533	7,698
Group share		**(821,757)**	**(1,079,535)**

6.1.4 Statement of changes in equity, Group share

In € thousand	Capital	Additional paid-in capital	Conso-lidated reserves	Foreign currency translation reserve	Reserves – changes in fair value of financial instruments – net of tax	Treasury shares	Net income or loss for the period	Total equity, Group share	Total non-controlling interests	Total equity
POSITION AS AT 31 DECEMBER 2013	**256,319**	**929,055**	**3,706,223**	**(525,400)**	**27,584**	**(55,129)**	**261,860**	**4,600,512**	**385,431**	**4,985,943**
Change in foreign currency translation reserve	–	–	–	237,696		–	–	237,696	51,403	289,099
Financial instruments	–	–	–	–	(79,809)	–	–	(79,809)	(50)	(79,859)
Actuarial gains and losses on retirement commitments	–	–	(43,768)			–	–	(43,768)	(1,467)	(45,235)
Available-for-sale financial assets	–	–		–	(12,282)	–	–	(12,282)	–	(12,282)
Other comprehensive income (loss)	–	–	*(43,768)*	*237,696*	*(92,091)*	–	–	*101,837*	*49,886*	*151,723*
2014 NET INCOME/ (LOSS)	**–**	**–**	**–**	**–**	**–**	**–**	**(923,594)**	**(923,594)**	**45,647**	**(877,947)**
Comprehensive Income	–	–	*(43,768)*	*237,696*	*(92,091)*	–	*(923,594)*	*(821,757)*	*95,533*	*(726,224)*
Appropriation of 2013 net income/(loss)	–	–	261,860	–	–	–	(261,860)	–		–
Change in share capital and additional paid-in capital	3,840	45,326	–	–	–	–	–	49,166		49,166
Change in treasury shares	–	–	(8,365)	–	–	(2,644)	–	(11,009)		(11,009)
Dividends paid	1,037	17,465	(103,280)	–	–	–	–	(84,778)	(54,890)	(139,668)
Share-based payments	–	–	16,034	–	–	–	–	16,034		16,034
Changes in consolidation scope and other	–	–	(4,809)	–	–	–	–	(4,809)	179	(4,630)
POSITION AS AT 31 DECEMBER 2014	**261,196**	**991,846**	**3,823,895**	**(287,704)**	**(64,507)**	**(57,773)**	**(923,594)**	**3,743,359**	**426,253**	**4,169,612**
Change in foreign currency translation reserve	–	–	–	(212,871)	–	–	–	(212,871)	40,421	(172,450)
Financial instruments	–	–	–	–	18,277	–	–	18,277	(11)	18,266
Actuarial gains and losses on retirement commitments	–	–	(12,139)		–	–	–	(12,139)	489	(11,650)
Available-for-sale financial assets	–	–	–	–	(8,049)	–	–	(8,049)	–	(8,049)
Other comprehensive income (loss)	–	–	*(12,139)*	*(212,871)*	*10,228*	–	–	*(214,782)*	*40,899*	*(173,883)*
2015 NET INCOME/ (LOSS)							**(864,753)**	**(864,753)**	**(33,201)**	**(897,954)**
Comprehensive Income	–	–	*(12,139)*	*(212,871)*	*10,228*	–	*(864,753)*	*(1,079,535)*	*7,698*	*(1,071,837)*
Appropriation of 2014 net income/(loss)	–	–	(923,594)	–	–	–	923,594	–	–	–
Change in share capital and additional paid-in capital	4,000	13,252	–	–	–	–	–	17,252	–	17,252
Change in treasury shares	–	–	(6,604)	–	–	(1,869)	–	(8,473)	–	(8,473)
Dividends paid	6,181	53,774	(104,120)	–	–	–	–	(44,165)	(25,080)	(69,245)
Share-based payments	–	–	1,467	–	–	–	–	1,467	–	1,467
Changes in consolidation scope and other	–	–	15,763	–	–	–	–	15,763	(16,930)	(1,167)
POSITION AS AT 31 DECEMBER 2015	**271,377**	**1,058,872**	**2,794,668**	**(500,575)**	**(54,279)**	**(59,642)**	**(864,753)**	**2,645,668**	**391,941**	**3,037,609**

6.1.5 Statement of changes in non-controlling interests

In € thousand	Consolidated reserves	Foreign currency translation reserve	Reserves – changes in fair value of financial instruments – net of tax	Net income or loss for the period	Non-controlling interests
POSITION AS AT 31 DECEMBER 2013	**361,407**	**(13,855)**	**889**	**36,990**	**385,431**
Change in foreign currency translation reserve	–	51,403	–	–	51,403
Financial instruments	–	–	(50)	–	(50)
Actuarial gains and losses on retirement commitments	(1,467)	–	–	–	(1,467)
Available-for-sale financial assets	–	–	–	–	–
Other comprehensive income (loss)	*(1,467)*	*51,403*	*(50)*	–	*49,886*
2014 NET INCOME/(LOSS)	**–**		**–**	**45,647**	**45,647**
Comprehensive Income	*(1,467)*	*51,403*	*(50)*	*45,647*	*95,533*
Appropriation of 2013 net income/(loss)	36,990	–	–	(36,990)	–
Dividends paid	(54,890)	–	–	–	(54,890)
Changes in scope and other	179	–	–	–	179
POSITION AS AT 31 DECEMBER 2014	**342,219**	**37,548**	**839**	**45,647**	**426,253**
Change in foreign currency translation reserve	–	40,421	–	–	40,421
Financial instruments	–	–	(11)	–	(11)
Actuarial gains and losses on retirement commitments	489	–	–	–	489
Available-for-sale financial assets	–	–	–	–	–
Other comprehensive income (loss)	*489*	*40,421*	*(11)*	–	*40,899*
2015 NET INCOME/(LOSS)	**–**	**–**	**–**	**(33,201)**	**(33,201)**
Comprehensive Income	*489*	*40,421*	*(11)*	*(33,201)*	*7,698*
Appropriation of 2014 net income/(loss)	45,647	–	–	(45,647)	–
Dividends paid	(25,080)	–	–	–	(25,080)
Changes in scope and other	(13,710)	(3,220)	–	–	(16,930)
POSITION AS AT 31 DECEMBER 2014	**349,565**	**74,749**	**828**	**(33,201)**	**391,941**

6.1.6 Statement of cash flows

In € thousand	Notes	2014	2015
Consolidated net income (including non-controlling interests)		**(877,947)**	**(897,954)**
Net amortization, depreciation and provisions		1,534,951	764,051
Unrealized gains and losses linked to changes in fair value		(26,458)	(11,332)
Income and expenses linked to share options and equivalent		16,034	1,467
Capital gains and losses on disposals		8,151	14,207
Share of net income in associates	3	(2,487)	25
Dividends reclassified as other flows linked to investing activities		(2,774)	(1,687)
Cash flow from operating activities after net financial cost and taxes		**649,470**	**(131,223)**
Net financial cost	30	89,085	74,931
Tax expense (including deferred taxes)	31	157,654	(15,178)
Cash flow from operating activities before cost of net debt and tax		**896,209**	**(71,470)**
Interest paid		(132,226)	(111,695)
Tax paid		(124,342)	(82,691)
Interest received		43,141	36,764
Cash flow from operating activities		**682,782**	**(229,092)**
Change in operating working capital requirements	12	(20,449)	632,117
NET CASH FLOW FROM OPERATING ACTIVITIES (1)		**662,333**	**403,025**
Cash outflows for acquisitions of property, plant and equipment and intangible assets	2.1	(368,328)	(254,910)
Cash outflows for acquisitions of biological assets	2.1	(19,852)	(13,193)
Cash inflows from disposals of property, plant and equipment and intangible assets		4,276	4.575
Impact of acquisitions (changes in consolidation scope)		–	–
Cash of subsidiaries acquired (changes in consolidation scope)		–	–
Impact of disposals (changes in consolidation scope)		–	–
Cash of subsidiaries sold (changes in consolidation scope)		–	–
Other cash flows from investing activities		8,740	(11,322)
Impact of reclassification to assets held for sale and discontinued operations		–	(4,000)
NET CASH FLOW FROM (USED IN) INVESTING ACTIVITIES (2)		**(375,164)**	**(278,850)**
Increase and decrease in equity		49,166	17,252
Dividends paid during the year			
› Dividends paid in cash to shareholders in the parent company		(84,774)	(44,165)
› Dividends paid to non-controlling interests		(78,174)	(24,998)
Movements in treasury shares		(11,009)	(8,473)
Proceeds drawn from new borrowings		2,740,897	416,525
Repayments of borrowings		(2,331,722)	(857,736)
Change in percentage of interest in controlled companies		–	–
Other cash flows from financing activities		(29,679)	(51,840)
CASH FLOW FROM FINANCING ACTIVITIES (3)		**254,705**	**(553,435)**
IMPACT OF CHANGES IN EXCHANGE RATES (4)		**22,489**	**(54,889)**
CHANGE IN CASH (1 + 2 + 3 + 4)		**564,363**	**(484,149)**
Opening net cash		**544,345**	**1,108,708**
Closing net cash		**1,108,708**	**624,559**
Change		564,363	(484,149)

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

Statement of changes in net debt in 2015

In € thousand	Notes	31/12/2014	Change	31/12/2015
Gross cash (1)	10	1,146,913	(516,373)	630,540
Bank current accounts in debit and overdrafts (2)	16	38,205	(32,224)	5,981
NET CASH (3) = (1) - (2)		**1,108,708**	**(484,149)**	**624,559**
Gross financial debt (4)	16	2,655,312	(511,496)	2,143,816
NET FINANCIAL DEBT = (4) - (3)		**1,546,604**	**(27,347)**	**1,519,257**

Statement of changes in net debt in 2014

In € thousand	Notes	31/12/2013	Change	31/12/2014
Gross cash (1)	10	563,312	583,601	1,146,913
Bank current accounts in debit and overdrafts (2)	16	18,967	19,238	38,205
NET CASH (3) = (1) - (2)		**544,345**	**564,363**	**1,108,708**
Gross financial debt (4)	16	2,175,005	480,307	2,655,312
NET FINANCIAL DEBT = (4) - (3)		**1,630,660**	**(84,056)**	**1,546,604**

6.1.7 Notes to the consolidated financial statements for the year ended 31 December 2015

In € thousand (€m) unless stated otherwise

A – Consolidation principles

1. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2015, including the related notes to the consolidated financial statements, were approved by the Vallourec Management Board on 16 February 2016 and will be submitted for approval to the Annual Shareholders' Meeting.

Pursuant to EC Regulation No. 1606/2002 adopted on 19 July 2002 for all listed companies in the European Union, Vallourec has prepared its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, using the standards and interpretations applicable as at 31 December 2015. These financial statements are available on the Company's website: www.vallourec.fr.

The IFRS framework covers the standards issued by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and their interpretations as issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC).

The accounting principles and measurement methods have been applied consistently to the periods presented, with the exception of:

New mandatory standards

IFRIC 21 – Levies relating to the recording of a liability for fees or taxes due, which was published in May 2013, clarifies a taxable event, recognizing a liability relating to a tax other than income tax when the obligation to pay occurs on a specific date or when a certain business threshold is reached. Application of IFRIC 21 had no material impact on the Group's consolidated financial statements as at 31 December 2015.

On 24 March 2015, the IFRIC provided an interpretation of IFRS 11 – Joint Arrangements, clarifying the recording of the Group's operations within the framework of joint operations. The application of this interpretation as at 31 December 2015 primarily translates into a €107 million drop in revenue in consideration for purchases, a €165 million drop in non-current assets, in consideration for other provisions and long-term liabilities, and a drop in trade receivables of €33 million, in consideration for trade payables.

The Group's consolidated financial statements as at 31 December 2015 are not impacted by the other new standards which must be applied as of 1 January 2015.

New standards not applied early

- The IASB issued IFRS 15 – Revenue from Contracts with Customers, which introduced a new model of accounting for these revenues for contracts with customers and will replace IAS 11, IAS 18 and the IFRIC and SIC interpretations related to revenue recognition.

- The IASB completed its project to replace IAS 39 – Financial Instruments: Recognition and Measurement by publishing the final version of IFRS 9 – Financial Instruments. IFRS 9 specifically introduces changes to the classification of financial assets, the impairment model, and hedge accounting.
- The Group is currently assessing the potential impact of first-time adoption of these texts which could become mandatory on 1 January 2018, and does not plan to opt for early application.

The Group has not opted for early application of any other standards or interpretations that will be mandatory for fiscal years beginning on or after 1 January 2016.

2. ACCOUNTING PRINCIPLES AND METHODS

2.1 General measurement principles

The consolidated financial statements are prepared using the historical cost convention, except for biological assets, derivative financial instruments that are measured at fair value, as well as financial assets measured at fair value through profit and loss or equity (see Section 2.16).

2.2 Use of estimates and judgment

The preparation of the financial statements under IFRS leads Vallourec's management to use estimates and formulate assumptions that affect the carrying amount of certain assets and liabilities, income and expenses, and some of the information in the notes to the financial statements.

Such assumptions are inherently uncertain, and actual results could differ from these estimates. The Group regularly reviews its estimates and assumptions in order to take into account past experience and any factors deemed relevant in prevailing economic conditions. In the current economic climate (uncertainty about business trends, a highly-competitive international environment and volatility in costs of raw materials and energy) the uncertain nature of some estimates may be more pronounced.

Accounts and information subject to significant estimates include the measurement of the following items:

- property, plant and equipment, intangible assets and goodwill (see Note 2.3);
- financial assets (see Note 2.16.1);
- derivative financial instruments (see Note 2.16.4);
- inventories and work in progress (see Note 2.10);
- provisions (see Note 17);
- biological assets (see Note 2.5.6);
- deferred taxes (see Note 5).

The Group must use assumptions and judgments to evaluate the level of control in certain associates, notably to define relevant activities and identify substantive rights, as well as the type of joint arrangement in question for a jointly controlled business. These judgments are revised if facts and circumstances change.

2.3 Consolidation of subsidiaries

The consolidated financial statements include the financial statements of Vallourec and its subsidiaries for the period from 1 January to 31 December 2015.

2.3.1 CONTROLLED ENTITIES

Subsidiaries are fully consolidated from the date of acquisition. They cease to be consolidated when control is transferred outside the Group.

Definition

There is control when the Group (i) holds power over an entity, (ii) is exposed to or is entitled to variable returns due to its connections with the entity and (iii) has the capacity to exercise its power over the entity so as to influence the amount of the returns it obtains.

Accounting method

The consolidated financial statements include all of the assets, liabilities, and comprehensive income of the subsidiary.

Non-controlling interests represent the share of interest which is not directly or indirectly attributable to the Group. The results and other items of comprehensive income are divided between the Group and non-controlling interests. The comprehensive income of the subsidiaries is divided between the Group and the non-controlling interests, including when this distribution results in allocating a loss to the non-controlling interests.

Changes in the percent interest in subsidiaries that do not result in a change of control are considered transactions impacting equity, as they are transactions that are performed with shareholders acting in this capacity.

The effects of these transactions are recorded in equity for the net tax amount and thus do not have an impact on the Group's consolidated income statement.

These transactions are moreover presented in the cash flow statement under financing or investment operations, as applicable.

The financial results of acquired companies are included in the consolidated income statement from the effective dates of their acquisition. The results of companies sold are included until the date of loss of control.

Cash flows on the income statement and balance sheet related to intra-Group commercial and financial transactions are eliminated.

2.3.2 CONSOLIDATION OF JOINT OPERATIONS

Definition

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Joint operations

The Group, as a co-participant in a joint operation, records the following items as concerns its interests in the joint operation:

- its assets, including its share of the assets that are jointly held, where applicable;
- its liabilities, including its share of the liabilities that are jointly held, where applicable;
- the income it has drawn from the sale of its share of the production that is generated by the joint operation;
- the expenses it has incurred, including its share of the expenses jointly incurred, where applicable.

The consolidated financial statements include, line-by-line, the representative portion of the Group's interests in each item of the assets, liabilities and comprehensive income, established in compliance with IFRS.

The most significant joint operation is Vallourec & Sumitomo Tubos do Brasil (VSB). The qualification of this entity as a joint operation is underpinned by the legal form and the terms of the joint arrangement:

- Vallourec is affiliated by a contractual agreement with Sumitomo. The entities have joint control of VSB. To that end, the unanimous agreement of both joint operators is needed to make strategic decisions related to the activity, in order to appoint members of the Management Committee, approve the budget, or validate any decision relating to the operational activities of VSB;
- Vallourec has direct rights over VSB's production; the latter is only intended for Vallourec's and Sumitomo's use, in proportion to their respective interest, without direct access to the external market. The parties sharing control have agreed to use a predefined volume of supplies from VSB;
- Vallourec also has obligations ("take or pay" clauses and clauses to hedge fixed costs of VSB), jointly with its partner.

2.3.3 INTERESTS IN JOINT VENTURES AND ASSOCIATES

Definition

Associates are companies in which the Group exercises significant influence over operating and financial policies without having control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group's investments in joint ventures and associates are accounted for using the equity method.

Equity

The equity method provides for an investment in an associate being initially recorded at cost, and then subsequently adjusted for the change in the Group's share in the income and other comprehensive income of the associate.

An investment is recorded under the equity method as of the date when the entity becomes an associate or joint venture. When an associate or joint venture is acquired, the difference between the cost of the investment and the Group share in the net fair value of the identifiable assets and liabilities of the entity is recorded under goodwill. In the event that the net fair value of the identifiable assets and liabilities of the entity is higher than the cost of the investment, the difference is recorded under income.

Shares in the net income of associates are incorporated in the net income of the activities pursued, whether or not their activities are an extension of the Group's activities.

Impairment testing

The provisions of IAS 39 – Financial Instruments: Recognition and Measurement, apply to determine whether or not it is necessary to perform an impairment test for its investment in an associate. If necessary, the total book value of the investment (including goodwill) undergoes impairment testing according to the provisions prescribed by IAS 36 – Impairment of Assets.

Loss of significant influence or joint control

Whenever the investment no longer constitutes an associate, the equity method is no longer applied. Any retained interest in the former associate that constitutes a financial asset, is measured at fair value on the date the interest ceases to be an associate or joint venture.

2.4 Foreign currency translation

2.4.1 TRANSLATION OF SUBSIDIARIES' FOREIGN CURRENCY FINANCIAL STATEMENTS

The presentation currency of the consolidated financial statements is the euro.

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

The ensuing translation differences are recorded in equity. The Group's share of such differences is recorded on the separate line, "Foreign currency translation reserve".

2.4.2 TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated into the Company's functional currency. When the transaction is subject to a hedge (see paragraph 2.16.4), it is translated at the spot rate on the day the hedging instrument is set up. In the absence of a hedge, foreign currency transactions are translated at the prevailing exchange rates on the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the closing exchange rates prevailing on that date. Translation differences resulting from difference between these rates and the rates at which the transactions were initially recorded are included in financial income or loss.

2.5 Property, plant and equipment and biological assets

2.5.1 MEASUREMENT AT COST NET OF DEPRECIATION AND IMPAIRMENT

Except when acquired as part of a business combination, property, plant and equipment are recorded at their acquisition or production cost. They are not subject to remeasurement. At each reporting date, the acquisition cost is reduced by accumulated depreciation and any provisions for impairment determined in accordance with IAS 36 – Impairment of Assets (see paragraph 2.9).

2.5.2 COMPONENT APPROACH

The main components of an asset having a useful life different from that of the main asset (furnaces, heavy industrial equipment, etc.) are identified by the technical departments and depreciated over their own useful lives.

Subsequent expenditure on replacement of the component (i.e. the cost of the new component) is capitalized, provided that future economic benefits are still expected to be derived from the main asset.

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

2.5.3 MAINTENANCE AND REPAIR COSTS

Recurring maintenance and repair costs that do not meet the criteria for the component approach are expensed when they are incurred.

2.5.4 AMORTIZATION AND DEPRECIATION

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

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

Depreciation of new industrial sites in the development stage is calculated according to the production-units method for assets used directly in the production process and the straight-line depreciation method for other assets.

2.5.5 PROPERTY, PLANT AND EQUIPMENT ACQUIRED AS PART OF A BUSINESS COMBINATION

Property, plant and equipment acquired as part of a business combination are measured at fair value on the acquisition date. They are depreciated using the straight-line method over the remaining useful life at the acquisition date.

2.5.6 BIOLOGICAL ASSETS

The Group owns biological assets in Brazil, which mainly consist of eucalyptus plantations cultivated for the Group's coke requirements. They are valued according to the principles defined by IAS 41 – Agriculture. The existence of an active market in Brazil requires the Group to measure these assets at fair value less selling costs upon initial recognition and at each reporting date.

2.6 Leases

Assets financed by finance leases, which transfer almost all of the risks and rewards of ownership to the Group, are capitalized on the statement of financial position at the lesser of the fair value of the leased property or the present value of the minimum lease payments. The corresponding liability is recorded under financial liabilities.

Lease payments are split between interest expense and amortization of the obligation so as to obtain a constant interest rate on the balance of the loan liability.

Assets leased under finance leases are depreciated over their useful life in accordance with Group rules (see paragraph 2.5) or the lease term, whichever is shorter.

Leases under which the lessor retains almost all of the risks and rewards of ownership are operating leases. Payments on operating leases are expensed on a straight-line basis over the term of the contract.

2.7 Goodwill

The Group measures goodwill as the surplus of:

- the total of:
  - the fair value of the consideration transferred,
  - the amount of any non-controlling interest in the acquiree (such interests are measured either at fair value – total goodwill – or book value – partial goodwill), and
  - in the case of a step acquisition, the fair value at the acquisition date of the acquirer's previously held interest in the acquiree; and
- the net fair value at the acquisition date of the identifiable assets acquired and liabilities assumed.

For major acquisitions, fair value measurements are done with the help of independent experts.

The decision to apply the partial or total goodwill method is made separately for each business combination.

Goodwill is not amortized: pursuant to IAS 36 – Impairment of Assets it is tested for impairment at least once a year, or more frequently if there is an indication of impairment. The testing procedures are designed to ensure that the recoverable amount of the cash-generating unit to which the goodwill is assigned or allocated is at least equal to its net carrying amount (see paragraph 2.9 – Impairment of property, plant and equipment and intangible assets). If an impairment loss is recognized, an irreversible provision is recorded in operating profit under "Impairment of assets and goodwill".

Pursuant to revised IFRS 3 and IAS 10.22, the Group recognizes in equity the difference between the price paid and the share of non-controlling shareholders acquired in previously-controlled companies.

Acquisition costs incurred by the Group in carrying out the business combination, such as referral agents' commissions, legal and due diligence fees and other professional or consultancy fees, are expensed when they are incurred.

2.8 Intangible assets

2.8.1 RESEARCH AND DEVELOPMENT COSTS

In accordance with IAS 38 – Intangible Assets, research costs are expensed and development costs are capitalized as intangible assets if the company can show:

- its intention, and its financial and technical capability, to bring the development project to completion;
- that it is probable that the future economic benefits attributable to the development expenditure will flow to the company;
- its ability to reliably measure the cost of the intangible asset during its development phase;
- its ability to use or sell the intangible asset.

Significant R&D projects are reviewed based on information available from the corporate departments coordinating the research in order to identify and analyze any current projects that have entered the development phase, as defined under IAS 38.

The Group's development projects to design new or improved products and manufacturing processes, particularly in its oil and energy-related activities, are already at a very advanced stage before they qualify for capitalization as assets under IAS 38 criteria. It is very difficult to show the existence of long-term additional future economic benefits that can be clearly distinguished from the normal costs of maintaining and upgrading production plants and products to preserve the Group's technological and competitive edge. As a result, in 2015 as in 2014, no costs incurred on major projects were identified that met the standard's criteria.

2.8.2 OTHER INTANGIBLE ASSETS

Intangible assets acquired separately are recognized at cost. They are mainly patents and trademarks, which are amortized on a straight-line basis over their useful lives.

Intangible assets acquired as part of a business combination are recorded separately from goodwill if their fair value can be measured during the acquisition phase. Those with a finite life are amortized over their estimated useful lives for the Company.

Greenhouse gas emission allowances received free of charge are recognized at nil value (in accordance with IAS 20). A provision is recognized when allowances granted by the government are inadequate to cover actual emissions. Notes 17 and 22 to the financial statements contain information about the methods used to value unused allowances at the end of the reporting period.

2.8.3 IMPAIRMENT

Intangible assets are tested for impairment in accordance with the provisions of IAS 36 – Impairment of Assets (see paragraph 2.9).

2.9 Impairment of property, plant and equipment and intangible assets

Under IAS 36 – Impairment of Assets, the value in use of property, plant and equipment and intangible assets is tested whenever there is an indication of impairment; such indications are reviewed at each balance sheet date.

A Group stock market value that is less than its consolidated net assets during a business cycle, a negative outlook associated with the economic, legislative or technological environment or a business sector would constitute an indication of impairment.

Impairment tests are carried out at least once a year for assets with indefinite useful lives, a category that, for the Group, is limited to goodwill.

To perform impairment tests, the assets are grouped into Cash-Generating Units (CGUs). CGUs are standard groups of assets whose on-going use generates cash inflows which are largely independent of the cash inflows generated by other groups of assets. The value in use of the CGUs is determined in relation to the present value of future net cash flows generated by the assets tested. The discount rate corresponds to the Group's weighted average cost of capital, incorporating a market risk premium and a sector-specific risk premium. This rate is adjusted, where appropriate, by a risk premium related to the geographical area.

When the CGU's recoverable amount (the higher of fair value less costs to sell and value in use) is less than its carrying amount, an impairment loss is recognized on a separate line in the income statement. When a CGU includes goodwill, the impairment loss is first deducted from goodwill and then, where applicable, the CGU's other assets.

In addition, the appearance of loss factors relating to specific assets (linked to internal factors or events or decisions that cast doubt on the continuing operation of a site, for example) may be such that they justify impairment of these assets.

The main CGUs used in the Group's current configuration and organization are Vallourec Europe, Vallourec do Brasil, Vallourec North America, Vallourec Heat Exchanger Tubes, Valinox Nucléaire, Serimax, and Vallourec & Sumitomo Tubos do Brasil.

2.10 Inventories and work in progress

Inventories are valued at the lesser of cost or net realizable value, and provisions for impairment are recognized if necessary.

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

Inventory costs of raw materials, goods for resale and other supplies comprises the purchase price excluding taxes, less discounts, rebates and other payment deductions obtained, plus incidental costs of purchase (transportation, unloading expenses, customs duties, buying commissions, etc.). These inventories are measured at weighted average cost.

The cost of work in progress and intermediate and finished goods consists of the production cost excluding financial expenses. Production costs comprise raw materials, factory supplies and labor, and direct and indirect industrial overheads attributable to processing and production, based on normal capacity. General and administrative expenses are excluded from this measurement.

2.11 Assets held for sale and discontinued operations

A non-current asset or group of related assets and liabilities is considered to be held for sale, in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, when:

- it is available for immediate sale in its current condition; and
- its sale is highly probable. This is the case when management is committed to a plan to sell the asset and an active program to locate a buyer at a reasonable price, and the sale is expected to take place in less than one year.

Non-current assets, groups of assets or activities held for sale are measured at the lower of their carrying amount and their fair value (estimated selling price), net of selling costs. They are presented on a separate line in assets and liabilities and are no longer amortized or depreciated.

Only entire business lines of discontinued operations are disclosed separately in the income statement.

2.12 Provisions

A provision is recognized when, at the reporting date, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying future economic benefits will be required to settle the obligation.

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

In the case of restructuring, a provision may be recognized only if, at the reporting date, the Company has announced the restructuring and drawn up a detailed plan or started to implement the plan.

Provisions are booked with regard to disputes (technical, guarantees, tax audits, etc.) if the Group has an obligation to a third party at the reporting date. They are determined based on the best estimate of the expense likely to be required to settle the obligation.

2.13 Retirement benefits and similar obligations

The Group participates in the funding of supplementary retirement plans and other long-term employee benefits, in accordance with constructive or legal requirements. The Group offers these benefits by means of either defined-contribution or defined-benefit plans.

In the case of defined-contribution plans, the Group's only obligation is the payment of premiums. Contributions paid to the plans are recognized as expenses for the period. If applicable, provisions are recognized for outstanding contributions at the reporting date.

Provisions are recognized for retirement and similar commitments arising from defined benefit plans and are measured based on an actuarial calculation performed at least once a year by independent actuaries. The projected unit credit method is applied as follows: each period of service creates an additional unit of benefit entitlement, and each of these units is measured separately to determine the Group's employee benefit obligations.

The calculations take into account the specific features of the various plans and assumptions for the retirement date, career advancement, salary increases, as well as the probability of the employee still being employed by the Group at retirement age (turnover rates, mortality tables, etc.). The obligation is discounted based on the interest rates of long-term bonds of prime issuers.

Retirement commitments and similar obligations mainly relate to the Group's French subsidiaries and its subsidiaries in Germany, the United Kingdom, the United States and Brazil.

Other employee benefits for which the Group recognizes provisions are:

- in the case of French and foreign subsidiaries, benefits in connection with long-service awards;
- in the case of certain subsidiaries in the United States and Brazil, coverage of medical expenses.

The obligation is presented on the balance sheet, net of plan assets measured at fair value (if applicable).

2.14 Share-based payments

IFRS 2 "Share-based Payment" requires the measurement and recognition of the benefits arising from share option and performance share allocation plans that are equivalent to compensation of the beneficiaries: these are recognized as payroll costs spread over the vesting period, with a corresponding increase in equity.

Changes in value after the award date have no impact on the option's initial measurement. The number of options taken into account in measuring the plan is adjusted at each reporting date to reflect the probability of the beneficiaries' continued service at the end of the vesting period.

- Some members of executive management and employees benefit from the share subscription or share purchase options that entitle them to purchase an existing share or to subscribe to a capital increase at an agreed price.

  Options must be measured using the Black & Scholes model on the date they are awarded.
- Some members of executive management and employees benefit from share allocation plans where vesting conditions are related to performance criteria (percentage of consolidated EBITDA). These plans are measured using a binomial model to project share prices.
- Vallourec offers employee shareholding plans reserved for its employees. These plans are measured using a binomial model to project share prices.

2.15 Treasury shares

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

2.16 Financial instruments

Financial instruments include financial assets and liabilities as well as derivatives.

The presentation of financial instruments is defined by IFRS 7 and IAS 32. The measurement and recognition of financial instruments are governed by IAS 39 and IFRS 13.

Changes in the fair value of derivatives are recognized in the financial statements. Changes in the fair value of hedged items are also recognized at each reporting date (see paragraph 2.16.4 – Derivative instruments and hedge accounting).

In addition, in accordance with IAS 32, the sale of puts to non-controlling interest shareholders of a company under exclusive control results in the recognition of a financial liability equal to the discounted fair value of the estimated repurchase amount. The Group recognizes this financial liability by deducting it from the amount attributable to non-controlling interests and, for the remaining portion of the liability, by deducting it from equity, Group share.

2.16.1 FINANCIAL ASSETS (EXCLUDING HEDGE DERIVATIVES)

Financial assets include:

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

Initial measurement

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

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

Classification and measurement at the end of the reporting period

Financial assets (excluding hedging derivatives) are classified according to IAS 39 in one of the following four categories for their measurement on the balance sheet

Category	Measurement	Recognition of changes in value
Financial assets measured at fair value through profit or loss	Fair value	Changes in fair value recognized in profit or loss
Held-to-maturity assets	Amortized cost	Not applicable
Loans and receivables	Amortized cost	Not applicable
Available-for-sale financial assets	General convention: fair value But amortized cost for equity instruments whose fair value cannot be reliably estimated (e.g. shares not listed on an active market)	Changes in fair value recognized in other comprehensive income Not applicable

Financial assets for which changes in fair value are recognized in profit or loss

This category of assets includes:

- assets held for transactional purposes, i.e. that have been acquired by the business with the aim of generating short-term income; in the Group, the assets concerned are all cash assets (investment securities, cash and cash equivalents, etc.).

  Investment securities (French SICAV and FCP mutual funds, etc.) are measured at fair value at the reporting date, and changes in fair value are recognized in financial profit/(loss). They are therefore not tested for impairment. Fair value is determined mainly by reference to market quotations;
- asset derivative instruments that are not expressly designated as hedging instruments.

Held-to-maturity assets

These are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the intention and ability to hold to maturity, other than loans and receivables and financial assets classified by the Company in the other two categories (measured at fair value through profit or loss; available-for-sale).

In the Group, the only assets in this category are security deposits and guarantees.

Loans and receivables

These are mainly non-derivative financial assets with fixed or determinable payments that are not listed on an active market.

In the Group, this category includes:

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

The amortized cost of short-term receivables such as accounts receivable is usually equal to their historical cost.

Loans to employees are measured using the effective interest rate method applied to estimated future cash flows until the maturity dates of the loans.

Available-for-sale financial assets

Available-for-sale financial assets are mainly those that have not been classified in any of the other three categories.

In the Group, the main assets in this category are investments in equity instruments. In general, these are:

- unlisted shares whose fair value cannot be reliably estimated. They are recorded at their cost and undergo impairment testing when the consolidated financial statements are prepared;
- listed shares measured at their fair value at the reporting date. This fair value is determined based on the stock market price at the reporting date.

Changes in fair value are recognized directly in equity, unless a significant or long-term fall in fair value below the acquisition cost is recorded. In this case, the corresponding loss is definitively recorded in the income statement.

The “significant or long-term” nature is defined in Note 4 – Other non-current assets, on a case-by-case basis.

Impairment testing of financial assets

Financial assets measured at amortized cost and available-for-sale financial assets measured at cost must be tested for impairment at each reporting date if there is any indication of impairment, such as:

- significant financial difficulties or a high probability that the counterparty will suffer bankruptcy or restructuring;
- a high risk of non-recovery of receivables;
- the lender, for economic or legal reasons relating to the borrower’s financial difficulties, granting the borrower payment facilities not initially provided for;
- an effective breach of contract, such as the failure to make a payment (of interest, principal or both);
- the disappearance of an active market for the financial asset concerned.

In the case of assets measured at amortized cost, the amount of impairment is equal to the difference between the carrying amount of the asset and the present value of the estimated future cash flows, taking into account the counterparty’s situation, and determined on the basis of the financial instrument’s original effective interest rate.

The impairment thus determined is recognized in financial profit or loss for the period.

As regards held-to-maturity assets and loans and receivables, if, during subsequent financial years, the conditions that led to the impairment cease to exist, the impairment must be reversed, although the reversal must not result in a carrying amount that, on the date the impairment is reversed, exceeds what the amortized cost would have been had the impairment not been recognized.

As regards unlisted equity interests classified as available-for-sale whose fair value cannot be reliably determined, no impairment previously recognized in the income statement may be reversed in subsequent periods, even in the event of an increase in the value of the securities concerned.

2.16.2 CASH AND CASH EQUIVALENTS

This item consists of bank current account balances and investment securities (units in short-term cash UCITS and mutual and investment funds) that are immediately available (not pledged), risk-free and have a low volatility level.

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

The net debt referred to in the cash flow statement corresponds to total financial debt less cash and cash equivalents.

2.16.3 FINANCIAL LIABILITIES

The Group's financial liabilities include bank loans which bear interest, bond issues and finance leases, as well as liability derivatives.

Borrowings are classified as current liabilities for the portion to be repaid within 12 months after the reporting date and as non-current liabilities for payments due in more than 12 months.

Interest-bearing borrowings are initially recorded at fair value less associated transaction costs. These costs (loan issue expenses and premiums) are taken into account in the calculation of the amortized cost using the effective interest rate method. They are recognized in financial profit or loss on an actuarial basis over the life of the liability.

At each reporting date, financial liabilities are then measured at amortized cost using the effective interest rate method, in addition to the specific procedures associated with hedge accounting (see below).

Variable rate borrowings for which interest rate swaps have been entered into are accounted for using the cash flow hedge method. Changes in the fair value of swaps, linked to movements in interest rates, are recognized in equity for the effective portion, with the balance being recognized in financial profit or loss.

2.16.4 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

Group exposure to foreign exchange risk on commercial transactions

In addition to the hedging of certain financial liabilities (see paragraph 2.16.3), the Group enters into hedging contracts mainly to manage its exposure to foreign exchange risks arising from the orders and sales of certain subsidiaries in currencies other than their functional currency. In particular, a significant share of Vallourec's revenue is invoiced by European companies in US dollars. Exchange rate fluctuations between the euro and the dollar may therefore affect the Group's operating margin.

The Group manages its exposure to foreign exchange risk by setting up hedges based on regularly updated forecasts of customer orders. Operating receivables and revenues that will be generated by the orders are thus hedged by financial instruments, mainly forward currency sales.

To a lesser extent, the Group also enters into forward currency purchases to hedge its foreign currency purchase commitments.

Measurement and presentation of derivatives

Changes in the value of derivatives with respect to their date of implementation are measured at each reporting date.

The fair value of forward currency contracts is calculated on the basis of market data and conditions. Since they hedge commercial transactions, these derivatives are presented on the balance sheet under current assets and current liabilities.

Hedge accounting

Hedging of commercial transactions falls within the category of cash flow hedges.

The Group applies hedge accounting in strict compliance with the criteria of IAS 39:

- documentation of the hedging relationship: nature of the underlying hedged item, term of the hedge, hedging instrument used, spot rate of the hedge, forward points etc.;
- in the case of cash flow hedges, carrying out an effectiveness test on implementation of the derivative and updating the test at least once per quarter.

Hedge accounting within the Group is as follows:

At the reporting date, changes in the hedging instrument with respect to its date of implementation are measured at fair value and recognized on the statement of financial position as derivative assets or liabilities. The following are shown separately:

- the change in the intrinsic value of the hedging instrument (difference between the spot rate on the date of implementation of the hedge and the spot rate on the measurement date, i.e. the reporting date).

If the hedge is effective, and as long as the sale (or purchase) hedged is not recognized, changes in the intrinsic value are recognized in equity, in accordance with the principles of cash-flow hedge accounting,

If the hedging instrument is not effective (a rare occurrence, given the procedures introduced by the Group), the change in the intrinsic value of the derivative is recognized in financial profit or loss;

- the change in the time value (premium/discount). This change is systematically recognized in financial profit or loss, since this component is not included in the hedging relationship.

The revenue (purchase) corresponding to the sales forecasts (purchase orders) hedged is recognized at the spot rate on the date of implementation of the hedging contract. The account receivable (account payable) is initially recognized at the same spot rate.

At the end of each reporting period, hedged foreign currency accounts receivable and accounts payable are measured and recognized at the exchange rate applicable on the reporting date. The difference between that rate and the rate used on initial recognition (spot rate on the date of implementation of the hedge) or the rate applicable on the last reporting date constitutes an exchange gain or loss recognized in financial profit or loss for the period.

Once the hedged item (foreign currency receivable or payable) is recorded on the statement of financial position, the change in the intrinsic value of the hedging instrument previously recognized in equity is recorded in financial profit or loss. Changes in the value of the hedging instrument and the receivable or debt covered then have a symmetrical impact on financial profit or loss.

2.17 Income tax

Income tax expense comprises current tax and deferred tax.

In accordance with IAS 12, deferred taxes are recognized, using the liability method, for temporary differences existing at the reporting date between the tax bases of assets and liabilities and their carrying amounts and unused tax losses, under the conditions set out below.

The main types of deferred tax recognized are:

- long-term deferred tax assets (provisions for post-employment benefits of French companies), which are likely to be recovered in the foreseeable future;
- deferred tax assets for short-term recurring items (provision for paid time off, etc.) or non-recurring items (employee profit-sharing, provisions for liabilities that are not deductible for tax purposes, etc.) when they are likely to be recovered in the foreseeable future;
- deferred tax associated with the cancellation of entries made solely for tax purposes in local financial statements (regulated provisions, etc.) and any restatements to ensure the consistency and comparability of the parent company or consolidated financial statements;
- tax loss carryforwards.

The rates used to calculate deferred taxes are the tax rates expected to apply during the period in which the asset will be realized or the liability settled, based on tax regulations that have been adopted or substantially adopted at the reporting date.

Deferred taxes are not discounted to present value.

Current and deferred tax expenses are recognized as income or expenditure in the income statement unless they relate to a transaction or event that is recognized under other comprehensive income or directly in equity (see hedge accounting in paragraph 2.16.4 and actuarial gains and losses on post-employment obligations in 2.13 – Retirement benefits and similar obligations).

Deferred taxes are presented on separate lines in the balance sheet under non-current assets and non-current liabilities.

Net deferred tax assets are recognized only for those companies and tax groups that, based on a review at each reporting date, appear reasonably likely to recover these assets in the foreseeable future.

2.18 Revenue

Revenues from the sale of finished goods are recognized in the income statement when the following conditions are satisfied:

- the main risks and rewards of ownership have been transferred to the buyer;
- the seller retains neither managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- it is likely that the financial benefits associated with the sale will flow to the entity;
- the amount of the revenues and costs incurred (or to be incurred) as a result of the sale can be reliably determined.

Revenues from services are recognized in the income statement in proportion to the stage of completion at the reporting date.

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

In the event of a sale with reservation of title, the sale is recognized on delivery of the goods if the risks and rewards have been transferred to the buyer.

Revenues are measured at the fair value of the consideration received or receivable, as determined by the agreement entered into between the Company and the customer, net of any trade discounts or volume rebates agreed.

See paragraphs 2.4.2 and 2.16.4 for the procedures for recognizing sales denominated in foreign currencies.

2.19 Determination of operating profit

The income statement format used by the Group employs a classification by function.

Operating profit or loss is calculated as the difference between pre-tax revenues and expenses other than those of a financial nature or relating to the income or losses of associates, and excluding any income or losses from discontinued operations or assets held for sale.

EBITDA is an important indicator for the Group, enabling it to measure its performance from continuing operations. It is calculated by taking operating profit before amortization and depreciation and excluding certain non-recurring operating revenues and expenses that are unusual in nature or occur rarely, such as:

- impairment of goodwill and fixed assets determined in the context of impairment tests in accordance with IAS 36 (see paragraph 2.9);
- significant restructuring expenses, especially those related to adjustments to headcount in respect of major events or decisions;
- capital gains or losses on disposals;
- revenue and expenses resulting from major litigation, significant roll-out operations or capital transactions (e.g. costs of integrating a new activity).

2.20 Earnings per share

Earnings per share is calculated by dividing consolidated net profit or loss by the weighted average number of shares outstanding during the fiscal year.

Diluted earnings per share is calculated taking into account the maximum impact of the conversion of dilutive common shares (options, performance shares) and using the “share repurchase” method as defined in IAS 33 – Earnings per Share.

3. SEGMENT INFORMATION

The segments presented according to the Group’s internal organization comply with the definition of operating segments identified and grouped according to IFRS 8. This information corresponds to that reviewed by the Executive Committee.

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

- Seamless tubes: This segment covers all the entities with production and marketing plants dedicated to the Group’s main activity, i.e. the production of hot-rolled seamless carbon and alloy steel tubes, both smooth and threaded, for the oil and gas industry. This activity is characterized by a highly integrated manufacturing process, from production of the steel and hot-rolling to the final stages, facilitating the manufacture of products that are suitable for a variety of markets (including oil & gas, power generation, chemicals and petrochemicals, automotive and mechanical engineering);
- Specialty Products: This segment incorporates a number of activities whose characteristics are very different from those described above, but which are not presented separately due to their relative immateriality. This treatment is authorized by IFRS 8. This activity includes the production of stainless steel and titanium tubes as well as specific forming and machining activities.

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

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

Operating segments

Note 32 shows, for each operating segment, information on the income and results as well as selected information on the assets, liabilities and capital expenditure for fiscal years 2015 and 2014.

Geographical information

In addition to segment information, Note 32 shows, by geographical area, information on sales (by geographical location of customers), capital expenditure and selected information on assets (by operating areas) for fiscal years 2015 and 2014.

B – Consolidation scope

	% interest 31/12/2014	% control 31/12/2014	% interest 31/12/2015	% control 31/12/2015
Fully consolidated companies				
Kestrel Wave Investment Ltd – Hong Kong	100.0	100.0	100.0	100.0
P.T. Citra Tubindo Tbk – Indonesia	78.2	78.2	81.72	81.72
Premium Holding Limited – Hong Kong	100.0	100.0	–	–
Serimax Angola Ltd – United Kingdom	100.0	100.0	100.0	100.0
Serimax Australia Pty Ltd – Australia	100.0	100.0	100.0	100.0
Serimax Do Brasil Serviços de Soldagem e Fabricaçao Ltda – Brazil	100.0	100.0	100.0	100.0
Serimax Field Joint Coating Ltd – United Kingdom	60.0	100.0	60.0	100.0
Serimax Holdings S.A.S. – France	100.0	100.0	100.0	100.0
Serimax Ltd – United Kingdom	100.0	100.0	100.0	100.0
Serimax North America Llc – United States	100.0	100.0	100.0	100.0
Serimax OOO – Russia	100.0	100.0	100.0	100.0
Serimax Russia S.A.S. – France	100.0	100.0	100.0	100.0
Serimax S.A.S. – France	100.0	100.0	100.0	100.0
Serimax South East Asia Pte Ltd – Singapore	100.0	100.0	100.0	100.0
Serimax Welding Services Malaysia sdn bhd – Malaysia	100.0	100.0	100.0	100.0
Tubos Soldados Atlântico – Brazil	100.0	100.0	100.0	100.0
Umax Services Ltd – Great Britain	100.0	100.0	100.0	100.0
Vallourec Al Qahtani Tubes LLC – Saudi Arabia	65.0	65.0	75.0	75.0
Valinox Nucléaire S.A.S. – France	100.0	100.0	100.0	100.0
Valinox Nucléaire Tubes Guangzhou Co. Ltd – China	100.0	100.0	100.0	100.0
Vallourec Changzhou Co. Ltd – China	100.0	100.0	100.0	100.0
Vallourec Asia Pacific Corp. Pte Ltd – Singapore	100.0	100.0	100.0	100.0
Vallourec Automotive Components (Changzhou) Co., Ltd – China	95.0	100.0	95.0	100.0
Vallourec Bearing Tubes – France	100.0	100.0	100.0	100.0
Vallourec Beijing Co. Ltd – China	100.0	100.0	100.0	100.0
Vallourec Canada Inc. – Canada	100.0	100.0	100.0	100.0
Vallourec Deutschland GmbH – Germany	100.0	100.0	100.0	100.0
Vallourec Drilling Oil Equipment Manufacturing LLC – United Arab Emirates	100.0	100.0	100.0	100.0
Vallourec Drilling Products France – France	100.0	100.0	100.0	100.0
Vallourec Drilling Products Middle East FZE – Dubai	100.0	100.0	100.0	100.0
Vallourec Drilling Products USA Inc. – United States	100.0	100.0	100.0	100.0
Vallourec Fittings – France	100.0	100.0	100.0	100.0
Vallourec Florestal Ltda – Brazil	100.0	100.0	100.0	100.0
Vallourec Heat Exchanger Tubes – France	95.0	95.0	95.0	95.0
Vallourec Heat Exchanger Tubes (Changzhou) Co., Ltd – China	62.5	100.0	62.5	100.0
Vallourec Heat Exchanger Tubes Asia – France	62.5	65.8	62.5	65.8
Vallourec Heat Exchanger Tubes Inc. – United States	95.0	100.0	95.0	100.0
Vallourec Heat Exchanger Tubes Ltd – India	95.0	100.0	95.0	100.0

	% interest 31/12/2014	% control 31/12/2014	% interest 31/12/2015	% control 31/12/2015
Vallourec Holdings Inc. – United States	100.0	100.0	100.0	100.0
Vallourec Industries Inc. – United States	100.0	100.0	100.0	100.0
Vallourec Middle East FZE – United Arab Emirates	100.0	100.0	100.0	100.0
Vallourec Mineração Ltda – Brazil	100.0	100.0	100.0	100.0
Vallourec Nigeria Ltd – Nigeria	100.0	100.0	100.0	100.0
Vallourec O and G Nigeria Ltd – Nigeria	100.0	100.0	100.0	100.0
Vallourec Oil & Gas (China) Co., Ltd – China	100.0	100.0	100.0	100.0
Vallourec Oil & Gas France S.A.S. – France	100.0	100.0	100.0	100.0
Vallourec Oil & Gas Nederland B.V. – Netherlands	100.0	100.0	100.0	100.0
Vallourec Oil & Gas UK Ltd – United Kingdom	100.0	100.0	100.0	100.0
Vallourec Oil & Gas Mexico SA de CV – Mexico	100.0	100.0	100.0	100.0
Vallourec One S.A.S. – France	100.0	100.0	100.0	100.0
Vallourec Russia – Russia	100.0	100.0	100.0	100.0
Vallourec S.A. – France	100.0	100.0	100.0	100.0
Vallourec Saudi Arabia Ltd – Saudi Arabia	100.0	100.0	80.0	80.0
Vallourec Services S.A. – France	100.0	100.0	100.0	100.0
Vallourec Star, LP – United States	80.5	80.5	80.5	80.5
Vallourec Transportes e Serviços do Brasil Ltda – Brazil	100.0	100.0	100.0	100.0
Vallourec Tube-Alloy LP – United States	100.0	100.0	100.0	100.0
Vallourec Tubes France S.A.S. – France	100.0	100.0	100.0	100.0
Vallourec Tubes S.A.S. – France	100.0	100.0	100.0	100.0
Vallourec Tubos do Brasil S.A. – Brazil	100.0	100.0	100.0	100.0
Vallourec Umbilicals S.A.S. – France	100.0	100.0	100.0	100.0
Vallourec Uruguay – Uruguay	100.0	100.0	100.0	100.0
Vallourec USA Corporation – United States	100.0	100.0	100.0	100.0
VAM Far East – Singapore	51.0	51.0	51.0	51.0
VAM Field Services Angola – Angola	100.0	100.0	100.0	100.0
VAM Field Services Beijing – China	51.0	51.0	51.0	51.0
VAM USA – United States	51.0	51.0	51.0	51.0
Joint operations				
Vallourec & Sumitomo Tubos do Brasil Ltda – Brazil	56.0	50.0	56.0	50.0
VAM Changzhou Oil & Gas Premium Equipments – China	51.0	50.0	51.0	50.0
VAM Holding Hong Kong Limited – Hong Kong	51.0	50.0	51.0	50.0
Associates				
Hüttenwerke Krupp Mannesmann (HKM) – Germany	20.0	20.0	20.0	20.0
Poongsan Valinox – Korea	47.5	50.0	47.5	50.0
Xi'an Baotimet Valinox Tubes – China	37.1	49.0	37.1	49.0
Tianda Oil Pipe Co. Ltd – China	19.5	19.5	19.5	19.5

There was no significant change in scope during fiscal years 2015 and 2014.

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NOTE 1 Intangible assets and goodwill

	Concessions, patents, licenses and other rights	Other intangible assets	Total intangible assets	Goodwill
GROSS VALUES				
As at 31/12/2013	**92,171**	**442,991**	**535,162**	**494,943**
Acquisitions	435	4,423	4,858	–
Disposals	(50)	(193)	(243)	–
Impact of changes in exchange rates	1,719	48,469	50,188	55,359
Other changes	5,530	(1,201)	4,329	692
As at 31/12/2014	**99,805**	**494,489**	**594,294**	**550,994**
Acquisitions	711	1,896	2,607	–
Disposals	(272)	(556)	(828)	–
Reclassification to assets held for sale and discontinued operations	(3,556)	(12,620)	(16,176)	(6,415)
Impact of changes in exchange rates	(3,255)	36,585	33,330	53,124
Other changes	6,096	2,476	8,572	–
AS AT 31/12/2015	**99,529**	**522,270**	**621,799**	**597,703**
DEPRECIATION AND IMPAIRMENT				
As at 31/12/2013	**(57,381)**	**(271,628)**	**(329,009)**	**(20)**
Net amortization expenses for the fiscal year	(7,866)	(32,252)	(40,118)	–
Impairment (see Notes 2.3, 28 and 29)	(4,410)	(18,724)	(23,134)	(204,148)
Disposals	50	192	242	–
Impact of changes in exchange rates	(934)	(35,431)	(36,365)	(14,608)
Other changes	(879)	879	–	–
As at 31/12/2014	**(71,420)**	**(356,964)**	**(428,384)**	**(218,776)**
Net amortization expenses for the fiscal year	(7,100)	(26,999)	(34,099)	–
Impairment (see Notes 2.3, 28 and 29)	–	–	–	(36,316)
Disposals	268	495	763	–
Reclassification to assets held for sale and discontinued operations	3,306	11,657	14,963	6,415
Impact of changes in exchange rates	3,266	(30,353)	(27,087)	(19,457)
Other changes	989	(123)	866	–
AS AT 31/12/2015	**(70,691)**	**(402,287)**	**(472,978)**	**(268,134)**
NET VALUES				
As at 31/12/2014	**28,385**	**137,525**	**165,910**	**332,218**
AS AT 31/12/2015	**28,838**	**119,983**	**148,821**	**329,569**

INTANGIBLE ASSETS

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

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

No costs were identified in connection with major projects that meet the criteria for capitalization as assets.

Other intangible assets relate to technology and know-how, trademarks, order books and customer relationships acquired mainly in connection with business combinations. They are amortized on a straight-line basis over their useful life (amortization period of 5.5 to 15 years).

Other than goodwill, there are no intangible assets with indefinite useful lives.

Goodwill

Cash-generating unit (CGU) (see paragraph 2.9 – Impairment of property, plant and equipment and intangible assets)	**Vallourec do Brasil**	**Vallourec North America**	**Vallourec Europe**	**Serimax**	**Other**	**Total**
As at 31/12/2013	**3,133**	**289,994**	**160,246**	**36,316**	**5,234**	**494,923**
Impact of changes in exchange rates	3	36,296	4,778	–	366	41,443
Impairment (see Notes 2.3, 28 and 29)	–	(33,707)	(165,024)	–	(5,417)	(204,148)
Acquisitions	–	–	–	–	–	–
As at 31/12/2014	**3,136**	**292,583**		**36,316**	**183**	**332,218**
Impact of changes in exchange rates and other	(55)	33,905	–	–	(183)	33,667
Impairment (see Notes 2.3, 28 and 29)	–	–	–	(36,316)	–	(36,316)
Acquisitions	–	–	–	–	–	–
AS AT 31/12/2015	**3,081**	**326,488**	**–**	**–**	**–**	**329,569**

The impairment tests as at 31 December 2015 are presented in Note 2.3.

NOTE 2.1 Property, plant and equipment

	Land	Buildings	Technical installations, industrial equipment and tools	Current property, plant and equipment	Other tangible assets	Total
GROSS VALUES						
As at 31/12/2013	**108,992**	**865,717**	**4,147,396**	**424,936**	**290,616**	**5,837,658**
Acquisitions	12	8,110	57,218	226,268	53,519	345,127
Disposals	(48)	(1,898)	(32,159)	(3,740)	(28,413)	(66,258)
Impact of changes in exchange rates	3,553	49,076	207,150	21,197	11,823	292,799
Other changes	5,817	51,716	315,379	(340,255)	(35,737)	(3,080)
As at 31/12/2014	**118,326**	**972,721**	**4,694,984**	**328,406**	**291,808**	**6,406,246**
Acquisitions	974	6,209	23,175	187,181	17,469	235,008
Disposals	(14)	(6,442)	(51,313)	(142)	(11,746)	(69,657)
Reclassification to assets held for sale and discontinued operations	(1,410)	(13,217)	(62,589)	(1,717)	(3,353)	(82,286)
Impact of changes in exchange rates	(15,950)	(36,652)	(162,885)	(19,638)	(20,201)	(255,326)
Other changes	2,524	35,985	189,714	(253,054)	(3,743)	(28,574)
AS AT 31/12/2015	**104,450**	**958,604**	**4,631,086**	**241,036**	**270,234**	**6,205,411**
DEPRECIATION AND IMPAIRMENT						
As at 31/12/2013	**(24,296)**	**(204,598)**	**(1,327,810)**	**(1,227)**	**(129,014)**	**(1,686,945)**
Net depreciation expenses for the fiscal year	(1,241)	(36,799)	(242,702)	–	(31,116)	(311,858)
Impairment losses (Note 2.3)	(1,468)	(159,257)	(704,309)	(3,210)	(7,615)	(875,859)
Disposals	–	1,453	24,749	–	28,396	54,598
Impact of changes in exchange rates	(605)	(8,810)	(48,269)	(248)	(5,061)	(62,993)
Other changes	–	(153)	(149)	–	362	60
As at 31/12/2014	**(27,610)**	**(408,164)**	**(2,298,490)**	**(4,685)**	**(144,048)**	**(2,882,997)**
Net amortization expenses for the fiscal year	(1,263)	(34,329)	(209,611)	(94)	(54,600)	(299,897)
Impairment losses (Note 2.3)	–	(26,059)	(135,796)	(800)	(547)	(163,202)
Disposals	–	3,015	44,678	–	11,270	58,963
Reclassification to assets held for sale and discontinued operations	–	7,823	48,811	–	2,164	58,798
Impact of changes in exchange rates	4,622	26,287	127,788	(210)	10,504	168,991
Other changes	(74)	960	(6,495)	964	19,639	14,994
AS AT 31/12/2015	**(24,325)**	**(430,467)**	**(2,429,115)**	**(4,825)**	**(155,618)**	**(3,044,350)**
NET VALUES						
As at 31/12/2014	**90,716**	**564,557**	**2,396,494**	**323,721**	**147,760**	**3,523,249**
AS AT 31/12/2015	**80,125**	**528,137**	**2,201,971**	**236,211**	**114,616**	**3,161,061**

The contribution of the Vallourec-Sumitomo Do Brasil joint venture (56 % interest) to the property, plant and equipment line amounted to €362 million as at 31 December 2015.

Capital expenditure excluding changes in scope

	2014		2015	
	Intangible assets and property, plant and equipment	Biological	Intangible assets and property, plant and equipment	Biological (see Note 2.2)
Europe	143,511	–	108,711	–
North America	95,347	–	66,370	–
South America	87,272	19,852	46,396	13,193
Asia	21,503	–	15,501	–
Other	2,352	–	637	–
TOTAL	**349,985**	**19,852**	**237,615**	**13,193**
	369,837		250,808	
Note 1: acquisition of intangible assets	4,858	–	2,607	–
Note 2.1: acquisition of property, plant and equipment	345,127	19,852	235,008	13,193
TOTAL CAPITAL EXPENDITURE	**349,985**	**–**	**237,615**	**–**
Changes in fixed asset liabilities and partner contributions	18,343		17,295	
TOTAL	**368,328**	**19,852**	**254,910**	**13,193**
Statement of cash flows: capital expenditure paid out during the period:	388,180		268,103	

LEASES

The finance lease signed in 2010 by Vallourec & Sumitomo Tubos do Brasil for the construction of a water treatment facility had a net carrying amount of €62 million at 56 % as at 31 December 2015.

NOTE 2.2 Biological assets

Change in biological assets	2014	2015
As at 1 January	**178,005**	**213,923**
Investments	19,852	13,193
Valuation at fair value	34,965	9,848
Net depreciation expenses for the period	(9,333)	(12,915)
Impairment losses	–	(7,290)
Reclassification to inventory	(10,525)	(8,744)
Foreign exchange differences	959	(53,321)
AS AT 31 DECEMBER	**213,923**	**154,694**

The Group's Brazilian subsidiary Vallourec Florestal cultivates eucalyptus plantations mainly to produce the coal used in the blast furnaces of Vallourec do Brasil and Vallourec & Sumitomo do Brasil.

As at 31 December 2015, the Company cultivated approximately 113,022 hectares of eucalyptus over a total area of 232,776 hectares.

In 2015, Vallourec Florestal posted revenue of €68.7 million, against €84.7 million in 2014.

NOTE 2.3 Impairment of property, plant and equipment, and intangible assets

IMPAIRMENT TESTING

Goodwill is tested for impairment at each year-end. The value in use of a CGU is defined as the sum of future cash flows as determined by the discounted cash flow method (see paragraph 2.9 - Accounting principles and methods).

Discount rate

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

The main components of weighted average cost of capital are:

- a market risk premium;
- a risk-free rate corresponding to the average rate on treasury bills in each region. This rate, which is between 2.2 % and 2.4 %, varies between the regions of Europe, the United States and Brazil;
- a beta calculated on the basis of a sample of companies in the sector, specific to each CGU (generally between 1.15 and 1.20);
- a country risk specific to activities outside of Europe and the United States.

Applying these parameters leads to a discount rate of 8.1 % for Vallourec Europe, 8.7 % for Vallourec North America, 12.7 % for Vallourec do Brasil, 9.1 % for Vallourec & Sumitomo do Brasil, and 8.1 % for Serimax.

Future cash flows

Changes in the economic climate may affect certain estimates and make it more difficult to assess the Group's outlook for the purposes of asset impairment testing. A Group stock market value that is less than its consolidated net assets during a business cycle, a negative outlook associated with the economic, legislative or technological environment or a business sector would constitute an indication of impairment.

As at 31 December 2014, market trends (reduction in activity, strict selection of investments, and the arrival of new competitors) had been analyzed as indications of impairment requiring the implementation of impairment tests for all CGUs, including those that do not contain intangible assets with an unlimited useful life. The result of impairment tests led the Group to recognize an impairment loss of €1,061 million on property, plant and equipment and intangible assets of the Vallourec Europe CGU (€539 million) and the Vallourec & Sumitomo do Brasil CGU (€522 million).

The Group has faced a deteriorating economic environment since the final months of 2014 (a drop in exploration and production investments by oil companies, volatility of raw materials and energy, and a highly competitive international environment) which has continued throughout and beyond 2015. In response to the continued decline in oil prices since the end of 2014, oil and gas companies have further tightened their cost control, leading them to reduce capital expenditure and rationalize inventories in the areas of exploration, production and development of oil and natural gas reserves. This has had a significant impact on the demand for pipes and on their prices. This reduction in demand, combined with lower prices resulting from competitive pressures from incumbent gas operators and the arrival of new competitors, exacerbated by the deflationary pressures of our customers, has significantly altered competitiveness, profitability of activities and future cash flows. This is notably the case in the EAMEA region, for certain markets of products.

The Group's five-year strategic plan was presented to the Supervisory Board on 15 December 2015. In this plan, the Group used assumptions for 2016 and 2017 that were consistent with the data recorded in late 2015. Its assumptions also included a gradual recovery of the Oil & Gas business by 2017 and a return to normal volumes in this sector by 2020. The Group thus believes that by 2020 oil investment levels will have returned to levels equivalent to those of 2014, considered to be the Group's normal activity level. It expects a deflationary environment partially offset by (i) an improved product mix (ii) a favorable price trend in major currencies (USD and BRL) making the Brazil plants more competitive, and (iii) the positive results of a competitiveness plan launched by the Group in 2015. Exchange rate assumptions are consistent over the period with those used at the end of 2015. Restructuring plans not implemented are not included in cash flows. The normalized year of 2020 is projected to perpetuity by applying a growth rate of 1.5 % to 2 %, depending on the CGU. This perpetuity growth rate takes account of long-term inflation and growth forecasts for Vallourec's main markets, particularly Oil & Gas.

The value-in-use of the assets of Group CGUs (current and non-current operating assets) was calculated based on this strategic plan.

The impairment tests performed in this deteriorated economic climate led the Group to recognize impairment losses on the Serimax CGU (€36 million impairment of goodwill, see Note 1), in addition to impairments of individual assets that were recognized elsewhere.

The tests performed did not lead to the recognition of impairment losses on the North America CGU. The value-in-use of this CGU is sensitive to changes in certain factors – i.e. the number of drilling rigs in North America and prices. It can withstand a drop of about 10 % of its EBITDA (decrease applied each year from 2016 to 2020 inclusive), beyond which the value-in-use becomes lower than the asset's net carrying amount.

The Group also carried out sensitivity analyses in the case of a one-year lag in the recovery of the Oil & Gas business. These scenarios have no impact on the balance point of the normalized year of 2020, insofar as the recovery would then take off at a faster pace. This sensitivity shows deterioration in the value-in-use of all CGUs doing business in the Oil & Gas sector, but it does not raise concerns about the net values of these CGUs' assets.

CGU sensitivity analysis		Vallourec Europe	VSB
Net value of assets as at 31 December 2014		1,819	903
Net value of assets to be tested for impairment as at 31 December 2015		1,524	701
Impairment of individual assets (see Note 6.1.2 [a])		(177)	(5)
NET VALUES AFTER IMPAIRMENT OF INDIVIDUAL ASSETS AS AT 31 DECEMBER 2015		**1,347**	**696**
VALUE IN USE OF THE CGU BASED ON THE STRATEGIC PLAN		**1,975**	**1,088**
Sensitivity to the discount rate	+ 0.5 pt	1,796	1,003
	- 0.5 pt	2,183	1,187
EBITDA sensitivity	- 10 % per year	1,632	934
	+ 10 % per year	2,318	1,242
EUR/USD foreign exchange rate sensitivity	+ 5 ct	1,350	991
	- 5 ct	2,657	1,195
Sensitivity to a lag in the recovery over the life of the plan		1,567	1,030
Perpetuity growth rate sensitivity	+ 0.5 pt	2,103	1,159
	- 0.5 pt	1,865	1,027
IMPAIRMENT LOSS		**–**	**–**

(a) Including a €160 million impairment loss on the non-current assets of Vallourec Europe. This loss is related to decisions announced in 2015 to rationalize its European pipe and steel facilities, resulting in a one-third reduction of its European pipe mills' capacity between 2014 and 2017.

The Vallourec Europe CGU comprises the assets of several subsidiaries that are active in the production cycle of the products marketed by this CGU: a steel mill in France, rolling mills in France and Germany, and tube finishing lines.

The VSB CGU, comprising 56 % of the assets of the Brazilian joint operation, as well as upstream support assets in Brazil (Mining and Forestry) and downstream assets of entities that market its products after a finishing operation, where necessary.

The future cash flows of these CGUs are sensitive to changes in the value of their export transactions denominated in a currency other than that of the country where they are based (mainly USD). Unhedged cash flows were measured at the exchange rate of 31 December 2015, consistent with the balance sheet values to be tested.

Given the sensitivity of DCF calculations to the assumptions used, the Group decided to maintain the impairment losses recorded at the end of 2014 on the Vallourec Europe and VSB CGUs.

NOTE 3 Associates

The Group's main associates (individual carrying amount greater than €50 million) are listed below.

	HKM	Tianda Oil Pipe	Other	Total
Activity	**Steel mill**	**Tube manufacturing**		
Business location	**Germany**	**China**		
As at 31/12/2013	**72,688**	**54,334**	**45,690**	**172,712**
Capital increase	4,000	–	1,213	5,213
Impact of changes in exchange rates	–	4,892	5,401	10,293
Dividends paid	(6)	(3,219)	(3,323)	(6,548)
Other	–	–	(32)	(32)
Contribution to net income of the period	6	1,439	1,042	2,487
As at 31/12/2014	**76,688**	**57,446**	**49,991**	**184,125**
Capital increase	4,000		4,074	8,074
Impact of changes in exchange rates	–	2,370	4,136	6,506
Dividends paid	(6)	(6,272)	(4,474)	(10,752)
Reclassification to assets held for sale and discontinued operations	–		(11,044)	(11,044)
Other	–		(49)	(49)
Contribution to net income of the period	–	(436)	411	(25)
AS AT 31/12/2015	**80,682**	**53,108**	**43,045**	**176,835**

As at 31 December 2015, only HKM and Tianda Oil Pipe were identified as significant associates of the Group.

The condensed financial data (100 %) for these companies is presented below.

HKM	31/12/2014	31/12/2015
Non-current assets	648,882	651,985
Current assets	659,829	565,029
Non-current liabilities	337,312	584,339
Current liabilities	587,961	229,267
Net assets	**383,438**	**403,408**
Sales	2,410,968	2,001,550
Operating income	1,771	4,474
Net income from continuing operations	28	–
Other comprehensive income (loss)	–	–
Total comprehensive income (loss)	–	–
Dividends paid to the Group	6	6

The reconciliation of the condensed financial data from the HKM associate with the book value of the Group's interests in this associate is as follows:

HKM	31/12/2014	31/12/2015
Net assets	383,438	403,408
Group's percentage interest in HKM	20 %	20 %
Goodwill	–	–
Other	–	–
Value of investments in equity affiliates	76,688	80,682
HKM net income/(loss)	28	–
Group's percentage interest in HKM	20 %	20 %
Share of net income	6	–

Tianda Oil Pipe is listed on the Hong Kong Stock Exchange. The price of the share totaled HKD 1.14 as at 31 December 2015, compared with HKD 1.30 as at 31 December 2014.

Tianda Oil Pipe	31/12/2014 [(a)]
Non-current assets	157,559
Current assets	225,356
Non-current liabilities	–
Current liabilities	87,564
Net assets	**295,351**
Sales	352,072
Operating income	9,281
Net income from continuing operations	7,398
Other comprehensive income (loss)	136
Total comprehensive income (loss)	7,535
Dividends paid to the Group	3,219

(b) Most recently audited accounts available.

The reconciliation of the condensed financial data from the Tianda Oil Pipe associate with the book value of the Group's interests in this associate is as follows:

Tianda Oil Pipe	31/12/2014 [(a)]
Net assets	295,351
Group's percentage interest in Tianda Oil Pipe	19.45 %
Goodwill	–
Other	–
Value of investments in equity affiliates	57,446
Tianda Oil Pipe income	7,398
Group's percentage interest in Tianda Oil Pipe	19.45 %
Share of net income	1,439

(a) Most recently audited accounts available.

The Group likewise holds interests in other associates (which, considered individually, are not significant) for an overall book value of €43 million as at 31 December 2015, compared with €50 million as at 31 December 2014.

NOTE 4 Other non-current assets

	Other investments in equity instruments	Loans	Other financial assets	Other	Total
As at 31/12/2013	**85,513**	**6,184**	**40,836**	**304,429**	**436,962**
Gross value	73,885	6,713	41,571	314,375	436,544
Provisions	(1,176)	–	(304)	–	(1,480)
As at 31/12/2014	**72,709**	**6,713**	**41,267**	**314,375**	**435,064**
Gross value	67,166	4,659	36,662	125,925	234,412
Provisions	(1,052)	–	(227)	–	(1,279)
AS AT 31/12/2015	**66,114**	**4,659**	**36,435**	**125,925**	**233,133**

At as 31 December 2015, available-for-sale equity securities related almost exclusively to Nippon Steel & Sumitomo Metal Corp., listed on the Tokyo Stock Exchange and acquired in 2009 for a total of €81.9 million.

A seven-year partnership agreement signed on 31 December 2009 between Vallourec and Nippon Steel & Sumitomo Metal Corp. includes a cross-shareholding in which each company holds a stake of about USD 120 million in the other. Nippon Steel & Sumitomo Metal Corp. and Vallourec are partners in Vallourec & Sumitomo Tubos do Brasil, working together to produce the VAM® line of premium joints.

In view of the strategic and long-term nature of the investment, Vallourec set thresholds above which a decline in net asset value of the Nippon Steel & Sumitomo Metal Corp. shares would be an event of a "significant or long-term nature" requiring the recognition of an impairment loss in the income statement:

- 3 years for the long-term nature of a decline;
- 40 % for the significant nature of a decline.

As at 31 December 2015, the fair value of these shares, based on their NAV of €63.9 million, showed a loss of €18 million recognized in equity. For the record, the NAV of these shares as at 31 December 2014 was €71.9 million and generated a loss of €10 million recognized in equity.

Other financial assets consist mainly of interest-bearing security deposits, particularly paid in connection with tax disputes in Brazil (€21 million as at 31 December 2015; see also Note 16).

Other non-current assets consist mainly of €125.8 million in deferred tax receivables in Brazil and the United States.

The impact of the application of the Amendment to IFRS 11 translates to a €165 million drop in non-current assets, offset by other long-term liabilities.

Maturities of other non-current assets	1 to 5 years	5 years or more	Total
GROSS VALUES AS AT 31/12/2014			
Loans	4,143	2,570	6,713
Other investments in equity instruments	–	82,259	82,259
Other financial assets	212,707	134,865	347,572
TOTAL	**216,850**	**219,694**	**436,544**
GROSS VALUES AS AT 31/12/2015			
Loans	2,357	2,302	4,659
Other investments in equity instruments	–	76,080	76,080
Other financial assets	103,659	50,014	153,673
TOTAL	**106,016**	**128,396**	**234,412**

NOTE 5 Deferred taxes

The main bases used to calculate deferred taxes are:

- recurring: provisions for paid leave and the additional social security levy on businesses *(contribution sociale de solidarité des sociétés);*
- non-recurring: cancellation of regulated provisions, employee profit-sharing, non-tax deductible provisions and any restatements to ensure the consistency and comparability of the parent company or consolidated financial statements;
- long-term recurring: non-tax deductible provisions for retirement commitments, non-tax deductible provisions for assets and remeasurements of assets acquired in connection with a business combination.

Deferred taxes are recognized using the liability method.

The rates used are the recovery rates known at the reporting date.

The standard corporate income tax rate in France is 33.33 %. The Social Security Funding Act No. 99-1140 of 28 December 1999 introduced an additional levy of 3.3 % of the basic tax due for French companies. This raised the statutory tax rate by 1.1 %, to 34.43 %. The 2011 Finance Act No. 2011-1978 of 28 December 2011 introduced an exceptional contribution equal to 5 % of the amount of income tax payable by companies with revenues above €250 million. This contribution is temporary, but Article 30 of the 2013 Finance Act extended its implementation by two years. This contribution therefore applies to fiscal years 2011 to 2015. The rate of this contribution is 10.7 %.

The deferred tax rates used for French companies in 2015, unchanged from 2014, are 34.43 % for current tax and 0 % for long-term capital gains and losses.

The other deferred tax rates used in 2015, unchanged from 2014, are 31.6 % for Germany, 34 % in Brazil and 36.5 % for the United States.

The French supplementary business taxes (*Cotisation Foncière des Entreprises* and *Cotisation sur la Valeur Ajoutée des Entreprises*) are recognized as operating expenses.

	2014	2015
Deferred tax assets	223,102	148,783
Deferred tax liabilities	256,246	216,172
NET DEFERRED TAX ASSETS/(DEFERRED TAX LIABILITIES)	**(33,144)**	**(67,389)**

Presentation of deferred taxes by type:

As at 31/12/2015	Assets	Liabilities	Net deferred tax liabilities
Non-current assets	–	210,260	–
Other assets and liabilities	–	42,001	–
Inventories	21,273	–	–
Employee benefits	12,717	–	–
Derivatives	165	–	–
Distributable reserves and foreign currency translation reserves	–	1,851	–
NET BALANCE	**34,155**	**254,112**	**(219,957)**
Recognition of tax losses	152,568	–	152,568
TOTAL	**186,723**	**254,112**	**(67,389)**

As at 31/12/2014	Assets	Liabilities	Net deferred tax liabilities
Property, plant and equipment and intangible assets	–	220,467	–
Other assets and liabilities	–	19,797	–
Inventories	34,225	–	–
Employee benefits	55,732	–	–
Derivatives	7,294	–	–
Distributable reserves and foreign currency translation reserves	–	1,851	–
NET BALANCE	**97,251**	**242,115**	**(144,864)**
Recognition of tax losses	111,720	–	111,720
TOTAL	**208,971**	**242,115**	**(33,144)**

The Group's deferred taxes (gross values) as at 31 December 2015 and 31 December 2014 are broken down as follows:

As at 31/12/2015	Gross value	Corresponding deferred tax	Recognized deferred tax liabilities	Unrecognized or impaired deferred tax
Tax loss carryforwards	1,565,529	487,253	152,568	334,686
Other tax assets	–	–	(3,785)	246,788
TOTAL TAX ASSETS	**–**	**487,253**	**148,783**	**581,474**
Tax liabilities	–	–	(216,172)	–
TOTAL TAX LIABILITIES	**–**	**–**	**(216,172)**	**–**
TOTAL	**–**	**–**	**(67,389)**	**581,474**

As at 31/12/2014	Gross value	Corresponding deferred tax	Recognized deferred tax liabilities	Unrecognized deferred tax liabilities
Tax loss carryforwards	916,497	287,833	111,720	176,113
Other tax assets	–	–	111,382	229,930
TOTAL TAX ASSETS	**–**	**287,833**	**223,102**	**406,043**
Tax liabilities	–	–	(256,246)	–
TOTAL TAX LIABILITIES	**–**	**–**	**(256,246)**	**–**
TOTAL	**–**	**–**	**(33,144)**	**406,043**

Tax loss carryforwards relate mainly to Vallourec & Sumitomo Tubos do Brasil, the French tax group, Vallourec Changzhou (China), Vallourec Star (United States) and Vallourec Deutschland (Germany) and Vallourec Saudi Arabia.

The deferred tax assets are recognized when there is reasonable assurance of being able to recover these deferred tax assets in the foreseeable future. When it is estimated that allocating these carryforwards to future taxable profits would be uncertain, no deferred tax asset is recognized and, where applicable, deferred tax assets at the opening date are impaired.

As at 31 December 2015, in the case of Vallourec & Sumitomo Tubos do Brasil, a structure dedicated to our partner Nippon Steel & Sumitomo Metal Corp. and to ourselves, the analyses conducted concluded with reasonable assurance that the net deferred tax assets could be recovered within a period of more than 10 years, but less than the average useful life of the industrial assets (in the amount of €63.2 million).

Changes in deferred taxes are broken down as follows:

Net deferred tax assets/(liabilities)	2014	2015
AS AT 1 JANUARY	**(22,117)**	**(33,144)**
Impact of changes in exchange rates	(17,113)	(34,755)
Recognized in profit or loss	(28,037)	45,037
Recognized in reserves	37,684	(12,753)
Reclassification to assets held for sale and discontinued operations	–	(3,936)
Other	(3,561)	(27,838)
AS AT 31 DECEMBER	**(33,144)**	**(67,389)**

The amount of the deferred tax recognized in reserves corresponds mainly to the change in deferred taxes calculated on derivatives and actuarial gains and losses on retirement commitments and similar obligations.

NOTE 6 Inventories and work in progress

	Raw materials and merchandise	Goods in production	Intermediate and finished goods	Total
GROSS VALUES				
As at 31/12/2013	**555,431**	**510,681**	**472,523**	**1,538,635**
Changes in inventories recognized in the income statement	(8,953)	51,273	672	42,992
Impact of changes in exchange rates	19,022	44,000	11,709	74,731
Other changes	(10,192)	6,771	10,524	7,103
As at 31/12/2014	**555,308**	**612,725**	**495,428**	**1,663,461**
Changes in inventories recognized in the income statement	(66,443)	(292,395)	(48,881)	(407,719)
Impact of changes in exchange rates	(12,049)	37,953	(35,426)	(9,522)
Reclassification to assets held for sale and discontinued operations	(13,545)	(284)	(12,386)	(26,215)
Other changes	5,300	–	8,742	14,042
AS AT 31/12/2015	**468,571**	**357,999**	**407,477**	**1,234,047**
IMPAIRMENT				
As at 31/12/2013	**(46,106)**	**(20,688)**	**(48,402)**	**(115,196)**
Impact of changes in exchange rates	(1,718)	(1,447)	(1,105)	(4,270)
Allowances [(a)]	(61,601)	(9,048)	(18,566)	(89,215)
Reversals of provisions	20,878	5,384	9,601	35,863
Other changes	(659)	–	47	(612)
As at 31/12/2014	**(89,206)**	**(25,799)**	**(58,425)**	**(173,430)**
Impact of changes in exchange rates	980	(1,320)	4,419	4,079
Allowances [(a)]	(38,789)	(8,208)	(38,921)	(85,918)
Reversals of provisions	33,454	13,572	34,816	81,842
Reclassification to assets held for sale and discontinued operations	2,127	–	2,927	5,054
Other changes	(959)	1,425	25	491
AS AT 31/12/2015	**(92,393)**	**(20,330)**	**(55,159)**	**(167,882)**

(a) Provisions for inventories of raw materials and consumables include an €11 million impairment loss in 2015 for spare parts related to industrial assets (€21 million in 2014).

The cost of any underutilized capacity is excluded from the value of inventories. Made-to-order products are impaired, where applicable, for the unaffected portion and valued at scrap-metal prices (if applicable). Inventories are impaired based on their net realizable values.

Net values	Raw materials and merchandise	Goods in production	Intermediate and finished goods	Total
As at 31/12/2014	466,102	586,926	437,003	1,490,031
AS AT 31/12/2015	**376,178**	**337,669**	**352,318**	**1,066,165**

NOTE 7 Trade and other receivables

	Advances and partial payments on orders	Trade and other receivables (gross) (a)	Provisions for depreciation	Total
As at 31/12/2013	**10,835**	**1,101,860**	**(13,922)**	**1,098,773**
Changes in scope of consolidation	–	1,742	–	1,742
Impact of changes in exchange rates	(469)	59,427	(810)	58,148
Changes in gross values	25,105	(34,172)	–	(9,067)
Increase in provisions	–	–	(7,140)	(7,140)
Reversals of provisions	–	–	5,811	5,811
Other changes	–	(19)	(2,594)	(2,613)
As at 31/12/2014	**35,471**	**1,128,838**	**(18,655)**	**1,145,654**
Changes in scope of consolidation	–	–	–	–
Impact of changes in exchange rates	(4,992)	(98)	3,714	(1,376)
Changes in gross values	(17,311)	(480,791)	–	(498,102)
Increase in provisions (b)	–	–	(58,599)	(58,599)
Reversals of provisions	–	–	10,462	10,462
Reclassification to assets held for sale and discontinued operations	(531)	(24,148)	209	(24,470)
Other changes	–	(36,719)	8,054	(28,665)
AS AT 31/12/2015	**12,637**	**587,082**	**(54,815)**	**544,904**

(a) See paragraph 2.16.1 – Accounting principles and methods – for details on recognition and measurement methods.

(b) Including €40.9 million in provisions for overdue receivables from Angola and Venezuela, to take account of the currency control risk in these countries.

The impact of the application of the Amendment to IFRS 11 led to a €33.1 million drop in trade receivables offset by trade payables.

NOTE 8 Financial instruments

Financial assets and liabilities

Financial assets and liabilities are measured and presented in the statement of financial position in accordance with the various categories specified by IAS 39.

8.1 IMPACT OF IAS 32 AND IAS 39 ON EQUITY AND NET INCOME

As explained in section 2.16 Accounting principles and methods, the main impact of IAS 32 and IAS 39 relates to the accounting treatment of hedging contracts entered into by the Group in connection with commercial purchase and sale transactions in foreign currencies and the accounting treatment of available-for-sale financial assets. The other effects of the transition to IAS 32 and IAS 39 have had little impact on the financial statements (measurement of housing loans to employees using the effective interest rate method and measurement at fair value of investment securities).

Regarding foreign exchange hedges, the hedging relationship is based on the spot exchange rates. Premiums and discounts on derivatives are systematically considered ineffective and recognized in the income statement (financial income or loss). Currency receivables and payables have been revalued at the spot rate at 31 December.

From a net liability position of €145.1 million as at 31 December 2014, hedging instruments fell to a net liability position of €131.5 million at 31 December 2015.

Fluctuations in the euro against the US dollar in fiscal 2015 accounted for most of the €30.9 million change in the intrinsic value of hedges of forecast sales and purchases in foreign currencies and the €13.5 million change in the intrinsic value of hedges of foreign currency receivables and payables.

Financial instruments of a speculative nature remain exceptional and arise when a hedging relationship is ineffective under the terms of IAS 39. Their changes in value do not have a material impact on foreign exchange gains or losses.

			Changes in 2015		
Statement of financial position items	**As at 31/12/2014**	**As at 31/12/2015**	**Total**	**Reserves**	**Net Income**
1 – Derivatives recognized in the statement of financial position [(a)]					
changes in the intrinsic value of forward sales of currencies and forward purchases [(b)] associated with order books and commercial tenders	(71,636)	(40,727)	30,909	30,188	721
changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with trade receivables (and accounts payable [(b)])	(55,329)	(41,788)	13,541	–	13,541
changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with finance receivables (and financial payables)	(29,459)	(54,701)	(25,242)	–	(25,242)
recognition of premium/discount	9,077	4,062	(5,015)	(2,449)	(2,566)
recognition of changes in fair value of interest rate swaps	–	–	–		–
changes in values linked to hedging instruments set up under employee share ownership plans	2,259	1,625	(634)	(262)	(372)
SUBTOTAL: DERIVATIVES	**(145,088)**	**(131,529)**	**13,559**	**27,477**	**(13,918)**
› of which derivatives – assets	28,211	20,341			
› of which derivatives – liabilities	173,300	152,429			
› of which reclassification to assets held for sale	–	(559)			
2 – Receivables (payables) hedged in currencies – translation gain/loss					
Measurement at the reporting date exchange rate (trade payables [(b)] and accounts receivable)	52,584	36,877	(15,707)	–	(15,707)
Measurement at the reporting date exchange rate (financial liabilities and accounts receivable)	30,529	55,299	24,770	–	24,770
IMPACT OF HEDGING TRANSACTIONS	**(61,975)**	**(39,353)**	**22,622**	**27,477**	**(4,855)**
3 – Measurement of other investments in equity instruments at fair value	**(6,321)**	**(13,951)**	**(7,630)**	**(7,630)**	**–**
TOTAL	**(68,296)**	**(53,304)**	**14,992**	**19,847**	**(4,855)**

(a) Assets and liabilities offset in this table: + = asset, ( ) = liability.

(b) Non-significant amounts.

The change in the fair value of financial instruments hedging foreign exchange risk, which affected equity as at 31 December 2014, was –€71.6 million. In 2015, around 81 % of the positive change in fair value attached to the order book and commercial tenders at the end of 2014 was transferred from equity to the statement of comprehensive income, under "translation gain/loss". This amount represents the impact of the changes in value of foreign exchange hedges for the order book and commercial tenders as at 31 December 2014, which were fully or partially unwound or converted into receivables during 2015.

This corresponds mainly to the hedges of receivables in US dollars, which represent nearly all the hedges with an impact on equity as at 31 December 2015.

Statement of financial position items	As at 31/12/2013	As at 31/12/2014	Changes in 2014 Total	Reserves	Net Income
1 – Derivatives recognized in the statement of financial position [(a)]					
Changes in the intrinsic value of forward sales of currencies and forward purchases [(b)] associated with order books and commercial tenders	34,917	(71,636)	(106,553)	(104,586)	(1,967)
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with trade receivables (and accounts payable [(b)])	20,117	(55,329)	(75,446)	–	(75,446)
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with finance receivables (and finance payables)	10,270	(29,459)	(39,729)	–	(39,729)
Recognition of premium/discount	(1,023)	9,077	10,100	(182)	10,282
Recognition of changes in fair value of interest rate swaps	–	–	–		–
Changes in values linked to hedging instruments set up under employee share ownership plans	3,441	2,259	(1,182)	(66)	(1,116)
SUBTOTAL: DERIVATIVES	**67,722**	**(145,088)**	**(212,810)**	**(104,834)**	**(107,976)**
› of which derivatives – assets	91,788	28,211	–	–	–
› of which derivatives – liabilities	24,066	173,300	–	–	–
2 – Receivables (payables [(b)]) hedged in currencies – translation gain/loss					
Measurement at the reporting date exchange rate (trade payables [(b)] and accounts receivable)	(32,030)	52,584	84,614	–	84,614
Measurement at the reporting date exchange rate (financial liabilities and accounts receivable)	2,546	30,529	27,983	–	27,983
IMPACT OF HEDGING TRANSACTIONS	**38,238**	**(61,975)**	**(100,213)**	**(104,834)**	**4,621**
3 – Measurement of other investments in equity instruments at fair value	**5,626**	**(6,321)**	**(11,947)**	**(11,947)**	**–**
TOTAL	**43,864**	**(68,296)**	**(112,160)**	**(116,781)**	**4,621**

(a) Assets and liabilities offset in this table: + = asset, ( ) = liability.

(b) Non-significant amounts.

The change in the fair value of financial instruments hedging foreign exchange risk, which affected equity as at 31 December 2013, was €34.9 million. In 2014, around 87 % of the positive change in fair value attached to the order book and commercial tenders at the end of 2013 was transferred from equity to the statement of comprehensive income, under "translation gain/loss". This amount represents the impact of the changes in value of foreign exchange hedges for the order book and commercial tenders as at 31 December 2013, which were fully or partially unwound or converted into receivables during 2014.

This corresponds mainly to the hedges of receivables in US dollars, which represent over 93 % of the hedges with an impact on equity as at 31 December 2013.

8.2 INFORMATION ON THE NATURE AND EXTENT OF MARKET RISK AND HOW IT IS MANAGED BY THE GROUP

Market risk is comprised of interest rate, foreign exchange (conversion and transactions), credit and equity risk. Liquidity risk is addressed in Note 16.

Interest rate risk

Management of medium- and long-term financing within the euro zone is centralized at Vallourec and the sub-holding company Vallourec Tubes.

Total liabilities

As at 31/12/2015	Other borrowings	Cash
Fixed rate on date granted	1,990,269	–
Variable rate on date granted swapped to fixed rate	–	–
Fixed rate	**1,990,269**	**–**
Variable rate	**159,528**	**630,540**
TOTAL	**2,149,797**	**630,540**

As at 31/12/2014	Other borrowings	Cash
Fixed rate on date granted	2,186,145	–
Variable rate on date granted swapped to fixed rate	–	–
Fixed rate	**2,186,145**	**–**
Variable rate	**507,372**	**1,146,913**
TOTAL	**2,693,517**	**1,146,913**

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

The amount of loans with fixed rates on the dates granted primarily consists of bonds and commercial paper issued by Vallourec:

- on 7 December 2011, a €650 million bond issue, maturing in February 2017, with a fixed annual coupon of 4.25 %;
- in August 2012, two long-term private bond issues for a total of €455 million. The amounts and terms of these two private bond issues are €400 million for seven years with an annual coupon of 3.25 % for one, and €55 million for 15 years with an annual coupon of 4.125 % for the other;
- on 30 September 2014, a €500 million bond issue, maturing in September 2024, with a fixed annual coupon of 2.25 %;
- outstanding commercial paper in the amount of €77 million.

Furthermore, in December 2009, Vallourec & Sumitomo Tubos do Brasil, which is 56 % owned by the Group, took out a loan with BNDES (Banco National de Desenvolvimento Econômico e Social). As at 31 December 2015, BRL 109.5 million of this loan, at a fixed rate of 4.5 %, had been drawn. Vallourec & Sumitomo Tubos do Brasil also concluded a fixed-rate finance lease in 2010.

As at 31 December 2015, financial debt exposed to changes in variable interest rates was €159.5 million (about 7 % of total debt).

No significant line of fixed-rate financing will reach contractual maturity during the 12 months after 31 December 2015, except for:

- €77 million in outstanding commercial paper maturing in more than one year;
- €85 million for various lines of financing in the Group's subsidiaries.

Given the Group's interest rate risk hedging policy, the impact of a 1 % rise in short-term rates in the euro zone applied to the Brazilian and Chinese rates and to the UK and US money market rates would result in a €1.6 million increase in the Group's annual financial expenses, based on an assumption of complete stability of the financial debt and constant exchange rates, and after taking into account the effects of any hedging instruments. This impact does not take into account the interest rate risk on commercial paper with a more than one year maturity or on short-term cash investments (of no more than three months).

Foreign currency translation risk

The assets, liabilities, revenues and expenses of the Group's subsidiaries are expressed in various currencies. The Group financial statements are presented in euros. The assets, liabilities, revenues and expenses denominated in currencies other than the euro have to be translated into euros at the applicable rate so that they can be consolidated.

If the euro rises (or falls) against another currency, the value in euros of the various assets, liabilities, revenues and expenses initially recognized in that other currency will fall (or rise). Therefore, changes in the value of the euro may have an impact on the value in euros of the assets, liabilities, revenues and costs not denominated in euros, even if the value of these items in their original currency has not changed.

In 2015, net income, Group share, was generated to a significant extent by subsidiaries that prepare their financial statements in currencies other than the euro (mainly in US dollars and the Brazilian real). A 10 % change in exchange rates would have had an upward or downward impact on net income, Group share, of around €16 million.

In addition, the Group's sensitivity to long-term foreign exchange rate risk is reflected in the changes that have occurred in recent years in the foreign currency translation reserves booked to equity (-€500.5 million as at 31 December 2015) which, in recent years, have been linked mainly to movements in the US dollar and Brazilian real.

Foreign currency translation reserve – Group share	31/12/2014	31/12/2015
USD	158,184	320,968
GBP	(8,728)	(5,789)
Brazilian real (BRL)	(479,818)	(863,699)
Chinese yuan (CNY)	50,497	58,473
Other	(7,839)	(10,528)
TOTAL	**(287,704)**	**(500,575)**

Transaction risk

The Group is subject to exchange rate risks due to its business exposure linked to sales and purchase transactions entered into by some of its subsidiaries in currencies other than their functional currency.

The main foreign currency involved is the US dollar (USD): a significant portion of Vallourec's transactions (approximately 38.4 % of Group sales in 2015) are invoiced in US dollars by companies whose functional currency is not the US dollar.

Exchange rate fluctuations between the euro, the Brazilian real (BRL) and the US dollar may therefore affect the Group's operating margin. Their impact is, however, very difficult to quantify for two reasons:

1. there is an adjustment phenomenon on sales prices denominated in US dollars, which is related to market conditions in the various sectors of activity in which Vallourec operates;
2. certain sales and purchases, even though they are denominated in euros or in Brazilian real, are influenced by the level of the US dollar. They are therefore indirectly and at some time in the future affected by movements in the US currency.

The Group actively manages its exposure to foreign exchange risk to reduce the sensitivity of its net profits to currency fluctuations by setting up hedges once the order is placed and sometimes once a quotation is given.

Orders, and then receivables, payables and operating cash flows, are thus hedged with financial instruments, mainly forward purchases and sales. The Group sometimes uses options.

Order cancellations could therefore result in the cancellation of hedges in place, leading to the recognition in the consolidated income statement of gains and losses with regard to these canceled hedges.

We estimate that a 10 % rise or fall in the currencies used in all hedges implemented by the Group would result in a €80.3 million decrease or increase in the intrinsic value recognized in consolidated equity at 31 December 2015. Most of these amounts would be due to changes in the US dollar against the euro, and to a lesser extent, the Brazilian real against the euro.

To be eligible for hedge accounting as defined under IAS 39, the Vallourec Group has developed its cash management and invoicing systems to facilitate the traceability of hedged transactions throughout the duration of the hedging instruments.

At 31 December 2015, the following amounts were outstanding under forward foreign exchange contracts to hedge purchases and sales denominated in foreign currencies:

Hedging contracts with regard to commercial transactions – Exchange rate risk	2014	2015
Forward exchange contract: forward sales	1,622,654	1,065,094
Forward exchange contract: forward purchases	143,360	55,879
Currency options: sales	–	–
Currency options: purchases	–	–
Raw materials and energy: call options	–	–
TOTAL	**1,766,014**	**1,120,973**

Contract maturities at 31 December 2015

Contracts on commercial transactions	Total	< 1 year	1 to 5 years	> 5 years
Exchange contracts: forward sales	1,065,094	1,046,815	18,279	–
Exchange contracts: forward purchases	55,879	55,879		–
Currency options: sales	–	–	–	–
Currency options: purchases	–	–	–	–
Raw materials and energy: call options	–	–	–	–
TOTAL	**1,120,973**	**1,102,694**	**18,279**	**–**

Forward sales correspond mainly to sales of US dollars (€1,065 million of the €1,121 million total). These contracts were transacted at an average forward EUR/USD rate of 1.18 and an average forward USD/BRL rate of 3.61.

In 2015, as in 2014, the hedges entered into generally covered an average period of about 10 months and mainly hedged highly probable future transactions and foreign currency receivables.

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

- since 2011, forward sales for USD 369.1 million (€281.6 million).

These instruments are intended to hedge either the debt denominated in USD, or the foreign currency loans established by the financial holding company Vallourec Tubes in the currency of the subsidiaries receiving them. The forward purchases and sales mature at various times between 2016 and 2017, as and when the hedged loans and borrowings mature.

Other than its foreign-currency-denominated borrowings, Vallourec does not hedge any of the other foreign currency assets and liabilities in its consolidated balance sheet (foreign currency translation risks).

Credit risks

Vallourec is subject to credit risk in respect of its non-impaired financial assets. Failure to recover these assets could affect the Company's results and financial position.

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

- security deposits paid in connection with tax disputes and the tax receivables due to the Group in Brazil;
- security deposits paid in connection with tax disputes and the tax receivables due to the Group in Brazil;
- trade and other receivables;
- derivatives that have a positive fair value.

1. 1 % building loans granted to the Group's employees: these loans do not expose the Group to any credit risk since the full amount of the loan is written off as soon as there is any delay in the collection of the amounts due. It should be noted that these loans are valued using the effective interest rate method applied to the estimated cash flows until the maturity date of these loans (contractual interest rates may be lower);
2. Security deposits and tax receivables due to the Group in Brazil: there is no specific risk with respect to these receivables, even if the outcome of the disputes is unfavorable, since the risk has already been assessed and a provision recognized for these receivables, and the funds have already been paid in full or in part;
3. The Group's policy on the impairment of trade receivables is to recognize a provision when indications of impairment are identified. The impairment is equal to the difference between the carrying amount of the asset and the present value of expected future cash flows, taking into account the position of the counterparty.

The Group considers that as at 31 December 2015 there is no reason to assume that there is any risk in respect of receivables for which no provision has been made and which are less than 90 days overdue. Trade receivables more than 90 days past due and not impaired amounted to €46.4 million at 31 December 2015, or 8.7 % of the Group's total net trade receivables.

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

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

Vallourec remains subject to country risk which could impact the payment of some of its receivables.

In addition, as at 31 December 2015, trade receivables not yet due amounted to €350.1 million, or 65.4 % of total net trade receivables;

4. As concerns the derivatives that have a positive fair value, the Group only deals with highly-rated counterparties. The credit risk is considered to be insignificant.

The following table provides an analysis by maturity of these trade receivables:

As at 31/12/2015	0 to 30 days	30 to 60 days	60 to 90 days	90 to 180 days	> 180 days	Total
Trade receivables outstanding	183,943	106,800	21,546	33,286	4,561	350,136

Equity risk

Treasury shares held by Vallourec as at 31 December 2015 include:

Shares allocated to various share ownership plans for some of the Group's employees, executive management and corporate officers.

In this context, Vallourec holds:

- 3,094 treasury shares acquired in 2008 after the definitive allocation of 26,844 shares in 2011, 70,050 shares in 2013 and 12 shares in 2014, under the various performance share plans;
- 85,560 treasury shares acquired in 2011 under the share buyback plan of 7 June 2011, upon the definitive allocation of 27,534 shares in 2012, 86,377 shares in 2013 and 91,929 shares in 2014, and 108,600 shares in 2015 under the various performance share plans;
- 305,400 treasury shares acquired in 2012 under the share buyback plan of 31 May 2012, upon the definitive allocation of 94,600 shares in 2014, under the various performance share plans;
- 300,000 treasury shares acquired in 2014.

All treasury shares acquired before 2008 and available for allocation to employees had been granted as at 31 December 2015. The Management Board, in consultation with the Supervisory Board, has decided to allocate these treasury shares to cover the Group's performance share and employee share ownership plans.

Additionally, Vallourec signed a liquidity contract with Rothschild & Cie Banque in 2012. It was implemented under the annual general authorization for the share buyback program approved by the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2015 (eleventh resolution).

On 8 April 2014, Vallourec committed to a supplementary contribution of €12.5 million, €5 million of which were paid at the end of 2014 in order to allow Rothschild & Cie Banque to ensure its continued participation under the contract.

As at 31 December 2015, the liquidity account at Rothschild & Cie Banque comprised the following:

- 1,375,000 shares with a value of €11.8 million as at 31 December 2015;
- €1,428,580.

Classification and measurement of financial assets and liabilities

The amounts recognized in the statement of financial position are based on the measurement methods used for each financial instrument.

2015	Notes	Category [a]	Gross value at 31/12/2015	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed equity interests		AFS	63,939	–	63,939	–
Other investments in equity instruments		AFS	3,227	–	3,227	–
Loans		L&R	4,659	4,659	–	–
Other financial assets		L&R/AHM [b]	36,662	36,662	–	–
Trade and other receivables	**7**	**L&R**	**587,082**	**587,082**	**–**	**–**
Derivatives – assets	**8**					
Hedging financial instruments		CFH	5,126	–	5,126	
Hedging financial instruments [f]		A-FVTPL	15,215	–	–	15,215
Speculative financial instruments		A-FVTPL	–	–	–	–
Other current assets	**9**	**L&R**	**307,474**	**307,474**	**–**	**–**
Cash and cash equivalents	**10**	**A-FVTPL**	**630,540**	**–**	**–**	**630,540**
LIABILITIES						
Bank loans and other borrowings [c] [e]	**16**	**AC-EIR**	**238,010**	**238,010**	**–**	**–**
Other	**16**	**AC-EIR**	**229,873**	**229,873**	**–**	**–**
Finance leases	**16**	**AC-EIR**	**78,017**	**78,017**	–	–
Bond issue	**16**	**AC-EIR**	**1,597,916**	**1,597,916**	–	–
Overdrafts and other short-term borrowings [d] [e]	**16**	**AC-EIR**	**5,981**	**5,981**	**–**	**–**
Trade and other payables		**AC**	**523,476**	**523,476**	**–**	**–**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	45,833	–	45,833	–
Hedging financial instruments		L-FVTPL	106,596	–	–	106,596
Speculative financial instruments		L-FVTPL	–	–	–	–
Other current liabilities	**20**	**AC**	**332,854**	**332,854**	**–**	**–**

(a) A-FVTPL – Financial assets measured at fair value through profit or loss
AHM – Assets held to maturity
L&R – Loans and receivables
AFS – Available-for-sale financial assets
CFH – Cash flow hedges
L-FVTPL – Financial liabilities measured at fair value through profit or loss
AC – Amortized cost
AC-EIR – Amortized cost according to the effective interest rate method

(b) In the Group, the only assets in this category are security deposits and guarantees.

(c) Borrowings classified within non-current liabilities maturing in more than 12 months.

(d) Borrowings that must be repaid within 12 months are classified as current liabilities.

(e) Variable rate borrowings for which interest rate swaps have been entered into are accounted for using the cash flow hedge method. Changes in the fair value of the swap contracts, linked to interest rate movements, are recognized in equity to the extent of their effectiveness. Otherwise, they are recognized under financial income.

(f) Including the Value 10, Value 11, Value 12, Value 13, Value 14 and Value 15 warrants, whose fair value as at 31 December 2015 was €1.6 million.

Financial instruments measured at fair value are classified by category on the basis of their measurement method. Fair value is measured:

(A) mainly based on quoted prices on an active market; listed equity securities are valued this way;

(B) on the basis of observable methods and data and with reference to the financial markets (yield curve, forward prices, etc.).

2015 Statement of financial position headings and classes of instruments	Category	Total fair value on statement of financial position	Fair value Listed prices (A)	 Internal model with observable inputs (B)	 Internal model with unobservable inputs
ASSETS					
Listed equity interests	AFS	63,939	63,939	–	–
Other investments in equity instruments	AFS	3,227	–	3,227	–
Derivatives – assets					
Hedging financial instruments	CFH	5,126	–	5,126	–
Speculative financial instruments	L-FVTPL	–	–	–	–
Cash and cash equivalents	**A-FVTPL**	**630,540**	**630,540**	**–**	**–**
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	152,429	–	152,429	–
Speculative financial instruments	L-FVTPL	–	–	–	–

2014	Notes	Category (a)	Gross value as at 31/12/2014	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed equity interests		AFS	71,869	–	71,869	–
Other investments in equity instruments		AFS	2,016	–	2,016	–
Loans		L&R	6,713	6,713	–	–
Other financial assets		L&R/AHM (b)	41,571	41,571	–	–
Trade and other receivables	**7**	**L&R**	**1,128,838**	**1,128,838**	**–**	**–**
Derivatives – assets	**8**					
Hedging financial instruments		CFH	8,060	–	8,060	–
Hedging financial instruments (f)		A-FVTPL	20,151	–		20,151
Speculative financial instruments		A-FVTPL		–	–	–
Other current assets	**9**	**L&R**	**343,155**	**343,155**	**–**	**–**
Cash and cash equivalents	**10**	**A-FVTPL**	**1,146,913**	**–**	**–**	**1,146,913**
LIABILITIES						
Bank loans and other borrowings (c) (e)	**16**	**AC-EIR**	**318,784**	**318,784**	**–**	**–**
Other	**16**	**AC-EIR**	**639,291**	**639,291**	**–**	**–**
Finance leases	**16**	**AC-EIR**	**101,575**	**101,575**	–	–
Bond issue	**16**	**AC-EIR**	**1,595,662**	**1,595,662**	–	–
Overdrafts and other short-term borrowings (d) (e)	**16**	**AC-EIR**	**38,205**	**38,205**	**–**	**–**
Trade and other payables		**AC**	**806,856**	**806,856**	**–**	**–**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	78,648	–	78,648	
Hedging financial instruments		L-FVTPL	94,652	–	–	94,652
Speculative financial instruments		L-FVTPL		–	–	–
Other current liabilities	**20**	**AC**	**438,257**	**438,257**	**–**	**–**

(a) A-FVTPL – Financial assets measured at fair value through profit or loss
AHM – Assets held to maturity
L&R – Loans and receivables
AFS – Available-for-sale financial assets
CFH – Cash flow hedges
L-FVTPL – Financial liabilities measured at fair value through profit or loss
AC – Amortized cost
AC-EIR – Amortized cost according to the effective interest rate method

(b) In the Group, the only assets in this category are security deposits and guarantees.

(c) Borrowings classified within non-current liabilities maturing in more than 12 months.

(d) Borrowings that must be repaid within 12 months are classified as current liabilities.

(e) Variable rate borrowings for which interest rate swaps have been entered into are accounted for using the cash flow hedge method. Changes in the fair value of the swap contracts, linked to interest rate movements, are recognized in equity to the extent of their effectiveness. Otherwise, they are recognized under financial income.

(f) Including the Value 10, Value 11, Value 12, Value 13 and Value 14 warrants, whose fair value as at 31 December 2014 was €2.1 million.

Financial instruments measured at fair value are classified by category on the basis of their measurement method. Fair value is measured:

(A) mainly based on quoted prices on an active market; listed equity securities are valued this way;

(B) on the basis of observable methods and data and with reference to the financial markets (yield curve, forward prices, etc.).

2014 Statement of financial position headings and classes of instruments	Category	Total fair value on statement of financial position	Fair value		
			Listed prices (A)	Internal model with observable inputs (B)	Internal model with unobservable inputs
ASSETS					
Listed equity interests	AFS	71,869	71,869	–	–
Other investments in equity instruments	AFS	2,016	–	2,016	–
Derivatives – assets					
Hedging financial instruments	CFH	8,060	–	8,060	–
Speculative financial instruments	L-FVTPL	–	–	–	–
Cash and cash equivalents	**A-FVTPL**	**1,146,913**	**1,146,913**	**–**	**–**
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	173,300	–	173,300	–
Speculative financial instruments	L-FVTPL	–	–	–	–

NOTE 9 Other current assets

	Employee-related receivables and recoverable payroll taxes	Tax receivables excluding income tax	Prepaid expenses	Government, income tax	Other receivables	Total
As at 31/12/2013	**4,117**	**97,689**	**39,496**	**32,271**	**122,532**	**296,105**
Impact of changes in exchange rates	(14)	749	2,454	(240)	2,382	5,331
Provision allowances or reversals	–	–	–	–	20,397	20,397
Other changes	1,848	7,229	8,659	12,427	(8,841)	21,322
As at 31/12/2014	**5,951**	**105,667**	**50,609**	**44,458**	**136,470**	**343,155**
Impact of changes in exchange rates	(730)	(11,936)	(1,370)	(8,843)	(14,267)	(37,146)
Provision allowances or reversals	–	–	–	–	(1,495)	(1,495)
Reclassification to assets held for sale and discontinued operations	(60)	(508)	(295)	(253)	(1,975)	(3,091)
Other changes	(1,232)	(15,370)	779	17,741	4,133	6,051
AS AT 31/12/2015	**3,929**	**77,853**	**49,723**	**53,103**	**122,866**	**307,474**

NOTE 10 Cash and cash equivalents

	Investment securities (gross)	Cash and cash equivalents	Total
As at 31/12/2013	**383,824**	**179,488**	**563,312**
Impact of changes in exchange rates	7,060	16,439	23,499
Other changes	415,601	144,501	560,102
As at 31/12/2014	**806,485**	**340,428**	**1,146,913**
Impact of changes in exchange rates	(61,317)	8,885	(52,432)
Reclassification to assets held for sale and discontinued operations	–	(4,000)	(4,000)
Other changes	(284,642)	(175,299)	(459,941)
AS AT 31/12/2015	**460,526**	**170,014**	**630,540**

"Cash and cash equivalents" comprises cash in bank current accounts and investment securities (shares in short-term cash UCITS and mutual and investment funds) that are immediately available (not pledged), risk-free and have a low volatility level.

NOTE 11 Assets held for sale and discontinued operations

Net values	Total
Assets held for sale and discontinued operations	68,964
Liabilities held for sale and discontinued operations	(60,135)
AS AT 31/12/2015	**8,829**

These assets and liabilities are as follows:

	31/12/2015
Non-current assets	40,360
Current assets	80,608
Non-current liabilities	(2,107)
Current liabilities	(58,028)
Reassessment of asset base	(52,004)
Net carrying amount of assets / liabilities held for sale	**8,829**

On 1 February 2016, Vallourec announced it had entered into exclusive negotiations to sell its subsidiary, Vallourec Heat Exchanger Tubes, a specialist in welded stainless steel and titanium tubes with assets in France, India, the United States, China and Korea. Since the sale is highly probable, the group of assets held for sale was measured at fair value, less selling costs, on 31 December 2015. They are presented on a separate line on the balance sheet (assets of €68 million in assets and liabilities of €60 million). The impact on "Asset disposals, restructuring costs and non-recurring items" is an estimated loss of €52 million.

The net value of assets held for sale includes non-controlling interests of €3.5 million.

NOTE 12 Change in operating working capital requirements

Gross values	31/12/2014	Translation difference	Change	Reclassification and other	31/12/2015
Inventories	1,663,461	(9,522)	(407,719)	(12,173)	1,234,047
Trade receivables	1,164,309	(5,090)	(498,102)	(61,398)	599,719
Trade payables	(806,698)	(38,009)	272,032	49,199	(523,476)
Other receivables and payables	16,855	(21,292)	(8,859)	20,602	7,306
Gross working capital (1)	**2,037,927**	**(73,913)**	**(642,648)**	**(3,770)**	**1,317,596**
Impact of hedging instruments (2)			**10,531**		
TOTAL (1) + (2)			**(632,117)**		
Change in working capital in the statement of cash flows			632,117		

NOTE 13 Equity

CAPITAL

Vallourec's issued capital is comprised of 135,688,432 ordinary shares with a nominal value of €2 per share, fully paid-up, compared with 130,597,975 as at 31 December 2014.

2015

On 25 June 2015, the option for payment of the dividend in shares, approved by the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2015, resulted in the creation of 3,090,460 new shares issued at the price of €19.40, for a capital increase of €59.9 million, including additional paid-in capital net of expenses.

On 15 December 2015, under the Value 15 employee share ownership plan 1,999,997 new shares were subscribed at a price of €8.83 for the leveraged plan and €8.32 for the standard plan, for a capital increase of €17.3 million, including additional paid-in capital net of expenses.

2014

On 25 June 2014, the option for payment of the dividend in shares, approved by the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2014, resulted in the creation of 518,416 new shares issued at the price of €35.69, for a capital increase of €18.5 million, including additional paid-in capital net of expenses.

On 16 December 2014, under the Value 14 employee share ownership plan 1,919,959 new shares were subscribed at a price of €25.62 for the leveraged plan and €24.12 for the standard plan, for a capital increase of €49.2 million, including additional paid-in capital net of expenses.

RESERVES, FINANCIAL INSTRUMENTS

Under IAS 39 Financial Instruments, postings to this reserve account are made for two types of transaction:

- effective currency hedges assigned to the order book and commercial tenders. Changes in the intrinsic values at the year-end are recognized in equity;
- variable rate borrowings for which interest rate swaps (fixed rate) have been contracted. These are accounted for in accordance with the cash flow hedge method. Changes in the fair value of the swap contracts, linked to interest rate movements, are recognized in equity.

FOREIGN CURRENCY TRANSLATION RESERVE

This reserve arises as a result of the translation of the equity of subsidiaries outside the euro zone. The change in the reserve corresponds to fluctuations in exchange rates used to translate the equity and net profit of these subsidiaries. Components of the reserve are reversed to income only in the case of a partial or total disposal and loss of control of the foreign entity.

	USD	GBP	Brazilian real (BRL)	Chinese yuan (CNY)	Other	Total
As at 31/12/2013	**(18,363)**	**(12,407)**	**(513,799)**	**29,153**	**(9,984)**	**(525,400)**
Change	176,547	3,679	33,981	21,344	2,145	237,696
As at 31/12/2014	**158,184**	**(8,728)**	**(479,818)**	**50,497**	**(7,839)**	**(287,704)**
Change	162,784	2,939	(383,881)	7,976	(2,689)	(212,871)
AS AT 31/12/2015	**320,968**	**(5,789)**	**(863,699)**	**58,473**	**(10,528)**	**(500,575)**

Main exchange rates used (euro/currency): translation of statement of financial position items (reporting date rate) and income statement items (average rate)

For €1.00	USD	GBP	Brazilian real (BRL)	Chinese yuan (CNY)
2014				
Average rate	1.33	0.81	3.12	8.19
Reporting date rate	1.21	0.78	3.22	7.54
2015				
Average rate	1.11	0.73	3.70	6.97
Reporting date rate	1.09	0.73	4.31	7.06

NOTE 14 Earnings per share

Basic earnings per share are calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding in the same period.

Diluted earnings per share are calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding in the same period, adjusted for the dilution effect of options.

Details of the earnings and numbers of shares used to calculate basic and diluted earnings per share are presented below:

Earnings per share	2014	2015
Net income attributable to ordinary shareholders for basic earnings per share	**(923,594)**	**(864,753)**
Weighted average number of ordinary shares for basic earnings per share	128,141,863	130,613,382
Weighted average number of treasury shares for basic earnings per share	(821,193)	(486,826)
Weighted average number of shares for earnings per share	127,320,670	130,126,556
EARNINGS PER SHARE *(in €)*	**(7.3)**	**(6.6)**
Earnings per share comparable to 2015 *(in €)*	(7.3)	–
Dilution effect – stock purchase and subscription options and performance shares	–	–
Weighted average number of ordinary shares for diluted earnings per share	127,320,670	130,126,556
DILUTED EARNINGS PER SHARE *(in €)*	**(7.3)**	**(6.6)**
Earnings per share comparable to 2015 *(in €)*	(7.3)	–

Dividends paid during the year	2014	2015
› for the previous fiscal year *(in €)*	0.81	0.81
› interim dividend for the current fiscal year *(in €)*	–	–

NOTE 15 Non-controlling interests

	Reserves	Translation difference	Net income	Total
As at 31/12/2014	343,058	37,548	45,647	426,253
AS AT 31/12/2015	**350,393**	**74,749**	**(33,201)**	**391,941**

Contribution at reporting date	As at 31/12/2014	As at 31/12/2015
Main American entities [a]	379,116	368,447
Other	47,137	23,494
TOTAL	**426,253**	**391,941**

(a) Non-controlling interests are primarily held by Sumitomo Corp. and Nippon Steel Sumitomo Metal Corp.

Contributions to net income	As at 31/12/2014	As at 31/12/2015
Main American entities [a]	43,175	(28,701)
Other	2,472	(4,500)
TOTAL	**45,647**	**(33,201)**

(a) Non-controlling interests are primarily held by Sumitomo Corp. and Nippon Steel Sumitomo Metal Corp.

The amounts presented are the amounts which appear in the financial statements for wholly-owned entities, which were prepared in accordance with IFRS, upon fair value adjustments made at the time of acquisition, and adjustments for standardization with the Group's accounting principles.

Main American entities	As at 31/12/2014	As at 31/12/2015
Current assets	429,929	217,372
Non-current assets	1,577,955	1,694,943
Current liabilities	317,464	251,636
Non-current liabilities	199,506	222,366
NET ASSETS	**1,490,914**	**1,438,313**
Non-controlling interests	379,116	368,447
Revenue	1,317,634	671,788
Net income	169,830	(148,385)
Other comprehensive income (loss)	162,753	153,564
TOTAL COMPREHENSIVE INCOME	**332,583**	**5,179**
Net income attributable to non-controlling interests	43,175	(28,701)
Other items of comprehensive income attributable to non-controlling interests	44,202	39,004
Cash flow from operating activities	267,520	85,137
Cash flow used in investing activities	(92,092)	(61,474)
Cash flow from (used in) financing activities	(221,606)	(113,209)
Impact of changes in exchange rates	5,376	(10,958)
NET CASH FLOWS	**(40,802)**	**(100,504)**

NOTE 16 Bank loans and other borrowings

LIQUIDITY RISK

The Group's financial resources are composed of bank financing and market financing.

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

Market financing is arranged exclusively by Vallourec.

In Europe

In February 2014, Vallourec took out a revolving credit facility for an amount of €1.1 billion, maturing in February 2019, plus two one-year extension options. The first one-year extension has been granted for €1.078 billion with a new maturity of 2020. This credit line is available for the Group's general funding purposes. As at 31 December 2015 this line had not been drawn.

In June 2015, Vallourec agreed a bilateral line of €90 million until February 2019 with two one-year extension options. As at 31 December 2015 this line had not been drawn.

In September 2015, Vallourec took out a revolving credit facility for an amount of €400 million, maturing in July 2019, plus a single one-year extension option. This credit line replaces four medium-term bilateral lines of €100 million each granted to Vallourec Tubes and maturing in July 2017. As at 31 December 2015 this line had not been drawn.

In addition to the financing put in place by Vallourec, Vallourec Tubes has two medium-term bilateral lines of €100 million each, maturing in July 2017. As at 31 December 2015, neither of these two lines was drawn.

Each of these bank facilities requires Vallourec to maintain its consolidated net debt-to-equity ratio at no more than 75 %, calculated as at 31 December each year. A change in control of Vallourec could require the repayment of some or all of the debt, which would be decided separately by each bank. It is also stipulated that the entire debt will be immediately due and payable if the Group defaults on one of its debt obligations (cross default), or in case of a major event with consequences for the Group's business or financial position and its ability to repay its debt.

In addition to bank financing, the Group has sought to diversify its funding sources by using market financing. For example, Vallourec launched a commercial paper program on 12 October 2011 to meet its short-term needs. The program has a €1 billion ceiling.

At 31 December 2015, Vallourec had an outstanding of €77 million for maturities of up to one year. This commercial paper program was rated B by Standard & Poor's.

On 7 December 2011, Vallourec issued a €650 million bond maturing in February 2017, with a fixed annual coupon of 4.25 %.

In August 2012, Vallourec also issued two long-term private bonds totaling €455 million. The amounts and terms of these two private bond issues are €400 million for seven years with an annual coupon of 3.25 % for one, and €55 million for 15 years with an annual coupon of 4.125 % for the other.

On 30 September 2014, Vallourec issued an initial €500 million bond, maturing in September 2024, with a fixed annual coupon of 2.25 %.

The market values of these fixed-rate bonds are €664.9 million, €418.6 million, €60.8 million and €514.5 million, respectively.

These bond issues were intended to diversify and increase the amount and extend the maturity of the financial resources available to the Group.

These bond issues specifically include a change-of-control clause that would trigger the mandatory prepayment of the bonds at the request of each bondholder in the event of a change of control of the Company (in favor of a person or a group of people acting in concert) leading to a downgrade of Vallourec's financial rating.

In addition, these bonds may be subject to a request for prepayment should any of the common default scenarios for this type of transaction arise. Early redemption may also be requested in some cases by either the Company or the bondholder, particularly in respect of a change in Vallourec's position or tax status.

As at 31 December 2015, the Group complied with its covenants and the terms and conditions for obtaining and maintaining all of the above facilities. Together, the above resources were sufficient to cover the Group's cash requirements. For the Company's plans for financing after 31 December 2015, refer to Note 35 Subsequent events.

In Brazil

In December 2009, Vallourec & Sumitomo Tubos do Brasil, which is 56 % owned by the Group, took out a loan of BRL 448.8 million with BNDES (Banco Nacional de Desenvolvimento Econômico e Social). This fixed-rate loan at 4.5 % is denominated in Brazilian reals and has a term of eight years. It is amortizable from 15 February 2012. BRL 109.5 million of this loan had been used as at 31 December 2015.

In 2010, this same company in Brazil concluded a finance lease with a nominal value of BRL 570 million relating to equipment needed to operate the plant at Jeceaba. As at 31 December 2015, the residual amount outstanding on this finance lease was BRL 357.4 million.

In the United States

The Group's US companies have a set of bilateral bank lines that were renewed in 2015 for a total of USD 300 million. The amount used as at 31 December 2015 totaled USD 79.5 million. These under 12 month facilities include clauses relating to the debt of each of the companies involved and a change of control clause.

In 2013, Vallourec Star set up a finance lease with a nominal value of USD 64.3 million and a final maturity of five years. As at 31 December 2015, the residual amount outstanding on this finance lease was USD 43.6 million.

Financial liabilities - Non-current liabilities

	Bank borrowings	Finance leases	Bond issue	Other borrowings	Total
As at 31/12/2013	**173,588**	**108,352**	**1,096,223**	**928**	**1,379,091**
New debt	19,885	–	499,439	–	519,324
Repayments	(110,086)	(11,569)	–	(40,820)	(162,475)
Impact of changes in exchange rates	916	5,478	–	39,927	46,321
Other changes	–	(686)	–	298	(388)
As at 31/12/2014	**84,303**	**101,575**	**1,595,662**	**333**	**1,781,873**
New debt	22,002	–	2,254	7,556	31,812
Repayments	(4,544)	(12,329)	–	(3,463)	(20,336)
Impact of changes in exchange rates	(23,057)	(11,034)	–	2,936	(31,155)
Other changes	–	(195)	–	956	761
AS AT 31/12/2015	**78,704**	**78,017**	**1,597,916**	**8,318**	**1,762,955**

Financial liabilities - Current liabilities

	Bank overdrafts	Accrued interest on bank overdrafts	Bank borrowings (< 1 year)	Accrued interest not yet due on bank borrowings	Other financial liabilities (< 1 year)	Total
As at 31/12/2013	**18,923**	**44**	**190,713**	**31,433**	**573,768**	**814,881**
Reclassifications	–	–	–	–	384	384
Impact of changes in exchange rates	2,018	1	18,272	27	6,513	26,831
Other changes	17,254	(35)	25,496	2,196	24,637	69,548
As at 31/12/2014	**38,195**	**10**	**234,481**	**33,656**	**605,302**	**911,644**
Reclassifications	–	–	–	–	–	–
Impact of changes in exchange rates	2,503	–	(5,867)	22	(50,144)	(53,486)
Reclassification to assets held for sale and discontinued operations	–	–	(1)	–	–	(1)
Other changes	(34,717)	(10)	(69,307)	(306)	(366,975)	(471,315)
AS AT 31/12/2015	**5,981**		**159,306**	**33,372**	**188,183**	**386,842**

Debt by currency

	USD	EUR	BRL	Other	Total
As at 31/12/2014 – in thousands of currency unit	556,832	1,950,411	725,308	n/a	n/a
As at 31/12/2014 – in € thousands	458,638	1,950,411	225,202	59,266	2,693,517
As at 31/12/2015 - in thousands of currency unit	**261,770**	**1,715,789**	**739,043**	**n/a**	**n/a**
AS AT 31/12/2015 – IN € THOUSANDS	**240,443**	**1,715,789**	**171,404**	**22,161**	**2,149,797**

Breakdown by maturity of non-current loans and other financial liabilities (> 1 year)

	> 1 year	> 2 years	> 3 years	> 4 years	5 years or more	Total
As at 31/12/2014	**35,732**	**676,982**	**42,579**	**413,453**	**613,127**	**1,781,873**
Finance leases	12,167	30,446	4,877	4,878	25,649	78,017
Other non-current financial debts	690,655	12,236	407,681	9,200	565,166	1,684,938
AS AT 31/12/2015	**702,822**	**42,682**	**412,558**	**14,078**	**590,815**	**1,762,955**

Breakdown by maturity of current loans and other financial liabilities

2015	< 3 months	> 3 months and < 1 year	Total
Bank borrowings	21,013	138,294	159,307
Other borrowings	71,833	104,374	176,207
Finance lease liabilities	1,748	10,228	11,976
Accrued interest on borrowings	24,312	9,060	33,372
Bank overdrafts (negative cash and cash equivalents)	5,741	239	5,980
AS AT 31/12/2015	**124,647**	**262,195**	**386,842**

Debt by interest rate

The following table groups the current and non-current portions of bank and other borrowings.

	Rate < 3 %	Rate 3 to 6 %	Rate 6 to 10 %	Rate > 10 %	Total
As at 31/12/2014					
Fixed rate on date granted	829,822	1,320,029	36,294	–	2,186,145
Variable rate on date granted swapped to fixed rate	–	–	–	–	–
Fixed rate	829,822	1,320,029	36,294		2,186,145
Variable rate	471,264	1,799	26,642	7,667	507,372
TOTAL	**1,301,086**	**1,321,828**	**62,936**	**7,667**	**2,693,517**
As at 31/12/2015					
Fixed rate on date granted	673,482	1,240,592	76,195	–	1,990,269
Variable rate on date granted swapped to fixed rate	–	–	–	–	–
Fixed rate	673,482	1,240,592	76,195	–	1,990,269
Variable rate	129,978	2,232	22,001	5,317	159,528
TOTAL	**803,460**	**1,242,824**	**98,196**	**5,317**	**2,149,797**

Debt contracted at a rate higher than 6 % relates to companies based in Brazil and India.

Debt at a fixed rate of less than 3 % on the date granted relates mainly to commercial paper and to the €500 million bond issue.

NOTE 17 Provisions

Non-current liabilities	Provisions for environmental risks
As at 31/12/2013	**12,475**
Provisions for the period	763
Provisions used	(18)
Impact of changes in exchange rates	115
Other	102
As at 31/12/2014	**13,437**
Provisions for the period	752
Provisions used	–
Impact of changes in exchange rates	(3,452)
Other	(222)
AS AT 31/12/2015	**10,515**

This provision relates to the cost of treating industrial land; all likely costs have been provisioned.

The provision also covers clean-up costs for the mine in Brazil; amounts are provided as and when minerals are extracted, based on the volumes extracted.

Current liabilities	Disputes and commercial commitments	Unfilled orders – losses on completion	Restructuring	Tax risks (income and other taxes, inspections, etc.)	Other	Total
As at 31/12/2013	**35,746**	**43,493**	**558**	**25,713**	**32,105**	**137,615**
Provisions for the period	35,746	28,009	22,008	13,353	13,056	112,172
Provisions used	(26,793)	(45,111)	(301)	(4,877)	(6,236)	(83,318)
Other reversals	–	–	–	–	(2,105)	(2,105)
Impact of changes in exchange rates	164	1,170	–	(110)	460	1,684
Changes in scope and other	(3,261)	(2)	–	402	(191)	(3,052)
As at 31/12/2014	**41,602**	**27,559**	**22,265**	**34,481**	**37,089**	**162,996**
Provisions for the period	32,478	61,783	73,453	11,926	15,881	195,521
Provisions used	(24,255)	(27,559)	(13,063)	(4,770)	(10,422)	(80,069)
Other reversals	(6,880)	–	(949)	(7,308)	(6,216)	(21,353)
Impact of changes in exchange rates	(5,073)	(258)	(3)	(8,605)	(7,130)	(21,069)
Reclassification to liabilities held for sale and discontinued operations	(451)	(390)	–	–	(104)	(945)
Changes in scope and other		(275)	(583)	19	3,865	3,026
AS AT 31/12/2015	**37,421**	**60,860**	**81,120**	**25,743**	**32,963**	**238,107**

PROVISIONS FOR DISPUTES, COMMERCIAL COMMITMENTS AND LOSSES ON UNFILLED ORDERS

Provisions are booked with regard to disputes if the Group has an obligation to a third party at the reporting date. They are determined based on the best estimate of the expense likely to be required to settle the obligation.

PROVISION FOR TAX RISKS

This provision mainly relates to risks in connection with tax disputes in Brazil, some of which are covered by security deposits (see Note 4).

PROVISIONS FOR REORGANIZATION AND RESTRUCTURING MEASURES

As part of the streamlining of its European steel tube production units and support functions, the employee representatives were informed on 28 April 2015 during the European Works Council (EWC).

An estimate of the business costs of the measures announced and the start of implementation were accounted for at the end of December for a total of €73 million.

OTHER CURRENT PROVISIONS

This item comprises various provisions with regard to customer discounts, late-payment penalties and other risks identified at the reporting date, with none being individually material.

For 2015 and 2014, actual annual greenhouse gas emissions were lower than the allowance granted by the French government, so no provisions were booked in this regard.

NOTE 18 Other long-term liabilities

Other long-term liabilities	
As at 31/12/2013	**212,992**
Impact of changes in exchange rates	2,467
Other changes	(33)
As at 31/12/2014	**215,426**
Impact of changes in exchange rates	(32,902)
Other changes	(150,793)
AS AT 31/12/2015	**31,731**

Other long-term liabilities are primarily composed of other non-operating liabilities of more than one year and a €165 million shareholder loan granted on 31 December 2014 to Vallourec & Sumitomo Tubos do Brasil. The impact of the application of the Amendment to IFRS 11 translated to a €165 million drop in long-term liabilities, offset by non-current assets, which declined by the same amount (see Note 4).

NOTE 19 Employee benefit commitments

	Germany	France	United Kingdom	Other	Total
As at 31/12/2014					
Present value of the obligation	**282,228**	**57,275**	**153,075**	**84,323**	**576,901**
Retirement	256,778	54,639	153,075	78,690	543,182
Early retirement commitments	8,939	–	–	–	8,939
Long-service awards and medical benefits	16,511	2,636	–	5,633	24,780
Fair value of plan assets	(147,164)	(7,706)	(149,691)	(28,058)	(332,619)
NET LIABILITY	**135,064**	**49,569**	**3,384**	**56,265**	**244,282**
As at 31/12/2015					
Present value of the obligation	**289,596**	**54,246**	**140,527**	**85,336**	**569,705**
Retirement	251,294	51,929	140,527	80,657	524,407
Early retirement commitments	23,068	–	–	–	23,068
Long-service awards and medical benefits	15,234	2,317	–	4,679	22,230
Fair value of plan assets	(151,402)	(7,875)	(156,572)	(29,379)	(345,228)
NET LIABILITY	**138,194**	**46,371**	**(16,045)**	**55,957**	**224,477**

The main actuarial assumptions used for the measurement of post-employment benefit obligations, taking account of the plans' durations, are as follows:

Main actuarial assumptions	Germany	France	United Kingdom	Other
As at 31/12/2014				
Discount rate	1.70 %	1.70 %	3.40 %	from 4 % to 12.3 %
Actual return on plan assets	1.70 %	1.70 %	3.40 %	from 4 % to 12.3 %
Salary increase rate	2.00 %	1.69 %	3.35 %	from 3 % to 10 %
As at 31/12/2015				
Discount rate	2.10 %	2.10 %	3.80 %	from 4.35 % to 17.95 %
Long-term return on plan assets	2.10 %	2.10 %	3.80 %	from 4.35 % to 17.95 %
Salary increase rate	2.00 %	1.30 %	3.35 %	from 3 % to 11.5 %

Commitments are valued by independent actuaries. The assumptions used take account of the specific characteristics of the plans and companies concerned.

Experience gains and losses in 2015 generated €9.5 million in losses for the Group (against €0.7 million in losses in 2014).

In 2016, the Group expects to pay €33.5 million of benefits under defined benefit plans, including €19.2 million in Germany, €5.9 million in the United Kingdom, €4.2 million in France and €1.8 million in Brazil.

Plans that are fully or partially outsourced represented a total obligation of €484 million at 31 December 2015 for assets of €345 million.

In the euro zone, the discount rate is based on the iBoxx index (AA-rated corporate bonds with a maturity of more than 10 years, estimated on the date the obligations are measured). This index uses a basket of bonds of financial and non-financial companies. The rates have not been restated to reflect credit risk not factored into the selected bond baskets. In 2015, a general decline in the discount rate resulted in an overall decrease in liabilities generating actuarial gains for the year of €31.1 million.

Actual returns on plan assets fell short of estimates by €7.3 million.

FRANCE

Obligations in France correspond mainly to retirement benefits, supplemental pension plans and long-service award-type benefits.

On 31 December 2015 a sensitivity test to the discount rate was performed: a 1 % variation of this rate would result in a change of about €4.8 million in these commitments.

On 14 September 2005, a supplemental pension plan with its own plan assets was set up for senior management. The plan is partially outsourced to an insurance company. Since it is a defined benefit plan, it is valued on an actuarial basis and recognized in accordance with revised IAS 19 in the case of active employees. As at 31 December 2015, the remaining obligation amounted to €15.8 million for assets of €7.7 million. The restructuring plan reduced commitments by €2.3 million.

GERMANY

The Group's employees in Germany benefit from a variety of mechanisms (retirement benefits, deferred compensation, long-service awards and early retirement), which constitute long-term obligations for the Group.

On 31 December 2015 a sensitivity test to the discount rate was performed: a 1 % variation of this rate would result in a change of about €28.6 million in these commitments. The restructuring plan has increased commitments by €11.2 million (early retirement). The main pension plan was changed, reducing commitments by €3.1 million.

UNITED KINGDOM

The Group helps fund a defined benefit pension plan for Group employees. The obligations are outsourced and managed by leading institutions in the financial markets.

On 31 December 2015 a sensitivity test to the discount rate was performed: a 1 % variation of this rate would result in a change of about €22.3 million in these commitments.

BRAZIL

In Brazil, employers help to fund termination benefits and long-service awards. Retirement bonuses are partially outsourced in a pension fund with total assets of €0.4 million in 2015 (vs. €1.1 million in 2014). A €0.4 million contribution was paid (€0.4 million in 2014).

MEXICO

Obligations in Mexico are not material for the Group.

USA

The assumption for increased medical benefits is regressive from 2016 to 2021: from 6.5 % to 4.0 % for workers and retirees.

There were no significant events during 2015 that could have a material impact on the obligation.

OTHER COUNTRIES

Provisions are made for obligations in other countries in accordance with local standards. They are not considered material at Group level.

Expenses incurred during the year include the additional rights acquired for an additional year of service, the change in existing rights at the beginning of year due to discounting, past service costs recorded in the period, the actual return on plan assets, the effects of plan reductions or liquidations and the amortization of actuarial gains and losses for liabilities other than pensions. The portion relating to the discounting of rights is recognized in financial income/(loss) and the return on plan assets is recorded in investment income. These expenses are broken down as follows:

Expenses for the fiscal year

	Germany	France	United Kingdom	Other	Total
As at 31/12/2014					
Current service cost	8,177	3,124	3,019	3,311	17,631
Interest expense on obligation	7,817	1,690	5,214	5,389	20,110
Actual return on plan assets	(4,680)	(216)	(5,353)	(1,289)	(11,538)
Net actuarial losses/(gains) for the year	3,998	(1,546)	–	4	2,456
Cost of past services	–	15	–	–	15
Impact of any reduction or liquidation	–	–	–	–	–
NET EXPENSE	**15,312**	**3,067**	**2,880**	**7,415**	**28,674**
ACTUAL RETURN ON PLAN ASSETS	**12,963**	**157**	**21,385**	**1,746**	**36,251**

	Germany	France	United Kingdom	Other	Total
As at 31/12/2015					
Current service cost	8,114	3,734	3,862	4,208	19,918
Interest expense on obligation	4,662	948	5,515	5,676	16,801
Actual return on plan assets	(2,502)	(135)	(5,502)	(1,284)	(9,423)
Net actuarial losses/(gains) for the year	4,027	(69)	–	(505)	3,453
Cost of past services	(3,065)	41	–	(702)	(3,726)
Impact of any reduction or liquidation	11,190	(2,169)	–	(465)	8,556
NET EXPENSE	**22,426**	**2,350**	**3,875**	**6,928**	**35,579**
ACTUAL RETURN ON PLAN ASSETS	**2,038**	**169**	**437**	**(518)**	**2,126**

The changes in assets associated with these benefits are as follows:

Changes in related assets	Germany	France	United Kingdom	Other	Total
As at 31/12/2013	**133,701**	**6,181**	**117,079**	**22,883**	**279,844**
Value of assets	133,701	6,181	117,079	22,883	279,844
Actual return on assets	12,963	157	21,385	1,746	36,251
Contributions	500	1,537	5,912	1,265	9,214
Benefits paid	–	(169)	(3,744)	(846)	(4,759)
Acquisitions, disposals, liquidations	–	–	–	(142)	(142)
Impact of changes in exchange rates	–	–	9,059	3,152	12,211
As at 31/12/2014	**147,164**	**7,706**	**149,691**	**28,058**	**332,619**
Value of assets	147,164	7,706	149,691	28,058	332,619
Actual return on assets	2,038	169	437	(518)	2,126
Contributions	2,200	–	6,100	590	8,890
Benefits paid	–	–	(8,837)	(1,381)	(10,218)
Acquisitions, disposals, liquidations	–	–	–	(225)	(225)
Impact of changes in exchange rates	–	–	9,181	2,855	12,036
AS AT 31/12/2015	**151,402**	**7,875**	**156,572**	**29,379**	**345,228**

Changes in the obligation	Germany	France	United Kingdom	Other	Total
As at 31/12/2013	**231,709**	**49,325**	**116,795**	**64,133**	**461,962**
Current service cost	8,177	3,124	3,019	3,311	17,631
Interest expense on obligation	7,817	1,690	5,214	5,389	20,110
Employee contributions	–	–	813	72	885
Actuarial losses (+)/gains (-) generated during the year	–	–	–	–	–
Remeasurements:					
› experience-related adjustments	1,035	(1,649)	336	1,027	749
› actuarial gains and losses arising from changes in demographic assumptions	–	2,795	1,908	2,597	7,300
› actuarial gains and losses arising from changes in financial assumptions	47,910	5,667	19,570	4,842	77,989
Acquisitions/disposals	1,232	–	–	264	1,496
Benefits payments	(15,652)	(3,677)	(3,744)	(3,182)	(26,255)
Plan amendments	–	–	–	–	–
Foreign exchange differences	–	–	9,164	5,870	15,034
Other	–	–	–	–	–
As at 31/12/2014	**282,228**	**57,275**	**153,075**	**84,323**	**576,901**

Changes in the obligation	Germany	France	United Kingdom	Other	Total
As at 31/12/2014	**282,228**	**57,275**	**153,075**	**84,323**	**576,901**
Current service cost	8,114	3,784	3,862	4,208	19,968
Interest expense on obligation	4,662	973	5,515	5,676	16,826
Employee contributions	–	–	751	79	830
Actuarial losses (+)/gains (-) generated during the year	–	–	–	–	–
Remeasurements:					
› experience-related adjustments	14,718	(612)	(6,290)	1,699	9,515
› actuarial gains and losses arising from changes in demographic assumptions	(460)	–	(1,455)	(966)	(2,881)
› actuarial gains and losses arising from changes in financial assumptions	(12,187)	(206)	(15,705)	(3,017)	(31,115)
Acquisitions/disposals	–	–	–	11	11
Benefits payments	(15,710)	(3,056)	(8,837)	(3,104)	(30,707)
Plan amendments	(3,065)	–	–	(687)	(3,752)
Reclassification to assets/liabilities held for sale	–	(1,666)	–	–	(1,666)
Foreign exchange differences	–	–	9,611	(2,190)	7,421
Other [(a)]	11,296	(2,246)	–	(696)	8,354
As at 31/12/2015	**289,596**	**54,246**	**140,527**	**85,336**	**569,705**

(a) Other changes are mainly related to plan reductions and to the impacts of restructuring in Germany.

Movements during the year in net liabilities recognized on the statement of financial position were as follows:

Change in the provision	Germany	France	United Kingdom	Other	Total
NET LIABILITY/(ASSET) AT 31/12/2013	**98,008**	**43,144**	**(284)**	**41,250**	**182,118**
Total expense for the period	15,312	3,067	2,880	7,415	28,674
Amount recognized in Other comprehensive income – Remeasurement	36,663	8,399	5,782	8,273	59,117
Benefits or contributions to funds	(16,151)	(5,041)	(5,099)	(3,547)	(29,838)
Impact of changes in exchange rates	–	–	105	2,610	2,715
Changes in scope and other	1,232	–	–	264	1,496
NET LIABILITY/(ASSET) AT 31/12/2014	**135,064**	**49,569**	**3,384**	**56,265**	**244,282**
Total expense for the period	22,426	2,350	3,875	6,928	35,579
Amount recognized in Other comprehensive income – Remeasurement	(1,492)	(648)	(18,385)	(82)	(20,607)
Benefits or contributions to funds	(17,910)	(3,069)	(5,349)	(2,217)	(28,545)
Reclassification to assets/liabilities held for sale	–	(1,666)	–	–	(1,666)
Impact of changes in exchange rates	–	–	429	(4,560)	(4,131)
Changes in scope and other	106	(165)	1	(377)	(435)
NET LIABILITY/(ASSET) AT 31/12/2015	**138,194**	**46,371**	**(16,045)**	**55,957**	**224,477**

Plan assets are broken down as follows:

United Kingdom	31/12/2015 in share	31/12/2014 in share
Equities (UK & overseas)	45.00 %	47.00 %
Bonds	21.00 %	20.00 %
Real Estate	14.00 %	14.00 %
Other (cash and index-linked gilts)	20.00 %	19.00 %

USA	31/12/2015 in share	31/12/2014 in share
Equities	52.00 %	51.00 %
Bonds	37.00 %	38.00 %
Real Estate	9.00 %	–
Other	2.00 %	11.00 %

Germany	31/12/2015 in share	31/12/2014 in share
Equities	25.48 %	28.60 %
Bonds	74.52 %	71.40 %
Real Estate	–	–
Other	–	–

In France, 100 % of the assets are placed in the general assets of an insurance company.

SENSITIVITY ANALYSIS

Calculating the projected obligation of a defined benefit plan is sensitive to the above assumptions.

A change of 1 % in the respective assumptions would have the following impacts on the defined benefit obligation at the reporting date:

	1 % increase	1 % decrease
Discount rate	(66)	80
Salary increase rate	17	(14)
Guaranteed rate of pension increase	37	(31)

Amounts expensed for defined contribution plans	Production staff	Directors, management, technical and supervisory staff	Total
As at 31/12/2014			
Employer's share of retirement contributions	7,080	12,324	19,404
Life insurance paid by the employer	3,159	2,321	5,480
Other retirement contributions	432	648	1,080
TOTAL	**10,671**	**15,293**	**25,964**
As at 31/12/2015			
Employer's share of retirement contributions	6,217	12,971	19,188
Life insurance paid by the employer	3,889	2,807	6,696
Other retirement contributions	378	12	390
TOTAL	**10,484**	**15,790**	**26,274**

OTHER EMPLOYEE BENEFITS (OPTIONS AND PERFORMANCE SHARES)

Share subscription plans

CHARACTERISTICS OF THE PLANS

The Vallourec Management Board authorized share subscription plans from 2008 to 2015 for some executive management and corporate officers of the Group.

The characteristics of these plans are as follows (figures for the 2008 and 2009 plans are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares):

	2008 Plan	2009 Plan	2010 Plan	2011 Plan	2012 Plan	2013 Plan	2014 Plan	2015 Plan
Allocation date	01/09/2008	01/09/2009	01/09/2010	01/09/2011	31/08/2012	02/09/2013	15/04/2014	15/04/2015
Maturity date	01/09/2012	01/09/2013	01/09/2014	01/09/2015	01/03/2017	03/03/2018	15/04/2018	15/04/2019
Expiration date	01/09/2015	01/09/2019	01/09/2020	01/09/2021	30/08/2020	01/09/2021	15/04/2022	15/04/2023
Number of beneficiaries at outset	9	303	349	743	387	406	399	486
Exercise price in euros	91.77	51.67	71.17	60.71	37	46.15	38.53	22.60
Number of options granted	143,600	578,800	512,400	684,521	530,400	602,465	373,550	410,350

CHANGE IN NUMBER OF UNEXPIRED OPTIONS

For all of these plans, the change in the number of unexpired options is as follows:

In number of options	2014	2015
Total at beginning of period	3,183,279	3,190,049
Options distributed	373,550	410,350
Options exercised	–	–
Options not exercised at expiration date	(277,600)	(143,600)
Options canceled [(a)]	(89,180)	(596,711)
TOTAL AT END OF PERIOD	**3,190,049**	**2,860,088**
Options available for exercise	1,104,600	960,423

(a) In 2015, beneficiaries who left the Group, or application of the performance factor.

In 2015, the reported figures corresponded to the theoretical number of shares originally allocated with a performance factor of 1 for plans that were vesting, and to the actual number of shares allocated for plans that had matured.

Measurement of Plans [(a)]	2008 Plan	2009 Plan	2010 Plan	2011 Plan	2012 Plan	2013 Plan	2014 Plan	2015 Plan
Expense for fiscal year 2008	711	–	–	–	–	–	–	–
Expense for fiscal year 2009	1,445	820	–	–	–	–	–	–
Expense for fiscal year 2010	895	1,581	694	–	–	–	–	–
Expense for fiscal year 2011	746	1,321	2,253	853	–	–	–	–
Expense for fiscal year 2012	768	1,493	638	1,175	176	–	–	–
Expense for fiscal year 2013	–	815	1,162	882	511	450	–	–
Expense for fiscal year 2014	–	–	444	815	11	1,153	503	–
Expense for fiscal year 2015	–	–	–	363	(698)	(640)	(105)	283
Accrued expense as at 31 December 2015	**4,565**	**6,030**	**5,191**	**4,088**	**–**	**963**	**398**	**283**
Assumptions								
Share price at allocation date	€95.42	€50.65	€70.34	€62.93	€36.87	€46.33	€39.69	€26.03
Volatility [(b)]	35.00 %	43.00 %	35.00 %	35.00 %	35.00 %	30.00 %	30.00 %	29.00 %
Risk-free rate [(c)]	4.40 %	2.39 %	2.60 %	3.01 %	1.92 %	2.16 %	1.72 %	0.21 %
Exercise price	€91.77	€51.67	€71.17	€60.71	€37.00	€46.15	€38.53	€22.60
Dividend rate [(d)]	3.50 %	5.00 %	3.00 %	3.00 %	3.00 %	3.00 %	3.00 %	3.00 %
Fair value of the option [(e)]	€31.79	€17.11	€24.05	€18.50	€9.36	€10.41	€8.60	€5.40

(a) The binomial model of projecting share prices has been used to measure the fair value of the options granted.
(b) Volatility corresponds to historical volatility observed over a period corresponding to the duration of the plans.
(c) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries – Institut des Actuaires).
(d) The expected dividend rates have been determined on the basis of analysts' expectations and the Group's dividend policy.
(e) The fair value for the Management Board and the Operational Committee is €5.40 for the 2015 plan.

Performance share plans

CHARACTERISTICS OF THE PLANS

The Vallourec Management Board authorized performance share plans from 2008 to 2015 for some employees and corporate officers of the Group.

The characteristics of these plans are as follows (figures for the 2008 and 2009 plans are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares):

	Allocation date	Vesting period	Holding period	Number of beneficiaries at outset	Theoretical number of shares allocated
Value 08 Plan	16/12/08	4.5 years	–	8,697	67,712
2009 Plan [a]	31/07/09	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	53	26,668
Value 09 Plan	17/12/09	4.6 years	–	8,097	69,400
1-2-3 Plan [b]	17/12/09	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	17,404	104,424
03/2010 Plan [c]	15/03/10	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	848	190,540
07/2010 Plan [d]	31/07/10	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	2	4,280
Value 10 Plan	03/12/10	4.6 years	–	9,632	83,462
2-4-6 Plan [e]	03/12/10	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	12,098	72,588
2011 Plan [f]	30/03/11	2 years (French residents and members of the Management Board) or 4 years (non-French residents)	2 years (French residents and members of the Management Board) or none (non-French residents)	1,157	214,271
Value 11 Plan	18/11/11	4.6 years	–	841	6,462
2011 2-4-6 Plan [g]	15/12/11	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	13,053	78,318
2012 Plan [h]	30/03/12	2 years (French residents and members of the Management Board) or 4 years (non-French residents)	2 years (French residents and members of the Management Board) or none (non-French residents)	1,591	286,718
2012 2-4-6 Plan [i]	30/03/12	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	21,686	130,116
Value 12 Plan	06/12/12	4.6 years	–	737	4,395
2013 Plan [j]	29/03/13	3 years (French residents and members of the Management Board) or 4 years (non-French residents)	2 years (French residents and members of the Management Board) or none (non-French residents)	1,647	295,225
2013 2-4-6 Plan [k]	29/03/13	3 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	21,744	130,464
Value 13 Plan	10/12/13	4.6 years	–	732	4,028
2014 Plan [l]	15/04/14	3 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	1,758	413,597
2014 2-4-6 Plan [m]	15/04/14	3 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	21,677	130,062
Value 14 Plan	16/12/14	4.6 years		768	3,960
2015 Plan [n]	15/04/15	3 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	497	242,826
Value 15 Plan	15/12/15	4.6 years	–	348	1,715

(a) Definitive allocation of shares in 2011 for French residents and in 2013 for non-French residents, based on the consolidated EBITDA performance achieved by the Group in 2009 and 2010. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.33. The theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

*(b) Definitive allocation of shares in 2011 for French residents and in 2013 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from **1** January 2010 to 30 September 2011. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.*

(c) Definitive allocation of shares in 2012 for French residents and in 2014 for non-French residents, based on the consolidated EBITDA performance achieved by the Group in 2010 and 2011. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1. The theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(d) Definitive allocation of shares in 2012 for French residents and in 2014 for non-French residents, based on the consolidated EBITDA performance achieved by the Group in 2010, 2011 and 2012. The actual number is determined by applying a performance factor, calculated for the three years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1. The theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(e) Definitive allocation of shares in 2012 for French residents and in 2014 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2011 to 30 September 2012. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(f) Definitive allocation of shares in 2013 for French residents and members of the Management Board, and in 2015 for non-French residents. For all beneficiaries (excluding Management Board members), it will be based on the ratio of consolidated EBITDA to consolidated revenue achieved by the Group in 2011 and 2012. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.25. For members of the Management Board, the definitive allocation of shares in 2013 will be based on the following three criteria assessed for fiscal years 2011 and 2012: revenue growth on a like-for-like basis; the ratio of consolidated EBITDA to consolidated revenue on a like-for-like basis; and the performance of the Vallourec share on the regulated NYSE Euronext Paris stock market against a benchmark panel. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(g) Definitive allocation of shares in 2014 for French residents and in 2016 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2012 to 30 September 2013. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(h) Definitive allocation of shares in 2014 for French residents and members of the Management Board, and in 2016 for non-French residents. For all beneficiaries (excluding Management Board members), it will be based on the ratio of consolidated EBITDA to consolidated revenue achieved by the Group in 2012 and 2013. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.25. For members of the Executive Committee, the definitive allocation of shares will be based on the following three criteria assessed for fiscal years 2012 and 2013: revenue growth on a like-for-like basis; the ratio of consolidated EBITDA to consolidated revenue on a like-for-like basis; and the performance of the Vallourec share on the regulated NYSE Euronext Paris stock market against a benchmark panel. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(i) Definitive allocation of shares in 2014 for French residents and in 2016 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2012 to 31 December 2013. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(j) Definitive allocation of shares in 2016 for French residents and members of the Management Board, and in 2017 for non-French residents. For all beneficiaries (excluding Management Board members), it will be based on the ratio of consolidated EBITDA to consolidated revenue achieved by the Group in 2013, 2014 and 2015. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.25. For members of the Executive Committee, the definitive allocation of shares will be based on the following three criteria assessed for fiscal years 2013, 2014 and 2015: revenue growth on a like-for-like basis; the ratio of consolidated EBITDA to consolidated revenue on a like-for-like basis; and the performance of the Vallourec share on the regulated NYSE Euronext Paris stock market against a benchmark panel. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(k) Definitive award of shares in 2016 for French residents and in 2017 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2013 to 31 December 2015. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(l) Definitive allocation of shares in 2017 for French residents and members of the Management Board, and in 2018 for non-French residents. For all beneficiaries (excluding Management Board members), it will be based on the ratio of consolidated EBITDA to consolidated revenue achieved by the Group in 2014, 2015 and 2016. The actual number is determined by applying a performance factor, calculated for the three years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.25. For members of the Executive Committee, final allocation shall depend on the following four criteria, assessed in 2014, 2015 and 2016: the rate of return on capital employed (ROCE), compared with the ROCE in the budget, consolidated revenue on a like-for-like basis, as compared with the revenue in the budget, the relative stock market performance of the Vallourec share on the regulated NYSE Euronext market in Paris, as compared with a benchmark panel, and the relative EBITDA performance as compared with the same panel as for the previous criterion. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(m) Definitive allocation of shares in 2017 for French residents and in 2018 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2014 to 31 December 2016. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(n) Definitive allocation of shares in 2018 for French residents and members of the Management Board, and in 2019 for non-French residents. For all beneficiaries (excluding Management Board members), it will be based on the ratio of consolidated EBITDA to consolidated revenue achieved by the Group in 2015, 2016 and 2017. The actual number is determined by applying a performance factor, calculated for the three years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.25. For members of the Executive Committee, the definitive allocation of shares will be based on the following two criteria assessed for fiscal years 2015, 2016 and 2017: the rate of return on capital employed (ROCE), compared with the ROCE in the budget, and the Total Shareholder Return (TSR) over fiscal years 2015, 2016 and 2017. The actual number is determined by applying a performance factor, calculated for the three years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

CHANGE IN NUMBER OF SHARES

The characteristics of these plans are as follows (figures for the 2008 and 2009 plans are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares):

	Initial theoretical number of shares allocated	Number of shares canceled	Theoretical number of shares acquired or being vested	Number of shares delivered
Value 09 Plan	69,400	(4,074)	65,326	65,326
03/2010 Plan	190,540	(22,837)	167,703	153,643
07/2010 Plan	4,280	–	4,280	3,938
Value 10 Plan	83,462	(3,952)	79,510	79,510
2-4-6 Plan	72,588	(4,860)	67,728	67,728
2011 Plan	214,271	(121,858)	92,413	92,413
Value 11 Plan	6,462	(1,453)	5,009	–
2011 2-4-6 Plan	78,318	(10,212)	68,106	68,106
2012 Plan	286,718	(72,310)	214,408	64,972
2012 2-4-6 Plan	130,116	(11,064)	119,052	29,646
Value 12 Plan	4,395	(849)	3,546	–
2013 Plan	295,225	(471)	294,754	–
2013 2-4-6 Plan	130,464	(7,572)	122,892	–
Value 2013 Plan	4,028	(688)	3,340	–
2014 Plan	413,597	(59)	413,538	–
2014 2-4-6 Plan	130,062	(4,452)	125,610	–
Value 2014 Plan	3,960	(342)	3,618	–
2015 Plan	242,826	–	242,826	–
Value 2015 Plan	1,715	–	1,715	–

The reported figures correspond to the theoretical number of shares originally allocated, with a performance factor of 1 for plans that were vesting, and to the actual number of shares allocated for plans that had matured.

Measurement of Plans [(a)]	Value 08 Plan	2009 Plan	Value 09 Plan	123 Plan	03/2010 Plan	07/2010 Plan
Expense for fiscal year 2008	17	–	–	–	–	–
Expense for fiscal year 2009	414	271	83	63	–	–
Expense for fiscal year 2010	411	459	692	1,671	3,544	58
Expense for fiscal year 2011	412	290	657	1,639	3,368	128
Expense for fiscal year 2012	366	14	689	865	1,648	28
Expense for fiscal year 2013	32	17	563	693	1,139	44
Expense for fiscal year 2014	–	–	324	–	(357)	5
Expense for fiscal year 2015	–	–	–	–	–	–
Accrued expense as at 31 December 2015	**1,652**	**1,051**	**3,008**	**4,931**	**9,342**	**263**
Assumptions						
Share price at allocation date	€41.08	€46.15	€59.50	€60.50	€72.65	€74.71
Volatility [(b)]	40 %	40 %	40 %	40 %	40 %	40 %
Risk-free rate [(c)]	3.03 %	2.37 %	2.40 %	2.24 %	2.01 %	1.67 %
Dividend rate [(d)]	7.30 %	5 %	5 %	5 %	5 %	5 %
Fair value of share tranche 1	€28.12	€37.32 (French residents) or €35.71 (non-French residents)	€46.04	€52.07 (French residents) or €49.28 (non-French residents)	€62.22 (French residents) or €59.18 (non-French residents)	€66.94 (French residents) or €66.14 (non-French residents)
Fair value of share tranche 2	–	–	–	–	–	–
Fair value of share tranche 3	–	–	–	–	–	–

(a) The binomial model of projecting share prices has been used to determine the fair value of the shares allocated. The employee benefit corresponds to the fair value of the shares allocated, taking into account the impossibility of receiving dividends during the vesting period and the cost to the employee of the non-transferability of shares during the holding period.

(b) Volatility corresponds to historical volatility observed over a period corresponding to the duration of the plans.

(c) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries – Institut des Actuaires).

(d) The expected dividend rates were determined based on analysts' expectations (external information) and the Group's dividend policy.

Measurement of Plans [a]	Value 10 Plan	246 Plan	2011 Plan	Value 11 Plan	246/2011 Plan	2012 Plan
Expense for fiscal year 2010	136	127	–	–	–	–
Expense for fiscal year 2011	1,088	1,654	3,673	–	–	–
Expense for fiscal year 2012	1,134	1,530	2,560	51	1,095	2,994
Expense for fiscal year 2013	1,033	564	(80)	39	892	970
Expense for fiscal year 2014	1,084	521	527	51	450	1,084
Expense for fiscal year 2015	493	–	(166)	21	309	1,142
Accrued expense as at 31 December 2015	**4,968**	**4,396**	**6,514**	**162**	**2,746**	**6,190**
Assumptions						
Share price at allocation date	€72.77	€72.87	€78.98	€41.01	€45.53	€47.50
Volatility [b]	40 %	40 %	35 %	35 %	35 %	35 %
Risk-free rate [c]	1.93 %	1.78 %	2.69 %	2.07 %	2.13 %	1.36 %
Dividend rate [d]	3.00 %	3 %	3 %	3 %	3 %	3 %
Fair value of the share	€62.49	€65.44 (French residents) or €64.51 (non-French residents)	€70.81 (French residents) or €69.92 (non-French residents)	€36.31	€40.32 (French residents) or €40.31 (non-French residents)	€41.34 (French residents) or €42.05 (non-French residents)

(a) The binomial model of projecting share prices has been used to determine the fair value of the shares allocated. The employee benefit corresponds to the fair value of the shares allocated, taking into account the impossibility of receiving dividends during the vesting period and the cost to the employee of the non-transferability of shares during the holding period.

(b) Volatility corresponds to historical volatility observed over a period corresponding to the duration of the plans.

(c) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries – Institut des Actuaires).

(d) The expected dividend rates were determined based on analysts' expectations (external information) and the Group's dividend policy.

Measurement of Plans [a]	246/2012 Plan	Value 12 Plan	2013 Plan	246/2013 Plan	Value 13 Plan	2014 Plan
Expense for fiscal year 2012	1,267	7	–	–	–	–
Expense for fiscal year 2013	1,541	22	2,053	860	2	–
Expense for fiscal year 2014	1,093	25	1,436	451	32	2,219
Expense for fiscal year 2015	853	14	68	683	21	(2,006)
Accrued expense as at 31 December 2015	**4,754**	**68**	**3,557**	**1,994**	**55**	**213**
Assumptions						
Share price at allocation date	€47.50	€34.15	€37.50	€37.50	€42.51	€39.69
Volatility [b]	35 %	35 %	30 %	30 %	30 %	30 %
Risk-free rate [c]	1.36 %	0.91 %	0.85 %	0.85 %	0.90 %	0.93 % and 0.66 %
Dividend rate [d]	3 %	3 %	3 %	3 %	3 %	3 %
Fair value of the share	€41.34 (French residents) or €42.05 (non-French residents)	€29.33	€31.20 (French residents) or €33.20 (non-French residents)	€31.20 (French residents) or €33.20 (non-French residents)	€36.50	€32.68 (French residents) or €35.14 (non-French residents)

(a) The binomial model of projecting share prices has been used to determine the fair value of the shares allocated. The employee benefit corresponds to the fair value of the shares allocated, taking into account the impossibility of receiving dividends during the vesting period and the cost to the employee of the non-transferability of shares during the holding period.

(b) Volatility corresponds to historical volatility observed over a period corresponding to the duration of the plans.

(c) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries – Institut des Actuaires).

(d) The expected dividend rates were determined based on analysts' expectations (external information) and the Group's dividend policy.

Measurement of Plans [a]	246/2014 Plan	Value 14 Plan	2015 Plan	Value 15 Plan
Expense for fiscal year 2014	552	3,611	–	–
Expense for fiscal year 2015	(552)	20	710	654
Accrued expense as at 31 December 2015	**–**	**3,631**	**710**	**654**
Assumptions				
Share price at allocation date	€39.69	€29.68	€26.03	€9.09
Volatility [b]	30 %	24 %	29 %	26 %
Risk-free rate [c]	0.93 % or 1.72 % and 0.66 %	0.23 %	0.03 %	0.03 %
Dividend rate [d]	3 %	3 %	3 %	3 %
Fair value of the share	€29.08 (French residents) or €35.14 (non-French residents)	€25.49	€21.22 (French residents) or €23.04 (non-French residents)	€7.81

(a) *The binomial model of projecting share prices has been used to determine the fair value of the shares allocated. The employee benefit corresponds to the fair value of the shares allocated, taking into account the impossibility of receiving dividends during the vesting period and the cost to the employee of the non-transferability of shares during the holding period.*

(b) *Volatility corresponds to historical volatility observed over a period corresponding to the duration of the plans.*

(c) *The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries – Institut des Actuaires).*

(d) *The expected dividend rates were determined based on analysts' expectations (external information) and the Group's dividend policy.*

The impact on the income statement of employee share ownership plans is presented in Note 25.

NOTE 20 Other current liabilities

	Social security liabilities	Tax liabilities	Liabilities associated with the acquisition of assets	Deferred income	Other current liabilities	Total
As at 31/12/2013	**259,755**	**67,079**	**64,298**	**7,143**	**71,525**	**469,800**
Impact of changes in exchange rates	5,996	1,077	1,332	249	5,908	14,562
Other changes	13,573	(16,392)	(18,707)	1,148	(25,727)	(46,105)
As at 31/12/2014	**279,324**	**51,764**	**46,923**	**8,540**	**51,706**	**438,257**
Impact of changes in exchange rates	(7,061)	(2,773)	(3,326)	192	1,575	(11,393)
Reclassification to liabilities held for sale and discontinued operations	(6,734)	(1,911)	(306)	–	(422)	(9,373)
Other changes	(45,688)	(15,060)	(18,443)	(3,269)	(2,177)	(84,637)
AS AT 31/12/2015	**219,841**	**32,020**	**24,848**	**5,463**	**50,682**	**332,854**

NOTE 21 Information on related parties

The following transactions were entered into with related parties:

	Sales to related parties	Purchases from related parties	Related party receivables	Related party payables
As at 31/12/2014				
HKM	1,864	405,729	–	81,948
Rothschild & Cie [(a)]	–	247	–	–
Joint operations	42,537	198,854	51,402	93,586
As at 31/12/2015				
HKM	2,602	257,524	386	59,736
Rothschild & Cie [(a)]	–	1,011	–	–
Joint operations	39,803	135,958	70,847	52,794

(a) Rothschild & Cie is deemed to be a related party because the Chairman of the Rothschild group's merchant bank is a member of the Group's Supervisory Board.

Purchases mainly concern the acquisition of steel rounds from HKM, which are used as raw manufacturing materials by the European rolling mills of Vallourec Deutschland and Vallourec Tubes France.

Transactions carried out in 2015 with Rothschild & Cie relate to a financial consultancy agreement to assist the Management Board.

Additionally, Vallourec has a liquidity contract with Rothschild & Cie, which was established in 2012. It was implemented under the annual general authorization for the share buyback program approved by the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2015 (eleventh resolution).

As at 31 December 2015, the balance on the liquidity account comprised:

- 1,375,000 shares with a value of €11.8 million as at 31 December;
- €1,428,580.

COMPENSATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The total compensation paid to members of the Executive Committee, as constituted at 31 December (9 people in 2015, against 16 in 2014), as well as pension liabilities at the reporting date, were as follows:

	2014	2015
Compensation and benefits in kind	8,045	5,530
Share-based payments [(a)]	993	163
Pension commitments	1,569	968
Supplementary pension commitments	9,330	9,491

(a) Information provided based on the 2015, 2014, 2013, 2012, 2011 and 2010 share subscription option, performance share and employee share ownership plans.

Share purchase and share subscription options (Note 18) granted to members of the Executive Committee at 31 December

	2014 [(a)]	2015 [(a)]
Options granted on 1 September 2008 exercisable from 1 September 2012 to 1 September 2015	100,400	77,600
Options exercised at 31 December (1 option = 1 share) by members of the Executive Committee	–	–
Number of shares subscribed during the year (1 option = 1 share) by members of the Executive Committee	–	–
Number of exercisable options at 31 December	100,400	77,600
Options granted on 1 September 2009 exercisable from 1 September 2013 to 1 September 2019	118,800	94,400
Options exercised at 31 December (1 option = 1 share) by members of the Executive Committee	–	–
Number of shares subscribed during the year (1 option = 1 share) by members of the Executive Committee	–	–
Number of exercisable options at 31 December	118,800	94,400
Options granted on 1 September 2010 exercisable from 1 September 2014 to 1 September 2020	108,900	87,300
Options exercised at 31 December (1 option = 1 share) by members of the Executive Committee	–	–
Number of shares subscribed during the year (1 option = 1 share) by members of the Executive Committee	–	–
Number of exercisable options at 31 December	108,900	87,300
Options granted on 1 September 2011 exercisable from 1 September 2015 to 1 September 2021	108,716	82,858
Options exercised at 31 December (1 option = 1 share) by members of the Executive Committee	–	–
Number of shares subscribed during the year (1 option = 1 share) by members of the Executive Committee	–	–
Number of exercisable options at 31 December	108,716	82,858
Options granted on 31 August 2012 exercisable from 1 September 2016 to 1 September 2022	51,000	24,000
Options exercised at 31 December (1 option = 1 share) by members of the Executive Committee	–	–
Number of shares subscribed during the year (1 option = 1 share) by members of the Executive Committee	–	–
Number of exercisable options at 31 December	51,000	24,000
Options granted on 2 September 2013 exercisable from 3 April 2018 to 1 September 2021	111,000	84,000
Options exercised at 31 December (1 option = 1 share) by members of the Executive Committee	–	–
Number of shares subscribed during the year (1 option = 1 share) by members of the Executive Committee	–	–
Number of exercisable options at 31 December	111,000	84,000
Options granted on 15 April 2014 exercisable from 15 April 2018 to 15 April 2022	67,800	53,600
Options exercised at 31 December (1 option = 1 share) by members of the Executive Committee	–	–
Number of shares subscribed during the year (1 option = 1 share) by members of the Executive Committee	–	–
Number of exercisable options at 31 December	67,800	53,600
Options granted on 15 April 2015 exercisable from 15 April 2019 to 15 April 2023	–	53,900
Options exercised at 31 December (1 option = 1 share) by members of the Executive Committee	–	–
Number of shares subscribed during the year (1 option = 1 share) by members of the Executive Committee	–	–
Number of exercisable options at 31 December	–	53,900

(a) Plan figures are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares.

Performance shares (Note 19) allocated to employees who were members of the Executive Committee at 31 December:

	2014 (a)	2015 (a)
Value 09 Plan of 17 December 2009		
Theoretical number of shares allocated		
Theoretical number of shares allocated	24	–
15 March 2010 Plan		
Theoretical number of shares allocated	24,480	–
Number of shares vested during the year	1,242	–
31 July 2010 Plan		
Theoretical number of shares allocated	4,000	–
Number of shares vested during the year	–	–
Value 10 Plan of 3 December 2010		
Theoretical number of shares allocated	42	24
Number of shares vested during the year	–	24
2-4-6 Plan of 3 December 2010		
Theoretical number of shares allocated	48	–
Number of shares vested during the year	6	–
30 March 2011 Plan		
Theoretical number of shares allocated	25,200	20,895
Number of shares vested during the year	–	5,199
Value 11 Plan of 15 December 2011		
Theoretical number of shares allocated	–	–
2-4-6 Plan of 15 December 2011		
Theoretical number of shares allocated	54	24
Number of shares vested during the year	–	–
30 March 2012 Plan		
Theoretical number of shares allocated	28,518	22,848
Number of shares vested during the year	4,315	–
2-4-6 Plan of 30 March 2012		
Theoretical number of shares allocated	66	30
Number of shares vested during the year	42	–
Value 12 Plan of 18 November 2012		
Theoretical number of shares allocated	–	–
29 March 2013 Plan		
Theoretical number of shares allocated	28,833	22,848
2-4-6 Plan of 29 March 2013		
Theoretical number of shares allocated	66	30
Value 13 Plan of 14 November 2013		
Theoretical number of shares allocated	–	–
Plan of 15 April 2014		
Theoretical number of shares allocated	58,730	45,880
2-4-6 Plan of 15 April 2014		
Theoretical number of shares allocated	78	36
Value 14 Plan of 14 November 2014		
Theoretical number of shares allocated	–	–
Plan of 15 April 2015		
Theoretical number of shares allocated	–	40,320
Value 15 Plan of 16 November 2015		
Theoretical number of shares allocated	–	–

(a) Plan figures are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares.

As regards post-employment benefits for senior managers, there is no specific plan. Senior managers are covered by the Vallourec Group's supplemental pension plan (under Article 39 of the French General Tax Code) introduced in 2005 (Note 19).

At 31 December 2015, no loans or guarantees had been granted to senior management by the parent company or its subsidiaries.

NOTE 22 Contingent liabilities and commitments

For its activities in Europe, the Group was granted a greenhouse gas emissions allowance of 433,157 metric tons in 2015.

Vallourec is concerned by the third emissions trading period (2013-2020), not only for the Saint Saulve steelworks, but for its tube mills as well. Although from 2013, a portion of the allowances allocated is no longer free and will be auctioned on the market, the metalworking sector is classified as being exposed to the risk of "carbon leakage" and will continue to receive free allowances until 2020. European authorities are working on the rules applicable after 2020, but everything suggests that the metalworking industry will continue to receive free allowances.

Off-balance sheet commitments received (excluding financial instruments)

	2014	2015
Firm non-current asset orders	7,373	8,556
Guarantees and commitments received	98,575	119,735
Other commitments received	14,691	17,619
TOTAL	**120,639**	**145,910**
OFF-BALANCE-SHEET COMMITMENTS GIVEN (EXCLUDING FINANCIAL INSTRUMENTS)	**480,581**	**466,157**

Commitments given by maturity

	2015	< 1 year	> 1 year	> 5 years
Statement of financial position				
Long-term financial debts	2,149,797	386,842	1,172,140	590,815
Off-balance-sheet				
Market guarantees and letters of credit given	139,385	110,325	29,060	–
Other securities, mortgages and pledges given	62,000	97	1,794	60,109
Long-term lease	70,793	10,461	28,519	31,813
Firm asset orders given	6,758	2,145	4,613	–
Other obligations	187,221	151,661	26,962	8,598
TOTAL	**466,157**	**274,689**	**90,948**	**100,520**

	2014	< 1 year	> 1 year	> 5 years
Statement of financial position				
Long-term financial debts	2,693,517	911,644	1,168,746	613,127
Off-balance-sheet				
Market guarantees and letters of credit given	157,904	129,925	27,979	–
Other securities, mortgages and pledges given	87,533	5,880	506	81,147
Long-term lease	76,164	11,980	25,078	39,106
Firm asset orders given	4,905	2,901	–	2,004
Other obligations	154,075	63,099	73,852	17,124
TOTAL	**480,581**	**213,785**	**127,415**	**139,381**

The partnership agreement signed by the two shareholders, Vallourec and Sumitomo, provides that each will have the option of buying the other shareholder's stake should it undergo a change of control.

The main exchange rates used for income statement items are set out in Note 13.

Income statement items are translated at the average rate.

NOTE 23 Revenue

	2014	2015
Europe	1,089,853	849,351
North America (NAFTA)	1,746,660	1,095,599
South America	918,802	596,171
Asia and the Middle East	1,434,061	852,413
Rest of the world	511,160	409,889
TOTAL	**5,700,536**	**3,803,423**

NOTE 24 Cost of sales

	2014	2015
Direct cost of sales	(313,053)	(214,653)
Cost of raw materials consumed	(1,752,600)	(1,201,140)
Labor costs	(947,237)	(836,619)
Other manufacturing costs	(1,272,426)	(956,744)
Change in non-raw material inventories	37,167	(143,588)
TOTAL	**(4,248,149)**	**(3,352,744)**
Depreciation and amortization	(310,713)	(302,632)
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**(4,558,862)**	**(3,655,376)**

"Other manufacturing costs" mainly include the costs of energy and consumables, and the costs of outsourcing, maintenance and provisions.

NOTE 25 Sales, general and administrative costs

	2014	2015
Research and Development costs	(95,743)	(81,938)
Selling and marketing costs	(104,557)	(99,155)
General and administrative costs	(366,854)	(331,736)
TOTAL	**(567,154)**	**(512,829)**
Depreciation and amortization	(50,596)	(44,279)
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**(617,750)**	**(557,108)**

Personnel expenses and average headcount of consolidated companies

	2014	2015
Personnel costs		
Wages and salaries	(856,646)	(796,209)
Employee profit-sharing and bonuses	(54,143)	(32,802)
Expenses related to share subscription and share purchase options and performance shares	(16,034)	(1,467)
Share subscription option plan of 1 September 2010	(444)	–
Share subscription option plan of 1 September 2011	(815)	(363)
Share subscription option plan of 30 August 2012	(11)	698
Share subscription option plan of 2 September 2013	(1,153)	640
Share subscription option plan of 15 April 2014	(503)	105
Share subscription option plan of 15 April 2015	–	(283)
Value 09 employee share ownership plan of 12 December 2009 including the bonus share plan	(324)	–
1-2-3 performance share allocation plan of 17 December 2009	–	–
Performance share allocation plan of 15 March 2010	357	–
Performance share allocation plan of 31 July 2010	(5)	–
Value 10 employee share ownership plan of 17 November 2010 including the bonus share plan	(1,084)	(493)
2-4-6 performance share allocation plan of 3 December 2010	(521)	–
Performance share allocation plan of 30 March 2011	(527)	166
Value 11 employee share ownership plan of 18 November 2011 including the bonus share plan	(51)	(21)
2-4-6 performance share allocation plan of 18 November 2011	(450)	(309)
Performance share allocation plan of 30 March 2012	(1,084)	(1,142)
2-4-6 performance share allocation plan of 30 March 2012	(1,093)	(853)
Value 12 employee share ownership plan of 12 November 2012 including the bonus share plan	(25)	(14)
Performance share allocation plan of 29 March 2013	(1,436)	(68)
2-4-6 performance share allocation plan of 29 March 2013	(451)	(683)
Value 13 employee share ownership plan of 14 November 2013 including the bonus share plan	(32)	(21)
Performance share allocation plan of 15 April 2014	(2,219)	2,006
2-4-6 performance share allocation plan of 15 April 2014	(552)	552
Value 14 employee share ownership plan of 14 November 2014 including the bonus share plan	(3,611)	(20)
Performance share allocation plan of 15 April 2015	–	(710)
Value 15 employee share ownership plan of 16 November 2015 including the bonus share plan	–	(654)
Social security costs	(309,313)	(289,079)
TOTAL	**(1,236,136)**	**(1,119,557)**

2015

An employee share ownership plan was offered to all employees. In order to meet the legal and fiscal requirements of each country, different plans were offered:

- Leveraged company mutual fund plan (fonds commun de placement entreprise levier – FCPE levier): employees subscribe via a company mutual fund to a number of Vallourec shares at a price discounted by 15 % and receive, at the end of the holding period, a performance multiple on their Vallourec shares as well as protection of their initial investment, excluding currency effects. The increase multiple is achieved through the transfer of the discount, dividends and other financial rights related to ownership of the shares to the bank structuring the transaction through a swap contract;
- Standard company mutual fund (fonds commun de placement classique – FCPE classique): employees subscribe via a company mutual fund to Vallourec shares at a price discounted by 20 % and receive any dividends;
- Share and Stock Appreciation Rights (SAR): employees, by buying one share at a price discounted by 15 %, receive one SAR (protection on their initial investment, excluding currency effects, and a performance multiple on said share), which will be paid by the employer, in cash, at the end of the holding period. The resulting liability (SAR) is covered by warrants provided to the employer by the bank structuring the transaction. The warrants are issued in consideration of the issue of shares reserved for the bank at a price discounted by 15 %;
- Cash and Stock Appreciation Rights (SAR): employees, by depositing funds in an interest-bearing bank account, receive SARs (performance multiple on the deposit), which will be paid to the employee by the employer in cash at the end of the holding period. The resulting liability (SAR) is covered by warrants provided to the employer by the bank structuring the transaction. The warrants are issued in consideration of the issue of shares reserved for the bank at a price discounted by 15 %.

The IFRS 2 expense resulting from the benefit granted to the employee under the terms of the ESOP is measured on the grant date. The fair value of the benefit corresponds, in the case of the standard offering, to the value of the economic benefit granted less the cost to the employee of the non-transferability of the share, and, for the leveraged plans, to the estimated present value of the amounts ultimately paid to the employee. In the case of the "Share and SAR" plan, the discount on the share held by the employee and the measurement of the option protecting the initial investment are added.

Characteristics of Value plans	2013	2014	2015
Allocation date	14 November 2013	14 November 2014	16 November 2015
Maturity date of plans	2 July 2018	1 July 2019	1 July 2020
Reference price in euros	€43.47	€30.14	€10.39
Subscription price in euros	€34.78	€24.11	€8.32
Subscription price for leveraged plan in euros	€36.95	€25.62	€8.83
Discount	15 % and 20 %	15 % and 20 %	15 % and 20 %
Total amount subscribed (in € thousands)	69,223	49,166	17,647
Total number of shares subscribed	1,874,453	1,919,959	1,999,997
Total discount (in € thousands)	12,259	8,702	3,130
Multiple per share			
› Leveraged company mutual fund plan (FCPE levier)	6.8	7.8	6.8
› Share and SAR plan	4.9	5.7	4.8
› Cash and SAR plan	6.3	7.5	6.4
Measurement assumptions			
Volatility (a)	30 %	24 %	26 %
Risk-free rate (b)	0.90 %	0.23 %	0.03 %
Annual dividend rate (c)	3.00 %	3.00 %	3.00 %
Total IFRS 2 expense (d)	**5,593**	**3,610**	**654**

(a) Volatility corresponds to historical volatility observed over a period corresponding to the duration of the plans.

(b) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries – Institut des Actuaires).

(c) The expected dividend rates were determined based on analysts' expectations (external information) and the Group's dividend policy.

(d) Calculated using a binomial model for share price movements.

This benefit led to the recognition of a personnel cost of €0.7 million in 2015 compared to €3.6 million in 2014.

The IFRS 2 expense resulting from the SARs is measured again at each quarter-end by reference to the fair value corresponding to the estimated present value of the amounts ultimately paid to the employee.

Parameters for measuring the fair value of SARs	Value 11	Value 12	Value 13	Value 14	Value 15
Measurement date	31 December 2015	31 December 2015	31 December 2015	31 December 2015	31 December 2015
Maturity date	1 July 2016	1 July 2017	1 July 2018	1 July 2019	1 July 2020
Share price at the measurement date	€8.90	€8.90	€8.90	€8.90	€8.90
Multiple per share					
› Share and SAR plan	6.2	6.06	4.9	5.7	4.8
› Cash and SAR plan	7.2	7.2	6.3	7.5	6.4
Measurement assumptions					
Volatility [a]	54 %	47 %	42 %	40 %	40 %
Risk-free rate [b]	- 0.35 %	- 0.36 %	- 0.28 %	- 0.20 %	- 0.08 %
Annual dividend rate [c]	3.00 %	3.00 %	3.00 %	3.00 %	3.00 %
IFRS 2 expense for the period [d]	**(54)**	**71**	**(9)**	**219**	**(166)**

(a) Volatility corresponds to historical volatility observed over a period corresponding to the duration of the plans.

(b) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries – Institut des Actuaires).

(c) The expected dividend rates were determined based on analysts' expectations (external information) and the Group's dividend policy.

(d) Calculated using a binomial model for share price movements.

The liability to employees resulting from SARs resulted in an expense included in personnel costs of €0.1 million.

In accordance with IAS 39, the income from warrants is remeasured at each quarter-end by reference to the fair value of the derivative instrument.

Parameters for determining the fair value of warrants	Value 11	Value 12	Value 13	Value 14	Value 15
Measurement date	31 December 2015	31 December 2015	31 December 2015	31 December 2015	31 December 2015
Maturity date	1 July 2016	1 July 2017	1 July 2018	1 July 2019	1 July 2020
Share price at the measurement date	€8.90	€8.90	€8.90	€8.90	€8.90
Multiple per share					
› Share and SAR plan	6.2	6.06	4.9	5.7	4.8
› Cash and SAR plan	7.2	7.2	6.3	7.5	6.4
Measurement assumptions [a]					
Implied volatility	54 %	47 %	42 %	40 %	40 %
Interest rate	-0.18 %	from -0.18 % to -0.16 %	from -0.18 % to 0.05 %	from -0.18 % to 0.16 %	from -0.18 % to 0.29 %
Annual dividend (in euros)	€0.65	€0.65	€0.65	€0.65	€0.65
IAS 39 income for the period	55	(70)	12	(195)	176

(a) Assumptions of the bank structuring the transaction.

The expense corresponding to the warrants paid by the bank to the employer was added to the employees' investment and recognized in personnel expenses for €0.1 million in 2015 since it is intended to cover income associated with SARs (see above).

Closing headcount of consolidated companies [a]	2014	2015
Managers	3,476	3,358
Technical and supervisory staff	4,094	3,334
Production staff	15,587	12,615
TOTAL	**23,157**	**19,307**

(a) The headcount of companies recognized as joint operations is included based on the percentage interest held by the Group.

Group headcount as at 31 December 2015 was 19,307 people, compared with 23,157 as at 31 December 2014.

NOTE 26 Other

	2014	2015
Employee profit-sharing and bonuses	(54,143)	(32,802)
Fees for concessions and patents	34,432	30,653
Other income and expenses	(10,271)	(12,948)
TOTAL	**(29,982)**	**(15,097)**

Provision allowances, net of reversals	2014	2015
Provision allowances net of reversals included in EBITDA amounted to	(38,862)	(37,167)

NOTE 27 Fees paid to the Statutory Auditors and members of their networks

	KPMG		Deloitte	
Amount (excl. tax)	2014	2015	2014	2015
Audit				
Statutory audit, certification, examination of Company and consolidated financial statements				
Issuer	220	212	212	212
%	19 %	19 %	12 %	12 %
Fully consolidated subsidiaries	817	790	1,489	1,510
%	70 %	70 %	87 %	87 %
Other services directly associated with the statutory audit				
Issuer	70	70	0	0
%	6 %	6 %	0 %	0 %
Fully consolidated subsidiaries	52	62	14	14
%	4 %	5 %	1 %	1 %
SUB-TOTAL	**1,159**	**1,134**	**1,715**	**1,736**
%	100 %	100 %	100 %	100 %
Other services provided by audit networks to fully consolidated subsidiaries				
Legal, tax, payroll	0	0	0	0
%	0 %	0 %	0 %	0 %
Other (details to be provided if > 10 % of audit fees)	0		0	0
%	0 %	0 %	0 %	0 %
SUB-TOTAL	**0**	**0**	**0**	**0**
%	0 %	0 %	0 %	0 %
TOTAL	**1,159**	**1,134**	**1,715**	**1,736**

NOTE 28 Accumulated depreciation and amortization

	2014	2015
By function		
Depreciation of industrial assets	(310,713)	(302,632)
Depreciation and amortization – Research and Development	(10,931)	(9,797)
Depreciation and amortization – Sales and Marketing Department contracts	(19,454)	(11,558)
Depreciation and amortization – general and administrative expenses	(20,211)	(22,924)
TOTAL	**(361,309)**	**(346,911)**
By type		
Net amortization of intangible assets (see Note 1)	(40,118)	(34,099)
Net depreciation of property, plant and equipment (see Note 2)	(311,858)	(299,897)
Net depreciation and amortization of biological assets	(9,333)	(12,915)
TOTAL	**(361,309)**	**(346,911)**

Depreciation of new industrial sites in the development stage is calculated according to the production-units method for assets used directly in the production process and the straight-line depreciation method for other assets.

NOTE 29 Impairment of assets and goodwill, asset disposals and restructuring costs

	2014	2015
Reorganization measures (net of expenses and provisions)	(25,176)	(101,431)
Gains and losses on disposals of non-current assets and other	(25,654)	(16,529)
TOTAL	**(50,830)**	**(117,960)**

	2014	2015
Impairment of intangible assets (see Note 1)	(23,134)	–
Impairment of property, plant and equipment (see Note 2)	(875,859)	(163,202)
Impairment of goodwill (see Note 1)	(204,148)	(36,316)
Other impairment of assets	(559)	(96,704)
TOTAL	**(1,103,700)**	**(296,222)**

Other impairment of assets mainly concerns the impact of the mark-to-market valuation of assets held for sale for €52.0 million (see Note 11) and impairment of receivables related to country risk (Angola and Venezuela) for €40.9 million (see Note 7).

NOTE 30 Net financial income/(loss)

	2014	2015
Financial income		
Income from investment securities	40,935	35,908
Income from disposals of investment securities	2,206	856
TOTAL	**43,141**	**36,764**
Interest expenses	**(132,226)**	**(111,695)**
Net interest expenses	**(89,085)**	**(74,931)**
Other financial income and expenses		
Income from securities	2,774	1,687
Income from loans and receivables	5,218	1,479
Exchange (losses) and gains and changes in premiums/discounts	29,741	401
Provision allowances, net of reversals	(2,915)	(2,078)
Other financial income and expenses	1,662	5,934
TOTAL	**36,480**	**7,423**
Other discounting expenses		
Financial expenses from discounting of pension obligations	(9,096)	(7,998)
Financial income from discounted assets and liabilities	(491)	739
TOTAL	**(9,587)**	**(7,259)**
NET FINANCIAL INCOME/(LOSS)	**(62,192)**	**(74,767)**

NOTE 31 Reconciliation of theoretical and actual tax expense

Breakdown of the tax expense	2014	2015
Current tax expense	(129,615)	(29,861)
Deferred taxes (see Note 5)	(28,039)	(45,039)
NET EXPENSE (-) / INCOME (+)	**(157,654)**	**15,178**
Consolidated net income/(loss)	(880,432)	(897,927)
Tax expense	(157,654)	15,178
CONSOLIDATED NET INCOME/(LOSS) BEFORE TAX	**(722,778)**	**(913,105)**
Statutory tax rate of consolidating company (see Note 5)	34.43 %	34.43 %
Theoretical tax expense	248,852	314,382
Impact of main tax loss carryforwards	(343,897)	(196,725)
Impact of permanent differences	(45,320)	(75,901)
Other impacts	(4,751)	(11,793)
Impact of differences in tax rates	(12,538)	(14,785)
NET EXPENSE (-) / INCOME (+)	**(157,654)**	**15,178**
ACTUAL TAX RATE	**-22 %**	**2 %**

The 2 % rate mainly reflects the items detailed below:

The impact of tax loss carryforwards and timing differences mainly concerns the non-recognition of deferred tax assets (DTAs) for the year in France, Germany, China, Saudi Arabia and VSB in Brazil.

Permanent differences consist mainly of the net income attributable to non-controlling interests, withholding taxes and the change in the share of costs and expenses with regard to dividend distributions, the income/(loss) generated from the fair value measurement of assets held for sale (see Note 11) along with the impact of free share allocations.

Differences in taxation mainly reflect the range of tax rates applied in each country (France 34.4 %, Germany 31.6 %, United States 36.5 %, Brazil 34 %, China 25 % and Saudi Arabia 20 %).

NOTE 32 Segment information

OPERATING SEGMENTS

The following tables provide information on the income and results for each operating segment, as well as certain information on the assets, liabilities and investments for the 2015 and 2014 fiscal years.

Information on results, assets and liabilities by operating segment

2015	Seamless tubes	Specialty products	Holdings & miscellaneous [(a)]	Inter-segment transactions	Total
Consolidated income statement					
Sales to external customers	3,700,576	208,272	(105,425)		3,803,423
EBITDA	(46,503)	12,962	(39,569)	(4,137)	(77,247)
Depreciation and amortization	(323,902)	(21,671)	(1,674)	336	(346,911)
Impairment of assets and goodwill	(242,921)	(53,301)	–	–	(296,222)
Asset disposals and restructuring costs	(104,848)	(3,089)	(10,023)		(117,960)
OPERATING INCOME	**(718,174)**	**(65,099)**	**(51,266)**	**(3,801)**	**(838,340)**
Unallocated income					44,187
Unallocated expenses					(118,954)
Pre-tax income					(913,107)
Income tax					15,178
Net income of associates					(25)
Consolidated net income/(loss)					(897,954)
Statement of financial position					
Non-current assets	4,480,204	149,243	3,713,881	(3,990,432)	4,352,896
Current assets	1,891,569	55,830	94,872	(103,387)	1,938,884
Cash	446,851	12,305	984,339	(812,955)	630,540
Assets held for sale and discontinued operations	–	68,964	–	–	68,964
TOTAL ASSETS	**6,818,624**	**286,342**	**4,793,092**	**(4,906,774)**	**6,991,284**
Equity	2,793,478	115,233	2,699,619	(2,962,662)	2,645,668
Non-controlling interests	385,986	5,882	–	73	391,941
Long-term liabilities	1,562,911	3,454	1,609,947	(930,462)	2,245,850
Current liabilities	2,076,249	101,638	483,526	(1,013,723)	1,647,690
Assets held for sale and discontinued operations	–	60,135	–	–	60,135
TOTAL LIABILITIES	**6,818,624**	**286,342**	**4,793,092**	**(4,906,774)**	**6,991,284**
Cash flows					
Property, plant and equipment, intangible assets and biological assets	245,759	4,430	619	–	250,808
Other information					
Closing headcount	18,014	1,096	197	–	19,307
Personnel costs	(1,028,579)	(47,413)	(43,565)	–	(1,119,557)

(a) Vallourec and Vallourec Tubes.

2014	Seamless tubes	Specialty products	Holdings & miscellaneous [a]	Inter-segment transactions	Total
Consolidated income statement					
Sales to external customers	5,479,222	220,405	909	–	5,700,536
EBITDA	886,494	20,178	(47,343)	(4,078)	855,251
Depreciation and amortization	(341,403)	(18,574)	(1,667)	335	(361,309)
Impairment of assets and goodwill	(1,003,618)	(5,931)	(9,128)	(85,023)	(1,103,700)
Asset disposals and restructuring costs	(50,650)	(397)	217	–	(50,830)
OPERATING INCOME	**(509,177)**	**(4,724)**	**(57,921)**	**(88,766)**	**(660,588)**
Unallocated income					79,621
Unallocated expenses					(141,813)
Pre-tax income					(722,780)
Income tax					(157,654)
Net income of associates					2,487
Consolidated net income/(loss)					(877,947)
Statement of financial position					
Non-current assets	4,905,839	200,178	3,871,431	(3,899,857)	5,077,591
Current assets	2,840,832	154,260	132,063	(120,104)	3,007,051
Cash	590,764	19,802	1,266,624	(730,277)	1,146,913
TOTAL ASSETS	**8,337,435**	**374,240**	**5,270,118**	**(4,750,238)**	**9,231,555**
Equity	3,535,242	129,566	3,152,155	(3,073,604)	3,743,359
Non-controlling interests	418,049	6,154	–	2,050	426,253
Long-term liabilities	1,679,434	50,492	1,602,271	(820,933)	2,511,264
Current liabilities	2,704,710	188,028	515,692	(857,751)	2,550,679
TOTAL LIABILITIES	**8,337,435**	**374,240**	**5,270,118**	**(4,750,238)**	**9,231,555**
Cash flows					
Property, plant and equipment, intangible assets and biological assets	358,187	11,286	364	–	369,837
Other information					
Closing headcount	21,780	1,168	209	–	23,157
Personnel costs	(1,127,448)	(60,577)	(48,111)	–	(1,236,136)

(a) Vallourec and Vallourec Tubes.

The impairment losses recorded as at 31 December 2014 (see Note 2.3) primarily concerned the seamless tubes sector.

GEOGRAPHICAL REGIONS

The following tables provide information by geographical region on sales (by location of the Group's customers) and capital expenditure as well as certain information on assets (by regions where the companies operate).

2015	Europe	North America	South America	Asia	Rest of the world	Total
Revenue						
Sales to external customers	849,351	1,095,599	596,171	852,413	409,889	3,803,423
Statement of financial position						
Property, plant & equipment, intangible assets and biological assets (net)	690,947	1,816,203	941,838	342,255	2,902	3,794,145
Cash flows						
Property, plant and equipment, intangible assets and biological assets	108,711	66,370	59,589	15,501	637	250,808
Other information						
Closing headcount	8,745	2,272	6,339	1,879	72	19,307
Personnel costs	(629,634)	(232,827)	(202,495)	(51,955)	(2,646)	(1,119,557)

2014	Europe	North America	South America	Asia	Rest of the world	Total
Revenue						
Sales to external customers	1,089,853	1,746,660	918,802	1,434,061	511,160	5,700,536
Statement of financial position						
Property, plant & equipment, intangible assets and biological assets (net)	892,614	1,705,941	1,292,475	340,736	3,534	4,235,300
Cash flows						
Property, plant and equipment, intangible assets and biological assets	143,511	95,347	107,124	21,503	2,352	369,837
Other information						
Closing headcount	9,925	3,141	7,336	2,676	79	23,157
Personnel costs	(679,425)	(241,229)	(264,509)	(48,390)	(2,583)	(1,236,136)

NOTE 33 Share in net income/(loss) of associates

The contribution to the consolidated net income of associates is as follows:

	2014	2015
HKM	6	–
Poongsan Valinox	(246)	(428)
Subsidiaries of P.T. Citra Tubindo	1,577	1,758
Tianda Oil Pipe	1,439	(436)
Xi'an Baotimet Valinox Tubes	(289)	(919)
TOTAL	**2,487**	**(25)**

NOTE 34 Business combinations

There were no business combinations in 2015 or 2014.

NOTE 35 Subsequent events

On 11 January 2016, Serimax and Technip signed an agreement in principle to develop a strategic partnership for offshore pipeline welding. The plans envisage that Technip, a long-time customer of Serimax, would acquire a minority stake in Serimax.

On 29 January 2016, Vallourec and Tianda Oil Pipe (TOP), a Chinese seamless pipe manufacturer listed on the Hong Kong Stock Exchange, signed an agreement whereby Vallourec would take control of the company by acquiring a further 50.61 % stake in the company. Since 2011, Vallourec has owned a 19.46 % stake in TOP, which has been accounted for by the equity method in the Group's financial statements (see Note 3). This transaction would give Vallourec a 70.07 % controlling interest in TOP. Vallourec would subsequently launch a Mandatory General Offer to acquire all remaining shares, as required by the Hong Kong Code on Takeovers and Mergers. The total maximum cash out would be USD 175 million. This transaction is subject to approval by the Hong Kong competition authorities.

On 1 February, Vallourec and NSSMC announced the merger of Vallourec & Sumitomo Tubos do Brasil (VSB, Jeceaba site, operated by Vallourec and NSSMC in a 56/40.4 % joint operation, with Sumitomo Corp. holding the remaining 3.6 %) and Vallourec Tubos do Brasil (VBR, fully owned by Vallourec) into a single new entity to be called Vallourec Soluções Tubulares do Brasil in which Vallourec will hold a majority stake of 84.6 %, with NSSMC and Sumitomo Corp. holding the remaining 15 % and 0.4 %, respectively. NSSMC will keep its supply agreement for 300kt to be manufactured at the Jeceaba plant. The impact of this transaction on the Group's financial statements as at the date of change of control will be a change in the consolidation method of VSB's assets and liabilities to full consolidation (compared with 56 % as at 31 December 2015). This transaction is subject to approval by the Hong Kong competition authorities.

On 1 February 2016, the Group presented a comprehensive industrial reorganization plan that will downsize European capacity by 50 %, to focus on high value-added products and specialized activities. This rationalization project will lead to the closure of two rolling mills (Saint-Saulve and Deville in France), one threading line (Mülheim in Germany), as well as one heat treatment line (Bellshill in Scotland), resulting in a 50 % cut in tube production capacity by 2017 versus the 2014 level. It will result in approximately 1,000 more FTE reductions as compared to the Valens plan. These new measures will have an estimated impact of €137 million, which will be recognized in the first quarter of 2016.

On 1 February 2016, Vallourec announced its intention to raise €1.0 billion of new equity to strengthen its balance sheet and finance its transformation to secure long-term growth through a combination of an equity instrument (convertible bond redeemable in shares, “ORA”) reserved to Bpifrance and NSSMC and an equity issuance with preferential rights. The convertible bond will be subscribed by Bpifrance and NSSMC up to an amount which will allow them each to reach a 15 % ownership post-completion of the equity issuance with preferential rights and conversion on a fully-diluted basis. An Ordinary and Extraordinary Shareholders' Meeting will be convened on 6 April 2016 to submit the equity issuance for shareholders' approval. This transaction is subject to approval by the Hong Kong competition authorities.

If these equity transactions are not completed, Vallourec will draw on its credit lines. It should be noted that the bank facilities contain financial covenants that must be met or renegotiated as at 31 December 2016, otherwise these lines could be rendered due and payable.

On 2 February 2016, Standard & Poor's downgraded Vallourec's long-term rating to BB-.

6.2 Parent company financial statements

6.2.1 Statement of financial position

Assets

In € thousand	31/12/2014	31/12/2015
NON-CURRENT ASSETS		
Intangible assets	414	414
Property, plant and equipment	93	93
Equity interests	3,056,437	3,056,437
Treasury shares	21,285	11,824
Long-term investments	73,396	63,975
Receivables, loans and other investments	1,700,000	1,700,000
TOTAL I	**4,851,625**	**4,832,743**
CURRENT ASSETS		
Operating receivables	2,597	2,103
Other receivables	338,425	162,846
Investment securities	39,279	31,924
Cash and cash equivalents	22	9
Prepaid expenses	4,530	6,470
Deferred expenses	9,264	7,031
Translation differences – unrealized losses	4	10
Premiums/discounts – assets	–	8
TOTAL II	**394,121**	**210,402**
TOTAL ASSETS (I + II)	**5,245,746**	**5,043,144**

Equity and liabilities

In € thousand	31/12/2014	31/12/2015
EQUITY		
Capital	261,196	271,377
Additional paid-in capital	995,536	1,062,562
Revaluation reserve	634	634
Reserves	84,381	84,868
Retained earnings	1,687,409	1,741,965
Net income/(loss) for the period	159,162	61,538
TOTAL I	**3,188,318**	**3,222,944**
Provisions for contingencies and liabilities	20,457	16,700
Financial liabilities	1,948,884	1,729,086
Operating liabilities	7,671	8,374
Other liabilities	80,415	66,040
Translation differences – unrealized gains	–	–
TOTAL II	**2,057,427**	**1,820,200**
TOTAL EQUITY AND LIABILITIES (I+II)	**5,245,746**	**5,043,144**

6.2.2 Income statement

In € thousand	**31/12/2014**	**31/12/2015**
Revenue	7,114	3,769
Provision reversals and expenses transferred	15,584	9,004
Other income	947	25
External services	(11,962)	(13,371)
Taxes and similar	(990)	(600)
Personnel costs	(5,099)	(4,339)
Other operating expenses	(12,176)	(7,467)
Amortization, depreciation and provisions	(7,338)	(4,592)
OPERATING INCOME/(LOSS)	**(13,920)**	**(17,572)**
Financial income	**236,824**	**185,647**
From equity interests	183,075	101,780
Other long-term securities and receivables	47,724	65,497
Other interest and similar income	518	247
Provision reversals and financial expenses transferred	5,503	17,959
Foreign exchange gains	4	164
Net income on disposal of investment securities	–	–
Financial expenses	**(74,434)**	**(107,556)**
Amortization and provisions	(16,802)	(44,101)
Interest and similar expenses	(57,628)	(63,286)
Foreign exchange losses	(5)	(169)
Net capital gain/loss on disposal of marketable securities	–	–
NET FINANCIAL INCOME/(LOSS)	**162,390**	**78,091**
NET INCOME FROM CONTINUING OPERATIONS BEFORE TAX	**148,470**	**60,519**
Exceptional income	5,317	–
Exceptional expenses	(1,646)	(13)
EXCEPTIONAL INCOME/(LOSS)	**3,671**	**(13)**
Income tax	7,022	1,032
NET INCOME/(LOSS)	**159,162**	**61,538**

6.2.3 Notes to the parent company financial statements for the year ended 31 December 2015

In € thousand unless stated otherwise.

Notes to the statement of financial position (before allocation) for the year ended 31 December 2015, which totals €5,043.1 million, and to the income statement, which shows a net profit of €61.5 million.

The fiscal year runs for 12 months, from 1 January to 31 December.

Vallourec prepares consolidated financial statements.

A – Significant events, measurement methods and comparability of financial statements

On 25 June 2015, the option for payment of the dividend in shares, approved by the Ordinary and Extraordinary Shareholders’ Meeting of 28 May 2015, resulted in the creation of 3,090,460 new shares issued at the price of €19.40, for a capital increase of €59.9 million, including additional paid-in capital net of expenses.

On 15 December 2015, under the Value 15 ESOP, 1,999,997 new shares were subscribed at a price of €8.83 for the leveraged plan and €8.32 for the standard plan, for a capital increase of €17.3 million, including additional paid-in capital net of expenses.

The presentation and measurement methods used in the preparation of the financial statements for the year under review are the same as those used for the previous year.

B – Accounting principles

The parent company financial statements are prepared in accordance with French GAAP (ANC Regulation No. 2014-03) and the fundamental accounting concepts (true and fair view, comparability, going concern, accuracy, reliability, conservatism and consistency of accounting methods).

PROPERTY, PLANT AND EQUIPMENT

In accordance with ANC Regulation No. 2014-03, the Company uses the component approach, which relies on technical analyses to individually account for significant parts of an item of property, plant and equipment, owing to their uses and utilization rates.

Measurement of property, plant and equipment includes:

- the acquisition or production cost, except for assets acquired before 31 December 1976 which are remeasured and stated at their transfer value;
- discounts, rebates and other payment deductions;
- costs directly attributable to asset implementation;
- any dismantling costs;
- financial expenses related to the asset's acquisition are excluded.

Depreciation of property, plant and equipment is calculated on a straight-line or accelerated basis over the expected useful life of the asset.

Tax depreciation is calculated using the diminishing value method over the shortest period between the useful life and the duration of use, except for components depreciated over their actual lives.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

The value in use of property, plant and equipment and intangible assets is tested whenever there is an indication of impairment; such indications are reviewed at each balance sheet date.

If an asset's market value falls significantly below its carrying amount, an impairment charge is booked and the asset is restated at its market value.

ASSOCIATES

The gross value of equity interests comprises their purchase cost, excluding associated expenses, and the amount of any capital increases.

Securities acquired in foreign currencies are recorded at their acquisition price translated into euros at the rate applicable on the date of the transaction.

Provisions for impairment of shareholdings are calculated with reference to their value in present use, which takes account of various criteria such as their consolidated net worth, profitability, share price and the Company's growth outlook.

TREASURY SHARES

Treasury shares recorded in non-current assets on the statement of financial position comprise:

- shares allocated to the Group's various share ownership plans for some employees, executive management and corporate officers;
- shares held under the terms of the liquidity contract.

Pursuant to CRC Regulation No. 2008-15 dated 4 December 2008 relating to the accounting treatment of share purchase or subscription plans and performance share plans for employees, shares allocated for these plans are not impaired based on market value due to the obligation to allocate such shares to employees and the provision recognized as a liability (see below in the section relating to provisions for contingencies and liabilities).

For treasury shares held under the terms of the liquidity contract, their carrying amount is the lower value of their acquisition cost and their market value (defined as the average price over the previous month).

Treasury shares are presented in the balance sheet as follows:

- treasury shares acquired before 2008 and available for allocation to employees are classified as non-current assets;
- treasury shares acquired since 2008 and available to be allocated to employees are classified as investment securities;
- treasury shares acquired for the liquidity contract are classified as non-current assets.

RECEIVABLES AND PAYABLES

Receivables and payables are measured at their nominal value.

Trade receivables are impaired when there is a risk of non-recovery.

Impairment ratios are applied to each receivable based on probabilities of recovery.

CICE

In accordance with the ANC circular published on 28 February 2013, the French Competitiveness and Employment Tax Credit (CICE) is recorded as a reduction of personnel expenditure, offset by a receivable from the parent company in the form of a tax credit that may be applied against the corporate income tax liability.

INVESTMENT SECURITIES

Investment securities are measured at acquisition cost plus accrued income for the period, or at market value if lower.

Treasury shares acquired since 2008 and available to be allocated to employees are classified as investment securities.

TRANSLATION OF TRANSACTIONS IN FOREIGN CURRENCIES AND FINANCIAL INSTRUMENTS

Revenue and expenses denominated in foreign currencies backed by qualified hedges are recorded at the spot rate on the date of implementation of the hedge.

As a result, the change in time value (premium/discount) is recognized separately from revenue in financial income/(loss) for the period.

The change in time value of hedges on purchase orders is also recognized in financial income/(loss).

The premium/discount is recognized on the reporting date. The aggregate value of the change in time value (i.e. the change between the forward price of the hedge on the reporting date and the initial spot rate on the date of implementation of the hedge) is recognized at each reporting date on the statement of financial position – Derivative instruments (and offset against financial income/(loss). The change in the premium/discount between the beginning and the end of the period impacts financial income/(loss).

Receivables, cash and cash equivalents and payables in foreign currencies are stated on the statement of financial position using the exchange rate applicable on the reporting date.

Unrealized losses resulting from the translation into euros are measured net of any forward hedges and recognized as a provision for foreign exchange risk.

Vallourec uses various financial instruments to reduce its foreign exchange and interest rate risk. All positions are taken by means of instruments traded either on organized markets or over-the-counter and are measured at their market value and recognized as off-balance-sheet items at each reporting date.

PROVISIONS FOR CONTINGENCIES AND LIABILITIES

Retirement pensions

Pensions are paid by an external organization and the Company therefore has no obligations in this respect.

Retirement benefits

Commitments in respect of benefits paid to retiring employees are measured based on an actuarial calculation and provisioned as a liability in the statement of financial position.

As at 31 December 2015 the discount rate was based on the iBoxx € Corporates AA 10+ index. This index uses a basket of bonds of financial and non-financial companies.

They are based on the assumption that all employees leaving the Group will do so on a voluntary basis.

Actuarial gains or losses are amortized using the corridor rule over the average remaining working lives of employees.

The actuarial assumptions used vary depending on the specific arrangements of the Company's retirement plan(s) and collective agreement(s).

The following assumptions are used:

- discount rate of 2.1 % (including inflation);
- inflation rate of 0.5 %;
- staff turnover rate variable according to age and category;
- generational mortality table TPG 05 M/F.

Provisions on shares earmarked for employee share allocations

Pursuant to CRC Regulation No. 2008-15 dated 4 December 2008 relating to the accounting treatment of share purchase or subscription plans and performance share plans for employees; as soon as an outflow of resources becomes probable, the Company recognizes a provision for a contingent liability. This provision is measured based on the product of:

- the acquisition cost of the shares or their net carrying amount (when they were already owned) on the date they were allocated to the ESOP less the price likely to be paid by the beneficiaries;
- the number of shares that are expected to be allocated given the provisions of the allocation scheme (satisfaction of conditions regarding continuous service and performance) as assessed on the reporting date.

A provision for contingencies and liabilities has been recognized at each reporting date since these plans were put in place on a pro rata basis, equal to the costs relating to the allocations of performance shares to employees, executive management and corporate officers of Vallourec and its subsidiaries.

Other provisions

All disputes (technical, tax, etc.) and risks have been recognized as provisions for the estimated probable risk at the reporting date.

EXCEPTIONAL INCOME AND EXPENSES

In general, exceptional income and expenses comprise amounts of an extraordinary nature, i.e. those that fall outside the scope of the Company's continuing operations.

C – Notes to the statement of financial position

1. MOVEMENTS IN NON-CURRENT ASSETS

Non-current assets *In € thousand*	31/12/2014	Acquisition Allowances	Disposal Reversals of provisions	31/12/2015	Revaluation reserve	Related parties
INTANGIBLE ASSETS	**414**	**–**	**–**	**414**	**–**	**–**
Trademarks	414	–	–	414	–	–
PROPERTY, PLANT AND EQUIPMENT	**93**	**–**	**–**	**93**	**23**	**–**
Land	93	–	–	93	23	–
Buildings	113	–	–	113	–	–
Depreciation of buildings	(113)	–	–	(113)	–	–
Construction in progress	–	–	–	–	–	–
ASSOCIATES	**3,056,437**	**–**	**–**	**3,056,437**	**–**	**3,056,437**
Associates	3,056,437	–	–	3,056,437	–	3,056,437
Provisions for associates	–	–	–	–	–	–
LONG-TERM INVESTMENTS & TREASURY SHARES	**94,681**	**(33,400)**	**14,518**	**75,799**	**–**	**–**
Long-term investments	81,947	–	–	81,947	–	–
Provisions for long-term investments	(8,551)	(17,973)	8,551	(17,973)	–	–
Treasury shares	27,493	8,473	(241)	35,725	–	–
Provisions for treasury shares	(6,208)	(23,900)	6,208	(23,900)	–	–
RECEIVABLES, LOANS, OTHER INVESTMENTS	**1,700,000**	**–**	**–**	**1,700,000**	**–**	**1,700,000**
Loans	1,700,000			1,700,000	–	1,700,000
Accrued interest	–	–		–	–	–
TOTALS	**4,851,625**	**(33,400)**	**14,518**	**4,832,743**	**23**	**4,756,437**

Long-term investments & treasury shares

SHARES OF NIPPON STEEL SUMITOMO METAL CORPORATION (NSSMC)

NSSMC shares, quoted on the Tokyo Stock Exchange, were acquired in 2009 for a total of €81.9 million, at an average price of JPY 230.8 per share. NSSMC and Vallourec are partners in VSB and in the development of the VAM® line of premium joints. These partnerships are strategic for Vallourec.

The value of these shares as at 31 December 2015, based on the average share price in December 2015, was €63.9 million (compared with €73.4 million at the end of 2014). A €9.5 million impairment charge was recognized in financial income/(loss) (against €8.6 million at end 2014).

TREASURY SHARES

a) Liquidity contract

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

In 2015, under the liquidity contract, total purchases involved 450,000 shares, representing 0.33 % of share capital as at 31 December 2015, for a total of €8.5 million and a weighted average price of €18.82 per share. No shares were sold under the liquidity contract in 2015. In 2015, the liquidity contract generated a capital loss of €23.9 million.

As at 31 December 2015, the balance on the liquidity account comprised:

- 1,375,000 shares valued at €11.8 million as at 31 December 2015;
- €1,428,580.

b) Other treasury shares

As at 31 December 2015, all treasury shares that had been acquired before 2008 for allocation to employees (classified as non-current assets) had been allocated.

In 2015, Vallourec definitively allocated 45,755 shares under various performance plans.

Receivables, loans and other investments

LOANS

On 31 December 2011, Vallourec arranged a €1.0 billion loan for subsidiary Vallourec Tubes to finance its long-term requirements. The loan had fixed rate interest of 4.6 % per annum and matured on 31 December 2015.

On 11 December 2014, this loan was modified, increasing its amount to €1,700 million, reducing its interest rate to 3.8 % and extending its maturity to 31 December 2017.

2. INVESTMENT SECURITIES

Investment securities include:

Mutual and investment funds

In € thousand	31/12/2014	31/12/2015	Measurement as at 31/12/2015	Loss provisioned	Unrealized gain
Mutual and investment funds	7,999	7,999	8,029	–	30
TOTAL	**7,999**	**7,999**	**8,029**	**–**	**30**

Vallourec joins in euro and US dollar cash management centralization with its main European companies and centralized currency hedging transactions in respect of its US dollar sales within Vallourec Tubes.

Cash is invested in risk-free money market funds. Vallourec only enters into financial transactions with first-rate financial institutions.

Treasury shares

In € thousand	31/12/2014	Acquisition Allowance	Disposal Reversal	31/12/2015
Treasury shares	30,280	–	6,363	23,917
Impairment provision	–	–	–	–
TOTAL	**30,280**	**–**	**6,363**	**23,917**

Treasury shares recorded in investment securities are allocated to members of staff, executive management or corporate officers of the Group under the performance share allocation plan, and free share allocation plans for employees of the Group.

In this context, Vallourec holds:

- 3,094 treasury shares acquired in 2008 after the definitive allocation of 26,844 shares in 2011, 70,050 shares in 2013 and 12 shares in 2014, under the various performance share plans;
- 85,560 treasury shares acquired in 2011 under the share buyback plan of 7 June 2011, after definitive allocation of 27,534 shares in 2012, 86,377 shares in 2013, 91,929 shares in 2014, and 108,600 shares in 2015, under the various performance share plans;
- 305,400 treasury shares acquired in 2012 under the share buyback plan of 31 May 2012, upon the definitive allocation of 94,600 shares in 2014, under the various performance share plans;
- 300,000 treasury shares acquired in 2014.

As at 31 December 2015, Vallourec holds 694,054 treasury shares.

3. STATEMENT OF RECEIVABLES AND PAYABLES

Receivables *In € thousand*	Gross value	of which accrued receivables	of which related parties	Gross value < 1 year	Gross value > 1 year
FINANCIAL ASSET RECEIVABLES & PAYABLES	**1,700,000**	–	**1,700,000**	–	**1,700,000**
OPERATING RECEIVABLES	**2,103**	**–**	**1,418**	**2,103**	**–**
Advances & deposits paid to suppliers	12	–	–	12	–
Trade & other receivables	1,653	–	1,418	1,653	–
Other operating receivables	438	–	–	438	–
OTHER RECEIVABLES	**162,846**	**–**	**147,723**	**162,846**	–
Receivables related to tax consolidation	2,285	–	2,285	2,285	–
Government – Corporate income tax	95	–	–	95	–
Intercompany cash advance	144,543	–	144,543	144,543	–
Other receivables	15,923	–	895	15,923	–
TOTALS	**1,864,949**	**–**	**1,849,141**	**164,949**	**1,700,000**

Loans granted during the year: None.
Loans repaid during the year: None.
Receivables represented by commercial paper: None.

Payables *In € thousand*	Gross value	Accrued payables	Related parties	< 1 year	> 1 year	> 5 years
BORROWINGS	**1,729,086**	**33,288**	**14,101**	**124,086**	**1,050,000**	**555,000**
Bond issues	1,605,000	–	–	–	1,050,000	555,000
Bank loans and borrowings	33,288	33,288	–	33,288	–	–
Commercial paper	76,665	–	–	76,665	–	–
Other loans and borrowings	32	–	–	32	–	–
Intercompany cash advance	14,101	–	14,101	14,101	–	–
OPERATING LIABILITIES	**8,374**	**–**	**918**	**8,374**	**–**	**–**
Trade payables	5,591	–	918	5,591	–	–
Tax & social security liabilities	2,783	–	–	2,783	–	–
Customer advances & deposits	–	–	–	0	–	–
OTHER LIABILITIES	**66,040**	**–**	**19,783**	**66,040**	**–**	**–**
Tax liabilities	–	–	–	–	–	–
Other liabilities	66,040	–	19,783	66,040	–	–
TOTALS	**1,803,500**	**33,288**	**34,802**	**198,500**	**1,050,000**	**555,000**

Financial liabilities

BOND ISSUES

On 7 December 2011, Vallourec issued an initial bond issue for €650 million maturing in February 2017, with a fixed annual coupon of 4.25 %.

In August 2012, Vallourec also issued two long-term private bonds totaling €455 million. The amounts and terms of these two private bond issues are €400 million for seven years with an annual coupon of 3.25 % for one, and €55 million for 15 years with an annual coupon of 4.125 % for the other.

On 30 September 2014, Vallourec issued a €500 million bond, maturing in September 2024, with a fixed annual coupon of 2.25 %.

These bond issues were intended to diversify and increase the amount and extend the maturity of the financial resources available to the Group.

These bond issues specifically include a change-of-control clause that would trigger the mandatory prepayment of the bonds at the request of each bondholder in the event of a change of control of the Company (in favor of a person or a group of people acting in concert) leading to a downgrade of Vallourec's financial rating.

In addition, these bonds may be subject to a request for prepayment, should any of the common default scenarios for this type of transaction arise. Early redemption may also be requested in some cases by either the Company or the bondholder, particularly in respect of a change in Vallourec's position or tax status.

BANK LOANS & DEBTS

In February 2014, Vallourec took out a revolving credit facility for the amount of €1.1 billion, maturing in February 2019, plus two one-year extension options. The first one-year extension has been granted in the amount of €1.078 billion. The loan is now due in 2020.

In June 2015, Vallourec agreed a bilateral line of €90 million until February 2019 with two one-year extension options.

In September 2015, Vallourec took out a revolving credit facility for an amount of €400 million, maturing in July 2019, plus a one-year extension option. This replaces four medium-term bilateral lines of €100 million each granted to Vallourec Tubes and maturing in July 2017.

In addition to the financing put in place by Vallourec, Vallourec Tubes has available two medium-term bilateral lines of €100 million each, maturing in July 2017. As at 31 December 2015, neither of these two lines was drawn.

Each of these bank facilities requires Vallourec to maintain its consolidated net debt-to-equity ratio at no more than 75 %, calculated as at 31 December each year. A change in control of Vallourec could require the repayment of some or all of the debt, which would be decided separately by each bank. It is also stipulated that the entire debt will be immediately due and payable if the Group defaults on one of its debt obligations (cross default), or in case of a major event with consequences for the Group's business or financial position and its ability to repay its debt.

COMMERCIAL PAPER

In addition to this bank financing, the Vallourec Group aims to diversify its sources of financing on the markets. For example, Vallourec launched a commercial paper program on 12 October 2011 to meet its short-term needs. The program has a €1 billion ceiling.

As at 31 December 2015, Vallourec had outstandings of €77 million for maturities of up to one year. This commercial paper program is rated B by Standard & Poor's.

As at 31 December 2015, the Group complied with its covenants and the terms and conditions for obtaining and maintaining all of the above facilities. Together, the above resources were sufficient to cover the Group's cash requirements as at 31 December 2015. For information about the Company's plans for financing after 31 December 2015, refer to Note E-5 on subsequent events.

4. BOND ISSUE COSTS

In accordance with the method recommended by the French national accounting board (Conseil National de la Comptabilité), bond issue costs are spread in a straight line over the life of the bonds concerned.

In € thousand	31/12/2014	Increase	Decrease	31/12/2015
Bond issue costs	9,264	–	2,233	7,031

5. EQUITY

Changes in equity were as follows:

In € thousand	Number of shares	Capital	Net income/(loss) for the period	Additional paid-in capital and reserves	Equity
Position as at 31/12/2013	**128,159,600**	**256,319**	**263,324**	**2,545,125**	**3,064,768**
Allocation of 2013 net income/(loss)	–	–	(263,324)	263,324	–
Capital increase	2,438,375	4,877	–	62,791	67,668
Revaluation reserve	–	–	–	–	–
Dividend paid	–	–	–	(103,280)	(103,280)
2014 net income/(loss)	–	–	159,162	–	159,162
Change	2,438,375	4,877	(104,162)	222,835	123,550
Position as at 31/12/2014	**130,597,975**	**261,196**	**159,162**	**2,767,960**	**3,188,318**
Allocation of 2014 net income/(loss)	–	–	(159,162)	159,162	–
Capital increase	5,090,457	10,181	–	68,691	78,872
Revaluation reserve	–	–	–	–	–
Dividend paid	–	–	–	(105,784)	(105,784)
2015 net income/(loss)	–	–	61,538	–	61,538
Change	5,090,457	10,181	(97,624)	122,069	34,626
POSITION AS AT 31 DECEMBER 2015	**135,688,432**	**271,377**	**61,538**	**2,890,029**	**3,222,944**

Vallourec's issued capital comprises 135,688,432 ordinary shares with a nominal value of €2 per share fully paid-up as at 31 December 2015, compared with 130,597,975 shares with a par value of €2 each as at 31 December 2014.

On 25 June 2015, the option for payment of the dividend in shares, approved by the Ordinary and Extraordinary Shareholders' Meeting of 28 May 2015, resulted in the creation of 3,090,460 new shares issued at the price of €19.40, for a capital increase of €59.9 million, including additional paid-in capital net of expenses.

On 15 December 2015, under the Value 15 ESOP, 1,999,997 new shares were subscribed at a price of €8.83 for the leveraged plan and €8.32 for the standard plan, for a capital increase of €17.3 million, including additional paid-in capital net of expenses.

6. EMPLOYEE SHARE OWNERSHIP

Share subscription plans

CHARACTERISTICS OF THE PLANS

The Vallourec Management Board authorized share subscription plans from 2008 to 2015 for some executive management and corporate officers of the Group.

The characteristics of these plans are as follows (figures for the 2008 and 2009 plans are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares):

	2008 Plan	2009 Plan	2010 Plan	2011 Plan	2012 Plan	2013 Plan	2014 Plan	2015 Plan
Allocation date	01/09/2008	01/09/2009	01/09/2010	01/09/2011	31/08/2012	02/09/2013	15/04/2014	15/04/2015
Maturity date	01/09/2012	01/09/2013	01/09/2014	01/09/2015	01/04/2017	01/04/2018	15/04/2018	15/04/2019
Expiration date	01/09/2015	01/09/2019	01/09/2020	01/09/2021	30/08/2020	01/09/2021	15/04/2022	15/04/2023
Number of beneficiaries at outset	9	303	349	743	387	406	399	486
Exercise price in euros	91.77	51.67	71.17	60.71	37	46.15	38.53	22.60
Number of options allocated	143,600	578,800	512,400	684,521	530,400	602,465	373,550	242,826

CHANGE IN NUMBER OF UNEXPIRED OPTIONS

For all of these plans, the change in the number of unexpired options is as follows:

In number of options	2014	2015
Total at beginning of period	3,183,279	3,190,049
Options distributed	373,550	242,826
Options exercised	–	–
Options not exercised at expiration date	(277,600)	(143,600)
Options canceled [(a)]	(89,180)	(429,187)
TOTAL AT END OF YEAR	**3,190,049**	**2,860,088**
Options available for exercise	1,104,600	960,423

(a) Beneficiaries who have left the Group.

Performance share plans

CHARACTERISTICS OF THE PLANS

The Vallourec Management Board authorized performance share plans from 2008 to 2015 for some employees and corporate officers of the Group.

The characteristics of these plans are as follows (figures for the 2008 and 2009 plans are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares):

	Allocation date	Vesting period	Holding period	Number of beneficiaries at outset	Theoretical number of shares allocated
Value 08 Plan	16/12/2008	4.5 years	–	8,697	67,712
2009 Plan [a]	31/07/2009	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	53	26,668
Value 09 Plan	17/12/2009	4.6 years	–	8,097	69,400
1-2-3 Plan [b]	17/12/2009	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	17,404	104,424
03/2010 Plan [c]	15/03/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	848	190,540
07/2010 Plan [d]	31/07/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	2	4,280
Value 10 Plan	03/12/2010	4.6 years	–	9,632	83,462
2-4-6 Plan [e]	03/12/2010	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	12,098	72,588
2011 Plan [f]	30/03/2011	2 years (French residents and members of the Management Board) or 4 years (non-French residents)	2 years (French residents and members of the Management Board) or none (non-French residents)	1,157	214,271
Value 11 Plan	18/11/2011	4.6 years	–	841	6,462
2011 2-4-6 Plan [g]	15/12/2011	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	13,053	78,318
2012 Plan [h]	30/03/2012	2 years (French residents and members of the Management Board) or 4 years (non-French residents)	2 years (French residents and members of the Management Board) or none (non-French residents)	1,591	286,718
2012 2-4-6 Plan [i]	30/03/2012	2 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	21,686	130,116
Value 12 Plan	06/12/2012	4.6 years	–	737	4,395
2013 Plan [j]	29/03/2013	3 years (French residents and members of the Management Board) or 4 years (non-French residents)	2 years (French residents and members of the Management Board) or none (non-French residents)	1,647	295,225
2013 2-4-6 Plan [k]	29/03/2013	3 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	21,744	130,464
Value 13 Plan	10/12/2013	4.6 years	–	732	4,028
2014 Plan [l]	15/04/2014	3 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	1,758	413,597
2014 2-4-6 Plan [m]	15/04/2014	3 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	21,677	130,062
Value 14 Plan	16/12/2014	4.6 years		768	3,960
2015 Plan [n]	15/04/2015	3 years (French residents) or 4 years (non-French residents)	2 years (French residents) or none (non-French residents)	497	242,826
Value 15 Plan	15/12/2015	4.6 years		348	1,715

(a) Definitive allocation of shares in 2011 for French residents and in 2013 for non-French residents, based on the consolidated EBITDA performance achieved by the Group in 2009 and 2010. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.33. The theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

*(b) Definitive allocation of shares in 2011 for French residents and in 2013 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from **1** January 2010 to 30 September 2011. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.*

(c) Definitive allocation of shares in 2012 for French residents and in 2014 for non-French residents, based on the consolidated EBITDA performance achieved by the Group in 2010 and 2011. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1. The theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(d) Definitive allocation of shares in 2012 for French residents and in 2014 for non-French residents, based on the consolidated EBITDA performance achieved by the Group in 2010, 2011 and 2012. The actual number is determined by applying a performance factor, calculated for the three years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1. The theoretical number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

*(e) Definitive allocation of shares in 2012 for French residents and in 2014 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from **1** January 2011 to 30 September 2012. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.*

(f) Definitive allocation of shares in 2013 for French residents and members of the Management Board, and in 2015 for non-French residents. For all beneficiaries (excluding Board members), it will be based on the ratio of consolidated EBITDA to consolidated revenue achieved by the Group in 2011 and 2012. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.25.

For members of the Management Board, the definitive allocation of shares in 2013 will be based on the following three criteria assessed for fiscal years 2011 and 2012:

– revenue growth on a like-for-like basis;

– the ratio of consolidated EBITDA to consolidated revenue on a like-for-like basis in the period;

– and the relative performance of the Vallourec share on the regulated NYSE Euronext Paris stock market against a benchmark panel.

The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(g) Definitive allocation of shares in 2013 for French residents and in 2015 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2012 to 30 September 2013. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(h) Definitive allocation of shares in 2014 for French residents and members of the Management Board, and in 2016 for non-French residents. For all beneficiaries (excluding Management Board members), it will be based on the ratio of consolidated EBITDA to consolidated revenue achieved by the Group in 2012 and 2013. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.25.

*(i) Definitive allocation of shares in 2014 for French residents and in 2016 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from **1** January 2012 to 31 December 2013. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.*

For members of the Management Board, the definitive allocation of shares in 2014 will be based on the following three criteria assessed for fiscal years 2012 and 2013:

– revenue growth on a like-for-like basis;

– the ratio of consolidated EBITDA to consolidated revenue on a like-for-like basis in the period;

– and the relative performance of the Vallourec share on the regulated NYSE Euronext Paris stock market against a benchmark panel.

The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(j) Definitive allocation of shares in 2016 for French residents and members of the Management Board, and in 2017 for non-French residents. For all beneficiaries (excluding Management Board members), it will be based on the ratio of consolidated EBITDA to consolidated revenue achieved by the Group in 2013, 2014 and 2015. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.25. For members of the Management Board, the definitive allocation will be based on the following three criteria assessed for fiscal years 2013, 2014 and 2015:

– revenue growth on a like-for-like basis;

– the ratio of consolidated EBITDA to consolidated revenue on a like-for-like basis in the period;

– and the relative performance of the Vallourec share on the regulated NYSE Euronext Paris stock market against a benchmark panel.

The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

(k) Definitive allocation of shares in 2016 for French residents and in 2017 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from 1 January 2013 to 31 December 2015. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.

(l) Definitive allocation of shares in 2017 for French residents and members of the Management Board, and in 2018 for non-French residents. For all beneficiaries (excluding Management Board members), it will be based on the ratio of consolidated EBITDA to consolidated revenue achieved by the Group in 2014, 2015 and 2016. The actual number is determined by applying a performance factor, calculated for the three years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.25. For members of the Executive Committee, final allocation shall depend on the following four criteria, assessed in 2014, 2015 and 2016: the rate of return on capital employed (ROCE), compared with the ROCE in the budget, consolidated revenue on a like-for-like basis, as compared with the revenue in the budget, the relative stock market performance of the Vallourec share on the regulated NYSE Euronext market in Paris, as compared with a benchmark panel, and the relative EBITDA performance as compared with the same panel as for the previous criterion. The actual number is determined by applying a performance factor, calculated for the three years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

*(m) Definitive allocation of shares in 2017 for French residents and in 2018 for non-French residents, based on the consolidated EBITDA performance achieved by the Group for the period from **1** January 2014 to 31 December 2016. The number of shares acquired at the end of the vesting period may vary from 0 to 6 per beneficiary.*

(n) Definitive allocation of shares in 2018 for French residents and members of the Management Board, and in 2019 for non-French residents. For all beneficiaries (excluding Management Board members), it will be based on the ratio of consolidated EBITDA to consolidated revenue achieved by the Group in 2015, 2016 and 2017. The actual number is determined by applying a performance factor, calculated for the three years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.25. For members of the Executive Committee, definitive allocation will depend on the following two criteria, assessed in 2015, 2016 and 2017: (i) the rate of return on capital employed (ROCE), compared with the ROCE in the budget; and (ii) the Total Shareholder Return (TSR) in 2015, 2016 and 2017. The actual number is determined by applying a performance factor, calculated for the two years concerned, to the theoretical number of shares allocated. This factor may range from 0 to 1.33. The number of shares allocated, as shown in the above table, corresponds to the application of a performance factor of 1.

CHANGE IN NUMBER OF SHARES

The characteristics of these plans are as follows (figures for the 2008 and 2009 plans are restated to reflect the 2:1 stock split on 9 July 2010 and the subsequent doubling of the number of shares):

	Initial theoretical number of shares allocated	Number of shares canceled	Theoretical number of shares acquired or being vested	Number of shares delivered
03/2010 Plan	190,540	(22,837)	167,703	153,643
07/2010 Plan	4,280	–	4,280	3,938
Value 10 Plan	83,462	(3,952)	79,510	79,510
2-4-6 Plan	72,588	(4,860)	67,728	67,728
2011 Plan	214,271	(121,858)	92,413	92,413
Value 11 Plan	6,462	(1,453)	5,009	–
2011 2-4-6 Plan	78,318	(10,212)	68,106	68,106
2012 Plan	286,718	(72,310)	214,408	64,972
2012 2-4-6 Plan	130,116	(11,064)	119,052	29,646
Value 12 Plan	4,395	(849)	3,546	–
2013 Plan	295,225	(471)	294,754	–
2013 2-4-6 Plan	130,464	(7,572)	122,892	–
Value 2013 Plan	4,028	(688)	3,340	–
2014 Plan	413,597	(59)	413,538	–
2014 2-4-6 Plan	130,062	(4,452)	125,610	–
Value 2014 Plan	3,960	(342)	3,618	–
2015 Plan	242,826	–	242,826	–
Value 2015 Plan	1,715	–	1,715	–

7. PROVISIONS FOR CONTINGENCIES AND LIABILITIES

The change in provisions for risks, liabilities and expenses is shown below:

	31/12/2014	Allowances	Reversals used	Reversals of provisions no longer needed	31/12/2015
Provisions for foreign exchange losses	4	–	–	(4)	–
Retirement provisions	362	81	–	–	443
Provisions for supplemental pension commitments	729	837	–	–	1,566
Provisions for performance share expenses	19,362	3,674	(8,345)	–	14,691
TOTAL	**20,457**	**4,592**	**(8,345)**	**(4)**	**16,700**
› Recognized in operating profit	–	4,592	(8,345)	–	–
› Recognized in financial profit	–	–	–	(4)	–
› Recognized in exceptional income	–	–	–	–	–

Disputes are provisioned to the extent of the estimated probable cost at the reporting date of each year, in application of CRC Regulation No. 2000-06 on liabilities.

The balance of the provision for expenses relating to the performance share plans (2011, 2012, 2013, 2014 and 2015) totaled €14.7 million.

Retirement provisions

Total retirement commitments, net of plan assets, totaled €0.6 million as at 31 December 2015.

Actuarial losses and past service costs not recognized totaled €0.2 million. The commitments not recognized in the balance sheet correspond to changes in or the non-crystallization of assumptions, the effect of which is amortized over time using the corridor method.

The main changes in relation to the measurements used in the previous year's financial statements concern the base salary used in the calculation of pension benefits and the change in the discount rate.

Provisions for supplemental retirement commitments

Total supplemental pension commitments, net of plan assets, totaled €3.3 million as at 31 December 2015.

Actuarial losses and past service costs not recognized totaled €1.8 million. The commitments not recognized in the balance sheet correspond to changes in or the non-crystallization of assumptions, the effect of which is amortized over time using the corridor method.

Information on interest rate risk

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

Vallourec used swaps to hedge its variable-rate borrowing at a fixed interest rate.

Information on foreign exchange risk

As at 31 December 2015, Vallourec was not exposed to exchange rate risk.

D – Notes to the income statement

1. OPERATING INCOME

Revenue

Revenues of €3.8 million mainly correspond to the Group's reinvoicing of services to its subsidiary Vallourec Tubes for €3 million, and of the costs of employee performance share plans to Group subsidiaries.

Operating expenses

Operating expenses of €30.4 million consist mainly of fees, personnel costs, and the impact of free share allocations.

2. FINANCIAL INCOME AND EXPENSES CONCERNING AFFILIATED COMPANIES

Financial expenses: none.

Financial income: €167,280 thousand.

3. EXCEPTIONAL INCOME/(LOSS)

There was an exceptional gain of €78.1 million.

This primarily consisted of a dividend of €101.8 million; a change in the provision for impairment of treasury shares for €17.7 million; and a change in provision for impairment of Nippon Steel Sumitomo shares for €9.5 million.

E – Other information

1. COMPOSITION OF AVERAGE HEADCOUNT

The Company employs seven people, including three corporate officers (members of the Management Board).

2. TAXATION

Tax consolidation

Since 1 January 1988, the Company has been a member of a tax group constituted under the provisions of Article 223A of the French General Tax Code.

This agreement has been renewed automatically for five-year periods since 1999.

In 2015, the scope of the tax group included: Vallourec, Assurval, Vallourec Fitting, Vallourec Bearing Tubes, Vallourec Heat Exchanger Tubes, Vallourec Université France, Vallourec Umbillicals, Valinox Nucléaire, Vallourec Tubes, Vallourec Drilling Products France, Vallourec Tubes France, Vallourec Oil and Gas France, Vallourec One, Vallourec Services, Serimax Holding SA, Serimax SAS, Serimax Russia, Val27, Val28 and Val29.

The tax consolidation agreement requires subsidiaries of the tax group to record a tax expense equivalent to the amount they would have borne in the absence of tax consolidation.

The tax savings of €45.6 million resulting from the allocation of losses generated by the subsidiaries was recognized in other liabilities and not in net income.

Any income resulting from tax consolidation recorded by Vallourec corresponds mainly to the allocation to consolidated net income of the losses generated by Vallourec itself and tax loss carryforwards used by Vallourec.

In 2015, the tax credit recorded in the income statement was €1.07 million.

The Vallourec tax group reported a loss in 2015 and its tax loss carryforward was €632.9 million at the end of 2015.

Increase and decrease in future tax liabilities

Nature of temporary differences *In € thousand*	Amount as at 31/12/2015 (basis)
Increase	**–**
Decrease	**10,554**
Provision for retirement commitments	2,009
Provision for employee share ownership arrangements	8,513
Provision for paid leave	19
Solidarity social security contribution provision	13

Breakdown of income tax between income (loss) from recurring operations and non-recurring income (loss)

In € thousand	Pre-tax income	Tax due	Net income
Recurring	60,519	–	60,519
Non-recurring	(13)	–	(13)
SUB-TOTAL	**60,506**	**–**	**60,506**
Expense specific to Vallourec	–	(35)	(35)
Income relating to tax consolidation	–	1,067	1,067
TOTAL VALLOUREC	**60,506**	**1,032**	**61,538**

3. COMPENSATION OF MEMBERS OF ADMINISTRATIVE AND MANAGEMENT BODIES

Administrative bodies

Attendance fees paid during the year amounted to €0.5 million.

Management bodies

This information is not provided as it is not relevant in relation to the assets and liabilities, financial position and net income of Vallourec.

4. OFF-STATEMENT OF FINANCIAL POSITION COMMITMENTS

Off-statement of financial position commitments are as follows:

- retirement benefits: €213 thousand (actuarial loss);
- supplemental retirement allowances: €1.8 million (actuarial loss);
- long-term vehicle leases: €18 thousand.

The Company has not issued any form of collateral against its liabilities.

5. SUBSEQUENT EVENTS

On 1 February 2016, Vallourec announced its intention to raise €1.0 billion of new equity to strengthen its balance sheet and finance its transformation to secure long-term growth through a combination of an equity instrument (a convertible bond redeemable in shares, “ORA”) reserved to Bpifrance and NSSMC and a rights issue for shareholders (“equity issuance with preferential subscription right”). The convertible bonds will be subscribed by Bpifrance and NSSMC up to an amount which will allow them to reach a 15 % ownership post-completion of the equity issuance with preferential subscription right and post-conversion on a fully-diluted basis. An Ordinary and Extraordinary Shareholders’ Meeting will be convened on 6 April 2016 to submit the proposed equity issuance for shareholders’ approval. This transaction is subject to approval by the competition authorities.

If these equity transactions are not completed, Vallourec will draw on its credit lines. It should be noted that bank facilities contain financial covenants that must be met or renegotiated as at 31 December 2016, otherwise these lines could be rendered due and payable.

On 2 February 2016, Standard & Poor’s downgraded Vallourec’s long-term rating to BB-.

7

Corporate governance

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7.1.1 Composition of the Management and Supervisory Boards 230

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7.1 Composition and operation of the Management and Supervisory Boards

The Ordinary and Extraordinary Shareholders' Meeting held on 14 June 1994 approved the adoption of a dual management structure with a Supervisory Board and a Management Board.

This structure is based on the separation of the management functions, which are the responsibility of the Management Board, from the supervision of that management, which is the responsibility of the Supervisory Board, the representative body of the shareholders:

- the Management Board, which is a collegial body, is responsible for managing the Group using the powers conferred on it by statutory and regulatory provisions and the Group's bylaws; and
- the Supervisory Board is responsible for ongoing management control; it receives the information needed to perform its role.

7.1.1 Composition of the Management and Supervisory Boards

7.1.1.1 Management Bodies

THE MANAGEMENT BOARD

As at 29 February 2016, the Management Board is comprised of the following three members:

Mr Philippe Crouzet

Chairman of the Management Board

Date of birth: 18 October 1956
Date of first appointment: 1 April 2009
Date appointment most recently renewed: 29 January 2016
Date on which appointment ceases: 15 March 2020
Vallourec shares held: 21,875
Nationality: French

Mr Jean-Pierre Michel

Member of the Management Board – Chief Executive Officer

Date of birth: 17 May 1955
Date of first appointment: 1 April 2006
Date appointment most recently renewed: 29 January 2016
Date on which appointment ceases: 15 March 2020
Vallourec shares held: 7,239
Nationality: French

Mr Olivier Mallet

Member of the Management Board

Date of birth: 14 July 1956
Date of first appointment: 30 September 2008
Date appointment most recently renewed: 29 January 2016
Date on which appointment ceases: 15 March 2020
Vallourec shares held: 9,542
Nationality: French

Mr Philippe Crouzet

Chairman of the Management Board

Business address:
Vallourec
27, avenue du Général-Leclerc
92100 Boulogne-Billancourt – France

Expertise and managerial experience:
- Graduate of École Nationale d'Administration
- Counsel *(Maître des requêtes)* to the Conseil d'État
- Twenty-three years' industrial experience with the Saint-Gobain group
- Chairman of the Management Board of Vallourec since 1 April 2009

Positions held by Mr Philippe Crouzet

Positions currently held

- Chairman of the Management Board of Vallourec (a)* (since 2009)
- Chairman of Vallourec Tubes (a) (since 2009)
- Director of Vallourec Tubos do Brasil S.A. (a) (Brazil) (since 2009)
- Director and Chairman of the Nuclear Commitment Monitoring Committee of Électricité de France* (since 2009) and a member of the Audit Committee (since 2015)

Positions expired within the last five years

- Chairman and member of the Supervisory Board of V & M France (a) (until 2012)
- Director of VMOG France (a) (until 2012)

Mr Philippe Crouzet does not receive any compensation as a corporate officer of Vallourec's direct or indirect subsidiaries.

Mr Jean-Pierre Michel

Member of the Management Board – CEO

Business address:
Vallourec
27, avenue du Général-Leclerc
92100 Boulogne-Billancourt – France

Expertise and managerial experience:
- Graduate of the École Polytechnique and Institut Français de Gestion
- More than 35 years with the Group (Plant Management, Management Control and Chairman of various Divisions)
- Member of the Management Board (since 2006) and CEO (since 2009) of Vallourec

Positions held by Mr Jean-Pierre Michel

Positions currently held

- Member of the Management Board and CEO of Vallourec (a)* (since 2006 and 2009 respectively)
- CEO and Director of Vallourec Tubes (a) (since 2006)
- Director of Vallourec Heat Exchanger Tubes (a) (since 2006)
- Director of Vallourec Services (a) (since 2006)
- Director of Vallourec Heat Exchanger Tubes Asia (a) (since 2004)
- Manager of Vallourec One (a) (since 2004)
- Director of Vallourec Tubos do Brasil S.A. (a) (Brazil) (since 2008)
- Director of Vallourec & Sumitomo Tubos do Brasil (a) (Brazil) (since 2007)
- Director of Vallourec Industries Inc. (a) (United States) (since 2001)
- Director of Vallourec Holdings, Inc. (a) (United States) (since 2004)
- Director of VAM USA LLC (a) (United States) (since 2009)
- Chairman of the Supervisory Board of Vallourec Deutschland GmbH (a) (since 2009)
- Member of the Executive Committee of Vallourec Star, LP (a) (United States) (since 2002)
- Director of Vallourec USA Corporation (a) (United States) (since 2000)
- Director of Vallourec Drilling Products USA, Inc. (a) (United States) (since 2005)
- Director of Vallourec Oil & Gas UK Ltd. (a) (United Kingdom) (since 2000)
- Director of Esso Société Anonyme Française* (since 2014)

Positions expired within the last five years

- Member of the Supervisory Board of V & M France (a) (until 2012)
- Director of VMOG France (a) (until 2012)
- Director of Valti (a) (until 2012)
- Director of Interfit (a) (until 2012)
- Director of Valinox Nucléaire (a) (until 2012)
- Director of VAM Drilling France (a) (until 2012)

Mr Jean-Pierre Michel does not receive any compensation as a corporate officer of Vallourec's direct or indirect subsidiaries.

(a) Offices held in relation to the Group.
** Listed company (for terms pending).*

Mr Olivier Mallet

Member of the Management Board

Business address:
Vallourec
27, avenue du Général-Leclerc
92100 Boulogne-Billancourt – France

Expertise and managerial experience:

- Graduate of École Nationale d'Administration – General Inspector of Finance
- Technical advisor within several cabinet offices, including that of the Prime Minister (1988-1993)
- CFO and member of the Executive Committee with responsibility for finance at Thomson Multimédia (1995-2001)
- CFO and member of the Executive Committee of Pechiney (2001-2004)
- Deputy CFO (2004-2006) then Head of the Mining, Chemistry and Enrichment sector of the Areva group (2006-2008)
- Member of the Management Board of Vallourec since 30 September 2008, Chief Financial Officer and General Counsel

Positions held by Mr Olivier Mallet

Positions currently held

- Member of the Management Board of Vallourec [a]* (since 2008)
- Chairman and CEO of Vallourec Services [a] (since 2008)
- CEO and Director of Vallourec Tubes [a] (since 2008)
- Director of Vallourec Heat Exchanger Tubes [a] (since 2008)
- Chairman of Vallourec Holdings, Inc. [a] (United States) (since 2009)
- Member of the Supervisory Board of Vallourec Deutschland GmbH [a] (Germany) (since 2008)
- Director of Vallourec Tubos do Brasil S.A. [a] (Brazil) (since 2008)
- Director of Vallourec Canada Inc. [a] (Canada) (since 2008)
- Director of Vallourec Holdings, Inc. [a] (since 2008)
- Director of Vallourec USA Corporation [a] (since 2008)
- Director of Vallourec Tube-Alloy, LLC [a] (since 2008)
- Chairman (since 2009) and Director (since 2008) of Vallourec Industries Inc. [a]
- Director of Vallourec Drilling Products USA, Inc. [a] (United States) (since 2008)
- Member of the Executive Committee of VAM USA LLC [a] (since 2009)
- Member of the Executive Committee of Vallourec Star, LP [a] (United States) (since 2008)

Positions expired within the last five years

- Member of the Supervisory Board of V & M France [a] (until 2012)
- Director of Vallourec Mannesmann Oil & Gas France [a] (until 2012)
- Director of Interfit [a] (until 2012)
- Director of Valti [a] (until 2012)

Mr Olivier Mallet does not receive any compensation as a corporate officer of Vallourec's direct or indirect subsidiaries.

(a) Offices held in relation to the Group.

** Listed company (for terms pending).*

OPERATIONAL MANAGEMENT

Vallourec's long-term strategy centers around three guiding principles:

- **premium positioning:** Vallourec is constantly expanding its offering of premium products, services and solutions to meet the most complex challenges of its customers and maintain its technological progress in increasingly competitive markets;
- a **local presence:** Vallourec is extending its presence worldwide, increasing its contact with growing markets and with its customers;
- **competitiveness:** the Group is always attentive to improving its competitiveness, notably through cost reduction programs.

To implement its strategic guidelines and key decisions, the Management Board relies on the Group Management Committee (GMC), which has been in place since 3 February 2014.

The Group Management Committee examines and drafts proposals to the Management Board regarding all of the actions and changes needed to implement the Group's strategy. It provides daily management for operational and functional activities. It holds meetings once every two weeks, which are chaired by Mr Philippe Crouzet. At the date of filing this Registration Document, it is comprised of the following nine members [(1)]:

- Mr Philippe Crouzet, Chairman of the Management Board;
- Mr Jean-Pierre Michel, member of the Management Board;
- Mr Olivier Mallet, member of the Management Board;
- Mr Philippe Carlier, Director of the Europe Region, to which the Upstream, Powergen and Industry Divisions belong;
- Mr Nicolas de Coignac, Director of the North America Region, which comprises all operations of the area as well as the Drilling Division;
- Mr François Curie, Director of Group Human Resources;
- Ms Stéphanie Fougou, Director of Group Legal Affairs;
- Mr Didier Hornet, Director of the Eastern Hemisphere Region (including the Middle East, Africa and Asia), and including the OCTG EAMEA and Pipe Project activities; and
- Mr Alexandre Lyra, Director of the South America Region, to which the Brazil Division belongs.

7.1.1.2 Presentation of the Supervisory Board members

POLICY ON THE COMPOSITION OF THE SUPERVISORY BOARD

The Board policy relating to its composition relies on the following four fundamental objectives:

- selection of competent members;
- a balanced composition, which creates value;
- regard for the corporate interest;
- a number of members that ensures there is a fluid exchange of information and that each member can express themselves.

1. Selection of competent members

Aware that first-rate quality must lie in that of its members, the Board makes every effort to add members that have performed managerial duties with a high level of responsibility and/or who have recognized expertise in financial, strategic, industrial or legal areas. Furthermore, when they assume office and throughout their terms, each member has the chance to benefit from training sessions on specific aspects of the Group, its businesses, its sector of activity and its organization, if they so desire.

2. Balanced composition, which creates value

Like any business player, the Supervisory Board is committed to the process of creating value. Consequently, beyond the challenges of social performance, it endeavors to ensure the diversity of its members, which it considers to be a key vector for creativity and innovation. Diverse genders and experiences bring to the Board distinct sensitivities that contribute favorably to good governance, which itself leads to competitive advantages. At this time, the Board is comprised of twelve members, who have a variety of experience gained primarily in an international environment, which is a source of enrichment. Furthermore, 33% of these members are female and 33% are of foreign nationality (Brazilian, Dutch, Spanish and British). Ms Vivienne Cox, who is British, is the Board Chairman. Since the Board is well aware of how enriching a diverse body can be, it intends to pursue efforts to diversify its membership.

3. Regard for the corporate interest

The Board feels that each member is a guardian of the corporate interest, and must accomplish their duties objectively and independently, in order to gain and maintain the trust of all of the shareholders who appointed them.

Consequently, going beyond the qualification of independent member, the Board intends to propose full members to the Shareholders' Meeting who have strong ethics that lead them to act with ongoing concern for the corporate interest and the interests of all shareholders, and specifically, to avoid conflicts of interest. To that end, each member is required to inform the Board of any situation involving a conflict of interest, even a potential one, and to refrain from taking part in discussions or voting on any issue at Board meetings where there may be a conflict of interest, and to leave the Board meeting if a subject is discussed that places the member in such a situation.

If any member finds themselves in a conflict of interest situation, even a potential one, concerning a subject to be debated by the Board, the Board ensures, with the support of the Appointments, Compensation and Governance Committee, that the information concerning this subject is not communicated to the member in question.

The internal regulations of the Supervisory Board and the Appointments, Compensation and Governance Committee contain specific provisions designed to prevent the risk of conflicts of interest. Therefore, a member cannot accept another position or appointment, or make a significant investment in any company or business in competition with Vallourec or operating upstream or downstream of it, without the Board's prior approval. As an exception, this rule does not apply to legal entities that are members of the Board, but if they take new positions or similar appointments, each case will be discussed with the Board in order to eliminate any risk of conflicts of interest. Members of the Board, Non-voting Board members *(Censeurs)* and members of the Management Board must inform the Chairman of the Board before accepting a new appointment in other companies. The Chairman of the Board will give an opinion after consulting with the Appointments, Compensation and Governance Committee.

(1) As part of its competitiveness plan, which Valens announced to the market on 24 February 2015, the Management Board established a Lean Management system for four geographic segments, effective as of 1 April 2015. This led to a change in the operational responsibilities of Messrs Philippe Carlier, Nicolas de Coignac, Didier Hornet and Alexandre Lyra who were, until 31 March 2015, in charge of the (i) Upstream – Industry, (ii) Powergen – Speciality Powergen – Pipe Project, (iii) OCTG and (iv) Brazil sectors respectively.

4. A number of members that ensures there is a fluid exchange of information and that each member can express themselves

Although the law allows a Board to contain up to 18 members, the Board wishes to limit its membership to 12 in order to ensure there are satisfying and fluid exchanges of information, and to allow each member to express themselves, thereby encouraging each person's action and involvement. To that end, the Chairman of the Board encourages the participation of the members and sees to it that each member can express their opinion.

MEMBERS OF THE SUPERVISORY BOARD AS AT 29 FEBRUARY 2016

As at 29 February 2016, the Supervisory Board is comprised of 12 members.

	Year of birth	Date first appointed	Date appointment most recently renewed	Date of end of term	Other main appointments held
Chairman					
Vivienne Cox	1959	31/05/2010	OSM 28/05/2014	2018 OSM to approve financial statements as at 31/12/2017	Director of Pearson Plc
Vice-Chairman Lead Member					
Pierre Pringuet [(a)]	1950	23/02/2015	–	2016 OSM to approve financial statements as at 31/12/2015	Vice Chairman of the Board of Directors of Pernod Ricard, Director of Iliad, Avril and Cap Gemini and Chairman of AFEP
Members					
Maria Pilar Albiac-Murillo	21/08/1953	28/05/2015	–	2019 OSM to approve financial statements as at 31/12/2018	Executive Vice President of Operations, in charge of the Airbus Defence and Space transformation process, and Director of Banque Populaire Occitane
Philippe Altuzarra	03/04/1950	28/05/2015	–	2019 OSM to approve financial statements as at 31/12/2018	Director of Altuzarra LLC and Chairman of the Supervisory Board of La Redoute
Cédric de Bailliencourt	1969	28/05/2014	–	2018 OSM to approve financial statements as at 31/12/2017	CFO of Bolloré group
Olivier Bazil	1946	31/05/2012	–	2016 OSM to approve financial statements as at 31/12/2015	Director of Legrand, Michelin, Château Palmer and Firmenich International
Pascale Chargrasse	1960	13/12/2010	OSM 28/05/2015	2019 OSM to approve financial statements as at 31/12/2018	Business Development Manager, Valinox Nucléaire
Jean-François Cirelli	1958	13/05/2009	OSM 31/05/2012	2016 OSM to approve financial statements as at 31/12/2015	Chairman of BlackRock France, Belgium and Luxembourg, Senior Advisor, Advent International and Senior Advisor, McKinsey & Company Inc. France
Michel de Fabiani	1945	10/06/2004	OSM 28/05/2014	2018 OSM to approve financial statements as at 31/12/2017	Director of BP France and Valeo, and member of the Supervisory Board of Valco
José Carlos Grubisich	1957	31/05/2012	–	2016 OSM to approve financial statements as at 31/12/2015	Chairman of Eldorado Brasil Celulose S.A. and Director of Halliburton
Henri Poupart-Lafarge	1969	28/05/2014	–	2018 OSM to approve financial statements as at 31/12/2017	Chairman and CEO of Alstom
Alexandra Schaapveld	1958	31/05/2010	OSM 28/05/2014	2018 OSM to approve financial statements as at 31/12/2017	Member of the Supervisory Board of Holland Casino, Bumi Armada Berhad and Société Générale

(a) At its meeting on 23 February 2015, the Supervisory Board coopted Mr Pierre Pringuet as a member of the Supervisory Board, replacing Mr Edward G. Krubasik, who resigned, for the remaining term of his predecessor, i.e. until the Shareholders' Meeting called in 2016 to approve the financial statements for fiscal year 2015. The Annual Shareholders' Meeting dated 28 May 2015 ratified the appointment of Mr Pierre Pringuet.

Following the strategic plan that was announced 1 February 2016 (see Chapter 8 of this Registration Document), a resolution will be presented the Ordinary and Extraordinary Shareholders' Meeting scheduled for 6 April 2016 to propose a representative from Bpifrance to be appointed as a member of the Supervisory Board. Incidentally, a resolution will be presented during the first Ordinary and Extraordinary Shareholders' Meeting following the redemption of the ORAs from NSSCM in ordinary shares, proposing that a NSSMC representative be appointed as a member of the Supervisory Board. The latter will be subject to specific measures to prevent access to sensitive competitive information.

Following the major strategic initiatives announced on 1 February 2016 (see Chapter 8 of this Registration Document), a resolution will be presented to the Ordinary and Extraordinary Shareholders' Meeting scheduled for 6 April 2016 to recommend that a representative of Bpifrance be appointed as a member of the Supervisory Board. A resolution will also be presented at the first Ordinary and Extraordinary Shareholders' Meeting following repayment of the NSSCM ordinary share convertible bonds recommending that a representative of NSSMC be appointed as a member of the Supervisory Board. Said member shall be subject to specific measures to prevent access to sensitive competitive information.

At its meeting of 17 February 2016, the Supervisory Board noted the resignation of Mr. Michel de Fabiani with effect from 5 April 2016 and decided to coopt Ms Laurence Broseta as member of the Supervisory Board, with effect from the same date, for the remaining term of her predecessor, namely until the shareholders' meeting called in 2018 to approve the financial statements for the 2017 fiscal year. Ratification of this coopting decision will be submitted to the Annual Shareholders' Meeting of 6 April 2016. A recommendation will also be made to the Annual Shareholders' Meeting of 6 April 2016 to renew the terms of office of Messrs Olivier Bazil, Pierre Pringuet and José Carlos Grubisich as Supervisory Board members.

PRESENTATION OF SUPERVISORY BOARD MEMBERS

1 **Ms Vivienne COX**
Chairman of the Supervisory Board
Chairman of the Strategy Committee

2 **Mr Pierre PRINGUET**
Vice-Chairman and Lead Member of the Supervisory Board

3 **Ms Maria Pilar ALBIAC-MURILLO**
Member of the Supervisory Board

4 **Mr Philippe ALTUZARRA**
Member of the Supervisory Board
Member of the Strategy Committee

5 **Mr Cédric de BAILLIENCOURT**
Member of the Supervisory Board

6 **Mr Olivier BAZIL**
Member of the Supervisory Board
Chairman of the Finance and Audit Committee
Member of the Strategy Committee

7 **Ms Pascale CHARGRASSE**
Member of the Supervisory Board representing the employee shareholders
Member of the Appointments, Compensation and Governance Committee

8 **Mr Jean-François CIRELLI**
Member of the Supervisory Board
Member of the Strategy Committee

9 **Mr Michel de FABIANI**
Member of the Supervisory Board
Chairman of the Appointments, Compensation and Governance Committee

10 **Mr José Carlos GRUBISICH**
Member of the Supervisory Board
Member of the Strategy Committee

11 **Mr Henri POUPART-LAFARGE**
Member of the Supervisory Board
Member of the Finance and Audit Committee

12 **Ms Alexandra SCHAAPVELD**
Member of the Supervisory Board
Member of the Finance and Audit Committee
Member of the Appointments, Compensation and Governance Committee












HONORARY CHAIRMEN

1 **Mr Jean-Paul PARAYRE**
Honorary Chairman of Vallourec since 31 May 2013

2 **Mr Arnaud LEENHARDT**
Honorary Chairman of Vallourec since 15 June 2000


Ms Vivienne COX

Chairman of the Supervisory Board
Chairman of the Strategy Committee

Date of birth: 19 May 1959
Nationality British
Vallourec shares held: 8,032

Business address:
Vallourec
27, avenue du Général-Leclerc
92100 Boulogne-Billancourt – France

Expertise and managerial experience:
- A graduate of Oxford University and INSEAD and holding an Honorary Doctorate from the University of Hull
- 28 years' experience with the BP group
- CEO of BP Gas, Power and Renewables (2004-2009)
- Commissioner of the Airport Commission of the Department of Transport of the British government (since 2012)

Positions held by Ms Vivienne COX

Positions currently held

- Chairman of the Supervisory Board of Vallourec*
- Director, Chairman of the Reputation and Responsibility Committee, member of the Audit Committee, the Appointments Committee, and the Compensation Committee (since 2012) and Senior Independent Director (since 2013) of Pearson Plc*
- Lead Independent Director of the Department for International Development of the British government (since 2010)
- Manager B of Stena International SARL (Luxembourg) (since 2014)
- Member of the Consulting Board and Chairman of the Compensation Committee of Montrose Associates

Positions expired within the last five years

- Director of the Climate group (up to February 2015)
- Director and member of the Appointments Committee and the Sustainable Development Committee of Rio Tinto Plc (up to 2014)
- Director and member of the Sustainable Development Committee, the Compensation Committee and the Appointments Committee of BG group Plc* (until the end of February 2016)
- Member of the Board of Directors and Appointment and Compensation Committee of INSEAD (up to 2013)
- Non-Executive Chair and Director of the consulting and investment firm Climate Change Capital Limited (up to 2012)
- Member of the Offshore Advisory Committee of Mainstream Renewable Power (until 2012)

Mr Pierre PRINGUET

Vice-Chairman and Lead Member of the Supervisory Board (a)

Date of birth: 31 January 1950
Nationality: French
Vallourec shares held: 3,000

Business address:
Pernod Ricard
12, place des États-Unis
75116 Paris – France

Expertise and managerial experience:
- Graduate of the École Polytechnique and Engineer for the French Mines Inspectorate (Corps des Mines)
- Began career in public service, from 1976 to 1987: In charge of an industry and mining engagement with the prefect of the Lorraine region (1976-1978); Head of financial procedures and social relations with the Managing Director of Industry (1979-1982); Chief Engineer of Mines (1981); Technical Consultant to Michel Rocard, Minister of Land Management and Planning, and later the Minister of Agriculture (1981-1985); Director of Agricultural and Food Industries with the French Ministry of Agriculture (1985-1987)
- Since 1987, in the Pernod Ricard group: Director of Development of the Pernod Ricard group (1987-1989); Managing Director of Société pour l'Exportation de Grandes Marques (1989-1996); Chairman & CEO of Pernod Ricard Europe (1997-2000); Deputy CEO of Pernod Ricard (2000-2005); Director of Pernod Ricard (since 2004); COO of Pernod Ricard (2005-2008); Managing Director of Pernod Ricard (2008-2015)

Positions held by Mr Pierre PRINGUET

Positions currently held

- Vice-Chairman of the Supervisory Board of Vallourec* and Lead Director
- Vice-Chairman of the Board of Directors of Pernod Ricard* and member of the Strategy Committee and of the Compensation Committee
- Director of Iliad*
- Director of Avril
- Director of Capgemini*, Chairman of the Compensation Committee and member of the Ethics and Governance Committee
- Chairman of the Association Française des Entreprises Privées (AFEP)
- Chairman of AgroParisTech
- Chairman of the Association of Mining Engineers (Association Amicale des Ingénieurs des Mines – AAIM)
- Chairman of the Scotch Whisky Association

Positions expired within the last five years

- CEO of Pernod Ricard (until February 2015)
- Chairman of Comité Sully, an association for the promotion of the French agrifood industry (up to January 2015)

Maria Pilar ALBIAC-MURILLO

Member of the Supervisory Board

Date of birth: 21 August 1953
Nationality: Spanish
Vallourec shares held: 3,000

Business address:
Airbus Defence and Space GmbH
Head of Operations, Transformation and A400M Industrialization
Willy-Messerschmitt-Str. 1
82024 Taufkirchen – Germany

Expertise and managerial experience:
- Graduate of the University of Zaragoza (Spain), and the holder of an MBA from Central Michigan University (United States)
- A twenty-six year career at General Motors, sixteen of which were spent in the United States. Fifteen years in Operations, Plant Director in Saginaw, Michigan (1991-1993), Plant Director in Logroño, Spain (1993-1996)
- Chairman and CEO of Saginaw Deutschland GmbH (1996-1999)

(a) At its meeting on 23 February 2015, Vallourec's Supervisory Board coopted Mr Pierre Pringuet as a member of the Supervisory Board, replacing Mr Edward G. Krubasik, who resigned.

* *Listed company (for terms pending).*

- Seven years at Delphi Corporation: Site Manager (Delphi Alabama Operations), Plant Manager, Site Director (Delphi Flint East Operations) and Director of Product Line (Delphi Troy Headquarters)
- Vice President in charge of operations in Mexico for Remy (2006-2007)
- At Airbus* group since 2008

Positions held by Ms Maria Pilar ALBIAC-MURILLO

Positions currently held

- Member of the Supervisory Board of Vallourec*
- Executive Vice President of Operations, in charge of the Airbus Defence and Space transformation process, and A400M Industrialization
- Director of Banque Populaire Occitane

Positions expired within the last five years

- Chairman and COO of Cassidian Spain (until 2013)
- Senior Vice President in charge of Quality and Lean Corporate at Airbus (until 2012)

Mr Philippe ALTUZARRA

Member of the Supervisory Board
Member of the Strategy Committee

Date of birth: 3 April 1950
Nationality: French
Vallourec shares held: 5,000

Business address:
Vallourec
27, avenue du Général-Leclerc
92100 Boulogne-Billancourt – France

Expertise and managerial experience:
- Graduate of Sciences Po Bordeaux and of the École Nationale d'Administration
- Began his career at the Ministry of Finance in 1973: Technical advisor at the Office of the Secretary of State for Defense (1973-1975), Economic Attaché at the French Embassy in London (1975-1978,) Civil Administrator, French Trade Directorate (1981-1986), Economic Advisor at the French Embassy in Tokyo (1986-1989)
- Member of the Executive Committee, Deputy CFO of the Havas group (1989-1993)
- Twenty-one years at Goldman Sachs (1993-2014)

Positions held by Mr Philippe ALTUZARRA

Positions currently held

- Member of the Supervisory Board of Vallourec*
- Shareholder and Director of Altuzarra LLC
- Chairman of the Supervisory Board of La Redoute

Positions expired within the last five years

- Member of the International Board of Goldman Sachs (London) (until 2014)
- CEO of Goldman Sachs France and Belgium (Paris) (until 2012)

Mr Cédric de BAILLIENCOURT

Member of the Supervisory Board

Date of birth: 10 July 1969
Nationality: French
Vallourec shares held: 3,000

Business address:
Tour Bolloré
31/32, quai de Dion Bouton
92811 Puteaux Cedex – France

Expertise and managerial experience:
- Graduate of the Institut d'Études Politiques de Bordeaux, postgraduate degree in Political and Social Communication
- 19 years with the Bolloré group as Director of Shareholding (since 1996), CEO (since 2002) and Vice-Chairman of Financière de l'Odet, Vice-Chairman of Bolloré (since 2002), CFO of Bolloré group since 2008

Positions held by Mr Cédric de BAILLIENCOURT

Positions currently held

- Member of the Supervisory Board of Vallourec*
- Vice-Chairman-CEO of Financière de l'Odet (a)*
- Vice-Chairman of Bolloré (a)*
- Chairman of the Management Board of Compagnie du Cambodge (a)*
- Chairman of the Board of Directors of Compagnie des Tramways de Rouen (a)*, Financière Moncey (a)*, Société des Chemins de Fer et Tramways du Var et du Gard (a)* and Société Industrielle et Financière de l'Artois (a)*
- Chairman of Blueboat (formerly Compagnie de Bénodet) (a), Compagnie de Treguennec (a), Compagnie de Cornouaille (a), Compagnie de Guénolé (a), Compagnie de Guilvinec (a), Compagnie de Pleuven (a), Financière V (a), Financière de Beg Meil (a), Financière d'Ouessant (a), Bluestorage (formerly Financière de Loctudy) (a), Financière du Perguet (a), Financière de Sainte-Marine (a), Financière de Pont-Aven (a), Imperial Mediterranean (a), Compagnie des Glénans (a), Compagnie de Pont l'Abbé (a), Financière de Briec (a), Financière de Pluguffan (a), Financière de Quimperlé (a)
- Manager of Socarfi (a), Compagnie de Malestroit (a)
- Director of Bolloré (a)*, Bolloré Participations (a), Compagnie des Tramways de Rouen (a)*, Financière V (a), Financière Moncey (a)*, Omnium Bolloré (a), Société Industrielle et Financière de l'Artois (a)*, Financière de l'Odet (a)*, Société des Chemins de Fer et Tramways du Var et du Gard (a)*
- Director of Musée National de la Marine, African Investment Company (a), Financière du Champ de Mars (a), La Forestière Équatoriale (a)*, BB Groupe (a), Plantations des Terres Rouges (a), SFA (a), de PTR Finances (a), Sorebol (a) and Technifin (a)
- Member of the Supervisory Board of Sofibol (a)
- Permanent representative of Bolloré to the Boards of Directors of Havas (a)* and Socotab (a)
- Permanent representative of Bolloré Participations on the Board of Société Bordelaise Africaine (a)
- Permanent representative of Compagnie du Cambodge on the Supervisory Board of Banque Hottinguer
- Chairman of Redlands Farm Holding (a)
- Chairman of the Board of Directors of Plantations des Terres Rouges (a), PTR Finances (a) and SFA (a)
- Permanent representative of Pargefi Helios Iberica Luxembourg on the Board of Pargefi SA (a)
- Permanent representative of Bolloré Participations on the Board of Nord Sumatra Investissements (a)

(a) Position held within the Bolloré group.

* *Listed company (for terms pending).*

** *Listed company (for terms pending (including companies registered in the Free Market and listed abroad)).*

- Permanent representative of Bolloré Participations on the Boards of Socfinasia*, Socfinaf* (formerly Intercultures), Socfinde, Terrasia, Socfin* (formerly Socfinal), Induservices SA, Agro Products Investment Company

Positions expired within the last five years

- Chairman of Bluestorage (until April 2015)
- Chairman of Omnium Bolloré (up to 2013)
- Permanent representative of Bolloré on the Board of Blue Solutions (formerly BatScap) (up to 2013)
- Chairman of Bluely (formerly Financière de Kerdevot) (up to 2013)
- Chairman and Director of Sofibol (up to 2012)
- Manager of Financière du Loch (up to 2012)
- Chairman of the Board of Directors and Managing Director of Financière de Kéréon [(a)] (up to 2011)
- Permanent representative of Bolloré Participations on the Board of Sogescol (up to 2012)
- Permanent representative of Bolloré on the Supervisory Board of Vallourec (up to 2014)
- Chairman of Financière de Bréhat [(a)] (up to 2014)
- Permanent representative of Financière V on the Board of Société Anonyme Forestière et Agricole (SAFA) [(a)] (up to 2014)
- Director of Champ de Mars Investissements, Financière Nord Sumatra (up to 2013)
- Permanent representative of SAFA on the Board of SAFA Cameroun (up to 2014) [(a)]
- Permanent representative of Bolloré Participations on the Board of Socfinco (up to 2014)
- Director of Cormoran Participations (up to 2013)
- Permanent representative of Bolloré Participations on the Boards of Immobilière de la Pépinière and Centrages (until 15 September 2015).

Mr Olivier BAZIL

Member of the Supervisory Board
Chairman of the Finance and Audit Committee
Member of the Strategy Committee

Date of birth: 22 September 1946
Nationality: French
Vallourec shares held: 11,213

Business address:
Vallourec
27, avenue du Général Leclerc
92100 Boulogne-Billancourt – France

Expertise and managerial experience:

- Graduate of École des Hautes Études Commerciales (HEC) and Harvard Business School
- Assistant to the Secretary General, responsible for financial information and development of the growth strategy for the Legrand group (1973)
- CFO of Legrand (1979)
- Deputy CEO and Vice-Chairman of the Board of Directors of Legrand (1994)
- COO of Legrand (from 2000 to 2011)

Positions held by Mr Olivier BAZIL

Positions currently held

- Member of the Supervisory Board of Vallourec*
- Director of Legrand*
- Member of the Supervisory Board of Michelin*
- Director of Château Palmer
- Director of Firmenich International

Positions expired within the last five years

- COO and Vice-Chairman of the Board of Directors of Legrand (up to 2011)
- Director of Legrand France (up to 2011)
- Chairman of the Board of Directors of TLC Legrand Electrical Technology (up to 2011)
- Director of Dipareena Electricals (up to 2011)
- Director of Legrand Elektrik Sanayi (up to 2011)
- Director of Eltas (up to 2011)
- Director of Estap Dis Ticaret (up to 2011)
- Director of Estap Elektrik (up to 2011)
- Director of Estap Middle East Fzc (up to 2011)
- Director of Parkfield Holdings Limited (up to 2011)
- Director of Legrand SNC FZE Dubai (up to 2011)
- Member of the Supervisory Board of Legrand ZRT (up to 2011)
- Director of O.A.O. Kontaktor (up to 2011)
- Manager of Rhein Vermogensverwaltung (up to 2011)
- Chairman of the Board of Directors of TCL Legrand International Electrical (Hu He Hao Te) Co. Ltd. (up to 2011)
- Director of TCL Wuxi (up to 2011)
- Chairman of the Supervisory Board of PT Legrand Indonesia (up to 2011)
- Chairman of the Board of Directors of Inform Elektronikt (up to 2011)

Pascale CHARGRASSE

Member of the Supervisory Board representing the employee shareholders
Member of the Appointments, Compensation and Governance Committee

Date of birth: 10 July 1960
Nationality: French
Vallourec shares held: 3,527

Business address:
Valinox Nucléaire
5, avenue du Maréchal Leclerc
BP 50 – 21501 Montbard – France

Expertise and managerial experience:

- Graduate of the Orsay Technology Institute with a DUT diploma in Computer Science
- Employee of the Vallourec Group since 1985 and currently Business Development Manager at Valinox Nucléaire, a wholly owned subsidiary of Vallourec
- Member of the Supervisory Board of Vallourec Actions Corporate Mutual Fund (FCPE)
- Union representative on the Group's Works Council

Positions held by Ms Pascale CHARGRASSE

Positions currently held

- Member of the Supervisory Board of Vallourec*

(a) Position held within the Bolloré group.

** Listed company (for terms pending).*

*** Listed company (for terms pending (including companies registered in the Free Market and listed abroad)).*

Mr Jean-François CIRELLI

Member of the Supervisory Board
Member of the Strategy Committee

Date of birth: 9 July 1958
Nationality: French
Vallourec shares held: 681

Business address:
BlackRock France
Le Centorial – 16-18, rue du Quatre Septembre
75002 Paris – France

Expertise and managerial experience:
- Graduate of École Nationale d'Administration, law degree
- Various positions within the French Ministry for Economy and Finance's Treasury Department (1985-1995)
- Technical Advisor then Economic Advisor to the French Presidency (1995-2002)
- Deputy Director of the Prime Minister's office (2002-2004)
- Chairman & CEO of Gaz de France (2004-2008)
- Vice-Chairman, COO of GDF SUEZ up to November 2014

Positions held by Mr Jean-François CIRELLI

Positions currently held
- Member of the Supervisory Board of Vallourec*
- Chairman of BlackRock France, Belgium and Luxembourg*
- Senior Advisor of Advent International
- Senior Advisor of McKinsey & Company Inc. France*

Positions expired within the last five years
- Vice-Chairman, COO of GDF SUEZ [(a)]
- Chairman of the Board of Directors of GDF SUEZ Trading [(a)]
- Director, GDF SUEZ Énergie Services [(a)]
- Director of Suez Environnement Company [(a)]
- Vice-Chairman of the Board of Directors of Electrabel (Belgium) [(a)]
- Director of International Power (United Kingdom) [(a)]
- Director of GDF Suez Energy Management Trading (Belgium) [(a)]
- Director of Suez-Tractebel (Belgium) [(a)]

* *Listed company (for terms pending).*

Mr Michel de FABIANI

Member of the Supervisory Board [(b)]
Chairman of the Appointments, Compensation and Governance Committee

Date of birth: 17 June 1945
Nationality: French
Vallourec shares held: 3,075

Business address:
Chambre de Commerce Franco-Britannique
10, rue de la Bourse
75001 Paris – France

Expertise and managerial experience:
- Graduate of the École des Hautes Études Commerciales (HEC)
- CFO of BP Europe (1991-1994)
- Commercial Director of BP Europe (1994-1997)
- CEO of BP Mobil Europe joint venture (1997-2001)
- Regional President of BP Europe (1997-2004)
- Chairman & CEO of BP France (1995-2004)

Positions held by Mr Michel de FABIANI

Positions currently held
- Member of the Supervisory Board of Vallourec*
- Director of BP France
- Director of Valeo*
- Member of the Supervisory Board of Valco
- Vice-Chairman of the Franco-British Chamber of Commerce
- Director of EBtrans (Luxembourg)
- Chairman of Hertford British Hospital Corporation (United Kingdom)

Positions expired within the last five years
- Director of Rhodia (up to 2011)

Mr José Carlos GRUBISICH

Member of the Supervisory Board
Member of the Strategy Committee

Date of birth: 19 February 1957
Nationality: Brazilian
Vallourec shares held: 3,000

Business address:
Eldorado Brasil Celulose S.A.
Avenida Marginal Direita do Tietê, 500
CEP 05118-100, São Paulo – SP – Brazil

Expertise and managerial experience:
- Graduate of the Advanced Management Program of the Fundação Dom Cabral and of INSEAD
- CEO of Rhodia for Brazil and Latin America (1996)
- Chairman & CEO of Rhône-Poulenc group for Brazil (1997)
- Vice-Chairman and member of the Executive Committee (Executive Board) of Rhodia group Worldwide and Chairman of Rhodia Fine Organics Worldwide (1999)
- Chairman & CEO of Brazilian company Braskem S.A. (petrochemicals) (2002)

Positions held by Mr José Carlos GRUBISICH

Positions currently held
- Member of the Supervisory Board of Vallourec*
- Chairman of Eldorado Brasil Celulose S.A. (since 2012)
- Director of Halliburton* (since 2013)

Positions expired within the last five years
- Non-voting member *(censeur)* of the Supervisory Board of Vallourec (up to 2012)
- Chairman & CEO of Brazilian company ETH Bioenergia S.A. (bioenergy) (up to 2012)
- Board member of Braskem S.A. (up to 2012)

(a) Office held within the GDF SUEZ group – expired in November 2014.

(b) Following a proposal from the Bpifrance Participations (formerly Fonds Stratégique d'Investissement or FSI), approved by the Supervisory Board, Mr Michel de Fabiani has been sitting on the Supervisory Board of Vallourec since 4 August 2011, representing Bpifrance Participations. This agreement ended on 27 January 2016.

* *Listed company (for terms pending).*

Mr Henri POUPART-LAFARGE

Member of the Supervisory Board
Member of the Finance and Audit Committee

Date of birth: 10 April 1969
Nationality: French
Vallourec shares held: 3,000

Business address:
Alstom
48, rue Albert Dhalenne
93482 Saint-Ouen Cedex – France

Expertise and managerial experience:

- Graduate of the École Polytechnique (1988), the École Nationale des Ponts et Chaussées and the Massachussetts Institute of Technology
- Deputy in the Treasury Department of the Ministry of Economy and Finance, and later a Technical Adviser in the office of the Minister of Economy and Finance (1994-1997)
- Since 1998, in the Alstom group*: Head of Investor Relations (1998-1999), Head of Management Control (1999-2000), Senior Vice President in charge of Finance for the Transmission and Distribution sector (2000-2004), group CFO (2004-2010), President of the Alstom Grid sector (2010-2011), group Executive Vice-Chairman and Chairman of the Transportation sector (since 2011).

Positions held by Mr Henri POUPART-LAFARGE

Positions currently held

- Member of the Supervisory Board of Vallourec*
- Chairman and CEO (since February 2016), Director of Alstom* (since 2015)
- Director of Transmashholding (TMH)

Positions expired within the last five years

- Director of Rhodia (2010-2011)

Ms Alexandra SCHAAPVELD

Member of the Supervisory Board
Member of the Finance and Audit Committee
Member of the Appointments, Compensation and Governance Committee

Date of birth: 5 September 1958
Nationality: Dutch
Vallourec shares held: 4,700

Business address:
Jacob Obrechtstraat 67
1067 KJ Amsterdam – The Netherlands

Expertise and managerial experience:

- Graduate in Politics, Philosophy and Economics from Oxford University and holder of a Master's Degree in Development Economics from Erasmus University
- 25 years' experience with the ABN AMRO group
- Head of Sector expertise for the ABN AMRO group (2001-2004)
- Head of Investment Banking for the ABN AMRO group (2004-2007)
- Head of Europe for Royal Bank of Scotland (2007-2008)

Positions held by Ms Alexandra SCHAAPVELD

Positions currently held

- Member of the Supervisory Board of Vallourec*
- Director of Société Générale*
- Member of the Supervisory Board of Holland Casino
- Member of the Supervisory Board of FMO
- Member of the Supervisory Board of Bumi Armada Berhad* (Malaysia)

Positions expired within the last five years

- Member of the Supervisory Board of the University of Amsterdam and University Medical Center (until 2012)

HONORARY CHAIRMEN

Mr Jean-Paul PARAYRE

Honorary Chairman of Vallourec since 31 May 2013

Expertise and managerial experience:

- Graduate of École Polytechnique
- Chairman of the Management Board of PSA Peugeot-Citroën (1977-1984)
- COO then Chairman of the Management Board of Dumez (1984-1990)
- Vice-President and CEO of Lyonnaise des Eaux Dumez (1990-1992)
- Vice-President and CEO of Bolloré (1994-1999)
- Chairman and CEO of Saga (1996-1999)
- Chairman of the Supervisory Board of Vallourec (2000-2013)

The 30 May 2013 Shareholders' Meeting marked the end of Mr Jean-Paul Parayre's last term of office. A member of Vallourec's Supervisory Board since 1989, he went on to succeed Mr Arnaud Leenhardt as Chairman in 2000. Under his guidance, the Board oversaw the seamless integration of Mannesmann do Brasil into the Group, and then assisted in preparing a strategy to develop internationally, focusing on energy markets. Implementation began in 2002 with the acquisition in the United States of North Star, and then of Atlas Bradford® thereby building strong positions in the US. As early as 2001, the Board began reviewing the Group's capital structure, a legacy of the 1997 merger of the Vallourec and Mannesmannröhren-Werke hot-rolled and OCTG tube activities. This led, in 2005, to the acquisition of the German partner's non-controlling shares in Vallourec & Mannesmann. This enabled Vallourec to determine its own strategy, at a time when a number of growth opportunities were presenting themselves. The Supervisory Board has been unwavering in its support of an organic growth strategy with a modernized European foundation, which has made Vallourec a technological global leader capable of serving its customers in rapidly growing Oil & Gas markets, namely by creating industrial plants in China, Brazil and the United States, the latest being the startup of the integrated plant in the State of Minas Gerais at the end of 2011, and a new tube mill in Ohio at the end of 2012.

* *Listed company (for terms pending).*

Positions held by Mr Jean-Paul PARAYRE

Positions currently held

- Director of Société Financière du Planier

Positions expired within the last five years

- Member of the Supervisory Board of Peugeot SA (up to 2014)
- Member of the Supervisory Board of Vallourec (up to 2013)
- Permanent representative of Vallourec on the Board of Directors of Vallourec Tubes (up to 2013)
- Director of Bolloré (up to 2013)
- Chairman of the Supervisory Board of Stena Maritime [(a)] (up to 2013)
- Manager B of Stena International Sarl (Luxembourg) [(a)] (up to 2013)

Mr Arnaud LEENHARDT

Honorary Chairman of Vallourec since 15 June 2000

Expertise and managerial experience:
- Graduate of École Polytechnique
- 43 years with the Vallourec Group, mainly in Plant and General Management
- Chairman and CEO of Vallourec (1981-1994)
- Chairman of the Supervisory Board of Vallourec (1994-2000)
- Non-voting Board member *(censeur)* of the Supervisory Board of Vallourec (2006-2010)

Having spent his entire career in the Vallourec Group, of which he was Chairman from 1981 to 2000, Mr Arnaud Leenhardt has initiated numerous formative decisions that have had a major influence on the Group's development and the success of its products.

Positions held by Mr Arnaud LEENHARDT

Positions currently held

- Director of Fénie Brossette* (Morocco)
- Honorary Chairman of UIMM
- Honorary Chairman of Vallourec*

Positions expired within the last five years

- Non-voting member *(censeur)* of the Supervisory Board of Vallourec (up to 2010)
- Member of the Supervisory Board of Fives (formerly Fives-Lille) (up to 2011)

OFFICES OF MEMBERS OF THE SUPERVISORY BOARD WHICH ENDED IN 2015

Mr Edward-Georg KRUBASIK [(1)]

Date of birth: 19 January 1944
Nationality: German

Business address:
Maximilianstrasse 35 A
80539 Munich – Germany

Expertise and managerial experience:
- Doctor of nuclear physics (Karlsruhe), researcher at Stanford University, MBA from INSEAD at Fontainebleau, Honorary professor at Munich University
- Partner and Director at McKinsey & Company, Inc. for 23 years (1973-1996)
- Member of the Executive Committee of Siemens AG (1997-2006)
- Chairman of Orgalime (2006-2007)
- Former Chairman of the Federal Committee of the Economic Development and Innovation Council (Germany), of the Federation of the Electrical and Electronics Industry (Germany) and of the Industry and Technology Committee of the Economic Council of Bavaria, former Vice-Chairman of the Federation of German Industries and former member of the Economic Council of the Federal Government

Positions held by Mr Edward-Georg KRUBASIK

Positions expired within the last five years

- Member of the Supervisory Board of Vallourec (up to February 2015)
- Member of the Central Advisory Board of Commerzbank (Germany) (up to 2014)
- Member of the Supervisory Board of Asahi Tec (Japan) (up to 2013)

Mr Patrick BOISSIER

Date of birth: 18 February 1950
Nationality: French

Business address:
60, rue de Monceau
75008 Paris – France

Expertise and managerial experience:
- Graduate of École Polytechnique
- Thirty years' managerial experience with industrial companies in the metallurgy, capital goods, shipbuilding and services sectors

Positions held by Mr Patrick BOISSIER

Positions currently held

- Chairman of the Construction and Naval Activities Industry Group (Groupement des Industries de la Construction et des Activités Navales – GICAN)
- Manager of the SARL CAP21 Conseil
- Director of Institut Français de la Mer

Positions expired within the last five years

- Member and Vice-Chairman of the Vallourec Supervisory Board (up to 2015)
- Chairman & CEO of DCNS (up to 2014)
- Member of the Supervisory Board of Steria group (up to 2014)
- Director of the National Maritime Museum (Musée National de la Marine) (up to 2013)

(a) Position held within the Stena group.

** Listed company (for terms pending).*

(1) At its meeting on 23 February 2015, Vallourec's Supervisory Board coopted Mr Pierre Pringuet as a member of the Supervisory Board, replacing Mr Edward G. Krubasik, who resigned.

Ms Anne-Marie IDRAC

Date of birth: 27 July 1951
Nationality: French

Business address:
9, place Vauban
75007 Paris – France

Expertise and managerial experience:
- Graduate of École Nationale d'Administration
- Graduate of the Institut d'Études Politiques and the Université de Paris II
- Secretary of State for Transport (1995-1997)
- Chairman & CEO of RATP (2002-2006)
- Chairman of the Board of Directors of SNCF (2006-2008)
- Secretary of State for Foreign Trade (2008-2010)
- Chairman of the CSR club of the Institut Français des Administrateurs

Positions held by Ms Anne-Marie IDRAC

Positions currently held
- Director of Bouygues* (since 2012)
- Director of Total* (since 2012)
- Director of Saint-Gobain* (since 2011)

Positions expired within the last five years
- Member of the Vallourec Supervisory Board (up to 2015)
- Director of Mediobanca (Italy) (up to 2014)

Mr François HENROT

Date of birth: 3 July 1949
Nationality: French

Business address:
Banque Rothschild & Cie
23 bis, avenue de Messine
75008 Paris – France

Expertise and managerial experience:
- COO, then Chairman of the Management Board of Compagnie Bancaire (1985-1995)
- Member of the Supervisory Board of Paribas and Chairman of the Supervisory Board of Crédit du Nord (1995-1997)
- Managing Partner of Rothschild & Cie Banque (1997-2010)

Positions held by Mr François HENROT

Positions currently held
- Chairman of the Rothschild group investment bank [(a)]
- Managing Partner of Rothschild & Cie [(a)]
- Member of the Supervisory Board of Rexel*
- Member of the Board of Yam Invest N.V. (Netherlands)
- Chairman of the Board of Copeba (Belgium)

Positions expired within the last five years
- Member of the Vallourec Supervisory Board (up to 2015)
- Member of the Supervisory Board of 3 Suisses (up to 2013)
- Managing Partner of Rothschild & Cie Banque [(a)] (up to 2011)

7.1.2 Operation of the Management and Supervisory Boards

7.1.2.1 Operation of the Management Board

The Management Board has, with regard to third parties, the broadest powers to act under all circumstances in the name of the Company, within the limit of the corporate purpose, and subject to the powers expressly provided by law to the Supervisory Board and Shareholders' Meetings, and those which require the prior authorization of the Supervisory Board, in application of the bylaws and, where applicable, internal regulations.

In conformity with the provisions in the bylaws (Article 9 thereof), the Management Board is comprised of a minimum of two and a maximum of five members who are appointed and, as the case may be, reappointed by the Supervisory Board. As at 29 February 2016, the Management Board had three members serving four-year terms.

The members of the Management Board may be dismissed by the Supervisory Board or the Shareholders' Meeting.

The Management Board has adopted internal regulations which consist of an internal document intended to organize its functioning and relations with the Supervisory Board. It is not valid against third parties.

The Management Board is in charge of the Company's management and of running its activities. It must, in conformity with the law, bylaws and internal regulations, obtain the prior authorization of the Supervisory Board in certain cases (see Section 7.1.2.2 below). It meets once a week.

7.1.2.2 Operation of the Supervisory Board

The Supervisory Board is the Company's control body, management and administration being performed by the Management Board. The Supervisory Board ensures that the strategy applied by the Management Board is suited to the guidelines it has approved.

To that end, the role of the Supervisory Board is twofold:

- to provide ongoing control of the Company's management through the Management Board, by performing the checks and controls it deems appropriate;
- to provide periodic control of the Company's management: once per quarter for the activities report which the Management Board presents to it, and within three months of the close of each fiscal year, at the time of the Management Board's presentation of the annual financial statements, consolidated financial statements and management report intended for the Shareholders' Meeting, as well as during the presentation of the interim financial statements.

In addition to the legal obligations of prior authorizations (sureties, securities and guarantees – disposals of properties or shareholdings – establishment of sureties) the Supervisory Board gives its authorization prior to the Management Board carrying out the following actions:

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

(a) Position held within the Rothschild group.

* *Listed company (for terms pending).*

- proceeding with a buyback by the Company of its own shares;
- granting to executive management and/or Group employees options to subscribe for or purchase the Company's shares, granting shares free of charge or any other benefits of a similar nature under the terms of authorizations granted by the Shareholders' Meeting;
- establishing any projected merger or partial transfer of assets, entering into or refusing any industrial or commercial agreement with other companies that could affect the Company's future and, more generally, completing any major transaction (such as external operations for the acquisition or disposal of significant investments in organic growth or internal restructuring operations) (i) that could materially alter the business scope or financial structure of the Group or the type of risks it incurs or (ii) which falls outside of the Group's declared strategy.

Where applicable, the prior authorization of the Supervisory Board is required for both Vallourec and the companies it controls under the terms of Article L.233-16 of the French Commercial Code *(Code de commerce)* (consolidation scope).

The Supervisory Board determines the composition of the Management Board, appoints its members and may remove them from office. It may likewise propose to the Shareholders' Meeting that their duties be terminated. Once a year, the Supervisory Board evaluates the performance of the Management Board and leads a discussion as to its future.

The Supervisory Board sets the compensation of members of the Management Board as well as the number of share subscription or share purchase options and/or performance shares they are allocated, or any other benefit of a similar nature.

It determines the terms and conditions for receiving attendance fees, and their distribution among the Board members. It likewise determines the compensation of the Chairman and, where applicable, the Vice-Chairman, and the resources allocated to them for performing their duties. In 2015, the Supervisory Board met ten times.

The Chairman of the Supervisory Board sets the agenda for each Supervisory Board meeting, upon consulting with the Chairman of the Management Board.

Once per quarter, the Management Board presents a report to the Supervisory Board which describes as completely as possible the progress of the Group's affairs, as well as any useful information about the financial position, cash flow, commitments and liquidity.

The Management Board consults the Supervisory Board about the dividend to be proposed to the Shareholders' Meeting. At the end of the year, it submits the budget, forecast capital expenditure program and financing plan for the following year together with the strategy plan.

At its meetings, the Supervisory Board can ask the Management Board to supplement its information on particular matters with a presentation at the next meeting.

The report on the activities of the Supervisory Board during fiscal year 2015 is presented in the Board Chairman's Report which appears in Appendix 1 to this Chapter.

In the performance of its duties, the Supervisory Board is regularly informed, by the Management Board, through its Chairman, of any significant event concerning the Group's performance. It ensures that the latter keeps it informed of all matters that it deems useful and necessary in the exercise of its supervisory role. In order to ensure the process operates correctly, the Chairman of the Supervisory Board, at the initiative of any member of the Board, gathers this information. The specific information required by each of the Committees of the Supervisory Board for the performance of its duties is gathered by the Chairman of each Committee in collaboration with the Management Board.

In addition to the above provisions, information is provided to the Supervisory Board on an ongoing basis through a frequent, regular dialogue between the Chairman of the Supervisory Board and the Chairman of the Management Board.

As an exception to the above, if any member of the Supervisory Board finds themselves in a conflict of interest situation, even a potential one, concerning a subject to be debated by the Board, the Chairman of the Supervisory Board ensures, with the support of the Appointments, Compensation and Governance Committee, that information concerning this subject is not communicated to the member in question, without prejudice to the latter's obligations, as described below.

The Supervisory Board is composed of at least three and no more than 12 members. Its members are appointed by the Ordinary Shareholders' Meeting, which has the sole authority to reappoint them and, as the case may be, to dismiss them. Their term of office is four years. As at 29 February 2016, it is comprised of 12 members, all appointed by the Shareholders' Meeting. Taking the schedule for expiry of the current offices into account, the terms of office of members of the Supervisory Board are renewed on a staggered basis to ensure that the Supervisory Board benefits from a seamless flow of renewals and new appointments.

At its meeting on 17 April 2003, the Vallourec Supervisory Board drew up internal regulations (updated on 1 April 2015) designed to formalize its operating and organizational rules and working methods. These regulations are strictly internal and are not intended to and do not replace the Company bylaws or the laws and regulations governing commercial companies. They may be amended or added to at any time as a result of a decision made by the Supervisory Board. They have been regularly revised to ensure that their terms are consistent with the new statutory and regulatory provisions.

The Supervisory Board elects a Chairman and Vice-Chairman from among its members, for a maximum term corresponding to their term of office as a Supervisory Board member. The Chairman and Vice-Chairman may be reelected or removed, at any time, by the Supervisory Board. They are in particular responsible for convening the Board and directing its deliberations, it being specified that the powers of the Vice-Chairman are exercised if the Chairman is absent or at the Chairman's request, and under the same conditions. The Vice-Chairman particularly alerts the Chairman to observations regarding compliance with the ethics obligations established by the Board's internal regulations.

The Supervisory Board may appoint from among its members (including the Vice-Chairman), a Lead Member for a term not to exceed that of his position as a member of the Supervisory Board. The person may be reappointed, and his/her duties as a Lead Member may be revoked at any time by the Supervisory Board. The Lead Member acts in a precautionary manner to raise awareness about conflicts of interest among the members of the Supervisory Board, and draws said Board's attention to any conflict of interest situation that has been identified, even a potential one. The member likewise is responsible for ensuring compliance with the internal regulations, and for making sure that the members of the Supervisory Board are able to perform their task under optimum conditions, and are provided with a high level of information upstream of the Supervisory Board meetings. The Lead Member assists the Chairman of the Supervisory Board, at the latter's request, in responding to the shareholders' requests, and makes himself available to meet with them and note their comments and suggestions, when requested and with the consent of the Supervisory Board Chairman. The member makes an annual report to the Supervisory Board on the performance of his/her assignment, in a formal assessment of the operation of the Supervisory Board.

Under the terms of its ethics obligations, each member of the Supervisory Board is required:

- before accepting office, to acknowledge the general and specific obligations for which they are responsible, and in particular the legal or regulatory texts, the recommendations of the AFEP-MEDEF Code and any supplements the Board may have added, along with the Board's internal operating rules;
- to participate, unless specifically prevented, in Board meetings and, where applicable, the meetings of the Committees to which they belong, as well as in the Shareholders' Meetings;
- to request information. To that end, they must request, within the appropriate time frames, the information required for them to actively participate in the subjects on the Board's agenda and, if applicable, the agenda of the Committee(s) to which they belong;
- to comply with the legal and regulatory obligations arising from their position and, in particular, to comply with the law and the recommendations of the AFEP-MEDEF Code relating to the plurality of offices;
- to behave as a representative of all the shareholders and act in the Company's interest at all times;
- to inform the Supervisory Board of any conflict of interest situation, even a potential one, and to refrain from voting on any issue examined by the Board that would result in a conflict of interest;
- to personally be a shareholder of the Company throughout the entire term of their office, under the conditions set by the bylaws and internal regulations of the Board, for a minimum of 500 Vallourec shares [(1)];
- with regard to the confidential information obtained in the course of their duties, to consider themselves as a member in possession of insider knowledge and, as such, in particular, to respect the provisions laid down by the Board concerning the periods during which members in possession of insider knowledge may not buy, sell or take positions in the Company's shares or in any other financial instrument linked to the Vallourec share (options, warrants, etc.), i.e. the thirty (30) calendar days preceding each of the four releases of results (annual, semiannual, first quarter and third quarter) as well as the day of publication and the following day, without prejudice to the current statutory and regulatory provisions on "insider trading";
- to consider themselves bound by true professional privilege with regard to all non-public information, regardless of the material (written or verbal) that is collected within the context of their duties, during a meeting of the Board or of a Committee (in particular the files of the Board and Committees, discussions, debates and deliberations of the Board and Committees), or between two meetings (ongoing information), and to take all useful measures to preserve confidentiality, in particular by refraining from communicating this information to a third party when it has not been made public;
- to disclose, under the conditions established by statutory and regulatory provisions, to the French securities regulator *(Autorité des Marchés Financiers)* and the Company, the transactions carried out with the financial instruments issued by the Company;
- to comply with the "Code of best practice on securities transactions in Vallourec shares and on the prevention of insider trading";
- to comply with the ethical rules of Article 20 of the AFEP-MEDEF Corporate Governance Code of June 2013.

Once a year, an item on the Supervisory Board's agenda is dedicated to the formal assessment of the operation of the Supervisory Board, for which the findings for fiscal year 2015 are presented in the Report of the Chairman of the Supervisory Board (see Appendix 1 to this Chapter 7).

When first appointed, the members of the Supervisory Board receive a guide containing all the documents concerning the Group's governance (the bylaws, the internal regulations, the AFEP-MEDEF Corporate Governance Code, the Code of Best Practices, etc.) and the Group's activities. At the request of members, visits are arranged to plants in France and abroad. In 2015, a Supervisory Board meeting was held in Düsseldorf-Rath, which thus allowed members to visit one of the four tube mills established in Germany.

The members also have the opportunity, if they so wish, to learn about specific aspects concerning the Group, its businesses, sector of activity and organization. At the request of members, the Group may also organize internal and external training sessions specific to their role as a member of the Supervisory Board. Internal training is provided by the Group's Legal Director based on the Group's corporate and stock exchange documentation and any particular questions raised by the member before the training meeting. It is supplemented by external training provided by an independent organization specializing in training for company directors.

The members of the Supervisory Board are able to meet with the primary senior executives of the Group, including without members of the Management Board being present. In the latter case, said members must have been informed first. In order to ensure the process operates correctly, requests by any member for a meeting with the primary senior executives of the Group are made to the Chairman of the Supervisory Board.

7.1.2.3 Meetings of the Supervisory Board in fiscal year 2015

In 2015, the Supervisory Board met ten times, as in 2014. The absence rate was extremely low and absent members generally gave power to a proxy so that they could be represented (see the Report of the Chairman of the Supervisory Board, Appendix 1 to this Chapter 7). The average length of its meetings was approximately 3 hours. The meeting of 6 November 2015 was exclusively dedicated to examining strategy.

(1) Starting on the day of their appointment, members of the Supervisory Board must hold at least 50 Vallourec shares. The 450 additional shares must be acquired by 31 December of the year following the year they take office, in order to allow them to use their attendance fees to acquire them. These provisions do not apply to the member representing employee shareholders.

7.1.2.4 Independent members and members associated with the Company

The annual review of the independence of members of the Supervisory Board was conducted by the Supervisory Board on 17 February 2016, at the recommendation of the Appointments, Compensation and Governance Committee. The Supervisory Board considered all of the criteria of the AFEP-MEDEF Code to evaluate the independence of its members, namely:

- not being an employee or executive corporate officer of the Company, nor an employee or director of a company consolidated with it, and not having been in such a position for the preceding five years;
- not being an executive corporate officer in a company in which the Company directly or indirectly holds a directorship or in which an employee, appointed as such, or an executive corporate officer of the Company (currently or who was in such a position less than five years ago) holds a directorship;
- not being (directly or indirectly) a customer, supplier, investment banker, lending banker:
  - of the Company or its Group, or
  - for which the Company or its Group represents a significant portion of activity.
- not having a close family connection with a corporate officer;
- not having been Statutory Auditors of the Company during the last five years;
- not being members of the Company's Board for more than twelve years;
- not participating, as a major shareholder's representative, in the Company's control.

The Supervisory Board has debated whether or not to assess the relationship maintained by Board members with Vallourec or its Group, along with the potential conflicts of interest this could generate, as being significant. Within this framework it has conducted a more specific in-depth examination of the following members, upon which it issued the findings below:

- Pascale Chargrasse, who represents employee shareholders on Vallourec's Supervisory Board, has been an employee of the Group since 1985 and should thus be considered a non-independent member in application of the criteria of the AFEP-MEDEF Code. The Supervisory Board nevertheless noted that the AFEP-MEDEF Code excluded employee shareholders from the analysis of independent members, and thus did not recognize Pascale Chargrasse when determining the rate of independent members;
- Jean-François Cirelli assumed the Chairmanship of BlackRock France, Belgium and Luxembourg as of January 2016. The Supervisory Board noted that the BlackRock funds in Vallourec's capital are American, German and British funds, with a total stake of less than 2% of the capital at the end of December 2015, and that Jean-François Cirelli's duties under his new positions, which are relationship-oriented and consist, in particular, of strengthening the strategic dialogue with the main local players, customers, regulators, the media and public sector, did not call Jean-François Cirelli's independence into question. It is noted that Jean-François Cirelli's term as member of Vallourec's Supervisory Board will expire at the Shareholders' Meeting on 6 April 2016, and that he will not be put up for reelection at said meeting;
- Alexandra Schaapveld is Director of Société Générale, a banking institution of the Vallourec Group. The Supervisory Board noted that this business relationship predates the appointment of Alexandra Schaapveld as Director of Société Générale and as a member of Vallourec's Supervisory Board; as a non-executive and independent Director of Société Générale, Alexandra Schaapveld does not participate in any way in the organization of the business relationship between Vallourec and Société Générale, nor does she personally benefit from it, and the bank overdrafts of Société Générale for the Vallourec Group in 2015 were insignificant both in their amount (less than 0.1% of the Group's gross debt) and from the perspective of the other outside financing of the Vallourec Group. These elements, both in terms of quality and quantity, allowed the Supervisory Board to confirm Alexandra Schaapveld's independence;
- Vivienne Cox is Chairman of the Supervisory Board. The AFEP-MEDEF Code does not make any presumption as to the non-independence of a Chairman of the Supervisory Board, a position which is analogous to that of the Chairman of the Board of Directors. This approach is consistent with the balance of dual corporate governance in which the Supervisory Board has a role, and which is essentially based on controlling the action of the Management Board, and governed by a principle of non-interference in management, in principle avoiding all risk of a conflict of interest, unless one of the other criteria for evaluating independence applies. In its recommendation of 11 December 2014, the French securities regulator *(Autorité des Marchés Financiers),* nevertheless wanted to transpose to Chairmen of Supervisory Boards the requirements for Chairmen of Boards of Directors in terms of independence and, to that end, asked that the independence of a Chairman of a Supervisory Board be justified in detail. In this context, the Supervisory Board confirmed Vivienne Cox's independence for the following reasons:
  - Vivienne Cox joined Vallourec's Supervisory Board in 2010, after having spent her entire career outside of the Group,
  - Vivienne Cox was never an employee of Vallourec, nor an executive corporate officer of the Group,
  - the companies in which Vivienne Cox holds a position as a corporate officer have no business relationships with the Vallourec Group,
  - Vivienne Cox collects fixed compensation, excluding any variable compensation related to results which could impact the objectivity of her judgment.

The business relationships maintained between (i) the companies (excluding the Group) in which the other members of the Supervisory Board hold offices, on the one hand, and (ii) the Group, on the other, were reviewed but deemed insignificant with regard to their amount, which was less than 0.25% of the Group's revenue.

Based on these findings, it appears, as at 31 December 2015, that all Board members must be considered to have no interest vis-à-vis the Company and that consequently, the proportion of independent members of the Supervisory Board stands at 100%, as at year-end 2014.

In compliance with the recommendations of the French securities regulator *(Autorité des Marchés Financiers)*, the table below presents the position of each of the members of the Supervisory Board, as at 31 December 2015, with regard to the criteria of independence examined by the Supervisory Board and its Appointments, Compensation and Governance Committee:

	Not having been an employee or executive corporate officer during the five preceding years	Not having cross-directorships	Not having significant business relationships	Not having a close family connection with a corporate officer	Not having been Statutory Auditor of the Company during the last five years	Not having been a member of the Supervisory Board for more than 12 years	Not representing a shareholder with more than 10% of share capital	Qualification used by the Board
Vivienne Cox	Y	Y	Y	Y	Y	Y	Y	Independent
Pierre Pringuet	Y	Y	Y	Y	Y	Y	Y	Independent
Maria Pilar Albiac-Murillo	Y	Y	Y	Y	Y	Y	Y	Independent
Philippe Altuzarra	Y	Y	Y	Y	Y	Y	Y	Independent
Cédric de Bailliencourt	Y	Y	Y	Y	Y	Y	Y	Independent
Olivier Bazil	Y	Y	Y	Y	Y	Y	Y	Independent
Pascale Chargrasse	N	Y	Y	Y	Y	Y	Y	Not Independent
Jean-François Cirelli	Y	Y	Y	Y	Y	Y	Y	Independent
Michel de Fabiani	Y	Y	Y	Y	Y	Y	Y	Independent
José-Carlos Grubisich	Y	Y	Y	Y	Y	Y	Y	Independent
Henri Poupart-Lafarge	Y	Y	Y	Y	Y	Y	Y	Independent
Alexandra Schaapveld	Y	Y	Y	Y	Y	Y	Y	Independent

Y: means that the independence criterion has been met.

N: means that the independence criterion has not been met.

7.1.2.5 Diversity within the Supervisory Board: the proportion of international and female members

According to a recommendation resulting from a performance assessment of the operations of the Supervisory Board conducted in 2009, the composition of the Supervisory Board has changed significantly since 2010, to achieve more balanced gender representation and a broader international range of backgrounds.

As at 31 December 2015, the composition of the Supervisory Board was as follows:

- four women (Vivienne Cox, Maria Pilar Albiac-Murillo, Pascale Chargrasse and Alexandra Schaapveld) and eight men, i.e. a proportion of women above 33%;
- four people of foreign nationality – Vivienne Cox (British), Maria Pilar Albiac-Murillo (Spanish) and Alexandra Schaapveld (Dutch), as well as José Carlos Grubisich (Brazilian) – i.e. a proportion of foreign national members of 33%.

At its meeting on 17 February 2016, the Supervisory Board decided to coopt Ms Laurence Broseta as a member of the Supervisory Board to replace Mr. Michel de Fabiani who is resigning, effective 5 April 2016. As at the date of the Annual Shareholders' Meeting of 6 April 2016, and subject to ratification by said meeting of this coopting decision, the Supervisory Board will thus comprise five women (Ms Vivienne Cox, Ms Maria Pilar Albiac-Murillo, Ms Pascale Chargrasse, Ms Alexandra Schaapveld and Ms Laurence Broseta) and seven men, i.e. a proportion of women of 41.7%.

In the self-assessment conducted in 2015, it was recommended that efforts continue to be made to diversify the profiles and skills of the Supervisory Board members (see the Report of the Chairman of the Supervisory Board below, Appendix 1 to Chapter 7).

7.1.2.6 Committees set up within the Supervisory Board

The Supervisory Board is assisted by three specialized Committees:

- the Finance and Audit Committee;
- the Appointments, Compensation and Governance Committee;
- the Strategy Committee.

The Supervisory Board appoints the members of each of the Committees, establishes their powers and determines their compensation. The role of these Committees is to provide advice and to prepare the necessary information for the Board's deliberations. They issue proposals, make recommendations and provide advice in their areas of expertise. For each meeting, a preparatory set of papers is sent out several days in advance. At the meeting, each presentation is made, where applicable, in the presence of one or more members of the Management Board, by the specialist executive manager for the issue concerned and followed by discussion. A report of the meetings is prepared for the members of the Supervisory Board.

To fulfill their role, the Committees may conduct, or arrange to have conducted, any analysis, using external experts if required. They may invite any external persons of their choice to their meetings.

The term of office of the members of each of the Committees is the same as their term of office as members of the Supervisory Board, unless the composition of the Committee is changed earlier. Subject to this condition, the term of office of a Committee member may be renewed at the same time as the term of office of a member of the Supervisory Board.

A Committee's composition may be changed at any time by decision of the Supervisory Board.

FINANCE AND AUDIT COMMITTEE

Composition

The Finance and Audit Committee is comprised of a minimum of three members and a maximum of five members, who are chosen from among the members of the Supervisory Board and have financial or accounting expertise. As at 29 February 2016, it consisted of three members: Mr Olivier Bazil (Chairman), Ms Alexandra Schaapveld and Mr Henri Poupart-Lafarge, all independent. Mr Henri Poupart-Lafarge will succeed Mr Olivier Bazil as Chairman of the Finance and Audit Committee as of [XX]. The Board Chairman will participate in all meetings as an invited member. The Lead Member is also invited to meetings of the Finance and Audit Committee.

All the members have particular knowledge of finance or accounting and have the necessary expertise, experience and qualifications to perform their mission successfully within the Finance and Audit Committee. The Chairman, Mr Olivier Bazil, spent over 35 years in the Legrand group, notably in finance and management control (for a description of the expertise and experience of members of the Finance and Audit Committee: see above, Section 7.1.1.2 "Presentation of the Supervisory Board members"). When they are first appointed, the members are sent detailed information on the Group's specific accounting, financial and operating processes.

Powers

The role of the Finance and Audit Committee is to prepare the necessary information for the Supervisory Board's deliberations, which concern tracking issues in relation to the preparation and control of accounting and financial data, in compliance with Article L.823-19 of the French Commercial Code *(Code de commerce)*. To this end, it issues opinions, proposals and recommendations in its area of expertise. It acts under the authority of the Supervisory Board, to which it reports, and for which it must not be substituted, and informs it of any difficulty encountered while performing its tasks.

Within this context, the Finance and Audit Committee tracks:

- the process of preparation of financial information.

  In this respect, the Committee is presented with:

  - the retrospective and forward-looking financial data each quarter,
  - risk exposure and significant contingent liabilities and commitments of the Group,
  - at its request, accounting matters that may have a significant impact on the preparation of the financial statements.

  Draft external financial communications are presented to the Committee for its opinion;

- the effectiveness of the internal control and risk management systems.

  In this respect, each year the Committee is presented with:

  - the internal audit plan,
  - the assignment reports and main findings of the audits,
  - a summary of the actions taken in the area of risk management;

- the statutory audit of the annual financial statements and the consolidated financial statements by the Statutory Auditors.

  To that end, the Statutory Auditors present the results of their audit at each half-year, emphasizing, where applicable, the audit adjustments and significant weaknesses in internal control that were identified during the work, and the accounting options used.

  The Committee gives the Supervisory Board its opinion as to the relevance and consistency of the accounting methods used to prepare the statutory and consolidated financial statements;

- the independence of the Statutory Auditors.

  In this regard, the Committee manages the procedure for selecting the Statutory Auditors, submits a recommendation to the Supervisory Board on the Statutory Auditors proposed for appointment by the Shareholders' Meeting, receives the Statutory Auditors' statement of independence and receives an annual summary of all the services provided to the Vallourec Group by the Statutory Auditors and their networks.

In addition to the above duties, the Supervisory Board or its Chairman may decide to refer any issue requiring the Board's prior approval to the Finance and Audit Committee.

Also, the Supervisory Board or its Chairman may request it to examine a specific matter in order to determine the financial implications.

More generally, the Finance and Audit Committee reviews the various elements of the Group's financial strategy.

Operation

The Finance and Audit Committee meets at least four times a year to review the interim and annual financial statements before they are presented to the Supervisory Board. Subject to this condition, it defines the frequency of its meetings by agreement with the Chairman of the Supervisory Board. The Finance and Audit Committee met eight times in 2015, with an effective attendance rate of 87.5%. Its usual representative is the member of the Management Board in charge of Finance and, where applicable, employees designated by said member. It likewise meets with the people in charge of finance and accounting, cash and cash equivalents, internal audits, risk management and internal control, as well as with the Statutory Auditors, including, if the Committee so desires, without the members of the Management Board being present. In the latter case, said members must have been informed first. On 5 November 2015, the Finance and Audit Committee met with the Statutory Auditors; the members of the Management Board were not present.

The Finance and Audit Committee may also invite the Chairman of the Management Board to participate in its work, and, in exercising its powers, may contact the primary senior executives, after informing the Chairman of the Management Board, and reporting to the Supervisory Board accordingly.

A complete file containing all supporting documents relating to the subjects recorded in the agenda is sent to each of the Committee members six days prior to the meeting date. For meetings which relate to the presentation of the financial results, this file also includes the corresponding financial statements. The Board meetings devoted to reviewing the annual, semiannual and quarterly results are generally held at least two days before the meetings of the Supervisory Board ruling on that subject.

Each year, the Committee evaluates its activities and reports on them to the Supervisory Board.

The Committee may request outside technical studies on issues falling within its competence, after so informing the Chairman of the Supervisory Board or the Board itself, and is responsible for reporting on them to the Board. In the event that outside consulting services are used, the Committee must ensure that the advice in question is independent, objective and competent.

The Finance and Audit Committee has internal regulations aimed at specifying the role, composition and operating rules of the Committee. These regulations are strictly internal and are not intended to and do not replace the Company bylaws or the laws and regulations governing commercial companies.

Activities of the Finance and Audit Committee in 2015

In 2015, the Committee also examined and formed opinions on the following issues:

- the Group's financial communication projects;
- the quarterly cash flow situation and the medium and long-term financing plan;
- the dividend policy and the proposed dividend for fiscal year 2014;
- review of the 2015 assumptions;
- non-recurring impairment of assets;
- Group financing, including capital increase;
- changes in accounting principles and the accounting policies used for preparing the year-end 2015 financial statements;
- the budget for 2016;
- the internal and external audit plans and their results;
- change in working capital requirements;
- the organization of risk management and internal control within the Group;
- the Report of the Chairman of the Supervisory Board on internal control and risk management;
- contingent liabilities and commitments and, specifically, retirement commitments;
- the Value 15 employee share ownership offer;
- the Group's compliance policy;
- the foreign exchange policy;
- sensitivity to the foreign exchange risk and the policy for hedging transactions;
- the Group's practice in terms of standard costs; and
- the Group's policy on insurance coverage.

The Statutory Auditors attended all meetings of the Finance and Audit Committee for fiscal year 2015, with the exception of those held on 18 June 2015 and 27 November 2015. They presented a report on the work completed as part of their mandate, emphasizing key points from the legal audit results and the accounting options used.

APPOINTMENTS, COMPENSATION AND GOVERNANCE COMMITTEE

Composition

The Appointments, Compensation and Governance Committee is comprised of a minimum of three members and a maximum of five members. As at 29 February 2016, it consisted of three members: Mr Michel de Fabiani (Chairman) and Ms Pascale Chargrasse (employee shareholder representative), along with Ms Alexandra Schaapveld. They are all independent (1). Mr Pierre Pringuet is a permanent guest of this Committee, as Lead Member of the Board, and participates in the meetings. Mr Pierre Pringuet will succeed Mr Michel de Fabiani as Chairman of the Appointments, Compensation and Governance Committee as of [6 April 2016].

The Chairman of the Management Board is associated with the work concerning appointments and governance, except in cases that concern his personal situation.

Powers

The role of the Appointments, Compensation and Governance Committee is to prepare information for the Supervisory Boards' deliberations, which concern tracking issues relating to the appointment and compensation of corporate officers, and to the governance of the Group. To this end, it issues opinions, proposals and recommendations in its area of expertise. It acts under the authority of the Supervisory Board, to which it reports, and for which it must not be substituted, and informs it of any difficulty encountered while performing its tasks.

The duties of the Appointments, Compensation and Governance Committee are as follows:

Appointments

- Preparing the procedure used to select members of the Supervisory Board and Management Board and determining the criteria to be used.
- Drawing up proposals for appointments and re-appointment.
- Regularly reviewing the composition of the Management Board and establishing a succession plan for members of the Management Board, in order to be able to propose succession solutions to the Board, notably in the event of an unexpected vacancy.
- Regularly reviewing the composition of the Board and its Committees and making recommendations on changes to its composition when this appears appropriate.

The Committee's proposals for the offices of members of the Board are guided by the interests of the Company and all of its shareholders. They particularly take into account the desired balance of the Board's composition, as concerns the composition and evolution of the Company's shareholders, as well as the diversity of its areas of expertise, gender, and nationalities. The Committee ensures that its proposals to the Board reflect the necessary independence and objectivity.

The Committee completes its research on potential candidates before taking any action with them.

Compensation

- Proposals concerning the amounts and allocation of attendance fees paid to Board members, as well as the compensation of members of the Committees.
- Proposals concerning the compensation of the Chairman of the Board.
- Compensation of members of the Management Board: the Committee is responsible for recommending to the Board the structure and level of the compensation paid to each member of the Management Board (fixed portion, variable portion and benefits in kind).
- Performance shares and share subscription or share purchase options for members of the Management Board.
- Policy for allocating performance shares and share purchase or subscription options to managers and executives and/or staff of the Group.

In addition, as regards members of the Group Management Committee, the Committee is informed of their appointments, and of the compensation policy and succession plan concerning them.

Governance

- Reviewing the operation of the management bodies, particularly as regards changes in French regulations concerning the governance of listed companies and in light of the recommendations of the AFEP-MEDEF Corporate Governance Code and, where applicable, making proposals to the Board on updating the Company's corporate governance rules.
- Preparing the annual assessment of the Board and recommendations resulting from such assessment.
- Reviewing and following up on any situation involving a conflict of interest between a Board member and the Company, which could lead the Board to request an express commitment from the member in such a situation.
- Reviewing requests from Supervisory Board members concerning the assumption of new offices or duties outside the Company.
- Reviewing the independence of Board members with regard to specific criteria which have been made public.

Operation

The Appointments, Compensation and Governance Committee meets at least twice a year. Subject to this condition, it defines the frequency of its meetings by agreement with the Chairman of the Supervisory Board. The Committee met seven times in 2015 with an effective attendance rate of 96.5%.

Each year, the Committee proceeds to evaluate its own activities and report on them to the Supervisory Board.

The Committee may likewise, in exercising its powers, contact the primary senior executives, after informing the Chairman of the Management Board, and is responsible for reporting to the Supervisory Board accordingly.

The Committee may request outside technical studies on issues falling within its competence. In the event that outside consulting services are used, the Committee ensures that the advice in question is independent, objective and competent.

(1) In compliance with the recommendations of the AFEP-MEDEF Code, Ms Pascale Chargrasse, who represents employee shareholders, was not counted.

The Appointments, Compensation and Governance Committee has internal regulations aimed at specifying the role, composition and operating rules of the Committee. These regulations are strictly internal and are not intended to and do not replace the Company bylaws or the laws and regulations governing commercial companies.

Activities of the Appointments, Compensation and Governance Committee in 2015

In 2015, the Committee also examined and formed opinions on the following issues:

- Management Board member compensation for 2014, 2015 and 2016, as well as the report on 2015 compensation in view of implementing the "Say on Pay" mechanism;
- the overall budgets and the number of performance shares and share subscription options allocated to employees and each member of the Management Board, and the requirement for such members to retain a portion of the shares resulting from the exercise of options and of the performance shares allocated;
- the supplementary retirement plan benefiting senior executives and members of the Management Board;
- the Management Board succession plan, notably in case of an unforeseeable vacancy;
- Vallourec's policy on enabling the personnel to share in the Group's net profits (the Value 15 international employee share ownership plan, the performance share and share subscription option plans for managers (including members of the Group Management Committee));
- the policy on compensation of the main senior executives who are not corporate officers;
- the Group's Human Resources strategy;
- policy on the composition of the Supervisory Board;
- annual evaluation of the Supervisory Board and Committees;
- compliance of Group governance with the recommendations of the AFEP-MEDEF Code;
- composition of the Supervisory Board and its Committees, in particular the appointment of a Lead Member;
- the independence of the Board members;
- the regulatory changes in terms of governance; and
- the annual report of the French securities regulator *(Autorité des Marchés Financiers)* regarding business governance and executive management compensation, and the annual report of the Higher Committee on Corporate Governance.

STRATEGY COMMITTEE

Composition

The Strategy Committee is comprised of a minimum of three members and a maximum of five members. As at 29 February 2016, it consisted of five members: Ms Vivienne Cox (Chairman), Mr Philippe Altuzarra, Mr Olivier Bazil, Mr Jean-François Cirelli and Mr José Carlos Grubisich, all of whom are independent.

Powers

The Strategy Committee is responsible for preparing the Supervisory Board's deliberations with regard to the Group's strategic directions and long-term future. To this end, it issues opinions, proposals and recommendations in its areas of expertise. It acts under the authority of the Supervisory Board, to which it reports, and for which it must not be substituted, and informs it of any difficulty encountered while performing its tasks.

In the course of its duties, the Strategy Committee reviews:

- each year, the Group strategy plan presented by the Management Board and any changes as well as the assumptions on which it is based;
- any projected merger or partial transfer of assets, any industrial or commercial agreement with other companies that could affect the Company's future and, more generally, any major transaction (such as, external acquisition or disposal operations, significant capital expenditure in organic growth or internal restructuring operations) that could materially alter the business scope or financial structure of the Group or the type of risks it incurs. Within this context, the Committee reviews:
  - (i) capital expenditure transactions when they exceed €50 million,
  - (ii) acquisition or disposal operations when they exceed €50 million, and
  - (iii) following their implementation, the conditions for implementing and achieving objectives for the operations that have been authorized by the Supervisory Board.

The Committee may carry out any other duties, regular or occasional, assigned to it by the Supervisory Board in its area of competence. It may suggest that the Supervisory Board refer to it on any particular point which it considers to be necessary or relevant.

Operation

The Committee met twice in 2015 with an effective attendance rate of 100%.

Its usual representative is the member of the Management Board that is in charge of Operations, along with, where applicable, the employees designated by said member.

Each year, the Committee proceeds to analyze its own activities and report on them to the Board.

The Committee may invite the Chairman of the Management Board to participate in its work, and, in exercising its powers, may contact the primary senior executives, after informing the Chairman of the Management Board, and accordingly is responsible for reporting to the Supervisory Board.

The Committee may request outside technical studies on issues falling within its competence, after so informing the Chairman of the Supervisory Board or the Board itself, and is responsible for reporting on them to the Board. In the event that outside consulting services are used, the Committee must ensure that the advice in question is independent, objective and competent.

The Strategy Committee has internal regulations aimed at specifying the role, composition and operating rules of the Committee. These regulations are strictly internal and are not intended to and do not replace the Company bylaws or the laws and regulations governing commercial companies.

7.1.3 Declarations concerning the members of the Management and Supervisory Boards

To the Company's knowledge:

- no member of the Management Board or Supervisory Board has been convicted of fraud during the past five years;
- no member of the Management Board or Supervisory Board has been involved, during the past five years, with a bankruptcy, receivership or liquidation as a member of an administrative, management or supervisory body;
- no member of the Management Board or Supervisory Board has been charged, during the past five years, with an offense or been the subject of disciplinary action on the part of the statutory or regulatory authorities (including designated professional bodies);
- no member of the Management Board or Supervisory Board has been prevented, during the past five years, by a court from acting as a member of an administrative, management or supervisory body of an issuer, or from being involved in managing or running the business of an issuer; and
- no member of the Management Board or Supervisory Board has a current or potential conflict of interest between his duties to Vallourec and his private interests and/or other duties.

7.1.4 Loans and guarantees

No loans or guarantees have been granted by the Company or by a Group company to any member of the Management Board or Supervisory Board.

7.1.5 Service agreements providing for the granting of benefits

To the Company's knowledge, there is no service agreement between any member of the Management Board or Supervisory Board and the Company providing for the granting of benefits.

7.1.6 Management of conflicts of interest

To prevent any risk of a conflict of interest between a member of the Supervisory Board and the Management Board or any of the Group's companies, the Appointments, Compensation and Governance Committee constantly monitors the independence of members with regard to the AFEP-MEDEF Corporate Governance Code criteria; the Supervisory Board includes this as an item on its agenda at least once a year.

Each member is required to inform the Board of any situation of a conflict of interest, even a potential one, and to refrain from taking part in discussions or voting on any issue at Board meetings when they might be in a conflict of interest situation, and to leave the Board meeting if a subject exposing the member to such a situation is discussed.

The Lead Member acts in a precautionary manner to raise awareness about conflicts of interest among the members of the Supervisory Board, and draws said Board's attention to any conflict of interest situation that has been identified, even a potential one.

When one of the members has a conflict of interest, even just potentially, regarding a subject matter to be debated by the Board, the Board ensures, by relying on the Appointments, Compensation and Governance Committee, that the information regarding this subject matter is not communicated to that member. Since 2012, a member has not been able to accept another position or duty, or to make a significant investment in any company or activity that is in competition with Vallourec, or that operates upstream or downstream of it, without the Board's prior consent. As an exception, this rule does not apply to legal entities that are members of the Board, but if they take new positions or similar appointments, each case will be discussed with the Board in order to eliminate any risk of conflicts of interest. Members of the Board, Non-voting Board members *(Censeurs)* and members of the Management Board must inform the Chairman of the Board before accepting a new appointment in other companies. The Chairman of the Board will give an opinion after consulting with the Appointments, Compensation and Governance Committee.

7.1.7 Declaration on Corporate Governance

The Supervisory Board decided in 2008 to adopt the AFEP-MEDEF Corporate Governance Code, as amended for application to limited-liability companies managed by a Supervisory Board and a Management Board. Vallourec complies with all the recommendations prescribed in the Code under the conditions set out in the summary table in Appendix 3 of Chapter 7.

In view of the above, Vallourec believes that it complies with the Corporate Governance Regulations currently in force in France.

9 Additional information

9.1 Statutory Auditors' reports for fiscal year 2015 306

9.1.1 Statutory Auditors' report on the financial statements 306

9.1.2 Statutory Auditors' report on the consolidated financial statements 306

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9.5 Other periodic information required under the General Regulations of the French securities regulator – *Autorité des Marchés Financiers* 316

9.1 Statutory Auditors' reports for fiscal year 2015

9.1.1 Statutory Auditors' report on the financial statements

[To come]

9.1.2 Statutory Auditors' report on the consolidated financial statements

[To come]

9.1.3 Statutory Auditors' report prepared in accordance with Article L.225-235 of the French Commercial Code *("Code de Commerce")* on the report of the Chairman of the Supervisory Board

[To come]

9.2 Subsidiaries and directly-held equity interests of Vallourec as at 31 December 2015

In € thousand Companies	Capital	Other equity before allocation of income (loss)	Percentage of capital held *(%)*	Accounting value of the securities held gross	Accounting value of the securities held net	Loans and advances granted by the Company and not yet repaid	Total securities and guarantees given by the Company	Sales excluding taxes for the last fiscal year	Income (loss) for the last fiscal year	Dividends received by the Company during the year
A) Subsidiaries and equity interests with a carrying amount in excess of 1% of Vallourec's capital (i.e. €2,612 million)										
I. Subsidiaries (at least 50%-owned)										
French company										
Vallourec Tubes 27, avenue du Général-Leclerc 92100 Boulogne-Billancourt	1,023,949	1,982,602	100%	3,056,429	3,056,429	1,830,441	–	54,147	(327,443)	100,347
B) Subsidiaries and equity interests with a carrying amount of less than 1% of Vallourec's capital (i.e. €2,612 million)										
I. Subsidiaries (at least 50%-owned)										
a) French company										
Assurval 27, avenue du Général-Leclerc 92100 Boulogne-Billancourt	10	407	99%	8	8	–	–	642	176	0
II. Equity interests (10% to 50% owned)										
a) French companies										
b) Foreign companies										
C) Long-term investments										
a) French companies										
b) Foreign companies										
Nippon Steel Sumitomo Metal Corporation (NSSMC)	–	–	0,37%	81,947	63,974	–	–	–	–	–

9.3 Financial results for the last five years

In euros	2011	2012	2013	2014	2015
CAPITAL					
Share capital	**242,868,818**	**249,892,712**	**256,319,200**	**261,195,950**	**271,376,864**
Number of ordinary shares in issue	121,434,409	124,946,356	128,159,600	130,597,975	135,688,432
Number of preference dividend shares (without voting rights) in issue	–	–	–	–	–
Maximum number of new shares to be issued:					
› by converting bonds	–	–	–	–	–
› by exercise of subscription rights	2,151,887	2,655,087	3,183,279	3,190,049	2,860,088
› by bond redemption	–	–	–	–	–
Revenue, excluding taxes	6,334,458	10,507,997	10,477,780	7,113,746	3,768,771
Income (loss) before tax, employee profit-sharing, depreciation and amortization, and provisions	475,723,170	305,645,524	238,748,107	158,212,497	86,095,267
Income tax	(8,022,363)	(4,666,973)	(10,840,983)	(7,021,640)	(1,031,743)
Employee profit-sharing for the year	–	–	–	–	–
Income (loss) after tax, employee profit-sharing, depreciation and amortization, and provisions	458,554,435	294,316,536	263,323,882	159,162,352	61,538,102
Distributed earnings	**157,864,732**	**86,212,986**	**103,809,276**	**105,784,360**	**–**
EARNINGS PER SHARE					
Income after taxes and employee profit-sharing, but before amortization and provisions	3.98	2.48	1.95	1.27	0.64
Income (loss) after tax, employee profit-sharing, depreciation and amortization, and provisions	3.78	2.36	2.05	1.22	0.45
Dividend allotted to each existing share	**1.3**	**0.69**	**0.81**	**0.81**	**–**
WORKFORCE					
Average number of employees during the fiscal year	7	7	7	7	7
Amount of payroll costs for the year	3,149,976	2,013,521	2,994,504	3,194,083	3,005,905
Payroll-related costs (social security, employee benefits, etc.)	1,406,613	1,150,021	2,718,063	1,905,112	1,337,989

9.4 Concordance tables and information incorporated by reference

9.4.1 Concordance table comparing the Registration Document and Appendix I to (EC) Regulation No. 809/2004 of 29 April 2004

Appendix I to the European Regulation		Registration Document Chapters/Sections	Pages
1.	**Persons responsible**		
1.1	Names of persons responsible	1.1	6
1.2	Declaration of persons responsible	1.2	6
2.	**Statutory Auditors**		
2.1	Name and address of the statutory auditors	1.3	7
2.2	Information on the resignation of statutory auditors	N/A	N/A
3.	**Selected financial information**		
3.1	Historical financial information	Profile/3.1.4/3.1.7/ 6.1/6.2	4-5/41/126-198/ 199-210
3.2	Interim financial information	N/A	N/A
4.	**Risk factors**	**5**	**112-124**
5.	**Information about the issuer**		
5.1	History and development of the Company	3.1	28-52
5.1.1	Legal and commercial name	2.1.1	10
5.1.2	Location and registration number of the issuer	2.1.2	10
5.1.3	Date of incorporation and term of the issuer	2.1.3	10
5.1.4	Registered office and legal form of the issuer, the legislation governing its activities, country of origin, address and telephone number of its registered office	2.1.1/2.1.2	10
5.1.5	Significant events in the issuers' business development	3.1/3.1.4	28-51/41
5.2	Investments	3.2	52-53
5.2.1	Main investments made	3.2.2.1	53
5.2.2	Main investments pending	3.2.2.1	53
5.2.3	Major investments planned by the issuer	3.2.2.2	53
6.	**Business overview**		
6.1	Principal activities	3.1.3/3.1.4/3.3	31/41/54-59
6.1.1	Nature of transactions by the issuer and its principal activities	3.1.2/3.1.4	30/41
6.1.2	New product	3.3	54-59
6.2	Principal markets	3.1.7	46
6.3	Exceptional events	3.1.5	45
6.4	Dependency with regard to patents, licenses, agreements and processes	3.1.10	51
6.5	Group's competitive position	3.1.9	50
7.	**Organizational chart**		
7.1	Brief Description of the Group	3.1.3	32
7.2	List of significant subsidiaries	3.1.3/6.1.B	31-41/144-145
8.	**Property, plant and equipment**		

Appendix I to the European Regulation			Registration Document Chapters/Sections	Pages
	8.1	Main property, plant and equipment	3.1.7.1/6.1 (Notes 2.1 et 21)	46/126
	8.2	Environmental issues that may affect the Group's utilization of its property, plant and equipment	3.1.7.2/4.4	50/83
9.	**Operating and financial review**			
	9.1	Financial position	3.1.4	41
	9.2	Operating income		
	9.2.1	Significant factors affecting the operating income of the issuer	3.1.4	41
	9.2.2	Explanation of significant changes in net sales or revenue	3.1.4	41
	9.2.3	Strategy or factor that materially affected or could affect, directly or indirectly, the issuer's operations	3.1.3/3.1.4/5	31/41/112-124
10.	**Capital resources**			
	10.1	Information on capital resources	6.1.4	130
	10.2	Sources and amounts of cash flows	6.1.6	132
	10.3	Borrowing requirements and financial structure	6.1 (Note 15)	170
	10.4	Restriction on the use of capital	6.1 (Note 15)	170
	10.5	Expected sources of funding	6.1 (Note 15)	170
11.	**Research and Development, patents and licenses**		**3.3**	**54**
12.	**Trend information**			
	12.1	Main trends in production, sales and inventory, and costs and selling prices since the end of the last fiscal year	8	280-284
	12.2	Known trends, demands, commitments or uncertainties or events that are reasonably likely to materially affect the prospects of the issuer	8	280-284
13.	**Profit forecasts or estimates**			
	13.1	Disclosure of the main assumptions on which the issuer has based its forecast or estimate	N/A	N/A
	13.2	Report prepared by the auditors	N/A	N/A
	13.3	Preparation of the forecast or estimate	N/A	N/A
	13.4	Declaration on the validity of a forecast previously included in a prospectus	N/A	N/A
14.	**Supervisory and management bodies**			
	14.1	Composition of the supervisory and management bodies	7.1.1/7.1.3	212/233
	14.2	Conflicts of interest in supervisory and management bodies	7.1.3/7.1.4/7.1.5/ 7.1.6	233
15.	**Compensation and benefits of corporate officers**			
	15.1	Compensation and benefits in kind	7.2/7 (Appendix 2)	234/262
	15.2	Pensions or other benefits	6.1 (Note 18)/7.2.2/7.3	174/242
16.	**Practices of management and supervisory bodies**			
	16.1	Expiration date of current terms	7.1.1	212
	16.2	Service agreements binding members of the Company's supervisory and management bodies	7.1.5	233
	16.3	Information about the Supervisory Board's committees	7.1.2.6	228
	16.4	Declaration of compliance with the corporate governance regime in force	7.1.7/7 (Appendix 1)/ 7 (Appendix 3)	233/251/276
17.	**Employees**			
	17.1	Staff	4.2.1	64
	17.2	Shareholdings, options, allocation of performance shares concerning the management and supervisory bodies	6.1 (Note 20)/ 7.2.1/7.3.1	185/234/243
	17.3	Arrangements for employee share ownership	7.3	242

To be cross referenced with the Registration Document once completed

Appendix I to the European Regulation			Registration Document Chapters/Sections	Registration Document Pages
18.	**Major shareholders**			
	18.1	Identification of major shareholders (holding more than 5% of capital)	2.3.1	18
	18.2	Existence of different voting rights	2.1.8/2.3.1	11/18
	18.3	Ownership or control of the issuer	2.3.1/2.3.2	18/20
	18.4	Arrangements that, when implemented, may result in a change of control	N/A	N/A
19.	**Related-party transactions**		**6.1 (Note 20)**	**185**
20.	**Financial information concerning the issuer's assets and liabilities, financial condition and profits or losses**			
	20.1	Historical annual financial information	6	126-209
	20.2	Pro forma financial information	N/A	N/A
	20.3	Financial statements	6/9.4	126-209/295
	20.4	Auditing of the historical annual financial information		
	20.4.1	Statements that the historical financial information has been documented	9.1.1/9.1.2	286/287
	20.4.2	Indications of other information audited by the statutory auditors	4 (Appendix 1)/9.1.3/ 9.1.4	99/286/320/321
	20.4.3	Indication of the source and the lack of verification of financial data in the Registration Document that are not derived from the issuer's audited financial statements	N/A	N/A
	20.5	Date of latest financial information	6	126-209
	20.6	Interim and other financial information	N/A	N/A
	20.6.1	Half-year or quarterly financial information	N/A	N/A
	20.6.2	Interim or other financial information	N/A	N/A
	20.7	Dividend policy	2.5	23
	20.7.1	Amount of dividends	2.5	23
	20.8	Legal and arbitration proceedings	5.1.1/6.1 (Note 16)	112/173
	20.9	Significant changes in the Group's financial or trading position	3.1.1/6.1 (Note 32)	28/198
21.	**Additional information**			
	21.1	Share capital	2.2.2	12
	21.1.1	Amount of share capital	2.2.2/2.2.5	12/16
	21.1.2	Shares not representing capital	2.2.6	17
	21.1.3	Treasury shares	2.2.4/2.3.1	15/18
	21.1.4	Amounts of convertible securities, exchangeable securities or securities with warrants	N/A	N/A
	21.1.5	Information about and terms of any purchase rights and/or obligations attached to capital subscribed but not paid, or an undertaking to increase the capital	2.2.3	12
	21.1.6	Information about the capital of any member of the Group that is under option or a conditional or unconditional contract to be put under option	2.3.1	18
	21.1.7	History of share capital	2.2.5	16
	21.2	Memoranda and bylaws		
	21.2.1	Description of the corporate purpose	2.1.4	10
	21.2.2	Provisions contained in the bylaws and internal regulations for members of its management and supervisory bodies	2.1/2.2.1/7.1.2	10/11/224-228
	21.2.3	Rights, privileges and restrictions attaching to each class of shares	2.2.1/7 (Appendix 1)	11/271-272
	21.2.4	Actions necessary to change the rights of shareholders	2.2.1	11

Appendix I to the European Regulation		Registration Document Chapters/Sections	Registration Document Pages
21.2.5	Conditions governing the manner in which Annual and Extraordinary Shareholders' Meetings are convened	2.1.8	11
21.2.6	Provisions contained in the bylaws and internal regulations that could have the effect of delaying, deferring or preventing a change in control	7 (Appendix 1)	251-261
21.2.7	Provisions contained in the bylaws and internal regulations governing the ownership threshold above which any shareholding must be disclosed	2.1.9	11
21.2.8	Conditions imposed by the bylaws and internal regulations governing changes in the capital, where such conditions are more stringent than is required by law	2.2.1	11
22.	**Material contracts (review)**	**3.3.1/5.1.4/6.1 (Note 15)/ 6.1 (Note 32)**	**54/107/170/198**
23.	**Information from third parties, statements by experts and declarations of interests**		
23.1	Statement or report attributed to a person acting as an expert	N/A	N/A
23.2	Information from a third party	N/A	N/A
24.	**Publicly available documents**	**2.1.5/2.6**	**10/23**
25.	**Information on holdings**	**9.3**	**322**

9.4.2 Concordance table between Vallourec's Registration Document and the annual financial report

Annual financial report		Registration Document Chapters/Sections	Registration Document Pages
1.	Parent company financial statements	6.2	199-209
2.	Group consolidated financial statements	6.1	126-198
3.	Statutory Auditors' report on the parent company financial statements	9.1.1	286
4.	Statutory Auditors' report on the consolidated financial statements	9.1.2	287
5.	Management report including at least the information referred to in Articles L.225-100, L.225-100-2, L.225-100-3 and L.225-211 paragraph 2 of the Commercial Code (Code de Commerce)	9.4.3	299
6.	Statement by the person responsible for the annual financial report	1.2	6
7.	Statutory Auditors' fees (Article 222-8 of the the General Regulations of the French securities regulator – Autorité des Marchés Financiers)	6.1 (Note 26)	193
8.	Report of the Chairman of the Supervisory Board on the Board's composition and application of the principle of balanced representation of women and men on it, the conditions for preparing and organizing the Board's work, and the risk management and internal control procedures implemented by Vallourec (Article 222-9 of the AMF's General Regulations)	7 (Appendix 1)	251-261
9.	Statutory Auditors' report on the report of the Chairman of the Supervisory Board (Article 222-9 of the General Regulations of the French securities regulator – Autorité des Marchés Financiers)	9.1.4	292

9.4.3 Concordance table between the Registration Document and the Management Board report

This Registration Document includes all elements from the Board's management report as required by law and the regulations. The table below identifies the sections and pages of this Registration Document constituting the management report.

		Registration Document	
Management report		**Chapters/Sections**	**Pages**
1.	Activities and business development of the Group – Progress and challenges	3.2 / 3.4.3	30 / 51
2.	Results of the Group – Financial position and performance indicators	3.5	53
3.	Changes to the presentation of the annual financial statements or the valuation methods applied in prior years	6.2.3	217
4.	Material events between the reporting date and the date the report was prepared	3.4.2	50
5.	Foreseeable developments and the Company's outlook	3.6	64
6.	Payment periods for suppliers and customers	3.7	67
7.	Amount of dividends paid during the past three years	2.5	24
8.	Vallourec results table for the last five financial years	9.3	310
9.	Description of the principal risks and uncertainties the Group faces – Exposure to interest rate, credit, liquidity and cash risks – Financial risk-management policy	5.1.14	132
10.	Use of financial instruments by the Group, where it is relevant for the assessment of its assets, liabilities, financial position and income or loss	2.2.6 / 5.1.14	17 / 132
11.	Significant equity stakes in companies headquartered in France	NA	NA
12.	Injunctions or monetary penalties for anti-competitive practices	NA	NA
13.	Research and development activities	3.3	44
14.	Corporate social responsibility	4	69
15.	Mandates and functions of corporate officers	7.1.1	230
16.	Compensation of corporate officers	7.2.1.2	258
17.	Allocation of stock options	7.3.1.1	262
18.	Allocation of shares free of charge or performance shares	7.3.1.2	264
19.	Summary of securities transactions made by executives	7 (Annexe 4)	298
20.	Composition of share capital	2.3.1	18
21.	Employee share ownership	2.3.1/7.3.3	18 / 268
22.	Share repurchases	2.2.4	15
23.	Measures having an impact in the event of a takeover bid	7 (Annexe 1)	271
24.	Share transfers made to regularize cross-shareholdings or takeovers of such companies	NA	NA
25.	Summary of valid authorizations for capital increases and use made of these authorizations during fiscal year 2014	2.2.3	12
26.	Adjustments of the rights of holders of transferable securities giving access to capital or options	NA	NA
27.	Report of the Chairman of the Supervisory Board on the Board's composition and application of the principle of balanced representation of women and men on it, the conditions for preparing and organizing the Board's work, and the risk management and internal control procedures implemented by Vallourec (Article 222-9 of the General Regulations of the French securities regulator – Autorité des Marchés Financiers)	7 (Annexe 1)	269

9.4.4 Information Included by Reference

In accordance with Article 28 of European Commission (EC) Regulation No. 809/2004 of 29 April 2004, this Registration Document incorporates the following information by reference:

- the parent company and consolidated financial statements for the year ended 31 December 2014, the Statutory Auditors' reports thereon, and the management report, presented respectively in Section 6.2 (pages 199-201), Section 6.1 (pages 126-198), Sections 9.1.1 to 9.1.4 (pages 286-292) and Section 9.4.3 (page 299) of the 2014 Registration Document filed with the AMF on 10 April 2015 under No. D.15-0315; and
- the parent company and consolidated financial statements for the year ended 31 December 2013, the Statutory Auditors' reports thereon, and the management report, presented respectively in Section 6.2 (pages 194-207), Section 6.1 (pages 116-193), Sections 9.2.1 to 9.2.4 (pages 315-320) and Section 9.1.1 (page 304) of the 2013 Registration Document filed with the AMF on 14 April 2014 under No. D.14-0358.

9.5 Other periodic information required under the General Regulations of the French securities regulator – *Autorité des Marchés Financiers*

The Registration Document includes some of the periodic information required under the terms of the AMF's General Regulations. The following table provides details of the pages of this Registration Document on which this information appears.

	Registration Document	
	Section	**Pages**
Report of the Chairman of the Supervisory Board on the Board's composition and application of the principle of balanced representation of women and men on it, the conditions for preparing and organizing the Board's work, and the risk management and internal control procedures implemented by Vallourec (Article 222-9 of the General Regulations of the French securities regulator – Autorité des Marchés Financiers)	7 (Appendix 1)	269
Statutory Auditors' report on the Report of the Chairman of the Supervisory Board (Article 222-9 of the General Regulations of the French securities regulator – Autorité des Marchés Financiers)	9.1.3	308
Statutory Auditors' fees (Article 222-8 of the AMF's General Regulations)	6.1 (Note 27)	209
Description of the share buyback program (Article 241-2 of the AMF's General Regulations)	2.2.4	15

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