

2014 REGISTRATION DOCUMENT

containing the Annual Financial Report



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SAFE HARBOR STATEMENT

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2014 Registration Document

CONTAINING THE ANNUAL FINANCIAL REPORT



Group profile

Valeo is an automotive supplier, partner to all automakers worldwide. As a technology company, Valeo proposes innovative products and systems that contribute to CO₂ emissions reduction and improved vehicle performance, as well as to the development of intuitive driving.

“ In 2014, the Group generated sales of 12.7 billion euros and invested over 10% of its original equipment sales in research and development. ”



The French version of this Registration Document was filed with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 27, 2015, pursuant to Article 212-13 of the AMF's General Regulations. It may only be used in connection with a corporate finance transaction when accompanied by a prospectus approved by the AMF. The English language version of this report is a free translation of the original, which was prepared in French. In all matters of interpretation, views or opinions expressed in the original language version of the document in French take precedence over the translation.

In accordance with Article 28 of European Regulation No. 809/2004 dated April 29, 2004, the reader is invited to refer to previous Registration Documents containing the following specific information:

1. The management report, consolidated financial statements, parent company financial statements, Statutory Auditors' reports on the consolidated financial statements and parent company financial statements for the year ended December 31, 2013, and the Statutory Auditors' special report on related-party agreements in respect to 2013 included in the Registration Document filed with the AMF on March 28, 2014, under number D.14-0234.
2. The management report, consolidated financial statements, parent company financial statements, Statutory Auditors' reports on the consolidated financial statements and parent company financial statements for the year ended December 31, 2012, and the Statutory Auditors' special report on related-party agreements in respect to 2012 included in the Registration Document filed with the AMF on March 28, 2013, under number D.13-0246.



INTERVIEW

Jacques Aschenbroich

Chief Executive Officer of Valeo

“Our performance in 2014 confirms Valeo’s excellent growth momentum and robust results. It reaffirms our growth and profitability strategy, which aims for sales of more than 20 billion euros and an operating margin between 8% and 9% by 2020.”

What were the highlights for Valeo in 2014?

J. A. First of all I would like to thank the Valeo teams for their commitment and professionalism. Without their hard work, we would not have achieved such excellent results and been able to return to the CAC 40 in 2014.

Up by 18% at 17.5 billion euros, the order intake reflects the commercial success of our innovative technologies for CO₂ emissions reduction and improved vehicle performance on the one hand, and intuitive driving on the other.

Thanks to our continued innovation push and the trust of our customers, we again demonstrated our capacity to grow faster than the market in all regions, outperforming global automotive production by 6.5 percentage points.

Up 9%, 15% and 28% respectively, our sales, operating margin and net income confirm the Group’s excellent momentum.

Furthermore, we generated 327 million euros in free cash flow for the year.

In light of these results, at the next Shareholders’ Meeting, shareholders will be asked to vote on the payment of a dividend of 2.20 euros per share, an increase of 29% compared with the dividend paid in 2013.

What are your expectations for 2015 and, beyond that, what is your medium-term vision for the Group?

J. A. In 2010 and 2011, Valeo set itself an operating margin target of more than 7% by 2015. In 2014, the Group recorded operating margin of 7.4% in the second half of the year, and 7.2% for the year as a whole, taking us to our target one year ahead of schedule.

Based on the assumption that global automotive production grows by 3%, our objective for 2015 includes growing faster than the market in the main automotive production regions and a slight increase in operating margin (as a percentage of sales) compared with 2014.

At the Investor Day in London on March 16, 2015, we presented our 2015-2020 strategic plan driven by the

Group’s continued growth in technologies for CO₂ emissions reduction and improved vehicle performance as well as intuitive driving, and expansion in Asia and emerging countries.

Our order intake in 2014 of 17.5 billion euros, which is double the average recorded between 2005 and 2009, demonstrates the strong potential for sales growth over the next few years. We expect to outperform global automotive production by five percentage points between 2015 and 2020, allowing us to generate **sales of more than 20 billion euros by 2020.**

Buoyed by this strong organic growth, we are aiming for improved profitability and free cash flow in the medium term with:

- operating margin⁽¹⁾ (as a percentage of sales) between 8% and 9%;
- ROCE⁽¹⁾ above 35%;
- free cash flow⁽¹⁾ to EBITDA⁽¹⁾ ratio greater than 30%.

Jacques Aschenbroich
Chief Executive Officer



⁽¹⁾ See Financial Glossary, page 385.

1

PRESENTATION OF VALEO AND ITS BUSINESSES

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 **17.5**
billion euros
Order intake

 **9%**
Sales growth

 **1.1**
billion euros
Gross R&D expenditure

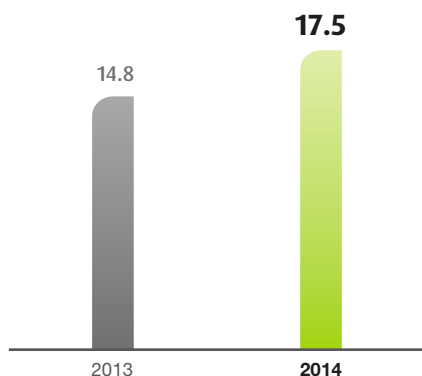
 **52%**
Plants at
less than 1 ppm*

* Defective parts per million

1.1 Key figures in 2014

Order intake⁽²⁾

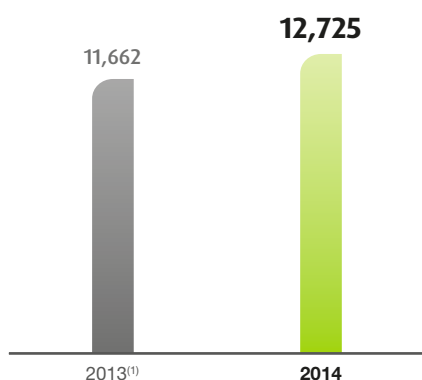
In billions of euros



- » Order intake is driven by:
- innovative products and systems (35% of order intake); and
 - accelerated expansion in Asia and emerging countries.

Sales

In millions of euros



Sales by distribution network

As a % of sales

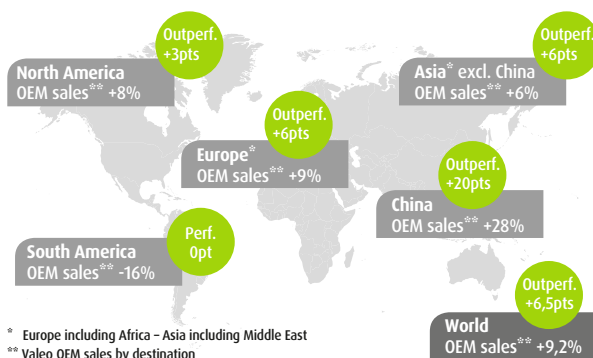


Geographic and customer positioning

Original equipment sales growth by geographic area
Performance compared to automotive production

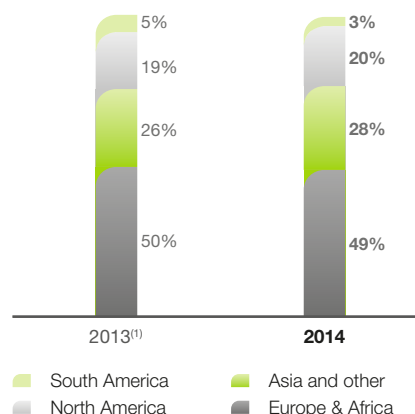
As a % of original equipment sales

Like for like (constant Group structure and exchange rates)



Original equipment sales by location

As a % of original equipment sales⁽³⁾



Original equipment sales by customer

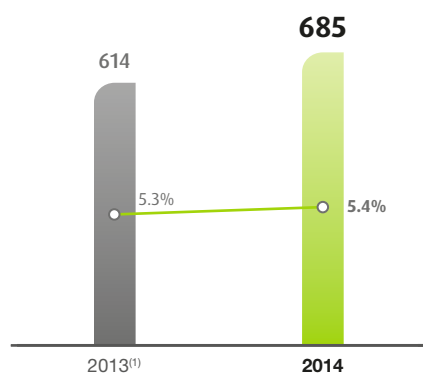
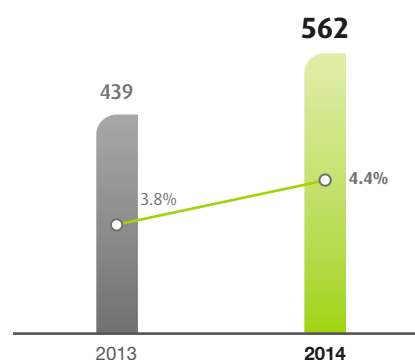
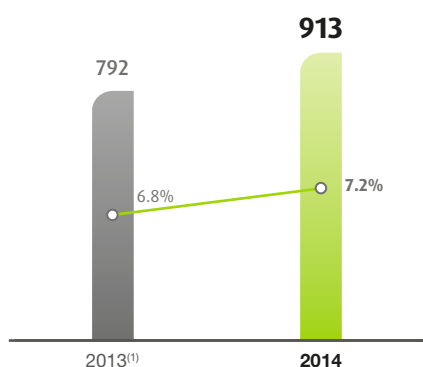
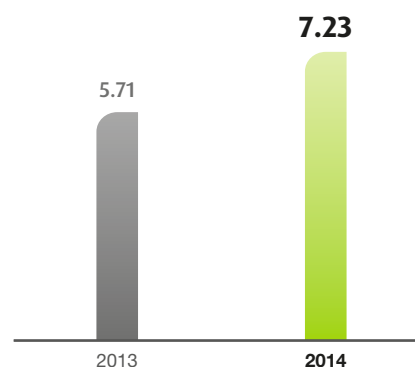
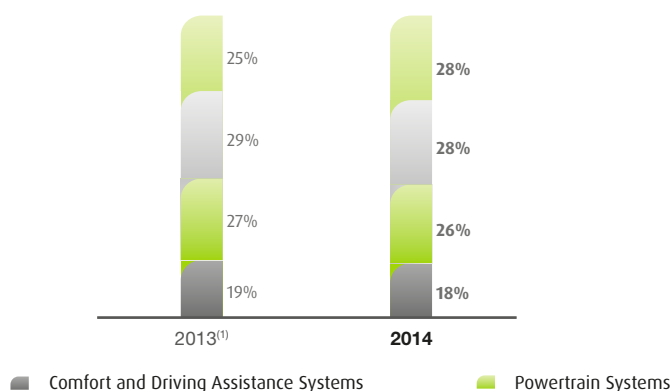
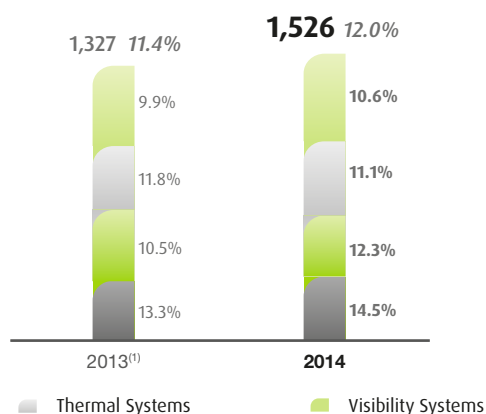
As a % of original equipment sales⁽³⁾



(1) Consolidated financial data shown for 2013 differ from those published in February 2014 since they have been adjusted to reflect the impact of the first-time application of the new consolidation standards as from January 1, 2014 and a change in the presentation in the statement of income regarding the share in net earnings of equity-accounted companies (see Notes 1.1.1 and 1.3 to the consolidated financial statements, pages 246 and 247).

(2) See Financial Glossary, page 385.

(3) Sales including joint ventures that were proportionately consolidated, as was the case prior to the application of the new consolidation standards.

Net research and development expenditure*In millions of euros and as a % of sales***Net attributable income***In millions of euros and as a % of sales***Operating margin***Including share in net earnings of equity-accounted companies⁽²⁾
In millions of euros and as a % of sales***Basic earnings per share***In euros***Segment data****Sales by Business Group
(including intersegment sales)***As a % of sales***EBITDA⁽²⁾ by Business Group***In millions of euros and as a % of sales*

(1) Consolidated financial data shown for 2013 differ from those published in February 2014 since they have been adjusted to reflect the impact of the first-time application of the new consolidation standards as from January 1, 2014 and a change in the presentation in the statement of income regarding the share in net earnings of equity-accounted companies (see Notes 1.1.1 and 1.3 to the consolidated financial statements, pages 246 and 247).

(2) See Financial Glossary, page 385.

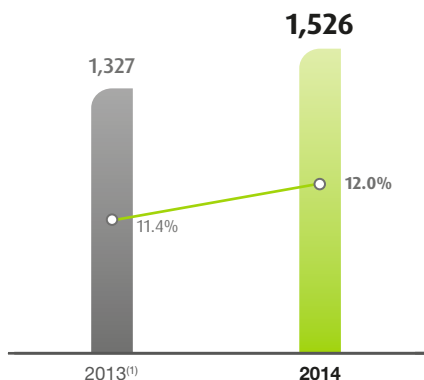
PRESENTATION OF VALEO AND ITS BUSINESSES

Key figures in 2014

Cash flow and financial structure

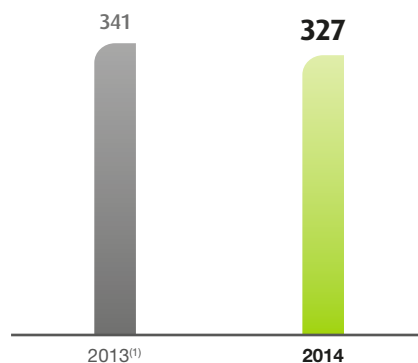
EBITDA⁽²⁾

In millions of euros and as a % of sales



Free cash flow⁽²⁾

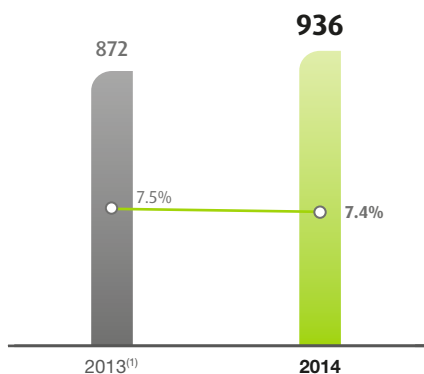
In millions of euros



Investment flows

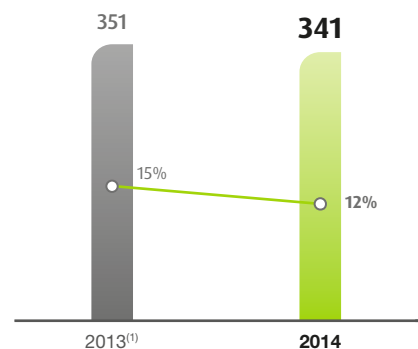
In millions of euros and as a % of sales

Investments in property, plant and equipment and intangible assets (mainly capitalized development costs)



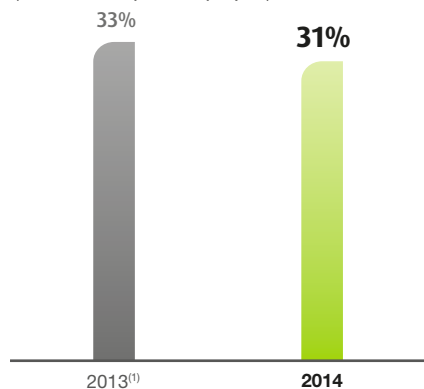
Net debt⁽²⁾

In millions of euros and as a % of consolidated stockholders' equity, excluding non-controlling interests

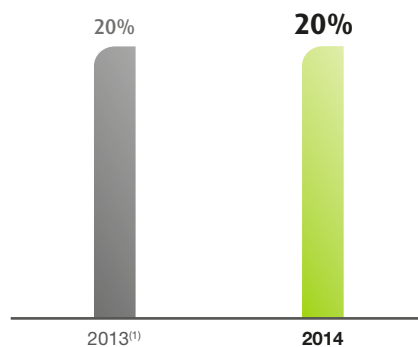


Other profitability indicators

ROCE (Return on Capital Employed)⁽²⁾



ROA (Return on Assets)⁽²⁾



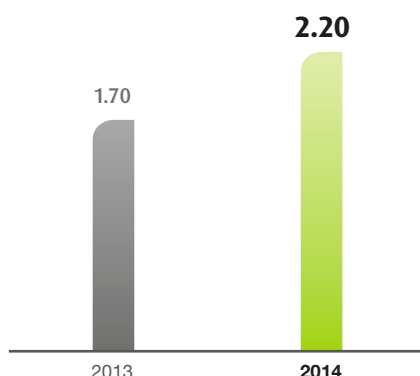
(1) Consolidated financial data shown for 2013 differ from those published in February 2014 since they have been adjusted to reflect the impact of the first-time application of the new consolidation standards as from January 1, 2014 and a change in the presentation in the statement of income regarding the share in net earnings of equity-accounted companies (see Notes 1.1.1 and 1.3 to the consolidated financial statements, pages 246 and 247).

(2) See Financial Glossary, page 385.

Stock market indicators

Dividend per share

In euros



» The 2014 dividend will be proposed at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2014.

Ownership structure at February 24, 2015

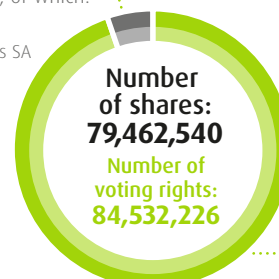
% of share capital (% of voting rights)

5.16% (9.70%)

Caisse des dépôts et consignations (CDC), of which:

3.33% (6.26%)
Bpifrance Participations SA
(formerly FSI)

1.83% (3.44%)
CDC Savings Funds



94.84%
(90.30%)

Other⁽¹⁾

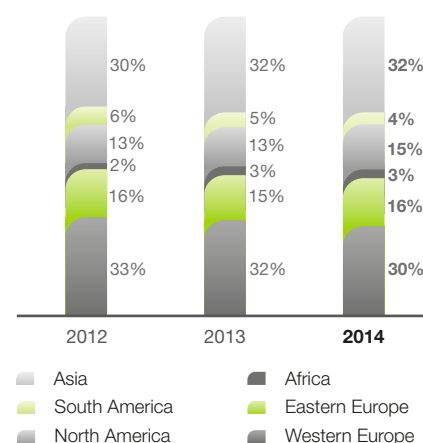
(1) Including 1,616,221 treasury shares (2.03% of the share capital).

Non-financial indicators

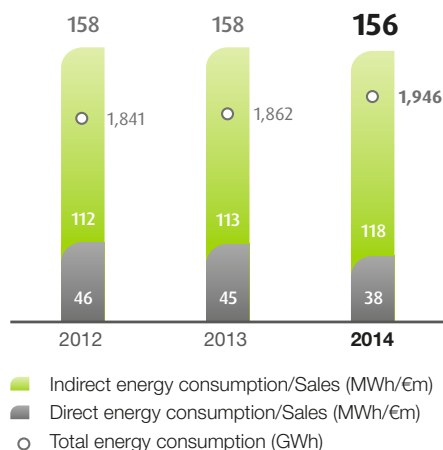
Corporate governance

- The Board of Directors met on **eight** occasions in 2014, i.e., twice as many meetings as the minimum stipulated in the internal procedures, with a **99%** average attendance rate. The directors held their annual strategy seminar in **Japan** where they met executives from Valeo and the main automakers in the region.
- 75%** of directors are independent.
- 25%** of members of the Board of Directors are women.

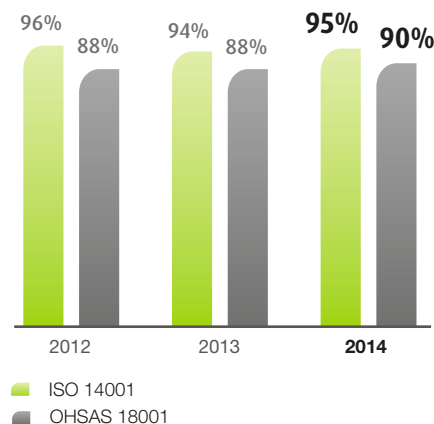
Breakdown of total headcount by geographic area



Energy consumption



Percentage of plants certified ISO 14001 and OHSAS 18001



1.2 Valeo's strategy

Valeo is an automotive supplier, partner to all automakers worldwide. As the world leader in a growing global auto market, Valeo's strategy focuses on two key areas (i) innovative technologies related to CO₂ emissions reduction and improved vehicle performance as well as intuitive driving, and (ii) development in Asia and emerging countries.

Valeo's value creation model

Our strengths



Human capital

- 78,500 people in 29 countries⁽¹⁾



Customers

- Balanced customer portfolio
- Worldwide aftermarket presence



Innovation policy

- 10,400 engineers⁽¹⁾
- 1.1 billion euros gross R&D expenditure⁽²⁾
- 1,108 patents filed⁽²⁾



Global presence⁽¹⁾

- 133 plants
- 16 research centers
- 34 development centers
- 15 distribution platforms



Quality performance

- 3.0 ppm (defective parts per million produced)
- 52% of plants at less than 1 ppm



Supplier base

- 1,165 suppliers representing 95% of Valeo's direct purchases⁽¹⁾



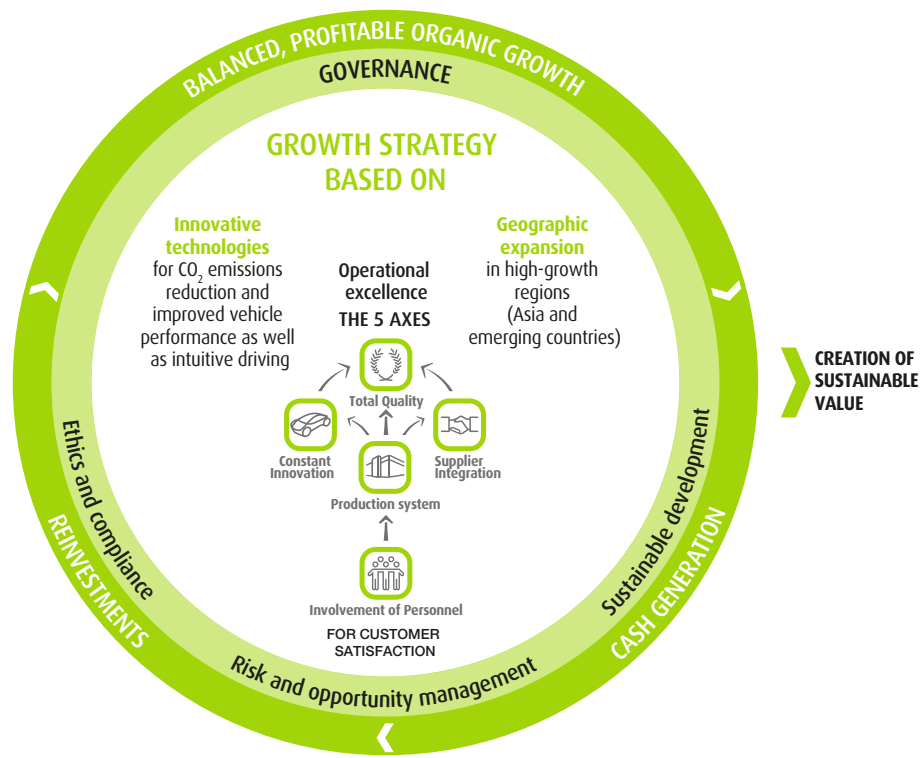
Investment policy

- Adapted to a rapidly expanding business
- CAPEX⁽³⁾ represents 5.4% of sales⁽²⁾



Solid financial position

- Moody's and Standard & Poor's "Investment grade"
- Gearing at 12%



Market trends

- A growing market
- Shift in global automobile production to Asia
- Regulatory requirements relating to CO₂ emissions
- Intuitive driving and autonomous vehicles
- Organization of automotive production by platform

(1) At December 31, 2014.

(2) In 2014.

(3) Property, plant and equipment and intangible assets excluding capitalized development expenditure.

1.2.1 Market trends

The automotive market is growing. Automotive production rose 3% year-on-year, buoyed by growth in Asia (up 4%) on the back of strong production momentum in China (up 8%), continued expansion in North America (up 5%) and an upturn in the European market (up 3%).

Major technological and regional developments are taking place within the global automotive industry.

CO₂ emissions reduction and improved vehicle performance, intuitive driving

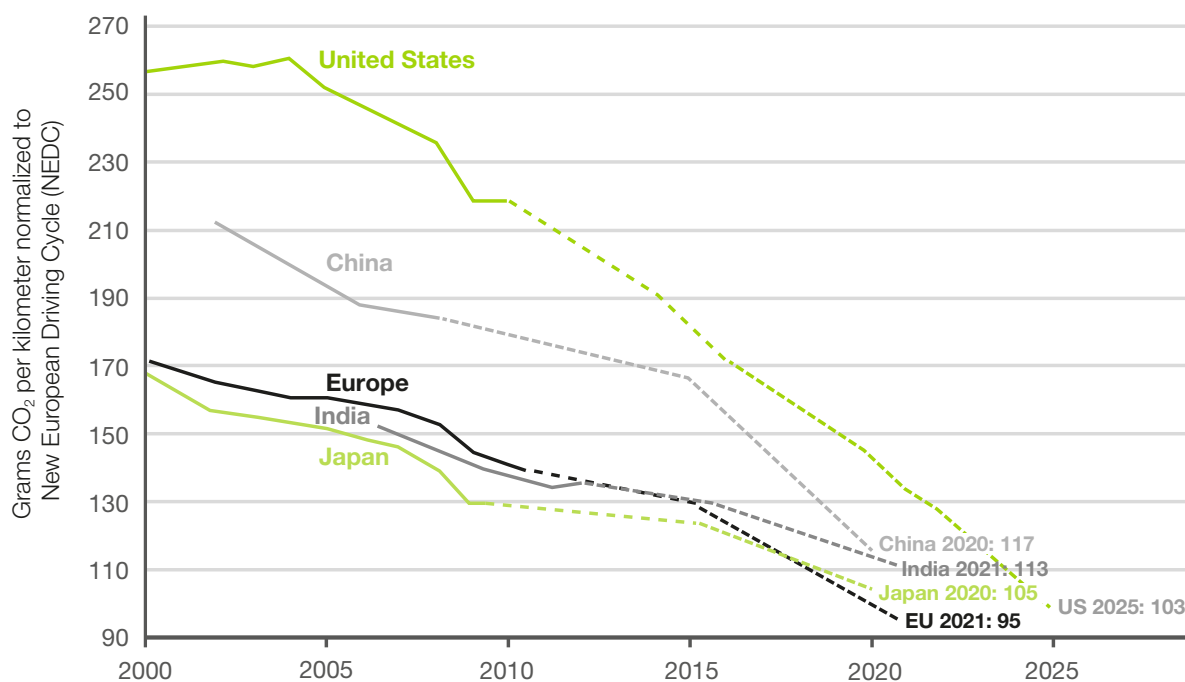
Technological progress in CO₂ emissions reduction and improved vehicle performance is one of the main drivers of growth on the automotive market, and meets demand clearly expressed by both the market and by society.

Politically speaking, the issues differ significantly depending on the region (awareness of global warming, the need to reduce fuel consumption and energy independence), yet the impact on public policies remains the same, namely that the transportation industry, which represents a quarter of all CO₂ emissions, must find business solutions to reduce consumption

of oil-based products or, in other words, reduce their carbon footprints. As a result, ever-tighter converging regulations have been decreed all over the globe, including in Japan and Europe, the United States, China and India. Technical innovations are required in all sectors of the automobile industry in order to meet the necessary standards.

Market context – Regulatory impact analysis

Current CO₂ levels by region and targets



Over and above regulatory constraints, consumers want to reduce their fuel consumption. They are looking for vehicles that are more fuel efficient and yet still powerful.

In partnership with automakers, Valeo conducts market studies with end consumers in order to develop an in-depth understanding of market trends.

As part of a study conducted by consulting firm Sigma in 2014 with the participation of a dozen European and Chinese automakers and Valeo (the only automotive supplier), 16,000 European and 2,000 Chinese consumers were asked about their expectations in terms of automobile innovation. The study showed that drivers want cars that are more energy-efficient, as powerful in terms of engine power, safer to drive, better connected, more automated and equipped with an easier-to-use interface.

Development in Asia and emerging countries

The second underlying market trend is the shift in global automotive production from the western world to Asia, which has represented over 50%⁽¹⁾ of vehicle production since 2012. Automotive production in China was up 8% in 2014 and has more than doubled since 2007, with 23 million vehicles⁽¹⁾ produced in 2014, representing 27% of global automotive production.

Other emerging countries (in Southeast Asia and South America, as well as India and Russia) continue to have strong potential for medium-term growth despite mixed results in 2014.

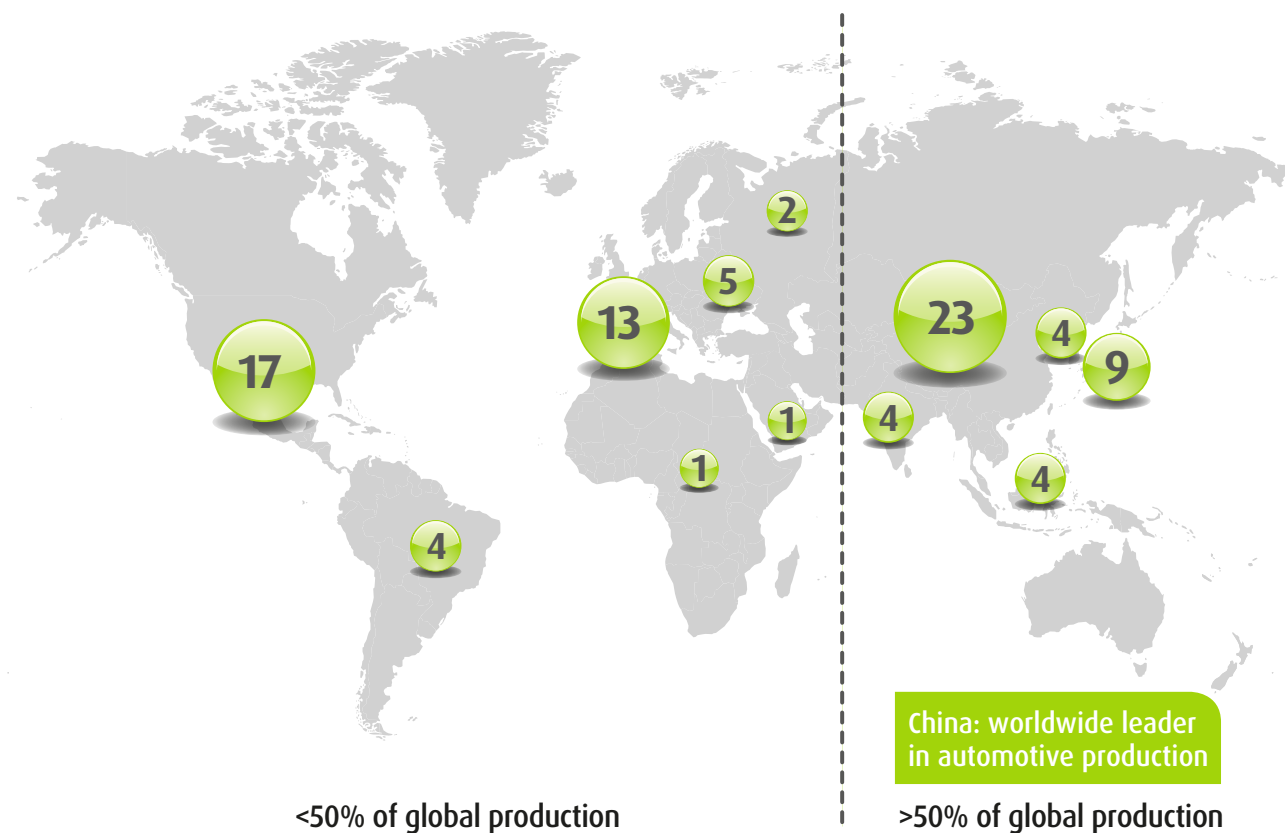
The shift in automotive production towards Asia and emerging countries is expected to continue over the coming years, in light of the economic growth outlook and low levels of car ownership in these regions. Valeo estimates that China could represent around one-third of the global automotive market by 2030⁽²⁾.

(1) Source: LMC and Valeo.

(2) Source: BIPE and Valeo.

Regional breakdown of automotive production in 2014

World automotive production, in millions of vehicles⁽¹⁾



Total quality, innovation and presence across all continents

In addition to these shifts in the market, the fundamentals of the automotive industry remain focused on quality, innovation, global platforms and service. Automakers rely on automotive suppliers to provide:

- total quality, both for the products that they deliver and for the development of new technologies and applications;
- availability of R&D resources on all continents to help develop technical solutions that meet the specific needs of local consumers;
- a worldwide industrial footprint able to deliver the same products to identical standards of quality and reliability in all markets;
- proposals for innovations. Automotive suppliers have been responsible for the development of new technologies for many years now. According to the European Association of Automotive Suppliers, automotive suppliers bear around half of the R&D spent on every vehicle (excluding crash tests). Many marketing drives for vehicles focus on technologies developed by automotive suppliers such as Stop-Start systems, smart lighting (BeamAtic® PremiumLED) and semi-automatic parking.

(1) Source: LMC and Valeo.

1.2.2 A growth strategy focused on innovative technologies and development in Asia and emerging countries

In response to these changes within the automotive market, Valeo has built its growth strategy on the following drivers:

- (i) innovative technologies related to CO₂ emissions reduction and improved vehicle performance, as well as intuitive driving;
- (ii) development in Asia and emerging countries.

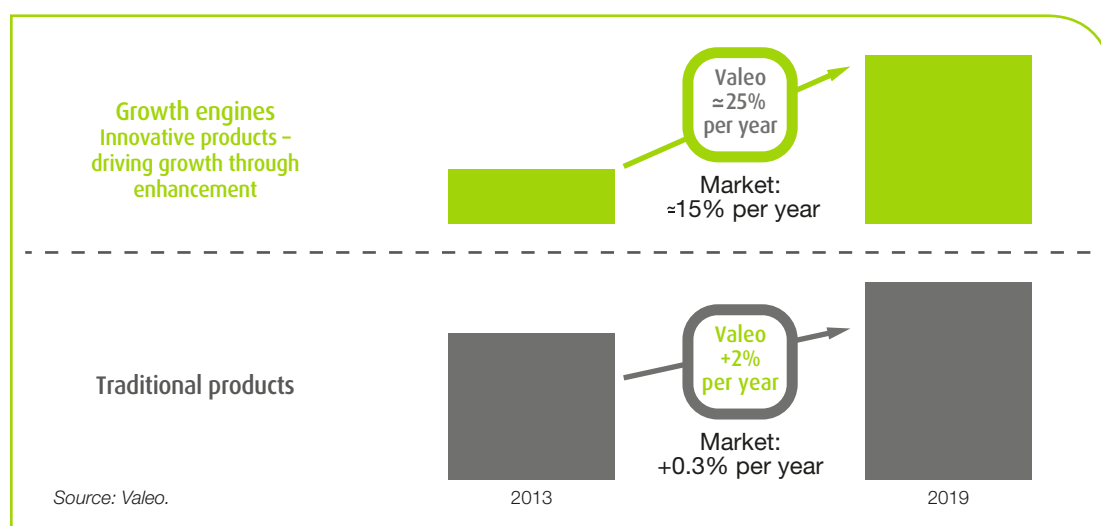
CO₂ emissions reduction and improved vehicle performance, intuitive driving

The purpose of most technological developments is to reduce fuel consumption by increasing the efficiency of internal combustion engines, electrifying powertrains, reducing the amount of energy used by the vehicle's various functions, and developing lighter components (see Chapter 4, section 4.2 "The R&D process at Valeo: from megatrends to innovation", pages 136 to 148). Accordingly:

- Valeo was the first supplier to offer its customers the Stop-Start system, which automatically shuts the engine off when the vehicle is at a standstill (e.g., at a red traffic light) saving as much as 15% in fuel consumption in dense urban traffic, and whose use is becoming more widespread worldwide.
- Valeo has developed an electric supercharger that helps significantly improve vehicle performance (27% improvement in acceleration when restarting) without increasing fuel consumption. The first orders have been placed for this supercharger, which will be available on the market in 2016.

- Valeo offers solutions that help improve vehicle thermal management systems by increasing efficiency in internal combustion engines while reducing the energy needed to ensure passenger comfort as well as cutting harmful engine emissions. The water cooled charge air cooler system (air intake module) makes it possible, for example, to produce turbocharged engines that are more compact and cleaner.
- Valeo produces 100% LED lighting systems, which are five times more efficient than halogen bulbs (based on the relationship between illumination quality and energy consumption) and also provide automakers with design flexibility.
- Valeo's driving assistance systems offer drivers a range of smart technologies that make it possible to improve vehicle safety and comfort (including detection of obstacles and other vehicles, fully-automated parking, and systems that provide an aerial view around the vehicle). The ever increasing complexity of vehicles has also spurred a need to provide end users with more intuitive human-machine interfaces. With the advent of the automated vehicle, new interfaces are needed to facilitate the transitions between automatic mode and manual mode.

Valeo's growth is driven above all by innovative, high-growth products (growth of approximately 25% per year).



Geographic positioning in high-growth regions

Besides the promotion of innovative technologies, the Group's marketing and manufacturing efforts are primarily focused on attracting new customers and winning market share in high-growth regions in Asia and in emerging countries – particularly in China, the world's largest market – while continuing to grow in the mature markets of Western Europe and North America.

New production capacities are being built up locally to meet surging demand in these markets. Where possible these new production units are being set up on multi-activity sites in order to optimize profitability. In 2014, China became the Group's largest country by headcount⁽¹⁾.

In 2014, Asia accounted for 28% of original equipment sales, with China accounting for 15%. By 2020, Asia should account for one-third of Valeo's original equipment sales, with China accounting for over 20%.

1.2.3 Operational excellence in support of strategy

Valeo's corporate culture is built on excellence in operations, which stems from world-class production quality standards, the values shared by all of the Group's employees, and its strong commitment to corporate social responsibility issues.

To ensure customer satisfaction in terms of quality, costs, and delivery, and control its organic growth, Valeo has developed a 5 Axes methodology, which is strictly applied by all sites.

The 5 Axes focus on continuous improvement in order to deliver "zero-defects" products. Organized around Involvement of Personnel, Valeo Production System, Constant Innovation, Supplier Integration and Total Quality, they are the operational pillars supporting the Group's strategy and ambitions.

1.2.4 Governance in support of strategy

The Group's growth model is based on a strong corporate governance structure, led by the Board of Directors, the Board's Committees, the Chief Executive Officer as well as the Functional and Operational Directors. Valeo's governance structure allows the Group to implement its strategy in line

with sustainable development commitments, while adhering to the strictest principles of compliance and ethics. This structure helps the Group manage risks and identify opportunities to drive organic growth.

1.2.5 Valeo's strengths that support its growth model

Human capital – "Involvement of Personnel"

At the end of 2014, Valeo had 78,500 employees in 29 countries, compared with 54,000 employees at the end of 2008. The Human Resources Department prepares and accompanies the Group's growth, through a dynamic hiring policy – especially in high-growth regions.

The aim of this recruitment policy is to identify the key skills that Valeo requires and attract, develop and retain talent, in all of its markets. Given the growth in order intake, recruiting

engineers and technicians poses a challenge due to tight job markets in certain countries and regions. The Group plans to recruit over 55,000 people globally over the next five years.

As part of its Involvement of Personnel approach, Valeo has opted for a global policy that goes beyond financial compensation to support career development, autonomy, and training. This policy is based on the Group's values and promotes well-being at work as well as work-life balance among its employees.

⁽¹⁾ Including partnerships for which employee data are pro rated based on the Group's percentage interest.

Balanced customer portfolio

In original equipment, Valeo has become a partner to the world's leading automakers. Valeo's customer portfolio was balanced in 2014 with German automakers representing 30% of original equipment sales, Asian automakers 26%, US automakers 22% and French automakers 16%.

In the aftermarket, Valeo Service supplies original equipment spares (OES) to automakers and replacement parts to the independent aftermarket (IAM). Valeo Service offers all aftermarket channels worldwide a wide range of products and services to help boost the efficiency of repair services and to provide greater safety, comfort and driving pleasure to consumers.

A sustained innovation effort – “Constant Innovation”

To meet the requirements of its various customers and retain its technological advantage, Valeo constantly develops new products and systems that meet the demands of different global markets. Valeo regularly analyzes its innovations portfolio and market developments to ensure that it is offering or developing the products and solutions that will form the foundation of the vehicle of tomorrow. **In 2014, gross R&D expenditure exceeded 1.1 billion euros, up 8% compared with 2013.**

Aside from upstream research centers, most of which are located in France, Germany and Japan, Valeo has developed a network of technical and commercial offices located close to its customers so that their needs can be better catered to.

Valeo also uses shared resource centers in cost-competitive countries to enhance synergies among the various Business Groups and optimize development costs.

Valeo's innovation policy and its development methods are widely acknowledged by the Group's customers, who increasingly look to Valeo to develop new technologies. In fact, innovative products⁽¹⁾ accounted for 35% of all order intake in 2014.

Valeo protects its innovations with an active patent filing policy: 1,108 patents were filed in 2014, a 41% increase on 2013.

Valeo's R&D process is detailed in Chapter 4, section 4.2, page 136.

A global footprint – “Valeo Production System”

In 2014, Valeo had 133 plants, 16 research centers, 34 development centers and 15 distribution platforms worldwide.

The Valeo Production System is acknowledged throughout the industry for its efficiency in quality and cost management.

Designed to improve productivity as well as product and system quality, the system is based on a pull-flow organization, flexible production resources, the elimination of all non-productive operations and stopping production at the first non-quality incident.

Valeo reduces inventories and logistics costs by installing production capacity near to its automaker customers in emerging countries. On an annual basis, Valeo dedicates almost two-thirds of investments in property, plant and equipment to Asia and emerging countries.

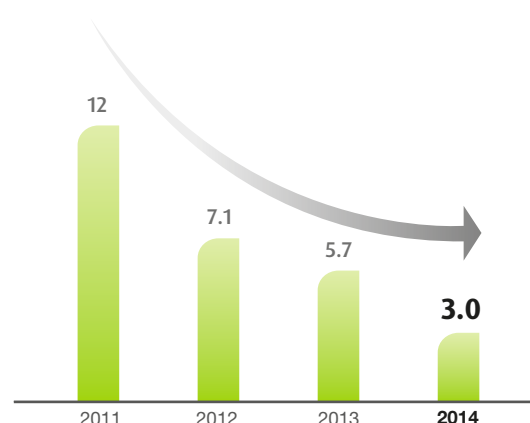
A demanding quality approach – “Total Quality”

At Valeo, Total Quality is a state of mind. In order to meet customer expectations in terms of product and service quality, total quality is required throughout the Group and from its suppliers, at all times and at every level.

At end-December 2014, the Group's quality level reached a record high, with an average of three defective parts per million produced over the last three months of the year, which represented a 43% improvement on 2013.

Defective parts per million produced

3-month average



(1) Products and technologies on the market for less than three years.

A panel of integrated suppliers – “Supplier Integration”

Valeo's business is based on a financial model with a high capital turnover and a negative working capital requirement, made possible by the close integration of suppliers into the value chain and continual analysis of best solutions for in-house production or the purchasing of submodules (make or buy). In addition to the strategic nature of a component, return on capital employed is a decisive criterion in this analysis.

Furthermore, Valeo uses its suppliers to develop new, more efficient, lighter, and more cost-effective products while at the same time requiring that they comply with its Code of Ethics. The process for integrating suppliers is presented in Chapter 4, section 4.5.1, “Application of corporate social responsibility principles in purchasing processes”, page 203.

In 2014, manufacturing procurement represented 58% of the Group's sales. Ninety-five percent of Valeo's direct purchases are handled by 1,165 suppliers.

Investments to support organic growth

Valeo's investment policy has been adapted in response to the Group's strong growth. In 2014, investment expenditure (excluding capitalized research and development expenditure), came to 685 million euros, representing 5.4% of sales.

Investments were primarily directed towards high-growth countries – as such, since 2011, Asia and emerging countries account for between 60% and 70% of investments.

In parallel, Valeo continues to strengthen its existing plants. For example, between 2008 and 2014, Valeo invested nearly 800 million euros in French sites.

Valeo has sufficient cash flow to finance its investments. The Group generated 327 million euros in cash flow (after investments in property, plant and equipment and intangible assets) in 2014.

A solid financial position

Valeo has a solid financial position. At end-December 2014, net debt⁽¹⁾ stood at 341 million euros, representing 0.2 times EBITDA or 12% of equity. Valeo is thus rated “investment grade” by the ratings agencies. Valeo's strong financial position allows the Group to finance organic growth in the most favorable financial conditions.

1.2.6 Strategic plan

Valeo unveiled new medium-term objectives at its Investor Day in London on March 16, 2015:

- Sales of more than 20 billion euros⁽²⁾ by 2020 thanks to the commercial success of innovations and the record level of order intake over the past few years, representing average annual organic growth five percentage points above global automotive production from 2015 through 2020.
- Improved profitability and free cash flow⁽¹⁾ by 2020:
 - Operating margin⁽¹⁾ (as a percentage of sales) between 8% and 9%.
 - Free cash flow⁽¹⁾ to EBITDA⁽¹⁾ ratio greater than 30%.

During the Investor Day, Jacques Aschenbroich, Chief Executive Officer, Christophe Périllat, Chief Operating Officer, Robert Charvier, Chief Financial Officer, and the management teams of the four Business Groups presented the new strategic plan driven by the Group's continued growth in technologies for CO₂ emissions reduction and improved vehicle performance as well as intuitive driving, and expansion in Asia and in emerging countries.

Valeo's growth strategy is driven by:

- its market leading position and sustained R&D efforts focused on CO₂ emissions reduction and improved vehicle performance, as well as intuitive driving; and
- strengthening its presence in Asia and emerging countries.

As the world leader in CO₂ emissions reduction and vehicle performance improvement as well as intuitive driving (particularly autonomous vehicles), Valeo is intent on continuing its R&D efforts in order to meet its customers' needs.

Valeo has solid fundamentals thanks to its diversified customer and geographic positioning with an increasing footprint in high-growth regions, namely Asia and emerging countries. Strengthening this trend over the next five years should help Valeo pursue its geographical repositioning, with the objective of generating more than one-third of its original equipment sales in Asia and around 40% in Europe by 2020, compared to 28% and 49% respectively in 2014.

(1) See Financial Glossary, page 385.

(2) Based on a EUR/USD exchange rate of 1.15.

Focus on accelerating organic growth, improving profitability and increasing free cash flow⁽¹⁾

Driven by the higher order intake⁽¹⁾ following the success of its innovations (more than one-third of the order intake⁽¹⁾ over the past few years is for innovative technologies), the Group is aiming to accelerate organic growth, improve profitability and increase free cash flow⁽¹⁾.

Accelerating organic growth and operational excellence

Leveraging the high level of its order intake⁽¹⁾ over the past few years, Valeo confirms its objective to achieve average annual organic growth five percentage points above global automotive production on the back of its innovation-based product mix. Assuming that global automotive production increases by an annual average of 3% over the next five years, sales would therefore rise to around 17 billion euros⁽²⁾ in 2017 and would exceed 20 billion euros⁽²⁾ by 2020 (versus 12.7 billion euros in 2014).

Improving operating margin

The Group intends to leverage the growth in sales to improve its operating margin⁽¹⁾ and profitability. Accordingly, Valeo has set a target for operating margin⁽¹⁾ (as a percentage of sales) of between 8% and 9% for 2020 (versus 7.2% in 2014). Operating margin⁽¹⁾ for 2017 is expected to be in the region of 8%.

Increasing free cash flow

After four years of strong growth in production capacity, particularly in Asia and emerging countries, Valeo is aiming to increase its free cash flow⁽¹⁾/EBITDA⁽¹⁾ ratio from 21% in 2014 to around 28% in 2017, and then to more than 30% by 2020.

Valeo's strong financial position will enable it to capitalize on opportunities for growth in technologies for CO₂ emissions reduction and improved vehicle performance as well as intuitive driving, while maintaining strict financial discipline.

(1) See Financial Glossary, page 385.

(2) Based on a EUR/USD exchange rate of 1.15.

1.3 Presentation of Valeo

1.3.1 History and development of the Group

1923

- Incorporation of **Société Anonyme Française du Ferodo** (the “Company”). The Company started by distributing, then manufacturing, **brake linings and clutch facings** under the Ferodo license out of a workshop in Saint-Ouen, near Paris.

1932

- First listed on the **Paris stock exchange**.
- Started manufacturing **clutches** following the acquisition of German firm Fichtel und Sachs.

1962

Segment
diversification

- First diversification – into **heating and air conditioning systems** following the merger with SOFICA (Société de Fabrication Industrielle de Chauffage et d'Aération), which was reinforced by the acquisition of Chausson's heat exchanger business in 1987.

1963-1970

International
expansion

- **First move into international markets starting with Europe:** Spain (1963); Italy (1964); Germany (in the early 1970s).

1970-1984

Segment
diversification

- Second diversification – into **electrical systems** for vehicles (including **lighting, wipers, alternators and ignitions**): acquisitions of S.E.V Marchal (1970-71), Cibié-Paris-Rhône (1977-78) and Ducellier (1984).

1974

International
expansion

- Opening of the first production facility in **Brazil**.

1980

- The name Valeo, a Latin word meaning **“I am well”**, is adopted at the Shareholders' Meeting with a view to uniting the various brands and teams under a single name.

1980-1989

International
expansion

- Expansion into the **United States** with the creation of Valeo Auto Industries Inc. (heating and air conditioning systems, clutches). This activity was reinforced by the formation of joint venture Valeo Acustar Thermal Systems (climate control) in 1988, and by the acquisition of Blackstone (engine cooling) in 1989.

1987

Segment
diversification

- Acquisition of Neiman, providing expertise in the field of **security systems**, and of the Paul Journée subsidiary (wiper systems).

1988

International
expansion

- Incorporation of Valeo Transtürk (clutches and distribution) in **Turkey**.
- Entry into **South Korea**: creation of Valeo Pyeong Hwa (clutches and ring gears – control obtained in 2011) then acquisition of Mando's electrical systems division in 1999.

1989

International
expansion

- Acquisition of Delanair (climate control) in the **United Kingdom**.
- First business established in **Mexico** (climate control).

The 1990s

1990

- Disposal of non-strategic activities (brake linings, ignitions, horns).

Business
refocusing

1991

- Deployment of “5 Axes” (a new company culture) across all Group divisions.

1992-1993

- Implementation of a forward-looking strategy based on a **sustained research effort**: creation of an electronics research center in Créteil (France) and an electronic module plant at Meung-sur-Loire (France). Opening of research centers for lighting systems in Bobigny and for clutches in Saint-Ouen (France).

Innovation
policy

1994

- Formation of the first joint ventures in **China** (wiper systems, climate control, lighting systems and electrical systems in 1997).

International
expansion

1995

- First businesses established in **Eastern Europe** with the opening of the Zebrak plant in the Czech Republic and the Skawina plant in Poland, followed by the acquisition of Klimatizacni Systemy Automobilu (thermal systems in the Czech Republic) in 1996 and then entry into Hungary (2000), Romania (2002), Slovakia (2004) and Russia (2008).

International
expansion

1997

- Entry into **India**: creation of two joint ventures (clutches and friction materials), followed in 2007 by two others (security and electrical systems), and in 2008 by a fifth joint venture majority-owned by Valeo for the production of lighting systems.

International
expansion

1998

- Acquisition of the Electrical Systems activity of ITT Industries (electronics, **sensors**, wiper systems, electric motors, with production plants in Germany, the United States and Mexico).

Segment
diversification

The 2000s

2000

- Acquisition of Labinal's **wiring harness** business (Argentina, Eastern Europe, France, India, Italy, North Africa, Portugal and Spain).
- Development in **Japan**:
 - formation of a joint venture with Unisia Jecs (clutches);
 - acquisition of a stake in Zexel (thermal systems) before going on to gain full control of its climate control and compressor activities in Asia (China, Japan and Thailand) in 2005;
 - formation of a strategic alliance with Ichikoh (lighting systems), with Valeo initially taking a 20% stake. This was followed by the establishment in 2006 of a joint venture in China (Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd.), the reinforcement of the strategic partnership in 2008 with an agreement relating to operating strategy and governance, and the merger of the two partners' lighting activities in China in 2012, through the formation of a holding company (Valeo Ichikoh Holding Ltd.) owned 85% by Valeo and 15% by Ichikoh.

Segment
diversification

International
expansion

PRESENTATION OF VALEO AND ITS BUSINESSES

Presentation of Valeo

International expansion

2003

- Reinforcement of Valeo's presence in **China**:
 - Valeo increased its stakes in two joint ventures in electrical systems and wiper systems;
 - formation of two new joint ventures in 2005, one with FAWER, the automotive supply branch of FAW, which develops and manufactures compressors for air-conditioning systems (stake increased to 100% in 2009), the other with Hangsheng Electronics, under the name Valeo Interior Controls (Shenzhen) Co. Ltd, specializing in the production of ultrasonic parking assistance systems;
 - increase in the stake in Hubei Valeo Auto Lighting Company Ltd. to 100% in 2006.

Strengthening the offering

2005

- Acquisition of the **Engine Electronics** division of Johnson Controls (JCEED), which designed and produced complete engine management systems, electronic control units and electronic motor drives as well as engine components.

Strengthening the offering

Business refocusing

2007

- Acquisition of Connaught Electronics Ltd. (CEL), an Irish manufacturer of camera-based systems for **driving assistance functions** and radio frequency applications for remote vehicle access and security.
- **Sale** of the wiring harness business to Leoni.

International expansion

2008

- Start up of operations in **Russia** with the opening of the Tomilino plant (climate control) which was transferred to Togliatti in 2013, followed by the opening of the Nizhny Novgorod site in 2011.

2009

Pascal Colombani and Jacques Aschenbroich are appointed Chairman of the Board of Directors and Chief Executive Officer, respectively. Implementation of a **new strategy** structured around two main drivers:

- innovation, with technologies focused on reducing CO₂ emissions and the development of intuitive driving; and
- geographical development in Asia and the emerging countries.

A new organizational structure incorporating four new Business Groups (Comfort & Driving Assistance Systems, Powertrain Systems, Thermal Systems and Visibility Systems) and the Valeo Service Activity was put in place with a view to improving profitability and efficiency as the Group's markets and customers became increasingly global.

The 2010s

International expansion

Strengthening the offering

2011

- Acquisition of Niles, a Japanese automotive supplier, enabling the Group to become world leader in the interior controls market by reinforcing its presence in **Asia**.
- Acquisition of the VTES (Variable Torque Enhancement Systems) activity of UK automotive technology development firm Controlled Power Technologies (CPT). Valeo thus became the first automotive supplier to offer customers a range of **electric superchargers**.

International expansion

Innovation policy

2012

- Formation of a joint venture, Detroit Thermal Systems, with V. Johnson Enterprises, to acquire the air-conditioning systems business of Automotive Components Holdings (ACH) from Ford in **North America**. This company produces air conditioning systems and components for automobiles.
- Opening of a R&D center in Chennai (India) as a research base for low-cost design.

2013

- Completion of the **sale of the access mechanisms activity** (excluding the Indian unit which was sold to Minda Capital Limited in 2014) to the Japanese group U-Shin.
- Signing of a research **partnership agreement** in driving assistance and autonomous vehicles between Valeo and the French group Safran (aerospace, defense, security) to boost the development of innovative products and gain new markets.
- Launch of the **Valeo Innovation Challenge**, a competition open to engineering students throughout the world.
- Acquisition of Eltek Electric Vehicles (Powertrain Systems Business Group), a Norwegian company specializing in **high efficiency on-board chargers**, to accelerate and expand Valeo's offering for hybrid and electric vehicles.
- Signing of a technology **partnership agreement** between Valeo and the Japanese automotive electronics manufacturer Fujitsu Ten to develop active safety systems for detecting road obstacles (other cars, pedestrians, etc.) by combining Fujitsu Ten's millimeter-wave radar with a Valeo camera.

Business
refocusingInnovation
policyInnovation
policyStrengthening
the offeringInnovation
policy

2014

- Acquisition of Osram GmbH's stake in Valeo Sylvania (lighting systems) in **North America**.
- Signing of a **cooperation, development and licensing agreement** with LeddarTech, a manufacturer of advanced detection and ranging solutions, enabling the Group to strengthen its active safety offering.
- Valeo celebrates the 20th anniversary of its entry into China with the inauguration of its largest manufacturing plant worldwide in Shanghai, boasting a production capacity of 10 million alternators and starters per year (Powertrain Systems Business Group).
- Valeo returns to the CAC 40, Euronext Paris' benchmark index.
- Valeo reveals the winners of the first Valeo Innovation Challenge and announces the launch of a second competition.

International
expansionInnovation
policyInnovation
policy

1.3.2 Description and structure

Group profile and structure

Valeo is an automotive supplier that partners all automakers worldwide. As a technology company, Valeo proposes innovative products and systems that contribute to CO₂ emissions reduction and improved vehicle performance, as well as to the development of intuitive driving.

In 2014, the Group generated sales of 12.7 billion euros and invested over 10% of its original equipment sales in R&D. Valeo has 133 plants, 16 research centers, 34 development centers, 15 distribution platforms and employs 78,500 people in 29 countries worldwide.

Valeo is a member of the CAC 40, Euronext Paris' benchmark index.

Legal structure

The Group's legal structure is based on three main holding companies interposed between the parent company, Valeo, and its operating subsidiaries: **Valeo Finance**, which holds shares in French companies and manages research projects, **Valeo Bayen**, whose purpose is to hold shares in foreign companies and, in doing so, succeeds **VIHBV**, registered in the Netherlands, which previously played the role of investor in foreign companies and has since retained only a few holdings.

At an intermediate level, in some countries (Germany, Spain, Italy, Czech Republic, United Kingdom and Japan), holdings are organized around one or several companies established in the country itself, which also play the role of holding companies and hold shares, directly or indirectly, in other operational companies, forming a local sub-group. This structure permits the centralization and optimization of the financial management of the sub-group and, where legally possible, the creation of a tax group.

PRESENTATION OF VALEO AND ITS BUSINESSES

Presentation of Valeo

Valeo has formed several jointly owned companies with industrial or technological partners in order to break into new markets, consolidate its systems offering for customers and develop new product offerings.

Group structure

The Group's operational structure is based on four Business Groups, the Valeo Service activity, and the National Directorates.

Operational structure

The **Group** determines the strategic direction and also reviews and oversees the Business Groups. It defines internal standards and policies and ensures their implementation, with the support of the functional networks. It allocates resources between the Business Groups, and monitors the consistency of sales and industrial policies.

The **Business Groups** operate under the responsibility of the Group Operations Department and are responsible for the business growth and operating performance of the Product Groups and Product Lines they manage, across the globe. They propose technological road maps to the Group. They coordinate between Product Groups and Product Lines, with support from the National Directorates, in particular concerning the pooling of resources, the allocation of R&D efforts and the optimization of production resources at the plants.

Each of the four Business Groups is structured to reinforce cooperation and stimulate growth for all Product Groups worldwide:

- the **Product Groups and Product Lines** manage their activities and can draw on all the development, production and marketing resources needed to fulfill their objectives;
- the **Regional Operations** manage the operations of a Business Group for a given region.

Valeo Service operates under the responsibility of the Group's Operations Department. In cooperation with the Business Groups and Product Groups, it supplies original equipment spares to automakers and replacement parts to the independent aftermarket.

See section 1.4, pages 38 to 58, for more information on the Business Groups and Valeo Service.

The **National Directorates** are tasked with ensuring the Group's growth in their respective countries and act as the interface with local customers. They also manage all the services which support operational activities in the country.

Operational principles and rules, with an appropriate delegation of authority, have been established at all levels, with a precise definition of areas and decision-making thresholds.

Functional structure

The Group's functional structure is as follows:

- the **Audit and Internal Control Department** performs financial and operational audits on all of the Group's entities in order to ensure that procedures are carried out correctly and to establish coherent and consistent internal control practices, which are deployed across the principal operational entities through the functional networks;
- the **Sales and Business Development Department** consists of a Sales Department and an International Development Department for each Business Group, Customer Directors dedicated to each major automaker and National Directorates for each geographic area. It partners Group customers across all their markets and all continents;
- the **Communications Department** is responsible for setting out and sharing the Group's vision and strategy, both externally (with customers, shareholders, civil society and the general public) and internally, in order to promote the Group's image, highlight its performance and unite employees;
- the **Ethics and Compliance Department** is tasked with putting in place, managing, and coordinating the Compliance program, as decided by the Operations Committee, of which it is a member, on global, national, local, and plant levels;
- the **Finance Department** oversees management control, accounting, financial reporting, financing activities and cash management, taxation, financial communications, strategic operations, information systems and risk, insurance and the environment;
- the **Legal Department** ensures compliance with Group procedures and with legal regulations and generally strives to defend the Group's interests;
- the **Operations Department** is responsible for the four operational Business Groups and Valeo Service, and also oversees the Industrial, Logistics, Purchasing and Quality functions;
- the **Research & Development and Product Marketing Department** directs the Group's innovation program as well as product development methods and tools;
- the **Human Resources Department** is centered on labor relations, career development, training and skills management, and involvement of personnel;
- the **Strategy and External Relations Department** which, in collaboration with all the functional departments, the Business Groups and Valeo Service, coordinates the Group's strategic planning efforts, notably with a view to preparing the medium-term plan and defining the main thrusts of the Group's organic and external growth and profitability strategies; it coordinates the Public Relations and Sustainable Development Department, public relations across the 29 countries in which the Group is present, as well as the collaborative research partnerships; it is responsible for implementing and monitoring the Group's sustainable development policy and for relations with external stakeholders.

1.3.3 Operational excellence

Operational excellence is of critical importance to Valeo. The controlled development of the Group's business on a day-to-day basis is driven by a guiding principle: obtaining cost-effective total quality in engineering, manufacturing, projects and purchasing.

The 5 Axes

The 5 Axes methodology is applied around the world, by all Group employees, in order to deliver "zero-defects" products to customers. The 5 Axes are:

- **Involvement of Personnel**, which implies recognizing skills, enhancing them through training, and empowering our people to carry out their responsibilities. Employees are particularly encouraged to make suggestions for improvement and participate actively in the work of autonomous teams.
- **Valeo Production System (VPS)**, which is designed to improve the productivity and quality of products and systems. It involves the following approaches: pull-flow organization, flexible production resources, the elimination of all non-productive operations and stopping production at the first non-quality incident.
- **Constant Innovation**, with the aim of designing innovative, easy-to-manufacture, high-quality and cost-effective products while reducing development time. In view of this, Valeo has set up an organization based on project teams and the simultaneous engineering of products and processes.
- **Supplier Integration**, which involves benefiting from suppliers' ability to innovate, developing productivity plans with suppliers and improving quality. Valeo sets up close and mutually beneficial relationships with a limited number of world-class suppliers and sustains these relationships in the long term.
- **Total Quality**, which is essential throughout the Group and from its suppliers in order to meet customer expectations in terms of product and service quality.



Awards

In 2014, the Group enjoyed widespread recognition from its customers and partners for the quality of its products and services, attesting to its operational excellence.

Innovation rewarded

- Valeo won a Premier Automotive Suppliers' Contribution to Excellence (PACE) award in 2014 for its Back-Over Protection System which helps drivers avoid potential accidents when reversing thanks to ultrasonic park assist sensors and an intelligent rear camera.
- The French Automotive Press Association announced Valeo as the winner of its Technological Breakthrough Award for its Valet Park4U® system.
- At its annual Urban Mobility 3.0 workshop, analysts at consulting firm Frost & Sullivan gave Valeo its European Advanced Driver Assistance Systems Product Leadership award.

PRESENTATION OF VALEO AND ITS BUSINESSES

Presentation of Valeo

Outstanding excellence

Customers continued to recognize the high standard of the Group's performance, particularly in the area of quality.

European customers

- Valeo's iCAM 360° Surround camera system was one of three finalists in the Connected Drive category of the prestigious BMW Supplier Innovation Awards.
- The Quality Operational Excellence Award from Mercedes-Benz do Brasil went to the Itatiba plant (Brazil) of the Thermal Systems Business Group.
- Among its Best Supplier Plants, PSA Peugeot Citroën singled out the Valeo plants of Czechowice-Dziedzice (Powertrain Systems, Poland) and Athis-de-l'Orne (Thermal Systems, France) for their strong performances in terms of production, logistics and quality. The Nogent-le-Rotrou plant (Thermal Systems, France) received a special award for industrial adaptation while the Valeo Group was recognized for its competitiveness in Europe and for its contribution to the success of the Peugeot 308, which won the European Car of the Year award.
- Renault Nissan presented its 2014 Quality Award to the Chennai site (Amalgamations Valeo Clutch Pvt Ltd (AVCL)) in India. AVCL is the only supplier to have received an award in the quality category after having achieved zero defective parts per million during the April 2013 to March 2014 reference period.
- The Uitenhage plant (Thermal Systems, South Africa), which produces front end modules, was presented with the Best Supplier Quality Award by Volkswagen South Africa.
- GroupAuto International, one of the largest distributors of parts and services for passenger cars, commercial vehicles and trucks in France and Europe, designated Valeo Service as its Supplier of the Year award in the marketing category.

US customers

- All of Valeo's Business Groups were presented with Supplier Quality Excellence awards by General Motors, representing 16 plants in total: Veszprem (Hungary), Akita (Japan), Ibaraki (Japan) and Wemding (Germany) for the Comfort & Driving Assistance Systems Business Group; Rayong (Thailand), Skawina (Poland), San Luis Potosi (Mexico) and Zaragoza (Spain) for the Thermal Systems Business Group; Czechowice-Dziedzice (Poland) and Kyong-Ju (South Korea) for the Powertrain Systems Business Group; Foshan-Special Products (China), Queretaro (Mexico), Wuhan (China), Issoire (France), Châtelleraut (France) and Kronach Neuses (Germany) for the Visibility Systems Business Group.
- The Czechowice-Dziedzice plant (Powertrain Systems, Poland) also received a Gold Award from Ford, in recognition of its exceptional performance in terms of quality, costs and lead times.
- Valeo Turkey received a Bronze Supplier award from Ford Otosan for its quality performance, ability to process urgent orders and handle fluctuating demand.

Asian customers

- Three of Valeo's plants in China were recognized by Nissan (China) Investment Co. Ltd: the Wenling site (Visibility Systems) received a Quality Improvement award; the Foshan site (Visibility Systems) obtained a Best Quality Improvement award and a Best Delivery Improvement award; and the Changchun site (Thermal Systems) won a Best Supplier Performance award.
- Nissan also awarded Valeo a Top Quality Award for the Czechowice-Dziedzice plant in Poland (Powertrain Systems).
- Valeo Compressors Europe s.v.o. (Thermal Systems, Czech Republic) was presented with the Quality Excellence Award by Volvo (Geely group) at the Volvo Cars Awards of Excellence ceremony.
- Valeo Foshan FIV (Visibility Systems, China) was chosen by Volvo China for the Best Launch Support award for the launch of the new lighting system for the Volvo XC60.
- Chery Automobile awarded its Best Business Performance award to the Shashi Wuhu Office (Thermal Systems, China).
- Qoros selected Hubei Valeo Auto Lighting Co. Ltd (Visibility Systems) as the winner of its 2014 Excellent Supplier award for its outstanding performance in innovation, management and quality.
- Fuji Heavy Industries (Subaru) honored the Kohnan plant (Thermal Systems) in Japan with a Production Contribution award. Despite substantial damage caused by exceptional snowfall in January 2014, the plant was quickly able to return to production and meet its delivery targets thanks to the dedication of its employees and the solidarity shown by Valeo's other sites in Japan, together with support from a team of experts from Subaru.
- The Chennai Amalgamations Valeo Clutch Pvt Ltd (Powertrain Systems) plant in India was awarded a supplier prize for capacity enhancement by Maruti Suzuki in recognition of efforts undertaken to improve internal and external capacities and to set up production at the new Oragadam site (Powertrain Systems).
- A prize for quality assurance was awarded to the Changchun site (Thermal Systems, China) by Yangzhou Jiezin Denso AC Co.

The Group also received other awards for operational excellence:

- Valeo was named Manufacturer of the Year 2014 at the fifth *Assises de l'Industrie* (Industry Symposium) conference held by weekly French business magazine, *L'Usine Nouvelle*.
- Valeo was certified as a 2014 Top Employer in 18 countries (compared with 12 in 2013), of which 10 in Europe (France, Germany, Hungary, Ireland, Italy, Poland, Romania, Spain, Turkey and the United Kingdom), five in the Asia-Pacific region (China, India, Japan, South Korea and Thailand) and three in North and South America (Brazil, Mexico and the United States), as well as for the Europe and Asia-Pacific regions. This award recognizes the excellence of a company's human resources management.

- During the third France China Trophy ceremony, which recognizes French companies that achieve success in the Chinese market, the Group was awarded the Growth Trophy for its performance in terms of revenues, long-term growth rates and partnership strategy.
- At the 2014 China Automobile and Parts Industry Development and Innovation Awards organized by Automobile & Parts magazine, Valeo China received an Innovation Award for

the second year running, in recognition of its efforts in the development of innovative technologies and in the area of employee and social responsibility.

- The San Luis Potosi plant (Visibility Systems, Mexico) received a State Quality award in recognition of its operational performance, competitiveness and innovation culture.

1.3.4 Ethics and compliance

One objective

While supporting an ambitious development strategy, Valeo's policy is to comply with the highest ethical standards in all countries in which it operates while strictly respecting local and international regulations.

Valeo considers business integrity and respect for stakeholders, employees, shareholders, customers and partners as a fundamental principle of its development.

The Ethics and Compliance Department, set up by General Management in 2012, is responsible for defining and putting in place an organizational structure and a framework around a common set of rules that are applicable worldwide and adapted locally as necessary.

Every employee, whatever his or her job, in every country, must comply with these rules, which are characterized by both a localized approach and zero tolerance for the infringement of regulations. Naturally, they also extend to Valeo's stakeholders, suppliers and service providers. Above all, compliance needs to blend in as naturally as possible with the day-to-day routines of employees and form part of the Group's culture of professional ethics and integrity.

Valeo's management is deeply committed to implementing and enforcing the Compliance Program. Valeo believes that it is everyone's responsibility to implement, adhere to, and respect the measures set out in the Compliance Program. While it is the responsibility of management to lead by example, these rules apply to everyone.

A dedicated organizational structure

Reporting directly to the Chief Executive Officer, the Chief Ethics and Compliance Officer is tasked with proposing, managing, and coordinating the global and local implementation of the Compliance Program, as decided by the Operations Committee, of which she is a member. Chaired by the Chief Executive Officer, the Operations Committee is responsible for determining the directions and priorities of the Compliance Program, allocating the funds and resources necessary and ensuring that its implementation is supervised and verified.

The Chief Ethics and Compliance Officer works closely with the National Directors and the Presidents of the Business Groups, and with the Sales and Development, Purchasing, Industrial, R&D, Human Resources, Finance, Legal, and Audit and Internal Control Departments.

Since 2014 a multi-disciplinary and international team of 70 Compliance Champions representing all functions has also helped to promote the Compliance Program. Within the scope of their responsibilities, these Compliance Champions share their experience with their colleagues and peers, help them to understand the compliance policies and any tools that may be applicable, and/or direct them to the people who can provide further information.

In broader terms, all managers, regardless of their country or segment, are committed to playing a key role in ensuring that their teams adhere to the Compliance Program and that it is incorporated into daily life at Valeo.

The Audit & Risks Committee oversees the effectiveness of the risk management and internal control systems. It ensures that Valeo follows a full program that enables compliance with the legislation and regulations applicable to the Group's activities, and doing business in an ethical and responsible manner.

A comprehensive framework

While firstly concentrating on the fight against corruption and antitrust practices, Valeo's Compliance Program is gradually being extended to all the principles contained in the Code of Ethics, and in particular data protection.

Comprehensive yet also specific, the program sets out general rules and procedures that must be respected by all employees and entities. These general guidelines are then broken down into specific procedures for each country in which Valeo operates, translated and adapted to local regulations and culture. Consequently, 27 different country appendices were published in addition to the general guidelines on gifts and invitations.

The program also comprises tools adapted to the requirements of the different functions. For example, a methodology for managing cooperation projects with competitors has been

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set out as part of the antitrust program. Targeted and highly-specific awareness-raising films describe the types of behavior that are expected or to be avoided. Finally, decision-support tools are also provided.

The program also covers Valeo's partners, who need to be made aware of the risks of antitrust practices and corruption and to understand the compliance framework to which they are expected to adhere. Consequently, the awareness handbooks that have been produced and distributed since 2013, were accompanied in 2014 by awareness-raising e-learning courses. Also, a Business Partners Code was brought into force.

All these tools, handbooks and films are available in English on the internal Ethics & Compliance portal. The basic guidelines of the program have been translated into all the major languages used by Valeo (French, German, Chinese, Spanish and Portuguese), as well as into Japanese, Thai and Korean.

Continuous training

To ensure the effective implementation and use of these rules and resources, Valeo believes it is crucial to deploy comprehensive training on key issues, legal risks, and the solutions it provides.

Training sessions are provided to engineers, managers, and more broadly to any members of staff that could be exposed to the main risks covered by the program. They can be delivered locally in 15 different languages or via e-learning modules available in 13 languages.

The sessions are specifically tailored to the automotive industry and feature a large range of examples and case studies to provide as many as possible of the employees concerned with effective training in both theory and practice. Handbooks dealing with the specific issues that arise in each business

have also been circulated. Finally, all new employees receive a handbook reiterating the most important rules and principles. This training and awareness-raising program is designed to provide Valeo employees with the knowledge and tools they need when dealing with targeted, specific situations, so that they can identify the risks involved and contact the right people to make the right decisions.

In 2014, 24,666 employees – 99.4% of the target population – received training.

Prevention

Given the essential nature of preventing and detecting improper practice, the Group carries out internal controls and audits.

Subject to the regulations in force, a confidential and anonymous alert system has been in operation since January 2014. It is reserved for Valeo employees and its scope is limited to suspected cases of fraud, corruption and antitrust practice. Other warnings can be communicated directly to the Chief Ethics and Compliance Officer, the Senior Vice-President of Human Resources or the General Counsel.

Valeo observes a strict policy of confidentiality with regard to warnings and the protection of whistleblowers. False allegations are not tolerated.

The Ethics and Compliance Department works in close collaboration with the Audit and Internal Control Department to conduct internal control operations or inquiries.

Valeo has made compliance a top priority and expects everyone's unfailing commitment to compliance, which is a guarantee of growth and profitability. The Compliance Program is described in more detail in Chapter 4, section 4.5.2, pages 208 to 209.

1.3.5 Presentation of the functional networks

Human Resources Department

The main responsibilities of Human Resources are adapting and managing skills (recruitment, compensation, internal mobility, training and team motivation), ensuring compliance with the Group's values, coordinating labor relations (relations with labor organizations and authorities) and developing the involvement of personnel.

The Human Resources Department supports the Group's international development by implementing a global policy in accordance with the characteristics of each local employment market.

Valeo strives to strengthen its "employer brand" to deepen employee commitment at every level and in every region, while seeking to promote a good work/life balance among employees through Well-Being at Work initiatives adapted to each country.

Special attention is given to the quality of local management, which is considered the most effective means of disseminating and receiving information.

These various actions help to improve the sense of belonging to the Valeo Group and to develop pride in "being Valeo" at all levels of the organization.

Safety

Ensuring that the employees of its production plants, research centers and offices are working under optimal safety conditions represents a core part of the values and strategy of the Group Human Resources Department.

This responsibility is shared by all managers, Health, Safety, Environment (HSE) specialists and the Human Resources teams.

Diversity

For many years, Valeo has been committed to strengthening diversity in every dimension.

Planning and actions are coordinated by a committee chaired by the Group Senior Vice-President Human Resources, with each form of diversity (disability, age, sex, culture) being under the responsibility of a manager or a member of the Human Resources Department, which coordinates a global team of volunteers.

Employee development

The three major constituents of the employee development strategy are (i) external recruitment, which also includes relations with higher education establishments; (ii) internal mobility and personal development; and (iii) compensation and benefits.

- Recruitment and relations with higher education establishments:
 - recruiting the best talent throughout the world, particularly in fast-growing markets and emerging countries, as well as in technologies relating to CO₂ emissions reduction and improved vehicle performance as well as intuitive driving, is a key ingredient of the Group's success. Qualified teams ensure Valeo can add value for its customers around the world in terms of innovation, total quality and competitive solutions and services;
 - after the huge success of the first event in 2014, the Valeo Innovation Challenge is to be held again in 2015. The event helps to reinforce the employer brand and position Valeo as an automotive supplier that designs, manufactures and markets innovative and high tech systems and products.
- Internal mobility and individual development:

The Group's employees benefit from a program which monitors their progress and development and is conducted during interviews with their managers. To encourage internal mobility, further procedures are implemented in addition to these interviews to identify any opportunities for medium-term employee professional development.
- Compensation and benefits:

The Group constantly monitors the employment market in order to remain competitive so that it can motivate and retain talent, and also adapts practices by offering appropriate compensation to employees throughout the world.

Training and skills development

In a highly competitive environment, training is an essential means of improving employee skills. The training policy and system are designed to reflect the needs of the operational activities and functional networks, as well as the career development aspirations expressed during employees' annual appraisals. Training is also a crucial factor in making the Group an attractive employer and retaining employees.

Labor relations

By striving to reconcile economic, social and environmental development in each of the Group's legal entities, Valeo aims to achieve optimal labor relations. Valeo is firmly committed to a forward-looking policy of employment and skills management, as well as to engaging regularly and constructively with labor organizations.

The Group's labor-related indicators are set out in Chapter 4, section 4.4 "Labor-related indicators", pages 172 to 203.

Operations Department

Purchasing

The role of the Purchasing Department is to reduce costs and give Valeo's strategy a truly competitive edge, by sourcing from only the most globally competitive suppliers, implement extremely rigorous selection processes for new suppliers, apply the total quality and innovation approach to suppliers and subcontractors, and establish close partnerships with the most innovative and effective suppliers.

The Group's Purchasing function is based on two major priorities:

- a commodity/segment priority, focusing on the specific purchasing strategy for these commodities. This involves a global approach that makes it possible to consolidate purchasing, giving the Group significant negotiating power, to have a single voice with regard to suppliers, and to implement a consistent policy for the supplier selection process, in particular with business selection and allocation committees.

The six commodities, divided into segments, are:

 - steel and processing,
 - plastics and processing,
 - non-ferrous metals and processing,
 - electromechanical components,
 - electronic components and systems,
 - lighting and other components;
- projects and product life, focusing on day-to-day operations. This priority permits the initiation of projects using cost-effective parts and the implementation of technical manufacturing efficiencies, as well as ensuring the re-sourcing needed to maintain the Group's competitive edge, particularly as regards manufacturing efficiencies that it grants customers during the product life cycle.

Furthermore, the Purchasing network is in place across all of the Group's sites. The network's global reach allows Valeo to develop its sourcing from cost-competitive regions while remaining close to customers.

Valeo is particularly vigilant that suppliers comply with its Code of Ethics, focusing special attention on labor rights, human dignity and environmental protection.

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In 2014, Valeo continued to deploy a range of compliance-related awareness-raising activities for its suppliers worldwide, focusing on the prevention of corruption and antitrust practices.

Valeo continues to deploy tools to help its suppliers improve their own quality processes. Supplier Relationship Management (SRM) is an essential tool in the relationship between Valeo and its suppliers. Modules such as the Incident Management System and Product Quality Assurance can be accessed on a secure extranet. These enable Valeo and its suppliers to work closely together and use standardized processes, for example to share project schedules and exchange and approve component qualification documents.

By refocusing the allocation of new business to benefit the Group's most efficient suppliers, in terms of quality, technology and productivity, Valeo is confirming its strategy of integration and loyalty towards its partners. The team set up in 2012 to partner the Group's suppliers in emerging countries, especially India, China, ASEAN (Association of Southeast Asian Nations) and Russia, continued to deploy concrete initiatives during the year in favor of about 15 suppliers. This reflects Valeo's commitment to supporting its suppliers in their own quality initiatives, and to involving them in the Group's projects.

Thanks to these resources, Valeo is able to integrate a growing number of its suppliers at the earliest stages of new projects.

In its efforts to reduce the cost of raw materials and components, Valeo has devised several measures to improve productivity:

- product and supplier base comparative assessments at Group level;
- joint productivity workshops between Valeo and suppliers;
- dynamic management of quotas and allocation of new business.

Led by the Supplier Risk Committee under the authority of the Group Purchasing Department, a supplier risk plan aimed at anticipating the consequences of a sourcing crisis has been rolled out to every Product Group. Valeo carefully observed and assessed all suppliers in order to anticipate and respond as quickly as possible to potentially critical situations that could have an impact on future sourcing. The effectiveness of this plan allows Valeo to protect its customers from possible shortages. There were no significant production stoppages at Valeo plants or at those of its customers in 2014.

Industrial and Logistics

The role of the Industrial and Logistics function is to improve the quality of Valeo's products and customer service, while reducing production costs and fixed assets. Expansion and investment projects, the optimization of industrial plant and the deployment of Valeo standards and tools concerning logistics and production are a crucial part of the Group's industrial focus.

To support the success of its operations and strong growth, Valeo implements standardized industrial and logistics methodologies and tools. These are based on a set of robust and economically efficient standards that enable the Group to steer its industrial projects and operations, from building a plant ("Generic Factory"), setting flows ("Internal and External Flows") and defining manufacturing processes ("Product Group Process Standards") to continuous improvement ("Valeo Production System"), to name just a few examples.

The correct application of these standards is ensured mainly through training programs. Each plant has set up an internal training center for operators where they receive the instruction necessary for them to carry out their work while respecting Valeo's standards. Approximately 1,600 people in different regions received training and coaching in industrial performance optimization techniques from specialist teams, focusing on enhancing equipment performance, plant organization, scheduling and transportation, and the use of production management information systems.

Additionally, Valeo has set up a support program to partner new activities or existing activities facing growth-related challenges, known as "Daughter Plants". The support is provided by plants that already use the technology in question – i.e., Mother Plants – and whose production and quality performances are in line with industry standards. Mother and Daughter plants work together to organize the training of production staff, the coaching of management and the implementation of new processes to ensure that the Daughter plant masters the new technology and is able to give customers first-class service from the outset.

This process of supervision and continuously improving operations helps to boost the Group's profitability. The application of the Valeo Production System tools generated more than 40 million euros in savings in 2014, while the ongoing efforts in favor of optimization and the centralization of transport and storage costs saved the Group an additional 22 million euros.

Quality

Quality is a key demand from consumers and automakers, and is a prime concern for all Group employees on a daily basis. It is the cornerstone of Valeo's 5 Axes methodology and an integral part of the Group's culture.

Total Quality is not just a question of methodology, it is a mindset. It therefore requires the involvement of everyone at all times and in all circumstances. At Valeo, this approach is the responsibility of each of the Group's employees.

The role of the Quality network is to ensure that everyone is aware of and understands their individual responsibilities. It also consists in evaluating problems and requirements in terms of training support, providing training and support, validating the lessons learned (via Lessons Learned Cards), and sharing them to avoid recurring problems.

In addition to this systemic approach, the Quality network ensures that the organization responds quickly to problems affecting the Group's customers. It also promotes and provides the necessary support for implementing tools to ensure built-in quality in products and production processes and to preempt and avoid customer incidents.

The Valeo Quality network operates on a decentralized basis:

- the Quality System Manager validates internal procedures, checks that they are applied properly, and updates them to ensure that they are in line with both internal and external quality standards;
- the Project Quality Manager ensures that the Quality methodology is duly applied to projects and checks that it covers projects for their entire lifespan, in accordance with Valeo standards;
- the Supplier Quality Manager manages the quality of components delivered, from the project phase right through the product's life cycle, and assists supplier progress by implementing improvement plans;
- the Production Quality Manager ensures that quality-specific tools are properly used within the manufacturing process and coordinates the implementation of control plans as well as work instructions. He or she also acts as the "voice of the customer" for all quality incidents to ensure the customer's total satisfaction;
- the Quality Manager builds the Quality network, and develops its skills and abilities by instilling the spirit of QRQC (Quick Response Quality Control, a method of coaching in problem-solving tools) into the teams across all networks;
- the Regional Quality Managers are in charge of harmonizing the implementation of the Group's Quality resources and leading campaigns to promote Quality.

Over the last several years, Valeo has implemented a program of resident engineers in order to provide optimal customer support. Engineers are assigned to a given customer and then work onsite at the customer's plant. As soon as a problem is detected, the engineer informs the appropriate staff at Valeo, so that actions to protect the customer can be determined immediately. At the end of 2014, the Group had 93 resident engineers, including ten warranty and project resident engineers.

Reinforcing the Valeo Quality culture involves the mobilization of all employees at all levels, and is based on:

- the implementation of the RAISE process (Robustness Accountability Innovation Standardization Expertise) aimed at making product and process standards more robust, in order to reduce warranty returns. There is a dedicated team of product and process experts in each Product Group. The standards are validated during Standardization Committee

meetings, and the LLCs (Lessons Learned Cards) from incidents are integrated into the standards. RAISE design reviews are conducted throughout the development phase to ensure that standards are properly applied. Finally, training has been developed within the various Valeo Technical Institutes to teach teams about standards and how they are used;

- the rollout of ten tools used to strengthen the application of the Quality system, which is based on the 5 Axes and covers three topics:
 - attitude: the QRQC approach,
 - conditions for producing Quality,
 - anticipation;
- the adoption of the "Mother-Daughter" plant concept to ensure the transfer of know-how to new sites or production lines;
- the implementation of CLEAN (Customer-oriented, Lean, Efficient Accountability of actors, Nimble) methodology to strengthen the agility/efficiency of the project management activities and their customer satisfaction focus.

At the end of 2014, the Group's quality level was 3 ppm (defective parts per million), representing the best result ever achieved, and achieved a 43% improvement on the 2013 level. 52% of the Group's plants are at less than 1 ppm. In all, total non-quality costs (direct costs, special transportation and warranty costs) were reduced by 5% compared with 2013.

Sales and Business Development

Valeo partners practically all automakers and most of the world's truck manufacturers in developing, producing and marketing innovative products, systems and modules for both the original equipment market and the aftermarket.

Valeo helps its customers to grow their markets on all continents.

In 2014, Valeo received a PACE award – a prestigious prize that honors superior innovation in terms of technological progress and performance among automotive suppliers – for its Back-Over Protection System (an innovative reversing system). This system detects obstacles within four meters, providing an earlier warning of nearby obstacles than conventional ultrasonic systems.

In past years, Valeo has been recognized for its LaneGuide™ lane departure warning system (2005), StARS micro-hybrid system (2006), multi-beam radar (MBR) blind spot detection system (2007), Park4U® park-assist system (2008), AquaBlade® wiper system (2012) and air intake module (2013).

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Automaker customers

In 2014, German automakers remained the Group's leading customers, representing 30% of original equipment sales. Asian customers (including Nissan) represented 26%, reflecting Valeo's growth strategy in Asia, particularly China and South Korea where business continues to progress with local automakers.

The share of original equipment sales generated by US customers (including Chrysler) rose to 22%. French customers (excluding Nissan) remained stable at 16% of original equipment sales.

Valeo has a diversified customer base, with the two largest customers accounting for 31% of total original equipment sales.

Valeo's main customers are (in alphabetical order):

- BMW
- BYD Auto
- Chery
- DAF
- Daimler
- Fiat Chrysler Automobiles
- FAW
- Ford Motor Company
- Geely Group
- General Motors Group
- Great Wall
- Honda
- Hyundai Group
- JAC
- Mazda
- Mitsubishi
- PSA Peugeot Citroën
- Renault-Nissan
- SAIC
- Subaru
- Suzuki
- Tata Group
- Toyota
- Volkswagen Group
- Volvo Group

Strategy and organization

Total order intake for 2014 was 17.5 billion euros or 1.6 times original equipment sales for the period.

This record level of business reflects Valeo's continued dual focus on selling innovative products relating to CO₂ emissions reduction and improved vehicle performance as well as on intuitive driving, and on growth in Asia and emerging countries.

The Sales and Business Development function is organized around:

- the **sales network**, consisting of four Sales Directors reporting to each of the four Business Groups' General Management teams. These Sales Directors head up a network comprising the Sales Directors for each Product Group. The network is responsible for defining Group sales strategy and handling day-to-day customer relations. It has a global customer-centric focus both for the Business Groups and for each Product Group;
- the **Group Customer Directors**, the 20 Sales Directors responsible for the key automaker customers. Each represents Valeo in its dealings with a given automaker and coordinates relations with this customer across all of the Group's Business Groups;
- the **National Directorates**, whose aim is to promote the Valeo brand and establish close relationships with key customers in their geographic area and, if necessary, resolve any legal or labor-related issues at a local level. There are thirteen National Directorates, based in China, Germany, North America, India, Italy, Japan, Poland, Russia, South America, South Korea, Spain, Thailand for ASEAN and Turkey;
- an **International Development network**, which consists of four International Development Directors for the Group's four Business Groups. It identifies market opportunities in high-growth countries, defines and implements the external growth strategy for the Business Groups and manages relations with external partners.

Since taking on the role of Senior Vice-President, Sales & Business Development, on January 1, 2014, Axel Joachim Maschka has worked to continue improving the commercial organization of the Group with a view to offering customers effective solutions and forging local and global partnerships with automakers, in line with the Group's objective of profitable, global growth.

Research and development

R&D is focused on the Group's two main growth drivers: CO₂ emissions reduction and improved vehicle performance as well as intuitive driving. The first is motivated by environmental concerns and increasingly stringent regulations, the second corresponds to growing market demand: consumers want cars that take care of some of the more demanding tasks, such as parking, but that also are connected and easy to use, just like their smartphones.

Valeo's R&D network consists of 10,400 employees worldwide. The Group has 50 main R&D centers that respond to market demand and anticipate customer requirements by continually improving Valeo products, but which also develop high value-added breakthrough technology.

To master increasingly complex technologies, Valeo recruits and trains highly-qualified engineers from around the world, develops partnerships with renowned research institutes and universities and establishes successful exchanges with companies that are technological leaders in their industries.

Innovation is central to R&D activities, and results in major orders and a growing patent portfolio. The Group has 35,000 patents, of which 1,108 were filed in 2014, a 41% increase on 2013 which was already a strong growth year.

In 2014, the total R&D effort amounted to 1,130 million euros, an 8% increase on the previous year. An action plan has been introduced with the aim of further enhancing the efficiency of the R&D network, and enabling the Group to launch more new projects.

R&D policy

In line with market demand with regard to its products, Valeo's R&D policy is focused on four main areas:

- **CO₂ emissions reduction and improved vehicle performance, which is broken down into several priorities**

- for internal combustion engines, Valeo contributes to the design of new low-consumption powertrains (downsized, direct injection, supercharged engines), with the objective of meeting future European requirements (maximum emission level of 95 g of CO₂/km in 2021), in particular through new gasoline engine management systems, pollution control systems (EGR – exhaust gas recirculation), engine cooling and transmission systems (acyclism filtering solutions, especially for three-cylinder engines);
- Valeo also designs air intake superchargers that significantly enhance internal combustion engine performance. This technology is particularly suited to downsized engines as it enhances the comfort and dynamics of driving;
- another research priority is the electrification of components such as pumps, valves, compressors, etc., with the aim of using them only as needed and significantly improving alternator efficiency. The strides Valeo has made in alternators were recognized by the European Commission when it awarded Valeo its Eco Innovation label in 2013 for its Efficient Generator alternator. This was only the second time the label had been awarded and the first time it had been given to an automotive supplier;

- Valeo is now a key player in the hybridization of internal combustion engines, with its micro-hybrid or Stop-Start solutions (i-StARS integrated starter-alternator and ReStart reinforced starter) and more recently mild-hybrids (8-15 kW) associated with new electrical energy management strategies and associated storage devices (batteries or ultra-capacitors);
- in the area of rechargeable electric and hybrid vehicles, Valeo is continuing to develop integrated solutions for power electronics (inverters, chargers, converters) and climate control solutions (with heat pump) for future electric vehicles. The objective is to significantly increase the vehicles' travel range, particularly in difficult hot or cold weather conditions. To bolster its hybrid and electric vehicle offering, in 2013 Valeo acquired Eltek Electric Vehicles, a company specialized in on-board chargers for passenger cars and commercial vehicles;
- Valeo also offers new innovative solutions for recovering energy during vehicle braking or energy lost in exhaust from internal combustion engines (exhaust heat recovery), in order to work towards achieving maximum use of on-board energy.
- **Optimizing vehicle energy footprints and reducing mass**
 - Valeo is developing new approaches aimed at optimizing vehicle energy footprints with the use of virtual simulation platforms. This approach enables overall optimization of the vehicle energy footprint, taking into account operations and synergies between the different systems while in use (for example, between the engine and its thermal system and/or the cabin air-conditioning system). This simulation capability can precisely analyze the impact of future approval cycles and makes Valeo a key systems partner for automakers. Accordingly, as new technological solutions emerge, new strategies are proposed;
 - reducing the weight of parts has recently become an important priority for electric vehicles (lower weight means greater travel range), but it has long been a key R&D objective for Valeo's engineers with the aim of reducing vehicles' energy footprint. In this context, Valeo aims to use new materials (underhood technical plastics, light alloys, composite materials, etc.), develop new designs to increase power density ratios (electric motors, power electronics, etc.) and incorporate features to reduce volume and weight. This also involves more conventional product lines such as wipers (AquaBlade® system) or LED lighting systems.

● Developing new lighting and wiper systems

- Valeo develops innovative interior and exterior lighting systems based on LED and laser technology. The true added value of the Group's lighting and signaling products lies in their original and attractive styles that complement the automakers' brand identities, in lower energy consumption, costs and weight, but also in the ability of these products to help improve safety and comfort for drivers and passengers. Lighting is also an integral component of autonomous driving.

By way of illustration:

- the BeamAtic® PremiumLED intelligent lighting system which allows high-beam driving without dazzling oncoming drivers;
- interior lighting coupled with driving assistance systems can transmit information to the driver in an intuitive way. For example, a color-coded system of lighting on the windshield A-pillars can signal the presence of another vehicle in the blind spot;
- the color of the interior lighting can be customized by users to suit their on-board activities.

The style and compact size of LED and laser lighting systems gives designers more freedom than halogen lighting and helps to emphasize the brand identity of vehicles;

- driving assistance systems are increasingly incorporating cameras. Consequently, image quality has an impact on the performance of these systems. Based on its innovative AquaBlade® wiper product, Valeo has developed a particularly effective solution for cameras that are fixed onto the windshield inside the vehicle; specific solutions are also being developed for other cameras used on vehicles;

● Intuitive driving: automatic, connected and easy

- Valeo is rounding out its range of intelligent sensors (ultrasonic sensors, radars, cameras), for example with the new Lidar laser scanner which aims to improve the modeling and integration of the vehicle's surrounding environment, in particular in an urban environment. This latest system offers an unrivaled level of scope and precision. In addition to sensors, Valeo also provides solutions using its data fusion expertise that allows it to intelligently combine different sensors in order to offer functions that are essential to highly automated driving (up to levels 3 and 4 based on the VDA/SAE definition⁽¹⁾);
- Valeo has once again extended its parking assistance offering (Park4U®, 360Vue®) by adding increasingly sophisticated driving assistance features in order to increase comfort and safety in an urban environment. Valet Park4U®, a new version of Park4U® Remote (parking

a car using a smartphone), which was unveiled at the IAA autoshow in Frankfurt in 2013, has now been complemented by Connected Valet Park4U®, which allows drivers to define the target parking space using the parking lot management system. This allows drivers, with the aid of their smartphone, to leave their car at the entrance to a parking lot and let the vehicle drive itself to the parking space defined by the parking lot management system. Similarly, drivers can use their smartphone to instruct the car to come and pick them up at the parking lot exit. This innovation is an important step towards the automation of certain driving tasks carried out at low speed. In the near future, these driving modes will also take into account minimum energy consumption targets in synergy with the powertrain system, thereby helping to reduce CO₂ emissions;

- success in automated driving lies in the development of appropriate human-machine interfaces. Valeo works together with a number of partners to offer solutions that are easy to use, even if they are technically sophisticated. These intuitive solutions tie in with the consumer connectivity trends. Thanks to Valeo's solutions, numerous vehicle functions will be controlled using a smartphone or smartwatch;
- finally, Valeo is developing its offering of telematics products with key partners, which will enable it to achieve premium positioning in telematics systems.

Valeo listens to consumers

In order to anticipate consumer needs and respond to them with innovative and effective solutions, Valeo has conducted six types of studies:

- the Megatrends Analysis which helps to understand the long-term trends that will shape all aspects of our future lifestyles (economic, social, cultural and personal life, etc.). These efforts help to anticipate future transitions in the automotive world and define the most probable scenarios;
- social surveys segmenting the automotive market and positioning Valeo's innovations within it. In 2014, Valeo along with ten automakers participated in a survey conducted by Sigma of the expectations of more than 16,000 European and 2,000 Chinese consumers in terms of automobile innovation;
- focus groups and consumer clinics through which qualitative surveys can be performed by means of group meetings that enable end-users' attitudes towards a new product or the adoption of future technologies to be analyzed with a view to validating new features currently being developed by Valeo, or to specifying needs;

(1) See Sustainable Development Glossary, page 386.

- online surveys sent directly to end customers and intended to assess consumer acceptance of the Group's innovations;
- the "Observatoire des Mobilités" (the Mobility Observatory), which is a major syndicated study that enables Valeo's teams to anticipate the mobility needs of consumers by taking into account changes in public policy and the development of local infrastructures. These studies take into account all modes of transport available and enable conclusions to be drawn on the future evolution of the automotive market;
- 2030 scenarios⁽¹⁾ in order to understand and anticipate changes to powertrain systems.

Actions taken and highlights in 2014

In 2014 Valeo pressed ahead with its R&D strategy, founded on anticipating future user needs, attracting new talent and stimulating innovation.

The Group therefore simultaneously launched three consumer surveys on the US market, two of which in partnership with an automaker. In addition to an online survey aiming to test consumer acceptance and interest for the Group's innovations, Valeo launched two focus groups to gain more insight and a better understanding of the complex decision-making processes that occur when consumers purchase a vehicle. The objective is to identify preferences, break down the selection process, understand the factors that discourage and encourage users when faced with choices linked to engine options or automation on vehicles of the future.

These projects draw on expertise provided by major market research and survey institutes as well as an automaker partner, not to mention Valeo's own marketing and R&D teams. All these teams worked together to construct the most likely scenarios and thus to devise technical solutions that are best suited to a world ten years from now.

To get more feedback on user expectations and future needs, Valeo presented its main innovations at several trade shows in 2014, including the Consumer Electronics Show (CES) in Las Vegas (United States), the Beijing motor show (China), the Internationale Automobil Ausstellung (IAA) motor show in Hannover (Germany) and the Paris Motor Show (France). In its role of innovator, Valeo also attended various international R&D conferences, including Transport Research Arena (TRA) in Paris (France), a major meet-up for specialty research companies in the field of mobility, Intelligent Transport Systems (ITS) in Chicago (United States), the Vienna Motor Symposium (Austria), and the Automotive Engineering Exposition in Tokyo (Japan), to name a few of the best known events.

Through numerous fruitful partnerships, Valeo has developed an increasingly honed and detailed knowledge of consumer expectations, which counts as a major factor in the successful

development of innovations for the vehicles of tomorrow. This knowledge of consumer expectations allows for a structured and targeted approach to the markets.

The Group presented a number of innovations in 2014. In the area of driving assistance, the telematic module and the rear-view camera:

- The telematics unit is an embedded system combining cellphone and GPS technology to offer innovative functions including vehicle safety (emergency calls, emergency braking), remote business services (connected navigation services, fleet management, etc.) and entertainment (internet radio, email, web browsing, video streaming).

The Valeo inTouch Telematic® system is an affordable and secure module specially designed to fit the requirements of future safety standards, such as the eCall standard (in the EU) and ERA-GLONASS (Russia). In an accident, the vehicle will automatically contact the nearest emergency center and share information on its exact location, allowing the rapid arrival of emergency services, reducing the potential gravity of accidents and protecting lives.

- The rear-view camera developed by Valeo facilitates reverse maneuvering by providing a visual check on areas to the rear of the vehicle that cannot ordinarily be seen by the driver, thus providing added comfort and safety.

The camera is an integral part of the innovative Back-Over Protection System, which helps drivers avoid accidents when reversing thanks to a combination of ultrasonic sensors and a smart camera fitted at the rear of the vehicle. It is comprised of a mega-pixel High-Dynamic-Range (HDR) imager which provides vision-based object detection, all in a compact single-box design. Due to its four-meter obstacle detection range, the system is able to alert drivers to obstacles faster than a conventional ultrasonic system. It offers improved image quality and better low-light performance. The solution is also more economical and lighter than the current systems available on the market. Valeo won a 2014 PACE (Premier Automotive Suppliers' Contribution to Excellence) Award for this innovation.

As an innovative company and partner to universities and engineering schools worldwide, in 2014 Valeo launched the first Valeo Innovation Challenge, a contest open to university and engineering students around the world, offering them the opportunity to play an active part in automotive innovation by imagining products or systems that will make cars more intelligent and intuitive by 2030.

The contest ran throughout 2014, with different selection phases leading up to the announcement of the three finalists on the occasion of the Paris Motor Show.

(1) Source: BIPE.

PRESENTATION OF VALEO AND ITS BUSINESSES

Presentation of Valeo

While nearly 1,000 teams from 55 different countries and comprising two to five people, including students of various disciplines (sociology, urbanism, architecture, design, etc.), submitted projects in February 2014, only 20 were shortlisted at the end of the initial selection phase, which was conducted by around 60 people including experts from Valeo and external scientists. The projects were judged on the following criteria:

- boldness, innovation and originality;
- importance and relevance of the problem addressed and consideration of social needs;
- quality of the presentation;
- technical proficiency;
- feasibility and construction of the prototype.

To enable the 20 teams to build a functional prototype for the last selection phase, Valeo gave each of them 5,000 euros. The three winning teams were selected on the occasion of the Paris Motor Show by a jury chaired by Valeo Chief Executive Jacques Aschenbroich and comprising eminent figures from the world of science, and executives from Valeo.

The first prize of 100,000 euros, was presented to a Brazilian team from Universidade Federal de Minas Gerais for its innovative proposal concerning hydraulic transmissions. Two Canadian teams, one from the University of Ottawa, the other from the University of Waterloo, tied for second place and received 10,000 euros each.

In view of the success of the first competition and the interest it raised, Valeo has launched the second Valeo Innovation Challenge for 2015.

As regards development teams, at the end of 2014 Valeo had four Group Technical Service Centers serving the entire Group and in the process of expanding rapidly: (i) in Egypt at the Cairo site for software development; (ii) in India at the Chennai plant for mechanical design and simulation; (iii) in China at the Wuhan plants for mechanical design and simulation dedicated to lighting; and (iv) in China at the Shenzhen plant for electronic circuit design, as well as for software development, in addition to the Cairo plant. In order to unlock as many synergies as possible, the Group has continued to expand these sites and the number of employees increased by 13% in 2014.

Valeo also continued to strengthen its partnerships with top schools and universities in France as well as in all the other countries in which its R&D teams are present. The Group finances more than 50 doctoral theses focusing on scientific areas that are key for its technological roadmaps.

In the specific field of technical education (PhD, Master's and Engineer levels), Valeo launched a research chair, in collaboration with other industry players, dedicated to vehicle lighting systems. Three academic institutions form the academic part of the chair, which has two primary goals:

- the development of a high-level international training program (initial training for young graduates) and sessions aimed at providing technical skills linked to the development of the most recent technologies; and
- research activities devoted to challenges posed by lighting.

The partners collaborating with this chair are Institut d'Optique Graduate School (IOGS) in the fields of optics and photonics, Ecole Supérieure des Techniques Aéronautiques et de Construction Automobile (ESTACA) in onboard systems, transportation technologies and project systems, and Strate School of Design in lighting system design.

Lastly, Valeo also participates in more than 40 collaborative research programs, having received a public subsidy, of which more than half was related directly to CO₂ reduction and low-carbon vehicles. More than 60 partners – research laboratories and innovative small- and medium-sized companies – participate in these programs alongside Valeo and actively contribute to the Group's research ecosystem.

For details of the Group's R&D policy, see Chapter 4, section 4.2, page 136.

Finance

The Finance Department comprises the following functions: management control, accounting, financial reporting, cash management, taxation, financing, financial communications, strategic operations, information systems and risk insurance environment. Operating either on a Group-wide network basis or centrally from headquarters, these functions carry out Valeo's financial strategy. In particular, they are tasked with:

- providing the tools and procedures necessary to monitor and supervise the Group's activities;
- presenting detailed, up-to-date and relevant information on the Group's financial situation, the performance of its activities, its environment and its economic functioning in general;
- producing tools to support decision-making; and
- ensuring that the Group controls financial risks.

Management Control Department

Alongside the Chief Financial Officer, the management controller acts as a co-pilot for General Management, assisting the operational directors with the management of the Group's activities as well as with the preparation and approval of tender documentation. He assists with the monthly accounts closing and provides performance analyses and assessments of risks and opportunities based on both financial and physical indicators. He draws up three-month forecasts on a monthly basis and sets out the budget and the medium-term plan.

The management controller is present at all levels of the organization (sites, Product Lines, Product Groups, Business Groups and Group). He works together with the accounting and cash management departments to provide relevant and reliable information. The management controller has a number of effective tools to enable him to carry out his duties, including standardized enterprise resource planning and reporting systems.

Accounting Department

The Group Accounting Department is responsible for preparing the consolidated financial statements for the Group and the individual financial statements for Valeo. Its mission is to supervise and control the accounting activities of the entire Group.

To perform these duties, the Group Accounting Department is organized into:

- the Technical Standards Department, responsible for the implementation and application of International Financial Reporting Standards (IFRS); the team organizes and prepares training sessions for the Group's finance teams with a view to improving reporting quality and promoting a better knowledge of the standards;
- the Consolidation Department, which prepares the Group's consolidated financial statements; each team member or consolidator is responsible for reviewing the financial statements of subsidiaries within a specific region (Europe, America, Asia, etc.) and following up on broader issues that also concern their region;
- the Accounting Department for the holding companies and Valeo Internal Bank, tasked with preparing the financial statements of the holding companies and the parent company and overseeing the operations of the Group's Internal Bank.

The accounts functions of the subsidiaries are handled by the Shared Services Centers, which are organized by country.

The Group Accounting Department's main responsibility is to guarantee the quality of the consolidated financial statements and their conformity with IFRS, as well as ensuring that the statutory financial statements of the subsidiaries are compliant with local accounting standards.

For the 2013 Registration Document, the notes to the consolidated financial statements were revised with a view to improving the transparency and relevance of the financial information reported by the Group.

Cash Management Department

The Cash Management Department is responsible for secure cash management, cash reporting, optimization of working capital and the management of customer credit risk. To do this, it leads a team of corporate treasurers operating across the Group.

The treasurers work closely with the accounting services located within the Shared Service Centers, which are organized by country, to produce standardized reporting. Secure applications are in place to control payment and collection flows. Electronic payment methods are used to the greatest extent possible.

Risk Insurance Environment Department

Risk management and insurance

Valeo's risk management policy is based on a network of specialists, rigorous procedures, management systems and applications for improving performance, as well as regular internal and external audits.

To carry out its mission, the Risk Insurance Environment Department has set up a network of Health, Safety, Security and Environment (HSE) managers in the Business Groups, sites and in all countries in which Valeo operates. The Risk Management Committee, whose members are the Business Group and Valeo Service HSE managers, the Director, and the country HSE managers (if required), is the central steering body of the Group's Risk Insurance Environment Department. In total, there are nearly 300 people directly involved in the day-to-day management of HSE issues within the Group.

Valeo's risk management policy, applied systematically at all sites, can be summarized as follows: (i) complying with obligations imposed by national legislation as well as those defined by Group policy (which exceed the requirements of national regulations in some fields); (ii) identifying risks, evaluating their impact, setting improvement objectives and implementing action plans to reduce – or where possible eliminate – risks; and (iii) monitoring regularly the progress achieved through internal and external audits.

Risks that might impact Valeo's business are set out in Chapter 2, section 2.1.2 "Environmental and industrial risks", page 63.

Environment

Environmental protection is based on a number of initiatives which are, by definition, carried out over the long term. Valeo has been committed to this effort for over 20 years in terms of both product innovation and plant management.

The objective is of course to prevent environmental pollution, but also to protect the environment and biodiversity through a sustainable development policy, designed to reduce consumption of energy and natural resources (water and raw materials), lower greenhouse gas emissions, particularly CO₂, decrease or even eliminate the consumption of dangerous products, reduce waste and achieve maximum recyclability of all products, as well as offer an industrial environment that is both safe and pleasant to work in.

Valeo systematically incorporates an environmental approach into all the stages in the life of its products and processes, from design and production to utilization and end-of-life management. A group of experts in environmental matters and R&D from different Valeo Business Groups works to reduce the environmental impact of processes and products over their entire lifecycle.

To fulfill its progress objectives, Valeo bases its environmental policy on performance and also on the establishment of a management system leading to regularly renewed external certification. The Group has adopted ISO 14001 certification, the international benchmark in terms of environmental management systems. **A full 95% of plants were ISO 14001 certified by end-2014.** Valeo requires all of its plants to be certified.

In 2013, as part of its Environmental Action Plan, Valeo set out performance objectives for a new three-year period up to 2015.

For more information on the Group's environmental policy and a complete list of its environmental indicators, see Chapter 4, section 4.3 "Environmental performance", pages 149 to 171.

Health and safety

Health and safety at work is a priority for Valeo, which is constantly striving for "zero accidents". This policy is based on rigorous procedures using indicators to measure the effectiveness of actions taken, feedback through the QRQC approach applied to health and safety at work, and an OHSAS 18001 certification process for all plants.

At end-2014, 90% of plants were OHSAS 18001 certified. Like the ISO system, this health and safety management system is based on continuous improvement.

Communications

The Communications Department is tasked with defining and implementing the Group's communication strategy and with strengthening Valeo's image and reputation across the world and with all stakeholders (employees, customers, shareholders, suppliers, partners, general public).

It is structured around four units:

- **Media Relations**, which manages all relations with journalists worldwide and in all media formats. This unit handles all queries and requests from journalists as well as proactively offering news topics, interview themes and events designed to highlight the Group's activities and image;
- **Internal Communications**, whose role is to unite the Group's teams and make each employee an ambassador for the Valeo brand and business, to ensure internal buy-in for the Group's strategy, strengthen commitment across the Group and assist the Group in successfully carrying out its major projects;
- **Brand and Image**, which is responsible for creating and producing written documentation, the website and corporate films that boost the Group's image and for safeguarding the brand's integrity, durability and strength;
- **Events**, which is in charge of supporting business and corporate initiatives by organizing events such as trade shows, product launches and customer site visits, and with producing any other event organized at the initiative of the Group's various departments.

All of Valeo's communications professionals at corporate level or within the Business Groups or regions, work to reinforce the Group's image and reputation across the world, in line with the main areas of focus that are determined each year.

1.3.6 Industrial resources and real estate portfolio

Geographic footprint at December 31, 2014

	Plants	Research centers	Development centers	Distribution platforms	Number of employees
WESTERN EUROPE					
Belgium/Netherlands, France, Germany, Ireland, Italy, Norway, Spain, United Kingdom	38	12	10	5	23,860
EASTERN EUROPE					
Czech Republic, Hungary, Poland, Romania, Russia, Turkey	16	-	5	3	12,927
NORTH AMERICA					
Mexico, United States	16	1	4	2	11,779
SOUTH AMERICA					
Argentina, Brazil	8	-	3	2	2,900
ASIA					
China, India, Indonesia, Japan, Malaysia, South Korea, Thailand	50	3	11	3	24,750
AFRICA					
Egypt, Morocco, South Africa, Tunisia	5	-	1	-	2,284
TOTAL	133	16	34	15	78,500

At December 31, 2014, the net carrying amount of the Group's real estate portfolio (land and buildings) was 597 million euros (see Chapter 5, section 5.4.6, Note 6.3 to the consolidated financial statements, page 282). The portfolio is largely composed of plants, the majority of which are wholly owned.

The net carrying amount of the Group's equipment, which is largely made up of technical facilities, material and tools was 1,369 million euros at December 31, 2014, excluding fixed assets

under construction and other property, plant and equipment (see Chapter 5, section 5.4.6, Note 6.3 to the consolidated financial statements, page 282).

Environmental constraints result from the regulations applicable in this area to all Group establishments (see Chapter 1, section 1.3.5 "Risk Insurance Environment Department", page 35; Chapter 2, section 2.1.2 "Environmental and industrial risks", page 63 and Chapter 4, section 4.3 "Environmental performance", page 149).

1.4 Businesses

Valeo's operational structure is organized around four Business Groups:

- Comfort & Driving Assistance Systems
- Powertrain Systems
- Thermal Systems
- Visibility Systems

The Business Groups, under the responsibility of the Group's Operations Department, are responsible for ensuring the growth and profitability of the Product Groups across all markets.

Section 1.1 of this chapter on page 6 presents sales data by Business Group.

1.4.1 Recent product launches

BMW i3



© BMW

- Park Assist (option)
- i-Cam (option)
- Engine cooling module
- Range extender
- Headlamps (Halogen/LED)

Citroën C4 Cactus



© Citroën

- Integrated faceplate
- Body controller
- Alternator (diesel engines)
- Starter
- Clutch and dual mass flywheel

- Condensers
- Brazed radiators HT/LT
- Fan system
- A/C black box
- Engine control unit (ECU)
- Camshaft, water temp, Tmap sensors
- Headlamps
- Rearlamps
- Front and rear wiper systems
- Washer system

Ford Mustang



© Ford

- Park Assist system
- Clutch kit
- Dual/single mass flywheel
- Compressor
- Evaporator
- Heater core
- LED Fogstar lamp
- Center high mounted stop lamp
- Front wiper system

Cadillac Escalade



© General Motors

- Top column module
- Interior switches
- Starter
- Evaporator
- Manual HVAC unit
- LED headlamps
- Auxiliary lamps
- LED rearlamps
- Rear wiper system

Volkswagen Passat

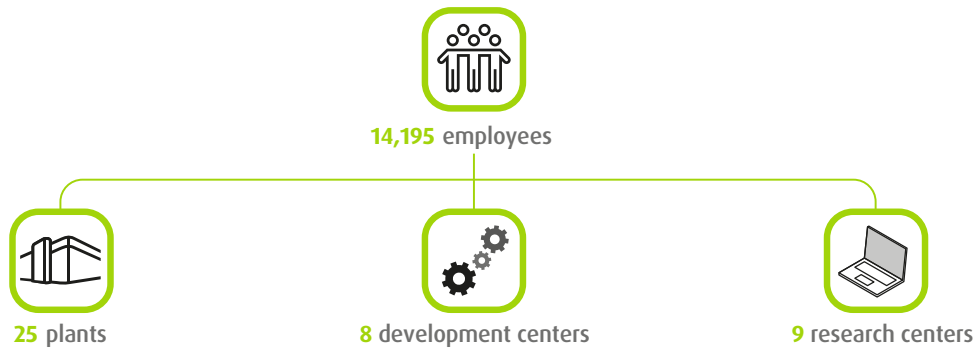


© Volkswagen

- Park4U® gen. 3 (including Park Pilot)
- 360Vue® 3D
- Steering column switch module
- Window lift switches
- Air throttle valve (diesel engines)
- Start-Stop (diesel engines)
- Generator
- HVAC system
- Headlamps (halogen/LED)
- Rear wiper motor FlexRM
- Humidity sensor

1.4.2 Comfort & Driving Assistance Systems

- Sales: **2.3** billion euros, or **18%** of Group sales
Original equipment sales up by **15%** like for like
- EBITDA⁽¹⁾: **336** million euros, or **14.5%** of sales
- Net R&D expenditure: **201** million euros



2014 highlights

- All time record order intake, with 24% originating in China.
- PACE award for the innovative Back-Over Protection System.

Key growth drivers

- Strong growth in Asian and North American markets and the strengthening of the Business Group teams needed

to bring recently-acquired contracts to market, together with the development of a range of innovations specific to these markets.

- Continued development of the intuitive driving strategy with the creation of a unique range of solutions and products based on detection and connectivity systems and interfaces that will deliver solutions for autonomous vehicles, in which human-machine interfaces that give drivers confidence in these highly complex functions is essential.

Description of the Business Group

Tomorrow's cars will be highly automated and increasingly connected: innovative, intuitive interfaces will be needed to support this functional leap. The Comfort & Driving Assistance Systems Business Group focuses on the driver experience and develops a range of unique solutions to make driving more intuitive and mobility safer, more connected and greener.

Comfort & Driving Assistance has three Product Groups:

- Driving Assistance
- Interior Electronics
- Interior Controls

Driving Assistance

Valeo produces three technologies for detection around the vehicle which can be used in applications to help with driving and parking: ultrasonic sensors, radars and cameras. It is also getting its Lidar technology ready for production. This makes Valeo a partner of choice for automakers to develop future systems that will incorporate several types of sensors in order to offer new features:

- ultrasonic sensors used in parking assistance systems (from obstacle detection to the automatic Park4U® system) – Valeo sells over 10 million of these systems every year – and infrared sensors that activate the rain/light/humidity detection function;
- radars used in the blind spot detection systems and the systems that detect vehicles when reversing out of a parking space with limited visibility, alerting the driver to any danger;

(1) See Financial Glossary, page 385.

PRESENTATION OF VALEO AND ITS BUSINESSES

Businesses

- cameras offer total vision around the vehicle with the 360Vue® multi-camera system, at the front and rear of the vehicle, at a blind crossing or when leaving a parking lot. Front cameras also provide lane departure warning systems, road sign detection and high/low-beam autoswitching systems.

Emergency braking features for urban environments, driving in congested traffic and automatic parking will also be enhanced by new infrared laser scanner (Lidar) technology.

All these systems make driving safer and more comfortable and help reduce CO₂ emissions by easing the flow of traffic.

Interior Controls

The Interior Controls Product Group is world leader in human-machine interfaces. Using its extensive experience and in-depth knowledge of vehicle architectures, this Product Group develops high-quality, innovative, robustly-designed solutions for premium markets as well as for emerging and mass markets.

It comprises:

- top column modules, which represent the electronic communication hub between the safety features and the central electronics system of the cabin. Since the acquisition of Niles in 2011, the focus has been on providing standardized solutions at optimal cost;
- driver and passenger interface systems (human-machine interface), ranging from simple switches to systems integrating touch screens. These interfaces manage air-conditioning systems and multimedia applications and are ergonomically designed for ease of use while ensuring optimal safety;
- steering sensors (angle and torque sensors).

Interior Electronics

The Interior Electronics Product Group covers the full range of connectivity solutions:

- short-range connectivity, e.g., hands-free access and start systems (remote controls, sensors, receivers and immobilizers), which are experiencing strong growth on all markets;
- long-range connectivity that uses telematics units to connect to mobile phone networks.

It also develops innovative systems that enable the integration of new smartphone usages and smart technology such as car sharing services and remote parking systems.

Interior Electronics includes body controllers, which equip vehicles of the PSA Peugeot Citroën and Renault-Nissan groups.

2014 highlights

Commercial successes

Comfort & Driving Assistance Systems continues to grow, and the order intake for 2014 represented an all-time high. A full 24% of these orders originated in China, representing a secure long-term source of growth. Business also benefited from a recovery in the North American market, while higher orders in Europe reflected an increase in the overall content per vehicle thanks to the incorporation of new features.

Among the orders secured by the Business Group, the following should be noted:

- following on the heels of a 2012 order, Comfort & Driving Assistance Systems cemented its leadership position in 2014 by securing a big order from a European automaker for the next generation of automatic park assist systems based on a concept derived from Park4U® Remote technology. Thanks to the commercial success of the feature, the automaker wishes to deploy it more widely throughout its range of vehicles. Meanwhile Valeo's Park4U® system continued to make inroads into both Chinese and European markets. A new customer sought Valeo's expertise in this area and asked the Group to act as its systems prime contractor. Through cutting-edge research conducted in liaison with a mainstream automaker, Valeo is attempting to define automated driving architecture for 2020;
- Valeo's 360Vue® multi-camera system consolidated its global leadership by winning an order with an American automaker to equip an entire vehicle platform;
- 2014 also brought in the first order for the Group's laser scanner sensor recognized as the most technologically advanced on the market. The automaker in question intends to integrate the sensor into its automated driving features;
- order intake of central screen displays was boosted by demand from two European automakers;
- Valeo expanded its footprint in the high-end dome light control segment with an order placed by a new premium automaker for an electronic platform that controls a number of features;
- there were also key market share wins for top column modules, with an expanded presence in China and new customer wins;
- in 2014, Valeo secured an order to supply eCall telematics units compliant with Russian ERA-GLONASS regulations from a Chinese automaker that exports to that market.

Product launches

- Following the launch of the touch screen on the Peugeot 308, the Business Group continued to roll out its screen technology to other models, notably the new Renault Espace unveiled at the Paris Motor Show. This screen display includes a 9.2 inch matrix in portrait mode and 768x1024 pixel resolution together with more traditional human-machine interface button-type features (knobs and push buttons and tactile technology). The overall effect combines high-end, high-resolution perceived quality with touch buttons and decoration.
- 2014 also saw Valeo's Park4U® technology on an American pick-up (Ford 150) and the first semi-automatic forward-diagonal parking system (the third generation of Park4U®), featured on the Volkswagen Passat.
- The world's first 360Vue® 3D visibility system is now also available on the Volkswagen Passat, providing spectacular aerial views of the vehicle's whole environment.
- Valeo's new generation 2.5 front cameras have featured on the Renault Scenic and Renault Twingo and on the Smart ForFour model since 2014. This multi-functional product is capable of detecting road markings, speed limit signs and automated changes at smart traffic lights.
- Valeo continues to deploy hands-free access and start systems in China via the low intrusive PEPS (Passive Entry-Passive Start) system installed in JAC's S2 models in 2015.

Events and technological focus

Valeo won a PACE award in 2014 for its **unique Back-Over Protection System**, which lessens the risks of a collision when reversing thanks to ultrasonic sensors and a smart reversing camera. A HDR megapixel sensor visually detects objects within a four-meter radius, and the whole system is housed in a single compact unit.

- In April 2014, Valeo unveiled a number of key innovations at the Beijing Motor Show:
 - **eSkin 2: in-vehicle connectivity**
The eSkin 2 demonstrator showcases Valeo's expertise in human-machine interfaces in the passenger compartment. eSkin 2 brings connectivity right into the vehicle, offering driver safety and attractive styling. Drivers can use the central console on the vehicle dashboard to access all of their smartphone apps.

■ smart key: "hands-free" access and start systems

The smart key signals the end of fumbling for keys in pockets or purses. By using the smart key, vehicles can now be opened and locked at a distance of up to 500 meters.

Once the key is in the car (in a bag or pocket), the engine can be started by simply pressing on the start button.

In China, Valeo's smart key already features in certain Chery models and will be offered by another two Chinese brands in the course of 2015.

- In early September 2014, for the third consecutive year, Valeo took part in the **World Congress on Intelligent Transport Systems** held in Detroit in the United States. There was a particular focus on the following technologies:

- **Connected Automated Valet Parking**, which allows drivers to leave their car at a parking lot entrance. The system is activated remotely using a smartphone app and is capable of looking for, and finding, an empty parking space before executing the maneuvers necessary for parking the car in the space. The car parks itself in a space it has chosen – all in driverless mode. The app can also be used to get the vehicle to return to the parking lot entrance. In addition to the communication module, the system includes 12 ultrasonic sensors, four cameras and a laser scanner.

- the **panoramic 360Vue™ system**, giving complete visibility around the vehicle that enhances driver safety and comfort when performing maneuvers at very low speeds by displaying the vehicle's immediate environment in color, high-definition images displayed on the dashboard navigation screen using four miniature digital cameras and image processing software. The cameras are integrated in the external rear-view mirrors, the front fender and the tailgate, providing the driver with clear images even in poor or contrasting light of the sort frequently encountered in parking lots.

- In October 2014 at the **Paris Motor Show**, Valeo unveiled **InBlue**, a smart key activated from a smartphone that uses Bluetooth® Smart technology to lock, unlock or start a car. Valeo InBlue can also be used for car sharing, remote parking or access to vehicle data such as tire pressure, fuel level, the distance to the nearest gas station or vehicle location. This innovation proves Valeo's ability to use all of its expertise as a skills integrator.

Partnerships

- In February 2014, Valeo signed a cooperation, development and license agreement with LeddarTech, a manufacturer of detection and ranging solutions combining infrared LED and time-of-flight measurement technology. Valeo, which is already a market leader in driving assistance systems, will be able to leverage this agreement to develop a new infrared sensor for volume produced vehicles, cross a new threshold in the development of road obstacle detection and tracking functions, and strengthen its offer of active safety functions to meet new EuroNCap 2016 standards in Europe.
- During the year, Valeo and Safran worked together on six projects covered in their cooperation framework agreement, the results of which were presented at the EuroSatory show in June 2014 as well as at the 2014 Paris Motor Show.
- Drive For You research chair: on October 31, 2014, Valeo, PSA and Safran joined a research chair run by Fondation Mines ParisTech that aims to boost research links between business and academia in the domain of automated land vehicles. A number of other major national and international research institutes are also involved in the chair, including UC Berkeley, Shanghai Jiao Tong, EPFL Lausanne, IFSTTAR and INRIA.

Collaborative projects

- Valeo and Safran secured funding for the AWARE project within the scope of the seventeenth call for projects of France's Single Interministerial Fund (FUI) (see Chapter 4, section 4.2.4, page 146). The goal of this project, which is being headed up by ULIS, is to develop a prototype all-weather sensor adapted to the future needs of both the automobile and aerospace sectors. The other stakeholders in this project include IAC, Nexyad and Oktal from the corporate sphere and CEA-LETI, CEREMA and IFSTTAR from the academic sphere.

Market trends

Two key market trends were confirmed during the year:

- first, automakers and automotive suppliers alike are in a race to get out the first automated car that really meets the needs of people who want to avoid disagreeable driving situations (traffic jams, endless searches for parking spaces, etc.). Certain automakers are marketing the first semi-autonomous vehicles while others have unveiled prototypes of vehicles that enable drivers to engage in non-driving activities from time to time. This new phase is giving rise to fresh challenges in terms of detection strategies, algorithms and driver-

vehicle interaction, and the Valeo Intuitive Driving strategy puts the Business Group in a good position to capitalize on these new challenges;

- second, governments and certification agencies (EuroNCAP in Europe and NHTSA in the United States) have tightened standards and ratings with a view to achieving drastic reductions in the number of road deaths. This process is accelerating the deployment of active safety systems. Vehicles hoping to score five stars on the Euro NCAP safety rating must now be equipped with Autonomous Emergency Braking, lane departure warning systems and speeding alerts. Most of these systems use one or more front cameras and may be combined with other types of infrared sensor or radar.

Valeo is responding to other emerging market trends:

- the increasing importance of emerging countries is giving rise to new product expectations. Automakers in these countries want innovations provided that they are immediately accessible and affordable. In line with the Business Group's strategy, Valeo offers solutions by adapting standards and modules;
- automakers are developing "connected vehicle" offerings based on telematics. eCall is among the features proposed. Valeo is developing onboard systems that will help its customers to comply with future regulations;
- smartphones and apps and a high degree of personalization have set totally new design and ergonomics standards for the human-machine interface. For automakers, the real challenge involves striking a balance between the new features offered and how these are used, while keeping the driver, passengers and other road users safe. Ever-larger screen interfaces have now become omnipresent, especially in central consoles, together with customizable screens for instrument panels;
- head-up display (HUD) units that help drivers keep their eyes on the road, meaning that they are now being incorporated into mid-range segments across the regions, have been a great success with users;
- other solutions that facilitate human-machine interaction such as proximity sensors and gesture detectors are beginning to appear in cars. Valeo has anticipated this trend, which applies to all ranges of vehicles;
- it is also worth emphasizing the increased use of on-board cameras, both for basic monitoring tasks (projecting a view) and for use as image-processing sensors (object detection), even extending to combining data captured by other sensors (360-degree vision around the vehicle).

Main competitors on the driving assistance systems and interior controls market⁽¹⁾

Driving Assistance Systems



Market share of the three leaders down from 2013.

Interior Control Systems



Market share of the three leaders stable compared to 2013.

Outlook

As automotive markets continue to grow, especially in Asia and North America, the Business Group continues to expand its teams with a view to bringing recently-acquired contracts to market from 2015 on and to developing a range of related innovations. Recent investments in plants and R&D facilities will also be leveraged to continue growing the order book and the offering in all product lines developed by the Business Group.

Moving into 2015, Comfort & Driving Assistance Systems will continue to develop its intuitive driving strategy. The next generation of automated vehicles focused on human-

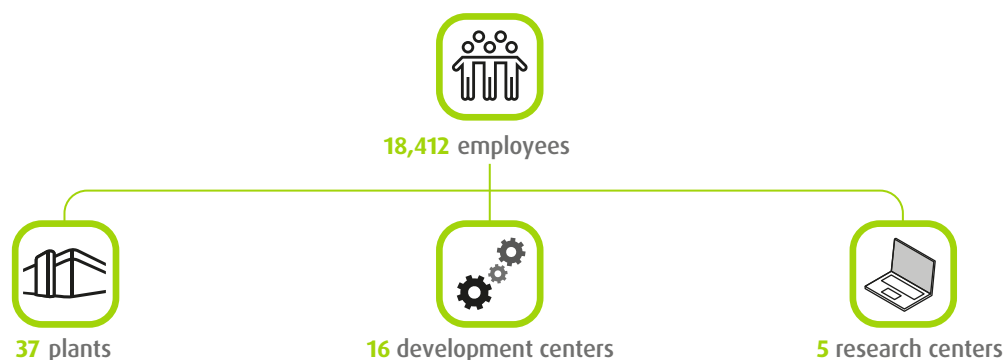
machine interfaces will provide drivers with the confidence and assurance needed to handle these highly complex functions. This acceptance will also be contingent on drivers and pedestrians buying into the dynamic. For this to happen, careful attention will have to be given to ensuring a smooth and straightforward basis of interaction between the car and its environment. The new interfaces should help meet this mammoth challenge.

With its unique portfolio of solutions and products based around detection and connectivity systems and interfaces together with its permanent focus on the intuitive driving experience, Valeo is especially well positioned on the market.

⁽¹⁾ In market share, based on Valeo estimates.

1.4.3 Powertrain Systems

- Sales: **3.3** billion euros, or **26%** of Group sales
Original equipment sales up by **5%** like for like
- EBITDA⁽¹⁾: **410** million euros, or **12.3%** of sales
- Net R&D expenditure: **146** million euros



2014 highlights

- Series production launch of a battery charger for Volvo.
- Extension of the order for engine control systems to all PSA Peugeot Citroën PureTech engines.
- Fresh orders for new generation dampers from a number of automakers.
- Confirmation of the success of Stop-Start systems with new orders in Asia and North America for reinforced starters as well as a big order for the i-StARS 12V system from a European automaker for premium vehicles in Europe and the United States.

Key growth drivers

- Innovative solutions for reducing CO₂ emissions and improving vehicle energy efficiency to help achieve the ambitious targets being set by regulators worldwide.
- An expanded industrial footprint in Asia and emerging countries.

Description of the Business Group

The objective of the Powertrain Systems Business Group is to develop innovative powertrain solutions aimed at reducing fuel consumption and CO₂ emissions, without compromising on driving performance or pleasure. These innovations cover a complete product range, from the optimization of internal combustion engines to the varying levels of electrification of vehicles, from Stop-Start systems to the electric car.

Powertrain Systems has four Product Groups:

- Electrical Systems
- Transmission Systems
- Combustion Engine Systems
- Electronics

Electrical Systems

This Product Group offers electrical systems which control the vehicle's key functions, such as electric power generation and management. Its traditional products are starters and alternators. Numerous innovations round out this range:

- high performance alternators based on Valeo's new first-to-market synchronous rectification power electronics. This technological breakthrough cuts CO₂ emissions significantly and has received due recognition in the form of the European Commission's Eco Innovation label;
- reinforced starters for the Stop-Start function, which are subject to increasingly stringent constraints in terms of the number and intensity of engine restarts. Consequently, the Change-of-Mind function, which makes it possible to engage the pinion with the rotating engine ring gear, becomes crucial in handling these constraints;

⁽¹⁾ See Financial Glossary, page 385.

- mild hybrid systems, which add regenerative braking functions in order to reuse the energy generated in acceleration phases and optimize the efficiency of the internal combustion engine. Valeo offers a range of belt-driven electric motors ranging in power from 2 kW to 15 kW and in voltage from 12 V to 48 V. Thanks to its new electrical assistance feature, the i-StARS 12V system, produced since 2010, is the first belt-driven hybrid system. Valeo also offers a similar 48 V “hybrid for all” solution;
- full hybrid and rechargeable hybrid vehicles that help extend battery charge and travel range (the exact distance depends on the model). Valeo sells electric motors and transmission modules up to 100 kW, with voltage between 300 V and 800 V.

Transmission Systems

The Transmission Systems Product Group develops and produces systems that transfer torque from the engine to the transmission. The solutions it offers incorporate innovative systems that dampen noise, vibrations and jolting.

- Dual clutch systems comprising two clutches – one for even gears and one for odd gears – allow the driver to change up and down gears with no torque interruption or jolting, with the comfort of automatic transmission and the dynamic response of manual transmission. These systems also improve efficiency, cutting fuel consumption by 4% to 6% over the New European Driving Cycle (NEDC), using either a dry or a wet dual clutch.
- The optimization of torque converters with a lock-up function, wide travel damper and an optimized hydraulic circuit are associated with the market for automatic and continuously variable transmissions. They offer improved comfort and markedly lower fuel consumption in comparison with previous generations of automatic transmissions.
- Various clutch mechanisms (clutches with and without self-adjusting technology, clutch disks with a new generation of multi-louver vibration dampers, environmentally friendly clutch facings, release bearings with built-in automatic self-centering, hydraulic clutch actuators), flexible flywheels and dual mass flywheels. These products are designed for light vehicles and trucks and for both the original equipment market and the aftermarket.

Combustion Engine Systems

This Product Group specializes in combustion engine management systems, particularly air circuit management, from air intake to exhaust. These solutions are designed to reduce CO₂ emissions and pollutant gases while enhancing both driving pleasure and engine performance. They comprise:

- mechanical actuators, such as throttles and Exhaust Gas Recirculation (EGR) valves, which control the recirculation of air and exhaust gases back to the engine. These components cut pollutant emissions from diesel engines (nitrogen oxide) and improve the performance of gasoline engines in compliance with European standards (Euro5, Euro6b and Euro6c) and the US Tier 2 Bin5 and the forthcoming Tier 3 standards;
- electric superchargers, which are driven by an electric motor, unlike exhaust gas driven turbo-compressors. This innovation, using a very low-inertia switched reluctance motor, has a much faster response time than conventional turbo-compressors. Electric superchargers are very efficient at low RPMs and they facilitate engine downsizing, which is key to delivering fuel savings;
- all sensors used in air circuit systems for gasoline and diesel engines (pressure/temperature sensors, temperature sensors for EGR modules) and position sensors;
- engine control units for indirect or direct injection gasoline engines;
- ignition coils.

Electronics

This Product Group designs all the electronics for the Powertrain Systems Business Group:

- power electronics: low- and high-voltage DC-to-DC converters, inverters, on-board chargers for hybrid and electric vehicles, with voltage of 12 V, 48 V, 100 V, 300V and higher;
- energy management electronics (sensors and battery voltage stabilizers);
- control electronics (power-assisted steering, engine and transmission control units).

This Product Group leverages the expertise of the Group Center for Excellence in Electronics to develop innovative technologies that enhance performance by making engines lighter and more compact, which is absolutely essential, especially for hybrid and electric vehicles. Consequently, Valeo develops innovative power electronics solutions.

2014 highlights

- Very positive feedback from all automakers on the Business Group's product roadmaps on the occasion of various events organized by the Valeo Group.
- This Business Group filed around one-third of all patents filed by Valeo in 2014.

Electrical Systems

- Confirmation of the success of Stop-Start systems with new orders in Asia and North America for reinforced starters as well as a big order for the mild-hybrid i-StARS 12V system from a European automaker for a premium range of vehicles in Europe and the United States. Confirmation of market interest in the mild-hybrid 48V iBSG (Integrated Electronics Belt driven Starter Generator).
- Major orders in Asia and Europe for the new ranges of high-performance alternators from a number of European volume and premium segment automakers.

Transmission Systems

- Orders for dual mass flywheels with pendulum for manual and dual wet clutch transmissions.
- Major increase in business in clutches and dual mass flywheels for manual transmissions on downsized gasoline engines. These new drivetrains require more powerful engine damping systems to maintain passenger comfort.
- Fresh orders of hydraulic clutch actuators in Europe.
- Opening of a second Chinese plant in Shenyang to boost the Product Group's presence in this region.

Combustion Engine Systems

- Extension of the order for engine control systems to all PSA Peugeot Citroën PureTech engines. In order to reduce harmful emissions, PSA Peugeot Citroën has created a new generation 3-cylinder engine family that increases engine efficiency while reducing engine size and maintaining performance in terms of power and torque. Lighter and more compact than its predecessors, these engines offer high performance owing to better combustion and less friction while meeting Euro 6.1 emissions standards, which have been applicable since September 2014.
- First order for choke valves for gasoline engines.

- Expansion of international footprint thanks to a new development team in North America.
- Wider range of vehicles equipped following the first order of electric superchargers.
- Demonstration vehicles fitted with electric superchargers in liaison with all of the major international automakers.
- Audi unveiled an RS5 concept car fitted with an electric supercharger as part of the 25th anniversary of TDI engines.
- Valeo strengthened its range of air loop systems (actuators and sensors) which, combined with electric superchargers, significantly reduce pollution.

Electronics

- Start of volume production of hybrid and electric vehicle battery chargers for the Volvo V60H. First order from China. European and Asian automakers are all increasingly interested in this product.
- Order for power electronics for power-assisted steering from a European automaker.
- First orders of inverters for electric vehicles in Europe.

Market trends

The market trends observed in previous years were confirmed in 2014 with the dual objective of reducing CO₂ emissions and fossil fuel consumption. These goals are based on three priorities:

- engine downsizing with the development of small direct injection turbo-compressor engines with variable valve actuation;
- the automation of transmissions with the development of dual clutch and automatic transmissions with eight or more gears and continuously variable transmissions (CVT) for entry-level models;
- the electrification of engines and the development of more comprehensive hybrid solutions with voltage of 12 V, 48 V, 300 V and higher for certain vehicle segments.

The Group's opportunities are closely linked to its technological choices as well as its presence in the worldwide market, especially in emerging countries.

The Business Group is the world leader in electrical systems and ranks second in transmission systems, with a significant share of all of the world's auto markets.

Main competitors on the transmission systems and electrical systems markets⁽¹⁾

Transmission Systems



Market share of the three leaders stable compared to 2013.

Electrical Systems



Market share of the three leaders slightly up from 2013.

Outlook

In line with customer expectations and market trends, the Powertrain Systems Business Group will continue to deploy a strategy focused on two key goals:

- developing powertrain systems that help to reduce CO₂ emissions in three ways, by downsizing engines, automating transmissions and electrifying systems;
- stepping up expansion in China and the United States.

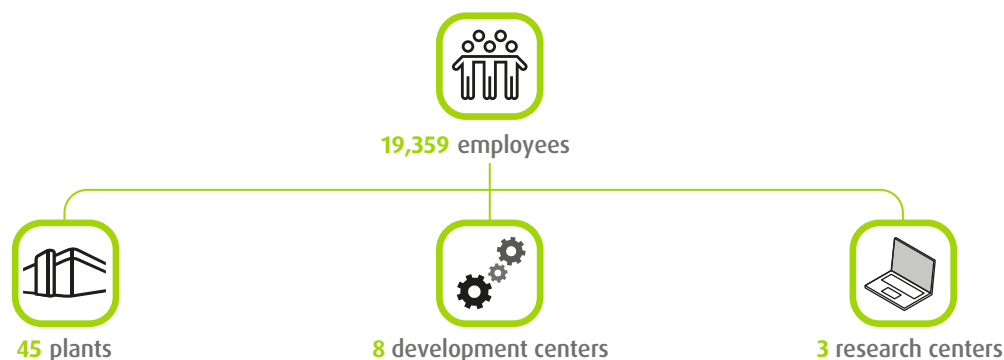
The aftermarket is being buoyed by the growing number of vehicles on the road, particularly in emerging countries and notably in Asia. The Chinese and Indian markets grew by 16% and 8%, respectively, during 2014 and this trend is expected to continue into 2015 with forecast growth of 15% and 8%⁽²⁾. The Business Group has continued to win market share in the Powertrain Systems aftermarket thanks to its expanded product range and strong distribution network. The aftermarket is a major driver of profitable growth for the Business Group.

(1) In market share, based on Valeo estimates.

(2) Source: Polk.

1.4.4 Thermal Systems

- Sales: **3.6** billion euros, or **28%** of Group sales
Original equipment sales up by **8%** like for like
- EBITDA⁽¹⁾: **404** million euros, or **11.1%** of sales
- Net R&D expenditure: **153** million euros



2014 highlights

- Record order intake.
- Original equipment sales up 8%, outpacing automotive production (up 3%) by five percentage points.
- Deployment of new industrial plants and technical centers.

Key growth drivers

- Winning new customers and growing existing customer business.
- Innovations and technology portfolio.
- Global platforms.

Description of the Business Group

The Thermal Systems Business Group develops and manufactures systems, modules and components to ensure thermal energy management of the powertrain and in-vehicle thermal comfort during all phases of vehicle use.

These systems help to significantly reduce fuel consumption, CO₂ emissions and other pollutants and harmful particles from vehicles equipped with internal combustion engines. They also help optimize travel range and battery life for hybrid and electric vehicles.

Thermal Systems has four Product Groups:

- Climate Control
- Powertrain Thermal Systems
- Climate Control Compressors
- Front End Modules

Climate Control

This Product Group mainly develops the systems and components required to provide thermal comfort solutions for passengers.

Air-conditioning systems are adapted to all types of powertrain – internal combustion engines as well as hybrid and electric vehicles.

The systems and their components are designed for optimal comfort as well as for optimal mass, size and energy consumption, all of which significantly reduce CO₂ emissions.

The key component is the Heating, Ventilation and Air Conditioning system (HVAC) which controls windshield de-misting and de-icing, distributes (usually filtered) air throughout the vehicle and constantly regulates air flow, temperature and humidity.

⁽¹⁾ See Financial Glossary, page 385.

The HVAC system is tailored to each type of vehicle and ranges from simple heaters with mechanical manual controls to complex automatic electronic controls. The most complex systems come with a multizone function and additional electric heating module and can be adjusted for individual passenger comfort or to offer improved comfort in extreme conditions.

The main components of an HVAC system are:

- heat exchangers (a radiator for heating the air and an evaporator for cooling it down);
- a fan unit which blows the air through the exchangers;
- the control electronics;
- distribution shutter systems;
- a cabin blown-air filter, in most cases;
- additional heating.

Filtering incoming air is growing in importance in Europe and Asia. In 2014, Valeo rounded out its range of cabin filters with a very high performance model able to eliminate very fine particles such as nitrogen. The product offering also includes a filter with anti-allergenic properties as well as a new variable-intensity fragrance diffuser designed to create a pleasant atmosphere in the cabin. This innovation has been taken up by a major European automaker and launch is scheduled for 2016.

The emergence of hybrid and electric drivetrains now requires **temperature regulation of components such as batteries, the electric motor itself and its power electronics**. Valeo's response to these needs represents a major growth vector for the Product Group. Valeo now offers a complete range of technologies for regulating battery temperature, from simple air blowers to more complex systems with preheating and cooling capabilities. In electric vehicles, systems based around heat pumps minimize the need for power drawn from the batteries, thus providing passenger thermal comfort without affecting vehicle travel range.

Refrigerants used in air-conditioning systems comply with the latest environmental regulations.

Powertrain Thermal Systems

This Product Group develops systems for managing thermal energy in the powertrain and the fluids (air, water, oil, etc.) used both by the powertrain itself and its ancillary features (power steering, automatic transmission, etc.) as well as air-conditioning circuit exchangers.

Effectively managing this energy is key to optimal powertrain performance in terms of reducing fuel consumption, CO₂ emissions, gas pollutants and toxic particles.

The systems and their components are designed for optimal performance and minimum weight and size.

They can include exchangers, a fan/motor unit placed in the front end of the vehicle, distribution valves and pumps.

The various circuits include:

- engine temperature management systems;
- charge air cooler systems;
- Exhaust Gas Recirculation (EGR) cooling systems;
- oil (engine, transmission, etc.);
- air conditioning (condensers, evaporators and heaters);
- electric vehicle cooling systems (battery, DC-to-DC converter, electric motor, etc.).

Examples include:

- UltimateCooling™ architecture uses a single heat transfer fluid to reduce the number of exchangers in the front end of the vehicle and better distribute them within the engine compartment, thus significantly improving their efficiency. Its modular design is perfectly adapted to diverse types of powertrains;
- air intake systems fixed directly onto the engine for optimal exchanger/valve integration. Valeo equips many diesel and gasoline models in German, United States and Asian markets with this technology;
- water-cooled condensers deliver more comfortable air conditioning and more flexible integration possibilities. They also help optimize the performance of heat pumps to boost the travel range of electric vehicles. This innovation was short-listed for the PACE awards sponsored by Automotive News;
- the THEMIS™ system, a key component in engine temperature management systems helps to reduce fuel consumption and is fitted onto engines designed for European, Asian and US markets.

This continuous search for efficiency creates a need for innovative components, which underpins the Product Group's growth. Advanced systems designed to recover heat losses from the powertrain and transform them into usable energy create even more potential for growth.

Climate Control Compressors

This Product Group designs and produces compressors, the crucial component in cabin air-conditioning systems.

Valeo offers a complete range of compressors matched to every type of powertrain and all vehicle categories:

- economical, fixed or variable displacement, mechanically-driven (with pistons or rotary vanes) compressors;
- external control compressors, specially suited to reduce fuel consumption;

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- universal compressors for trucks, buses and industrial vehicles;
- electric and scroll technology compressors for hybrid and electric drivetrains.

These compressors are compatible with all refrigerants used in the auto industry.

Front End Modules

The Front End Module Product Group designs modules that are an integral part of the vehicle structure.

They consist of a front end technical frame that makes the bodywork more rigid and helps protect all the components located at the front end of the vehicle, including the engine cooling unit, lights, energy-absorbing passenger protection features, the bumper beam, radar, etc.

In particular, Valeo's work focuses on developing front end technical frames together with bumper beams and energy-absorbing features that meet customer expectations and crash safety regulations. The engine cooling units are integrated in collaboration with the other Product Groups.

As part of its strategy to cut CO₂ emissions, Valeo now offers a complete range of technologies that optimize front end mass as well as enhancing structural rigidity across all vehicle segments.

The Product Group also develops electronically controlled shutters that regulate air flow through exchangers in the front end of the vehicle and improve its aerodynamics while helping to reduce fuel consumption and CO₂ emissions.

2014 highlights

Both the consolidated sales of the Thermal Systems Business Group and original equipment sales were up 8% for the year on a like-for-like basis, outpacing global automotive production by five percentage points. This growth was driven mainly by the HVAC and engine cooling Product Lines in China and North America, which more than offset weaker sales in South America.

Significant gains in business were recorded with three German automakers as well as with US and Chinese automakers. The Business Group's top three customers now comprise two German and one Japanese automaker.

The order book is at an all-time high. There were big contract wins with German automakers (for HVAC and engine cooling products), a European automaker (compressors and engine cooling) and a Japanese automaker (front end modules). A number of other contracts signed with Chinese, Japanese, European and US automakers also helped the remarkable consolidation of the order book in 2014.

The Business Group is taking advantage of the development of global platforms by international automakers to win new contracts in all regions, especially China, ASEAN, Europe and South America. It is also seizing growth opportunities in high-potential markets by leveraging new technologies and innovations in the following domains: exhaust heat recovery, charge air cooler systems, EGR cooling systems, battery cooling systems, fragrance diffusers, and R744 gas coolers.

In 2014, Valeo secured the first major order for its innovative electronically controlled shutters incorporated into a front end module to be used on the global platform of a major Japanese automaker. Valeo has also been selected by a German automaker to develop and produce a lightweight front end structure.

The Thermal Systems Business Group has a footprint in all regions and is well placed to harness growth in North American and Asian markets.

To keep pace with this growth, extensions have been built to existing plants in China and Russia.

A front office has been opened in Utsunomiya, Japan, to partner developments with Japanese automakers.

Two new front end module plants were opened during the year to supply two new customers with products destined for the German and Chinese markets.

Market trends

The diversification of powertrains, which began in the late twentieth century with the first series of hybrid electric vehicles, has now been confirmed for the next ten years and beyond. The main growth levers consist in cutting fuel consumption and emissions, as well as compliance with voluntary or mandatory "zero emission" goals in certain urban areas.

Demand for passenger thermal comfort, lower emissions and choice are diversifying in line with the powertrain designs favored by automakers, which also incorporate the notion of platform production that is important to the auto industry.

The internal combustion engine market is now segmented into three types of powertrain:

- non-hybrid engines, around 20% of which feature a Stop-Start function, still constitute by far the largest, albeit declining, share of the market;
- mild-hybrid engines currently account for a fairly modest but high potential portion of the market thanks to the forthcoming introduction of global 48 V standard, which will make this technology affordable for mass market models;

- full-hybrid engines which mainly power premium models due to the very high design costs. Plug-in hybrids have a range of several dozen kilometers in zero-emission mode, which obviously cuts CO₂ emissions and fuel consumption considerably. This segment is poised to grow significantly over the next ten years.

The non-internal combustion engine offering mostly comprises battery-powered vehicles, but mass-market adoption is currently being hampered by limited range, inadequate recharging infrastructure, recharge time, cost and regulations. Market penetration is considerably below what the pioneers of these type of engines had hoped for. Nevertheless, progress in developing batteries with a greater range and lower cost and the establishment of "zero emission" urban zones could see this segment take off.

Pending even stricter regulations on emissions and fuel consumption, the major automakers are developing fuel cell vehicles as the logical progression from the electric vehicles currently on the market. This offers huge potential growth opportunities for the Business Group as thermal systems are crucial to the development of these vehicles.

The Business Group uses its global footprint and technological expertise to support customers in all of the major regions, whatever their engine strategy. This bolsters its presence in international markets and provides a source of long-term growth.

In terms of in-vehicle comfort, the trend is toward individualized air-conditioning, air quality (filtering) and general well-being (fragrance diffusion, silent travel) for individual passenger comfort requirements. Controlling fuel consumption requires highly effective energy solutions for these systems. Valeo's offering is designed to come up with such solutions by anticipating future standards, such as the adoption of RR744 refrigerant fluid (carbon dioxide) by certain automakers.

In front end modules, the electronically controlled shutters market is growing strongly thanks to increasingly severe anti-pollution measures. Most modules are now equipped with electronically controlled shutters and, in the short term, these are set to extend to the entire front end of the vehicle. Lighter structural parts and front end technical frames have become competitive advantages in developing a new generation of modules set to arrive on the market in the next four years.

Main competitors on the thermal systems market⁽¹⁾



Market share of the three leaders stable compared to 2013.

2015 outlook

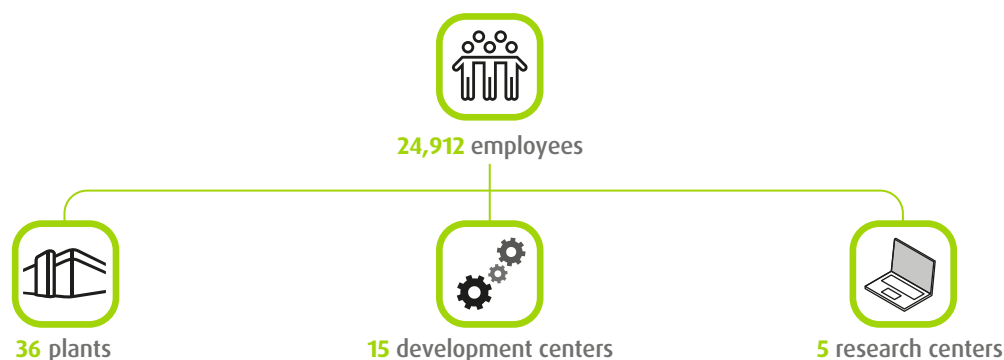
The Business Group will continue to pursue its growth in all regions by focusing on its main strategic priorities, namely:

- technologies aimed at cutting CO₂ emissions, electrifying powertrains, making engines lighter and enhancing air quality;
- new customer wins and expansion in constantly growing markets, mainly in Asia.

⁽¹⁾ In market share, based on Valeo estimates.

1.4.5 Visibility Systems

- Sales: **3.6** billion euros, or **28%** of Group sales
Original equipment sales up by **9%** like for like
- EBITDA⁽¹⁾: **382** million euros, or **10.6%** of sales
- Net R&D expenditure: **173** million euros



Description of the Business Group

2014 highlights

- Valeo's modular LED solutions: a great success in Europe, North America and China.
- Sales of electronic wiper motors up in North America and China.

Key growth drivers

- Increasingly widespread use of internal and external LED lighting solutions.

- Glare-free high beam headlamps are increasingly widely available on popular European models.
- Growth of wiper systems with integrated washing: Valeo has a complete range of these solutions.
- Rapid development of advanced driving assistance systems: as more and more vehicles are equipped with cameras, it is vital that the windshield (for internal cameras) and lenses (for external cameras) be kept clean to guarantee quality video images.

The Visibility Systems Business Group designs and produces efficient and innovative systems which support the driver and passengers at all times, day and night, and in their various on-board activities.

The products are designed to meet driver needs both in the manual mode – and in the near future in autonomous mode:

- by allowing drivers to see – and be seen – clearly;
- by ensuring driver safety and comfort thanks to high performance lighting, wiper and washing systems;

- by further enriching advanced driving assistance systems using lighting to transmit intuitive data to the driver and other road users and making sure on-board cameras, which are becoming increasingly common, are kept clean.

The systems are optimized in terms of weight, size and energy consumption and thus contribute to the reduction of the vehicle's CO₂ emissions.

Visibility Systems has two Product Groups:

- Lighting Systems
- Wiper Systems

⁽¹⁾ See Financial Glossary, page 385.

Lighting Systems

Valeo, in partnership with the alliance formed with Ichikoh, designs internal and external lighting solutions tailored to specific automaker model requirements, i.e., high-tech, standout and stylish, or economical and sober:

- **dynamic lighting solutions:** following the commercial success of its BeamAtic® Premium selective xenon headlamps, Valeo has begun mass producing BeamAtic® PremiumLED lighting systems, which offer the latest adaptive lighting innovations and guarantee driver safety and comfort. Valeo is also developing rear lighting systems with inter-vehicle communication links, and systems that automatically adapt to driving conditions such as glare-free stop lamps and constant visibility fog lamps. The Group is working on passenger compartment lighting that provides ergonomic, ambient solutions that are gesture controlled;
- **stylish lighting:** external lighting plays a dominant role in vehicle design. LED daytime running lights provide cars with their daytime identity; Valeo's new LED low- and high-beam lighting allows designers to create a "night-time" identity as well. Valeo has deployed its enhanced LED offering at the rear of the vehicle (MicroOptic®, SeeThrough, GraphicLight) and is already preparing the ground for the forthcoming OLED (organic light-emitting diodes) lighting system revolution. Inside the car, Valeo provides designers with ambient lighting solutions that complement the external lighting;
- **economical lighting solutions:** Valeo always strives to make its innovations as widely available as possible. PeopLED™, the range of affordable LED lighting systems, is a perfect example: with performances superior to those of entry-level halogen lighting systems, enhanced comfort and robustness, and only one-fifth of energy consumption, PeopLED™ solutions will soon be offered on entry-level models. Valeo has also developed MonoLED rear lighting, a family of affordable, modular LED solutions that incorporate the lighting source, electronic drive circuit and heat sink.

Wiper Systems

An unobstructed view of the road is essential for road safety. But now it is also becoming vital due to the development of automated cars and advanced driving assistance systems and the numerous cameras being fitted to vehicles. The Wiper Systems Product Group develops technologies which clean the windshield, the rear window and cameras, combining enhanced visibility and reduced weight in order to keep CO₂ emissions down. The smart input from the use of electronic solutions helps improve safety and reduce weight as well as paving the way for new features. This Product Group includes:

- electronic wiper systems using direct drive or mechanical blades. These systems are based on a line of wiper motors marketed worldwide, offering a range of solutions adapted to the latest vehicle architectures;

- latest generation flat, hybrid or traditional arm and blade sets tailored to all local variations for automakers' original equipment and the aftermarket;
- windshield washing and de-icing systems;
- rear wiper systems with integrated washing based on a new line of rear wiper motors designed to simplify integration into the vehicle;
- the AquaBlade® system: the complete digital camera wiper solution. Using AquaBlade® technology which is already volume-produced on several types of vehicle, camera wipers ensure a clear and unobstructed view for automated vehicles. Thanks to the enhanced precision and positioning of the cleaning jets, AquaBlade® technology reduces fluid consumption as well as the size of the fluid tank. This helps in keeping down the overall weight of vehicles.

2014 highlights

Lighting Systems

2014 will go down as the year that finally consolidated the success of LED headlamp technology, which is now systematically fitted to high-end lighting systems, premium vehicles and more popular models alike.

With its cutting-edge expertise and modular LED solutions, Valeo has continued to fit its BiLED® module onto the new Mini three- and five-door models, the BMW i8 and the Ford Edge, and will do likewise on the upcoming Geely GC9 in China, making it the first LED lighting system to be offered by a Chinese automaker.

In the same vein, with its low installation height (40mm) and rectangular lens, Valeo's PowerFullLED40® low- and high-beam lighting module was chosen by the designers of the Renault Espace and the redesigners of the Peugeot 508.

Aside from design considerations, it is smart headlight performance that fully reaps the benefits of LED technology. At the most recent Paris Motor Show, no fewer than three new models – the Volvo XC90, Volkswagen Passat and Ford S-Max – were unveiled, complete with Valeo glare-free high-beam BeamAtic® PremiumLED headlamps.

2014 was also the year in which Valeo began laser welding rear lamps – a first in Europe – for the LED lighting systems of the revamped Audi A6 and Porsche Cayenne.

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Valeo also secured a number of big contracts for incorporating internal lighting solutions into high-end models, scheduled to begin volume production in 2016 and thus lending weight to the Group's ambitions to become a major player in this segment.

Valeo boosted its iconic range of Oscar lighting accessories – now available in an LED version – and added a new range of four LED work lamps to its catalog.

Wiper Systems

Of the numerous systems brought to market during the year, the following deserve a special mention:

- the Citroën Cactus on-board washer system;
- the electronic wiper system for the Ford Mondeo in Europe;
- the electronic wiper system for the Volkswagen Lamando in China; and
- the electronic wiper systems using direct drive blades for the Ford Edge in the United States.

Market trends

Lighting Systems

Aside from the systematic replacement of Xenon by LED headlamp technology, the equipment rate for these high-end lighting systems is growing strongly. Similarly, advanced features such as glare-free high-beam headlamps are no longer restricted to premium-range sedans and are now being offered as an option on many popular European models. Lastly, in bids for lighting for entry-level models, LED headlamps are often preferred to halogen technology.

At the rear, the equipment rate for LED lights is constantly progressing and automakers are using this technology to create an immediately identifiable brand identity that enhances the entire offering.

In brief, the increasing take-up of LED technology for both front and rear lighting is part of a strong market trend to reduce the amount of energy consumed by vehicles.

Key growth drivers

The introduction of LED technology for headlamps and in-vehicle lighting as well as its increasingly widespread use for rear lighting give an immediate aesthetic lift to lighting systems in general. Automakers, conscious of the importance of style in consumer decision making, are always more likely to invest in attractive, standout lighting features.

At present, LED headlamp technology, offered mostly on high-end vehicles, is demanded by consumers, and ownership rates are way above what they were for vehicles equipped with Xenon headlights.

Moreover, intelligent lighting systems connected to a camera make it possible to drive on high-beam lamps all the time without dazzling other drivers, and they are being offered as a premium option on a growing number of new vehicles. Modular BeamAtic® Premium solutions developed by Valeo are perfectly adapted to the increasingly widespread use of this technology, which delivers unparalleled driving comfort and safety.

Inside the vehicles, LED-based ambient lighting solutions are becoming more popular and over the coming years they will be rounded out by specific features that improve driver and passenger comfort together with the driving experience.

Wiper Systems

The market is being driven by growing demand for electronic wiper systems, AquaBlade® wiper technology and camera wipers.

Wiper Systems is poised to benefit from the general trend towards electronic solutions to reduce both weight and noise, and from the move to incorporate the washing system into the wiper system to cut costs and reduce weight. Higher performance systems are needed to keep cameras perfectly clean, which requires electronic, integrated wiping solutions.

Key growth drivers

The rapid development of advanced driving assistance systems and the emergence of automated cars are accelerating the installation of vehicle cameras, which need to be cleaned properly to ensure image quality and passenger safety. This new cleaning requirement is a major growth opportunity for the Wiper Systems Product Group.

The need for lighter vehicles and smaller washer fluid tanks as well as lower costs are pushing more and more automakers towards systems that clean the windshield using the wiper system rather than a mechanism located on or under the engine hood. The Wiper Systems Product Group portfolio contains solutions that are perfectly matched to such needs.

Main competitors on the lighting systems and wiper systems market⁽¹⁾

Wiper Systems



Market share of the three leaders slightly up from 2013.

Lighting Systems



Market share of the three leaders up from 2013.

Outlook

Big increases in orders have buoyed the steady growth in this Business Group's sales over the past three years. Higher levels of business for Wiper Systems are being driven by sustained growth in China and stable sales in Europe. Lighting Systems are also benefiting from good growth in China coupled with the development of LED technology in European and North American markets.

⁽¹⁾ In market share, based on Valeo estimates.

1.4.6 Aftermarket products and services

Description of the business

- 256 product lines
- 14 product lines for passenger cars
- 11 product lines for industrial vehicles
- around 3,000 new products added in 2014
- 15 distribution platforms
- a footprint in 151 countries

2014 highlights

- Valeo Service was named Supplier of the Year (Marketing category) by GroupAuto International.
- Valeo Service was designated Commercial Vehicle Supplier of the Year by the UK Independent Automotive Aftermarket Federation.

Key growth drivers

- Opening of a sales division in Thailand to cover the ASEAN region.
- Over 3,000 new products launched.
- Continued expansion in the industrial vehicles market with new product offerings and extended geographical reach.

Presentation of Valeo Service

Valeo Service supplies original equipment spares to automakers and replacement parts to the independent aftermarket.

Valeo Service offers all aftermarket channels worldwide a broad range of products and services to help boost the efficiency of repair services and to provide greater safety, comfort and driving pleasure to consumers. Valeo Service also offers support and services that are constantly being enhanced and developed, such as diagnostics, training, sales and marketing tools and technical support.

Valeo Service acts as a “multi-specialist” on the aftermarket for spare parts, and the business is organized around three different approaches:

- **multi-product:** a diversified but consistent product and service portfolio that adds an average of 3,000 new products a year;
- **multi-region:** a constantly expanding footprint in over 150 countries, with the creation of seven local structures specialized in the aftermarket in China, Russia, India, Argentina, the United States, Mexico and ASEAN over the past five years;
- **multi-channel:** expertise across all distribution channels specialized in BtoB (traditional auto networks) and BtoC (supermarkets, auto centers) together with a constantly growing presence on Internet-based channels over the last few years.

Valeo Service – organized around five markets (Repair, Maintenance, Crash, Post-Equipment and Heavy-Duty Trucks) – offers 14 product lines for passenger cars and 11 for commercial vehicles, trucks and agricultural vehicles, covering the following systems: wiper systems (under the Valeo, Marchal, PJ and

SWF brand names); transmissions; front and rear lighting; air conditioning; engine cooling; rotating machines; electrical accessories; security systems and switches; braking; engine management; engine filtration; and driving and parking assistance systems.

2014 highlights

In line with its commitment to total customer satisfaction, Valeo Service has consolidated its position as a multi-specialist offering premium solutions in all of its markets. It has deployed a wide range of initiatives, including:

Multi-product specialist

- As part of its strategy to cut CO₂ and fine-particle emissions, Valeo has developed an innovative range of Euro 6-compliant manual or semi-automatic transmission clutches designed for Mercedes-Benz Actros, Arocs and Antos trucks. These clutches are also equipped with Valeo’s self-adjusting technology (SAT) and reinforced F830 facings that boost performance and extend clutch life while dampening vibrations.
- As an air quality specialist, Valeo’s ClimFilter® Supreme polyphenol cabin air filter has been certified with a 95% effectiveness rating in neutralizing allergens by the French national aerobiological watchdog (RNSA) in the wake of tests carried out by the independent laboratory AirTest®.



- Valeo Service has boosted its pioneering Cibié brand by launching a range of Oscar™ lighting accessories available in halogen and LED with a choice of sizes and styles, all compatible with both passenger cars and trucks.

- As part of its strategy of making spare parts available as soon as new models are launched, Valeo Service is already offering aftermarket distributors the dual mass flywheel launched along with the Mercedes-Benz Class E 300 BlueTEC hybrid, which was shortlisted for the 2014 PACE awards.
- Valeo Service has added new lamp references, including a range marketed in blister packaging, to give itself a presence in the most up-to-date distribution channels. Valeo has also rounded out its halogen lamp offering with 37 new products in blister packaging, 43 in cardboard packaging and four new security kits.
- In 2014, Valeo Service renewed its range of coolants with new products based chiefly around organic technology. With 12 references and five product formulas available, Valeo Protectiv™ coolants now cover a broad range of engine temperatures with products tailored to the specifications and requirements of most automakers and consumers, respectively.
- During the year, Valeo Service continued to supply the European aftermarket with one of the most comprehensive ignition coil offerings available. In all, 100 products were added, taking the total number to over 200 and covering more than 30 million gasoline vehicles in Europe. Valeo's range of OEM grade ignition coils now covers all possible forms (pencil-, rod-, compact or canister-type coils) as well as most high energy coils for direct injection engines that comply with Euro 6 standards.
- Concerning its expertise in air-conditioning systems, Valeo Service completely overhauled its range of ClimFill® recharging points. The offering now comprises four fully automatic models: ClimFill® Easy, the best choice for starting off; ClimFill® Pro, the highest performance recharging station available in two models for R134a and HFO 1234yf gas; and ClimFill® Maxi for use by numerous types of vehicles, coaches and buses. The ClimFill® range is rounded out by a complete list of accessories and consumables.
- Valeo Service has launched a new range of freewheel alternator pulleys, with 107 product lines that cover most vehicles on the road throughout the world.
- Valeo's presence in emerging economies was a key factor in its growth during the year and helped to generate a 104% increase in new products available in Asian markets, for example.

Multi-region specialist

Valeo Service continues to expand its product range in China, the United States and India and has enhanced its coverage of the Russian market in line with the Group's development strategy in high-growth countries. Valeo also set up a new sales structure to cover Africa and French overseas territories, Valeo Service Africa and Overseas, together with a new structure based in Thailand, Valeo Service ASEAN, to consolidate the Group's footprint in Asia. In the Middle East, the Valeo Service Turkey commercial division boosted the Group's presence, and also participated for the first time at the Automechanika Dubai motor show, which attracts all of the region's big aftermarket players.

Multi-channel specialist

- To meet the needs of modern distribution channels (supermarkets, auto centers and sales of spare parts online), Valeo Service continued to upgrade packaging materials that offer an interactive service allowing users to identify and replace vehicle parts themselves: QR codes – particularly for window-opening mechanisms – placed on product packaging can be used to access installation videos for each type of product using a cell phone. Installation videos are now also available for wiper blades and for oil, air and gasoline filters and they are gradually being made available for other product offerings.
- After winning the Best Supplier of the Year award for 2013 from GroupAuto International in the Quality category, Valeo Service did it again in 2014 when it was named Supplier of the Year in the Marketing category. This award recognizes Valeo's ability to deliver the best possible performance in terms of product catalog, product line management and technical expertise to its international partners.
- Valeo Service enhanced its Valeo Techassist on-line technical platform during the year. This application, created especially for repair workshops, spare parts distributors and technical instructors, includes vast documentary resources and on-line assistance as well as applications specifically designed for workshops and training.
- Valeo Service consolidated the special service it provides to truck distribution networks:
 - Valeo Service continues to develop one of the broadest, most comprehensive offerings of aftermarket products and services for industrial vehicles spanning eleven categories and catering to trucks, coaches, buses, agricultural vehicles and light commercial vehicles;

- in wiper systems, Valeo Service launched optiBLADE™, a new range of conventional 100%-metal wiper blades for trucks that offers European quality standards at prices adapted to the various market segments;
- Valeo Service's focus on industrial vehicles earned it the title of Commercial Vehicle Supplier of the Year, awarded by the UK Independent Automotive Aftermarket Federation (IAAF).

Market trends

The 4% year-on-year increase in the number of vehicles on the road worldwide is being driven by the dynamic passenger car segment, while growth in commercial vehicles and trucks has flattened off at 3%. Growth in sales of passenger cars on Asian markets exceeds 9%. This is being buoyed by the booming Chinese market (16% growth in 2014, taking the number of vehicles on China's roads to over 103 million), India (where 8% growth brought the total number of vehicles to 25 million) together with sustained growth in smaller markets such as Thailand and Indonesia (growth of 13% and 12%, respectively). However, growth was much slower in more mature markets such as Japan (1% growth), Europe (where growth stayed at below 2% in spite of a 4% increase in the Eastern European market), and the United States where growth is under 1%⁽¹⁾.

When measured in terms of value, the markets in which Valeo Service has a product offering grew by 2%, hit by a decline in sales of wiper systems in Europe due to weather conditions and to the political situation in Russia⁽¹⁾.

Consequently, by leveraging its extensive product portfolio and global geographical footprint, especially in high-growth Asian markets, Valeo Service's independent aftermarket activity was able to outperform the market.

Outlook

The total number of vehicles worldwide, estimated currently at 1.3 billion, increases by an average of 3% to 4% every year, and the total Aftermarket is estimated to be worth 275 billion euros⁽¹⁾.

Valeo seeks to capture more of this market potential through its four Business Groups – which supply Valeo Service – for which the aftermarket represents an important driver for growth and profitability. This can be achieved by creating new products for mature markets and by responding to the growing need for replacement parts in major emerging countries, where the number of both passenger and commercial vehicles is rising significantly. The key factors for success are extensive product ranges with innovative marketing services, support for customers in their geographic areas, and service rate. These are exactly Valeo Service's strengths.

⁽¹⁾ Several different sources can be used to estimate the various national car populations. We use Polk as the main source to put together our consolidated data. As no external sources are available to estimate the value of the aftermarket, the figure shown represents Valeo's best estimate calculated using several indicators for each product family, such as car ownership rates, replacement rates, and the proportion of aftermarket sales in each distribution channel.

2 RISK FACTORS

2.1 MAIN RISKS AFR

- 2.1.1 Operational risks
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AFR Information from the Annual Financial Report is clearly identified in the table of contents by the AFR symbol

“Valeo’s risk management policy is aligned with sustainable growth aims.”

The environment in which the Group conducts its business is constantly changing. Valeo is therefore exposed to risks which, if they materialized, could have a negative impact on its operations, earnings, financial position and outlook. This chapter sets out the main risks to which Valeo considers it is exposed, including operational risks inherent to its business, industrial and environmental risks, legal risks and financial risks.

In order to prevent and manage these risks, the Group's General Management and employees implement a system of continuous internal control monitoring. Internal control and risk management procedures are detailed in section 3.4, "Internal control and risk management" on pages 123 *et seq.*, and are taken from the report of the Chairman of the Board of Directors on the composition of the Board, the application of the principle of equal representation of women and men, the conditions in which the Board's work is prepared and organized, and the internal control and risk management procedures put in place by the Group.

Risk management procedures are coordinated by a Risk Committee made up of nine permanent members under the responsibility of the Director of Operations: the directors of the Finance, Risk Insurance Environment, Accounting, Audit and Internal Control, Corporate Strategy and Planning, Human Resources and Legal Departments, and the Chief Ethics and Compliance Officer. This Risk Committee met six times in 2014 and is mainly tasked with reviewing the risk identification process and overseeing the dynamic system for risk management.

However, these procedures do not provide absolute assurance that the Group's objectives will be achieved and that certain risks will be prevented from occurring. The purpose of the risk management system is to identify and classify risks and to reduce the probability of risks materializing along with their potential impact on the Group. Other risks which the Group is not aware of at the reporting date, or which are not considered material at the date of this Registration Document, could also affect its operations.

2.1 Main risks AFR

2.1.1 Operational risks

Risks associated with the automotive equipment industry

Risk

The Group's sales are dependent on the level of automotive production. Production itself is affected by a number of factors, including consumer confidence, employment trends, disposable income, interest rates, consumers' access to credit, and vehicle inventory levels. Production is also influenced by trade agreements, regulatory changes and government initiatives, especially vehicle purchase incentives. A deterioration in the automotive market in the regions in which the Group and its customers are present, particularly Europe, Asia or North America, could lead to a decline in the Group's earnings and/or to the default of some of its customers or suppliers, and could thereby affect Valeo's financial position.

It should be pointed out that supply contracts with automakers take the form of open orders for all or part of a vehicle model's equipment needs, with no minimum volume guarantee. Valeo's earnings could be affected in this case by a model's commercial failure.

Lastly, the automotive industry is highly competitive and the Group may not be chosen to supply future generations of a model it currently supplies, which could impact its earnings.

Management of risk

Valeo has the appropriate expertise and resources to undertake the necessary restructuring measures should the automotive market experience a downturn or automotive production shift to Asia. The Group maintains a tight rein on fixed costs, particularly by ensuring good workforce flexibility.

The considerable diversity of the Group's sales in terms of region, customer, brand and vehicle model makes it less vulnerable to negative trends in one of its markets:

- in line with its development strategy, the percentage of Valeo's original equipment sales⁽¹⁾ generated in Europe is therefore decreasing (to 49% of original equipment sales and 44% of the order intake in 2014), while the percentage of original equipment sales generated in Asia is on the rise (to 28% and 34%, respectively, in 2014);
- secondly, Valeo derives 12% of its sales from the aftermarket, which is less vulnerable to fluctuations in the economic climate;
- lastly, around 56% of Valeo's original equipment sales are made with German and Asian automakers whose businesses are robust at present.

⁽¹⁾ Including proportionately consolidated joint ventures prior to the application of the new consolidation standards.

Risks related to new product development

Risk

Technological or regulatory developments can render Valeo products obsolete or make them less attractive to automakers. Valeo's sales and earnings growth depends on the ability of the Group to anticipate technological and regulatory changes and to develop new products. The Group is also exposed to the risks inherent in developing and manufacturing new products, in particular the risk of project management delays, potentially leading to additional costs and product malfunction. Valeo may also face difficulties in attracting and retaining staff with the necessary qualifications and skill sets to develop and manufacture these products.

Management of risk

Research and development (R&D) is of key importance for the Group's future growth. Valeo has 16 research centers and 34 development centers worldwide. The Research and Development network employs some 10,400 people. The 13% increase in staff numbers compared to 2013 was primarily in emerging countries, and was aimed at specifically addressing the needs of these markets. In 2014, gross research and development expenditure was up 8% to 1,130 million euros.

The Group employs every means necessary to remain at the cutting edge of technology, notably maintaining an in-depth, ongoing technology watch and conducting a systematic review of the 10-year technological development plan jointly prepared by the R&D and Product Marketing Departments.

Valeo systematically incorporates an environmental approach into all the stages in the life of its products and processes, from design and production to utilization and end-of-life management. Experts in environmental matters and in R&D work together to reduce the environmental impact of processes and products over their entire lifecycle and to ensure that they comply with applicable regulations. Valeo helps to determine and apply best practices in this area and was actively involved in the preparation of the implementation guidance for the European REACH regulation (Registration, Evaluation, Authorization and Restriction of Chemicals) no. 1907/2006.

To ensure that products are developed in compliance with deadlines and duly meet customer expectations, Valeo sets up project teams and assigns a specific schedule and objective to each team. Operating and financial supervision is provided on a daily basis based on a structured approach (standard procedures and oversight tools) defined by the Group.

Valeo seeks to install new production capacity close to areas with large job pools. Valeo has also put in place an active recruitment strategy, particularly in regions with high growth potential. Its HR policy places a premium on internal mobility and training in a bid to attract and retain key talent for developing and producing new products.

However, no assurance can be given that the Group will be able to satisfactorily anticipate all technological and regulatory developments so as to maintain a competitive product offering.

The Group's R&D policy is detailed in section 4.2, page 136.

Supplier failure risks

Risk

In purchasing primarily specific products, Valeo is exposed to the risk that one of its suppliers fails to deliver on schedule the quantities required and that the products supplied fail to meet the requisite quality standards. This could cause interruptions to supplies and prevent the Group from delivering to its customers.

Management of risk

Valeo ensures the consistency of its supplies through continual monitoring of its suppliers based on supplier risk assessment procedures put in place by the Group. These assessments are based on multiple criteria including financial and management criteria, dependence on Valeo, integration and quality (in particular ISO TS 16949). Each supplier is audited on a regular basis by Valeo. In this way, the Group maintains a watch list of suppliers at risk, who are constantly monitored. Emergency stockpiles are built up where necessary and/or a policy put in place for sourcing supplies from several suppliers.

In October 2013, Valeo published its Supplier Development Handbook. This document, put at the disposal of all of the Group's suppliers, identifies the main tools used by the different stakeholders in the automotive industry to achieve excellence and customer satisfaction.

It should be noted that Valeo is highly integrated with its suppliers in particular in order to continually improve the quality of the products it delivers to automakers. This does not mean, however, that there are ownership links between Valeo and its suppliers.

The Group seeks to diversify its supply streams in order to lower this supplier risk as far as possible while maintaining acceptable economic conditions. Manufacturing purchases are made with a broad range of suppliers, with several suppliers for each business and in each region where necessary. Ninety-five percent of Valeo's needs are handled by 1,165 suppliers. The Group's biggest supplier represents 2% of its purchases, the five biggest suppliers account for 8% and the ten biggest, 13%.

Geopolitical risks

Risk

The Group's activities in certain countries can be affected by various risks relating to instability such as war, terrorism, armed conflict and labor unrest, and these could impact the Group's operations and profitability.

Management of risk

In order to protect itself effectively against such risks, Valeo has put in place various alerts and safety measures.

Alert measures consist of actions to permanently monitor the political and social situation in all countries, not only those where Valeo operates, but also those to which its employees might have to travel.

Safety measures include:

- guides and information circulated among employees and aimed at raising awareness of safety and security risks;
- employee training on safety and security issues;
- heightened security at operating sites;
- evacuation of expatriates;
- bans on travel to countries deemed high risk;
- a list of acceptable airlines for employee travel, selected based on safety criteria.

Valeo is also working to standardize its production processes so that should production at a given site be affected, other Group sites could be used to guarantee the continuity of its operations.

IT systems failure risks

Risk

The Group depends increasingly on infrastructure and IT applications common to all of its businesses. These include procurement, production and distribution, as well as billing, reporting and consolidation software. The causes of system malfunctions or breakdowns may be external (viruses and hacking, power cuts, network failure, natural disasters, etc.) or internal (sabotage, data confidentiality breaches, etc.). These malfunctions could impact the Group's operations and its profitability.

Management of risk

To minimize the impact of such occurrences, the IT Department ensures that:

- equipment exists to allow operations to continue in the event of power cuts or critical network failure;
- infrastructure and computer equipment are protected by contingency plans which are to be implemented depending on the malfunction concerned (see "General principles for protecting sites and managing environmental and industrial risks", in section 2.1.2, page 63);
- website access is controlled and there is only limited, secure access to critical infrastructure;
- data are protected by regular automatic back-ups and via the use of secure external data centers;
- each user has secure access to data based on strict security checks (intrusion tests, firewalls) and a segregation of duties matrix.

Valeo's Security Competence Center is in charge of carrying out regular, random audits to ensure that Valeo's sites and suppliers duly comply with these security procedures.

All users must also comply with the Information and Communications Technologies User Charter put in place by the Group.

2.1.2 Environmental and industrial risks

General principles for protecting sites and managing environmental and industrial risks

The Group has always had a policy of providing the highest level of protection for its sites against natural disasters and technological or environmental risks.

Accidents affecting its installations or stricter standards could result in the Group incurring additional costs and/or capital expenditure in order to remedy the situation or bring its sites into compliance.

Inspections by independent external consultants to ensure that the risk management policy is properly applied are carried out on a regular basis, at the request of the Risk Insurance Environment Department. Valeo's audit program has been in place for more than 20 years, and is a major component of its risk reduction policy. Every site is audited, on average, once every two years. The purpose of these on-site audits is to assess performance and the progress that has been made.

The Group has defined procedures and action plans to ensure that it can take prompt action in crisis situations:

- the Valeo Risk Management Manual contains a specific directive on the prevention of crisis situations and on situation-specific contingency plans. This directive requires each site to draw up an emergency plan for dealing with potential incidents;
- a crisis management tool (Valeo Emergency and Recovery Management – VERM) was set up in 2008 to alert each site to relevant potential crisis situations and make effective preparations for dealing with them. This tool:
 - identifies potential dangers resulting from natural causes or related to industrial activities, as well as the areas potentially impacted,
 - organizes crisis management units and business recovery plans.

In order to make the system even more effective in crisis situations, Valeo continued to upgrade VERM in 2014 based on crisis management and business recovery plan feedback.

Valeo has also taken out insurance policies with leading insurers for the amounts needed to cover any claims that could result from these risks (see section 2.2, page 71).

Environmental risks

Risk

In the various countries in which Valeo operates, its business is subject to diverse and evolving environmental regulations that require compliance with increasingly strict environmental protection and occupational health and safety standards, and is exposed to the risk of failing to comply with such regulations.

Management of risk

As described in Chapter 4, section 4.3.2 “A global environmental policy” on page 150, Valeo's environmental policy is designed to control and minimize environmental risks as far as possible. The Group Risk Insurance Environment Department is in charge of managing environmental risks. It is staffed with a Health, Safety, Environment (HSE) manager for each of the Business Groups and for Valeo Service. To carry out its duties, the Department has set up a dedicated health, safety, security and environment framework involving all Group departments:

- at each Valeo site HSE managers are tasked with ensuring that procedures are properly applied. These managers lend their expertise to site management and verify compliance with regulations and Valeo standards;
- in each country where Valeo operates, a Country HSE manager is designated among the sites' HSE managers. He or she is in charge of training newly appointed site HSE managers, and for sharing information and feedback from all HSE managers in his or her country;
- a self-assessment tool enables each site to assess its management of environmental and occupational health and safety risks.

The Group has banned the use of asbestos in products and processes at all production plants for many years now, even in countries that still allow it to be used. Some Group companies are involved in lawsuits for asbestos-related damages. Proceedings have been brought mainly in France by former employees (see section 2.1.3 “Claims, litigation, and governmental, legal and arbitration proceedings”, page 66).

New Valeo sites are located as far as possible from sites representing a significant potential risk (Seveso sites, etc.) which could, through a domino effect, endanger Valeo's sites.

Environment-related provisions (primarily for site restoration) amounted to 16 million euros at December 31, 2014 (see Note 7.1 to the consolidated financial statements, page 289).

Industrial risks

Risk

Valeo's production facilities may be exposed to industrial risks resulting from its activities including fire, explosions and/or machine breakages.

Management of risk

The vast majority of Valeo's sites are classified HPR (highly protected risk). This means that they have a high degree of risk prevention (specific procedures and dedicated, highly trained teams) as well as a level of protection adapted to the site and its activities. To help prevent fire risk (the most common industrial risk), most of the Group's sites have an automatic sprinkler system.

Each site is audited by an independent external consultant approximately every two years and is graded according to a scale of 1 (highest risk) to 5. This scale was fine-tuned in 2014. Actions plans are implemented by each site based on these audits and a report setting out a series of recommendations is drawn up as appropriate.

Natural disaster risks

Risk

Depending on their geographic location, Valeo's sites may be exposed to the risks of natural disasters such as earthquakes or extreme weather events including hurricanes, cyclones and/or floods.

Management of risk

All sites in seismic risk zones have been built or upgraded to comply with the most recent seismic regulations.

Valeo sites are not located in flood zones or, if they are, are equipped with systems that help to protect them against flood risks.

Sites which Valeo may occupy in the future are reviewed in order to determine the natural hazards to which they may be exposed. They are selected based on existing information, for example past history of seismic activity and flooding.

When a site is being built or rehabilitated, appropriate safeguards are put in place to ensure that the site is best equipped to deal with any natural disasters that could occur. These safeguards include building compliant with the most appropriate seismic standards, roofing reinforcements against hurricanes or cyclones and protection against flooding. Specific audits are carried out to ensure that installations are in good condition, comply with applicable relations and do not present a safety risk.

Audits are performed of natural disaster risks on a regular basis, approximately every two years. A specific system for grading natural disaster risks was set up in 2014. Actions plans are implemented by each site based on these audits and a report setting out a series of recommendations is drawn up as appropriate.

2.1.3 Legal risks

Intellectual property risks (patents and trademarks)

Risk

The major intellectual property risk that Valeo faces is counterfeiting by third parties or involuntary counterfeiting.

Counterfeiting can result from actions by third parties against Valeo's patented products or manufacturing processes. These actions have an immediate adverse impact on Group sales and earnings and can harm the reputation and quality image of the products concerned.

Valeo may also involuntarily be involved in counterfeiting, due mainly to the risk associated with the period during which patent applications are not published. Patent applications filed by third parties and known only on publication could impact current product developments or even products recently launched onto the market due to an increasingly short product

development period. This situation would require Valeo to modify the product, leading to an increase in the project's research and development expenditure, or to negotiate rights of use to the patented item. In either of these cases, the profitability of the project would be affected.

Valeo is also confronted with the risk of counterfeiting by third parties of its trademarks, the impact of which could be very significant on the aftermarket.

Management of risk

As far as possible and where warranted, Valeo's industrial expertise and the innovations generated by the Group's research are covered by patents to protect its intellectual property. Valeo is therefore a major patent filer in its business sector. These patents, covering the major automotive markets, provide the Group with an effective weapon against counterfeiting and also help to guarantee its technological independence.

To identify infringements of its patented rights and trademarks, for several years the Group has conducted customs surveillance in various countries including China, so that it can be alerted to questionable imported and/or exported products. In addition, whenever products presented at industry trade shows seem to involve the reproduction of patented technologies or products, Valeo pursues every course of action legally available in order to stop and penalize the infringement of its intellectual property rights.

Intellectual property risks are managed by the R&D Department's Intellectual Property Department. To ensure close links with project development teams, there is an Intellectual Property unit in each Business Group. Its aim is to put into practice the principle set out in the Group's ethical rules and to offer customers products that are freely marketable by regularly reviewing competitors' patents while new products are being developed.

Risks related to sales of products and services

Risk

Valeo is exposed to warranty claims by customers with respect to the products and services it sells.

Although Valeo pursues a policy aimed at achieving quality excellence, the Group may at times be confronted by major quality and safety issues resulting in a large-scale recall campaign for a given production period. If a quality problem were to trigger a major recall, it could have a substantial impact on the Group's financial position and image.

Valeo is also exposed to the risk of liability claims in the event that defective products sold or services rendered by the Group cause damage to users and/or third parties.

Lastly, Valeo is exposed to the risk of liability claims by its customers for failure to comply with specific contractual commitments, which result from their demands regarding operational performance. This requires complete control over development and industrialization projects run in connection with new vehicle model or equipment launches. It also requires Valeo to be able to meet demand in terms of volumes at all times, as well as full compliance with delivery deadlines and reliable logistics operations.

Management of risk

The Quality function and its Project Quality network, as well as the Purchasing, Industrial and Logistics functions, are responsible for managing these risks according to a total quality approach, as described in Chapter 1, section 1.3.3, page 23.

Sales of products and services are covered by statistical provisions that are regularly reviewed to reflect past return rates. These provisions cover the cost of replacing products under contractual warranty.

To protect itself against the risk of recalls, the Group has an insurance policy that covers recall costs above the deductible amount, i.e., the cost of returning vehicles to the garage, removing the faulty part and fitting the replacement part, excluding the costs for parts borne by the Group.

To protect itself against liability claims, Valeo has taken out an insurance policy to cover the financial impact of claims resulting from damage caused. However, it is uncertain whether the insurance policy would be adequate to cover the full financial consequences of any such claims.

Provisions for product warranties amounted to 160 million euros at December 31, 2014 (see Note 7.1 to the consolidated financial statements, page 288).

Risks of failure to comply with the Code of Ethics or the law

Risk

Ethics and integrity are core values for Valeo. Like any international group, Valeo – which employs 78,500 people in 29 countries – may be exposed to legal risks resulting from breaches of its Code of Ethics or from a failure of its employees or stakeholders to comply with applicable laws and regulations. These shortcomings may expose the Group or its employees to criminal or civil sanctions and could adversely impact its reputation and results.

Management of risk

Valeo introduced a compliance approach across the Group in 2012, building on its Code of Ethics and culture of integrity. An Ethics and Compliance Department was set up in 2012 and has rolled out a detailed, specific program designed to combat corruption and anti-competitive practices. This program sets down general rules and procedures that must be respected by all employees and entities on the basis of which, a series of specific, local procedures is then defined and translated for each country in which Valeo operates in line with the local regulatory environment and culture.

Ethics and compliance also comes under the remit of the Audit & Risks Committee, which is regularly briefed on the progress of this program. Valeo management is deeply committed to implementing and enforcing this program among all employees and stakeholders (suppliers, service providers, etc.) and providing the necessary support.

For more information on the work of the Ethics and Compliance Department, please refer to Chapters 1 and 4, sections 1.3.4 and 4.5.2, pages 25 and 208.

Claims, litigation, and governmental, legal and arbitration proceedings

Proceedings arising within the ordinary course of business

In the ordinary course of the Group's operations, certain entities may be involved in legal proceedings. Lawsuits have been brought by certain current or former employees for asbestos-related damages or on the grounds of previous asbestos exposure in their capacity as "asbestos workers". Mainly in France, former employees exposed to asbestos in the Group's plants could have developed an illness as a result of this exposure. If such illnesses were considered as occupational illnesses by health insurance funds, the employees concerned could bring a claim against Valeo (as their former employer) for inexcusable misconduct (*faute inexcusable*). If the inexcusable misconduct claim were upheld and enforceable against the former employer, Valeo would have to pay additional compensation to its former employees or their beneficiaries. In 1999, French law introduced an early retirement scheme for workers exposed to asbestos. Under this law, employees having worked at a site recognized by decree to have contained asbestos can take early retirement under certain conditions. A number of former employees entitled to early retirement on these grounds have brought claims against Valeo before the French Labor Court, most seeking damages for moral harm (anxiety).

Other claims may be filed against Group companies, for example by their employees or by the tax authorities.

Each of the known cases involving Valeo or a Group company is examined at the end of the reporting period and the provisions deemed necessary based on the advice of legal counsel are set aside to cover the estimated risks.

Provisions for known disputes and litigation amounted to 106 million euros at December 31, 2014 (see Note 7.1 to the consolidated financial statements, page 288).

Even though the outcome of outstanding lawsuits cannot be foreseen, at the date of this report Valeo considers that they will not have a material impact on the Group's financial position.

Anti-trust proceedings and attendant procedures

At the end of July 2011, anti-trust investigations were initiated against several automotive suppliers (including Valeo), in particular by the United States and European anti-trust authorities in the area of components and systems supplied to the automotive industry.

In the United States, an out-of-court settlement was reached on September 20, 2013 between the Department of Justice and the Japanese subsidiary Valeo Japan Co. Ltd, which agreed to pay a fine of 13.6 million US dollars. In return, this agreement, which was ratified by the United States District Court for the Eastern District of Michigan on November 5, 2013, terminated any proceedings instituted or likely to be instituted by the United States federal authorities against the Valeo Group for practices that came to light during their investigations.

Three class actions were filed against Valeo Group companies with the United States District Court for the Eastern District of Michigan, and three other class actions in Canada. Due to the progress of these proceedings, it is not possible to assess their likely outcome. However, Valeo cannot rule out that they could have a material adverse impact on the Group's future earnings.

Outside the United States, investigations by the European anti-trust authorities are still in progress.

At this stage, the Group is unable to predict the outcome of these investigations or of any compensation claims. However, it cannot rule out that they may have a material adverse impact on its future earnings.

Other proceedings

To the best of Valeo's knowledge, and excluding these anti-trust proceedings and any resulting claims for damages, there are no governmental, legal or arbitration proceedings, including proceedings in progress, pending or expected, that may have, or have had in the past 12 months, a significant impact on the financial position or profitability of the Company or the Group.

However, Valeo cannot rule out new lawsuits resulting from facts or circumstances that are unknown at present, or where the associated risk cannot as yet be determined and/or quantified. Such lawsuits could have a significant adverse impact on the Group's net earnings or image.

2.1.4 Financial risks

Standard policy

Valeo's Financing and Treasury Department (part of the Finance Department) proposes and implements rules on managing liquidity risks, market risks (commodity, foreign currency, interest rate and equity) and the associated counterparty risks.

These risks are generally managed centrally by the parent company. Financing, investment and risk identification and hedging strategies are reviewed each month by the Group's Finance Department.

The Financing and Treasury Department relies, among other things, on a treasury management system that constantly monitors the main liquidity indicators and all of the financial derivatives used at central level to hedge commodity, currency and interest rate risks. Valeo's General Management receives periodic reports about market trends and the liquidity, commodity, currency, interest rate and counterparty risks incurred by the Group, as well as details of hedging operations implemented and their valuation.

Liquidity risk

Risk

The Group looks to maintain very broad access to liquidity in order to meet its commitments and fund its investments. To do this, it borrows from banks and on capital markets, which exposes it to liquidity risk in the event that these markets partly or wholly dry up.

The Group seeks to ensure a balanced long-term debt repayment profile: at December 31, 2014, the average maturity of its debt with its parent company (Valeo) was 5.3 years (3.5 years at December 31, 2013). The following table summarizes the amounts and maturities of Valeo's main borrowings (excluding accrued interest):

Type	Maturity	Nominal amount (in millions)	Outstanding at Dec. 31, 2014 (in millions)	Currency	Nominal interest rate
Syndicated loan	June 2016	250	250	EUR	3-month Euribor +1.3%
European Investment Bank loan	August 2016	225	113	EUR	6-month Euribor +2.46%
European Investment Bank loan	November 2018	103	103	USD	6-month USD Libor +1.9%
Bond (EMTN program)	January 2017	500	146	EUR	5.75%
Bond (EMTN program)	May 2018	500	273	EUR	4.875%
Bond (EMTN program)	January 2024	700	700	EUR	3.25%

Management of risk

Cash is managed centrally whenever this is permitted by local legislation. In this case, subsidiaries' surplus cash or financing requirements are pooled and invested or funded by Valeo, the parent company.

At December 31, 2014 and December 31, 2013, Valeo had 1.5 billion euros in cash and cash equivalents. Cash comprises bank deposits for 681 million euros and cash equivalents (mainly money market funds) for 816 million euros.

Other sources of liquidity were as follows:

- confirmed bank credit lines with an average maturity of 3.8 years, representing a total of 1.2 billion euros. None of these credit lines had been drawn down at December 31, 2014. These bilateral credit lines were taken out with nine leading banks with an average rating of A+ from Standard & Poor's and A1 from Moody's;
- a short-term commercial paper financing program for a maximum amount of 1.2 billion euros;
- a Euro Medium Term Note (EMTN) financing program for a maximum of 2 billion euros, on which 1.1 billion euros had been drawn at December 31, 2014.

The Group's gross debt fell to 1.8 billion euros at December 31, 2014 (versus 1.9 billion euros at December 31, 2013). Gross debt included short-term debt totaling 257 million euros and long-term debt totaling 1,582 million euros (including 124 million euros due within one year).

- The bonds issued under the EMTN program include an option allowing bondholders to request early repayment or redemption of their bonds in the event of a change of control at Valeo leading to a withdrawal of the bond's rating or a downgrade in the rating to below investment grade (assuming that the bonds had previously been rated investment grade). If Valeo's bonds had previously been rated below investment grade, bondholders may request the early repayment or redemption of their bonds in the event of a change of control at Valeo resulting in a one category downgrade in the rating (e.g., from Ba1 to Ba2).
- Bank credit lines, the syndicated 250 million euro loan, along with the two European Investment Bank loans are subject to a covenant stipulating that the Valeo's net-debt-to-EBITDA ratio must not exceed 3.25. At December 31, 2014, this ratio calculated over 12 months was 0.22 or 0.23 based on the relevant documentation.
- The 250 million euro syndicated loan also contains a clause allowing lenders to request early repayment in the event of a change of control at Valeo. For the two European Investment Bank loans, the Bank may ask the borrower to put up security or collateral in the event of a change of control, or otherwise request early repayment of the loans.
- The Group's bank credit lines and long-term debt include "cross default" clauses. This means that if a given amount of debt is likely to be called for early repayment, then the other debt amounts may also be called for early repayment. At the end of the reporting period, the Group expects to comply with all debt covenants over the next 12 months.

Details of the Group's borrowings and debt are included in Note 8.1 to the consolidated financial statements, page 290.

Credit rating

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status:

- on January 12, 2015, Standard & Poor's Rating Services confirmed its "BBB/A-2" long-term and short-term corporate credit ratings for Valeo with a stable outlook;
- on August 15, 2014, Moody's Rating Services confirmed its "Baa3/P3" long-term and short-term corporate credit ratings for Valeo with a positive outlook (upgraded from a stable outlook previously).

Commodity risk

Risk

The Group uses a variety of raw materials for its industrial operations, including non-ferrous metals, steel, plastics and rare-earth metals, representing purchases of 1.8 billion euros in 2014 (of which 37% non-ferrous metals, 36% steel, 26% plastics and 1% rare-earth metals). The Group is exposed to increases in the price of these commodities. In such an event, the Group may not always be in a position to pass on the full extent of the rise to its customers, which may have a negative impact on its earnings.

Management of risk

The Group manages its exposure to raw materials by using price indexation clauses as far as possible. This is the case particularly for non-ferrous metals and steel, for which such clauses respectively cover approximately two-thirds and one-half of the Group's exposure.

Residual exposure to non-ferrous metals listed on the London Metal Exchange is hedged with leading banks using hedging instruments. These hedges are designed to limit the impact of fluctuations in commodity prices on the Group's earnings and to give Valeo the time it needs to negotiate the corresponding price rises with its customers.

The Group favors hedging instruments which do not involve physical delivery of the underlying commodity. These transactions are eligible for cash flow hedge accounting within the meaning of IAS 39. At December 31, 2014, an unrealized loss of 1.8 million euros related to these hedges was recognized directly in other comprehensive income. At December 31, 2013, an unrealized loss of 3 million euros was recognized directly in other comprehensive income.

Steel, plastics and rare-earth metals cannot be hedged as they are not listed on an organized exchange.

Inventory values in the Group's statement of financial position are not significantly affected by the rise in commodity prices because the rapid inventory turnover and optimization of logistics flows reduces the amount.

Exposure to commodity risk and the related pre-tax sensitivity analysis are detailed in Note 8.3.1.2 to the consolidated financial statements, page 301.

Foreign currency risk

Operational currency risk

Risk

As the Group conducts its business in an international environment, Group entities may be exposed to transaction risks with respect to purchases or sales transacted in currencies other than their functional currency.

Management of risk

Subsidiaries' current and future business transactions are generally hedged for periods of less than six months. Subsidiaries principally hedge their transactions with Valeo, the parent company, which then hedges net Group positions with external counterparties (leading banks). Hedge accounting as defined by IAS 39 is not applicable in this case, and the Group's foreign currency derivatives are therefore treated as trading instruments in accordance with the standard on financial instruments. However, on an exceptional basis for certain major transactions, the Group may set up specific hedges and apply hedge accounting rules.

At December 31, 2014, an unrealized gain of 17 million euros related to these hedges was recognized directly in other comprehensive income. At December 31, 2013, an unrealized loss of 7 million euros related to these hedges was recognized directly in other comprehensive income.

Financial currency risk

Risk

Centralizing the financing needs of foreign subsidiaries outside the eurozone and certain Group financing transactions exposes some entities to financial currency risk. This risk corresponds to the risk of changes in the value of financial receivables or payables denominated in currencies other than the functional currency of the borrowing or lending entity.

Management of risk

The Group's borrowings are generally denominated in euros (see section 2.1.4 "Liquidity risk", page 67).

The Group also tends to finance its subsidiaries in their local currencies and systematically enters into hedges to protect itself against the resulting currency risk.

The loan taken out with the European Investment Bank in November 2011 is in US dollars and hedges internal loans denominated in the same currency.

The bank loan taken out at the end of June 2011 in connection with the acquisition of Niles is hedged by a cross currency swap converting the initial nominal euro amount of the loan into yen and the interest payable in euros based on the euro interest rate into interest payable in yen based on the interest rate for the Japanese currency.

This transaction in Japanese yen is hedged by an internal loan in yen granted to Valeo Japan as part of the funding for the Niles acquisition. The Group unwound 35 million euros of this initial 237 million euro cross currency swap in 2013 and unwound a further 69 million euros in 2014, following the payment of identical amounts by Valeo Japan to Valeo in 2013 and 2014. The residual nominal amount of this cross currency swap was 133 million euros.

The Group's residual unhedged exposure results mainly from euro-denominated loans granted by Valeo to subsidiaries in Eastern Europe (see the pre-tax sensitivity analysis for this risk in Note 8.3.1.1 to the consolidated financial statements, page 300).

The Group's gross and net forex exposure is shown in Note 8.3.1.1 to the consolidated financial statements, page 300.

Interest rate risk

Risk

Interest rate risk depends on the Group's debt and financial investments and on financial conditions (i.e., the fixed/variable interest rate mix).

Management of risk

The Group uses interest rate swaps to convert interest rates on its debt into either a variable or a fixed rate, either at origination or during the term of the loan.

At December 31, 2014, an unrealized loss of 4 million euros related to these hedges was recognized directly in other comprehensive income.

Taking into account hedging transactions, 72% of long-term debt (i.e., debt due in more than one year) was at fixed rates at December 31, 2014 (71% at December 31, 2013).

The Group's investments are mainly at variable rates.

Details of exposure to interest rate risk and the related pre-tax sensitivity analysis are shown in Note 8.3.1.3 to the consolidated financial statements, page 302.

Banking counterparty risk

Risk

Banking counterparty risk arises on hedges taken out with leading banks (commodity, currency and interest rate derivatives), on credit lines granted by these banks and on cash and securities deposited with financial institutions.

Management of risk

The Group works with leading financial institutions and sets limits for each counterparty, taking into account ratings provided by rating agencies (an average rating of A+ by Standard & Poor's and A1 by Moody's). Special reports are drawn up enabling counterparty risk on each market to be monitored.

The Group invests its surplus liquidity according to the same principles, with asset management companies that are subsidiaries of leading banks. Securities are held by leading custodians.

In accordance with IFRS 13, the Group has determined the credit risk impact for uncollateralized derivatives (Credit Value Adjustment [CVA] and Debit Value Adjustment [DVA]). The net impact for the Group is minimal (see Note 8.1.1 to the consolidated financial statements, page 291).

Equity risk

Treasury shares

Under IAS 32, treasury shares are recognized within consolidated equity and changes in value are not recognized. When treasury shares are purchased or sold, equity is adjusted to reflect the fair value of the shares purchased or sold. In 2014, 1,409,994 shares were purchased (including 659,994 in respect of the liquidity agreement and 750,000 in relation to the share buyback program), and 1,534,394 shares were sold (including 654,494 in respect of the liquidity agreement and 879,900 in relation to stock option and free share plans), leading to a 54 million euro decrease in consolidated equity at end-2014.

A detailed presentation of movements in treasury shares held in respect of the liquidity agreement or to cover stock option and free share plans, is provided in Chapter 6, section 6.5.2, page 353.

Equity investments for pension funds

Pension fund assets comprised 264 million euros in equities at December 31, 2014, representing 54% of the assets invested. After a higher-than-expected return on plan assets in 2013, essentially in the United States, plan assets also yielded good returns in 2014 (albeit less than in 2013), leading to an increase of 23 million euros in the value of the assets in 2014 versus a 38 million euro increase in 2013 (see Note 5.3.5 to the consolidated financial statements, page 275).

Decisions to allocate the funds among the different asset classes (equities, bonds, cash equivalents) are taken by the investment committees or trustees specific to each country concerned, acting on recommendations from external advisors and depending on the market outlook and the characteristics of the pension obligations. The funds are managed by specialized asset management companies. Assisted by the same advisors, Valeo meets periodically to assess the relevance and performance of its various investments.

Investment in Ichikoh

The Group holds a 31.6% interest in Ichikoh Industries Ltd, a company listed on the Tokyo stock exchange. This investment is accounted for by the equity method and carried at an amount of 40 million euros at December 31, 2014 (61 million euros at December 31, 2013). The Group is exposed to the risk of changes in the market value of this investment. At December 31, 2014, the market value of the Ichikoh shares held by Valeo was 53 million euros, compared with 35 million euros at end-2013. The carrying amount of the investment in the Group's consolidated financial statements at December 31, 2013 was justified by its value in use for Valeo.

Customer credit risk

Risk

The automotive sector is by nature fairly concentrated around several large international automakers. Valeo is exposed to credit risk and, more specifically, to the risk of default by its manufacturing or distribution customers.

Management of risk

Valeo works with all automakers in the automotive sector and endeavors to diversify its customer portfolio as far as possible to include new, especially Asian, players. Asian customers represent 26% of the Group's original equipment sales.

At December 31, 2014, Valeo's largest customer accounted for around 14% of the Group's accounts and notes receivable, while the two biggest customers accounted for 31% of the Group's sales. The Group's five largest customers accounted for 61% of its original equipment sales, and its ten largest customers, 91% of original equipment sales. Valeo also generates 12% of its sales in the aftermarket, with automakers representing 43% and independent dealer networks 57%. The customer base of independent dealer networks (3% of the Group's accounts and notes receivable at end-2014) is by nature highly diversified and is constantly monitored. Credit insurance policies have been taken out to protect the Group against the risk of default.

The average days' sales outstanding stood at 45 days at December 31, 2014, stable compared to end-2013, following the assignment of trade receivables.

For more information on the aging of trade receivables and impairment of doubtful receivables, see Notes 4.2 and 8.3.3 to the consolidated financial statements, pages 261 and 304.

2.2 Insurance and risk coverage

The Group's insurance strategy is combined with a strong risk prevention and protection approach and coverage includes major claims. In the aim of optimizing insurance costs, the Group self-insures risks susceptible to recur and whose amounts are not significant.

All Group companies are insured by first-rate insurance companies for all major risks that could have a material impact on their business, earnings, assets and liabilities.

The risks covered include:

- property damage: insured events relate to technological risks (in particular fire, explosion, machine breakage and electrical damage) as well as natural disasters (in particular wind, floods and earthquakes). Property is insured on the basis of the replacement cost of buildings, equipment and inventories;
- business interruption: this covers any cases where activity is interrupted or reduced following an event insured under property damage coverage, or by extension, one of the

following events: physical impossibility of accessing a site, client or supplier deficiencies and loss of energy supply. Business interruption is insured on the basis of loss of gross margin;

- goods and equipment transportation and business interruption following transportation incidents;
- liability for all kinds of damage towards customers and third parties;
- liability towards employees for occupational illnesses and accidents;
- liability for workplace risks.

In terms of risks related to products delivered by Valeo, the Group takes out insurance for the financial consequences of any liability it incurs due to damage of any nature caused by its products.

The Group also takes out insurance to cover the financial consequences of any product recall campaigns that may be carried out by automakers.

The annual coverage limits of these policies are as follows:

Type of insurance	Coverage limit (in euros)
Property damage and business interruption	1,000 million
General liability, product liability, environmental liability	300 million
Goods and equipment transportation	Value of the goods transported
Directors' and corporate officers' liability	200 million
Employment practice liability	50 million

The Group paid a total of 14 million euros in premiums for its insurance coverage in 2014.

MESSAGE FROM PASCAL COLOMBANI, CHAIRMAN OF THE BOARD OF DIRECTORS



“The Board of Directors welcomes the Group’s excellent performance in 2014 as well as Valeo’s return to the Euronext Paris CAC 40 index.”

Good governance is a key factor in ensuring excellent performance. At Valeo, governance is a priority, and thanks to our ongoing improvement process, we set the standard in this area. **In 2014, the Board of Directors – 75% of whose members are independent – met eight times, with a 99% average attendance rate⁽¹⁾** that demonstrates its steadfast commitment. Similar rates were achieved for the Board’s three Committees – the Audit & Risks Committee, the Appointment, Compensation & Governance Committee, and the Strategy Committee – whose work in the form of recommendations and opinions efficiently contributes to the preparation of Board decisions.

After France, Germany, China and the United States in recent years, and in keeping with the ongoing analysis of Valeo’s global realignment, in 2014 the directors held their annual strategy seminar in Japan where they met key executives from the Group and the main automakers in the region. The convention was an opportunity to discuss future growth drivers as well as new research and development prospects. The Board

of Directors also reviewed risk analysis efforts begun in 2013 and ensured that the internal control framework remained in step with the Group’s growth and challenges.

In order to foster a culture of ongoing improvement and in line with practice over recent years, at the end of 2014 the Board invited a specialist external consultant to review its operations. **The review reflected the directors’ very positive assessment of the Company’s governance.** They were very satisfied with how the Board of Directors and its Committees operate as regards the level of information and organization of discussions, as well as the opportunities provided to make a constructive contribution to the Board’s work and the Group’s strategy.

Lastly, mindful of regulatory requirements to promote gender balance in the boardroom, the Board of Directors – which already had three female members – decided to propose the appointment of another female director, Caroline Maury Devine, for ratification at the Shareholders’ Meeting to be held to approve the financial statements for the year ended December 31, 2014.

⁽¹⁾ The average attendance rate of the members of the Board of Directors (in person or by proxy) during 2014 was 99%. The average attendance rate of the members of the Board of Directors in person during 2014 was 94.8%.

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AFR Information from the Annual Financial Report is clearly identified in the table of contents by the AFR symbol

 **8**
Meetings of the Board of Directors

 **99%**
Average attendance rate (in person or by a representative)

75%
Proportion of Independent Directors

 **25%**
of women

Valeo refers to the AFEP-MEDEF Corporate Governance Code for Listed Companies published in December 2008 and revised in April 2010 and June 2013. Similarly, the Company also complies with the provisions set out in the July 22, 2010 report of the French financial markets authority (*Autorité des marchés financiers* – AMF) on audit committees.

The application of the recommendations of the AFEP-MEDEF Corporate Governance Code for Listed Companies is described in this chapter, in section 3.2.4, page 101.

The AFEP-MEDEF Corporate Governance Code for Listed Companies published in December 2008 and revised in April 2010 and June 2013 is available on the MEDEF's website, www.medef.com.

The report of the Chairman of the Board of Directors was presented to the Appointment, Compensation & Governance Committee (as regards information relating to the composition of the Board, the application of the principle of equal representation of women and men, and the conditions in which the Board's work is prepared and organized) and to the Audit & Risks Committee (as regards information relating to internal control and risk management procedures). It was approved by the Board of Directors on February 24, 2015, in accordance with Article L.225-37 of the French Commercial Code (*Code de commerce*) and is included in this chapter of the Registration Document, in section 3.2 "Composition of the Board of Directors, and preparation and organization of its work" and section 3.4 "Internal control and risk management."

3.1 Corporate governance bodies

The Group's Executive Management team includes the Chairman of the Board of Directors, the Chief Executive Officer, as well as the Functional Directors and the Operational Directors, who are members of the Operations Committee.

At its meeting on March 20, 2009, the Board of Directors elected to separate the role of Chairman of the Board of Directors from that of Chief Executive Officer. Following the renewal of Pascal Colombani's and Jacques Aschenbroich's directorships by the Shareholders' Meeting on June 8, 2011, the Board of Directors, at its meeting on the same day, acting on the recommendation of the Appointment, Compensation & Governance Committee, maintained the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer and renewed their respective terms of office. The Appointment, Compensation & Governance Committee will also recommend to the Board of Directors at its meeting scheduled to take place at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2014 to maintain the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer and to renew the terms of office of Pascal Colombani and Jacques Aschenbroich respectively as Chairman of the Board of Directors and Chief Executive Officer, subject to the renewal of their directorships that will be proposed at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2014.

The Group's Executive Management team includes:

Chairman of the Board of Directors (non-executive)

Pascal Colombani

(Current term of office began on June 8, 2011 and expires at the close of the Shareholders' Meeting that will be called to approve the financial statements for the year ended December 31, 2014)

In his capacity as Chairman of the Board of Directors, Pascal Colombani organizes and presides over the work performed by the Board of Directors, and presents a report on its activities to the Shareholders' Meeting. He ensures that the Company's governance bodies function effectively and in particular that the directors are able to perform their duties.



Chief Executive Officer

Jacques Aschenbroich

(Current term of office began on June 8, 2011 and expires at the close of the Shareholders' Meeting that will be called to approve the financial statements for the year ended December 31, 2014)

In his capacity as Chief Executive Officer, Jacques Aschenbroich has the widest possible powers to act in any circumstances in the Company's name. He exercises these powers within the limits of the Company's corporate purpose and subject to the provisions of the law, the Company's articles of association and internal procedures. He represents the Company in its relations with third parties and before the courts. In compliance with the internal procedures, the Chief Executive Officer must obtain the prior approval of the Board of Directors for the acquisition or sale of any subsidiary, interest, or any other asset or investment of any kind, for a sum of more than 50 million euros per transaction.



Operations Committee (composition at January 1, 2015)

1 Michel Boulain
Senior Vice-President,
Human Resources

2 Robert Charvier
Chief Financial Officer

3 Catherine Delhayé
Chief Ethics and
Compliance Officer



4 Antoine Doutriaux
President, Thermal
Systems Business Group

5 Robert de La Serve
President, Valeo Service
Activity

6 Géric Lebedoff
General Counsel

7 Claude Leïchlé
President, Powertrain
Systems Business Group

8 Axel Maschka
Senior Vice President,
Sales & Business
Development,
since January 1, 2014



9 François Marion
Vice-President, Strategy
and External Relations

10 Maurizio Martinelli
President, Visibility
Systems Business Group

11 Christophe Périllat
Chief Operating Officer

12 Jean-François Tarabbia
Senior Vice-President,
Research & Development
and Product Marketing

13 Marc Vrecko
President, Comfort
and Driving Assistance
Systems Business Group



3.2 Composition of the Board of Directors, and preparation and organization of its work AFR

3.2.1 Composition of the Board of Directors

The Company's articles of association provide that the Board of Directors must comprise at least three and no more than 18 members appointed for a period of four years (subject to any amendments in line with changes in the applicable law). The Board of Directors currently has 12 members.

In 2014, there were no directors representing the employee-shareholders or the employees, as the Company is not required by applicable laws or regulations to have such a member. Furthermore, no non-voting directors were appointed in 2014.

Directors are appointed by shareholders at Shareholders' Meetings on the recommendation of the Board of Directors, which in turn receives proposals from the Appointment, Compensation & Governance Committee.

At the beginning of 2014, the Board of Directors comprised 12 members: Jacques Aschenbroich, Gérard Blanc, Daniel Camus, Pascal Colombani, Jérôme Contamine, Sophie Dutordoir, Michel de Fabiani, Michael Jay, Noëlle Lenoir, Thierry Moulouguet, Georges Pauget and Ulrike Steinhorst.

At its meeting on February 20, 2014, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to ask the Shareholders' Meeting of May 21, 2014 called to approve the 2013 financial statements to renew the directorships of Daniel Camus, Jérôme Contamine and Noëlle Lenoir.

The resulting changes in the composition of the Board of Directors decided at the Shareholders' Meeting of May 21, 2014 are summarized below:

Director	Change in composition of the Board of Directors
Daniel Camus	Reappointed for a period of four years
Jérôme Contamine	Reappointed for a period of four years
Noëlle Lenoir	Reappointed for a period of four years

Following the renewal of the directorships of Daniel Camus, Jérôme Contamine and Noëlle Lenoir at the Shareholders' Meeting of May 21, 2014, the composition of the Board of Directors did not change compared with the composition presented above at the beginning of 2014, i.e., a Board of Directors comprising the following 12 members: Jacques Aschenbroich, Gérard Blanc, Daniel Camus, Pascal Colombani, Jérôme Contamine, Sophie Dutordoir, Michel de Fabiani, Michael Jay, Noëlle Lenoir, Thierry Moulouguet, Georges Pauget and Ulrike Steinhorst.

The directors have different backgrounds and were selected for their experience and skills in various areas of business. For details of the directorships and other positions held by members of the Board of Directors over the last five years, see pages 79 to 90 of this section.

Members of the Board of Directors are appointed for four-year terms which expire at the close of the Ordinary Shareholders' Meeting called in the year in which their terms expire to approve the financial statements for the previous year. They can be re-elected. Where one or more seats on the Board become vacant due to the death or resignation of any member or members, the Board of Directors may appoint new members on a temporary basis until the next Shareholders' Meeting, in accordance with the applicable legislation. The term of office of the Chairman may not exceed his term of office as a director.

To ensure smooth turnover on the Board of Directors in compliance with the recommendations of the AFEP-MEDEF Code, the Company's articles of association were amended by the Shareholders' Meeting of June 8, 2011 to allow the renewal of the directors on a one-fourth rotation basis.

The expiration dates of directors' current terms of office are as follows:

Expiration of term of office	Directors whose term of office is due to expire
Shareholders' Meeting called to approve the 2014 financial statements	Jacques Aschenbroich, Pascal Colombani and Michel de Fabiani
Shareholders' Meeting called to approve the 2015 financial statements	Thierry Moulouguet, Georges Pauget and Ulrike Steinhorst
Shareholders' Meeting called to approve the 2016 financial statements	Gérard Blanc, Sophie Dutordoir and Michael Jay
Shareholders' Meeting called to approve the 2017 financial statements	Daniel Camus, Jérôme Contamine and Noëlle Lenoir

No individual who is more than 70 years old may be appointed as member of the Board of Directors if his/her appointment results in more than one-third of the members of Board of Directors being over this age. This age limit applies as the case may be, to representatives of legal entities holding directorships.

The Chairman's term of office expires at the latest at the close of the Shareholders' Meeting called to approve the financial statements for the year in which he/she reaches his/her 70th birthday. The Chief Executive Officer's term of office expires at the latest at the close of the Shareholders' Meeting called to approve the financial statements for the year in which he/she reaches his/her 65th birthday.

Directors may be removed from office by the Shareholders' Meeting at any time.

Independence of directors

Classification as an independent director is reviewed every year by the Appointment, Compensation & Governance Committee and the Board of Directors before the annual report is prepared. Thus, on January 22, 2015, the Board of Directors, on the recommendation of the Appointment, Compensation & Governance Committee, reviewed the status of each of its members in light of the independence criteria in the internal procedures, which are based on the independence criteria provided for by the AFEP-MEDEF Code.

In compliance with the AFEP-MEDEF Code (adopted by Valeo), the Board of Directors' internal procedures classify as independent a director who has no relations whatsoever with the Company, the Group or the Group's management that may compromise his or her ability to exercise freedom of judgment.

In particular, in accordance with the internal procedures, independence is presumed to exist when a director:

- is not an employee or an executive corporate officer of the Company, or an employee or director of one of its consolidated subsidiaries, and has not been in such a position in the past five years;
- is not an executive corporate officer of a company in which the Company holds a directorship, either directly or indirectly, or in which an employee appointed in that role, or in which an executive corporate officer of the Company (currently in office or having held such office in the past five years) is a director;

- is not a customer, supplier, investment banker or commercial banker that is material for the Company or Group, or for which the Company or Group represents a significant portion of its business;
- is not related by close family ties to a corporate officer;
- has not been an auditor of the Company in the past five years;
- has not been a director of the Company for more than 12 years on the date he or she was appointed to his or her current term of office.

For directors holding at least 10% of the Company's share capital or voting rights, or representing a legal entity that holds such a stake, the classification as independent takes account of the Company's shareholding structure and any conflicts of interest that may exist.

In application of these criteria, the Board of Directors noted that:

- no directors have a business relationship with the Company or the Group. Therefore, the Board of Directors did not need to assess the significance of business relationships in light of criteria established based on the characteristics of the Company and the business relationship in question;
- one director holds the position of Chairman of the Board of Directors: Pascal Colombani. Although Pascal Colombani could be considered independent under the terms of the AFEP-MEDEF Code, on July 29, 2013, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided that it would not be appropriate to change the status of the Chairman that it considers not to be independent;
- one director holds the position of Chief Executive Officer: Jacques Aschenbroich, who therefore cannot be considered independent;
- one director's appointment was put forward by one of the Company's major shareholders: Michel de Fabiani; given the Company's shareholding structure and the conflicts of interest that could arise, Michel de Fabiani cannot be considered independent; and
- nine directors are considered independent in light of the independence criteria set out in the internal procedures: Gérard Blanc, Daniel Camus, Jérôme Contamine, Sophie Dutordoir, Michael Jay, Noëlle Lenoir, Thierry Moulouguet, Georges Pauget and Ulrike Steinhorst.

Application of the principle of equal representation of women and men on the Board of Directors

At the beginning of 2014, the Board of Directors included three women: Sophie Dutordoir, Noëlle Lenoir and Ulrike Steinhorst.

Women currently hold 25% of the seats on the Board of Directors. As such, the Company meets the first threshold provided for by the French law of January 27, 2011 regarding equal representation of women and men on the Board of Directors.

Furthermore, at its meeting on February 24, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided, particularly in order to continue to open up the Board of Directors to female directors, to appoint Caroline Maury Devine, replacing Michael Jay, who expressed his wish to end his term of office with the Board of Directors in April 2015. Female directors will therefore represent 30% of the Board of Directors. The appointment of Caroline Maury Devine is subject to ratification at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2014.

Presentation of directors

**Pascal Colombani**

Chairman of the Board of Directors

French
Age: 69**Valeo**
43, rue Bayen
75017 Paris, France

Number of shares held: 600

First appointed: 05/21/2007

Start of current term of office: 06/08/2011

End of current term of office:
Shareholders' Meeting called to approve
the 2014 financial statements**Main position held outside the Company in 2014**

- Senior Advisor, A.T. Kearney

Other directorships and positions held in companies other than Valeo subsidiaries in 2014

- Chairman, TII Stratégies SAS
- Chairman of the Board of Directors, Noordzee Helikopters Vlaanderen (NHV) (Belgium)
- Director, Alstom SA ♦ (Chairman of the Ethics and Governance Committee and member of the Audit Committee), Technip SA ♦ (Chairman of the Strategy Committee and member of the Audit Committee)
- Chairman of the Advisory Board, A.T. Kearney Paris
- Member of the European Advisory Board, J.P. Morgan Chase
- Member, French Academy of Technology (*Académie des Technologies*)
- Vice-President, *Conseil Stratégique de la Recherche* (a research advisory board set up by the French government – CSR)
- Member, AFEP-MEDEF High Committee on Corporate Governance (*Haut Comité de Gouvernement d'Entreprise AFEP-MEDEF*)

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Director, British Energy Group Plc, Energy Solutions Inc, Rhodia SA
- Senior Advisor, Detroyat et Associés, Arjil Banque

Experience

Pascal Colombani is Chairman of the Board of Directors and a director of Valeo and Senior Advisor for innovation, high technology and energy at A.T. Kearney, a strategy consultancy firm.

He is a member of the French Academy of Technology (*Académie des Technologies*) and of the European Advisory Board of J.P. Morgan Chase, and Vice-President of the *Conseil Stratégique de la Recherche* (CSR). He is Chairman of the Advisory Board of A.T. Kearney Paris, Chairman of TII Stratégies SAS and Noordzee Helikopters Vlaanderen (NHV) and a director of Alstom SA and Technip SA. He is also a member of the AFEP-MEDEF High Committee on Corporate Governance (*Haut comité de Gouvernement d'Entreprise AFEP-MEDEF*).

In January 2000, he was appointed Managing Director of the French Alternative Energies and Atomic Energy Commission (*Commissariat à l'Énergie Atomique – CEA*), a post that he held until December 2002. The instigator of the restructuring of CEA's industrial holdings and of the creation of Areva in 2000, he chaired the Supervisory Board of Areva until May 2003. Between 1997 and 1999, he was the Director of Technology at the French Ministry for Research.

Pascal Colombani spent close to 20 years (1978-1997) at Schlumberger in various management positions, in Europe and in the United States, before becoming Chairman of its Japanese subsidiary in Tokyo.

He has also notably served as a director at EDF, France Telecom, British Energy Group Plc, Rhodia SA and Energy Solutions Inc. and was Senior Advisor at both Detroyat et Associés and Arjil Banque.

Pascal Colombani is a graduate of *École normale supérieure de Saint-Cloud*, is an associate professor in physics (*agrégé de physique*) and has a doctorate in physics.

♦ Listed company (for directorships and positions currently held).

**Jacques Aschenbroich**

Chief Executive Officer

French
Age: 60**Valeo**
43, rue Bayen
75017 ParisNumber of shares held: 57,000⁽¹⁾

First appointed: 03/20/2009

Start of current term of office: 06/08/2011

End of current term of office:
Shareholders' Meeting called to approve
the 2014 financial statements**Main position held outside the Company in 2014**

- Chairman, Valeo Finance, Valeo SpA (Italy), Valeo (UK) Limited (United Kingdom)

Other directorships and positions held in companies other than Valeo subsidiaries in 2014

- Chairman of the Board of Directors, *École nationale supérieure des Mines ParisTech*
- Director, Veolia ♦ (member of the Audit Committee and Chairman of the Innovation and Sustainable Development Research Committee)

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

-

Experience

Jacques Aschenbroich is the Chief Executive Officer and a director of Valeo.

He is Chairman of the Board of Directors of *École nationale supérieure des Mines ParisTech* and a director of Veolia. He is also the Chairman of Valeo Finance, Valeo SpA (Italy) and Valeo (UK) Limited (United Kingdom) and until March 23, 2014 was a director of Valeo Service España, SA (Spain).

He held several positions in the French administration and served the Prime Minister's office in 1987 and 1988. He then pursued an industrial career in the Saint-Gobain group from 1988 to 2008. After having managed subsidiaries in Brazil and Germany, he became Managing Director of the Flat Glass division of Compagnie de Saint-Gobain and went on to become Chairman of Saint-Gobain Vitrage in 1996. As Senior Vice-President of Compagnie de Saint-Gobain from October 2001 to December 2008, he managed the flat glass and high-performance materials sectors as from January 2007 and, as the Vice-Chairman of Saint-Gobain Corporation and General Delegate to the United States and Canada, he directed the operations of the group in the United States as from September 1, 2007.

He was also a director of Esso SAF until June 2009.

Jacques Aschenbroich graduated in engineering from *École des Mines*.

(1) Including 50,000 shares allotted under the June 24, 2010 share plan that became available for trading on June 24, 2014. Jacques Aschenbroich must hold half of these 50,000 shares in registered form until the end of his term of office.

♦ Listed company (for directorships and positions currently held).

**Gérard Blanc**

Independent director
Member of the Strategy Committee

French **Marignac Gestion SAS**
Age: 71 17, rue Joseph Marignac
 31300 Toulouse

Number of shares held: 500

First appointed: 05/21/2007

Start of current term of office: 06/06/2013

End of current term of office:
Shareholders' Meeting called to approve
the 2016 financial statements

Main position held outside the Company in 2014

- Chairman and CEO, Marignac Gestion SAS

Other directorships and positions held in companies other than Valeo subsidiaries in 2014

- Director, Sogclair ♦ (Chairman of the Compensation Committee)

Experience

Gérard Blanc is Chairman and CEO of Marignac Gestion SAS and a director of Sogclair.

Earlier in his career he served as Executive Vice-President of Programs at Airbus until 2003 when he was appointed Executive Vice-President of Operations, a position he held until 2005.

Gérard Blanc is a graduate of HEC business school in Paris.

♦ Listed company (for directorships and positions currently held).

**Daniel Camus**

Independent director
Chairman of the Audit & Risks Committee

French
Age: 62

The Global Fund
Chemin de Blandonnet 8
1214 Vernier, Switzerland

Number of shares held: 500

First appointed: 05/17/2006

Start of current term of office: 05/21/2014

End of current term of office:
Shareholders' Meeting called to approve
the 2017 financial statements

Main position held outside the Company in 2014

- Chief Financial Officer, The Global Fund

Other directorships and positions held in companies other than Valeo subsidiaries in 2014

- Member of the Supervisory Board, Morphosys AG (Germany) ♦ (Chairman of the Audit Committee), SGL Group SE (Germany) ♦ (Chairman of the Strategy Committee), Vivendi SA ♦ (Chairman of the Audit Committee), Cameco Corp. (Canada) ♦ (member of the Audit and Compensation Committee)

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Member of the Supervisory Board, EnBW (Germany), Dalkia SAS
- Chairman of the Board of Directors, EDF International
- Chief Financial Officer and subsequently Group Executive Vice-President in charge of International Activities and Strategy, EDF group
- Director, EDF Energy (United Kingdom)
- Senior Advisor, Roland Berger Strategy Consultants

Experience

Daniel Camus is Chief Financial Officer of The Global Fund. He is also a member of the Supervisory Boards of Morphosys AG (Germany), SGL Group SE (Germany), Cameco Corp. (Canada) and Vivendi SA. Until 2012, he was Senior Advisor at Roland Berger Strategy Consultants. Prior to this, he served as group Executive Vice-President in charge of International Activities and Strategy at the EDF group until December 1, 2010. After working in the chemicals and pharmaceuticals industry for 25 years within the Hoechst-Aventis group in Germany, Canada, the United States and France, he joined the EDF group in 2002 as Chief Financial Officer.

Daniel Camus holds a doctorate in economics, is an associate professor of management sciences (*agrégé en Sciences de la gestion*) and graduated with distinction from *Institut d'études politiques de Paris* (IEP).

♦ Listed company (for directorships and positions currently held).

**Jérôme Contamine**

Independent director
Chairman of the Strategy Committee

French
Age: 57

Sanofi
54, rue La Boétie
75414 Paris Cedex 8

Number of shares held: 2,000

First appointed: 05/17/2006

Start of current term of office: 05/21/2014

End of current term of office:
Shareholders' Meeting called to approve
the 2017 financial statements

Main position held outside the Company in 2014

- Executive Vice-President and Chief Financial Officer, Sanofi

Other directorships and positions held in companies other than Valeo subsidiaries in 2014

Sanofi group:

- President, SECIPE and Sanofi 1
- Chairman and director, SETC (Belgium)
- Legal Manager, Sanofi-North America
- CEO, Sanofi-Aventis Europe and Sanofi-Aventis Participations

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Director, Sanofi Pasteur Holding and Merial Ltd (United Kingdom)

Experience

Jérôme Contamine has been Executive Vice-President and Chief Financial Officer of Sanofi since March 16, 2009. He is also President of SECIPE and Sanofi 1, Chairman and director of SETC (Belgium), Legal Manager of Sanofi-North America, and CEO of Sanofi-Aventis Europe and Sanofi-Aventis Participations. He joined Veolia in 2000 as Executive Vice-President of Finance, before becoming Executive Vice-President responsible for cross-functional activities in 2002, and Senior Executive Vice-President of Veolia Environnement in 2003 until January 16, 2009. Between 1988 and 2000, he held several financial positions within the Elf group including Financing and Treasury Director (1991 to 1994), Deputy Director in Europe and the United States for the Exploration and Production division, and CEO of Elf Norway (1995 to 1998). In 1999 he was appointed Director of the integration group with Total, tasked with reorganizing the new merged entity, TotalFinaElf, and in 2000 became Vice-President of Continental European and Central Asian Operations for the Exploration and Production division of Total. Jérôme Contamine is a graduate of *École polytechnique* and of *École nationale d'administration* and is a special advisor to the French Court of Auditors (*Cour des comptes*).

◆ Listed company (for directorships and positions currently held).

**Michel de Fabiani**

Director

Member of the Audit & Risks Committee and member of the Appointment, Compensation & Governance Committee

French

Age: 69

CCI Franco-Britannique

10, rue de la Bourse
75002 Paris

Number of shares held: 500

First appointed: 10/20/2009

Start of current term of office: 06/08/2011

End of current term of office:

Shareholders' Meeting called to approve the 2014 financial statements

Main position held outside the Company in 2014

- Vice-President, Franco-British Chamber of Commerce and Industry

Other directorships and positions held in companies other than Valeo subsidiaries in 2014

- Director, BP France, EB Trans SA (Luxembourg)
- Member of the Supervisory Board, Vallourec ♦ (Chairman of the Appointment, Compensation & Governance Committee) and Valco Group
- Chairman of the Board of Directors, British Hertford Hospital Corporation (Levallois, France)
- Founding Chairman, *Cercle économique Sully* (a think tank) and Association for the Promotion of Ecological Vehicles (*Association pour la promotion des véhicules écologiques*)
- Vice-Chairman, *Œuvre du perpétuel secours* (a non-profit association) (Levallois, France)

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Director, Rhodia group, Star Oil Mali (Mali), SEMS (Morocco)

Experience

Michel de Fabiani was the first Frenchman to become President, in 2005 and again in 2009, of the Franco-British Chamber of Commerce and Industry, an institution founded in 1873 to promote and develop business and trade between France and the United Kingdom.

He is also a member of the Board of BP France and of EB Trans SA (Luxembourg), and a member of the Supervisory Boards of Vallourec and of Valco Group.

He serves as Chairman of the Board of the British Hertford Hospital Corporation, Vice-Chairman of the *Œuvre du perpétuel secours* in Levallois (France) and Founding Chairman of *Cercle économique Sully* and of the Association for the Promotion of Ecological Vehicles.

After joining the BP group in 1969, he held a number of positions in the nutrition, chemicals, finance and oil sectors in Milan, Paris and Brussels. In May 1995, Michel de Fabiani became Chairman and CEO of BP France. In September 1997, he was appointed CEO of the BP/Mobil joint venture in Europe and in 1999, President, Europe of the BP group and Vice-President of Europa (European Oil Industry Association) in Brussels until the end of 2004, when he left his executive position after 35 years with the BP group.

He has also served as director of the Rhodia group.

Michel de Fabiani is a graduate of HEC business school in Paris.

♦ Listed company (for directorships and positions currently held).

**Sophie Dutordoir**

Independent director
Member of the Strategy Committee

Belgian
Age: 52
Pelikaanhof 5
3090 Overijse
Belgium

Number of shares held: 500

First appointed: 06/06/2013

Start of current term of office: 06/06/2013

End of current term of office:
Shareholders' Meeting called to approve
the 2016 financial statements

Main position held outside the Company in 2014

- Director (various companies)

Other directorships and positions held in companies other than Valeo subsidiaries in 2014

- Independent director, BNP Paribas Fortis (Belgium) (member of the Governance, Appointment and Compensation Committee)
- Independent director, BPost (Belgium) ♦ (member of the Audit Committee and of the Appointment and Compensation Committee)

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Director, GDF Suez Energie Deutschland (Germany)
- Chair of the Board of Directors and director, Electrabel Customer Solutions (Belgium)
- Member of the Executive Committee, Federation of Enterprises in Belgium (*Fédération des entreprises de Belgique*)
- CEO and director, Electrabel (Belgium)
- Chair of the Executive Committee and CEO, Fluxys (LNG)

Experience

Sophie Dutordoir is an independent director of BNP Paribas Fortis and BPost in Belgium.

She began her career in July 1984 as spokeswoman and advisor to the Belgian Prime Minister, before occupying the same position for the Belgian Ministers of Finance and Education. In 1990, she joined Electrabel and Tractebel where she last served as General Manager of Marketing and Sales, member of the General Management Committee and Chief Executive Officer of Electrabel Customer Solutions. In May 2007, she was appointed Chair of the Executive Committee and Chief Executive Officer of Fluxys, an independent operator of the LNG terminal and natural gas transmission system in Belgium. In 2009, she returned to the Electrabel group where she served until December 31, 2013 as Chief Executive Officer and director of Electrabel (Belgium) and Chair of the Board of Directors and director of Electrabel Customer Solutions (Belgium). Up to this time, she was also a director of GDF Suez Energie Deutschland (Germany) and member of the Executive Committee of the Federation of Enterprises in Belgium.

Sophie Dutordoir holds a graduate degree and is a qualified professor in Romance philology (*agrégée en philologie romane*) from the University of Ghent and has a Certificate in Economic, Financial and Tax Sciences from the *Economische Hogeschool Sint-Aloysius* (EHSAL) school in Brussels.

♦ Listed company (for directorships and positions currently held).

**Michael Jay**

Independent director
Member of the Appointment,
Compensation & Governance Committee

British
Age: 68

House of Lords
Westminster
London SW1A 0PW
United Kingdom

Number of shares held: 500

First appointed: 05/21/2007

Start of current term of office: 06/06/2013

End of current term of office:
Shareholders' Meeting called to approve
the 2016 financial statements

Main position held outside the Company in 2014

- Independent member of the House of Lords (United Kingdom)

Other directorships and positions held in companies other than Valeo subsidiaries in 2014

- Director, EDF ♦ (member of the Strategy Committee and member of the Nominations and Remuneration Committee) (until November 2014)
- Non-executive director, Associated British Foods (ABF) (United Kingdom) ♦ (member of the Audit Committee, Nomination Committee and Remuneration Committee), Candover Investments Plc (United Kingdom) ♦ (Chairman of the Nominations Committee, member of the Audit Committee and of the Remuneration Committee)
- Trustee, Thomson Reuters Founders Share Company (United Kingdom)
- Vice-Chairman, Business for New Europe (United Kingdom)
- Chairman, British Library Advisory Council (United Kingdom)

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Director, Crédit Agricole
- Chairman, House of Lords Appointments Commission (United Kingdom)
- Chairman, Merlin (an international medical charity) (United Kingdom)
- Chairman, Culham Languages and Sciences (an educational charity) (United Kingdom)

Experience

Michael Jay is an independent member of the House of Lords in the United Kingdom.

He is a non-executive director of Associated British Foods (ABF) and of Candover Investments Plc, and Vice-Chairman of Business for New Europe. He is Chairman of the British Library Advisory Council and a trustee for Thomson Reuters Founders Share Company. He was a director of EDF until November 2014.

Michael Jay has also served as Chairman of Culham Languages and Sciences (educational charity), Chairman of Merlin (international medical charity) until July 2013, and Chairman of the House of Lords Appointments Commission until October 2013. Michael Jay was also a member of the European Sub-Committee on EU Law and Institutions and of the House of Lords Select Committee on International Institutions, and a member of GLOBE, an inter-parliamentary group on climate change.

Between 2002 and 2006 he held the position of Permanent Under-Secretary at the United Kingdom Foreign Office and in this role was Head of the Diplomatic Service.

In 2005 and 2006 he served as the British Prime Minister's personal representative at the G8 summits in Gleneagles and Saint Petersburg.

Michael Jay is an Honorary Fellow of Magdalen College, Oxford.

♦ Listed company (for directorships and positions currently held).

**Noëlle Lenoir**

Independent director
Member of the Audit & Risks Committee

French
Age: 66

Kramer Levin Naftalis
& Frankel LLP
47, avenue Hoche
75008 Paris

Number of shares held: 1,000

First appointed: 06/03/2010

Start of current term of office: 05/21/2014

End of current term of office:
Shareholders' Meeting called to approve
the 2017 financial statements

Main position held outside the Company in 2014

- Partner, Kramer Levin Naftalis & Frankel LLP

Other directorships and positions held in companies other than Valeo subsidiaries in 2014

- Member of the *Conseil d'État* (France's highest administrative court)
- President, HEC Europe Institute (*Institut de l'Europe des Hautes Études Commerciales*)
- Member of the American Law Institute and of the French Academy of Technology (*Académie des Technologies*)
- Director, Compagnie des Alpes ♦ (member of the Appointment, Compensation & Governance Committee)
- Founding Chair, *Cercle des Européens* (a think tank)
- Honorary Chair, *Association des amis d'Honoré Daumier*
- Adjunct Professor, HEC
- Member of the Board of Directors, French Association of Constitutionalists (*Association française des constitutionnalistes*)
- Member of the Board of Directors, Comparative Law Society (*Société de Législation Comparée*),

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Director, Generali France
- Ethics Officer at the French National Assembly, until April 2014
- Municipal Advisor, Valmondois (Val d'Oise, France)

Experience

Noëlle Lenoir is a member of the *Conseil d'État* (France's highest administrative court) and a partner in the law firm Kramer Levin Naftalis & Frankel LLP. During her career she has held some of the highest positions in the French State; as well as being the first woman to be appointed as a member of the French Constitutional Council (*Conseil constitutionnel*) (1992-2001), she was Deputy Minister of European Affairs from 2002 to 2004.

Since 2004, Noëlle Lenoir has mainly worked as a partner in the law firms Debevoise & Plimpton LLP (2004-2009) and then Jeantet et Associés. She has been a director of Compagnie des Alpes since March 2013.

Noëlle Lenoir is also President of the Europe Institute at HEC, Adjunct Professor at HEC, Honorary Chair of *Association des amis d'Honoré Daumier*, and Founding Chair of the *Cercle des Européens*. She is also a member of the American Law Institute and of the French Academy of Technology, and member of the Board of Directors of the French Association of Constitutionalists and of the Board of Directors of the French Comparative Law Society.

She was also a director of Générali France, Ethics Officer at the French National Assembly and a Municipal Advisor of Valmondois (Val d'Oise).

Noëlle Lenoir is a graduate of *Institut d'études politiques de Paris* (IEP) and holds a postgraduate degree in public law.

♦ Listed company (for directorships and positions currently held).

**Thierry Moulonguet**

Independent director
Member of the Audit & Risks Committee
and the Strategy Committee

French
Age: 63

Fimalac
97, rue de Lille
75007 Paris

Number of shares held: 500

First appointed: 06/08/2011

Start of current term of office: 06/08/2011

End of current term of office:

Shareholders' Meeting called to approve
the 2015 financial statements

Other directorships and positions held in companies other than Valeo subsidiaries in 2014

- Independent director, Fimalac SA ♦ (member of the Selection, Nominations and Remunerations Committee), Fitch Ratings Ltd. (United Kingdom), Lucien Barrière group (Chairman of the Audit Committee), HSBC France (Chairman of the Audit and Risk Committee), HSBC Europe (United Kingdom) (Chairman of the Audit Committee)
- Vice-Chairman of the Supervisory Board, Webedia (Fimalac group) (Chairman of the Audit and Risks Committee)

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Special advisor to the Chairman and CEO of Renault
- Director, Avtovaz (Russia), Ssangyong Motor Co. (South Korea), RCI Banque, Renault Retail Group

Experience

Thierry Moulonguet is a director of Fimalac SA, Fitch Ratings Ltd., Lucien Barrière group, HSBC France and HSBC Europe. He is also Vice-Chairman of the Supervisory Board of Webedia (Fimalac group).

He spent most of his career with the Renault-Nissan group, which he joined in February 1991 as Head of Banking Strategy and Financial Communication. He later served as Director of Financial Relations, Vice-President, Capital Expenditure Controller, Vice Chief Executive Officer and Chief Financial Officer of Nissan before becoming Vice Chief Executive Officer and Chief Financial Officer of the Renault group, also in charge of Information Systems, and then member of the Management Committee for the Americas and a member of its Executive Committee from January 2004 to July 1, 2010. He served as Special Advisor to Renault's Chairman and Chief Executive Officer, Carlos Ghosn, until March 31, 2011, the date on which he retired. He also served as member of the Board of Ssangyong Motor Co. (South Korea), Avtovaz (Russia), RCI Banque and Renault Retail Group.

Thierry Moulonguet is a graduate of *École nationale d'administration* and *Institut d'Études Politiques de Paris* (IEP).

♦ Listed company (for directorships and positions currently held).

**Georges Pauget**

Independent Director
Chairman of the Appointment,
Compensation & Governance Committee
and member of the Strategy Committee

French
Age: 67

Économie Finance
et Stratégie SAS
4, rue Charles-Dickens
75016 Paris

Number of shares held: 500

First appointed: 04/10/2007

Start of current term of office: 06/08/2011

End of current term of office:

Shareholders' Meeting called to approve
the 2015 financial statements

Main position held outside the Company in 2014

- Chairman, Économie Finance et Stratégie SAS

Other directorships and positions held in companies other than Valeo subsidiaries in 2014

- Honorary Chairman of the Board of Directors, LCL – Le Crédit Lyonnais
- Member of the Supervisory Board, Eurazeo ♦ (member of the Appointment and Compensation Committee and the CSR Committee)
- Director, Tikehau, Rentabiliweb Group ♦
- Vice-President, Club Med ♦ (Chairman of the Audit Committee)
- Chairman, *Institut pour l'Éducation Financière du Public* (IEFP)
- Scientific Director and Chair of Asset Management, *Université de Paris Dauphine*
- Adjunct Professor, *Université de Paris Dauphine*
- Visiting Professor, University of Beijing

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- CEO, Crédit Agricole SA
- Chairman of the Board of Directors, Viel & Cie
- Director, Danone Communities
- Chairman, INSEAD OEE Data Service
- Chairman, Finance Innovation cluster – Europlace

Experience

Georges Pauget is Chairman of Économie Finance et Stratégie SAS, member of the Supervisory Board of Eurazeo, and member of the Board of Directors of Tikehau and Rentabiliweb, as well as Vice-President of Club Med.

He is also Honorary Chairman of the Board of Directors of LCL – Le Crédit Lyonnais, Chairman of *Institut pour l'Éducation Financière du Public* (IEFP), Scientific Director, Chair of Asset Management and Adjunct Professor at *Université de Paris Dauphine*, and Visiting Professor at the University of Beijing.

He was also Chairman of the Board of Directors of Viel & Cie until March 14, 2012.

He spent most of his career with the Crédit Agricole group where he was Chief Executive Officer from September 2005 to March 2010.

He was the permanent representative of Crédit Agricole SA on the Supervisory Board of Fonds de Garantie des Dépôts and Chief Operating Officer, member of the Executive Committee, and Director of the Regional Banks division of Crédit Agricole SA. He also served as Chairman of the Board of Directors of LCL – Le Crédit Lyonnais, and Chairman of the Board of Directors of Calyon until March 2010, Chief Executive Officer and Chairman of the Executive Committee of LCL – Le Crédit Lyonnais, permanent representative of LCL – Le Crédit Lyonnais at the *Fondation de France* and Chairman of the Executive Committee of the French Banking Federation until September 2009.

Georges Pauget is a Doctor of Economic Sciences.

♦ Listed company (for directorships and positions currently held).

**Ulrike Steinhorst**

Independent director
Member of the Appointment,
Compensation & Governance Committee

German

Age: 63

Airbus Group

12, rue Pasteur

B.P. 76

92152 Suresnes Cedex

Number of shares held: 500

First appointed: 02/24/2011

Start of current term of office: 02/24/2011

End of current term of office:

Shareholders' Meeting called to approve
the 2015 financial statements

Main position held outside the Company in 2014

- Strategy, Planning and Finance Director, Airbus Group's Technical Corporate division

Other directorships and positions held in companies other than Valeo subsidiaries in 2014

- Member of the Supervisory Board, Mersen SA ♦ (member of the Appointment and Compensation Committee)
- Member of the Board of Directors, IMAGINE (genetic disease research institute), F2I (UIMM) and the Franco-German Chamber of Commerce and Industry.

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Chair, Degussa France Groupe SAS and Rexim SAS
- Chief of Staff of the Executive Chairman of EADS

Experience

Ulrike Steinhorst is Strategy, Planning and Finance Director at Airbus Group's Technical Corporate division.

She is also a member of the Board of Directors of Mersen SA, the IMAGINE scientific research foundation, F2I (UIMM) and the Franco-German Chamber of Commerce and Industry.

She started her career as a technical advisor to the French Minister for European Affairs where she was in charge of relations with Germany during its reunification. From 1990 to 1998, she worked at EDF in the International division, as an advisor in charge of international issues then institutional issues within the General Management of the group, and finally, Head of International Subsidiaries in the Industrial division. In 1999, she joined Degussa AG group where she was Head of Human Resources of a division, and then Vice-President, Executive Development at group level. She later headed the subsidiary Degussa France before being responsible for the group's representation office in Brussels. She then served as Chief of Staff of the Executive Chairman of EADS.

Ulrike Steinhorst is a German lawyer and graduate of CPA/HEC, *Université Paris II – Panthéon* (post-graduate degree) and *École nationale d'administration*.

♦ Listed company (for directorships and positions currently held).

Composition of the Board of Directors, and preparation and organization of its work

The table below presents a summary of the composition of the Board of Directors at December 31, 2014.

Name	Age	Independent	Number of directorships held in listed companies other than Valeo	Audit & Risks Committee	Appointment, Compensation & Governance Committee	Strategy Committee	Start of first term of office	End of current term of office	Number of years on the Board
Pascal Colombani <i>Chairman of the Board of Directors</i>	69	No	2				2007	2015	8
Jacques Aschenbroich <i>Chief Executive Officer</i>	60	No	1				2009	2015	6
Gérard Blanc	71	Yes	1			●	2007	2017	8
Daniel Camus	62	Yes	4	● (Chair)			2006	2018	9
Jérôme Contamine	57	Yes	0			● (Chair)	2006	2018	9
Michel de Fabiani	69	No	1	●	●		2009	2015	6
Sophie Dutordoir	52	Yes	1			●	2013	2017	2
Michael Jay	68	Yes	3		●		2007	2017	8
Noëlle Lenoir	66	Yes	1	●			2010	2018	5
Thierry Moulouguet	63	Yes	1	●		●	2011	2016	4
Georges Pauget	67	Yes	3		● (Chair)	●	2007	2016	8
Ulrike Steinhorst	63	Yes	1		●		2011	2016	4
Number of meetings				5	5	4			
Attendance rate				90%	95%	95%			

3.2.2 Preparation and organization of the Board of Directors' work

Internal procedures

On March 31, 2003 the Board of Directors adopted internal procedures defining the operating procedures of the Board of Directors in addition to applicable legal and regulatory requirements and the provisions of the Company's articles of association. Internal procedures have also been drawn up for the Board of Directors' Committees.

Acting on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors updated its internal procedures on March 27, 2012 and July 29, 2013, in particular to take into account the new provisions of the AFEP-MEDEF Code.

The Company's internal procedures are available on the "Governance" page of the Company's website, (<http://www.valeo.com/en/the-group/governance/governance-linked-documents.html>).

Directors' rights and duties

The Board of Directors' internal procedures include a Directors' Charter that sets out the principles that the directors must follow. This Charter imposes certain duties on directors in order to ensure that (i) they are aware of the rules and

regulations applicable to them, (ii) conflicts of interest are avoided, (iii) they dedicate the necessary time and attention to their duties, (iv) they respect the applicable law relating to multiple directorships. As regards undisclosed information, they are bound by an obligation of strict professional secrecy that goes beyond the mere obligation of discretion provided by law. The Charter also specifies that while directors are individual shareholders, they represent all shareholders and must act in the interest of the Company in all circumstances. They also have the duty to be loyal to the Company.

Furthermore, members of the Board of Directors are responsible for ensuring that they have all the necessary information to carry out their duties. To this end, the Chairman provides directors with the data and documents required in order for them to fully perform their duties.

As compensation for the work carried out by directors, Shareholders' Meetings may grant an annual fixed amount of attendance fees which may be freely allocated by the Board among its members. The Board may also grant directors exceptional compensation for specific assignments or tasks entrusted to them. The Board of Directors sets the compensation of the Chairman of the Board of Directors and the Chief Executive Officer, based on recommendations made by the Appointment, Compensation & Governance Committee.

Article 14 of Valeo's articles of association stipulates that each director must hold at least 500 registered shares throughout his or her term of office.

A Code of Conduct related to securities trading and compliance with French regulations on insider trading and breaches by insiders, implemented on January 23, 2008, governs the trading of the Company's securities by the members of the Board of Directors and the Group's Executive Management team. On accepting their position, each member of the Board of Directors agreed to comply with the Code.

This Code sets out the legal and regulatory provisions applicable to members of the Board of Directors in relation to declaring transactions concerning those securities. It also specifies the periods during which members of the Board and the Group's Executive Management team are prohibited from trading in the Company's securities and reiterates that they are formally prohibited from conducting any such transactions based on insider information. Under the Code of Conduct, it is prohibited to carry out one or more transactions based on insider information at any time. It is prohibited at any time for these people to carry out one or more transactions involving the Company's shares (including the sale of shares resulting from the exercise of stock purchase options and stock subscription options) if they have insider information about the Company or any other entity, including the Company's subsidiaries, competitors, suppliers, clients or people with whom the Company or its subsidiaries maintain business relations. They are also prohibited from having a third party buy or sell – on their behalf or not – the Company's shares if they have insider information.

If there is a doubt whether information is considered insider information, those concerned must contact the Group's General Counsel regarding this matter. Before carrying out any transactions involving the Company's shares, directors must verify with the Group's General Counsel that as directors of the Company or members of a Committee they do not have information that could be characterized as insider information.

Once the insider information is made public, ten full trading days must pass before being authorized to carry out one or more transactions involving the Company's shares (including the sale of shares resulting from the exercise of stock purchase and/or stock subscription options).

Outside this situation of insider information or after the ten days have passed, these individuals are prohibited from carrying out one or more transactions involving the Company's shares during lock-up periods. Excluding cases of significant events or decisions that constitute insider information, these periods start the day of each quarterly accounts closing of the Company's fiscal year and end ten full trading days after the results for the reporting period are released (when annual, half-yearly and quarterly results are published, depending on the case).

In addition, under the terms of the Code, directors must declare to the Group's General Counsel any transactions that they have entered into involving the Company's securities, within the five trading days following the transaction. In accordance with applicable regulations, this information must

then be disclosed to the French financial markets authority (*Autorité des marchés financiers* – AMF), and subsequently made public in accordance with the provisions of the AMF's General Regulations.

Rules governing the operation and organization of the Board, and their application

Average notice period for calling Board meetings

In accordance with its internal procedures, the Board of Directors meets at least six times a year, at dates that are sent to each director at the beginning of the fiscal year at the latest, and at any other time in the interest of the Company. The average notice period for calling a meeting of the Board of Directors is approximately ten days.

Representation of directors

A director may be represented at Board of Directors' meetings by another director; however, at a single meeting each director only has a proxy to represent one director. The proxy must be given in writing. During the 2014 fiscal year, two directors were represented by proxy at Board meetings.

Chairmanship of Board meetings

Board of Directors' meetings are chaired by the Chairman of the Board of Directors or, in his absence, by a Vice-Chairman or a director designated by the Board of Directors. All eight Board of Directors' meetings held during the 2014 fiscal year were chaired by the Chairman of the Board of Directors.

Directors' participation in Board meetings

The internal procedures allow directors to participate in Board of Directors' meetings by any videoconferencing or telecommunications technology that enables them to be identified and ensures that they actually participate in the meeting. Accordingly, directors who take part in Board meetings through such means are deemed to be present for the purposes of calculating the quorum and majority, except at meetings dedicated to the preparation of the annual parent company and consolidated financial statements and the related management reports (as provided for in Articles L.232-1 and L.233-16 of the French Commercial Code). The Chairman is required to state in the relevant meeting notice whether these methods can be used for certain meetings. Directors wishing to participate in a Board meeting by these methods must contact the Secretary of the Board of Directors at least two working days before the meeting date (except in an emergency) in order to ensure that the relevant technical information can be exchanged and tests performed before the meeting takes place.

Decision-making on the Board

The Board of Directors is only validly constituted if half of its members are present or deemed present, without taking into account members who are represented. Decisions are made by a majority vote of members present, deemed present or represented. In the event of a tie, the Chairman has the casting vote.

Record of Board decisions

Minutes are drawn up at each meeting and signed by the Chairman of the Board of Directors and a director. The draft minutes must be sent to all directors prior to this and no later than two weeks after the meeting. Without being unnecessarily detailed, these minutes include, in addition to the information required by law, a summary of the discussions and decisions made, briefly mentioning the issues and reservations raised, along with an explanation of any technical issue related to videoconferencing or telecommunications technology used if it disrupted the meeting.

Frequency of Board meetings and average attendance rates of directors

The Board of Directors met on eight occasions in 2014, i.e., twice as many times as the minimum number of meetings stipulated by the internal procedures.

The directors held their annual strategic seminar in Japan where they met key executives from Valeo and the main automakers in this region, and also talked about possible growth drivers for the Group and new research and development prospects that can be analyzed specifically by management at an upcoming seminar.

The average attendance rate of the members of the Board of Directors (in person or by proxy) during 2014 was 99%. The average attendance rate of the members of the Board of Directors in person during 2014 was 94.8%.

Directors' access to information

Directors' access to information

The Company's new directors receive training to help them learn about the Company, its business lines and its business sector.

Within the scope of the Board of Directors' work, each director is given all the information required to perform his or her duties. The agenda for any upcoming Board of Directors' meeting and details of agenda items requiring upfront analysis and consideration are provided within a sufficient time frame and at least 48 hours (except in an emergency) before the meeting, provided that this is not incompatible with confidentiality requirements. The information provided to directors may include the Group's business plan, a market

analysis for each of its main businesses, key performance indicators used by General Management, minutes of Committee meetings, extracts from performance charts used by General Management, information about business activity in the coming months (orders, etc.), cash flow forecasts covering at least three months and indicators used to monitor working capital.

Directors who are not able to make an informed decision due to lack of information must let the Board of Directors know and demand the information they deem necessary to fulfill their duties. Requests for information needed to perform their duties must be made to the Chairman of the Board of Directors. Generally each director receives the information that he or she needs to perform his or her duties and may be given all the related documents by the Chairman of the Board of Directors or the Chief Executive Officer once the Board of Directors deems that they are useful.

The Chairman of the Board and the Chief Executive Officer must share with the directors any information about the Company that they have and that they deem relevant to share on an ongoing basis.

Guests of the Board

During the 2014 fiscal year, the Group's General Counsel, as Secretary to the Board of Directors, and the Group's Chief Financial Officer attended all meetings of the Board of Directors. The Group's Statutory Auditors attended certain portions of Board of Directors' meetings.

Role of the Board

The principal role of the Board of Directors, which is a collegial body appointed by the shareholders, is to determine the Company's business strategies and ensure that they are implemented effectively. Subject to the powers expressly granted to Shareholders' Meetings and within the limits of the corporate purpose, it handles any issues related to the proper operation of the Company and takes care of the business that concerns it during its meetings.

In accordance with applicable laws and regulations, the Company's articles of association and the provisions of the internal procedures, the Board of Directors has the powers, in particular, to:

- convene Shareholders' Meetings and set the agendas thereof;
- draw up the parent company and consolidated financial statements, the Annual Management Report and the forecast management documents;
- authorize related party agreements;
- appoint and remove the Chairman of the Board of Directors, the Chief Executive Officer and the Executive Vice-Presidents from their positions and set their compensation;
- appoint the members of the Committees;

- allocate the attendance fees;
- transfer the head office within the same department or a neighboring department provided that the decision is approved at the next Ordinary Shareholders' Meeting;
- authorize sureties, endorsements and guarantees;
- approve the Report of the Chairman of the Board of Directors on internal control;
- issue bonds;
- decide on any planned merger or spin-off;
- authorize the Chief Executive Officer to perform any significant transactions, i.e., the acquisition or sale of any subsidiary, interest or any other asset or investment of any kind, for a sum of more than 50 million euros per transaction;
- review the Group's industrial and financial strategy by devoting one session per year to this review.

In 2014, the main topics addressed by the Board of Directors concerned in particular:

- the financial position, cash position, commitments of the Group, and in particular:
 - analyzing the 2014 budget,
 - the Statutory Auditors' presentation on the parent company and the consolidated financial statements for the 2013 fiscal year, and on the review of the interim consolidated financial statements for the six months ended June 30, 2014,
 - preparing the parent company and the consolidated financial statements for the 2013 fiscal year,
 - reviewing the results of the first half of 2014 and presenting the budget for the second half of 2014,
 - reviewing the results for the second half of 2014 and discussing the outlook for the 2015 fiscal year,
 - preparing the management report and the related notes for the 2013 fiscal year,
 - handling the proposed payment of a dividend of 1.70 euros per share for 2013,
 - reviewing the quarterly figures and results, and the forecasts and projections prepared for 2014,
- oversight relating to key strategies, and in particular:
 - discussing acquisitions under review,
 - reviewing strategic operations,
 - discussing strategic issues that the Company must deal with,
 - reviewing the strategic plan,
 - the findings of the strategy seminar;
- General Management and compensation, and in particular:
 - the variable portion of the Chief Executive Officer's compensation,
 - the supplementary pension of the Group's Chief Executive Officer and top executives (*cadres dirigeants "Hors Catégorie"*),
 - the salary policy for the Group's main executive managers,
 - the plan to allocate performance shares to the Group's corporate officers and employees,
 - attendance fees,
 - the succession and development plans of the Group's main executive managers;

- corporate governance and internal control, and in particular:
 - reviewing the status of directors in light of the independence criteria set out in the Board of Directors' internal procedures,
 - assessing the operating procedures of the Board of Directors and its Committees,
 - renewing directors,
 - seeking out women directors,
 - approving the Report of the Chairman of the Board of Directors on the composition of the Board, the application of the principle of equal representation of women and men, the conditions in which the Board's work is prepared and organized, and the internal control and risk management procedures put in place by the Group,
 - reviewing the provisions of the AFEF-MEDEF Code,
 - reviewing the Board of Directors' special report on components of compensation due or granted to corporate officers (say on pay) for the year ended December 31, 2013;
- financial operations, and in particular:
 - sureties, endorsements and guarantees,
 - issuance of bonds,
 - the share buyback program;
- other issues, and in particular:
 - convening the Ordinary and Extraordinary Shareholders' Meeting (including deciding on the content of draft resolutions and the Board of Directors' Report),
 - reviewing related-party agreements that remain in effect over time,
 - reviewing anti-trust proceedings,
 - reviewing press releases, and
 - reviewing the shareholding structure.

Committees created by the Board

The Board of Directors has set up several committees in order to enhance its operating procedures and provide assistance with preparing its decisions by issuing recommendations and opinions for the Board of Directors.

The Company has put in place the three following Committees: the Audit & Risks Committee, the Appointment, Compensation & Governance Committee, and the Strategy Committee.

The work of the Audit & Risks Committee, the Appointment, Compensation & Governance Committee, and the Strategy Committee in 2014 was presented on a regular basis to the Board of Directors throughout the year in the form of reports.

Audit & Risks Committee

At the beginning of 2014, the Audit & Risks Committee comprised four members: Daniel Camus (Chairman of the Audit & Risks Committee), Michel de Fabiani, Noëlle Lenoir and Thierry Moulouquet. No changes were made to the composition of the Audit & Risks Committee in 2014. The members of the Audit & Risks Committee are all considered independent

according to the criteria set out in the Board of Directors' internal procedures except for Michel de Fabiani. The Company therefore complies with the provisions of the AFEP-MEDEF Code (Article 16.1) recommending that at least two-thirds of directors on the Audit Committee be independent. In accordance with the internal procedures, the Head of Internal Audit or any other person designated by the Chairman of the Committee acts as the meeting's secretary. The Chairman of the Board of Directors and the Chief Executive Officer are not members of the Audit & Risks Committee but may be invited to attend its meetings.

When they are appointed, if necessary, members of the Audit & Risks Committee may receive training on specific accounting, financial and operating issues related to the Company and the Group.

Through their training or business experience, all current members of the Audit & Risks Committee have financial and accounting skills. Therefore, the Company goes beyond the requirements of Article L.823-19 of the French Commercial Code according to which at least one member of the Audit & Risks Committee must have specialized financial or accounting skills and must be independent. For details of the experience of the members of the Audit & Risks Committee, see section 3.2, page 76, "Composition of the Board of Directors."

Acting on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors amended its internal procedures on October 18, 2012 and then July 29, 2013, to expand the remit of the Audit Committee, change its name to the Audit & Risks Committee and comply with the new provisions of the AFEP-MEDEF Code.

In accordance with Article L.823-19 of the French Commercial Code, the role and responsibility of the Audit & Risks Committee are as follows:

- a) as regards the financial statements, the Committee's role is to:
 - ensure that the accounting policies adopted to prepare the consolidated and parent company financial statements are relevant, consistent and properly applied, and that material transactions are accounted for appropriately at operational entity and at Group level,
 - monitor the statutory audit work on the parent company and consolidated financial statements, and at the end of the reporting period, review and give an opinion on the draft interim and annual parent company and consolidated financial statements prepared by the Finance Department before they are presented to the Board of Directors. For this purpose, all draft financial statements and any other useful documentation and information should be provided to the Audit & Risks Committee before the Board of Directors reviews the financial statements. In examining the financial statements, the Audit & Risks Committee should also be provided with (i) a memorandum from the Statutory Auditors outlining the key findings and accounting options applied, and (ii) a memorandum from

the Chief Financial Officer describing the Company's risk exposure and material off-balance sheet commitments. The Audit & Risks Committee meets with the Statutory Auditors, the Finance Department (without General Management being present, where appropriate), and with General Management, to discuss depreciation, amortization, provisions, goodwill, consolidation principles and accounting policies, among other subjects,

- examine the draft interim financial statements, Interim Financial Report and Activity Report prior to publication, as well as any financial statements drawn up in connection with specific transactions (contributions, mergers, market operations, interim dividend payments, etc.),
 - analyze the scope of consolidation, and the reasons why certain companies may not have been consolidated,
 - assess the risks to which the Company is exposed and any material off-balance sheet commitments,
 - review the financial and accounting treatment of acquisitions or disposals in excess of 50 million euros per transaction, in conjunction with the opinions of the Strategy Committee where appropriate, and review any key transactions which could have given rise to a conflict of interest;
- b) as regards internal audit, internal control and risk management, the Audit & Risks Committee's role is to:
- monitor the Group's risk management and internal control systems to ensure their effectiveness. The Committee ensures that there are risk management and internal control systems in place to identify, analyze, manage, and continuously improve the prevention and management of all types of risks that the Group may face in the course of its business, particularly those likely to have an impact on financial and accounting information,
 - receive information on a regular basis from General Management on the organization and operation of risk management and internal control systems,
 - regularly review the risk mapping of the main risks identified by General Management, the results of the operation of the risk management and internal control systems and the relevance of the risk monitoring procedure and ensure that appropriate action plans have been implemented to mitigate the problems and weaknesses identified,
 - remain informed about the main problem areas and weaknesses observed and the action plans approved by General Management,
 - receive regular summaries of Internal Audit reports,
 - monitor any issues linked to control and the process for preparing financial and accounting information,
 - check that internal procedures for compiling and verifying information are defined to ensure the information is reliable and reported in a timely manner; review the Statutory Auditors' work plan,

- regularly meet with managers of the Group's Internal Audit unit, give its opinion on how their Department is organized, and keep informed of their work program,
 - remain regularly informed of the Group's external auditors' working plans and methods and on General Management's responses,
 - review and make observations about the draft Report of the Chairman of the Board of Directors to the Shareholders' Meeting on the internal control and risk management procedures implemented by the Company,
 - review any issue related to internal control, risk management, and internal audit submitted to the Committee by the Board of Directors; ask General Management for any information, and
 - organize an annual Audit & Risks Committee meeting dedicated to internal audit, internal control and risk management issues;
- c) as regards the Statutory Auditors, the Audit & Risks Committee's role is to:
- assess compliance with rules, principles and recommendations guaranteeing the independence of the Statutory Auditors and monitor their independence, particularly by examining the risks to independence and the measures taken to mitigate such risks, in conjunction with the Statutory Auditors,
 - supervise the procedure for selecting or renewing statutory audit engagements based on the best, and not the lowest, tender; express an opinion on the statutory audit fees requested; give an informed opinion on the choice of Statutory Auditors and inform the Board of Directors of its recommendation,
 - obtain details of fees paid by the Company and the Group to the statutory audit firm and its network, and of any services provided in direct relation to the statutory audit engagement; ensure that the amount or percentage that such fees represent in relation to the total revenues of the audit firm or network does not risk compromising their independence;
- d) as regards financial policies, the Audit & Risks Committee's role is to:
- remain informed by General Management of the Group's financial position and of the methods and techniques used to define financial policy; to keep abreast of the main thrusts of the Group's financial strategy,
 - review external communications on accounting and financial matters or events liable to affect the Group's financial position or outlook, prior to their publication,
 - give an opinion on the resolutions submitted to Shareholders' Meetings relating to the parent company or consolidated financial statements,

- at General Management's request, give an opinion on any resource allocation decisions which, in light of the beneficiaries or because of potential conflicts of interest, could give rise to difficulties in interpretation as to their compliance with legislative rules and the Company's articles of association,
- review any financial or accounting matter referred to it by the Chairman, the Board of Directors, General Management or the Statutory Auditors, as well as any conflicts of interest which are brought to its attention.

Any risk-related subject may be handled by the Audit & Risks Committee as part of its yearly duties.

The Audit & Risks Committee liaises mainly with General Management, the Finance Department, the Legal Department, the Ethics and Compliance Department, and with the Company's Statutory Auditors. The Committee may interview members of the Finance Department, the Legal Department, the Ethics and Compliance Department, and the Statutory Auditors without the members of General Management or executive corporate officers being present, if it sees fit and has previously notified the Chairman and the Chief Executive Officer. The Audit & Risks Committee can also interview third parties if this is deemed useful for the achievement of its assignments. It may also seek the assistance of external auditing experts whenever it needs to, while ensuring that they are competent and independent. The Committee may not address issues that fall outside the scope of its role and responsibility unless requested to do so. It has no decision-making power.

Within the scope of its assignment and in accordance with applicable law, the Statutory Auditors present during their meetings with the Audit & Risks Committee (i) an overview of their work and the sampling that they carried out, (ii) when applicable, any changes that they think must be made to the financial statements or the accounting documents and their observations on the assessment methods used, (iii) where applicable, the irregularities or inaccuracies that they found and (iv) where applicable, the findings leading to the observations and amendments to the results from the period compared with those from the previous period.

In addition, to ensure that the Statutory Auditors are independent as they fulfill their assignment, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee at its meeting on February 21, 2013, decided that the Statutory Auditors' additional work is subject to the prior approval of the Audit & Risks Committee.

The Audit & Risks Committee met five times in 2014 with an attendance rate of 90%. During these meetings, the Audit & Risks Committee, in particular:

- examined the draft financial statements for 2013 and the first half of 2014;
- reviewed the Group's draft results for the first quarter of 2014 and the forecasts for the first half of 2014;

- analyzed the summary of the Internal Audit, Internal Control and Risk Management Department's activities for the first quarter of 2014;
- reviewed the budget for the second half of 2014;
- reviewed the management report for the 2013 fiscal year;
- reviewed the reports and analyzed the findings presented by the Statutory Auditors;
- reviewed the fees paid to the Statutory Auditors for the 2013 fiscal year and obtained their statement of independence;
- conducted a meeting with the Statutory Auditors without the Group's management being present;
- reviewed the draft Report by the Chairman on internal control and risk management;
- reviewed the Group's financial policy and fiscal strategy;
- reviewed risk mapping, the method selected to prepare the mapping, the analysis of the main risks and the organization of their management;
- analyzed the summary of the Accounting and Finance Departments' activities for the first half of 2014;
- examined the summary of Internal Audit's work in 2014;
- reviewed the progress on the Ethics and Compliance Program and certain compliance issues;
- analyzed information presented by the Chief Operating Officer on the Group's monitoring of "product launch" and "warranty/recall" risk;
- analyzed information presented by the Group's Head of the Financing and Treasury Department on the Group's financing policy;
- analyzed information presented by the Head of Internal Audit, Internal Control and Risk Management on operating audits related to overall risk mapping and specific investigations;
- reviewed the results of policies on foreign exchange risk and commodity risk hedging;
- analyzed information presented by the Group's Head of Logistics and Sourcing on the inventory management policy;
- analyzed information presented by the Group's Head of Information Systems on risk mapping of the Company's information systems;
- reviewed the results of the 2014 internal control self-assessment campaign and monitored actions to put in place following requests by the Audit & Risks Committee;
- reviewed the improvement plan for internal control within the Visibility Business Group;
- reviewed changes in the international framework for internal control (COSO 2013);
- reviewed the draft press releases containing financial information; and
- approved the audit plan for 2015.

The Audit & Risks Committee's work complied with the objectives defined for it during the year. Adequate time was given to review the financial statements (at least two days before they were reviewed by the Board of Directors). The Audit & Risks Committee's work was facilitated by the presence of the Statutory Auditors, the Group's Chief Financial Officer

and the Group Accounting Director at all of the Audit & Risks Committee's meetings. The Committee was also assisted by the work of Internal Audit. The Statutory Auditors' presentations mainly covered the findings of their audit of the annual parent company and consolidated financial statements (indicating in particular the accounting options applied) as well as their limited review of the interim financial statements. The Audit & Risks Committee did not have any reservations concerning the annual parent company and consolidated financial statements or the interim financial statements presented to it.

Appointment, Compensation & Governance Committee

In accordance with its internal procedures, the majority of the Appointment, Compensation & Governance Committee's members must be independent directors as defined by the criteria set out in the internal procedures. No members are executive corporate officers, but the acting Chairman of the Board of Directors is involved in the work of the Appointment, Compensation & Governance Committee, except when deliberations concern his compensation or the renewal of his term of office.

At the beginning of 2014, the Appointment, Compensation & Governance Committee comprised four members: Georges Pauget (Chairman of the Appointment, Compensation & Governance Committee), Michel de Fabiani, Michael Jay and Ulrike Steinhorst, who are all considered independent according to the criteria set out in the Board of Directors' internal procedures, except for Michel de Fabiani. No changes were made to the composition of the Appointment, Compensation & Governance Committee in 2014. The Company thus complies with the provisions of the AFEP-MEDEF Code (Article 18.1) recommending that the majority of directors on the Appointment, Compensation & Governance Committee be independent. In accordance with its internal procedures, the Head of Human Resources or any other person designated by the Chairman of the Committee acts as the meeting's secretary.

According to its internal procedures, the roles and responsibilities of the Appointment, Compensation & Governance Committee include, in particular, the following:

a) concerning compensation:

- studying and making recommendations concerning the compensation paid to executive corporate officers (particularly in relation to the variable portion of their compensation and any benefits due),
- recommending to the Board of Directors an aggregate amount of attendance fees payable to directors that will be presented to the Shareholders' Meeting and advising on the rules for allocating amounts to each director, taking into account the actual participation of directors in meetings of the Board of Directors and of the Committees,
- giving its opinion to the Board of Directors on the Group's general stock option policy and specific stock option grants;
- being informed about the compensation policy for the main non-executive directors of the Company and of other Group companies,

- reviewing any questions submitted to the Committee by the Chairman related to topics above as well as plans to issue shares exclusively for employees;
- b) concerning selection and appointments:
 - preparing the composition of the Company's governing bodies, by making recommendations regarding the appointment of executive corporate officers, directors as well as members of the Committees and the Chairman of each of these Committees (except for its own Chairman) as well as by making suggestions to ensure that it is in a position to recommend to the Board of Directors possible successors should any unforeseen vacancies arise,
 - reviewing the status of each director in light of the independence criteria set out in the Board of Directors' internal procedures;
- c) concerning corporate governance:
 - analyzing how the Board of Directors and its Committees operate,
 - assessing and updating corporate governance rules and in particular, ensuring that the assessment of the Board of Directors' operating procedures is carried out in line with market practices.

It should be noted that within the scope of its role and responsibilities as regards selection and appointments, the choice of candidates for the duties of Director by the Committee is guided by the interest of the Company and all its shareholders. The Committee may, in particular, consider: (i) the appropriate balance of the composition of the Board based on the composition of the Company's shareholding structure and changes to this structure, (ii) any representation of vested interests, (iii) the timeliness of renewing directorships, (iv) the integrity, skills, experience and independence of each candidate, and (v) the appropriate number of independent directors. The Committee must also strive to reflect diverse experience and perspectives, while ensuring for the Board the objectivity and independence required in relation to General Management, a specific shareholder or group of shareholders, and while ensuring the stability of the Company's corporate bodies.

The Committee must also strive, when it is issuing opinions or recommendations on selections and appointments, to ensure that (i) the acting independent directors represent at least half of the members of the Board of Directors and (ii) the Audit & Risks Committee does not include any executive corporate officers and comprises at least two-thirds independent directors. The Committee conducts its own research on potential candidates before these candidates are contacted.

In carrying out its duties, the Committee may meet with Company and Group Executive Management teams. When necessary, it may be assisted by independent consultants (where independence has been verified), provided that it first informs the Chairman of the Board of Directors and the Chief Executive Officer.

The Appointment, Compensation & Governance Committee met five times in 2014 with an attendance rate of 95%.

During these meetings, the Appointment, Compensation & Governance Committee:

- examined the independence of directors;
- reviewed the assessment of the operating procedures of the Board of Directors and its Committees;
- reviewed the applications from potential male and female directors for the next Shareholders' Meeting;
- reviewed the variable portion of the executive corporate officers' compensation, including the variable portion of the Chief Executive Officer's compensation;
- allocated the attendance fees among the directors for 2014 based on the policy set in 2013;
- reviewed the compliance of the Company's practices in light of the recommendations in the AFEP-MEDEF Code;
- examined the policy for allocating performance shares to the employees and corporate officers of the Group and proposed allocations;
- reviewed the terms and conditions of the resolution relating to the allotment of free performance shares as well as performance criteria;
- reviewed the draft Report of the Chairman of the Board of Directors;
- reviewed the report on the remuneration due or granted to executive corporate officers in 2013;
- reviewed the succession and development plans of the Group's main executive managers;
- reviewed the salary policy for the Group's main executive managers and their employees; and
- reviewed the changes to the composition of the Board.

Strategy Committee

At the beginning of 2014, the Strategy Committee comprised five members: Jérôme Contamine (Chairman of the Strategy Committee), Gérard Blanc, Sophie Dutordoir, Thierry Moulouquet and Georges Pauget who are all considered independent according to the criteria set out in the Board's internal procedures. No changes were made to the composition of the Strategy Committee in 2014. In accordance with the internal procedures, the secretary of the Board of Directors or any other person designated by the Chairman of the Committee acts as the meeting's secretary.

In accordance with its internal procedures, the Strategy Committee is responsible for submitting to the Board of Directors its opinions and recommendations on:

- the review of the Group's key strategies, market trend information, analyses of research activities, competition benchmarking and the resulting medium- and long-term outlook for the business; and
- the analysis of the Group's development projects, particularly external growth transactions involving acquisitions and disposals of subsidiaries, equity investments and other assets, and any investments or borrowings in excess of 50 million euros per transaction.

In agreement with the Chairman of the Board of Directors, the Committee may invite other directors to participate in its debates or meet with any other competent person (senior management, fully objective external consultants) to discuss matters dealt with by the Committee.

The Strategy Committee met four times in 2014 with an attendance rate of 95%. During these meetings, the Committee:

- reviewed strategic targets set for the Company;
- studied the Company's strategy in certain business sectors and specific regions worldwide;
- studied the Group's acquisition strategy;
- analyzed and discussed possible acquisition projects;
- analyzed the Company's competitive landscape;
- reviewed technological developments in the automotive sector over the coming years;
- studied the Company's medium-term plan;
- reviewed the Company's technological roadmaps; and
- reviewed its operating procedures, the topics that the Strategy Committee would like to address in the coming years and the program for the fiscal year 2015.

Assessment of the operation of the Board of Directors

A process is carried out every year to assess the Board of Directors, its operating procedures, its composition and its organization. This assessment is designed to help take stock of the Board of Directors' operating procedures, verify that important issues are adequately prepared and discussed, and assess the actual contribution of directors to the work of the Board of Directors given their competence and involvement in meetings.

The assessment of the Board of Directors is carried out either based on a detailed questionnaire sent to each director (the responses are summarized, and then analyzed by the Appointment, Compensation & Governance Committee and discussed at a Board of Directors meeting), or based on a study carried out with the help of a firm of specialized consultants.

The Board of Directors' meeting on October 21, 2014, noting that the assessment in 2013 was carried out internally last year, decided to use a firm of specialized consultants in 2014. The assessment was thus carried out at the end of 2014 by external consultants, under the guidance of the Appointment,

Compensation & Governance Committee. The topics covered included the operation, structure, governance, composition and duties of the Board, directors' access to information, the choice of issues discussed, the quality of the discussions, the participation and actual contribution of directors to the work of the Board of Directors and the general running of the Board Committees.

The assessment report was reviewed by the Appointment, Compensation & Governance Committee at its meeting on January 20, 2015, and presented and discussed at the Board of Directors' meeting held on January 22, 2015. The review highlighted the directors' very positive assessment of the Company's governance. The directors were very satisfied with how the Board of Directors and its Committees operate as regards the level of information, the organization of discussions and directors' contributions to the Board's work. They also noted that the process to improve the work of the Board of Directors and of the Committees continued. Most of the previous external audit recommendations issued two years ago had been implemented (i.e., rotation of members on Committees and their Chairmen, meeting of independent members and meeting without executive corporate officers). Furthermore, the directors highlighted and appreciated the active involvement of General Management in both the meetings of the Board of Directors and of the Committees.

During the analysis of this assessment, the Board of Directors continued to contemplate the appropriate balance of its composition, particularly in terms of the diversification of skills within the Board of Directors and compliance with legal provisions on the representation of women on the Board of Directors. The Board of Directors' proposal to the Shareholders' Meeting called to approve the 2014 financial statements, acting on the recommendation of the Appointment, Compensation & Governance Committee, to ratify the appointment of Caroline Maury Devine, an American citizen, is in line with the objective.

The analysis of the assessment also gave rise to recommendations for improvements to be made to the Board's operation as regards the coordination of the work of the Committees, the time devoted to certain topics during the strategy seminar or meetings of the Board of Directors or of the Committees, such as further work on topics related to corporate social and environmental responsibility during meetings of the Appointment, Compensation & Governance Committee.

3.2.3 Declarations concerning the Group's corporate officers

Conflicts of interest

At December 31, 2014, there is no conflict of interest, as far as the Company is aware, between the duties of its corporate officers towards Valeo and their private interests and/or other duties.

In order to avoid any potential conflicts of interest, the internal procedures impose strict obligations on the members of the Board of Directors. According to the internal procedures:

- *"directors are required to inform the Board of Directors of any conflicts of interest and must refrain from taking part in voting on any matters discussed by the Board in which there could be a conflict of interest"* (Article 1.1 (d));
- *"a director cannot accept any responsibilities that may represent a conflict of interest with those he/she has accepted within the Company"* (Article 1.1 (n)); and
- *"Without prejudice to the formalities of authorization and control laid down by law and the articles of association, the Company's directors must promptly disclose to the Chairman any agreement entered into by Valeo in which they are directly or indirectly involved. Directors must disclose to the Chairman any agreement entered into between themselves, or a company of which they are executive managers, or in which they directly or indirectly hold a significant interest, and Valeo or one of its subsidiaries, or entered into through an intermediary"* (Article 1.4 (a)).

Directors are also asked to disclose potential conflicts of interest every year.

Lastly, in order to mitigate the risk of any potential conflict of interests, the Board of Directors can also ask any directors whose appointment is proposed and who hold a position as a manager and/or corporate officer in groups that could enter into commercial and/or financial contracts with Valeo (as financial advisors and/or underwriters and/or lenders), to undertake, while they are directors, and as part of their business activities, not to invest directly or indirectly (i) in a commercial or advisory relationship with any client or any company that exercises a similar activity or that is related directly or indirectly to the Company's activity and/or (ii) in any transaction involving the Company (including the Company's shares), its subsidiaries or other companies in which the Company holds an interest.

The Company's internal procedures, including the rules on preventing conflicts of interest, are available on the "Governance" page of the Company's website, (<http://www.valeo.com/en/the-group/governance/governance-linked-documents.html>).

Service contracts between the members of the Board of Directors and the Company or any of its subsidiaries

No service contracts have been entered into between the members of the Board of Directors and the Company or any of its subsidiaries providing for the granting of benefits.

Other declarations concerning members of the Board of Directors

In accordance with the internal procedures, directors must inform the Chairman of the Board of Directors and the Chairman of the Appointment, Compensation & Governance Committee if they are solicited to hold a corporate office outside the Company so as to consider the decision to be taken, in consultation with the Board of Directors, where appropriate. In addition, the internal procedures stipulate that each executive corporate officer must seek the opinion of the Board of Directors before accepting a new corporate office in a listed company.

To the best of the Company's knowledge, there are no family ties between the members of the Board of Directors.

As far as the Company is aware, in the past five years no member of the Board of Directors has (i) received a conviction for a fraudulent offense; (ii) been involved in any bankruptcies, receiverships or liquidations; (iii) been issued any official public incriminations and/or sanctions by statutory or regulatory authorities (including designated professional bodies); or (iv) been disqualified by a court of law from acting as a member of the administrative, management or supervisory bodies of an issuer, or from acting in the management or conduct of the affairs of any issuer.

As far as the Company is aware, none of the members of the Board of Directors have agreed to any restrictions concerning the disposal of their interests in the Company's share capital within a certain period of time, other than the restrictions set down by the applicable laws and regulations or the Company's articles of association. As indicated in section 3.2.5, page 102, the shares allotted to the Company's Chief Executive Officer are subject to minimum holding periods and, in accordance with the Company's articles of association and internal procedures, directors must hold at least 500 shares in the Company at all times during their term of office.

Other than the declarations of Bpifrance Participations SA (formerly Fonds stratégique d'investissement – FSI) (see Chapter 6, section 6.6.6 “Relations with Bpifrance Participations”, page 364) no arrangement or agreement has been signed with

the main shareholders, or with customers or suppliers, in which one of them is selected to become a director of Valeo or a member of Valeo General Management.

3.2.4 Corporate Governance Code

The Company refers to the AFEP-MEDEF Code and, in accordance with Article 25.2 of the AFEP-MEDEF Code, is a member of the AFEP-MEDEF High Committee on Corporate Governance (*Haut Comité de Gouvernement d'Entreprise*). Similarly, the Company also complies with the provisions set out in the AMF's report on audit committees of July 22, 2010.

The Company's practices comply with the recommendations set out in the AFEP-MEDEF Code, which requires specific disclosure regarding the application of its recommendations and explanations, where appropriate, of the reasons for which a company has not implemented certain recommendations. In this case, for 2014, this involves the following recommendations:

- Article 21.1, which recommends that the variable portion of directors' attendance fees must be the most significant portion. This rule is not followed, particularly for the Committee Chairmen, given the special duties for which they are responsible. The Company intends, however, to comply with this recommendation in the future;
- Article 23.2.1, which recommends that the executive corporate officers hold a significant number of registered shares periodically determined by the Board of Directors until the end of their term of office and specifies that the number of shares, which may be made up of exercised stock options or performance shares, must be significant and increasing, where necessary, to a level determined by the Board. As regards the Chief Executive Officer, given the significant holding (50%) required of him or her for the exercise of stock options and the vesting of performance shares, the Board of Directors decided not to require the Chief Executive Officer to hold a specific number of registered shares, which must increase to a determined level. As regards the Chairman, who is already required to hold 500 shares in the Company throughout his term of office (pursuant to Article 14.4 of the articles of association and Article 1.1.b of the Board of Directors' internal procedures), he does not receive any attendance fees and is not granted any purchase options, subscription options or performance shares. Therefore, it does not seem relevant to require the Chairman to hold a significant and increasing number of registered shares;

- Article 23.2.4, which requires issuers to ensure that “*in accordance with terms determined by the Board and announced upon the allotment, the performance shares allotted to executive corporate officers are conditional upon the acquisition of a defined quantity of shares once the allotted shares are available.*” While the allotment of performance shares to the Chief Executive Officer is subject to the achievement of specific performance criteria, presence conditions and minimum holding obligations, it is not conditional upon the purchase of a specific quantity of shares when such shares become available. Given that the Chief Executive Officer has a significant holding requirement (50%) on the exercise of stock options and the vesting of performance shares, the Board of Directors decided not to require the Chief Executive Officer to purchase an additional quantity of shares when they become available;
- Article 23.2.6, pursuant to which, as regards additional pension plans, “*the beneficiaries must meet reasonable requirements of seniority within the Company, of at least two years, as determined by the Board of Directors, to benefit from payments from a defined benefit pension plan.*” The Board of Directors' meeting of October 20, 2009, on the recommendation of the Appointment, Compensation & Governance Committee, indeed decided to credit Jacques Aschenbroich, upon his appointment, with five additional years of service in view of his age and the fact that he was not covered by any other supplementary pension plan so that he could benefit from the supplementary pension plan as from January 1, 2010. This plan requires nevertheless that the Chief Executive Officer end his/her professional career within the Group.

The AFEP-MEDEF Code is available in French and English on the MEDEF website (www.medef.com).

3.2.5 Stock purchase option, stock subscription option and performance share allotment policy for executive corporate officers

Valeo refers to the AFEP-MEDEF Code. Since the changes in corporate governance that took place within the Company in 2009, Valeo's stock purchase option or stock subscription option and performance share allotment policy complies with the recommendations of the AFEP-MEDEF Code. Accordingly:

Concerning the allotment of stock purchase options and performance shares

- The Board of Directors decides on each allotment of stock purchase options and performance shares, based on recommendations made by the Appointment, Compensation & Governance Committee;
- all stock purchase options and performance shares allotted to the Chief Executive Officer and members of the Operations Committee are subject to performance conditions;
- it is only possible to allot stock purchase options or performance shares to the Chief Executive Officer if the Chief Executive Officer's term of office has not expired on the exercise date (this presence condition, however, may be waived at its discretion by the Board of Directors unless his departure is attributable to gross negligence or misconduct);
- stock purchase options and performance shares, valued under IFRS, must not represent a disproportionate percentage of the total compensation, stock options and shares allotted to each executive corporate officer;
- each time that it decides to allot stock purchase options and performance shares, the Board of Directors ensures that allotments for the Chief Executive Officer do not represent an excessive proportion of the total number of stock purchase options or performance shares allotted;
- each time performance shares are allotted to the executive corporate officers, the Group's employees also receive performance shares;
- the Board of Directors ensures that the allotment of stock purchase options and performance shares has a limited impact in terms of dilution;
- stock purchase options and performance shares are allotted at the same periods of the year, to limit a windfall effect.

On the recommendation of the Appointment, Compensation & Governance Committee on January 23, 2014, the decision was made not to allot stock purchase options in 2014.

Concerning the price of stock purchase options and performance shares

- No discount is applied when stock purchase options are allotted; and
- executive corporate officers who benefit from stock purchase options and performance shares must formally undertake not to engage in hedging transactions.

Concerning the exercise of stock purchase options

In accordance with the provisions of Valeo's Code of Conduct, stock purchase options cannot be exercised during lock-up periods (this includes the exercise of stock options followed immediately by the sale of the shares received). The rules on transactions involving shares are described in section 3.2.2. "Directors' rights and duties", page 91.

Concerning the holding of shares resulting from the exercise of stock purchase options and vested performance shares

The Chief Executive Officer must respect a minimum holding period and the shares he acquires from the exercise of his stock purchase options must be held for a minimum of four years following their allotment. After selling the number of shares necessary for financing the exercise of the stock options and the payment of any tax, social security contributions and transaction costs, he must keep at least 50% of the shares resulting from exercising options in registered form until the end of his or her term of office. The Chief Executive Officer must also hold at least 50% of any vested performance shares as registered shares until the end of his term of office.

Information on stock purchase options or stock subscription options and on performance shares allotted to the Chief Executive Officer is presented in section 3.3.1, pages 110 and 111.

Information on stock options or subscription options and free shares allotted to the other executive corporate officers is presented in sections 3.3.3 and 3.3.4, pages 120 to 122.

3.2.6 Principles and rules adopted by the Board in respect of compensation and other benefits granted to executive corporate officers and members of the Board of Directors in 2014

Apart from Pascal Colombani and Jacques Aschenbroich, no Board member was paid any compensation or benefits other than attendance fees by the Company during 2014. For further information, see section 3.3.1, "Compensation of executive corporate officers", page 106 and section 3.3.2, "Compensation of non-executive corporate officers", page 118.

Basis for allocating attendance fees

In accordance with the French Commercial Code and the internal procedures applicable to the Board of Directors and the Appointment, Compensation & Governance Committee, the Board of Directors has powers to decide how attendance fees should be allocated. It bases its decision on the rules recommended by the Appointment, Compensation & Governance Committee for allocating these attendance fees and the suggested amounts payable to each director, taking into account directors' attendance rates at Board of Directors and Committee meetings.

The rules for allocating attendance fees among directors, as approved and amended by the Board of Directors at its meetings on July 27, 2010 and February 21, 2013, on the recommendation of the Appointment, Compensation & Governance Committee, are described below:

- (i) each director receives:
 - fixed portion: 22,000 euros/year,
 - variable portion: 2,200 euros/meeting attended;
- (ii) each director who is a member (but not Chairman) of a Board Committee also receives:
 - fixed portion: 0,
 - variable portion: 2,200 euros/meeting attended;
- (iii) the director who is also Chairman of the Audit & Risks Committee also receives:
 - fixed portion: 15,000 euros/year,
 - variable portion: 2,200 euros/meeting attended;
- (iv) each director who is also Chairman of a Board Committee (other than the Audit & Risks Committee) also receives:
 - fixed portion: 12,000 euros/year,
 - variable portion: 2,200 euros/meeting attended.

These payments are not capped; however if the budget, which was increased from 600,000 to 700,000 euros by the Shareholders' meeting of May 21, 2014 in accordance with the tenth resolution, is exceeded in any one year, the following formula is applied:

$$\frac{\text{Fees paid to an individual director}}{\text{Total fees paid to all directors}} \times 700,000 \text{ euros}$$

Based on the new budget for directors' attendance fees passed by shareholders at the Shareholders' Meeting on May 21, 2014, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided on July 24, 2014 to increase the variable portion received by the directors and to keep the fixed portion unchanged. Since that date, the variable portion paid to directors attending Board and committee meetings increased from 2,200 euros to 2,700 euros per meeting attended.

The amount of attendance fees paid to each director in 2014 is presented in section 3.3.2, "Compensation of non-executive corporate officers", page 118.

Since February 12, 2009, no corporate officer has received attendance fees in respect of the posts he or she holds within the Group. Acting on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors' meeting on February 12, 2009 decided that attendance fees would no longer be payable to the Chairman and Chief Executive Officer for offices held within the Group. At the Board of Directors' meeting on April 9, 2009, acting on the recommendation of the Appointment, Compensation & Governance Committee, it was decided that attendance fees would no longer be payable to the Chairman of the Board of Directors and the Chief Executive Officer for offices held within the Group.

Compensation of executive corporate officers

The compensation packages of the Company's corporate officers are determined by the Board of Directors acting on the recommendations of the Appointment, Compensation & Governance Committee and in compliance with the AFEF-MEDEF Code.

The fixed compensation of each corporate officer was established at the Board of Directors' meeting on April 9, 2009. The decision applies for an indefinite period. In view of the spectacular recovery of the Company and having examined the practices of a selection of similar companies, at its meeting on June 8, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to increase the fixed annual compensation of the Chief Executive Officer and the Chairman of the Board, with effect from June 1, 2011. At its meeting on February 21, 2013, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided that the Chief Executive Officer's fixed annual compensation would remain unchanged until the end of his term of office.

The variable compensation of executive corporate officers is determined on a case-by-case basis. No variable compensation is paid to the Chairman of the Board of Directors. The principles governing the variable compensation payable to the Chief Executive Officer are reviewed and analyzed on an annual basis by the Board of Directors, after the recommendation of the Appointment, Compensation & Governance Committee. See section 3.3.1 “Variable compensation”, page 109, for a description of these principles.

There is no specific pension plan for executive corporate officers. The Chairman of the Board of Directors is not eligible for any pension plan in connection with his corporate office. No pension plan other than the plan covering the Group’s senior management is available to the Chief Executive Officer (see section 3.3.1, “Pension plan”, page 111). However, in accordance with its decision on April 9, 2009, the Board of Directors decided to credit Jacques Aschenbroich with five additional years of service upon his appointment, in view of his age and the fact that he was not covered by any other supplementary pension plan.

3.2.7 Authorizations granted regarding sureties, endorsements and guarantees governed by Article R.225-28 of the French Commercial Code

Further to a decision dated February 20, 2014, the Board of Directors authorized the Chief Executive Officer – and any person so designated by the Chief Executive Officer – to issue sureties, endorsements and guarantees in the Company’s name up to a maximum amount of 40 million euros for a

period of 12 months, and to maintain in effect the sureties, endorsements and guarantees previously issued.

During 2014, no further commitments of this type were made by the Company’s Chief Executive Officer.

3.2.8 General Management of the Company and limitations on the powers of the Chief Executive Officer

Following the renewal of the terms of office of Jacques Aschenbroich and Pascal Colombani by the Shareholders’ Meeting on June 8, 2011, the Board of Directors, meeting on the same day and acting on the recommendation of the Appointment, Compensation & Governance Committee, maintained the separation of the duties of Chairman of the Board of Directors and Chief Executive Officer, decided by the Board of Directors’ meeting on March 20, 2009, stating that the operation of the Board of Directors had improved as a result of this separation. The Board of Directors thus renewed the term of office of Pascal Colombani as Chairman of the Board of Directors and Jacques Aschenbroich as Chief Executive Officer. At its meeting on January 22, 2015, the Board of Directors agreed that a change in governance was not a matter of immediate importance. Therefore, it will be recommended at the Board of Directors’ meeting scheduled to take place at the close of the Shareholders’ Meeting called to approve the financial statements for the year ended December 31, 2014 to maintain the separation of the roles of Chairman of the Board and Chief Executive Officer and to renew the terms of office of Pascal Colombani and Jacques Aschenbroich as Chairman of the Board and Chief Executive Officer, respectively, subject to the renewal of their directorships at said Shareholders’ Meeting.

The Chairman of the Board of Directors organizes and presides over the work performed by the Board of Directors and presents a report on its activities to the Shareholders’ Meeting. He ensures that the Company’s governance functions effectively and in particular makes sure that the directors are able to perform their duties. In accordance with the Company’s articles of association, the Chairman of the Board of Directors does not fulfill any duties other than those entrusted to him by law.

The Chief Executive Officer has the widest possible powers to act in the Company’s name, within the limits provided for by law, the Company’s articles of association and/or the Board of Directors’ internal procedures. The Chief Executive Officer also represents the Company in its relations with third parties or in any legal proceedings.

The Board of Directors’ meeting on June 8, 2011, acting on the recommendation of the Appointment, Compensation & Governance Committee, also decided to maintain the limitation on the powers of the Chief Executive Officer, decided by the Board of Directors’ meeting of March 20, 2009 and reflected in the Board’s internal procedures. In compliance with these procedures, the Chief Executive Officer must obtain the prior approval of the Board of Directors for the acquisition or sale of any subsidiary, interest or any other asset or investment of any kind, for a sum of more than 50 million euros per transaction.

3.2.9 Agreements governed by Article L.225-38 of the French Commercial Code already approved by the Shareholders' Meeting which continued to be implemented during the year

The following agreements, already approved by a Shareholders' Meeting, were pursued in 2014:

- commitments to the Chief Executive Officer, Jacques Aschenbroich:
 - a commitment in the form of life insurance covering death, disability or the consequences of any accidents that may occur during business travel (Board of Directors' decision of April 9, 2009). This policy is described in section 3.3.1 "Fixed compensation and benefits in kind", page 109;
 - a commitment in the form of a defined benefit pension plan (Board of Directors' decision of October 20, 2009). This policy is described in section 3.3.1 "Pension plan", page 111;
 - commitments in the form of termination benefits and non-competition payment. Acting on the recommendation of the Appointment, Compensation & Governance Committee, and based on the opinion of the Comité des Sages (body set up by the French employers' federation MEDEF to contribute to the proper allocation of the principles of restraint, fairness and consistency in executive corporate officers' pay), the Board of Directors' meeting on February 24, 2010 decided that Jacques Aschenbroich could be bound by a non-competition clause in the event of his departure from the Company. The Board also decided that in

the event of his departure from the Group due to a change in control or strategy (i.e., forced resignation or removal from his position as Chief Executive Officer), Jacques Aschenbroich would be entitled to termination benefits, except in the event of gross professional misconduct. The Board of Directors' meeting on February 24, 2011 authorized, when it renewed Jacques Aschenbroich's directorship and term of office as Chief Executive Officer, the renewal of the agreement granting Jacques Aschenbroich termination benefits, authorized by the Board of Directors' meeting on February 24, 2010, by extending these benefits to 24 months' compensation (fixed and variable) as from 2013. The termination benefits and non-competition payment to which Jacques Aschenbroich is entitled if he leaves the Company are described in section 3.3.1, "Termination benefits and non-competition payment", page 112.

No agreements or commitments that fall within the scope of Article L.225-38 of the French Commercial Code were authorized by the Board of Directors in 2014.

A special report on related party agreements and commitments has been drawn up by the Statutory Auditors in respect of the agreements described above (see Chapter 5, section 5.7, page 339).

3.2.10 Arrangements for attendance at Shareholders' Meetings

Shareholders' Meetings are convened and conduct business in accordance with the law and the Company's articles of association.

Articles 21 to 26 of Valeo's articles of association cover the provisions relating to Shareholders' Meetings and the exercise of voting rights. The articles of association are available online on the "Governance" page of Valeo's website, (<http://www.valeo.com/en/the-group/governance/governance-linked-documents.html>).

Article 23 of the Company's articles of association provides that double voting rights are attached to all fully paid-up shares that have been registered in the name of the same holder for at least four years.

3.2.11 Information likely to have an impact in the event of a public tender offer

Details concerning the information likely to have an impact in the event of a public tender offer, pursuant to Article L.225-100-3 of the French Commercial Code, are provided in Chapter 6, section 6.6.6, page 363.

3.3 Compensation of corporate officers, directors and other Group executive managers

3.3.1 Compensation of executive corporate officers

At its meeting on March 20, 2009, the Board of Directors decided to separate the duties of Chairman of the Board and Chief Executive Officer, acting on the recommendation of the Appointment, Compensation & Governance Committee and following the resignation of Thierry Morin as Chairman and Chief Executive Officer. The Board then appointed Pascal Colombani as Chairman of the Board of Directors and Jacques Aschenbroich as Chief Executive Officer.

Following the renewal of the terms of office of Pascal Colombani and Jacques Aschenbroich by the Shareholders' Meeting on June 8, 2011 held to approve the financial statements for the year ended December 31, 2010, the Board of Directors, at its meeting on the same day, acting on the recommendation of the Appointment, Compensation & Governance Committee, maintained the separation of the duties of Chairman of the Board and Chief Executive Officer, stating that the operation of the Board had improved as a result of this separation.

At its meeting on January 22, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to ask the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2014 to renew the terms of office of Pascal Colombani and Jacques Aschenbroich as directors. Subject to approval of this renewal, the Appointment, Compensation & Governance Committee at its meeting on January 20, 2015, recommended to the Board of Directors to maintain the separation of the duties of Chairman of the Board and Chief Executive Officer and to approve the renewal of Pascal Colombani as Chairman of the Board and Jacques Aschenbroich as Chief Executive Officer.

Compensation of Pascal Colombani for his role as Chairman of the Board of Directors

The Board of Directors sets the compensation paid by Valeo to Pascal Colombani, the Chairman of the Board of Directors, based on recommendations made by the Appointment, Compensation & Governance Committee. Pascal Colombani does not have an employment contract with the Valeo Group.

Fixed compensation and benefits in kind

Following the renewal of the term of office of Pascal Colombani as Chairman of the Board of Directors at its meeting on June 8, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee and after having examined the

practices of a selection of similar companies, decided that the Chairman would receive fixed annual compensation of 300,000 euros with effect from June 1, 2011. Since 2009, the figure had been set at 250,000 euros per year.

Similarly, at the Board of Directors' meeting on June 8, 2011, acting on the recommendation of the Appointment, Compensation & Governance Committee, it was decided that the Chairman would have the use of a company car for occupational use and a driver currently employed by the Company. This benefit is an employment allowance in kind (and not a benefit in kind).

In 2014, Valeo paid Pascal Colombani fixed compensation of 300,000 euros (unchanged since 2011).

Variable compensation

Pascal Colombani does not receive any variable compensation.

Attendance fees

Pascal Colombani does not receive attendance fees.

At its meeting on April 9, 2009, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided that no attendance fees would be paid to Pascal Colombani in respect of his role as Chairman.

Compensation paid by companies controlled by Valeo

Pascal Colombani does not receive any compensation from companies controlled by Valeo.

Stock options and performance shares

No stock purchase or subscription options or performance shares were allotted to Pascal Colombani in 2014 or in previous years.

Pension plan

Pascal Colombani is not covered by a supplementary pension plan for his role in the Valeo Group.

Termination benefits

Pascal Colombani is not entitled to termination benefits.

Compensation paid to the Chairman of the Board of Directors over the last two years

The following tables show the compensation paid and the stock options and shares allotted to Pascal Colombani over the last two years.

Summary of compensation paid and stock purchase options and shares allotted to Pascal Colombani

(in euros)	2013	2014
Compensation	300,000	300,000
Value of stock purchase options allotted during the year	-	-
Value of performance shares allotted during the year	-	-
TOTAL	300,000	300,000

Summary of compensation paid to Pascal Colombani

(in euros)	2013		2014	
	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	300,000	300,000	300,000	300,000
Variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Attendance fees	-	-	-	-
• o/w attendance fees paid by Valeo	-	-	-	-
• o/w attendance fees paid by controlled companies	-	-	-	-
Benefits in kind	-	-	-	-
TOTAL	300,000	300,000	300,000	300,000

Stock purchase or subscription options allotted to Pascal Colombani during the year

Plan no. and date	Type of option (purchase/ subscription)	Value of options according to the method used for consolidated financial statements	Number of options allotted during the year	Strike price	Exercise period
None	-	-	-	-	-

Stock purchase or subscription options exercised by Pascal Colombani during the year

Plan no. and date	Number of options exercised during the year	Strike price
None	-	-

Performance shares allotted to Pascal Colombani during the year

Performance shares allotted by the Shareholders' Meeting during the year to Pascal Colombani by Valeo or any Group company	Plan no. and date	Number of shares allotted during the year	Value of shares according to the method used for consolidated financial statements	Vesting date	Shares available as at	Performance criteria
None	-	-	-	-	-	-

Performance share allotments that became available for trading for Pascal Colombani during the year

Plan no. and date	Number of share allotments that became available for trading during the year	Vesting requirements
None	-	-

History of allotments of stock purchase or subscription options to Pascal Colombani – information concerning stock purchase or subscription options

None.

History of allotments of performance shares to Pascal Colombani – information concerning performance shares

None.

Employment contract, supplementary pension plans and benefits

	Employment contract	Supplementary pension plans	Compensation or benefits owed or likely to be owed on termination or change of position	Payment relating to a non-competition clause
Pascal Colombani				
Chairman of the Board of Directors				
First appointed as a director: 05/21/2007				
Start of term of office: 06/08/2011				
End of term of office: Shareholders' Meeting called to approve the financial statements for the year ended 12/31/2014	No	No	No	No

Compensation of Jacques Aschenbroich for his role as Chief Executive Officer

The Board of Directors sets the compensation paid by Valeo to Jacques Aschenbroich, the Chief Executive Officer, based on recommendations made by the Appointment, Compensation & Governance Committee. Jacques Aschenbroich does not have an employment contract with the Valeo Group.

The Chief Executive Officer's overall compensation is determined taking into account the supplementary pension plan from which he benefits (see Pension plan, section 3.3.1, page 111).

Compensation of the Chief Executive Officer for 2014

Long term	Performance shares 10,505 shares (€900,000)	Performance criteria over 3 years: - Operating margin and ROCE⁽¹⁾: the average ratio over three years (2014 to 2016) of the effective achievement rate in relation to the target rate set by the Board of Directors, which must be at least equal to the guidance for the year under review, is equal to or greater than one - ROA⁽¹⁾ equal to or greater than 12.5% 3-year vesting period: 3 criteria met (100%), 2 criteria met (60%), 1 criterion met (30%) and no criteria met (0%) Mandatory 2-year holding period following the 3-year vesting period. At the end of the holding period, at least 50% of the performance shares allotted must be held until the term of office expires
Short term	Variable portion €1,215,000 (135% of fixed compensation)	Quantitative criteria (capped at 85% of fixed compensation) - Operating margin (capped at 17% of fixed compensation) - Operating free cash flow (capped at 17% of fixed compensation) - Net income (capped at 17% of fixed compensation) - ROCE (capped at 17% of fixed compensation) - Consolidated order intake (capped at 17% of fixed compensation) Qualitative criteria (capped at 50% of fixed compensation) - Quality of financial communications (capped at 10% of fixed compensation) - Strategic vision (capped at 20% of fixed compensation) - Risk management (capped at 20% of actual fixed compensation)
	Fixed portion €900,000	Unchanged since 2011 Excluding benefits in kind and supplementary pension plan

(1) See Glossary, page 385.

Fixed compensation and benefits in kind

At its meeting on April 9, 2009, the Board of Directors set Jacques Aschenbroich's fixed annual compensation at 850,000 euros. In view of the spectacular recovery of the Company, at its meeting on June 8, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided that the Chief Executive Officer would receive fixed annual compensation of 900,000 euros with effect from June 1, 2011. In addition, at its meeting on February 21, 2013, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided that the Chief Executive Officer's fixed annual compensation would remain unchanged until the end of his term of office. His fixed annual compensation has therefore remained unchanged since June 1, 2011.

At its meeting on April 9, 2009, the Board also decided to grant coverage to Jacques Aschenbroich under the unemployment insurance fund for Company managers, of the mandatory health, death and disability plan and life insurance covering death, disability or the consequences of any accidents that may occur during business travel. Following the renewal of Jacques Aschenbroich's term of office as Chief Executive Officer, at its meeting on June 8, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, confirmed the pursuance of the same insurance coverage, without any modification. This coverage has been maintained since.

Valeo also provides Jacques Aschenbroich with a company car.

In 2014, fixed compensation paid to Jacques Aschenbroich by Valeo amounted to 916,840 euros (compared with 916,740 euros in 2013). This consists of fixed compensation of 900,000 euros gross (as in 2013) and 16,840 euros (compared with 16,740 euros in 2013) in benefits in kind.

Variable compensation

At the beginning of each year, the Board of Directors sets the criteria on which the variable compensation is based, acting on the recommendation of the Appointment, Compensation & Governance Committee for the coming year. The Board also makes decisions regarding the allocation of the variable portion for the prior fiscal year in view of the achievement of predetermined criteria. The variable portion of the Chief Executive Officer's compensation is determined partly according to quantitative objectives based upon the Group's operational and financial performance and partly on a qualitative basis, according to specific and predetermined objectives.

In 2013, the quantitative component of the Chief Executive Officer's compensation depended on the following five criteria: (i) operating margin, (ii) operating cash flow, (iii) net income, (iv) return on capital employed (ROCE), and (v) the Group's order intake, whose expected level of achievement has been determined precisely but is not publicly disclosed for reasons of confidentiality. The qualitative component of the Chief Executive Officer's compensation depended on the following three criteria: (i) quality of financial communications, (ii) strategic vision, and (iii) risk management.

The amount of variable compensation as a percentage of the fixed compensation ranged from 0% to 17% for each of the five quantitative criteria, i.e., a maximum of 85%; and with respect to qualitative criteria, from 0% to 10% for the quality of financial communications, and from 0% to 20% for strategic vision and risk management, i.e., a maximum of 50%.

Variable compensation for 2013 had been capped at 135% of Jacques Aschenbroich's fixed compensation.

At its meeting on February 20, 2014, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, noted that the achievement rates for quantitative criteria for 2013 were 85% and achievement rates for qualitative criteria were 50% of the fixed compensation owed to Jacques Aschenbroich for 2013, bringing the amount of variable compensation owed to Jacques Aschenbroich for 2013 to 135% of his fixed compensation, i.e., 1,215,000 euros (compared with 774,000 euros in 2012).

At the same meeting, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided that the variable compensation to be paid for 2014 would depend on the same quantitative and qualitative criteria as for 2013. It should however be mentioned that the assessment performed to establish whether or not certain numerical criteria had been reached (linear calculation within a range set on the basis of the numerical target of the relevant criteria) resulted in adjustments by the Board of Directors acting on the recommendation of the Appointment, Compensation & Governance Committee.

Variable compensation for 2014 has been capped at 135% of Jacques Aschenbroich's fixed compensation.

At its meeting on February 24, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, noted that the achievement rates for quantitative criteria for 2014 were 85% and achievement rates for qualitative criteria were 50% of the fixed compensation owed to Jacques Aschenbroich for 2014, bringing the amount of variable compensation owed to Jacques Aschenbroich for 2014 to 135% of his fixed compensation to be paid for the same year, i.e., 1,215,000 euros (compared with 1,215,000 euros in 2013).

At the same meeting, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided that for 2015 the quantitative component of the Chief Executive Officer's compensation will depend on the following five criteria: (i) operating margin, (ii) operating cash flow, (iii) net income, (iv) ROCE, and (v) the Group's order intake, whose expected level of achievement is determined precisely but is not publicly disclosed for reasons of confidentiality. The qualitative component of the Chief Executive Officer's compensation will depend on the following three criteria: (i) quality of financial communication, (ii) strategic vision, and (iii) risk management.

The amount of variable compensation as a percentage of fixed compensation will range from 0% to 17% for each of the five quantitative criteria, i.e., a maximum of 85%, and for the qualitative criteria, from 0% to 10% for the quality of financial communications, and from 0% to 20% for strategic vision and risk management, i.e., a maximum of 50%.

Variable compensation for 2015 has been capped at 135% of Jacques Aschenbroich's fixed compensation.

Attendance fees

Jacques Aschenbroich does not receive attendance fees.

At its meeting on April 9, 2009, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided that no attendance fees would be paid to the Chief Executive Officer in respect of offices held in the Group.

Compensation paid by companies controlled by Valeo

In 2014, Jacques Aschenbroich did not receive any compensation of any kind from companies controlled by Valeo. At the Board of Directors' meeting on April 9, 2009, acting on the recommendation of the Appointment, Compensation & Governance Committee, it was decided that attendance fees would not be payable to the Chief Executive Officer for offices held within the Group.

Stock purchase options and performance shares

Allotments in 2013

At its meeting on March 27, 2013, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided not to allot any stock purchase options but to allot performance shares to Jacques Aschenbroich under the terms and conditions adopted by the Board of Directors at its meeting on March 27, 2012 and disclosed to shareholders in the Board of Directors' Report on the resolutions presented at the Shareholders' Meeting on June 4, 2012. The Board of Directors therefore decided to allot 25,634 performance shares to the Chief Executive Officer.

All the performance shares allotted to the Chief Executive Officer are conditional upon the achievement of performance criteria measured over the 2013, 2014 and 2015 fiscal years. These criteria are (i) an average pre-tax return on assets (ROA) ratio over the period equal to or greater than 12.5%, and (ii) an operating margin ratio and a return on capital employed (ROCE) ratio such that the average over the three years of the reference period, of the ratio between the actual return achieved and the target return that will be set by the Board at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one. The following scale then applies:

- if all three criteria for fiscal years 2013, 2014 and 2015 are met, all the performance shares initially allotted will vest;
- if two of the three criteria for fiscal years 2013, 2014 and 2015 are met, only 60% of the performance shares initially allotted will vest and the remainder will be forfeited;

- if only one of the three criteria for fiscal years 2013, 2014 and 2015 is met, only 30% of the performance shares initially allotted will vest and the remainder will be forfeited;
- if none of the three criteria for fiscal years 2013, 2014 and 2015 is met, none of the performance shares initially allotted will vest and all of the performance shares will be canceled.

The performance shares shall vest after the expiration of a three-year vesting period. The Chief Executive Officer will then have to hold the shares for two years. At the end of the two aforementioned periods, he must also hold at least 50% of the vested performance shares in the form of registered shares until the end of his term of office.

All the performance shares allotted to the Chief Executive Officer shall vest only if his term of office has not expired on the vesting date (however, this condition may be waived by the Board of Directors unless his departure is attributable to gross negligence or misconduct).

The Chief Executive Officer shall not use hedging transactions to reduce his risk.

The performance shares allotted to Jacques Aschenbroich during 2013 had a limited dilutive impact and represented 0.03% of the Company's share capital at December 31, 2013.

At its meeting on March 27, 2013, the Board of Directors noted that the performance shares allotted to the Chief Executive Officer in 2013 valued at 35.11 euros under IFRS represented 100% of his fixed annual compensation for the same year.

Allotments in 2014

At its meeting on March 27, 2014, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided not to allot any stock purchase options but to allot performance shares to Jacques Aschenbroich under the terms and conditions adopted by the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, at its meeting on March 27, 2012 and disclosed to shareholders in the Board of Directors' report on the resolutions presented at the Shareholders' Meeting on June 4, 2012. The Board of Directors therefore decided to allot 10,505 performance shares to the Chief Executive Officer.

All the performance shares allotted to the Chief Executive Officer are conditional upon the achievement of performance criteria measured over the 2014, 2015 and 2016 fiscal years. These criteria are (i) an average pre-tax return on assets (ROA) ratio over the period equal to or greater than 12.5%, and (ii) an operating margin ratio and a return on capital employed (ROCE) ratio such that the average over the three years of the reference period, of the ratio between the actual return achieved and the target return that will be set by the Board at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one. The following scale then applies:

- if all three criteria for fiscal years 2014, 2015 and 2016 are met, all the performance shares initially allotted will vest;

- if two of the three criteria for fiscal years 2014, 2015 and 2016 are met, only 60% of the performance shares initially allotted will vest and the remainder will be forfeited;
- if only one of the three criteria for fiscal years 2014, 2015 and 2016 is met, only 30% of the performance shares initially allotted will vest and the remainder will be forfeited;
- if none of the three criteria for fiscal years 2014, 2015 and 2016 is met, none of the performance shares initially allotted will vest and all of the performance shares will be canceled.

The performance shares shall vest after the expiration of a three-year vesting period. The Chief Executive Officer will then have to hold the shares for two years. At the end of the two aforementioned periods, he must also hold at least 50% of the vested performance shares in the form of registered shares until the end of his term of office.

All the performance shares allotted to the Chief Executive Officer shall vest only if his term of office has not expired on the vesting date (however, this presence condition may be waived by the Board of Directors unless his departure is attributable to gross negligence or misconduct).

The Chief Executive Officer has undertaken to not use hedging transactions to reduce his risk.

The performance shares allotted to Jacques Aschenbroich during 2014 had a limited dilutive impact and represented 0.01% of the Company's share capital at December 31, 2014.

At its meeting on March 27, 2014, the Board of Directors noted that the performance shares allotted to the Chief Executive Officer in 2014 valued at 85.67 euros under IFRS represented 100% of his fixed annual compensation for the same year.

All stock purchase options and free shares allotted at December 31, 2014, including to Jacques Aschenbroich specifically, are summarized in the tables on page 117.

These tables show that he was conditionally allotted 100,000 stock purchase options and 50,000 free shares in 2010, all of which vested in 2012 as all of the performance criteria were met.

He was conditionally allotted 30,300 stock purchase options and 15,600 free shares in 2011. In June 2014, 18,180 stock purchase options and 9,360 free shares vested, equivalent to 60% of his initial allotment. Of the three criteria set (operating margin rate, ROCE and ROA for 2011-2013), the target operating margin was not reached.

Pension plan

At its meeting on April 9, 2009, the Board of Directors discussed the total compensation of Jacques Aschenbroich and agreed to the principle that he would be covered by the existing defined benefit supplementary pension plan that applies to the executive managers of Valeo and its French subsidiaries (or the new plan under consideration to replace the existing plan), and that he would be credited with five additional years of service in view of his age and the fact that he is not covered by any other supplementary pension plan at present. This decision was taken with a view to retaining the new Chief Executive Officer and motivating him with regard to the Company's objectives, protecting its corporate interest and following market practices.

However, in view of ongoing changes in laws and regulations, the Board of Directors decided to defer the implementation of a supplementary pension plan until a later meeting.

At its meeting on October 20, 2009, the Board of Directors decided to register Jacques Aschenbroich for the supplementary defined benefit pension plan for the Group's senior executives. The main characteristics of the plan are outlined in section 3.3.3, page 120. In view of Jacques Aschenbroich's age and the fact that he was not covered by any other supplementary pension plan, the decision was made to credit Jacques Aschenbroich with five additional years of service at the start of his tenure. The benefit that being covered by a pension plan represents is taken into account when determining the Chief Executive Officer's overall compensation.

The new pension plan has been in force since January 1, 2010. Following the renewal of Jacques Aschenbroich's directorship and term of office as Chief Executive Officer, at its meeting on June 8, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, confirmed that the supplementary pension plan with which Jacques Aschenbroich was registered would be maintained without any modification.

At its meeting on February 21, 2012, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to amend the supplementary pension plan by including the payment of benefits to the surviving beneficiary in the event of the death of an active contributor if the event occurs after the legal voluntary retirement age.

At its meeting on January 23, 2014, acting on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors decided to adjust the supplementary pension plan to bring it in line with market practices. This adjustment, which will not have retroactive effect, involves taking into account in the reference salary (calculated using an average of the last three years), the basic fixed compensation and the portion of variable compensation actually paid for the periods after February 1, 2014. The supplementary pension remains capped at 20% of the reference salary, which complies with and is even lower than the maximum percentage recommended by the AFEP-MEDEF Code as amended in June 2013, that establishes a maximum percentage of 45% of the fixed and variable compensation due in the reference period. All the Group's senior executives benefited from this adjustment.

Termination benefits and non-competition payment

Termination benefits

At its meeting on February 24, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided, subject to the renewal of Jacques Aschenbroich's directorship at the Shareholders' Meeting on June 8, 2011 and renewal of his term of office as Chief Executive Officer, to renew his eligibility for termination benefits that would be paid in the event of termination related to a change in control or strategy (except on the grounds of gross misconduct in the performance of his duties) that was granted to him by the Board of Directors' meeting on February 24, 2010, acting on the recommendation of the Appointment, Compensation & Governance Committee and after consulting the *Comité des Sages*. This renewal was adopted as a regulated commitment pursuant to Article L.225-42-1 of the French Commercial Code by the Shareholders' Meeting on June 8, 2011 in its twelfth resolution.

The amount of the termination benefits depends on the termination date (2011, 2012, or as of 2013). As of 2013, the maximum amount of termination benefits likely to be paid to Jacques Aschenbroich is 24 months' compensation. The reference compensation used to calculate the termination benefits will be equal to the average compensation (fixed and variable) paid for the two fiscal years preceding the year of departure. The maximum amount of termination benefits therefore corresponds to two years of annual compensation (fixed and variable), with the annual compensation (fixed and variable) being the average amount of compensation (fixed and variable) paid for the two fiscal years preceding the year of departure.

The payment of these benefits is subject to the following five performance criteria:

- the payment of all or part of the variable performance-related compensation at least twice during the last three fiscal years;
- positive net income during the last fiscal year;
- operating margin exceeding 3.6% during the last fiscal year;
- gross margin exceeding 16% during the last fiscal year;
- a ratio of order intake to original equipment sales exceeding 1.3 on average over the previous two fiscal years.

The total amount of the termination benefits to be paid will be calculated according to the following scale:

- five criteria met: Jacques Aschenbroich would receive 100% of the termination benefits;
- four criteria met: Jacques Aschenbroich would receive 80% of the termination benefits;
- three criteria met: Jacques Aschenbroich would receive 60% of the termination benefits;
- two criteria met: Jacques Aschenbroich would receive 40% of the termination benefits;
- less than two criteria met: Jacques Aschenbroich would receive 0% of the termination benefits.

The Board would reduce the termination benefits calculated above by 20% if a plan for significant job cuts was introduced in the year preceding the termination of Jacques Aschenbroich's term of office.

The termination benefits would be paid in a single payment within a month of the Board of Directors' assessment of the fulfillment of the criteria for receiving said benefits.

At its meeting on February 24, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided, subject to the renewal of Jacques Aschenbroich's directorship at the Shareholders' Meeting called to approve the 2014 financial statements and renewal of his term of office as Chief Executive Officer at the first Board of Directors' meeting held after this Shareholders' Meeting, to change the basis for calculating the aforementioned termination benefits as well as certain criteria pertaining thereto, and to clearly state the cases in which this termination benefit would not be paid. These changes reflect the Board of Directors' desire to strengthen the demanding nature of the termination benefits' triggering condition. The proposed amendments to the termination benefits as approved by the Shareholders' Meeting of June 8, 2011, will be subject to ratification at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2014. The modified termination benefits are outlined in a special report on related party agreements and commitments drawn up by the Statutory Auditors (see Chapter 5, section 5.7, page 339).

Compensation of corporate officers, directors and other Group executive managers

The following table provides a comparative overview of the Chief Executive Officer's termination benefits approved at the Shareholders' Meeting of June 8, 2011, as well as the Chief Executive Officer's modified termination benefits subject to approval at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2014.

	Termination benefits approved at the Shareholders' Meeting of June 8, 2011	Termination benefits to be proposed at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2014
Maximum amount of termination benefits	Twice the annual compensation amount as per the calculation basis below.	
Calculation basis for termination benefits	Annual compensation (fixed and variable) calculated by taking the average compensation (fixed and variable) paid for the two fiscal years preceding the year of departure.	Annual compensation (fixed and variable) calculated by taking the average compensation (fixed and variable) paid for the three fiscal years preceding the year of departure.
Performance criteria	● Payment at least twice in the last three fiscal years of all or part of the variable compensation.	● Payment of 50% of variable compensation on average during the last three fiscal years.
	● Positive net income during the last fiscal year.	
	● Operating margin exceeding 3.6% during the last fiscal year.	● ROCE of over 20% on average during the last three fiscal years.
	● Gross margin exceeding 16% during the last fiscal year.	
Calculation method	● A ratio of order intake to original equipment sales exceeding 1.3 on average over the previous two fiscal years.	● A ratio of new orders to original equipment sales exceeding 1.3 on average over the previous three fiscal years.
	The total amount of the termination benefits to be paid will be calculated according to the following scale: ● five criteria met: Jacques Aschenbroich would receive 100% of the termination benefits; ● four criteria met: Jacques Aschenbroich would receive 80% of the termination benefits; ● three criteria met: Jacques Aschenbroich would receive 60% of the termination benefits; ● two criteria met: Jacques Aschenbroich would receive 40% of the termination benefits; ● less than two criteria met: Jacques Aschenbroich would receive 0% of the termination benefits. The Board of Directors would reduce the termination benefits calculated above by 20% if a plan for significant job cuts was introduced in the year preceding the termination of Jacques Aschenbroich's term of office.	
Payment	The termination benefits would be paid in a single payment within a month of the Board of Directors' assessment of the fulfillment of the criteria for receiving said benefits. These benefits would only be paid in the event of termination related to a change in control or of strategy (except on the grounds of gross misconduct in the performance of his duties).	
		No benefits would be paid if the Chief Executive Officer leaves the Company of his own accord to take up a new position, or to take up a new position within the Group, or if he had the opportunity to claim full retirement benefits within a short time period.
Maximum threshold for termination benefits and non-competition payment	Twice the annual compensation (fixed and variable) amount as per the calculation basis above.	

Non-competition payments

The non-competition payment to which Jacques Aschenbroich is entitled was adopted as a regulated commitment pursuant to Article L.225-42-1 of the French Commercial Code at the Shareholders' Meeting on June 3, 2010 in its eleventh resolution.

At its meeting on February 24, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, also noted that the non-competition payment to which Jacques Aschenbroich is entitled would be maintained without any modification, subject to the renewal of his directorship at the Shareholders' Meeting on June 8, 2011, and the renewal of his term of office as Chief Executive Officer.

If the Company triggers the non-competition clause, Jacques Aschenbroich shall be prohibited from working in any way for an automotive supplier or, more generally for any of Valeo's competitors. The clause shall apply for 12 months after the end of his term of office as Chief Executive Officer of Valeo regardless of the reason for termination.

In consideration, Jacques Aschenbroich will receive a non-competition payment equal to 12 months of compensation (calculated on the same basis as the termination benefits). The payment will be made in equal monthly installments over the entire period to which the non-competition clause applies.

The Company reserves the right to waive the non-competition clause, in which case the related payment will not be owed.

If the Company triggers the non-competition clause, the amount owed will be taken into account to determine his termination benefit. As a result, with effect from 2013, the maximum amounts to be paid to Jacques Aschenbroich in the form of a non-competition payment and/or termination benefits would be equal to 24 months of the reference compensation.

If the non-competition clause is triggered by the Company, Jacques Aschenbroich will receive at least the amount of the non-competition payment. The amount due under the non-competition clause and the termination benefits will be paid: (i) up to the amount owed under the non-competition clause, in accordance with the relevant payment rules, (ii) in addition, where applicable, to any surplus owed under the payment rules for the termination benefits.

At its meeting on February 24, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided, subject to the renewal of Jacques Aschenbroich's directorship at the Shareholders' Meeting called to approve the 2014 financial statements and the renewal of his term of office as Chief Executive Officer at the first Board of Directors' meeting held after this Shareholders' Meeting, to (i) specify that the non-competition payment will be calculated on the same basis as the modified termination benefits (as outlined in the previous table); and (ii) specifically allow for the Board of Directors, from now on, to give its opinion on whether or not the non-competition agreement will be applied when the Chief Executive Officer leaves, particularly if he leaves the Company to claim or after claiming retirement benefits. The other terms of the non-competition clause, whose implementation by the Board of Directors continued on February 24, 2011, are unchanged.

The proposed amendments to the non-competition payments as approved by the Shareholders' Meeting of June 3, 2010, will be subject to ratification at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2014. The modified non-competition payment is outlined in the Statutory Auditors' special report on related party agreements and commitments (see Chapter 5, section 5.7, page 339).

Compensation of corporate officers, directors and other Group executive managers

The following table provides a comparative overview of the Chief Executive Officer's non-competition payment approved at the Shareholders' Meeting on June 3, 2010, as well as the Chief Executive Officer's modified non-competition payment subject to approval at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2014.

	Non-competition payment approved at the Shareholders' Meeting on June 3, 2010	Non-competition payment to be proposed at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2014
Subject	On the basis of the non-competition clause, Jacques Aschenbroich shall be prohibited from working in any way for an automotive supplier or, more generally for any of Valeo's competitors for up to 12 months after the end of his term of office as Chief Executive Officer, regardless of the reason for termination.	
Duration of the non-competition clause	12 months immediately following the end of his term of office as Chief Executive Officer.	
Maximum amount of non-competition payment	12 months' compensation.	
Calculation basis for non-competition payment	Average compensation (fixed and variable) paid for the two fiscal years preceding the year of departure.	Average compensation (fixed and variable) paid for the three fiscal years preceding the year of departure.
Payment	The payment will be made in equal monthly installments over the entire period to which the non-competition clause applies.	
Application	The Board of Directors must decide prior to application whether or not the non-competition clause will be applied when the Chief Executive Officer leaves, particularly if he leaves the Company to claim or after claiming full retirement benefits. The Company reserves the right to waive the non-competition clause.	
Maximum threshold for termination benefits and non-competition payment	Maximum amount due in termination benefits (the calculation basis for termination benefits was modified as described in the previous table summarizing termination benefits).	

Compensation paid to the Chief Executive Officer over the last two years

The following tables show the compensation paid and payable and stock options and shares allotted to Jacques Aschenbroich over the last two years.

Summary of compensation paid and stock purchase options and performance shares allotted to Jacques Aschenbroich

(in euros)	2013	2014
Compensation	2,131,740	2,131,840
Value of stock purchase options allotted during the year	-	-
Value of performance shares allotted during the year ⁽¹⁾	900,000	900,000
TOTAL	3,031,740	3,031,840

(1) All performance shares allotted to the Chief Executive Officer are subject to the achievement of performance criteria. The performance criteria linked to the performance shares allotted to the Chief Executive Officer during 2013 and 2014 are described in this section, page 110.

Summary of compensation paid to Jacques Aschenbroich

(in euros)	2013		2014	
	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	900,000	900,000	900,000	900,000
Variable compensation	1,215,000	774,000	1,215,000	1,215,000
Exceptional compensation	-	-	-	-
Attendance fees	-	-	-	-
• o/w attendance fees paid by Valeo	-	-	-	-
• o/w attendance fees paid by controlled companies	-	-	-	-
Benefits in kind ⁽¹⁾	16,740	16,740	16,840	16,840
TOTAL	2,131,740	1,690,740	2,131,840	2,131,840

(1) Company car, annual contribution to the unemployment insurance fund for Company managers and annual contribution to pension fund.

Stock purchase or subscription options allotted to Jacques Aschenbroich during the year

Plan no. and date	Type of option (purchase/ subscription)	Value of options according to the method used for consolidated financial statements	Number of options allotted during the year	Strike price	Exercise period	Performance criteria
None	-	-	-	-	-	-

Stock purchase or subscription options exercised by Jacques Aschenbroich during the year

Plan no. and date	Number of options exercised during the year	Strike price
None	-	-

Performance shares allotted to Jacques Aschenbroich during the year

Performance shares allotted by the Shareholders' Meeting during the year to Jacques Aschenbroich by Valeo or any Group company	Plan no. and date	Number of shares allotted during the year	Value of shares according to the method used for consolidated financial statements	Vesting date	Shares available as at	Performance criteria
	03/27/2014	10,505	€900,000	03/27/2017	03/27/2019 ⁽¹⁾	⁽²⁾

(1) Obligation to hold at least 50% of the vested shares as registered shares until the end of his term of office.

(2) All performance shares allotted to the Chief Executive Officer are subject to the achievement of performance criteria. The performance criteria linked to the performance shares allotted to the Chief Executive Officer during 2014 are described in this section, page 110.

Performance share allotments that became available for trading for Jacques Aschenbroich

Plan no. and date	Number of share allotments that became available for trading during the year	Vesting requirements
06/24/2010	50,000	-

Compensation of corporate officers, directors and other Group executive managers

History of allotments of stock purchase or subscription options to Jacques Aschenbroich – information concerning stock purchase or subscription options (at December 31, 2014)

Date of Shareholders' Meeting	06/03/2010	06/08/2011	06/08/2011	06/04/2012	06/04/2012
Date of Board meeting	06/24/2010	06/08/2011	03/27/2012	03/27/2013 ⁽³⁾	03/27/2014 ⁽⁴⁾
Total number of shares that can be purchased	1,000,000	292,840	367,160	-	-
Start of exercise period	06/24/2012	06/08/2014	03/27/2015	-	-
Expiration date	06/23/2018	06/07/2019	03/26/2020	-	-
Purchase price ⁽¹⁾	€24.07	€42.41	€40.78	-	-
Number of options conditionally allotted to Jacques Aschenbroich ⁽²⁾	100,000	30,300	35,300	-	-
Performance criteria – rate of achievement	100%	60%	100%	-	-
Total number of shares that can be purchased by Jacques Aschenbroich	100,000	18,180	35,300	-	-
Number of shares purchased	0	0	0	-	-
Number of stock purchase options and stock subscription options canceled or forfeited (cumulative)	148,362	126,190	34,150	-	-
Stock purchase options and stock subscription options remaining at year-end	366,594	143,595	331,810	-	-

(1) Equal to the average share price over the 20 trading days preceding the Board of Directors' meeting granting the options, which is 80% higher than the average purchase price of shares held by Valeo under Articles L.225-108 and L.225-109 of the French Commercial Code.

(2) All stock purchase options allotted to the Chief Executive Officer are subject to the achievement of performance criteria.

(3) At its meeting on March 27, 2013, the Board decided not to allot any stock options.

(4) At its meeting on March 27, 2014, the Board decided not to allot any stock options.

History of allotments of free shares to Jacques Aschenbroich – information concerning free shares allotted

Date of Shareholders' Meeting	06/03/2010	06/08/2011	06/08/2011	06/04/2012	06/04/2012
Date of Board meeting	06/24/2010	06/08/2011	03/27/2012	03/27/2013	03/27/2014
Total number of free shares allotted	400,000	326,860	213,140	473,814	323,480
Vesting date of shares	06/24/2012	06/08/2014	03/27/2015	03/27/2016	03/27/2017
End of holding period	06/24/2014	06/08/2016	03/27/2017	03/27/2018	03/27/2019
Number of shares conditionally allotted to Jacques Aschenbroich ⁽¹⁾	50,000	15,600	11,400	25,634	10,505
Performance criteria – rate of achievement	100%	60%	100%	-	-
Total number of shares purchased by Jacques Aschenbroich	50,000	9,360	11,400	-	-
Total number of shares canceled or forfeited	69,241	108,566	21,387	40,983	15,858
Free shares allotted remaining at year-end	0	91,727	191,081	432,831	307,622

(1) All performance shares allotted to the Chief Executive Officer are subject to the achievement of performance criteria. The performance criteria linked to the performance shares allotted to the Chief Executive Officer during 2013 and 2014 are described in this section, page 110.

Employment contract, supplementary pension plans and benefits

	Employment contract	Supplementary pension plans	Compensation or benefits owed or likely to be owed on termination or change of position	Payment relating to a non-competition clause
	No	Yes	Yes	Yes
Jacques Aschenbroich Chief Executive Officer First appointment: 03/20/2009 Start of current term of office: 06/08/2011 End of current term of office: Shareholders' Meeting called to approve the financial statements for the year ended 12/31/2014		The pension plan covering Jacques Aschenbroich is detailed in "Pension plan" on page 111. At December 31, 2014, the supplementary pension benefits of Jacques Aschenbroich represented 15% of his reference salary ⁽¹⁾ , and 1% of his variable reference compensation ⁽²⁾ , i.e., a yearly pension allowance of 144,121 euros.	For a description of these benefits, see "Termination benefits and non-competition payment" on page 112.	For a description of this benefit, see "Termination benefits and non-competition payment" on page 112.

(1) Jacques Aschenbroich's reference salary, which is the average of the last 36 months of fixed compensation and excludes the variable component and exceptional compensation, amounted to 900,000 euros at December 31, 2014.

(2) Jacques Aschenbroich's variable reference compensation, which is the average of the last 36 months of variable compensation received, amounted to 912,097 euros at December 31, 2014.

3.3.2 Compensation of non-executive corporate officers

Non-executive corporate officers receive attendance fees for their presence at Board and Committee meetings.

In accordance with the French Commercial Code and the internal procedures applicable to the Board of Directors and the Appointment, Compensation & Governance Committee, the Board of Directors has powers to decide how attendance fees should be allocated. It bases its decision on the rules recommended by the Appointment, Compensation & Governance Committee for allocating these attendance fees and the suggested amounts payable to each director, taking into account attendance rates at Board and Committee meetings.

The rules for allocating attendance fees to directors as approved and then modified by the Board of Directors at meetings held on July 27, 2010 and February 21, 2013, acting on the recommendation of the Appointment, Compensation & Governance Committee, are as follows: each director will receive a fixed annual fee of 22,000 euros per year and a variable fee of 2,200 euros per meeting attended; those who also sit on a Board Committee (other than the Committee Chairmen) will be paid an additional variable fee of 2,200 euros

per Committee meeting attended. The Chairman of the Audit & Risks Committee will be paid a supplementary fixed fee of 15,000 euros per year plus a variable fee of 2,200 euros per meeting attended; and each Committee Chairman (apart from the Chairman of the Audit & Risks Committee) will be paid a supplementary fixed fee of 12,000 euros per year and a variable fee of 2,200 euros per meeting attended. These payments are not capped; however if the budget of 700,000 euros approved by the Shareholders' Meeting on May 21, 2014 in its tenth resolution is exceeded in any one year, the following formula is applied: (fees paid to an individual director divided by total fees paid to all directors) multiplied by 700,000 euros.

Based on the new budget for directors' attendance fees passed by shareholders at the Shareholders' Meeting on May 21, 2014, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided on July 24, 2014 to increase the variable portion received by directors and to keep the fixed portion unchanged. Since that date, the variable portion paid to directors attending Board and Committee meetings increased from 2,200 euros to 2,700 euros per meeting attended.

Compensation of corporate officers, directors and other Group executive managers

Attendance fees are paid every six months, according to the following attendance rules:

- the fixed portion is paid in full; and
- the variable portion is paid based on the number of meetings that the director has actually attended.

Apart from Pascal Colombani and Jacques Aschenbroich, no Board member was paid any other compensation or benefits by the Company during the year. No director was granted stock

purchase or subscription options or performance shares. No director holds any stock purchase or subscription options. No director was assigned a specific task by the Board of Directors. Consequently, no fee was paid in return for the performance of a task of this kind.

The amount of attendance fees paid to each director in 2014 is outlined in the table below.

Summary of attendance fees and other compensation paid to corporate officers

Attendance fees paid to Board members amounted to 555,400 euros in 2014, compared with 490,000 euros in 2013. Attendance fees were distributed as follows:

(in euros)	Attendance fees		Other compensation (fixed, variable or exceptional compensation, benefits in kind)	
	2013	2014	2013	2014
Executive corporate officers				
Pascal Colombani	-	-	300,000	300,000
Jacques Aschenbroich	-	-	1,690,740	2,131,840
Non-executive corporate officers				
G�rard Blanc	43,600	47,700	-	-
Daniel Camus	56,600 ⁽¹⁾	67,600 ⁽¹⁾	-	-
J�r�me Contamine	55,400	52,100	-	-
Sophie Dutordoir	19,800 ⁽²⁾	45,000 ⁽²⁾	-	-
Michel de Fabiani	45,800	64,100	-	-
Michael Jay	43,400 ⁽³⁾	50,400 ⁽³⁾	-	-
No�lle Lenoir	45,600	52,600	-	-
Thierry Moulonguet	50,200	54,300	-	-
Georges Pauget	64,600	71,200	-	-
Ulrike Steinhorst	43,400	50,400	-	-
Helle Kristoffersen	21,600	-	-	-
TOTAL	490,000	555,400	1,990,740	2,431,840

(1) The amount corresponds to the gross amount of attendance fees subject to a 30% withholding tax, as Daniel Camus is not a French resident.

(2) The amount corresponds to the gross amount of attendance fees subject to a 30% withholding tax, as Sophie Dutordoir is not a French resident.

(3) The amount corresponds to the gross amount of attendance fees subject to a 30% withholding tax, as Michael Jay is not a French resident.

3.3.3 Overall compensation of other Group executive managers

The other executive managers are members of the Operations Committee, which at December 31, 2014 was made up of 14 members and the Chief Executive Officer. The total gross compensation paid to the members of the Operations Committee (excluding the Chief Executive Officer but including one member who joined the Committee mid-October 2014, in view of replacing Alain Marmugi as of January 1, 2015 as Head of the Thermal Systems Business Group) came to 10,601,994 euros in 2014 (compared with 7,785,629 euros in 2013), of which 6,448,727 euros in fixed compensation, 3,628,342 euros in variable compensation, 93,278 euros in benefits in kind, 12,504 euros in profit-sharing and incentive compensation bonuses, and 419,143 euros in retirement benefits.

At its meeting on March 27, 2014, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided not to allot stock purchase options in 2014 and only to allot free shares or performance shares to employees and corporate officers under the terms and conditions adopted by the Board of Directors at its meeting on March 27, 2012 and disclosed to shareholders in the Board of Directors' report on the resolutions presented at the Shareholders' Meeting on June 4, 2012. The Board of Directors therefore decided to allot 323,480 free shares or existing performance shares to employees and corporate officers, of which:

- 31,950 performance shares to the Operations Committee members (excluding Jacques Aschenbroich);
- 19,245 performance shares to the Liaison Committee members (other than the Operations Committee members);
- 87,780 free shares or performance shares to the main direct reports of the Liaison Committee members; and
- up to 174,000 free shares to the Group French companies' employees, the allotment of such shares not being subject to performance criteria.

In accordance with the principles adopted by the Board of Directors at its meeting on March 27, 2014 and acting on the recommendation of the Appointment, Compensation & Governance Committee, all the performance shares allotted to the Operations Committee members (excluding Jacques Aschenbroich) are subject to the same performance criteria as the performance shares allotted to the Chief Executive Officer by the Board of Directors on the same day (described in "Stock purchase options and performance shares", section 3.3.1, page 110).

All the performance shares allotted to the members of the Operations Committee are conditional upon the achievement of performance criteria measured over the 2014, 2015 and 2016 fiscal years. These criteria are (i) an average pre-tax return on assets (ROA) ratio over the period equal to or greater than 12.5%, and (ii) an operating margin ratio and a return on capital employed (ROCE) ratio such that the average over the three years of the reference period, of the ratio between the actual return achieved and the target return that will be set by the Board at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one. The following scale then applies:

- if all three criteria for fiscal years 2014, 2015 and 2016 are met, all the performance shares initially allotted will vest;
- if two of the three criteria for fiscal years 2014, 2015 and 2016 are met, only 60% of the performance shares initially allotted will vest and the remainder will be forfeited;
- if only one of the three criteria for fiscal years 2014, 2015 and 2016 is met, only 30% of the performance shares initially allotted will vest and the remainder will be forfeited;
- if none of the three criteria for fiscal years 2014, 2015 and 2016 is met, none of the performance shares initially allotted will vest and all of the performance shares will be canceled.

In accordance with the principles adopted by the Board of Directors at its meeting on March 27, 2014 and acting on the recommendation of the Appointment, Compensation & Governance Committee, 100% of the performance shares allotted to the Liaison Committee members (other than the Operations Committee members) and 50% of the performance shares allotted to the main direct reports of the Liaison Committee members are conditional upon the achievement of two performance targets: an operating margin ratio and a return on capital employed (ROCE) ratio such that the average over the three years of the reference period, of the ratio between the actual return achieved and the target return that will be set by the Board at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one. The following rule applies to allotments subject to performance criteria:

- if both criteria are met for fiscal years 2014, 2015 and 2016, all the performance shares initially allotted will vest;
- if only one of the two criteria is met for fiscal years 2014, 2015 and 2016, 50% of performance shares initially allotted will vest and the remainder will be forfeited;
- if neither of the two criteria is met for fiscal years 2014, 2015 and 2016, no performance shares initially allotted will vest and all the performance shares will be canceled.

For beneficiaries of performance shares, except non-French tax residents, the performance shares will vest after the expiration of a three-year vesting period and are then subject to a two-year holding period. For beneficiaries who are non-French tax residents, the performance shares will vest after the expiration of a five-year period with no holding period requirement.

Free shares that are not subject to performance criteria will vest after the expiration of a three-year vesting period, and the beneficiaries must hold the shares for a two-year period; however, this holding period will be three years for beneficiaries who are Italian and Spanish tax residents, and the vesting period is five years for beneficiaries who are tax residents of other countries. In exchange, they are exempt from the minimum holding period.

All performance shares will be allotted to such employees and corporate officers provided that (i) the beneficiary's employment contract is still valid, (ii) the beneficiary's term of office has not expired, and (iii) the vesting date does not fall during the notice period following the beneficiary's resignation, dismissal or contract termination, unless provided otherwise (such as in the case of death, total and permanent disability, retirement, early retirement, the sale of the beneficiary's entity, or the Board of Directors' discretionary decision).

The free shares or performance shares allotted to employees and corporate officers (including Jacques Aschenbroich) during 2014 had a limited dilutive impact and represented 0.41% of the Company's share capital at December 31, 2014. All the shares to which the stock purchase options give access and the free shares or performance shares allotted to employees and corporate officers, including Jacques Aschenbroich, since 2010, represented respectively 2.09% and 2.19% of the Company's share capital at December 31, 2014.

At its meeting on October 20, 2009, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to implement a new supplementary pension plan to replace the existing plans for Group executives in office at the date the new plan is implemented, including Jacques Aschenbroich. Entitlements under the old plan were frozen at December 31, 2009.

The main characteristics of the new supplementary pension plan are as follows:

- cap due to the nature of the plan: additional pension of 1% of the reference salary per year of service, starting on the employment date with the Group for the new beneficiaries of the plan and starting on January 1, 2010 for the beneficiaries of the previous plans whose entitlements were frozen at December 31, 2009, up to a maximum of 20%;
- cap on the basis for determining entitlements: total pension entitlements, all plans combined, are capped at 55% of the reference salary based exclusively on the fixed salary.

The reference salary is the average of the last 36 months of basic fixed compensation and excludes the variable component and exceptional compensation. Valeo, or one of its subsidiaries must be the beneficiary's last employer before settlement of the pension entitlements, but the beneficiary does not need to be present in the Group at the time of the settlement. Jacques Aschenbroich was credited with five years of service upon taking up his tenure (see "Pension plan", section 3.3.1, page 111).

At its meeting on February 21, 2012, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to amend the supplementary pension plan by including the payment of benefits to the surviving beneficiary in the event of the death of an active contributor if the event occurs after the legal voluntary retirement age.

Lastly, at its meeting on January 23, 2014, acting on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors decided to adjust the supplementary pension plan to bring it in line with market practices. This adjustment, which will not have retroactive effect, involves taking into account in the reference salary (calculated using an average of the last three years) the fixed compensation and the portion of variable compensation actually paid for the periods after February 1, 2014. The supplementary pension remains capped at 20% of the reference salary, which complies with and is even lower than the maximum percentage recommended by the AFEP-MEDEF Code that establishes a maximum percentage of 45% of the fixed and variable compensation due in the reference period. All the Group's senior executives benefited from this adjustment.

3.3.4 Information about stock purchase or subscription options and performance shares

The stock purchase or subscription option and performance share allotment policy is set out in section 3.2.5 of this Chapter, page 102, and in section 3.3.1, pages 106 to 117 regarding the allotments to executive corporate officers, as well as in

section 3.3.3, pages 120 and 121 and in this section regarding allotments to other beneficiaries. The stock purchase options and allocation of free shares are also detailed in Chapter 6, section 6.6.3, pages 358 to 361.

Stock purchase or subscription options allotted and exercised during the year

Stock purchase or subscription options allotted to the ten employees receiving the greatest number of options and options exercised by the ten employees exercising the greatest number of options, excluding corporate officers	Number of options allotted/exercised	Weighted average strike price	Expiration date	Date of Board meeting
Options allotted in 2014 by Valeo and/or other Group companies to the ten employees of the issuer or other Group companies receiving the greatest number of options	-	-	-	-
Options exercised in 2014 by the ten employees of the issuer or other Group companies holding the greatest number of options	227,215	€31.16	11/19/2014 03/06/2015 11/14/2015 06/23/2018 06/07/2019	11/20/2006 03/07/2007 11/15/2007 06/24/2010 06/08/2011

Performance shares allotted during the year

Performance shares allotted to the ten employees receiving the greatest number of performance shares, excluding corporate officers	Number of performance shares allotted	Date of Board meeting
Performance shares allotted by Valeo to the ten employees of Valeo or related entities, as defined in Article L.225-197-2 of the French Commercial Code, who received the greatest number of such shares ⁽¹⁾	29,520	03/27/2014

(1) Valued at 85.67 euros on the grant date, under IFRS.

Pensions and other post-employment benefits and related provisions

At December 31, 2014, the total amount of provisions set aside by Valeo or its subsidiaries for the payment of pensions or other post-employment benefits to members of the Board of Directors and other executive managers of the Group came to 17 million euros (as opposed to 14 million euros at December 31, 2013).

At December 31, 2014, total provisions set aside and the total amount paid by Valeo or its subsidiaries for these benefits to former Board members or other executive managers of the Group came to, respectively, 2.7 million euros (as opposed to 1.8 million euros at December 31, 2013) and 110,816 euros (as opposed to 107,069 euros at December 31, 2013).

3.4 Internal control and risk management AFR

This report, like the reports from previous years, provides a general overview of the internal control and risk management procedures in place in accordance with the “reference framework” and the Application Guide set out in 2010

by the AMF (*Autorité des marchés financiers*). The Chairman tasked the Head of Audit and Internal Control with compiling the information presented in this report.

3.4.1 Internal control and risk management – Definitions and applicable standards

Definition

Internal control as defined by the Group is the process implemented by Management and employees to provide reasonable assurance regarding the due and proper management of operations with regard to the following objectives:

- reliability of financial and management data;
- compliance with applicable laws and regulations;
- implementation of guidelines and strategies set by General Management;
- adequate functioning of the Company’s internal processes, particularly processes to help safeguard its assets;
- risk management;
- effectiveness and efficiency of operations.

As with any control system, Valeo’s internal control procedures cannot provide an absolute assurance that the Group’s objectives will be achieved and that certain risks will be prevented from materializing. The purpose of the system put in place by Valeo is to reduce the probability of incidents occurring and their potential impact.

Applicable standards

Valeo has adopted a definition of internal control in line with the international standards provided by the Committee of Sponsoring Organization of the Treadway Commission (COSO), the findings of which were published in 1992 in the United States. There are no significant discrepancies between Valeo’s internal control organization and the procedures and principles described in the reference control framework and the Application Guide set out by the AMF (*Autorité des marchés financiers*).

3.4.2 Scope of internal control and risk management

Valeo’s internal control and risk management procedures are applied to the entire Valeo Group, defined as the parent company Valeo and all of its fully consolidated subsidiaries pursuant to the global integration method.

3.4.3 Components of the Valeo Group’s internal control and risk management systems

Valeo’s internal control procedures are based on the five components defined in the COSO framework:

Further to the publication, in February 2013, of an update to the COSO framework effective from December 2014, an analysis is in progress to assess the compliance of Valeo’s internal control system with the international framework’s new requirements, particularly in the following areas:

- strengthening middle-management’s role in implementing the internal control process;
- robustness of sub-contractors’ internal control systems for outsourced services;
- procedures implemented to prevent, detect and deal with fraud.

Control environment

The control environment sets the tone of an organization, influencing the level of awareness of its employees to the need for controls within the Group.

Valeo's internal control system is organized around a multi-tier operational structure: General Management, Group functional departments, Business Groups/Product Groups, National Directorates and operational entities. General Management sets strategic guidelines, arbitrates the allocation of resources to the Business Groups/Product Groups, and develops synergies between Business Groups through functional networks and National Directorates. The Business Groups/Product Groups and the National Directorates control the performance of the operational entities and play a key role of coordination and support between the entities, notably with regard to the pooling of resources, the allocation of R&D expenditure and the optimization of production among the different industrial plants. Each level is directly involved in implementing the internal control system. For this purpose, the Group has established operating principles and rules with appropriate delegation of powers, starting with those of the Chief Executive Officer, which precisely define the areas and levels of decision-making and control for each operational manager.

Valeo's policies and behavioral principles are set out in a Code of Ethics, which aims to ensure that Valeo operates in accordance with national and international rules of ethics and law. The Code places major emphasis on upholding fundamental rights with respect to the prohibition of child labor, employment of disabled workers, the fight against discrimination and harassment, and occupational health and safety. It also highlights the Group's commitment to sustainable development, based on respect for the environment and the relentless drive for environmental protection, both of which are a priority for the Group. Finally, the Code of Ethics deals with societal aspects and business conduct. Available on the intranet and translated into 19 languages, the Code has been sent out to all of the Group's employees.

Capitalizing on its Code of Ethics and its culture of integrity, the Group has implemented a compliance initiative since 2012 under the aegis of the Ethics and Compliance Department, which created a program to fight corruption and anti-competitive practices. This program is both in-depth and specific, and is adapted to the regulatory constraints and the culture of the countries where Valeo operates.

Risk management assessment and procedures

Internal control procedures concern the ongoing identification and analysis of risks that may impact the objectives set by the Group, forming a basis for determining how those risks should be managed. By identifying possible risk factors, the Group can more accurately define what control activities are appropriate. This process involves risk mapping used to identify, review and monitor major risks. These risks are analyzed in depth and are rated according to a matrix that takes into account their potential impact, likelihood of occurrence and associated level of control in order to determine the degree of exposure.

Risk management procedures are coordinated by a Risk Committee made up of nine permanent members: the Directors of the Operations, Finance, Risk Insurance Environment, Accounting, Audit and Internal Control, Corporate Strategy and Planning, Ethics and Compliance, Human Resources and Legal Departments. This Committee met six times in 2014 and is mainly tasked with reviewing the risk mapping process and overseeing the dynamic system for risk management. This involves identifying for each major risk in the mapping process a "risk owner" who reports to a member of the Risk Committee, whose role is to monitor the changes in the risk based on key indicators reviewed by the Risk Committee. Based on the changes in the risk and the related control system, each risk owner presents an analysis of the level of risk giving rise to the implementation of action plans when necessary.

The Business Groups and National Directorates also monitor risks in order to contribute to the dynamic risk management implemented by the Risk Committee. Along with the functional networks, the Business Groups and National Directorates are responsible for assessing and managing risks within their remit, and for ensuring compliance with local regulatory requirements. They are also responsible for ensuring that the guidelines and recommendations defined at Group level are properly applied throughout their operational entities.

Risk mapping gives rise to an annual update approved by the Risk Committee, based on a detailed analysis of the major risks and monitoring carried out by the risk owners. The findings of the latest update were presented to the Audit & Risks Committee at its meeting on November 18, 2014. A two-year audit plan was drawn up on the basis of these findings, with a focus on the most acute risk areas.

The main risks identified and the procedures for managing these risks are presented in Chapter 2 "Risk factors". They are:

- operational risks, which include in particular risks relating to the automotive supply business, risks relating to the development of new products, supplier default risks, geopolitical risks and IT failure risks;
- environmental risks, industrial risks and risks related to natural disasters;
- legal risks, comprising notably risks relating to intellectual property, risks relating to products and services sold, risks of non-compliance with law or the Code of Ethics, and risks relating to ongoing claims, litigation, and governmental, legal or arbitration proceedings;
- financial risks, which include liquidity risk, risk related to commodities, foreign exchange risk, interest rate risk, bank counterparty risk, equities risk and customer credit risk.

Control activities

Control activities are the policies and procedures that help ensure that General Management directives are carried out. They are performed throughout the organization, at all levels and in all functions with the aim of mitigating the risks described above.

The Group has a Financial and Administrative Manual that contains all the financial and management procedures. It is used throughout the Company on a daily basis. The Financial and Administrative Manual has two main parts:

- part one concerns the rules governing management and internal control;
- part two determines how the main items of the balance sheet and income statement should be measured and presented.

Every year, letters of representation regarding compliance with the Group's internal control and management guidelines are drawn up within the different levels of the operational organization. At the end of 2014, the National Directors and National Financial Directors, the Financial Directors of the shared services centers, as well as the Financial Directors and Controllers of the operational entities had all signed these letters of representation.

In addition to the Financial and Administrative Manual, the functional departments have drawn up special rules and procedures that are consistent with financial and management standards:

- the Constant Innovation Charter, which provides a precise definition of the management principles applicable to development projects;
- marketing procedures and sales practices;
- human resources procedures;
- ethics and compliance rules that set down the principles that all the Group's employees must comply with while conducting business and completing work related to their position and level of responsibility;
- purchasing procedures that set down the Group's strategy and objectives for purchasing and its supply base, as well as the rules that buyers and all stakeholders must follow throughout the purchasing process;
- the Risk Management Manual on security, safety, health and the environment, as well as the Insurance Manual;
- legal procedures that set down the principles with which the Group must comply, mainly compliance with laws and regulations applicable in the countries where the Group operates, compliance with the Group's contractual obligations and rules protecting the Group's intellectual property.

Details of these rules and procedures can be consulted on the Group's intranet by the staff concerned.

As regards quality, Valeo has set its own standard – Valeo 5000. In addition, the QRQC (Quick Response Quality Control) method ensures the prompt implementation of corrective action, and the Lessons Learned Cards (LLC) process enables the Group to monitor best practices and explore avenues for improvement. These changes were incorporated into product standards and processes through the RAISE (Robustness Accountability Innovation Standardization Expertise) process.

For the past decade, the Group has organized Valeo Finance Academy seminars with the aim of developing internal control and financial management skills. By combining modules (on accounting, cash flow, management control and internal control) with case studies and simulations, these yearly training sessions help the Group's younger financial managers to get better acquainted with the methods and tools used in financial control.

Information and communication

Pertinent information must be identified and communicated in a form and time frame that enable all of the Group's staff to carry out their responsibilities and perform the controls required of them. The information originating from the management system is analyzed and distributed once a month to all operational personnel. A monthly summary is presented to the Group's Operations Committee, comprising the Chief Executive Officer, the Head of Operations and 12 other Functional or Operational Directors.

Steering the internal control system

The internal control system is jointly monitored and steered by General Management, the Risk Committee, the Audit and Internal Control Department with support from the functional departments, Management of the Business Groups/Product Groups and the National Directorates.

The internal control system is audited and implemented by the Audit and Internal Control Department. This Department is tasked with carrying out assignments within the Group to ensure that the procedures are implemented, the performance indicators are calculated in accordance with the rules of the business lines and the processes are effective. The tasks set out in the annual audit plan are set down based on the risk mapping process. For 2014, Internal Audit performed financial and IT audits of the operational entities and finance and accounting shared services centers as well as cross-functional audits examining Purchasing, the development process for R&D projects and the risks related to the volatility of raw material prices and foreign currency exchange rates.

In 2014, Internal Audit also performed approximately ten specific investigations following allegations of fraud received by email or letter (most of them anonymously) or via the

whistleblower hotline put in place in February 2014. The Alert Committee, made up of the Chief Financial Officer, the General Counsel, the Senior Vice President of Human Resources, the Chief Ethics and Compliance Officer and the Director of Internal Audit and Internal Control, was informed of the detailed findings of the investigations carried out by Internal Audit. An alerts report is also presented at least twice a year to the Audit & Risks Committee.

Recommendations for critical issues identified during the various assignments carried out by Internal Audit are put forward to the audited entities, which are subsequently required to implement appropriate action plans. Internal Audit's work and findings, as well as the progress made with the action plans in the audited entities, are presented to the Audit & Risks Committee every year in accordance with the Committee's internal procedures.

The application of Valeo's quality, industry, project management and safety standards is regularly checked via VAQ (Valeo Audit Quality) audits, and the environmental and safety aspects are overseen by the Risk Insurance Environment Department. Valeo has therefore launched a certification program for its manufacturing plants in accordance with the ISO 14001 standard (relating to environmental management) and the OHSAS 18001 standard (concerning occupational health and safety). At December 31, 2014, these two standards had been awarded to 121 and 115 plants respectively, out of a total of 128 plants. The percentage of ISO 14001 and OHSAS 18001 certified plants is therefore 95% and 90%, respectively.

In 2013, Valeo launched a certification program for its manufacturing plants in accordance with the ISO 50001 standard (relating to energy management systems). At December 31, 2014, seven plants (5%) were ISO 50001 certified out of a total of 128 sites.

3.4.4 Organization of internal control and description of the assessment process

The Internal Control Department was set up at the end of December 2014 to report directly to the Audit and Internal Control Department. It is made up of a team of seven persons, exclusively dedicated to internal control at Group and regional levels. In 2014, the department was further developed with the appointment of a Group Internal Control Director. The Director's main responsibilities are to coordinate the network of internal controllers, oversee the internal control self-assessment

campaign and ensure best practices are applied uniformly across the regions with the support of the Business Groups and National Directorates.

The Group has developed a self-assessment process based on a questionnaire in order to measure and assess the relevance and correct implementation of existing internal control procedures throughout all of its entities.

To assess entities' compliance with the internal control system, the Group used the following two initiatives in 2014:

- 1) Launching the internal control "action plans" campaign conducted in 40 management entities based on two criteria: sales and the rate of compliance based on the self-assessment campaign in 2013. The goal of this specific campaign, which started in 2013, was to ensure that the major action plans identified to make the level of internal control more reliable were implemented in the entities concerned.
- 2) Rollout of a self-assessment questionnaire that focuses on the following seven processes: accounts closing procedures; sales, receivables management and payments received; purchases, payables management and payments made; monitoring of fixed assets; monitoring of inventories; payroll and human resources; cash flow. The self-assessment campaign involved 184 operational entities including 23 finance shared services centers.

Rules relating to documentation and testing (size of the sample used) are set out so as to ensure reliability and uniformity of the tests carried out in the entities. A special database of internal control best practices has been posted on the Group's intranet.

A report of the two initiatives implemented in 2014 was presented to the Audit & Risks Committee on November 18, 2014. The results highlight a certain disparity between the regions and the need for the Group to support growth in emerging countries through training initiatives on the Group's internal control standards. The results were also provided to the Business Groups and National Directorates, which are responsible for implementing the action plans.

The areas for improvement for the Group's internal control and risk management procedures are presented in section 3.4.6 "Outlook", page 128.

In addition to the internal control self-assessment and the implementation of action plans, Valeo has rolled out a procedure aimed at reviewing user profiles and access controls for the integrated business software package used within most of the Group's entities. The aim of this process is to establish consistent internal control practices across all operational entities and shared services centers. Using matrices that show incompatibilities for each of the processes, optimized standard user profiles have been identified. Whenever the software package is deployed for the first time, the Internal Audit team provides manuals and tracks incompatibility matrices, in liaison with the entities concerned.

3.4.5 Procedures for preparing and processing financial and accounting information for the financial statements of the Company and the Group

The Finance Department is responsible for preparing the parent company and the consolidated financial statements, and reports to the Chief Executive Officer. The budget and monthly reporting procedure is a critical tool for Valeo in managing its operations. The same information system is used for the consolidation and reporting processes, thus ensuring that the Group has constant control over the preparation and processing of financial information.

The Finance Department is in charge of the internal control procedures pertaining to the preparation and processing of financial information. Production and analysis of this information is handled as follows:

- the Group Accounting Department prepares and disseminates the accounting procedures used by the Group, making sure they are consistent with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The Accounting Department, along with the Management Control Department, carries out regular checks to ensure that operations have been correctly recorded in the accounting books;
- the Consolidation Department (within the Group Accounting Department) is responsible for preparing half-yearly and annual consolidated financial statements under IFRS. Each half-yearly and annual report includes for each legal entity

complete financial statements, drawn up on the basis of detailed period-end closing instructions, which include the close schedule, changes in the scope of consolidation, classification of and movements in the main balance sheet items, the process for reconciling inter-company transactions within the Group, and the supervision of off-balance sheet commitments, the entities being required to provide an exhaustive list of their commitments and also to monitor them;

- based on detailed monthly information for each management entity, the Management Control Department assesses the economic performance of the Group, analyzes the

relevance of reported information, and prepares a summary of management indicators for General Management. Its analyses focus on sales and the order book, analyses of margins and of EBITDA⁽¹⁾ by Business Groups/Product Groups and geographic areas;

- the Taxation Department coordinates the Group's tax policy and advises the legal entities, National Directorates and, where necessary, Business Groups/Product Groups on all issues relating to tax law and also on the implementation of the tax consolidation system within certain countries.

3.4.6 Outlook

The Group will pursue ongoing efforts to improve the identification and analysis of risks, and its internal control system. The purpose of these efforts, in place for several years now, is to constantly adapt human resources, management and control tools and information systems in line with changes in the Group's structure and objectives. In 2015, the Group will continue to develop its network of internal controllers in each geographic area to support the deployment of an internal control system and the implementation of appropriate action plans in the regions. Furthermore, work on the impacts of the new requirements of the COSO 2013 Framework will continue, and Valeo's internal control systems will be adapted as and when necessary.

The Group's aim is to develop pertinent and effective internal controls at each level of responsibility, based on:

- an appropriate control environment;
- the accountability of all parties involved, and particularly operational staff key to the internal control processes and responsible for driving forward ongoing internal control improvements;
- consideration of the cost of implementing internal controls with regard to the level of risk exposure.

This approach is actively supported by the Group's General Management.

3.5 Statutory Auditors' report, prepared in accordance with Article L.225-235 of the French Commercial Code, on the report prepared by the Chairman of the Board of Directors of Valeo AFR

Year ended December 31, 2014

This is a free translation into English of the Statutory Auditors' special report on the report prepared by the Chairman of the Board of Directors of Valeo issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Valeo and in accordance with Article L.225-235 of the French Commercial Code (*Code de commerce*), we hereby report on the report prepared by the Chairman of your company in accordance with Article L.225-37 of the French Commercial Code for the year ended December 31, 2014.

It is the Chairman's responsibility to prepare and submit for the Board of Directors' approval a report on internal control and risk management procedures implemented by the Company and to provide the other information required by Article L.225-37 of the French Commercial Code relating to matters such as corporate governance.

Our role is to:

- report on any matters as to the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information; and
- confirm that the report also includes the other information required by Article L.225-37 of the French Commercial Code. It should be noted that our role is not to verify the fairness of this other information.

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

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consist mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and of the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our work are properly disclosed in the Chairman's report.

On the basis of our work, we have no matters to report on the information relating to the Company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with Article L.225-37 of the French Commercial Code.

Other information

We confirm that the report prepared by the Chairman of the Board of Directors also contains the other information required by Article L.225-37 of the French Commercial Code.

Courbevoie and Paris-La Défense, February 24, 2015

The Statutory Auditors

MAZARS

Gaël Lamant

Lionel Gotlib

ERNST & YOUNG et Autres

Philippe Berteaux

Gilles Puissochet



Valeo's employees are the Group's most important resource.

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4.1 Sustainable development policy: acting for sustainable growth

As a global tier-one⁽¹⁾ economic and industrial player operating exclusively as an automotive supplier, Valeo sees sustainable development as a very broad concept spanning its actions in terms of innovation, environmental, labor and social responsibility, corporate citizenship, ethics and compliance.

In 2014, Valeo continuously reinforced its sustainable development policy, which is built on seven pillars:

- eco-responsible, low-carbon and sustainable innovation in research, methodology, products and solutions;
- environmentally-efficient industrial processes;
- workplace health and safety;

- human capital development;
- sustainable development principles applied in purchasing policy;
- ethics and compliance; and
- contribution of the Group's sites on social issues.

Valeo builds its sustainable development policy on these seven pillars, which cover its most material issues, combining them with objectives and key performance indicators and setting out the nature and specific characteristics of interactions with those liable to affect or be affected by the Group's action (stakeholders).

4.1.1 Valeo's sustainable development policy

Measuring the Group's overall sustainable development performance

Committed to a strategy of sustainable growth based on sustainable mobility, environmental, labor and social responsibility as an organization, and business conduct consistent with competition law and the fight against corruption, Valeo has formalized its sustainable development policy and put in place tools used to measure performance.

Measuring progress for each pillar involves identifying a major challenge, measuring the achievement of the associated targets via one or more key performance indicators. The performance charts below set out the Group's various challenges, objectives and key performance indicators.

The targets correspond to its priorities. In 2014, they were formalized by means of a collaborative approach taken in conjunction with the management of the Group's divisions concerned. For the "environmentally-efficient industrial processes" pillar, targets were set in 2013 as part of a three-year plan, with the reference being the Group's 2012 results obtained in this area.

⁽¹⁾ The tier corresponds to the automotive supplier's position relative to the automakers, thus a tier-one supplier delivers directly to the automaker and a tier-two supplier delivers to the tier-one automotive supplier.

Performance chart showing the objectives and key performance indicators of the Group's sustainable development policy

Pillars	Challenges	Objectives	Performance indicators
Eco-responsible, low-carbon and sustainable innovation in research, methodology, products and solutions	Build a growth strategy based on innovative technologies for: - CO₂ emissions reduction and improved vehicle performance - intuitive driving (connected, automated and human-machine interfaces)	- Develop CO₂ emissions reduction and improved vehicle performance as well as intuitive driving technologies - Promote open innovation⁽¹⁾	- Net research and development expenditure (as a % of sales) - R&D headcount - Number of customer projects managed - Number of collaborative projects - Number of patents filed - Proportion of innovation in the order intake
Eco-efficient industrial processes	Pursue the process of certification of management systems in order to meet its commitment to reduce its environmental impacts and improve health and safety conditions for its employees	Move towards the achievement of 2015 targets (from the 2012 base): 10% reduction in water consumption 10% reduction in energy consumption 7% reduction in packaging materials consumption 7% reduction in the production of hazardous and non-hazardous waste 10% reduction in direct and indirect GHG emissions⁽¹⁾ 100% ISO 14001⁽¹⁾ and ISO 18001⁽¹⁾ certification and 10 % ISO 5001⁽¹⁾ certification of sites	- Water consumption - Energy consumption - Packaging materials consumption - Reduction in the production of hazardous and non-hazardous waste - Reduction of direct and indirect greenhouse gas emissions (Scope 1 and Scope 2) - ISO 14001, ISO 18001 and ISO 50001 certification
Workplace health and safety	Ensure the health and safety of employees, from the outset of new productive investments, and throughout their careers	Promote workplace health and safety conditions consistent with the goal of "zero accidents"	- Frequency rate of occupational accidents - Severity rate of occupational accidents - Percentage of training hours devoted to health and safety - Percentage of countries that have implemented a questionnaire to measure the perceived well-being of staff at work
Human capital development	Improve the working conditions of employees, particularly in respect of well-being at work, promote diversity, encourage training and forge relations with staff representatives	- Support the growth of the Group internationally (especially in emerging markets) - Make CSR central to stakeholder dialog (particularly between management and employee representatives) - Enhance employee satisfaction	- Proportion of women engineers and managers hired - Percentage of countries that have fully implemented the Well-Being at Work strategy - Rate of absenteeism - Number of training hours provided - Percentage of employees registered as disabled (relative to the total population of a country)
Sustainable development principles applied in purchasing policy	Include Valeo's sustainable development principles in the purchasing policy	Extend and reinforce the application of sustainable development criteria by suppliers	Percentage of suppliers of production purchases (in relation to consolidated sales) to have participated in the assessment (selected panel)
Ethics and compliance	Facilitate the understanding and application of a clear set of internal rules that prohibit illegal practices and lay down conditions and prerequisites governing certain business relationships and cooperative arrangements	Continue to provide all employees with guidelines enabling them to know how to recognize a non-compliance risk so as to make the right decision in the interests of the Group	Percentage of target population trained in Ethics and Compliance over the year
Contribution of the Group's sites on social issues	Ensure positive development interaction between the Group and its local ecosystem	- Be a responsible industrial player with regard to labor and social issues - Ensure that sites have the appropriate interaction with their economic, social and societal environments	- Quality of voluntary measures taken by industrial plants - Quality of institutional relations with various national stakeholders, both in Europe and internationally

⁽¹⁾ See Sustainable Development Glossary, page 386.

Responsible development indicators measured using specific collection tools

For a long time the Group has been using tools to measure its progress in the field of environmental, labor and social responsibility. Its results and the indicators monitored over many years in the field of sustainable development are provided throughout Chapter 4.

In an effort to continuously assess and modernize its initiative, the Human Resources and Sustainable Development Departments implemented an annual reporting tool in 2008 to track labor-related, corporate citizenship and environmental performance at Valeo's various plants (Plants' Initiatives). Following its redesign in 2013, this tool was further updated and improved in 2014 in line with Valeo's sustainable development requirements. Sent to all Heads of Human Resources operating in the 133 Group sites, this questionnaire principally generates valuable data on the implementation at the local level of the Group's framework agreements on human resources policy.

The Group obtained 100% feedback from its sites this year, as in the previous year. The commitment of the Group's 133 sites to take action and to assess their impacts on local populations made it possible to measure the encouraging progress made on specific issues, as described in sections 4.4, "Labor-related indicators", page 172, and 4.5, "Commitment to corporate citizenship" page 203. Internally, the questionnaire aims to promote new initiatives at the various sites. The publication of an internal document summarizing all good practices and the results of the Plants' Initiatives questionnaire is scheduled for 2015. It will give the employees of the various sites a comprehensive overview of the results by geographic area.

In the interests of transparency, the methodology of environmental, labor and social reporting is set out in the methodology section (see section 4.6.1, "Sustainable development reporting methodology"). The validity of this methodology, its completeness and the sincerity of the data are audited by an independent third party, whose report appears on pages 226 to 228⁽¹⁾.

To make the report easier to understand and to show the Group's sustainable development accomplishments within the broader framework of major international standards in the field, the core Global Reporting Initiative indicators (GRI 3.1.)⁽²⁾ are identified in this report by a green box, and additional GRI indicators by a gray box. A cross-reference table with the Global Reporting Initiative (GRI 3.1.) is provided on pages 217 to 222.

The organization of sustainable development at Valeo

The External Relations and Sustainable Development Department plays the role of pilot and coordinator for the Group's various networks and departments. Thus, the External Relations and Sustainable Development, Human Resources, Risk Insurance Environment, and Ethics and Compliance Departments implement policies that contribute to the improvement of labor, environmental and social issues, the results of which are set out in this chapter. The R&D Department and operational management (the Purchasing, Quality, Industrial and Logistics functions) support and enable the deployment of the sustainable development pillars within the Group.

Sustainable development within the Group relies on a process of multi-stakeholder dialog with internal and external stakeholders.

4.1.2 A sustainable development policy based on strong relationships with stakeholders

A multi-stakeholder approach

Valeo is part of a competitive economic, industrial and social whole. With its innovative and responsible approach to the automotive industry, the Group maintains relationships with the different stakeholder groups involved at all stages of the production process. This includes the design (research centers, universities and engineers), production (suppliers and employees) and sales (automakers and distribution networks) stages for the original equipment and aftermarket segments.

For 2014, Valeo offers a more detailed picture of its sustainable development policy on the basis of analysis of its relationships with stakeholders, setting out the type of stakeholder and the objectives and form of dialog. The presentation in the table below underscores the Group's responsible approach, reflecting change in the automotive industry, demand from stakeholders and the Group's determination to meet the highest expectations laid down in the major international standards in this area.

(1) Pursuant to Article R.225-105-2 of the French Commercial Code (Code de commerce).

(2) See Sustainable Development Glossary, page 386.

Types of dialog with stakeholders

Stakeholder family	Stakeholders	Objective of dialog	Sample answers and types of dialog undertaken
R&D	- Research partners and subcontractors - Laboratories - Universities - Independent public organizations - Certification and control bodies	- Establish cooperative and industry-oriented R&D - Organize transfers/exchanges of expertise/knowledge and techniques	- Scientific events (conferences/congresses) - Partnerships with universities and competitiveness clusters - Organization of technology days - Technological platforms
Workplace	- Professional organizations - Administrative and governmental authorities - Employer representative bodies - Employee representative bodies and labor unions - Social security organizations	Ensure ongoing dialog with the leaders of various labor unions and professional organizations	- Collective bargaining - Dialog with labor unions and employer representative bodies - Annual survey of employee commitment - Diversity program - Well-Being at Work program
Customers	- Automakers - Distributors	Design, develop, manufacture and market innovative products/systems for sustainable mobility	- Technology steering committees - Customer meetings - Market trend studies
Partners	- Lessors/tenants - Suppliers - Innovative SMEs	Cooperate and co-construct in compliance with competition law	- Supplier Integration - Selection committees - Calls for tender - Working groups
Financial community	- Shareholders/investors - Financial and extra-financial rating agencies - Insurers - Banks - Statutory Auditors	Adopt a dialog-based approach building on the pertinence and transparency of information relating to the Group	- Annual Shareholders' Meeting - Dialog with financial and extra-financial rating agencies - Meetings with investors and analysts - Shareholders' letters - Presentation of financial results
Institutional	- Public authorities (states) - European Commission - International organizations (UN, FIT, IFC, OECD, etc.)	Conduct economic, industrial and social dialog in compliance with national and European laws and regulations	- Communication on Progress of the UN Global Compact (once every year) - Dialog with national authorities - Dialog with the European Commission
Local regions	- Local authorities - Local government - Associations - Civil society	Ensure positive development interaction between the Group and its local ecosystem	- Dialog with employment agencies - Dialog with local authorities - Dialog with local stakeholders (associations, NGOs, etc.)

Valeo, a key driver of a sustainable automotive industry

As a responsible player within the French automotive industry, Valeo is a contributor to the Automotive Suppliers' Modernization Fund (*Fonds de Modernisation des Equipementiers Automobiles* – FMEA), recently renamed Automotive Future Fund (*Automotive Future Fund*), dedicated to a selection of tier-two suppliers.

The Group, along with other major industry suppliers, is a key driver of tier-two, three and four suppliers⁽¹⁾, helping them consolidate their activities in France as well as in growing markets.

Placing great importance on its involvement in different consultation bodies in the automotive industry, Valeo actively participates in national, European and international working groups:

- in France, Valeo took part in creating the Automotive Industry Platform (*Plateforme de la Filière Automobile* – PFA), which works to improve customer-supplier relationships and in turn to better align research and production;

(1) The tier corresponds to the automotive supplier's position relative to the automakers, thus a tier-one supplier delivers directly to the automaker and a tier-two supplier delivers to the tier-one automotive supplier.

- in Europe, Valeo is involved in European collaborative and pre-competitive research through the European Road Transport Research Advisory Council (ERTRAC);
- in a global strategic framework, Valeo is also a member of the French-Chinese automotive industry working group coordinated by the two countries' respective ministries of industry;
- in the United States, Valeo works with research teams from the National Highway Traffic Safety Administration (NHTSA).

Valeo, a responsible partner

On own initiative in 2013, Valeo surveyed its suppliers with a view to gaining a better understanding of their sustainable development initiatives, based on economic (plant optimization), environmental (certification) and labor-related (labor law) criteria. This assessment involved work to identify and support suppliers in their sustainable development approach and their business relationships with the Group (see section 4.5.1, "Application of corporate social responsibility principles in purchasing processes", pages 203 to 208).

4.2 The R&D process at Valeo: from megatrends to innovation

Efficiently meeting current market demands, designing the automobile of tomorrow, anticipating users' future needs and creating new needs through innovation and technology are the fundamental principles of Valeo's R&D strategy.

The Group's key R&D performance indicators

	2013	2014	% change
Research and development expenditure, net (as a % of sales)	5.3% ⁽¹⁾	5.4%	+0.1 points
R&D headcount	9,200 ⁽¹⁾	10,400	+13%
Number of customer projects managed	2,200	2,300	+4%
Number of collaborative projects	>60	>50	N/A
Number of patents filed	786	1,108	+41%
Proportion of innovation in the order intake	30%	35%	+5 points

(1) 2013 data has been restated to reflect the impact of IFRS 11 on the scope of consolidation.

4.2.1 Valeo's vision and innovation policy

Guiding principles and megatrends in innovation policy

Innovation policy guidelines

To ensure that its products meet market expectations and anticipate future needs, Valeo bases its R&D policy on predefined and complementary criteria aimed at making it:

- **far-sighted:** through studies and analyses of major social trends, Valeo works on ten-year technological roadmaps. They allow it to anticipate future consumer demand and as such to establish the Group's key development thrusts;
- **integrated:** every innovation project is conceived and managed in response to "Megatrend" studies. New innovations factor in social benefits and eco-design criteria, reduce the vehicle's consumption of energy and raw materials, cut greenhouse gas emissions and offer tools helping to prevent accidents in the context of sustainable and safer mobility;

- **local:** trends and customer needs are studied from a local perspective. Accordingly, through the study of test groups of consumers, Valeo is able to adapt to the specific needs of certain markets (e.g., emerging markets) and to offer innovation that provides clear value added to its customers;
- **customer-centric:** Valeo conducts regular in-depth surveys of groups of consumers to gauge the future consumption patterns of its end customers. In analyzing the results, the Group determines areas of work permitting these changes in society to be anticipated, thereby allowing it to respond to future demand;
- **collaborative:** Valeo develops collaborative solutions with numerous actors. It focuses on multi-party development programs that enable the sharing of expertise, reduced development costs and greater involvement of its technical teams through partnerships with other players in the automotive industry, with universities and research centers, within public/private partnerships or as part of European or French research programs.

Through this all-encompassing strategy, Valeo aims to be a catalyzer, fostering the emergence of innovative technological solutions within its value chain.

Megatrends and the vehicle of tomorrow

Global trends indicate that the world population is set to grow, age, migrate, have a larger proportion of women, become more urban and see the emergence of new working conditions. Analysis of these upcoming trends informs Valeo's future strategy. It allows the Group to anticipate structural change in the sector and to develop its ability to respond to this change.

Urban mobility is also set to change in the coming years. Vehicles will be used differently (frequency, distance, travel range, sharing), leading to different forms of user interaction with the vehicles of tomorrow.

Other factors must also be taken into account, such as new and more stringent legislative requirements worldwide (European standards: emissions capped at 95 g of CO₂/km by 2021, improved Euro NCAP safety⁽¹⁾).

These analyses have allowed Valeo to identify several objectives for the future of the automobile:

- **reduction of greenhouse gas emissions and pollution.** Valeo is a leading automotive supplier in technologies that reduce CO₂ emissions. With its broad portfolio of innovative products, it is an essential partner for automakers. The CO₂ emissions quota of 95 g of CO₂/km imposed by the European

Commission by 2021 will be a catalyst. Automakers are increasingly keen to adopt these technologies in order to comply with future legislation and avoid financial penalties for non-compliance. Moreover, in the major industrialized economies, particularly in North America and the European Union, standards governing CO₂ emissions and other pollutants such as nitrogen oxides and particulate matter are being reinforced. These standards impose considerable technical constraints and new challenges: some technologies reducing CO₂ emissions can paradoxically undermine a vehicle's overall environmental performance in areas such as particulate emissions. Automotive suppliers, led by Valeo, especially their powertrain systems (combustion engines, electric motors and transmissions) and thermal systems (climate control and engine cooling) entities, can play a crucial role alongside automakers in rising to these new challenges and achieving regulatory objectives;

- **savings on energy and raw materials.** Reducing fuel consumption is not the only way to reduce a vehicle's overall environmental footprint. Valeo takes care to make eco-design central to its R&D process. Using recycled materials, reducing use of scarce materials and improving the carbon footprint of the supply chain are the teams' constant focus, as is reducing the mass of all the products designed by Valeo. The aim is to achieve CO₂ emission reduction objectives and to rein in the environmental footprint.
- **intuitive driving and safety.** Valeo is a global leader in driving assistance to make cars safer, more autonomous and more connected. So-called intuitive driving has three main objectives:
 - facilitate maneuvers in urban settings,
 - assist drivers in various driving situations,
 - encourage interaction between the vehicle, the driver and the surrounding environment.

The Group is examining future technologies that will allow users to rely on the vehicle's "intelligence." Valeo aims to leverage its expertise in sensor and connectivity technologies to develop driver assistance and risk warning systems in driving situations. These systems will play a significant role in helping reduce the risk of accidents.

The Group's roadmap in this area is based on a detailed analysis of the need (limit manual driving in demanding situations) and the capacity of consumers to accept new solutions, with the desire to introduce technology in all vehicle segments. The main objectives are to allow the vehicle to take over driving in relatively simple situations

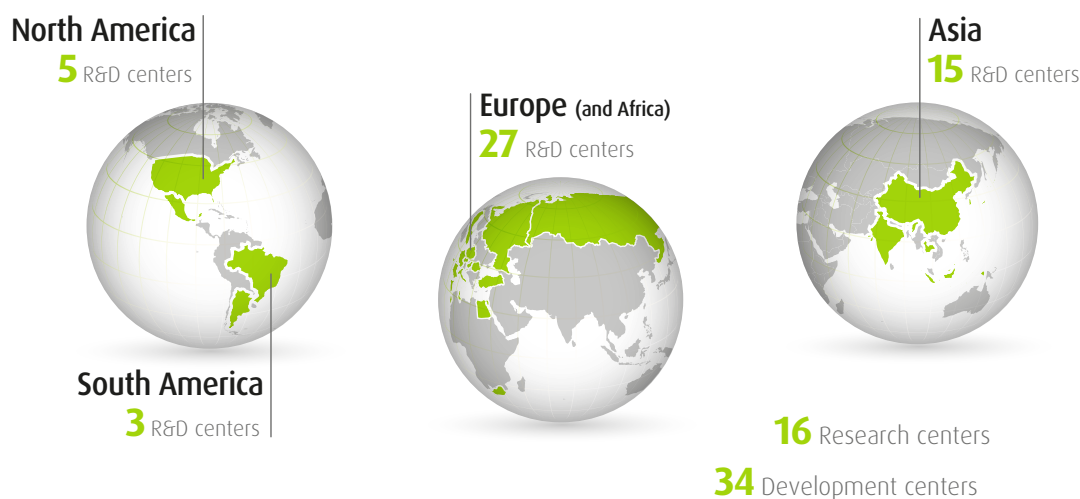
(1) Euro NCAP provides consumers with a realistic and independent assessment of the safety performance of European cars.

(highway driving, traffic jams) and/or at low speeds (peri-urban environments). The developed systems are structured around the goals of connectivity and automation, based on a human-machine interface, which is key to giving the user a feeling of simplicity and security, allowing him to adopt "intuitive driving."

Valeo is already developing automatic parking systems, automatic braking systems triggered when obstacles or pedestrians are identified on the road, as well as lane departure warning systems. The objective is to propose a set of intelligent systems that interact with each other and give vehicles a degree of decision-making autonomy, thereby increasing safety.

4.2.2 Organization of R&D to support the Group's innovations and assist its customers worldwide

R&D worldwide in 2014



By identifying five major types of R&D centers and promoting the grouping of activities by project and by skill, Valeo uses a functional and operational organization allowing each center to define their objectives and contribute to those of the Group:

- research centers are dedicated to pure research, advanced engineering and the formulation of new product standards. There are currently 16 centers;
- development centers adapt standards in line with customer requirements and coordinate the work of launch and support teams together with front office personnel. There are currently 34 of these centers;
- launch and support teams are tasked with launching new products and providing support throughout the production phase;
- front office personnel work alongside customers, assisting with product definition and providing back-up for project teams;
- Group technical service centers provide specific competences in a cross-disciplinary manner, especially for the development of software and electronics.

In 2014, Valeo opened a research bureau in California. Located in the heart of the San Francisco Bay Area, it operates as a base for prospective monitoring of automakers and many other industries including consumer electronics, as well as universities and local start-ups.

Its activities are focused on aspects related to intuitive driving, notably research and innovation through advanced studies, collaborative projects and partnerships.

In 2014, Valeo's R&D teams managed nearly 2,300 projects – a direct result of the Group's strong presence in all automotive markets worldwide.

Valeo maintains a high level of effort in R&D in order to offer its customers, year after year, the best technological innovations to meet identified needs. In 2014, the Group's gross R&D expenditure exceeded 1.1 billion euros, or more than 10% of its original equipment sales.

Promoting talent dedicated to R&D by providing ongoing training and adapting locally

Globally, the number of people working in R&D increased by 13%, from 9,200 in 2013 to 10,400 in 2014. Its strong presence in France, where a significant portion of its research centers are located, meant that there were 3,071 employees dedicated to R&D in France in 2014.

A network of experts and key training to foster innovation

Valeo has consequently set up its own three-level network of experts: “expert,” “senior expert” and “master expert.” The Group has 750 experts, i.e., approximately one expert for every ten engineers. It issues them with “research warrants” for periods of three years. They are tasked with defining best practices that will be incorporated into design standards and explained to newcomers. They are a driving force within the team, and are expected to spread their expertise throughout the network.

On top of its network of experts, Valeo provides its engineers with ongoing training, with a view to fostering innovation at all levels. As a result, the number of hours of training received by engineers continued to increase in 2014 compared with 2013.

Change in the number of hours of technical training for technicians and engineers between 2012 and 2014

	2012	2013	2014	Change (2014/2013)
Hours of face-to-face training	98,500	126,300	156,600	+24%
Hours of technical e-learning	1,770	3,700	4,250	+14%
TOTAL TRAINING HOURS	100,270	130,000	160,850	+24%

Valeo stepped up its training program for its technicians and engineers, with hours of training rising from nearly 130,000 in 2013 to over 160,000 in 2014, an increase of about 24%. In 2014, training efforts focused on newly hired engineers on sites located in high-growth markets. This result shows how valuable R&D is to Valeo, which ranks among the most innovative automotive suppliers in the world thanks to its large-scale communication on its best standards and practices, notably through the Valeo Technical Institutes. These institutes, with the help of a powerful network of experts, aim to provide high-level training on Valeo products, technologies and manufacturing processes. Courses are now increasingly taught in e-learning formats. Bringing in internal and external experts, and offering a large spectrum of training to Valeo R&D teams, as well as those of its partners, the Technical Institutes and the network of Valeo experts are a major part of the Group’s innovation strategy.

Local expertise to meet the demands of new markets

Due to the broad geographical spread of its activities, Valeo focuses on hiring engineers locally. Their knowledge of local society, lifestyles and consumption patterns makes local engineers better equipped to analyze the needs of customers and consumers. This is true in all countries where the Group operates, especially in emerging markets, which represent a source of growth for automakers. Production and R&D capacity is growing in areas such as Eastern Europe, Russia, China, India, South-East Asia and Brazil.

Valeo assists automakers in coping with change and developing innovation aimed specifically at meeting demand from these new markets in a manner that is mindful of sustainable development issues. The Group’s capacity to adapt to local markets is a strong focus of its expansion.

Valeo focuses its R&D activity on competitively priced design solutions in emerging countries using standardized practices that boost both efficiency and quality. Engineers at the VIPL⁽¹⁾ Technical Services Center in India aim to develop low-cost projects designed for specific markets (Russia, India, Brazil, China, etc.).

(1) Valeo India Partnership Limited.

4.2.3 A global and collaborative R&D approach GRI EN6

Valeo is involved in numerous research programs, at the national, regional and international level. These programs involve public and private actors with a view to advancing R&D in the automotive sector.

Valeo, an actor in the governance of institutional collaborative organizations

European Road Transport Research Advisory Council (ERTRAC)

ERTRAC, the European Commission's official technology platform dedicated to collaborative research in the automotive industry in operation for more than ten years, is responsible for steering and coordinating road-transportation research policy with EU bodies.

With its industry-led governance, ERTRAC's main goal is to guide actors in transportation to sustainable, ecologically friendly and connected solutions building on research roadmaps endorsed by all stakeholders. This implies shared interaction in respect of both technology content and social choices.

ERTRAC is built around public and private organizations (national governments, city associations promoting mobility, the environment and consumers) and the competent European Commission directorates, industry (automakers, automotive suppliers), and public and private research bodies.

In 2014, Valeo contributed through ERTRAC to the formalization of the world's first multi-stakeholder roadmap on vehicle automation written by a technology platform, in accordance with the strategic R&D issues identified by the Group, thereby allowing the European automotive sector to take a stance on this issue.

The timeline for drafting this roadmap included the following steps within a working group of the same name:

- March 2014, approval of the theme by the European Commission;
- March 2014 to October 2014, drafting the joint roadmap;
- October 2014, publication by ERTRAC of the first joint roadmap for automakers, automotive suppliers, research suppliers, infrastructure providers, cities, users, member states and the Commission on Vehicle Automation.

The group's work and the roadmap on the topic will form the basis for the definition of calls for projects to be launched by the European Commission in 2016 (Horizon 2020 Framework Programme). The External Relations and Sustainable Development Department, in coordination with the Group's R&D Department, was responsible for the Group's contribution to this roadmap.

As part of the multi-year research plan for Horizon 2020 (Framework Programme No. 8, FP8⁽¹⁾), ERTRAC continued to develop guidance on calls for projects on the following:

- internal combustion engines;
- road safety;
- global competitiveness;
- urban mobility;
- logistics;
- infrastructure;
- socioeconomic and behavioral research.

Competitiveness clusters

Valeo is involved in the governance of competitiveness clusters and other cooperative structures of which the Group is an active member, such as the French competitiveness cluster Mov'eo which covers all the Group's strategic areas.

In France, Valeo is also a member of SystemX, an Institute for Technological Research, and a founding member of VeDeCoM, an Institute for Energy Transition. These two institutions launched several projects involving Valeo in 2014, in the fields of vehicle electrification (reducing CO₂ emissions) and automated driving.

Valeo had the opportunity to propose topics covering research issues related to decarbonization, connected and progressively autonomous transportation.

Strategic industrial partnerships

Valeo is involved in this collaborative economic and industrial approach for the automotive industry alongside the sector's committed players.

In 2013, Valeo and Safran signed a research partnership agreement in driving aid and autonomous vehicles. In launching this research program, which is dedicated to human-machine-environment interfaces and automation, the partners aim to pool their skills and expertise so as to speed up the development of innovative products and create new markets.

⁽¹⁾ Framework Programs for Research and Technological Development, also called Framework Programs or abbreviated as FP, are funding programs set up by the European Union to back and encourage European research in order to promote European industrial competitiveness.

This R&D alliance brings together two innovative groups in their respective technologies in distinct markets in the automotive, aerospace and defense sectors. It will develop new innovations in vehicle driving aid, as well as self-driving and self-piloting solutions for automobiles, military vehicles and aircraft.

In its initial phase, the research program will focus on four main research areas:

- driver attention monitoring, leveraging the latest image recognition technology;
- 360-degree visibility, using advanced imaging technology to produce wrap-around views of vehicle surroundings;
- visibility in extreme weather to help drivers and pilots navigate in all types of weather conditions, particularly fog;
- vehicle robotization/dronization, to jointly develop certain technologies that will make land vehicles more autonomous.

The program is designed to create balanced partnerships with research institutes and universities, as well as innovative SMEs.

In 2014, Valeo and Safran worked together on all the projects identified within the framework of their cooperation. The results were presented at the EuroSatory trade fair in June 2014 and the Paris Motor Show in October 2014. Cooperation will continue in 2015 within the Comfort & Driving Assistance Systems Business Group, as well as in other Valeo Business Groups.

Multifaceted academic partnerships

Valeo plays a role in cross-sector initiatives, making its expertise available to various partnerships and bodies. These partnerships help create and promote standards of quality and environmental performance that are both demanding and stimulating for the sector.

Diversified academic partnerships

Valeo attaches growing importance to collaborative research. The different systems that make up a vehicle today are expanding into new scientific and technological domains, and new fields must be taken into account.

Autonomous vehicles not only mean automated driving (traction, braking, steering), and detecting and analyzing the vehicle's environment (sensors, embedded intelligence), but also the interaction with the driver (human-machine interface, human behavior) and vehicle communication with its environment (positioning, connection to smartphones, communication systems, etc.).

New expertise is required from outside the industrial realm of the automotive sector, and Valeo is taking advantage of its many partnerships to advance more quickly and more efficiently. The Group collaborates with scientific organizations as well as young innovative technology providers, and of course with automakers, which are its closest and natural partners in the innovation ecosystem developed by Valeo.

Collaborative research involves academic and scientific cooperation, primarily in the form of:

- supervision and funding of doctoral theses;
- bilateral projects;
- government-funded multi-partner collaborative projects;
- university chairs.

Many of these scientific alliances (with universities, engineering schools or research bodies) are in Europe, primarily in France and Germany, but they are also emerging in other regions where Valeo has set up new local R&D centers (most recently in India, China and Egypt).

The academic and scientific partnerships established by Valeo in 2014 are in line with the global challenges of mobility identified by the Group (CO₂ emissions reduction and improved vehicle performance as well as intuitive driving).

Funding of doctoral theses

The Group provides funding for more than 50 doctoral theses dealing notably with new materials or technologies, new calculation and simulation tools and methods, new system architectures and component optimization.

Support for and creation of academic chairs

Valeo has also partnered with universities and public research organizations for the creation of the following research and teaching units:

- an international research chair on automated driving, called **"Automated Driving – Drive for You,"** bringing together teams from the Center for Robotics at Mines ParisTech, Shanghai Jiao Tong University (China), the University of Berkeley (California) and Ecole Polytechnique Fédérale de Lausanne (Switzerland), in partnership with PSA Peugeot Citroën and Safran. With a budget of 3.7 million euros funded by manufacturers, this chair aims, in the field of automated driving, to advance knowledge on automated vehicles, to develop embedded intelligence devices and to put automated vehicles on the road on three continents (Asia, the Americas, Europe);

- a chair for low-carbon vehicles, known as “**Matinnov**,” in partnership with the University of Versailles Saint Quentin en Yvelines and the French National Research Agency (ANR), which conducts research into innovative materials and the reliability of materials and mechatronics systems;
- an industrial teaching and research chair on embedded lighting, known as the **ELS Chair** (Embedded Lighting Systems), which brings together the following schools and partners around ESTACA (Graduate School of Aeronautical and Automotive Technology), Institut d’Optique Graduate School, Strate-School of Design, Renault, PSA Peugeot Citroën and Automotive Lighting Rear Lamps. This chair aims to develop expertise and skills in the field of indoor and outdoor lighting applied to field transportation.

Partnerships within academic chairs are designed to:

- promote research and innovation activities with high value-creation potential;
- stimulate research-based training;
- offer career opportunities to teacher/researchers wishing to embark on projects with a view to finding an application for their results;
- endow public research institutions with the means to investigate strategic areas for industry.

Valeo Innovation Challenge

In 2014, Valeo launched the first edition of the “Valeo Innovation Challenge” competition, which is open to students of universities and engineering schools worldwide to enable them to become agents of automotive innovation, devising equipment that between now and 2030 will make cars smarter and more intuitive.

The contest ran throughout 2014, with different selection phases leading up to the announcement of the three finalists teams at the Paris Motor Show.

Almost 1,000 teams of between two and five people, bringing onboard students from other disciplines (sociology, urban planning, architecture, design, etc.), from 55 countries submitted their proposals in February 2014. The first selection phase, run by around 60 Valeo experts and independent scientists, left only 20, based on the following criteria:

- the boldness, innovativeness and originality of the project;
- the challenges and relevance of the problem addressed and the consideration given to societal expectations;
- the quality of the presentation;
- the grasp of the associated technical aspects;
- the feasibility and implementation of the model.

To allow teams to make a working prototype for the final selection phase, Valeo assigned 5,000 euros to each of the 20 finalist teams. At the Paris Motor Show, a panel comprising personalities from the world of science alongside Valeo executives, chaired by Jacques Aschenbroich, the Group’s Chief Executive Officer, selected the three winning teams.

The first prize, a check for 100,000 euros, was awarded to a Brazilian team from the Federal University of Minas Gerais for its innovative proposal on hydraulic transmission. Two Canadian teams, one from the University of Ottawa and the other from the University of Waterloo, shared the second prize, winning 10,000 euros each.

In view of the success of the first edition and the interest it generated, Valeo has launched the second edition of the “Valeo Innovation Challenge” for 2015.

Collaborative projects

Valeo takes part in collaborative research programs in the automotive industry in the various countries and regional groupings where it operates.

In France, the Group has participated in the “2l/100km Vehicle” program of the Automotive Industry Platform (*Plateforme de la Filière Automobile* – PFA), which aims to reduce CO₂ emissions at an acceptable cost to the end consumer, the target being certified consumption of approximately 2 liters/100 km for a segment B⁽¹⁾ vehicle. The focus is on achieving four objectives: developing hybrid technology, improving powertrain efficiency, improving the overall energy efficiency of the vehicle (which includes making it lighter), and developing connectivity and mobility aids, which help reduce fuel consumption during use by optimizing driving or finding a better route.

Valeo played an active part in the program by offering innovations that fit into each of the program’s four objectives:

- the “Hybrid4All” hybridization solution, applicable to gasoline and diesel engines, which generates fuel savings of up to 15% at half the cost of existing hybrid solutions;
- an electric supercharger that delivers power performance with a low-displacement engine while reducing consumption;
- air-conditioning systems aimed at reusing the vehicle’s energy;
- driver assistance systems to reduce CO₂ emissions by constantly adapting energy consumption to traffic conditions.

(1) Segment B vehicles include versatile urban cars.

Essencycle collaborative project: development of a new hybridization system for new gasoline-powered vehicles

As part of the “Vehicle of the Future” call for projects included in the Investments for the Future program (*Programme d’Investissements d’Avenir*) set up by the French authorities, Valeo and its partners⁽¹⁾ in 2014 launched the Essencycle project (*Moteur ESSENCE injection directe hybride Électrique abordable*, or affordable direct gasoline injection electric hybrid engine) to develop a new hybridization system for mid-range gasoline vehicles offering potential for compromise between existing “micro” hybridization solutions (Stop-Start function: limited CO₂ gains, but at a low cost) and “full” solutions (“electric driving” function: significant CO₂ gains, but at high cost).

The European Commission has approved the allocation of 24.2 million euros in aid to Valeo, as part of the Investments for the Future program of the French authorities, considering that these funds are consistent with the rules on state aid, notably due to the fact that specific innovation processes led by a single supplier can help speed up the spread of solutions to the entire sector.

In addition to its significant environmental impact – it aims to deliver a 25% reduction in CO₂ emissions⁽²⁾, potentially generating a saving of 10 million metric tons of CO₂ by 2020 – the Essencycle has the compelling economic and social objective of bringing to the market by 2017-2020 components offering reasonably priced new features developed by Valeo and its partners. The range will integrate these components to new vehicles manufactured in Europe, as they will be adaptable to a wide range of engines in all vehicle segments.

EfficAC project: reduction in consumption caused by air conditioning

As part of the “Vehicle of the Future” call for projects included in the Investments for the Future program set up by the French authorities, Valeo has partnered with Renault, IRSTEA (National Research Institute of Science and Technology for Environment and Agriculture) and the CSTB (Scientific and Technical Building Center) on a project for reducing energy consumption caused by car air conditioning systems. This project also fits in with the goal shared by the “2l/100km Vehicle” program cited above, managed by the Automotive Industry Platform.

This project was proposed in view of three key observations: vehicle air conditioners consume large amounts of energy, improvements to these systems in the past have stemmed chiefly from a reduction in their physical size (better integration into the vehicle), and air conditioning systems are costly. Valeo and its partners are aiming to achieve a reduction in the vicinity of 25% in the energy consumption caused by cooling.

The anticipated gain on the vehicle’s fuel consumption is projected to be between 0.1 liters and 0.15 liters per 100 km, and the reduction in CO₂ emissions in the vicinity of 2 g to 3 g in real operating conditions with a high level of occurrence⁽³⁾.

Valeo is also helping, as part of its partnerships and research activities, to reduce the CO₂ emissions associated with mobility, in line with the expectations of the automotive industry and taking into account the major environmental and social challenges of mobility.

Innovative products and systems for 2014

In 2014, Valeo presented numerous innovations, some of which are described below.

BeamAtic™ PremiumLED

At the October 2014 Paris Motor Show, Valeo presented its new constant GFHB system⁽⁴⁾, which consists of a camera to detect other vehicles and a pair of adaptive Valeo BeamAtic™ headlamps using LED⁽⁵⁾ (BeamAtic™ PremiumLED) technology.

This system is an offshoot of the Valeo Xenon Premium BeamAtic™ technologies, which light the entire road in front of the car, with the exception of the area immediately surrounding vehicles detected by the camera. This avoids glare for oncoming drivers while keeping constant light on the road – both the road itself and the side of the road (pedestrians) – allowing the driver of the vehicle to see any potential danger. Equipped with LED technology, this system gives the effect of a white light, with longer life and flexibility for the design of innovative optical systems.

Based on these technical qualities and design flexibility, Valeo has designed a range of three BeamAtic™ PremiumLED solutions, equipping three vehicles unveiled for the first time at the Paris Motor Show in October 2014. These technologies integrate the characteristics and particular demands of manufacturers in a very flexible way.

Valeo inTouch Telematic®

The telematics box is an embedded system combining cellphone and GPS technology to offer innovative functions including vehicle safety (emergency calls, emergency braking), remote business services (connected navigation services, fleet management, etc.) and entertainment (internet radio, email, web browsing, video streaming).

The Valeo inTouch Telematic® system is an affordable and secure module specially designed to fit the requirements of future safety standards, such as the eCall standard (in the EU) and ERA-GLONASS (Russia). In an accident, the vehicle

(1) Four companies (GKN, Hutchinson, PSA Peugeot Citroën, and SME EFS) and seven research organizations (CORIA, IFP New Energy, Ecole Centrale de Lille, ENS Cachan, INP Toulouse, UTC Compiègne, University of Valenciennes).

(2) In a standardized cycle, compared with the same vehicle equipped with the same engine without the innovations provided by the program.

(3) In accordance with the MAC (Mobile Air Conditioning) procedure at 25°C being drafted by the European Commission.

(4) GFHB: glare-free high beam.

(5) LED: light-emitting diode.

will automatically contact the nearest emergency center and share information on its exact location, allowing the rapid arrival of emergency services, reducing the potential gravity of accidents and saving human lives.

Valeo InBlue®

Valeo has extended the capabilities of its hands-free access systems to integrate new uses and behaviors related to smartphones, launching the world's first connected key system to lock, unlock and start the car.

Based on the significant use of cellphones seen in everyday life and change in behavior in respect of vehicle sharing and usage, Valeo has developed InBlue®, an access and starting system compatible with smartphones.

This smart key offers access system functions, hands-free starting and use of the vehicle features without the need for an actual key. The system also allows car-sharing, remote access to vehicle data including tire pressure, fuel level, distance to the next gas station and vehicle location.

The EG alternator

Valeo develops high-output alternators offering significant CO₂ emissions reduction. This electric auxiliary has a direct impact on fuel consumption by using the mechanical energy of the thermal engine or using braking phases to generate electricity, thereby charging the battery or powering the onboard network. Improved efficiency therefore translates directly into fuel savings.

Valeo has developed an integrated electronic subassembly improving the performance of the alternator, whose losses as an electric machine have also been reduced. The energy saved can be converted into electrical energy. In the approval cycle alone, the gains made by the Valeo alternator are greater than 1 g of CO₂/km. In situations of actual usage by the end consumer, gains can reach up to 3 g of CO₂/km because of the vehicle's many electricity-consuming functions and the multiple occurrences of regenerative braking, especially in urban and peri-urban areas.

Valeo's high-output alternator thus obtained "eco-innovation" recognition issued by the European Commission in 2013.

4.2.4 Integration of Sustainable Development principles in R&D GRI PR1

Tools for integrating eco-design

In 2007, Valeo adopted an Eco-design Standard Directive and eco-design guidelines by product line. This approach enables engineers to assess major environmental impacts from all products over the course of the project's development. Impacts concern:

- the type, origin, number and quantity of raw materials;
- production and packaging;
- transportation and distribution;
- use and maintenance;
- disassembly, recycling, reuse, recovery and disposal.

Above all, the directive makes it possible to factor sustainable development constraints into the use of the product, as this phase accounts for 90% of its total impact.

To ensure the directive's circulation and implementation, Valeo has published an Eco-design checklist in order to track the application of the criteria to new projects. This easy-to-use tool ensures that eco-design criteria are observed starting with the upstream phase. This means that products are consistently engineered from the outset with an eye to sustainability compliance.

The Eco-design checklist has been rolled out at every level of the Group's R&D process over the past two years. Its purpose is to:

- reduce CO₂;
- increase the recyclability of materials or systems;
- ensure that materials are safe.

Project teams refer to this checklist in their qualitative and quantitative analysis in respect of electricity consumption, use of hazardous materials and component weight to reduce the amount of components and materials that do not benefit the environment or the consumer.

Moreover, it also responds to changes in the European ELV Directive (End-of-Life Vehicles)⁽¹⁾, which since January 1, 2015 has required automakers to achieve a minimum rate of reuse and recycling of 85% by weight of the ELV, and a rate of 95% when taking into account incineration. As a result, automakers have established increasingly higher standards with their suppliers to gradually raise the recycling rate of their products.

⁽¹⁾ See Sustainable Development Glossary, page 386.

Integration of Lifecycle Analysis (LCA) criteria with the Eco-design checklist

In the automotive sector, it is the automaker or order-giver that performs the Lifecycle Analyses (LCA).

Consolidated data on components and modules are available through the LCAs performed by automakers.

Due to its wide range of products, Valeo does not run an LCA on its entire product line. However, in 2013 Valeo conducted an LCA on its LED fog lights to compare traditional halogen lighting systems with the new LED designs. The analysis assessed their environmental impacts throughout the life cycle: production phase (including LEDs and electronic controls), use phase (fuel consumption, CO₂ emissions) and end-of-life or recycling/reuse phase. The Group has gained considerable expertise in performing this analysis.

Based on the information listed and monitored in its Eco-design checklist database, the Group estimates that it has identified and made available nearly 80% of the data required for a product LCA.

Valeo uses this information to create and develop products with a lower impact on the environment. Product Lifecycle Management (PLM) is a system that lists the components of products and systems used in their design, and requires compliance with clearly defined standards. Any detected departure from the procedures (in particular the use of non-documented materials) must be justified. By systematically integrating standards, Valeo demonstrates its determination to embed eco-design (including CO₂ impact analysis) in product development as far upstream as possible. Valeo has also developed simulation software that accurately calculates the impact of innovation on the emissions of the vehicle as a whole. Thanks to the enrichment of the documentation related to this software, the Group now takes into account interactions between a given enhanced parameter and the rest of the vehicle.

Instead, the reductions calculated by Valeo are those resulting from the impact of innovations on the vehicle as a whole.

RAISE Methodology

In 2010, Valeo began developing a methodology called RAISE, which stands for:

- Robustness;
- Accountability;
- Innovation;
- Standards;
- Expertise.

RAISE aims to ensure the robustness of Valeo's products and processes. Dedicated teams (one per Product Group) have been assigned to RAISE on a full-time basis, with the following explicit objectives:

- build standards that are easy to implement, identify, verify, understand and learn. This is essential to applying them properly at a group like Valeo, which works in a number of languages and cultures;
- communicate on the standards and circulate them internally. The knowledge-sharing phase is key to Valeo's processes. Standards must be available in a single, global database (the PLM database), with training on these standards provided at Valeo Technical Institutes;
- verify that standards are properly implemented. The RAISE teams regularly visit sites to review project design. They do this to ensure that standards are applied correctly and to gain any feedback that can be used to improve the standards. RAISE methodology is a fundamental approach that is now part of Valeo's collectively driven Constant Innovation Policy⁽¹⁾.

At the end of 2014, over 8,000 product and process standards were in place and maintained in the different Product Groups. They are applied day-to-day in designing new products and their manufacturing processes.

Special training programs (core RAISE training courses: reviews of design, risk analysis and reliability) are continuously provided for R&D and Industrialization teams to extend their reach even further.

RAISE is also instrumental to ensuring the adherence of all future recruits to the Group's culture of sustainable growth.

REACH regulation GRI PR3

The Group also gives high priority to eliminating hazardous substances in the Group's products.

The European Regulation, commonly known as REACH, has established a single system for the Registration, Evaluation, Authorization and Restriction of Chemicals. It replaced more than 40 directives and regulations when it took effect in 2007. REACH is aimed at increasing knowledge of the properties of chemical substances manufactured or marketed in the European Union so as to contain risks related to them and, where necessary, restrict or ban their use.

⁽¹⁾ See Chapter 1, section 1.3.3, page 23.

REACH covers nearly 30,000 substances out of some 100,000 currently on the European market. Of these, 1,500 are considered to be the most hazardous. Their use is now controlled by the European authorities. As such, at December 31, 2013, 161 SVHCs (Substances of Very High Concern) had been identified by the competent European authorities. The use of 22 of them will gradually be subject to authorization from 2014. They notably include solvents, primarily used in the procedures used on materials and plasticizers, or used to soften polymers and perform some surface treatments.

For REACH purposes, Valeo is generally considered to be a downstream user of chemicals. This means that Valeo must list the substances used in manufacturing its products and those required to operate its industrial facilities to ensure the safety of its supply chain and its operations.

Valeo has introduced a special structure to comply with REACH regulations.

This organization works under the REACH manager and a team, made up of a representative from each division. Together, they decide on Group strategy, implement policy and determine how to eliminate hazardous substances contained in products. Each entity affected by REACH regulations and every Valeo plant has a REACH representative. This has created a network of REACH managers covering each Group site and each technical center. The R&D, Purchasing and Customer Quality departments are required to have a full understanding of Valeo's products, and are responsible for communicating with external parties (suppliers, customers and competent authorities).

In 2013, the Group issued a set of standardized documents from local REACH network correspondents to enhance the spread of R&D standards in this field and to support prevention and response work as regards the substances used.

These standards documents include a reference database created by Valeo of substances that are banned or restricted in the automotive industry. This database was updated in 2014 and will be again in 2015. It summarizes the regulations applicable in the different countries where Valeo operates, and the requirements of its automaker customers concerning the substances used in the composition of parts, and in manufacturing and repair processes.

In 2011, Valeo initiated in-depth research into the potential presence of SVHCs in its products and began to replace them with substances having a lower environmental impact. Valeo has set an ambitious target of eliminating the use of any substance requiring authorization in all its products and all its markets. It will work with its suppliers to find alternative solutions to avoid using SVHCs.

The SVHC substitution plan has already been initiated, and will enable Valeo to remove products containing DEHP⁽¹⁾, a phthalate widely used as a plasticizer, from the market in 2015.

Valeo is working on gradually replacing these substances in response to consumer concerns about their presence in vehicles.

Valeo actively participates in the work of professional associations in Europe and internationally. The Group follows the recommendations of the Automotive Industry Guide issued by the French Federation of Automotive Suppliers (*Fédération des industries des équipements pour véhicules* – FIEV) in 2007 and updated in 2011. It took part in the REACH task force within the European Association of Automotive Suppliers (which is known under the French acronym CLEPA). Valeo is also active in the dedicated working group within the Automotive Industry Platform, which aims to identify materials/substances that have a negative impact on the environment. The purpose of this work is to facilitate the anticipation of changes and to modify choices in respect of materials and/or substances upstream.

Consumer health and safety GRI PR1

Valeo has made reducing CO₂ emissions one of the main pillars of its growth strategy, with a large number of innovations offered to automakers to help reduce the amount of pollutants released into the atmosphere.

Valeo developed the first passenger compartment air conditioning filter with anti-allergenic properties in Europe. The filter serves to limit the level of allergens in the vehicle, along with dust, harmful gases and smells.

The Group has made driver safety a major focus for development. The increasing use of cameras and ultrasonic sensors mean that vehicles are getting better at anticipating dangerous situations with the help of "intelligent" systems that enable drivers to make better decisions in terms of safety.

In 2014, Valeo and Safran obtained funding for the AWARE Project (All Weather All Roads Enhanced Vision), as part of the seventeenth call for projects of France's Interministerial Fund (*Fonds unique interministériel* – FUI). The purpose of this project, led by the company ULIS, is to develop a prototype all-weather sensor (especially useful in rain and fog) adapted to the future needs of the automotive market, the market for emergency vehicles and the aviation market. Work started on the project in June 2014, and is expected to run for three years. Other corporate partners in the project are IAC, Nexyad and Oktal. The academic partners are CEA-LETI (electronics and information technology laboratory, a division of France's Commission for Atomic Energy and New Energies), CEREMA (Center for Studies and Expertise on Risks, the Environment, Mobility and Development) and Ifsttar (French Institute of Science and Technology for Transport, Land and Networks).

⁽¹⁾ Diethylhexyl phthalate or di-2-ethylhexyl.

Awards: PACE award for innovative reversing system (Back-Over Protection System)

Valeo was awarded a 2014 PACE award (Premier Automotive Suppliers' Contribution to Excellence) from Automotive News for its innovative "Back-Over Protection System," which offers the advantage of both ultrasonic park assist sensors and a rear camera, providing added comfort and safety for reversing maneuvers.

This innovation makes it possible to detect obstacles within four meters, and accordingly provides an earlier warning of nearby obstacles than conventional ultrasound systems. It offers better image quality and high performance in low light. More economical, the solution is also lighter than the systems currently on the market.

The innovative system avoids the risk of collision when reversing, thanks to ultrasonic sensors and an intelligent rear camera. A megapixel HDR (high dynamic range imaging) sensor provides visual detection of objects, all in one compact unit.

Valeo, a participant in the remanufacturing market

Through its remanufacturing activity, Valeo is placing its OEM parts design and manufacturing expertise at the service of the remanufacturing market, for which the Group has developed

a high-quality, environmentally respectful range of products. Valeo only offers remanufactured products, as opposed to reused, repaired, rebuilt, refurbished, reworked or reconditioned products, and uses quality processes and standards to ensure the quality of the products offered for sale⁽¹⁾.

Valeo offers two ranges of parts – one new and one remanufactured. Remanufactured systems are mainly alternators and starters as well as clutches and climate control compressors.

Valeo has set up an efficient system called e-CORPS to collect used parts. The system permits the immediate identification of product references (type of part, origin, size, production year, etc.). Once parts have been retrieved, Valeo disassembles, inspects and cleans them, and subjects them to electrical and electronic tests. Valeo then initiates a remanufacturing process, which most importantly involves eliminating any traces of hazardous substances to guarantee personal protection. With more than 40 testing points for rotating machines on test benches, Valeo meets the standards of the original equipment market, and tests all remanufactured products before packaging them for sale on the aftermarket.

This industrial expertise has enabled Valeo to offer a full range and selection of remanufactured parts, and thereby to champion environmental protection in the remanufacturing market.

4.2.5 An acknowledged approach and new product offerings integrating sustainability

Examples of innovations combining significant social and environmental benefits

About 35% of Valeo's order intake is made up of innovations, i.e., products or technologies that have been on the market for less than three years.

The innovations listed in the table below met this definition in 2014 and stand out for their contribution to sustainable mobility:

- reduction of CO₂ or other pollutant emissions (environmental dimension) and improved vehicle performance;
- driving assistance for a safer, more connected and more autonomous vehicle (driving comfort and safety).

An acknowledged R&D process: Valeo boasts a leading patent portfolio in France

Innovation is central to R&D activities, and results in major orders and a growing patent portfolio. In 2014, the Group had 35,000 patents, of which 1,108 were filed in 2014, a 41% increase on 2013 which was already a strong growth year.

⁽¹⁾ The definition of remanufactured products is common to the entire industry (ACEA, APRA, CLEPA, FIRM, VDA): "A remanufactured part fulfills a function which is at least the equivalent to the original part. It is restored from an existing part (core), using standardized industrial processes in line with specific technical specifications. A remanufactured part is given the same warranty as a new part, and it clearly identifies the part as a remanufactured part and the remanufacturer."

Examples of innovations **GRI EN6**

Innovation and technical features	Description	CO ₂ impact or eco-design	Driving assistance for a safer, more connected and more autonomous vehicle
Hybrid4All (including an enhanced Stop-Start system) 	Hybridization of powertrains (gasoline and diesel). Energy is recovered when the driver reduces speed or brakes. Cost per gram of CO ₂ saved through this system halved compared with hybrids currently on the market.	Fuel saving of up to 15%. In 2013, 120,000 metric tons of CO ₂ were saved using the Stop-Start System according to NEDC ⁽¹⁾ . Since its series production launch, over 300,000 metric tons have been saved during the engine shut-down phase.	
Electric supercharger 	A key element in downsizing and downspeeding (two related techniques to provide maximum low-end torque and optimize combustion) gasoline and diesel powertrains. Uses the electrical energy recovered in the braking phase.	With 12-volt architecture, fuel savings of 8% to 10%.	
Dual dry clutch 	Consumption reduced compared with an automatic transmission. No hydraulic fluid.	CO ₂ emissions reduced by 6% to 10%.	Improved driving comfort.
Air intake module of internal combustion engines 	Improved combustion management.	NO _x reduced by 2% to 3%.	
Battery thermal management modules 	Optimization of battery thermal management modules for hybrid and electric drivetrains.	Increased vehicle travel range and battery life.	
BiLED™ headlamps 	100% LED headlamp technology with one lens used for both low- and high-beam headlamps.	Reduced electricity consumption.	Improved visibility.
BeamAtic® headlamps 	This system makes it possible to drive with high beams on at all times without blinding other drivers.	Reduced electricity consumption.	Improved visibility without blinding other drivers. Automated function.
AquaBlade® wiper system 	Improves windshield washing by distributing washer fluid directly on the wiper blade thanks to the perforated distribution edge built along its entire length.	Halves the amount of windshield wash liquid needed, cutting 2 kg off the system's weight. Reduction in CO ₂ emissions, up to 0.2g/km.	Improved visibility in rainy conditions, reduced braking distance. Automated function.
Telematics box 	Mobile telecommunications box (2G/3G/4G) with integrated GPS to support services.		Automatic emergency call in case of accident, remote localization and immobilization of a stolen vehicle.
Intelligent reversing system (Back-Over Protection System) 	Rear-view vision and maneuver support system combining ultrasonic parking assistance sensors and a rearview camera.	Compact box for reduced weight and cost.	Obstacle detection within a field of four meters to the rear of the vehicle to ensure earlier warning of obstacles/hazards.
Park4U® parking assistance system 	Semi-automatic parking assistance system.	Reduction in traffic.	Parking assistance. Detection of obstacles. Automated parking.

(1) New European Driving Cycle.

4.3 Environmental performance

4.3.1 A sustainable and strategic commitment to the environment

Rigorous and determined environmental governance

For more than 20 years now, Valeo has proven its commitment to limit the impact of its activities on the environment. Valeo sets out its environmental commitments in its Environment Charter developed by the **Risk Insurance Environment Department (RIE)**. These commitments also appear, as follows, in the Valeo Sustainable Development Charter:

- ensure the compliance of its activities with applicable laws and international agreements;
- deploy the ISO 14001 environmental management system at all sites;
- improve the environmental performance of its processes;
- optimize the transportation of people and goods in order to reduce greenhouse gas emissions;
- limit the use of natural resources and promote the use of renewable resources and energy;
- eliminate the use of substances that are dangerous to the environment and health.

To meet the continuous improvement challenges of its sustainable development policy, which focuses on the seven pillars described in section 4.1 of this chapter, and specifically those of the second pillar on the eco-efficiency of industrial processes, the RIE Department sets goals for improving environmental performance. 2014 saw the continuation of the **2013-2015 three-year plan** to reduce the Group's environmental impacts.

This is the third plan to improve environmental performance; the first dates back to 2008. Under the two previous plans, for 2008-2010 and 2010-2012, Valeo recorded significant reductions in consumption in relation to sales, notably on water and energy, which were cut by 42% and 20%, respectively.

Valeo hopes to improve its environmental performance further with the new 2013-2015 plan, notably through its goal of obtaining ISO 50001 certification for 10% of its sites by the end of 2015.

Key dates in the Group's environmental commitment

- Early 1990s: Definition of the Environmental Policy
- 1991: Launch of the program of environmental audits
- 1997: First Group site receives ISO 14001 certification
- 1998: Risk Management Manual and Environmental Charter
- 2001: Introduction of centralized environmental reporting
- 2004: Signature of the UN Global Compact
- 2008: Sustainable Development Charter
- 2013: First Group sites receive ISO 50001 certification

Commitment to transparency

In the interests of transparency and openness towards its stakeholders, including shareholders and investors, Valeo's General Management presents the Group's main environmental results at the Annual Shareholders' Meeting. Valeo also regularly responds to requests bearing on its extra-financial performance from national and international bodies.

In 2014, the Group once again took part in the survey of the Carbon Disclosure Project (CDP)⁽¹⁾, which assesses companies on the transparency of their communications in respect of climate impact. After scoring 76 out of 100 on transparency in 2013, Valeo scored 87 out of 100 on transparency in 2014, well above the sector average of 53. The Group's performance score was also above average, with a B rating.

Valeo's environmental performance is also evaluated by international rating agencies, such as RobecoSAM (Sustainable Asset Management⁽¹⁾), as part of the establishment of the Dow Jones Sustainability Indexes (DJSI). The Group obtained a score of 68 out of 100 on environmental issues in 2014, well above the sector average of 48.

(1) See Sustainable Development Glossary, page 386.

The French Business Information Center (*Centre Français d'Information sur les Entreprises* – CFIE⁽¹⁾) analyzed the quality of environmental performance information provided by 44 French companies. In 2014, Valeo preserved its third place in this ranking.

In October 2014, Sustainalytics⁽¹⁾, another leader in analysis and research on sustainable development, put Valeo in second place among the 62 companies it analyzed in the automotive suppliers sector.

The Group pays close attention to shifts in its ratings from one year to the next, with a view to achieving continuous improvement in its environmental reporting. Valeo takes onboard all the remarks made by these agencies, and will be pushing ahead with its efforts on transparency in 2015.

Valeo's initiatives addressing local communities

Valeo is also keen to play an exemplary role in the environment with regard to the communities within which it operates. Thus, many of its sites hold open days, usually during the sustainable development week organized at each site in

June of each year. These events are an opportunity for Valeo to showcase its manufacturing processes, technologies and products, and to raise the awareness of visitors on the different environmental issues confronting the Group.

In 2014, several sites were singled out for distinctions awarded by local bodies. Examples include:

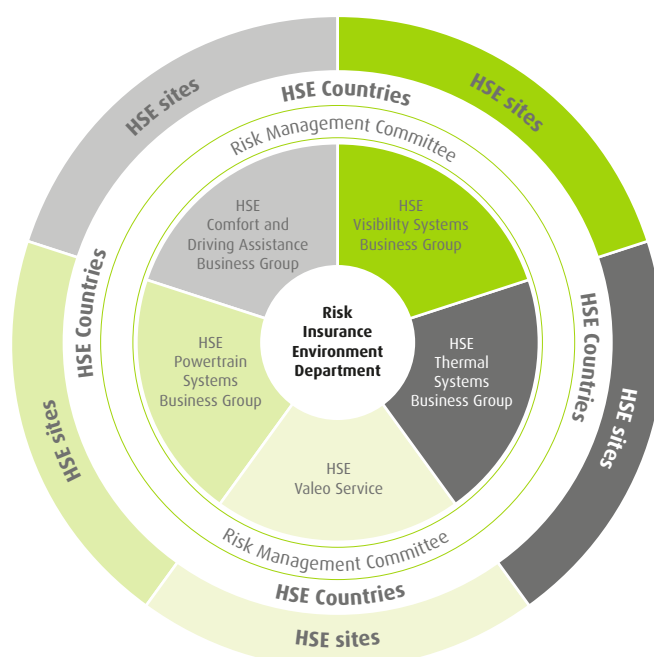
- the Quérétraro Visibility Systems site in Mexico for the second time received “clean industry” certification from the Federal Agency for Environmental Protection (PROFEPA), which rewards industrial sites that demonstrate rigorous control of their environmental management systems and maintain long-lasting ties with local communities;
- the Powertrain Systems site at San Luis Potosi in Mexico received a distinction from the National Forestry Commission (CONAFOR) for donating 200 endemic local trees for reforestation at the National Tree Day, which took place in San Luis Potosi in June 2014.

4.3.2 A global environmental policy

Valeo's organization on environmental matters, and evaluation and certification processes

A multi-tiered organization

Valeo's environmental management is based on continuous improvement driven by the RIE Department, based on an organization structured around Business Groups, countries and sites: a network of Health, Safety, Environment (HSE) managers is fielded to ensure compliance with Valeo's environmental policy and fulfillment of its objectives.



(1) See Sustainable Development Glossary, page 386.

The head of the RIE Department is also a permanent member of the Risk Committee, the body responsible for establishing and monitoring the action plans derived from risk mapping, headed by the Group's Chief Operating Officer (see Chapter 3, section 3.4.3, page 123).

Risk Management Committee

The Risk Management Committee is the central steering body of the RIE Department. Comprising the Head of the RIE Department and the HSE managers of the four Business Groups and Valeo Service, it meets every month to capitalize on the feedback from each of its members and to advance the Group's environmental policy and management of its industrial risks. In 2014, the Risk Management Committee worked on defining new tools (HSE Action Plan and Roadmap, see Chapter 4, section 4.3.2, page 155), developing operational directives and implementing new training modules (see Chapter 4, section 4.3.2, page 153).

The committee reviews industrial projects (construction of new plants, extensions, etc.) on a monthly basis to determine requirements as regards environmental and safety concerns. To monitor progress on all these projects, the RIE Department uses standardized tools capable of ensuring compliance with the Group's rules.

Committee meetings also provide an opportunity for Valeo to invite internal and external speakers in different fields of expertise.

Health, Safety, Environment network

The RIE Department relies on a network of HSE managers in line with the Group's matrix-based organization.

At each site, an HSE manager is tasked with overseeing the practical implementation of Group standards with respect to health and safety at work, the environment, and the safety and security of buildings and installations. HSE managers lead and

coordinate existing management systems and train staff with regard to compliance with internal and external requirements. They are also internal auditors within the meaning of the ISO 14001⁽¹⁾, ISO 50001⁽¹⁾ and OHSAS 18001⁽¹⁾ standards.

HSE managers working in each of the four Business Groups and at Valeo Service provide technical assistance to the site HSE managers, who report to them. Their role is to help promote continuous improvement by assisting sites in applying Group directives and complying with regulations in force. Their role is also to foster the spread of best practice between the sites of their respective Business Groups and to support investment requests aimed at meeting environmental objectives assigned by the RIE Department.

Country HSE managers are appointed at national level, selected among site HSE managers. They coordinate national environmental projects, such as the translation of the Group's operational directives into local languages. Their proximity to the sites further strengthens the sharing of best practices and enables the completion of cross-cutting work such as monitoring of local regulations. Country HSE managers also take part in induction programs for new site HSE managers, providing information on Valeo tools and standards.

In total, nearly 300 people are directly involved in the day-to-day management of HSE issues within the Group.

Mapping of the main environmental issues facing sites

The industrial activities of the Group's sites differ in nature. Accordingly, the risks they pose to the environment vary as well. As part of its risk management policy, the RIE Department has mapped Valeo's industrial activities and identified the major emissions and consumptions of the Business Groups and Valeo Service, with the aim of fine-tuning the environmental issues facing each site.

Industrial mapping

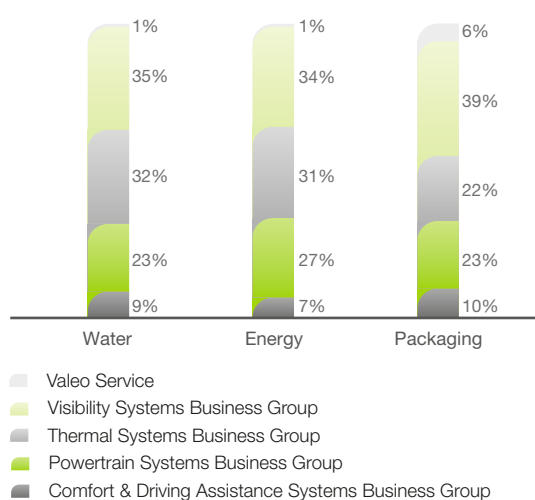
	Number of sites	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Valeo Service
Businesses	118	18	26	34	31	9
Assembly/installation	103	18	22	32	29	2
Processing	66	8	21	18	18	1
Injection molding	47	9	3	15	20	0
Heat treatment (ovens, furnaces)	65	8	20	18	19	0
Painting/varnishing	48	9	10	8	21	0
Welding	60	10	16	14	18	2
Use of vanishing (VOC-emitting ⁽¹⁾) oils	22	2	3	14	3	0
Degreasing (surface cleaning)	46	4	14	16	12	0
Surface treatment (altering the surface properties of a part)	28	1	6	4	17	0

(1) See Sustainable Development Glossary, page 386.

This table shows that the Powertrain Systems, Thermal Systems and Visibility Systems Business Groups house the Group's most resource-intensive industrial activities, and also those most liable to generate emissions. The Thermal Systems and Visibility Systems Business Groups represent the majority of plastic injection molding operations. Thermal Systems (due to the use of vanishing oils emitting volatile organic compounds) and Visibility Systems (due to the use of paint and varnish) are by far the biggest emitters of VOCs⁽¹⁾ in the Group.

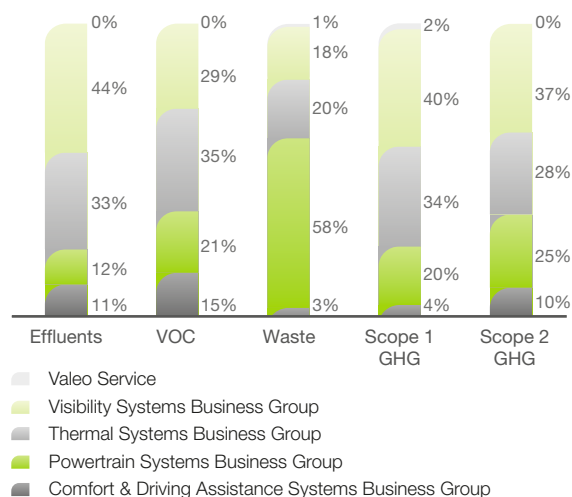
The following two charts show the breakdown of resource consumption and emissions of the Business Groups and Valeo Service, reflecting the analysis contained in industrial mapping.

Breakdown of resource consumption



This chart clearly shows that the Thermal Systems and Visibility Systems Business Groups account for two-thirds of the Group's consumption of resources, confirming the low level of resource consumption of the Comfort & Driving Assistance Business Group and Valeo Service.

Breakdown of emissions



Similarly, Thermal Systems and Visibility Systems are the Group's biggest emitters. However, the Powertrain Systems Business Group is by far the biggest producer of waste.

Key environmental issues for Valeo

The main environmental issues facing Valeo are shown in the table below, based on the Grenelle 2 themes.

Grenelle 2 themes	Comfort & Driving Assistance Systems Business Group	Powertrain Systems Business Group	Thermal Systems Business Group	Visibility Systems Business Group	Valeo Service
Organization and policy		- ISO 14001⁽¹⁾, ISO 50001⁽¹⁾ and OHSAS 18001⁽¹⁾ certification - Regulatory compliance			
Sustainable use of resources		Water and energy consumption	Water and energy consumption	- Water and energy consumption - Packaging consumption	Packaging consumption
Emissions and pollution	VOC emissions⁽¹⁾	- VOC emissions⁽¹⁾ - Management of chlorinated solvents	Management of refrigerants		
Waste management		Production of waste			
Climate change		Indirect GHG emissions⁽¹⁾	Direct and indirect GHG emissions⁽¹⁾	Direct and indirect GHG emissions⁽¹⁾	GHG emissions⁽¹⁾ related to the transportation of goods

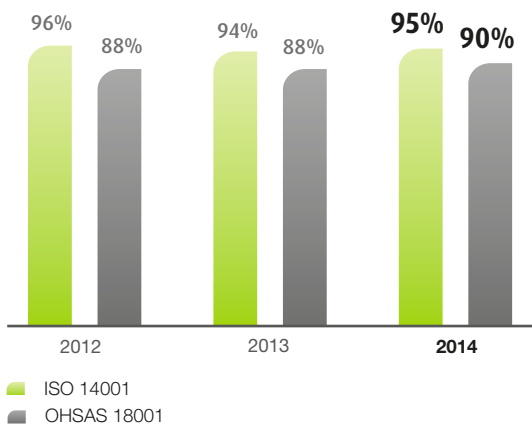
(1) See Sustainable Development Glossary, page 386.

Active certification policy

More than 15 years ago, Valeo undertook a process of certification of management systems in order to meet its commitment to reduce its environmental impacts and improve health and safety conditions for its employees. ISO 14001 environmental certification, OHSAS 18001 health and safety certification and ISO 50001 energy management certification provide assurance to stakeholders of the Group's firm commitment to HSE issues. The current practice is to conduct certification of individual sites. certification may also be obtained for product lines, across all the sites concerned.

As of the end of 2014, 95% of Valeo sites had obtained ISO 14001 certification and 90% OHSAS 18001 certification.

Percentage of plants certified ISO 14001 and OHSAS 18001



In 2014, initial certifications were obtained by the following sites that recently joined the Valeo Group:

- Chonburi (Comfort & Driving Assistance Systems, Thailand): OHSAS 18001;
- Wuhu (Visibility Systems, China): ISO 14001 and OHSAS 18001;
- Gemlik (Powertrain Systems, Turkey): OHSAS 18001;
- Cordoba (Visibility Systems, Argentina): OHSAS 18001;
- Changwon (Thermal Systems, South Korea): OHSAS 18001;
- Jingzhou (Thermal Systems, China): ISO 14001 and OHSAS 18001.

The Group aims to bring new sites (acquired or created) into the certification process as quickly as possible. All new sites are required to obtain certification from the third year of their inclusion in the Group's scope.

ISO 50001 certification

In line with its objectives on improving environmental performance over the period 2013 to 2015, Valeo wishes to see 10% of its sites obtain ISO 50001 energy management certification by the end of 2015.

As of the end of 2014, seven Group sites had obtained ISO 50001 certification.

Two sites had already obtained certification in 2013:

- Martorelles (Thermal Systems, Spain);
- Wemding (Comfort & Driving Assistance Systems, Germany).

An additional five sites were certified in 2014:

- Bursa (Powertrain Systems, Turkey);
- Issoire (Visibility Systems, France);
- Martos (Visibility Systems, Spain);
- Reims (Thermal Systems, France);
- Rodach (Thermal Systems, Germany).

Employee training and information on environmental protection

Valeo uses various channels for internal communications and employee training on HSE issues, including:

- centralized information in the Group's quarterly internal newsletter, "Valeo Info," translated into 15 languages, with a "Planet" page and relevant articles;
- training to raise the awareness of the Executive Committee of each of the Group's sites on the risk of accidents and the procedures and resources to be implemented to avoid them;
- training of HSE managers using modules approved by the RIE Department;
- training for site employees on environmental procedures and respect for the environment, particularly as part of the integration of new arrivals;
- awareness-raising for all site staff on measures aimed at controlling environmental risks and impacts through ISO 14001, ISO 50001 and OHSAS 18001 management systems;
- information for employees through newsletters and dedicated displays, and at task force meetings;
- dedicated events such as "Sustainable Development Week," featuring local initiatives.

In 2014, nearly 47,700 hours of environmental training were provided across all sites.

Resources devoted to the prevention of environmental risks and pollution

The Group has developed means to ensure that sites comply with both the prevailing regulations and internal standards, and to help them rein in their environmental impacts and improve their performance.

High risk-control standards

Sites' compliance with the prevailing regulations is an essential requirement for the Group. As such, each site has the obligation of maintaining a **regulatory watch** on HSE issues. The RIE Department promotes the development of national monitoring tools by the network of country HSE managers.

The **Risk Management Manual** contains all of Valeo's standards (known as operational directives) with respect to the environment, workplace health and safety, and the safety and security of installations. In 2014, the RIE Department continued publishing the Group's operational directives, including the "means of intervention and limiting the consequences" directive, which focuses on the human and material resources to be established on sites to prevent, detect and limit the consequences of emergencies liable to have a direct impact on human health or the environment. Operational directives on site security were also reissued this year.

The RIE Department aims to maintain binding requirements at least equivalent to the most stringent local regulations. Implementation of these directives is mandatory for all Group sites.

The Risk Management Manual includes a specific chapter on the **prevention of crisis situations and the preparation of emergency plans**. The Group requires each site to establish an emergency response and business recovery plan. In 2008, Valeo developed the Valeo Emergency and Recovery Management system (VERM) to assist in the design and implementation of emergency, crisis management and business recovery plans. To make the system even more effective, Valeo began

to upgrade VERM in 2013 based on crisis management and business recovery plan feedback from sites. Work continued in 2014, with the aim of rolling out the upgraded version by mid-2015.

Maintaining a high level of operational safety

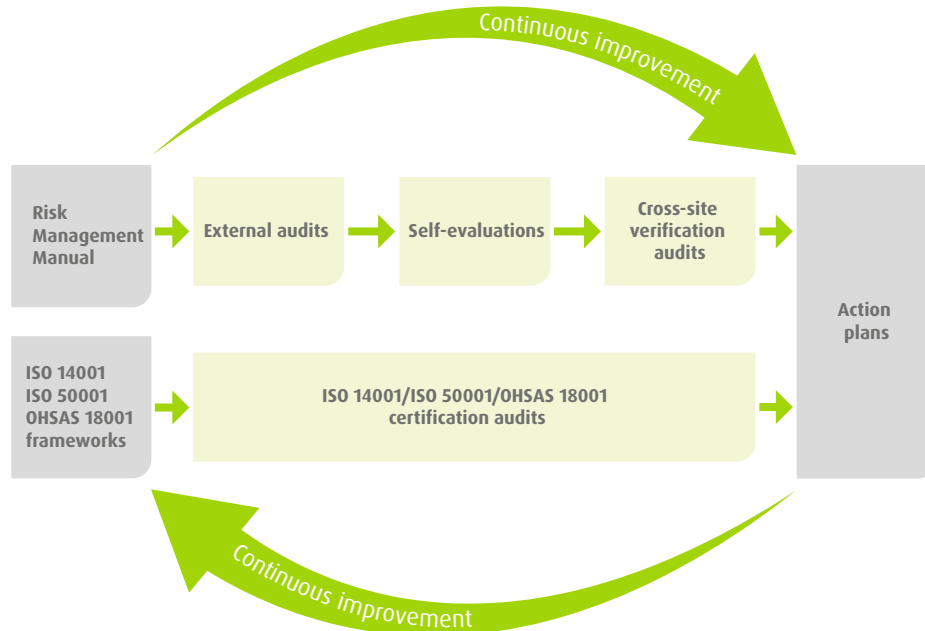
The Group's policy has always been to assure the highest-possible level of prevention and protection at its sites against **natural disasters** and **technological risks**, throughout the life cycle of a site. As such:

- whenever it builds or acquires a site, as well as when closing or selling a site, Valeo performs an audit to identify the potential existence of an environmental liability, hazardous or sensitive surroundings or environments, as well as potential natural hazards;
- the vast majority of Valeo's sites are HPR (Highly Protected Risk) classified, and are equipped with automatic fire-protection sprinkler systems. Furthermore, employees receive regular training in dealing with all kinds of risk situations;
- all sites in seismic risk zones have been built or upgraded to comply with the most recent seismic standards;
- Valeo sites are not located in flood zones or, if they are, are equipped with flood protection systems and emergency plans;
- new Valeo facilities are located far from sites representing a significant potential risk (Seveso sites⁽¹⁾, etc.) which could, through a domino effect, endanger Valeo's sites;
- in 2011, risks related to tsunamis were added to the document dealing with the selection process for potential locations and to the risk management policy;
- Valeo is continuing to reinforce the quality of security systems for facilities (access control, video surveillance and intrusion detection). The Group also conducts occasional intrusion tests to verify effectiveness.

⁽¹⁾ See Sustainable Development Glossary, page 386.

An ambitious audit program worldwide

Valeo is implementing a comprehensive program of audits worldwide, including external compliance and certification audits, along with self-evaluations and cross-site verification audits performed by site HSE managers.



External audits worldwide

At the initiative of the RIE Department, **audits** of the Group's sites are regularly performed by **external consultants** to ensure compliance with and proper implementation of the Risk Management Manual in respect of the environment, occupational health and safety, and the safety and security of buildings and facilities. In place for nearly 20 years, this audit program is a major component of Valeo's policy of reducing risk and improving the performance of its sites, which are audited every two years on average. At the beginning of each year, the RIE Department lists the sites to be audited, taking this average into account.

In 2014, the RIE Department introduced a new audit standard, based strictly on the requirements set out in the Group's HSE directives. As well as ensuring that sites address all of Valeo's HSE requirements, the new version will provide a sounder basis for comparison between sites and generate a greater amount of feedback.

At the end of each audit resulting in a detailed report, a score is given based on objective criteria periodically revised by the RIE Department. In 2014, more stringent new HSE scoring criteria were implemented to reflect **the Group's objective of operational excellence**.

On the basis of the findings and recommendations ordered in accordance with the level of risk, these audits result in action plans being drafted for each site. The action plans of all sites are reported to the RIE Department and monitored by the Business Group HSE managers via a system known as

the **HSE Action Plan**. This database provides fast and reliable consolidation of audit results, and makes it possible to monitor progress on the associated action plans.

In 2014, **146 external audits** were performed, in addition to **153 ISO 14001, OHSAS 18001 and ISO 50001 certification and monitoring audits**.

Self-evaluations

In addition to external audits, a self-evaluation tool known as **Roadmap** has been in place since 2008. Self-evaluations allow sites to monitor their compliance with Group directives. The tool also provides the Business Groups' HSE managers and the RIE Department with an overview of the degree of compliance with the directives at the operational level.

In 2013, the Environment Roadmap was updated to ensure consistency with the requirements set out in the Valeo directives. In 2014, the sites were accordingly able to start performing self-evaluations using a shared standard.

Cross-site verification audits

Cross-site verification audits are carried out on one site by the HSE manager of another site. Their purpose is to verify the implementation of HSE management systems and to ensure consistency between self-evaluation findings and the practical measures taken in response. As such, they also promote performance improvement, exchanges between sites and competence-sharing.

Environmental expenditure and investment

Total environmental protection expenditures and investments by type **GRI EN30**

Operating expenses relating to the environment amounted to 19.4 million euros in 2014. They include the cost of waste treatment, analysis of effluents, operation of internal treatment plants and environmental studies. On top of these expenses come clean-up costs on active sites, in the amount of 4.6 million euros.

In 2014, Valeo invested 2.6 million euros for the protection of the environment on active sites. This amount includes for instance the cost of installing air-treatment systems, the implementation of retention systems for better management of hazardous materials and the development of waste storage areas.

Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations **GRI EN28**

Five Group sites were subject to administrative sanctions by the authorities in 2014, in a total amount of 13,700 euros. Chief among them was the Thermal Systems Business Group's Rayong plant in Thailand, as a result of wastewater discharge exceeding the regulatory threshold for zinc. The site has replaced the system that filters water before its discharge into the public network, and increased the frequency of checks.

Amount of provisions and guarantees for environmental risks

Provisions set aside for site restoration or for the environment amounted to 16 million euros at December 31, 2014.

The Group has also identified the French sites covered by the obligation to set aside financial guarantees with a view to making them safe under Decree No. 2012-633 of May 3, 2012. Three sites have been subject to this obligation since 2012, in an amount estimated at 1 million euros, and six other sites will be required to set aside guarantees as from 2017.

4.3.3 Rigorous management of environmental performance

Centralized environmental reporting

Over the past ten years, Valeo has deployed a centralized reporting tool, Valeo Risk Indicators (VRI), across all of its sites to measure their environmental performance via an internet platform. Quarterly, or annually for some parameters, this tool permits the collection of over 200 indicators, allowing constant control of the environmental performance of the Group's sites and ensuring that its goals are met. Among the many indicators available in VRI, every year the Group selects those to be published in the Registration Document in view of its key environmental issues, its performance objectives, the relevance of the indicator to its automotive suppliers sector, and the expectations of its stakeholders. These indicators are presented in a manner consistent with the guidelines of the Global Reporting Initiative (GRI).

The following sections follow the structure of the environmental issues listed in **Decree No. 2012-557 of April 24, 2012 on the obligation of transparency in respect of social and environmental issues**. In the interests of transparency, Valeo has also opted to include in each section indicators from the Global Reporting Initiative (GRI) in order to present its environmental performance.

In 2015, Valeo, in a constant quest to improve the transparency of its environmental information, will consider presenting its report in the new version of GRI, known as GRI 4.

All core GRI indicators (identified in the text by a green box) are dealt with, as well as a number of additional GRI indicators deemed relevant (identified in the text by a gray box). A cross-reference table is available on page 217.

In 2014, the Valeo Risk Indicators tool was updated to further improve the reliability of site reporting. For example, each reporting module (water, energy, waste, etc.) now includes a warning that requires the respondent to provide a justification when the figures show too great a variation compared with the data reported for the previous year.

Also in the aim of improving the reliability of its reporting, the Group set up a training program for Brazilian, Chinese, Indian, Japanese, Mexican and South Korean sites in 2014. These training programs were delivered in small groups and in local languages so as to ensure proper understanding of the reporting process and the definitions of the indicators.

Moreover, as in previous years, responses from all sites were consolidated and underwent an in-depth check by an external firm in order to ensure their quality. To ensure the highest possible reliability for the final indicator value, this verification included questions asked to sites reporting significant year-on-year changes in any item. In all, nearly 100,000 data items were processed and validated.

The procedures for defining the reporting scope and validating indicators are described in the methodological note provided in section 4.6.1, page 214.

External audit imposed by the “Grenelle 2” regulation

Pursuant to Article 225 of the Grenelle 2 regulation dated July 12, 2010, Decree No. 2012-557 of April 24, 2012 on companies' obligation of transparency in respect of social and environmental issues, and the Order of May 13, 2013 on audit missions by independent third-party bodies provide for the verification by an independent third party of information disclosed by French companies.

This assignment took place in three stages:

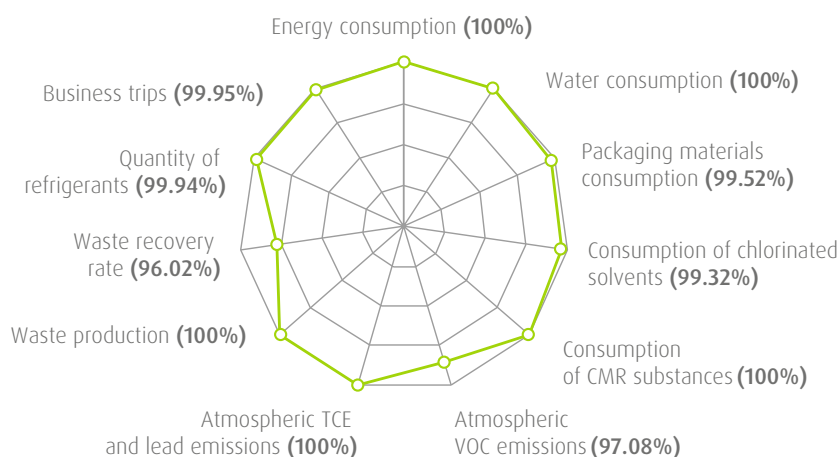
- the first stage involved a review of the reporting process: scope, definitions of indicators, methods of calculation, consolidation process and controls;
- in the second stage, site audits were performed to verify the proper implementation of reporting procedures and the pertinence of the information reported. This stage was rounded out by a review of consolidated information (review of the completeness and accuracy of the information);
- the third stage saw the independent verifier produce a synthesis of observations in the form of a limited assurance report including a statement of completeness and an opinion as to the accuracy of the information it contained in the management report in respect of 2014. This report appears in section 4.8, pages 226 to 228 of this chapter.

In 2014, six sites were audited, in France, China, Mexico and Turkey. The four sites audited in Poland, Thailand and China in 2013 underwent follow-up audits in 2014.

The goal of excellence: 100% response rate expected for each indicator

The representativeness of each indicator is measured by a **response rate**. The rate is expressed as sales of the sites having responded to the indicator divided by total sales of all sites in the reporting scope. In 2014, the response rate per indicator was very good, as shown in the following diagram: readings of 100% for most indicators published, confirming the sites' commitment to reporting.

Response rate for main indicators in 2014



Environmental objectives in keeping with the Group's commitment

Performance improvement targets for 2013-2015, and performance results in 2014

Under its new Environmental Action Plan for 2013-2015, the RIE Department has set ambitious quantified targets for the Valeo Group, based on the results from the previous plan for 2010-2012.

Objectives	Unit	2015 target (base = 2012)	2012 results	2013 results	2014 results	2014 results (base = 2012)
Sustainable use of resources						
Water consumption	m ³ /€m	-10%	215	211	219	+1.9%
Energy consumption	MWh/€m	-10%	158	158	156	-1.3%
Packaging materials consumption	kg/€m	-7%	6.1	6.6	6.3	+3.3%
Production of waste						
Production of hazardous and non-hazardous waste	metric t/€m	-7%	17.0	17.0	17.1	+0.6%
Carbon emissions						
Direct and indirect greenhouse gas emissions (Scope 1 and Scope 2) ⁽¹⁾	metric t CO ₂ /€m	-10%	56.7	59.6	63.4	11.8%
Management systems						
ISO 14001 certification (environmental management)		100%	96%	94%	95%	-1 pt
OHSAS 18001 certification (occupational health and safety)	% of sites ⁽²⁾	100%	88%	88%	90%	+2 pts
ISO 50001 certification (energy management)	% of sites	10%	-	2%	5%	+5 pts

(1) See section 4.3.6, page 167 for a description of the scope covered by the target.

(2) For new sites, ISO 14001 and OHSAS 18001 certification to be obtained in the third year following their entry into the Group.

Valeo recorded a slight increase in water consumption after having reduced it by 32% as a proportion of sales from 2010 to 2012. Energy consumption as a proportion of sales has fallen by 1.3%. The consumption of packaging materials was down 4.5% in 2014 compared with 2013, but up 3.3% compared with 2012. The production of hazardous and non-hazardous waste was stable.

In 2014, Valeo increased the number of ISO 14001 certified sites to 95% and the number of OHSAS 18001 certified sites to 90%. In addition, seven sites have already obtained ISO 50001 certification.

This year again, the calculation systems provided to sites under the program for increasing the reliability of VRI reporting brought about an improved understanding of what managers in charge of reporting are required to declare.

2014 indicator results are described in more detail in sections 4.3.4 to 4.3.7, pages 159 to 171. In addition, a summary table of environmental performance is available in section 4.7.1, page 223.

4.3.4 Prevention of pollution and management of waste

Measures to prevent, reduce or remedy emissions into air, water and soil

Reducing air emissions

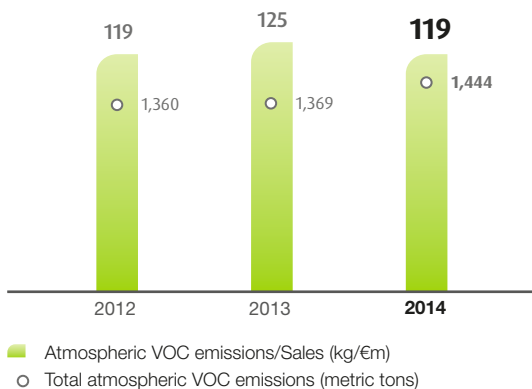
Emissions of nitrogen oxides (NO_x) and sulfur oxides (SO_x) and other significant air emissions **GRI EN20**

Valeo monitors emissions into the air of volatile organic compounds (VOCs), nitrogen oxides (NO_x), lead (Pb) and trichlorethylene (TCE) resulting from its activities.

Emissions of sulfur oxides (SO_x) are not monitored, as combustion equipment mainly uses natural gas, which does not emit sulfur oxides during combustion.

NO_x emissions in 2014 are estimated at 119 metric tons, down 10% compared with 2013.

Atmospheric VOC emissions



VOC emissions fell by approximately 5% as a proportion of sales in 2014.

The decline was attributable chiefly to the Comfort & Driving Assistance Business Group, which recorded a significant drop in VOC emissions on three sites (Ibaraki and Jonan in Japan, Chonburi in Thailand). Also noteworthy is the 30% drop in emissions achieved in 2014 at the Taegu site in South Korea (Powertrain Systems), the biggest contributor to the Group's atmospheric VOC emissions, which continued efforts begun in 2013.

Mandatory training courses implemented by the Group to ensure a proper understanding of the VOC emissions calculation tool paid off. Examples from a long list of successes include four sites of the Visibility Systems Business Group (Wuhan in China, São Paulo in Brazil, Chennai in India and Martos in Spain), which reported detailed emissions using this tool and helped bolster the reliability of this indicator. In 2015, Valeo will continue its efforts to improve its performance on this indicator, holding new training sessions.

Several sites also made significant progress in their atmospheric VOC emissions through the installation of treatment systems. Once configured, these air treatment systems are used to filter out up to 99.9% of volatile organic compounds. The following sites made investments of this nature in 2014:

- Chennai, India ("friction materials" plant, Powertrain Systems); and
- Wuhu, China (Visibility Systems).

Furthermore, the Group monitors the release into the atmosphere of lead and TCE, two substances used in legacy production processes. Lead emissions are not significant (17 kg in 2014). Consumption of TCE, still used by a single Group site (Taegu, South Korea), continued its decline, falling from 19.4 metric tons in 2013 to 11.9 metric tons in 2014.

Emissions of ozone-depleting substances **GRI EN19**

Valeo has for several years sought to take a proactive approach to reducing emissions of substances that deplete the ozone layer. Its commitments on the subject are set out in a dedicated directive in the Risk Management Manual. Chlorofluorocarbons (CFCs) and halons are prohibited substances at Valeo. For hydrofluorocarbons (HCFCs), the Group's objective is to bring forward the elimination deadlines set under the Montreal Protocol. To comply with this directive, the sites have taken action on system replacement and periodic monitoring of leaks from equipment containing refrigerants.

However, certain sites present in countries not requiring the withdrawal of CFCs can still use them. In the interests of transparency, the Group again performed an overall estimate of CFC and HCFC emissions in 2014: 632 kg of CFC-11 equivalent (the reference component for measuring the potential to deplete the ozone layer), an increase of 11% compared with 2013. This increase results from a better estimate of these emissions, which have now been reported for three years.

Several sites have begun a process of phasing out ozone-depleting substances in favor of more environmentally friendly alternatives: Examples include:

- Akita, Japan (Comfort Systems & Driving Assistance): the site has eliminated HCFCs in the washing liquid and replaced the casing of a machine, thereby avoiding the volatilization of the product in the workshop. A washing liquid recovery system has also been installed at the machine's outlet to prevent loss and as such pollution during the drying phase;
- Rio Bravo, Mexico (Comfort Systems & Driving Assistance): the site has replaced R22 (HCFC whose purchase has been prohibited by the Group since January 1, 2015) by a refrigerant with no impact on the ozone layer.

Measuring and containing wastewater discharge

Total water discharge **GRI EN21**

Broadly speaking, the Group's activities do not generate highly pollutant effluents. When required by local regulations, sites measure the degree of pollution of effluents and, where necessary, install systems to treat wastewater before discharging it into the natural environment or the public system. In 2014, the total volume discharged by the Group's sites was 816,000 cu.m., an increase of 1% compared with 2013.

In 2014, the amount of heavy metals discharged from internal treatment stations totaled 253 kg, down 6% compared with 2013. Only seven Group sites still discharge heavy metals. They include a Thai site that represents about 85% of total discharges. These sites are working to replace chemicals containing these metals.

Prevent accidental discharges into the soil

As part of their environmental management system, and in accordance with Group directives, sites are equipped to prevent accidental spills into the environment. In 2014, the RIE Department issued a directive entitled "means of intervention and limitation of consequences," which focuses on the human and material resources to be established on sites to prevent, detect and limit the consequences of emergencies liable to have a direct impact on human health or the environment.

In addition, underground tanks have been banned within the Group since the early 1990s, with the aim of eliminating the risk of significant pollution of soil and groundwater associated with such facilities. Moreover, internal landfills are prohibited on all sites regardless of their location.

When a business is sold or shut down, the Group systematically commissions an audit, generally accompanied by an examination of the soil and groundwater, to determine whether any pollution occurred during its operational phase. If pollution is discovered, the necessary measures are taken.

If a site is closed permanently prior to sale, all waste, raw materials, products and equipment are removed and site maintenance continues.

Total number and volume of significant spills **GRI EN23**

A spill occurred in Humpolec (Thermal Systems, Czech Republic) in 2014. Caused by a blockage in the pump used to transfer wastewater from the retention basin to sewers, it resulted in the discharge of 2 cu.m. of wastewater. The site immediately called on the services of an external cleaning company. There was no impact on groundwater. The site has strengthened its control measures to better prevent risks of further such spills.

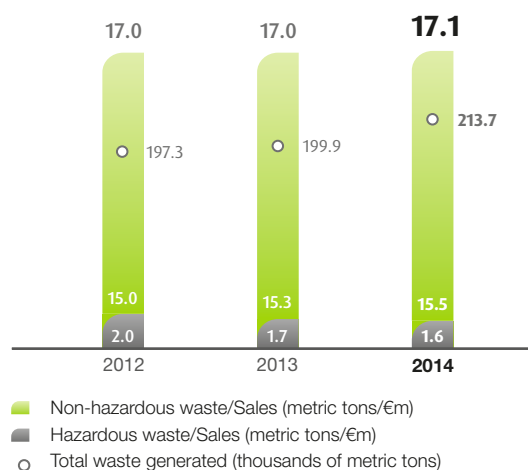
Prevention, recycling and disposal of waste

Total weight of waste by type and disposal method **GRI EN22**

The main waste products generated by the Group's facilities, in descending order of weight, are metal, wood and plastics:

- almost all metal waste is sold for recycling;
- wood is recycled or used to generate heat;
- some plastic is sold for recycling.

Production of hazardous and non-hazardous waste

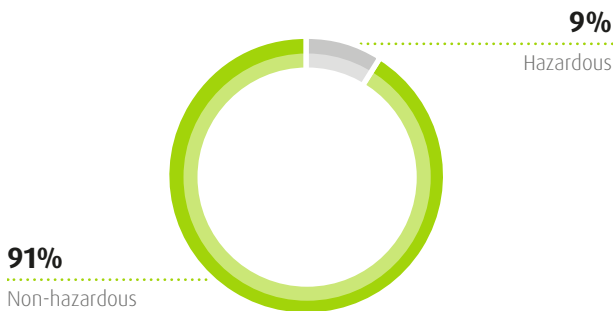


In 2014, the total amount of waste increased by almost 7% compared with 2013, but was broadly stable as a proportion of sales.

The proportion of hazardous waste continued to fall, from 10% in 2013 to 9% in 2014.

Quantities and characteristics of waste generated

	2012	2013	2014
Total waste generated (thousands of metric tons)	197.3	199.9	213.7
of which hazardous waste (%)	12%	10%	9%
Intensity of waste production (metric t/€m)	17.0	17.0	17.1
Percentage of waste recovered	79%	75%	86%

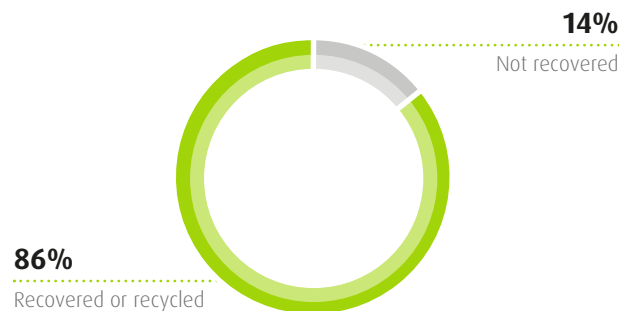


The proportion of waste recovered increased from 75% in 2013 to 86% in 2014.

In order to improve the proportion of waste recovered, each site is required to make efforts to find sustainable solutions (recycling, recovery) to treat waste. In 2014, for instance, the Athis de l'Orne site in France (Thermal Systems) worked to find a solution for the 300 metric tons of non-hazardous waste (sanitary waste, catering, etc.) generated each year, which had previously just been sent to landfills. After a successful pilot phase in partnership with a cement company attracted by the potential energy represented by the site's waste, the Athis de l'Orne plant now boasts a recycling and recovery rate of 100%, without having to change its industrial processes and without generating additional costs.

The search for recovery solutions can be challenging, especially in Asia. However, progress is starting to emerge in these countries, offering potential for sustainable recovery solutions. Efforts to increase the reliability of the reporting of unrecovered waste are also underway.

Regional breakdown of waste production



Waste production in Europe and Asia showed virtually no change in 2014 compared with 2013. In North America, the figure edged up, with waste production rising from 18.7% of the Group's total production in 2013 to 20.8% in 2014.

Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention, and percentage of transported waste shipped internationally GRI EN24

In 2011, the Group began monitoring the amount of hazardous and non-hazardous waste exported by its sites. Some sites have to ship their waste to another country to overcome the lack of adequate treatment systems locally. This is the case for the Rio Bravo (Comfort Systems & Driving Assistance) and Juarez (Visibility Systems) sites in Mexico, for example.

In 2014, 803 metric tons of waste, approximately 13% of which was hazardous waste, were exported. These amounts accounted for less than 1% of total waste generated across all Group sites.

Noise and other forms of pollution

Valeo strives to follow up all complaints addressed to its sites on environmental issues. In 2014, four complaints were lodged across the Group as a whole. They related to noise on the Limoges site in France (Powertrain Systems) and odor pollution at two sites in Chennai, India (Visibility Systems and Powertrain Systems). The fourth related to an oil spill at the Rodach site in Germany (Thermal Systems). The sites concerned took the appropriate measures.

4.3.5 Sustainable use of resources

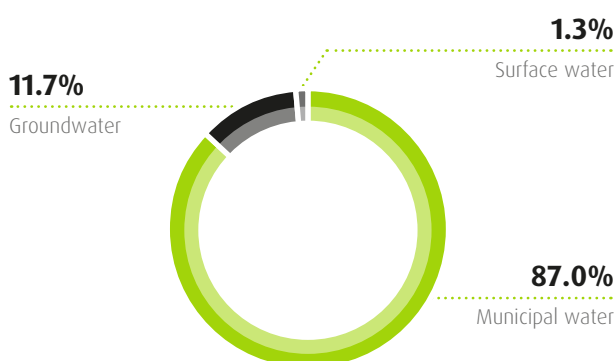
Water consumption and water supply in line with local constraints

Total water withdrawal by source **GRI EN8**

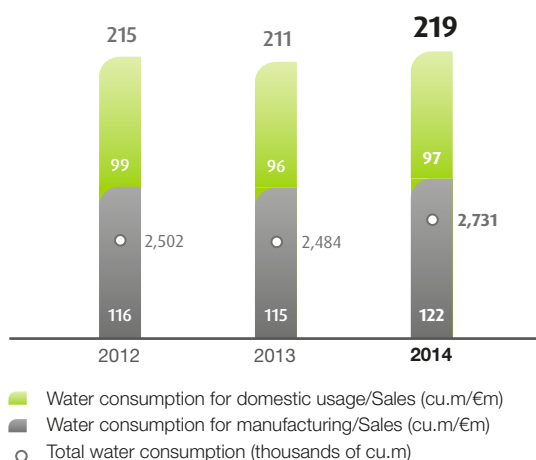
To measure the overall impact of its activities on water resources, Valeo measures its consumption by distinguishing the different sources of its withdrawals (municipal water, groundwater, surface water) and uses of water on its sites (industrial water, domestic water). The percentage of Valeo's supplies derived from groundwater decreased from 14.7% in 2013 to 11.7% in 2014, due to a shift in favor of municipal water supplies.

A noteworthy example is the Blois site in France (Visibility Systems), which in 2014 ceased to use groundwater in favor of municipal water.

Water supply sources



Water consumption



Over the 2010-2012 period, Valeo reduced its water consumption as a proportion of sales by 32% compared with 2009. This was achieved by many years of effort across all Valeo sites, primarily involving the detection and remediation of leaks, and reductions in the industrial use of water for cooling purposes with the phasing out of open-circuit systems.

In 2014, water consumption increased by 3.8% compared with 2013 as a proportion of sales across the Valeo group. The increase in consumption was attributable to the Visibility Systems Business Group, for the following reasons:

- improved access to domestic water in Wuhan (China);
- major leaks at the São Paulo site (Brazil);
- triggering of the sprinkler system when a fire broke out at the Seymour site in the United States.

The Comfort Systems & Driving Assistance Systems and Propulsion Systems Business Groups reduced their water consumption as a proportion of their sales.

Water sources significantly affected by withdrawal of water **GRI EN9**

Group sites also take into account water restrictions, which reflect pressure on local water resources. In 2014, two Comfort Systems & Driving Assistance sites (Shenzhen in China and Ben Arous in Tunisia) were affected by water supply restrictions. Two other Visibility Systems sites in Asia (Wenling and Wuhan, China) were affected by outages in the public water supply system.

In 2014, Valeo measured its water footprint through the Carbon Disclosure Project⁽¹⁾ (CDP) water survey. The questionnaire, sent out by the CDP for the first time in 2013, does not yet give rise to a rating, but nevertheless enabled Valeo to better understand the risks and opportunities on this issue and the concerns of stakeholders. Valeo does not consume large quantities of water in its industrial processes (44% of its water consumption is for domestic use), and has to date identified no specific issues. Valeo will continue its Water Footprint program in 2015 to continue the survey.

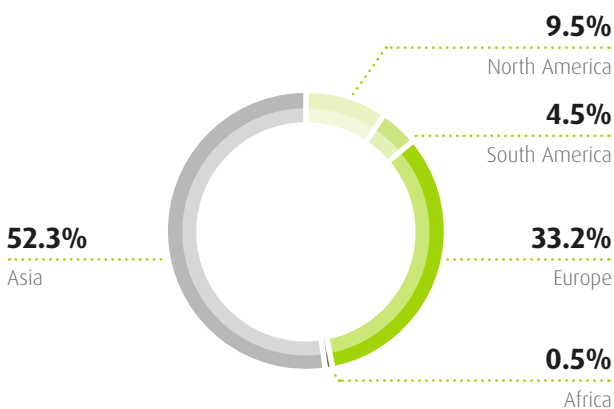
(1) See Sustainable Development Glossary, page 386.

Percentage and total volume of water recycled and reused GRI EN10

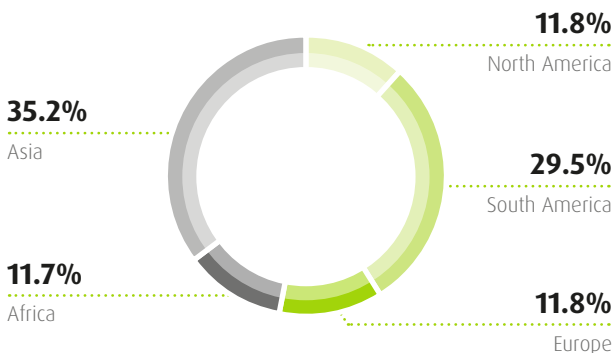
Plants use water to cool production lines. Water circulates in a closed loop in accordance with the Group's requirements. In addition, in 2014, two sites declared that they recover rainwater for use, and twelve sites that they recycle and reuse their industrial water internally, up from seven in 2013.

Regional breakdown of water consumption in 2014

Regional breakdown of overall water consumption



Regional breakdown of water consumption as a proportion of sales



Sites in Europe and Asia performed well, accounting for more than 85% of overall water consumption but just 47% of consumption as a proportion of sales.

By contrast, sites in South America and Africa account for 5% of overall water consumption but 41% of consumption as a proportion of sales. Efforts on water consumption are called for at these sites.

Water consumption as a proportion of sales at sites in North America is in line with overall site consumption figures.

Consumption of raw materials and measures taken to improve the efficiency of their use

Materials used by weight GRI EN1

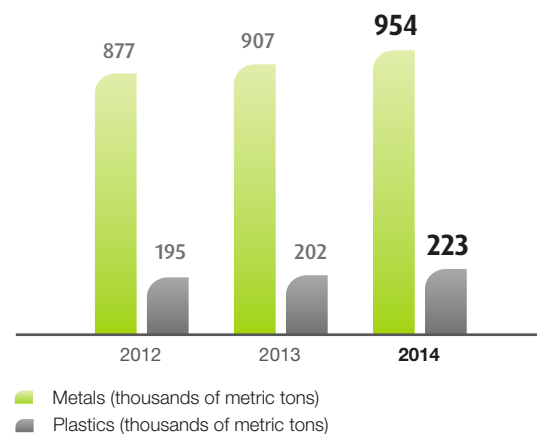
Valeo is pursuing two goals for improvement in terms of resource consumption:

- limiting the consumption of raw materials; and
- using recyclable and recycled materials.

These areas are taken into account systematically by R&D teams (see section 4.2.4, Integration of Sustainable Development principles in R&D, page 144, for more information on internal eco-design requirements).

The main raw materials used by the sites are metals and plastics, used directly in the composition of finished products and packaging materials.

Consumption of raw materials

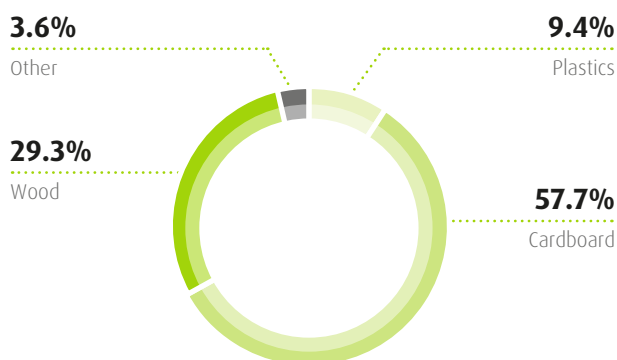


Metal consumption increased by 5.2% in 2014, and that of plastics and resins by 10.4%. Overall consumption of raw materials increased by 6.1% compared with 2013. The pace of the increase was slower than the Group's sales growth.

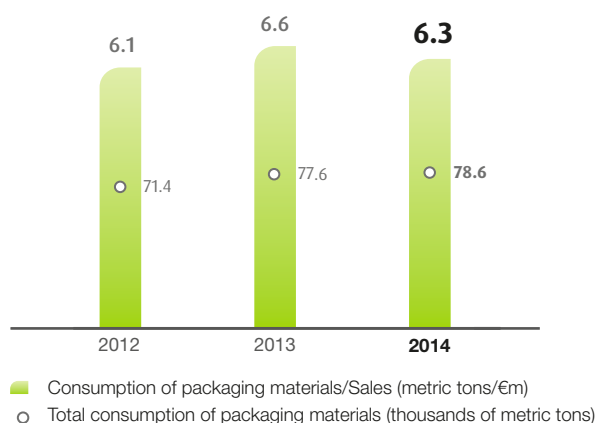
Limiting the quantity of packaging materials

Packaging is essential to the handling of Valeo products. It is required for transportation, facilitates storage, protects products and, in the case of aftermarket products, helps sell them. For these various purposes, Valeo uses many different kinds of packaging materials, mainly cardboard, wood, plastics and metal. Cardboard and wood together account for approximately 90% of packaging materials used.

Breakdown of packaging materials consumption



Packaging materials consumption



In 2014, total consumption of packaging material as a proportion of sales decreased by 4.5% compared with 2013. In absolute terms, total consumption of packaging materials stabilized.

The reduction can be attributed to the many actions taken by sites in partnership with automakers to reduce amounts of packaging materials. The sites are notably working to establish packaging and pallet reuse systems. For example, the Wemding site in Germany (Comfort Systems & Driving Assistance) has developed reusable plastic pallets and packaging:

- finished products are packaged in reusable plastic containers instead of the usual cardboard packaging;
- packaged goods are then stored on extremely sturdy plastic pallets;
- once delivered, the empty containers are folded and returned to Valeo along with the plastic pallets.

This process of recovering packaging and pallets saves 4 kg of cardboard for each pallet delivered, allowing the site to save 17 metric tons in 2014.

Elimination of hazardous substances used by sites

Because of their danger and their legacy use in industrial processes on its sites, the Group also monitors the consumption of heavy metals (lead, mercury, chromium VI, cadmium), chlorinated solvents and substances classified under European regulations as carcinogenic, mutagenic and reprotoxic (CMR).

The Group's consumption of heavy metals has been steadily declining for more than five years (15.35 metric tons in 2014, down 19% compared with 2012).

The use of chlorinated solvents also decreased significantly from 261 metric tons in 2013 to 240.5 metric tons in 2014, as did the use of CMR substances, from 265 metric tons in 2013 to 168.1 metric tons in 2014, down 7.9% and 36.6% respectively.

The Group is pursuing an active policy of elimination of all substances deemed hazardous, formalized in a directive on "regulated or prohibited substances", which applies to all sites and is based on the general principles of REACH⁽¹⁾ (see "REACH regulation" in section 4.2.4, page 145). To this end, sites follow a procedure that involves identifying prohibited substances, seeking out substitute products (at an acceptable price), testing them and having them approved by customers. Most of the hazardous substances still in use at Valeo's sites are those whose use is required by customers, or for which substitute products are either still undergoing approval or are currently prohibitively expensive.

Percentage of materials used that are recycled input materials **GRI EN2**

To reduce its environmental footprint, Valeo puts particular emphasis on the use of recycled materials, primarily through the reuse of packaging materials and the purchase of recycled plastics for manufacturing purposes. In 2014, some 790 metric tons of packaging materials were recovered internally and reused, nearly four times more than in 2013 (203 metric tons). Purchases of recycled plastics totaled 9,552 metric tons in 2014, a decrease of 2.2% compared with 2013.

Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation **GRI EN26**

Initiatives to mitigate environmental impacts caused during use and at the end of life are dealt with in the section on R&D, which describes the Group's commitments in terms of eco-design (see section 4.2.4, "Integration of Corporate Social Responsibility principles in R&D", pages 144 to 147).

(1) See Sustainable Development Glossary, page 386.

Percentage of products sold and their packaging materials that are reclaimed by category **GRI EN27**

Valeo pays particular attention to the recyclability and reuse of its products through its "Eco-Design Standard" Directive, which incorporates the requirements of the End-of-Life Vehicles Directive (ELV⁽¹⁾). The Group is also a major player in the remanufacturing market thanks to its efficient collection of used parts (see "Valeo, a participant in the remanufacturing market" in section 4.2.4, page 147).

In packaging, Valeo has focused its efforts on the design of recyclable packaging and the promotion of sorting.

Energy consumption, measures to improve energy efficiency and use of renewable energy

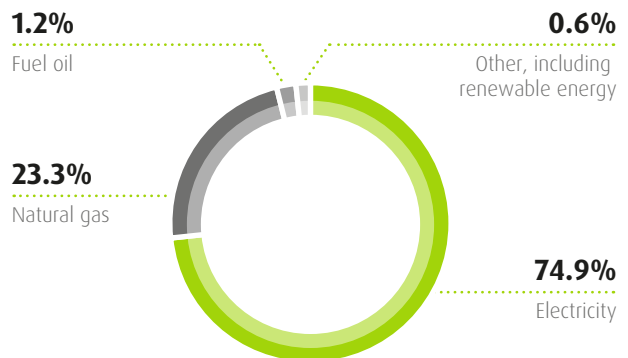
Direct and indirect energy consumption by primary source **GRI EN3** and **GRI EN4**

Valeo sites use the following three types of energy for industrial and domestic purposes:

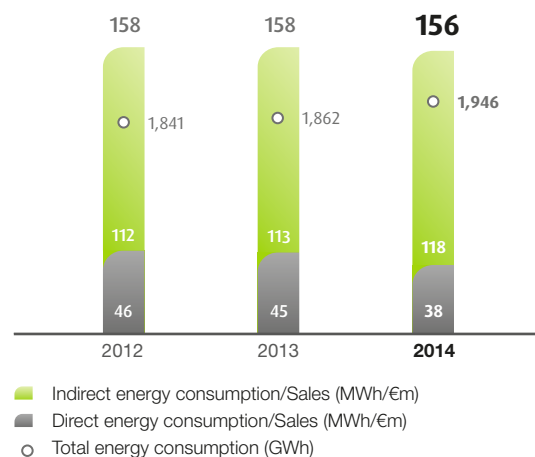
- direct energy as primary energy sources (fuel oil, natural gas);
- indirect energy in the form of electricity, steam and compressed air;
- direct renewable energy generated on site, of solar origin, which to date provides only a very small amount of energy.

Electricity and natural gas have for several years been the two main sources of energy used by sites. Together, they account for nearly 98% of the total energy consumption. The Group does not have detailed information on the primary sources used for the generation of electricity consumed on its sites. It does not take into account energy consumed in the operation of handling equipment (propane and fuel).

Breakdown of direct and indirect energy consumption



Energy consumption



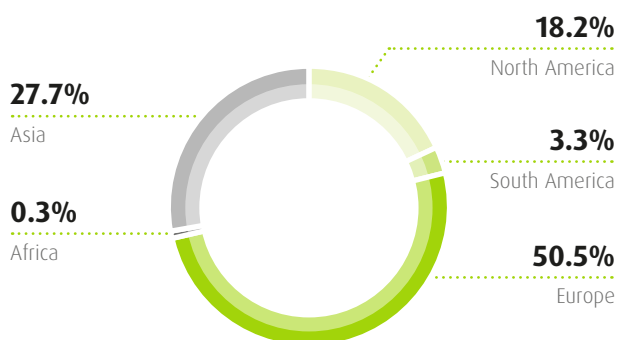
Energy consumption as a proportion of sales was **down 1.3% compared with 2013**. Total energy consumption rose by 4.5%.

However, there was a 15.6% decline in the direct energy ratio, resulting from reduced consumption of gas and fuel oil. This was attributable chiefly to more favorable weather in 2013. The proportion of electricity consumed (indirect energy) continued to grow, at the expense of oil and gas, with fuel oil representing only 1.2% of total energy consumed.

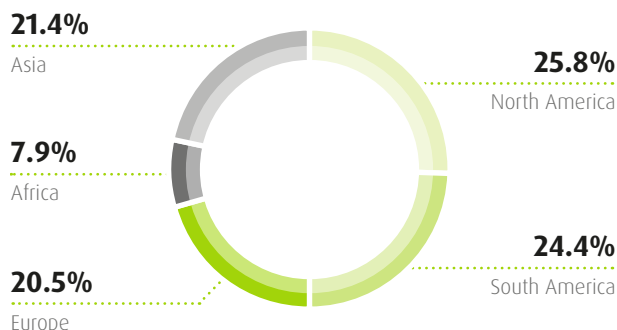
(1) See Sustainable Development Glossary, page 386.

Regional breakdown of energy consumption in 2014

Regional breakdown of total energy consumption



Regional breakdown of energy consumption as a proportion of sales



Sites in Europe and Asia account for close to 80% of overall energy consumption but a little over 40% of consumption as a proportion of sales.

By contrast, sites in North America, South America and Africa accounted for just over 20% of total energy consumption but nearly 60% of consumption as a proportion of sales.

Energy saved due to conservation and efficiency improvements

GRI EN5

The indicator used by Valeo for quantifying savings is the energy intensity ratio (MWh/€m), which decreased by 1.3 percentage points between 2013 and 2014.

This outcome was achieved thanks to numerous initiatives at individual sites. Several sites stand out by virtue of the number and variety of actions taken during the year. Examples include:

- **Rakovnik, Czech Republic (Thermal Systems):** the plant launched a campaign to detect air leaks throughout the plant, optimized the settings of its air conditioning system and installed a heat recovery system from cooling towers to heat its offices. For a total investment of 18,000 euros, the site expects to save 100,000 kWh in energy per year;
- **Chennai, India (Visibility Systems):** the plant undertook a comprehensive program to replace and optimize lighting (400 W bulbs replaced with 120 W bulbs coupled with automatic regulators), a program to substitute conventional engines with more efficient variable-speed engines using less energy, and a program to detect compressed air leaks. This major project involved an investment of 750,000 euros, and could potentially result in an annual gain of 460,000 kWh.
- **Togliatti, Russia (Thermal Systems):** the plant has installed a new and more reliable compressed air system, implemented a system to recover heat from plant testing rooms and replaced its conventional lighting system with LED lighting and an intelligent management system. The site sees its investment of more than 13,000 euros resulting in an energy saving of 60,000 kWh each year.

Sites are also investing in major thermal insulation building projects. They include the Redditch distribution center (Valeo Service, UK), which has invested approximately 480,000 euros to improve its roof insulation, and Bobigny (Visibility Systems, France), which spent more than 100,000 euros to replace the windows of an entire floor of the site.

A total of 65 sites declared the start of new energy efficiency projects in 2014. In 2015, they aim to achieve combined energy savings amounting to 2% of the Group's total energy consumption in 2014, i.e., approximately 35.7 GWh.

In 2014, Valeo continued the rollout of the ISO 50001 energy management systems standard at its sites, with the aim of having 10% of its sites certified by 2015. As of 2014, seven sites (see section 4.3.2, "Active certification policy", page 153) had already obtained this certification.

Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives

GRI EN6

Initiatives taken by Valeo in this area are described in the section on R&D (see section 4.2.5, "An acknowledged approach and new product offerings integrating sustainability", pages 147 to 148).

Land use

The 118 sites in the reporting scope occupy a total area of approximately 682 hectares, of which just over 11% are left in their natural state. The rest is used for buildings, traffic areas and gardens.

4.3.6 Fight against climate change GRI EC2

Greenhouse gas emissions

Since 2009, Valeo has made progress in the analysis of its carbon footprint by evaluating the direct and indirect greenhouse gas (GHG) emissions resulting from its activities. For 2014, the following emission sources are included in the review:

- **direct GHG emissions:** combustion emissions from stationary sources on sites, emissions from fuel combustion by Group-owned vehicles, direct emissions from non-energy processes such as the incineration of VOCs⁽¹⁾, and direct fugitive emissions relating to refrigerant leaks (included in Scope 1 of the international framework);
- **indirect GHG emissions:** associated with energy consumption, related to the consumption of electricity, steam, compressed air and other sources (included in Scope 2 of the international framework);
- **other indirect GHG emissions:** related to purchases of products used in industrial processes, and the transportation of goods and people (included in Scope 3 of the international framework).

Total direct and indirect (Scope 1 and Scope 2) greenhouse gas emissions GRI EN16

In 2013, Valeo made a significant commitment to reduce its direct and indirect GHG emissions by 10% as a proportion of sales over the 2013-2015 period, based on the 2012 performance.

Direct emissions (Scope 1) decreased by 2.2% in 2014 compared with 2013, but were up by 7.5% compared with 2012.

Emissions associated with the combustion of gas and fuel oil, on which Valeo can act directly through increased energy optimization of its facilities, were down by 12% compared with 2013 and by 8% compared with 2012.

Indirect emissions (Scope 2) were up by 24% compared with 2012.

Total direct and indirect emissions (Scope 1 and Scope 2) were up by nearly 20% compared with 2012.

Valeo will not meet its 2015 objective for reducing GHG emissions.

This is the result of the following key factors:

- growth in the Group's business, particularly in Asia, where indirect emissions are very high, particularly compared with Europe. The power plants that provide energy to Valeo's sites in Asian countries are mainly fired by coal, which emits considerable volumes of greenhouse gases during combustion. By comparison, in France, the production of 1 kWh of electricity produces 61 grams of CO₂ equivalent, while in China it produces 764 grams of CO₂ equivalent. The Group's growth accordingly results in a proportionally larger increase in indirect emissions of greenhouse gases in Asia than it does elsewhere;
- greater reliability in the reporting of GHG emissions. This has resulted in much more accurate reporting of greenhouse gas emissions, which will ultimately provide firmer foundations on which to reduce them.

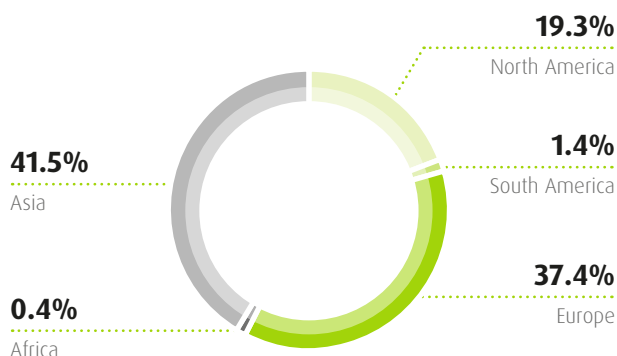
Emission category	Emission source	2012	2013	2014
Direct GHG emissions (thousands of metric tons CO ₂ eq.)	Emissions generated by fuel oil and gas combustion at sites	126.0	131.8	115.9
	Direct emissions from non-energy processes	4.6	14.9	19.3
	Emissions caused by Valeo's vehicle fleet ⁽¹⁾	5.2	7.6	12.0
	Fugitive emissions (refrigerant leakage)	17.4	14.1	17.5
	TOTAL DIRECT EMISSIONS	153.2	168.4	164.7
Indirect GHG emissions (thousands of metric tons CO ₂ eq.)	TOTAL INDIRECT EMISSIONS (emissions from consumption of electricity⁽²⁾ and other energy such as steam)	506.4	534.1	627.7

(1) As of 2013, the figure for emissions from the Valeo vehicles fleet also includes emissions from gas-powered handling equipment.

(2) The calculation takes into account the primary energy source used by each country to generate electricity; the coefficients used for the 2012 data are the latest published by the International Energy Agency at the end of 2012.

(1) See Sustainable Development Glossary, page 386.

Regional breakdown of greenhouse gas emissions in 2014



The chart shows direct emissions related to gas and fuel oil combustion at sites and indirect emissions related to electricity consumption.

Other relevant indirect (Scope 3) greenhouse gas emissions **GRI EN17**

Based on the evaluation of the carbon footprint made in previous years, other indirect GHG emissions (Scope 3) considered relevant by Valeo are:

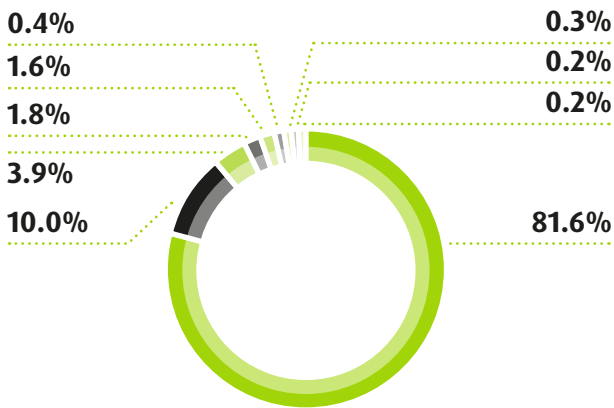
- emissions linked to purchases of materials entering into industrial processes (steel, aluminum, copper, zinc, plastics, electronic components, chemicals and packaging);
- emissions from the transportation of products (logistics);
- emissions from the transportation of personnel.

Emission category	Emission source	2012	2013	2014
Other relevant indirect GHG emissions (thousands of metric tons CO ₂ eq.)	Emissions generated by the production of the main materials used in industrial processes of which:	4,468	4,680	5,122
	• Materials (metals)	2,906	3,050	3,250
	• Materials (other)	1,562	1,630	1,872
	Emissions generated by logistics of which:	134	156	242
	• Road/rail/sea transportation	102	97	157
	• Air/express transportation	32	59	85
	Emissions generated by employee travel of which:	136	139	125
	• Work commutes	86	99	97
	• Business trips	50	40	28
	TOTAL OTHER INDIRECT EMISSIONS	4,738	4,975	5,489

Noteworthy in respect of Scope 3 are:

- a significant increase in emissions from logistics attributable to the Group's growth and the use of express transportation to respond more quickly to customer needs.
- the 10% reduction in emissions from work commutes and business trips in 2014 compared with 2013.

2014 breakdown of main GHG emissions



- Indirect emissions – production of inputs (81.6%)
- Indirect emissions – production of electricity and other sources of energy (10.0%)
- Indirect emissions – logistics (3.9%)
- Direct emissions from combustion energy (1.8%)
- Direct emissions generated by commuting (1.6%)
- Indirect emissions – business trips (0.4%)
- Other direct emissions (0.3%)
- Indirect emissions – Valeo vehicles (0.2%)
- Direct emissions generated by refrigerant leaks (0.2%)

The above chart shows the preponderant contribution of materials used in industrial processes to the Group's overall carbon footprint (approximately 82%, of which two-thirds for metals), whereas direct emissions represent only 4% of the overall footprint.

The Group's overall carbon footprint (Scopes 1, 2 and 3) totaled approximately 6.28 million metric tons of CO₂ equivalent, representing an increase of 10.6% compared with 2013.

Initiatives to reduce greenhouse gas emissions and reductions achieved

GRI EN18

The Group is stepping up its initiatives to reduce its carbon footprint, both at site level, in logistics, and upstream in the product design phase. Initiatives include:

- projects undertaken at sites to improve their energy performance (see GRI EN5, page 166);

- local initiatives at industrial plants on employee transportation. This kind of initiative is on the increase, with plants actively encouraging car-sharing and organizing collective transport directly. Both of these practices are commonplace at sites in Asia (Thailand, India, Japan, China, etc.). We also find more specific initiatives such as the purchase of low-carbon vehicles for fleets at some plants (Humpolec in the Czech Republic and Jonan in Japan), and servicing for the engines of employees' vehicles (San Luis Potosi in Mexico, São Paulo in Brazil, Pune in India and Chonburi in Thailand).

Moreover, plants are generally built close to customers, thereby minimizing emissions from the transportation of finished products.

Carbon efficiency of infrastructure and logistics

Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce⁽¹⁾ **GRI EN29**

Valeo's operations require inbound supplies of raw materials and parts from suppliers, the transfer of parts between sites, and outbound deliveries to automaker-customer premises, plants and dealer networks. The main environmental impacts of these logistics flows stem from the consumption of packaging materials and emissions of greenhouse gases attributable to the use of non-renewable fuels.

In 2014, Valeo pushed ahead with work based on the document "Group Orientations for Transportation, Warehousing, Packaging of Material Procurement Flows". This document, approved by department heads, lays down Valeo's requirements in terms of the organization of transportation, the positioning of external storage facilities owned by suppliers and in terms of packaging to facilitate just-in-time delivery. This formalization of Valeo's requirements is a strong signal of its commitment to optimizing logistics costs, as well as to reducing its greenhouse gas emissions.

⁽¹⁾ Information relating to the transportation of personnel is presented in the GRI EN17 and EN18 indicators, pages 168 and 169.

Case study

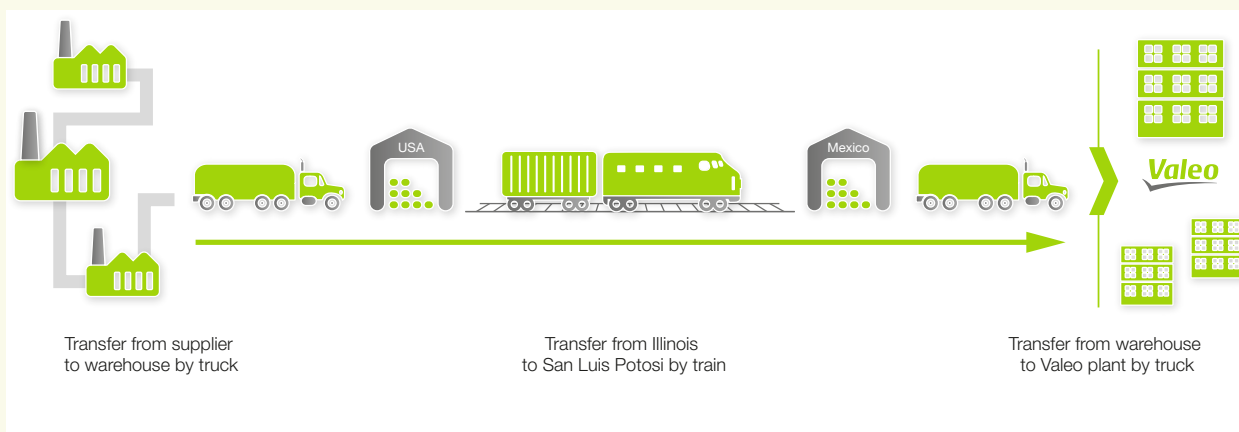
The work carried out in North America in 2014 perfectly illustrates the application of the guidelines laid down by the Group with the establishment of a sustainable strategy aimed at:

- reducing transportation-related CO₂ emissions;
- reducing costs;
- improving reliability in terms of delivery times.

To achieve these three objectives, Valeo now carries out all shipments from its North American suppliers located in the

Chicago area:

- Valeo collects parts from each supplier, using a single logistics provider. Trucks go to a single warehouse, where their content is transferred into sealed containers;
- these containers are then transported by train from Illinois in the United States to a customs warehouse in San Luis Potosi in Mexico, bypassing the mandatory stop at the border;
- after customs clearance, the containers are opened, and their contents are trucked to Valeo's various sites in San Luis Potosi.



This process allows Valeo to improve the load factors of trucks by pooling transportation between suppliers, and to reduce its carbon footprint through the use of rail freight for most of the journey. It also gives it the certainty of getting its parts on time for production and delivery to clients.

Adapting to the consequences of climate change

Valeo operates in areas that in recent years have experienced exceptional natural events, particularly Asia and America. The RIE Department has imposed the deployment of preventive measures, such as work to make roofs able to withstand hurricanes, flood protection and the elevation of land before building.

Systematic analysis of natural hazards is performed before any acquisitions of new land or new sites. This issue is followed closely by insurers, who are tightening their standards for buildings.

4.3.7 Protection of biodiversity

Location and size of land owned, leased or managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas **GRI EN11**

Almost all of the land used by Valeo, i.e., more than 90% of its operating plants, is located in urban areas or areas zoned for industrial use. In addition, its activities are not liable to significantly alter ecological processes (no extraction or spraying, for instance).

To understand its potential impacts more precisely, the Group conducts an annual inventory of plants located in or near (within 10 km) protected areas in respect of biodiversity. Seventeen such plants were identified in 2014: two in Asia, four in South America and eleven in Europe. These include eight plants in France, chiefly in the vicinity of Natura 2000⁽¹⁾ areas or natural areas of ecological, flora and fauna interest (ZNIEFF⁽¹⁾).

Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas **GRI EN12**

The precise identification of significant direct impacts on biodiversity is conducted across sites through their environmental analysis. This step is crucial in the implementation of an ISO 14001 certified environmental management system.

Strategies, current actions and future plans for managing impacts on biodiversity **GRI EN14**

The “Biodiversity” Directive lays down guidelines to regulate practices in terms of biodiversity conservation during the phases of selection, construction, operation and closure of plants.

Many sites are active on the issue of biodiversity, particularly the sustainable development week held in June. Two measures merit particular note:

- recovery of electronic devices (cells/batteries, household appliances, used phones, etc.) for recycling: this ensures that the hazardous waste contained in these devices will be recycled by appropriate companies in a manner respectful of the environment. The US plants in Troy (Comfort Systems & Driving Assistance), Hudson and Greensburg (Thermal Systems), and the site in Breuilpont, France (Valeo Service activity) have been active in this effort;
- planting trees on the site or distributing seeds or seedlings to employees: this is common practice throughout the Group, with examples including the plants in Foshan, China (Visibility Systems) Chennai, India (Powertrain Systems), Chonburi, Thailand (Thermal Systems) and Itatiba, Brazil (Thermal Systems).

(1) See Sustainable Development Glossary, page 386.

4.4 Labor-related indicators

4.4.1 Introduction

Valeo's Human Resources strategy, fundamental to its Corporate Social Responsibility policy, plays a key role in the Group's international expansion and positioning in developing and producing high-tech products.

It is a global approach, taking into account specific cultural, economic and market conditions, thereby allowing the Group to deal with a broad range of situations in the various countries where it operates.

Valeo applies this strategy in tackling the many challenges it faces worldwide in developing and managing human resources, from engaging in the war for talent to building and sharpening advanced skills and sustaining employability.

The priorities of the Human Resources Department are:

- the promotion of and compliance with Valeo's values:
 - ethics,
 - transparency,
 - autonomy,
 - professionalism, and
 - teamwork;
- employee health and safety and improved workstation ergonomics;
- the value of the human factor to improve employee working conditions, particularly in terms of:
 - well-being at work,
 - diversity in all its dimensions (gender, disability, social and cultural, generational),
 - the motivation and engagement of all employees.

The last two priorities (employee health and safety and the value of the human factor) are pillars developed in the dashboard of objectives and key performance indicators used to apply Valeo's sustainable development policy (see section 4.1.1, page 132).

A Corporate Social Responsibility (CSR) agreement was signed on July 10, 2012 between the Group's Management and the Committee members of its European Works Council. The purpose of this agreement is to ensure that an appropriate labor framework is in place to accompany the Group's international expansion, in line with its principles of responsibility, Code of Ethics and sustainable development policy. The agreement also seeks to promote labor and environmental practices that go beyond legal and regulatory obligations, by:

- giving due consideration to employee health and safety issues when thinking about new capital investments;
- making one-to-one employee meetings a common practice in order to encourage the development and adaptation of competences;

- anticipating, in the event of changes in the economic and industrial environment affecting its workforce, how employees will be impacted by strategic decisions;
- ensuring that adequate assistance is provided to those affected, in line with the best industry practices in the relevant local market, through informative meetings with employee representative bodies.

The Human Resources and Sustainable Development Departments implemented an annual reporting tool in 2008 enabling them to identify the initiatives taken in Valeo's various plants in respect of labor, corporate citizenship and environmental issues. This tool, known as "Plants' Initiatives", was updated in 2014 to focus responses on the most relevant issues and concrete measures taken in the various regions (Africa, North America, South America, Asia, Eastern Europe, Western Europe). The results of the survey are presented either as charts or included directly in the content of the various themes addressed.

This annual reporting tool monitors a few key indicators reflecting the two pillars of Valeo's Human Resources strategy:

- to promote employee health and safety and to work towards the goal of "zero accidents", indicators measure the frequency rate, severity rate, the percentage of training hours on health and safety, and the percentage of sites that have implemented a questionnaire to measure the perception of employee well-being at work;
- to stress the value of the human factor and to improve employee working conditions, key indicators were introduced to monitor the action plans on diversity (proportion of women engineers and managers among new hires, percentage of disabled employees out of total headcount), on well-being at work (percentage of countries that have fully implemented the Well-Being at Work program, absenteeism) and on training (number of hours of training).

The indicators presented below were prepared using the requirements and recommendations of Articles L.225-102-1 and R.225-105-1 of the French Commercial Code (*Code de commerce*). With the exception of the joint venture Interior Niles China Fuzhou FNE, labor reporting was based on the scope of financial reporting for 2014. Headcount is consolidated in line with IFRS 11 – "Joint Arrangements" (see Note 1.3.1.2 to the consolidated financial statements, page 247). This means joint ventures are not included in reporting on labor-related indicators. On the other hand, Valeo Sylvania (North America), Valeo Samsung Thermal Systems Co. Ltd (Korea) and Nanjing Valeo Clutch Co. Ltd (China) are now fully consolidated following the acquisition of shares and of controlling interests in 2014 (see Note 2.2.1 to the consolidated financial statements, page 254). Details are provided every time the application of IFRS 11 significantly impacts the figures.

Discussions continued in 2014 between Group Management and representatives from the European Works Council to identify ways of helping employees better understand and integrate Valeo's CSR priorities and initiatives. These discussions led to an action plan including various training programs.

Valeo has 133 sites, 16 research centers, 34 development centers and 15 distribution platforms in 29 countries worldwide.

Most of the indicators presented in this chapter have been audited by an independent external body, whose report is provided in section 4.8, page 226.

4.4.2 Headcount in line with the Group's international development

Total headcount and breakdown of employees by gender, age and geographic area **GRI LA1** **GRI LA13**

Change in headcount over three years

Financial reporting		Scope of labor reporting			
2014		2012	2013	2014	Change 2013-2014
18,488	Engineers and managers	15,929	16,831	18,458	+10%
10,235	Administrative staff, technicians and supervisors	9,333	9,436	10,189	+8%
42,514	Operators	39,748	40,548	42,518	+5%
71,237	Registered headcount	65,010	66,815	71,165	+7%
7,258	Temporary staff (<i>full-time equivalent at December 31</i>)	7,590	7,368	7,254	-2%
78,495	Total headcount	72,600	74,183	78,419	+6%
	of which:				
56,297	Permanent staff	60,708	52,655	56,208	+7%
22,198	Non-permanent staff (fixed-term and temporary)	11,892	21,528	22,211	+3%

At December 31, 2014, the Group employed 78,419 people (labor reporting scope), an increase of 6% in the total headcount compared with 2013. Excluding the impact of the new consolidation standards (IFRS 11), Group headcount was up 7% to 79,679 people.

This growth in headcount is attributable primarily to the increase in engineers and managers.

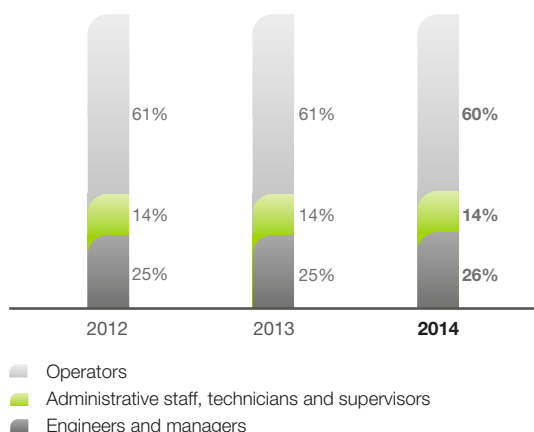
The Group continues to increase its competences through the recruitment of a growing number of engineers and managers in the wake of substantial investment in innovation, primarily in Europe and Asia. These changes in employee categories reflect Valeo's gradual shift from an industrial company to a technology company. Its strategy resonates in the extension of industrial capacity in high-growth countries in North America and Asia. For the first time in its history, Valeo now employs 1,000 more operators in China than in France, reflecting the strength of its operations in that country.

The automotive market is cyclical: considerable flexibility is required to adapt capacity on a constant basis to fluctuating demand from clients around the world.

At December 31, 2014, 28% of the Group's employees were classified as non-permanent (an increase of 3% compared with December 31, 2013). Outside of China, the percentage comes out at 19%. Common practice in China is to start with an initial five-year renewable fixed-term contract followed by a permanent contract. Before 2013, Human Resources directors at Chinese plants counted these consecutive contracts as a single permanent contract. But as of January 2013, Valeo decided the statistics should more accurately reflect the nature of the contracts.

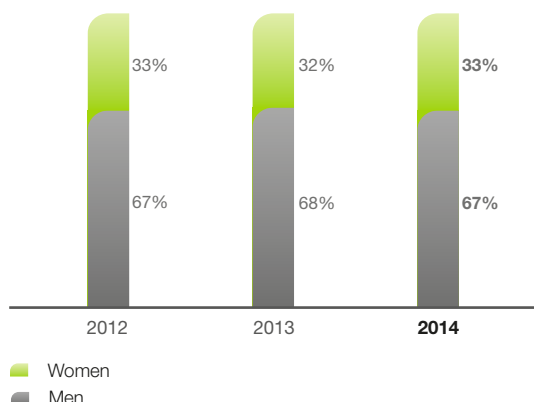
At December 31, 2014, the Group employed 7,254 temporary staff, down 2% compared with December 31, 2013.

Breakdown of registered headcount by socio-professional category



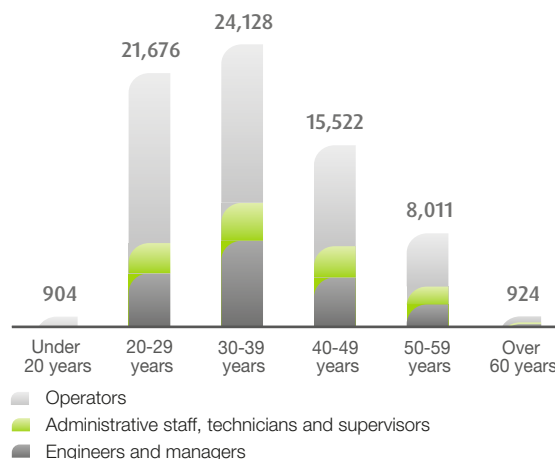
Innovation is central to Valeo's strategy, and a key factor in its success. The increase in 2014 in the proportion of engineers and managers in the headcount demonstrates its increasing policy focus on technological innovation.

Breakdown of registered headcount by gender



The overall proportion of women at Valeo rose slightly (1 percentage point). Growth continued in the number of women hired in occupations where their numbers are lower, i.e., engineers and managers and technicians (see section 4.4.6, page 193) thanks to Valeo's initiatives to promote gender diversity and its professions.

Registered headcount by age bracket



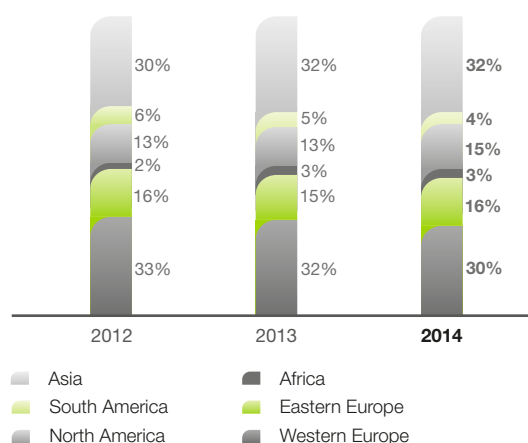
At December 31, 2014, the Group's registered headcount by age was as follows:

- 1% aged under 20, up 21% on 2013;
- 31% aged between 20 and 29, up 6% on 2013;
- 34% aged between 30 and 39, up 6% on 2013;
- 22% aged between 40 and 49, up 7% on 2013;
- 11% aged between 50 and 59, up 4% on 2013;
- 1% aged over 60, up 32% on 2013.

Given the large number of young people among the employees hired each year, generational turnover remains significant, as staff numbers are reinforced in fast-growing regions.

In line with the policy to promote generational diversity, each age category has grown compared with December 31, 2013.

Breakdown of total headcount by geographic area



Headcount grew substantially in 2014:

- up 18% in North America with Valeo's acquisition of Oram GmbH's shares in Valeo Sylvania (see Note 2.2.1.1 to the consolidated financial statements, page 254), on a like-for-like basis, growth would have come out to 5%;
- up 13% in Eastern Europe;
- up 11% in Africa.

Headcount rose 2% in Asia after applying the new consolidation standards. Excluding the impact of new consolidation standards, headcount increased 10%. The sharp growth in China's staff numbers (up 7%, or 16% excluding the impact of the new consolidation standards) was partially offset by significant staffing cuts in India (down 26.4% due to the sale of the Access Mechanisms business) and, to a lesser extent, in Japan (down 3.3%).

Western Europe saw limited growth of 1%.

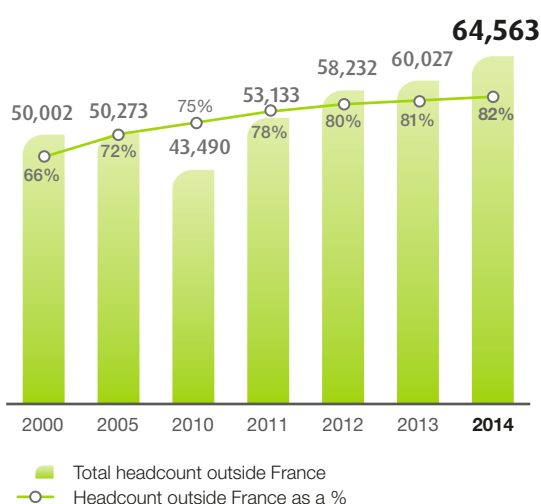
Headcount in South America fell sharply by 17%.

These fluctuations accurately reflect both the contrasting economic climates in each region and Valeo's development strategy.

New hires and employee turnover GRI LA2 GRI EC7

Valeo's policy of international expansion has led to a 6% rise in the number of employees worldwide. Today, 82% of employees are based in a country other than France (83% excluding the impact of the new consolidation standards), compared with 66% in 2000.

Headcount outside France



Valeo's success hinges on attracting top international performers, particularly in fast-growing markets and emerging countries, and in fields related to CO₂ emissions reduction and improved vehicle performance as well as intuitive driving technologies. Skilled teams ensure that Valeo can offer its customers added value around the world in terms of innovation, total quality and competitive solutions and services.

To ensure that both internal and external recruitment is managed consistently and professionally, all managers are trained using a recruitment kit. This kit combines the various communication and recruitment tools developed by the Group, such as the Employer Brand, the Internal Mobility Charter and the Valeo Competences system, launched in 2004. A recruitment guide describes the Group's operating culture, and sets out the key messages to pass on to applicants. By offering a standard recruitment policy based on objective selection criteria, the recruitment guide helps to promote diversity at Valeo and to eliminate all forms of discrimination. A new tool to identify non-technical transversal competences has also been added to the kit, making it possible to focus the selection of applicants more closely on these specific competences.

In 2014, Valeo hired 17,895 people worldwide, 7,125 of whom on permanent contracts, including more than 3,100 engineers and managers.

With its strong corporate image and experience, Valeo did not encounter any particular problems with recruitment during the year, apart from certain highly localized difficulties concerning positions requiring advanced specialization or specific language skills and in local labor pools where competition for skilled labor is fierce.

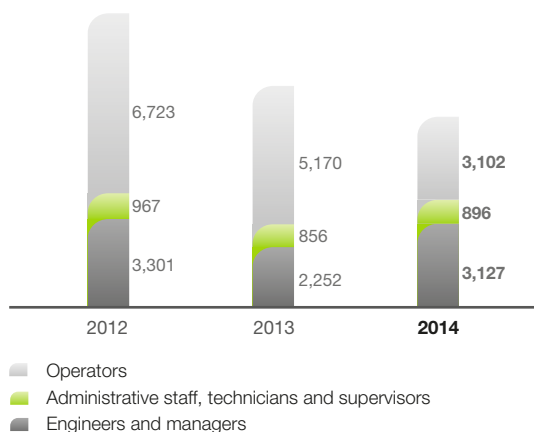
Change in hiring over three years

2012	2013	2014
-12%	+6%	+2%

In 2014, global automotive production rose 3%, with hiring up 2% (3% excluding the impact of the new and consolidation standards).

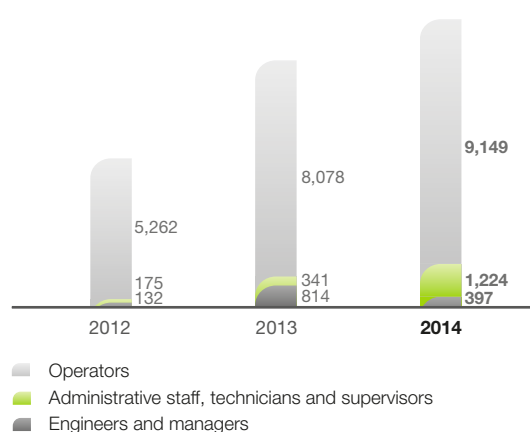
The number of new hires on fixed-term contracts in China (31% of total new hires) was high. This was a result of the change in rules applied to classifying contracts. All fixed-term contracts, whatever their term, now qualify as temporary contracts and no longer as permanent contracts (see section 4.4.2, "Change in headcount over three years", page 173).

Number of new hires on permanent contracts



The number of employees hired on permanent contracts fell by 14% to 7,125 in 2014, compared with 8,278 in 2013, but with a sharp rise (39%) in the number of engineers and managers hired on permanent contracts.

Number of new hires on fixed-term contracts



Valeo hired 10,770 employees on fixed-term contracts during the year, up 17% compared with 2013. The increase was attributable to growth in China and greater caution on hiring in some regions currently experiencing slower economic growth. This led to a significant rise (23%) in the number of operators hired on fixed-term contracts.

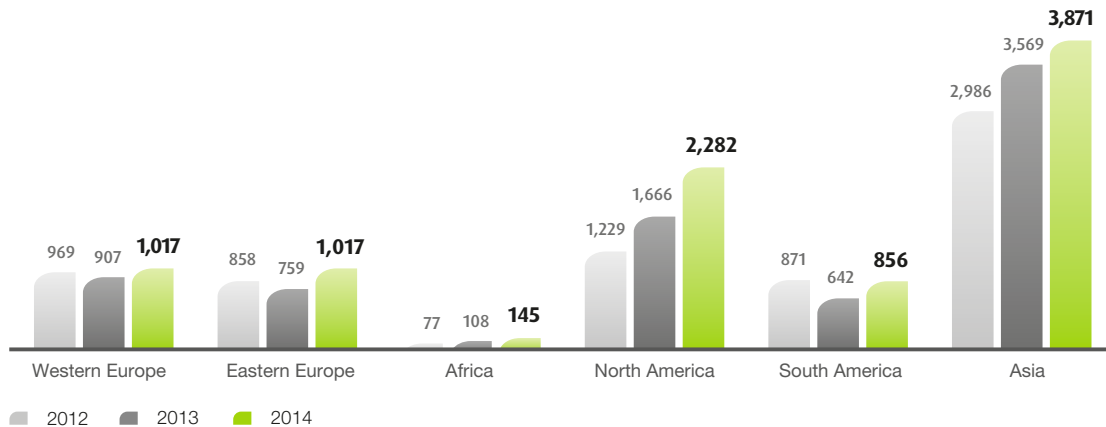
Breakdown of new hires by geographic area

	Permanent contracts				Fixed-term contracts			
	2012	2013	2014	Change 2013-2014	2012	2013	2014	Change 2013-2014
Western Europe	1,408	1,161	1,271	9%	2,031	2,097	3,006	43%
Eastern Europe	1,437	1,263	1,551	23%	942	512	862	68%
Africa	268	211	293	39%	402	746	365	-51%
North America	2,559	1,763	1,685	-4%	1,331	1,403	1,362	-3%
South America	573	960	341	-64%	41	74	20	-73%
Asia	4,746	2,920	1,984	-32%	822	4,401	5,155	17%
TOTAL	10,991	8,278	7,125	-14%	5,569	9,233	10,770	17%

The extensive hiring in Asia mirrors Valeo's expansion strategy in this region (40% of total hires). The 17,895 new hires break down as follows in the various geographic areas, in descending order:

Asia (7,139), Western Europe (4,277), North America (3,047), Eastern Europe (2,413), Africa (658) and South America (361).

Breakdown of departures over three years by geographic area

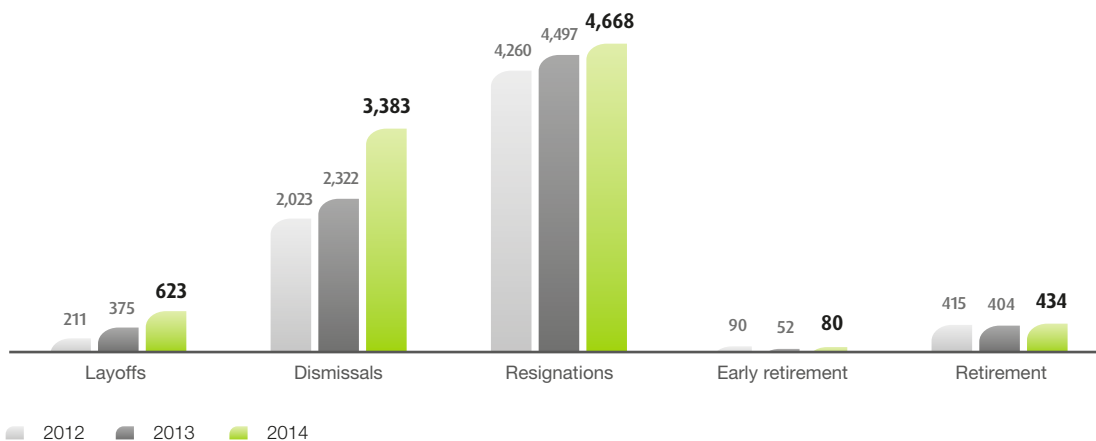


Labor markets are particularly active in Asia and North America, including markets for operators, and the Group's headcount continues to grow significantly in both areas. In other major markets the number of departures is rising due to the uncertainty in South America and the economic recovery in Europe.

Breakdown of departures by geographic area in 2014

	Western Europe	Eastern Europe	Africa	North America	South America	Asia	Total
Layoffs	70 11.3%	10 1.6%	21 3.4%	42 6.7%	369 59.2%	111 17.8%	623 100%
Dismissals	179 5.3%	322 9.5%	8 0.2%	1,115 33.0%	359 10.6%	1,400 41.4%	3,383 100%
Resignations	496 10.6%	632 13.5%	114 2.4%	1,043 22.4%	127 2.7%	2,256 48.4%	4,668 100%
Early retirement	79 99.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	1 1.0%	80 100%
Retirement	193 44.4%	53 12.3%	2 0.5%	82 18.9%	1 0.2%	103 23.7%	434 100%
TOTAL	1,017	1,017	145	2,282	856	3,871	9,188

Breakdown of departures by category



In 2014, 9,188 people left the Group, i.e., 16.3% of permanent employees, compared with 14.5% in 2013.

Early and statutory retirements represented 0.9% of permanent employees, compared with 0.9% in 2013 and 0.8% in 2012.

Resignations continue to be one of the main reasons for departure, representing 8.3% of permanent employees in 2014 (8.5% in 2013 and 7% in 2012). By socio-professional category, resignations represented 7.2% of permanent engineers and managers, 6.9% of permanent administrative staff, technicians and supervisors, and 9.2% of permanent operators.

The Group has a single information process for resignations. The resignation of an engineer or manager triggers a "resignation alert" sent by the Human Resources Department to supervisors, functional managers, the human resources network, etc. on the day the employee submits his or her resignation.

The "resignation alert" concisely sets out the reasons for the resignation. The relevant managers examine it in order to determine the necessary action in view of the reasons for resignation, the employee's profile, skills, etc.

Subsequently, two meetings are organized with the resigning employee: one with a member of the Human Resources Department and the other with his or her manager. The purpose of these meetings is to look more closely at the reasons for the resignation, and on that basis to set out appropriate corrective and preventive measures with the relevant manager(s).

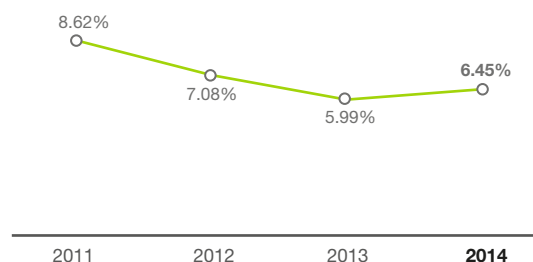
Layoffs accounted for 15.6% of terminations, compared with 13.9% in 2013 and 9.4% in 2012. Their main causes were the closure of Brazilian Front-End Modules sites. Layoffs have also risen due to adjustments in headcount in Brazil, with the sluggish national economy and the struggling local automotive market.

Other contract terminations were for personal reasons, some of which on disciplinary grounds. Depending on local laws and regulations, terminations can occur for professional incompetence or any job/skills mismatch. These terminations rose in 2014 essentially as a result of disciplinary action taken to counter the increase in repeated unjustified short-term absences in China, Mexico and the United States.

Valeo is firmly committed to strategic workforce planning. In the event of economic difficulties, it implements measures to delay and, wherever possible, avoid terminations. These measures include granting leave or vacations, cutting overtime,

reducing the number of temporary staff and subcontractors, and putting employees on short-time working arrangements. When there is a clear need to optimize industrial performance, Valeo undertakes restructuring operations. In this case, the Group liaises regularly with trade unions and uses all available mechanisms to find alternative employment through calls for volunteers, internal redeployment, outplacement, takeover of the plant by another owner or reindustrialization of local labor pools.

Voluntary turnover of engineers and managers



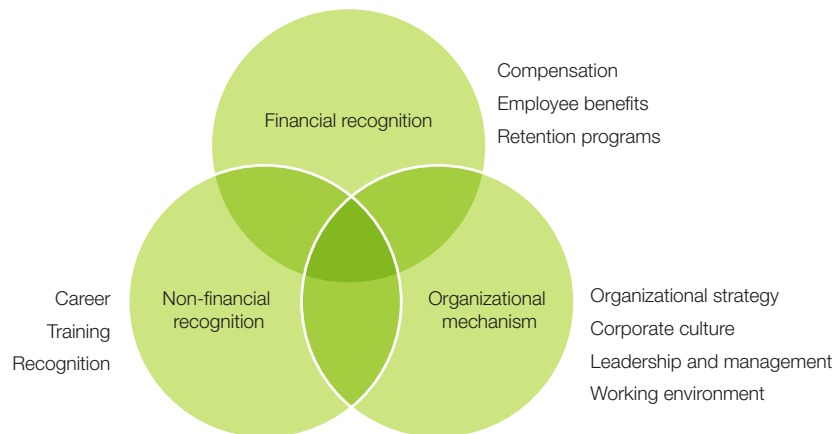
Voluntary headcount turnover represents the number of voluntary departures of engineers and managers expressed as a percentage of the total number of engineers and managers on the payroll (retirements and contract terminations are not taken into account).

Engineers and managers turnover is analyzed in detail every month, by Business Group, network, function, age, country, gender, level in the organization and length of service. The aim of this analysis is to identify the reasons for departures and initiate measures to address them.

In 2014, the turnover of engineers and managers in the Group was 6.45%, compared with 5.99% in 2013. Turnover was lowest in Spain (2.32%), Germany (3.25%), the United Kingdom (3.66%) and France (4.15%).

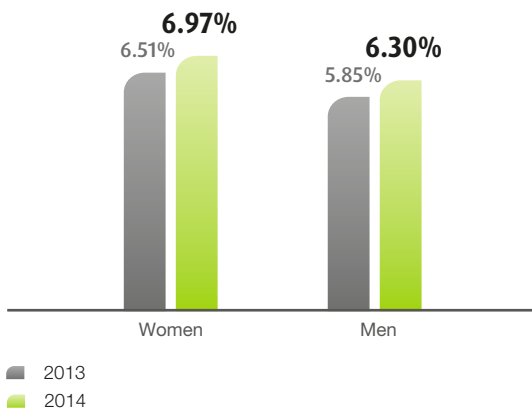
Turnover is limited in emerging countries such as China, where it was 8.6% (compared with 8.7% in 2013) and India, where it was 5.6% (compared with 9.9% in 2013). A global talent retention policy has been implemented, and has yielded results in these regions over the past few years. Turnover was highest in Thailand and Tunisia, where special measures have been taken to bring the rate down significantly.

This strategy is based on three key concepts:



Forging loyalty among teams and being able to retain them is an essential part of ensuring operational excellence.

Turnover of engineers and managers by gender



The main reasons cited by both men and women when resigning are visibility on their career paths and compensation. To boost loyalty and sustainably reduce turnover, Valeo has accordingly decided that career paths should be discussed during mid-year (or year-end) appraisal meetings with engineers and managers. Valeo also conducts regular competitiveness analysis of salaries in major markets to ensure the appropriateness of pay scales in the countries where the Group operates.

Women also cite the workload as a reason for resignation. To ensure a proper work-life balance, Valeo has rolled out a global Well-Being at Work policy, which has resulted in the implementation of initiatives at various sites, including flexi-time arrangements, bans on late meetings, company concierge services and the reservation of nursery places.

A telework experiment was led in France in 2014, and action to phase in this work approach worldwide is currently being developed.

Organization of work according to Group needs

Working week of full-time employees

The working time of employees at the Group's 133 plants, 16 research centers, 34 development centers and 15 distribution platforms is organized on the basis of statutory provisions, varying from 35 to 48 hours per week depending on the laws and regulations in each country.

The most common statutory working week is 40 hours.

In France, the agreement on the reduction of working time signed with the trade unions on April 20, 2000 establishes working time as follows:

- 215 days annually for engineers and managers (fixed daily basis);
- 35 hours per week for administrative staff, technicians and supervisors (excluding employees with a fixed working time of 37.5 hours);
- 35 hours per week for operators.

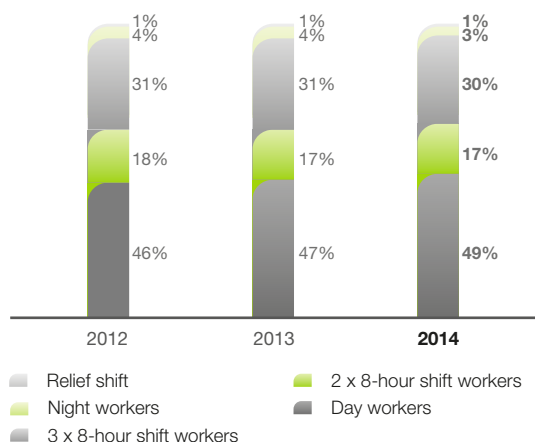
Working week of part-time employees

Part-time work is considered to be any work schedule with fewer hours than the standard working week at the entity in question. Average working hours for part-time employees consequently vary from 16 to 36 hours per week, depending on the country and socio-professional category.

A total of 1,209 employees were working part-time in the Group in 2014, or 1.7% of the registered headcount (compared with 1.75% in 2013 and 1.6% in 2012).

Women represent 66% of part-time employees (64% in 2013 and 68% in 2012). By category, part-time employees break down as follows: Engineers and managers: 9%; administrative staff, technicians and supervisors: 12%; and operators: 79%.

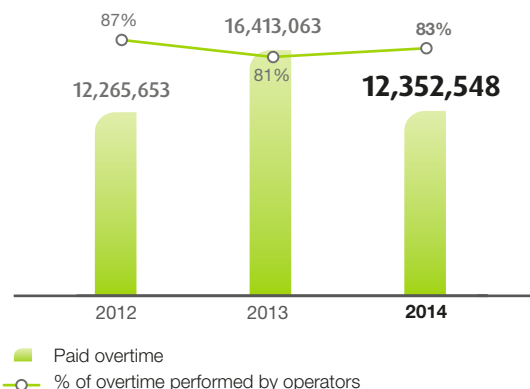
Breakdown of registered headcount by working hours (%)



Valeo adapts working time so as to optimize plant utilization. Certain machinery is operated round the clock, thereby requiring three different shifts: a morning shift, an afternoon shift and a night shift, as part of 3 x 8-hour shift arrangements. In some plants, employees working nights may be part of a fixed shift, which means that they work nights on a regular basis. These are known as permanent night-shift teams. When there are no night shifts, work is organized into 2 x 8-hour shifts. In 2014, 51% of the registered headcount worked on the basis of shifts, compared with 53% in 2013.

Structural staff work during the day, with working time depending on local laws and regulations. Certain production staff may work standard working hours during the day. This applies in particular to staff with certain impairments or disabilities.

Paid overtime hours



Paid overtime corresponded to 9% of total possible working hours (i.e., the number of basic hours that could be worked by all Group employees).

In 2014, Valeo registered overtime comparable with that of 2012.

4.4.3 Health and safety among the Group's top priorities

Description of health and safety at Valeo

In the field of safety and working conditions, Valeo's goal is "zero accidents".

Valeo has implemented systematic audits performed by external consultants so that risks can be better assessed and managed, and quality standards improved. The aim is for all sites to obtain ISO 14001 and OHSAS 18001 certification. In 2010, a new self-evaluation tool was developed by Valeo to allow each HSE manager to perform a self-assessment audit of his or her site against benchmarks based on Group HSE directives. The tool is used in addition to the audits performed by external consultants (see section 4.3.2, page 150), and makes it possible to assess site performance on a more regular basis.

To standardize and entrench safety culture at its sites, the Group has established several internal training modules for its site managers, covering all of its HSE guidelines.

In October 2013, the Group also reviewed and amended its Valeo 5000 framework (internal audit based on the 5 Axes framework), notably the Safety and Ergonomics section. Emphasis has been placed on prevention, compliance with procedures and management training in the various sites.

In keeping with its policy of continuous improvement and its determination to guarantee complete transparency, accident-tracking software has been developed. Its rollout to all sites began in October 2013. This software, known as VIM Safety (Valeo Incident Management), is based on the Safety QRQC (Quick Response Quality Control) analysis tool introduced in 2007. The tool provides real-time information on safety incidents/accidents in each site at all levels (Business Groups, Group, etc.) through a "Red Alert" process. It identifies and monitors the implementation of corrective and preventive actions. The tool makes it possible to monitor the implementation of actions taken at each site, and their compliance over time, and to share safety measures simply and quickly with other sites liable to face the same issues.

A Safety and Universalization Committee meets every three months at Group level and within Business Groups to review the most serious accidents, identify necessary action, standardize these measures and monitor their implementation at sites.

Along the same lines, in 2010, safety performance became an integral part of managerial assessment criteria at all levels of the organization, as a way of increasing employee awareness and involvement. All variable compensation (for eligible managers) is weighted up or down by a safety indicator: the frequency rate of accidents with lost time.

Health and safety topics covered in formal agreements with trade unions GRI LA9

Valeo signed a Corporate Social Responsibility (CSR) agreement in 2012. Chapter 3 of this agreement, dealing with social, corporate citizenship and environmental practices, includes several articles discussing health and safety at work.

For the first time, shared commitments were enshrined in a European agreement and have gradually been extended to all of the Group's companies outside Europe. As of February 15, 2013, the agreement was applicable to all Group sites worldwide.

The implementation of this agreement led to the preparation of a specific report in 2012 on the European Union scope (for most parameters), presented to the Committee members of the European Works Council in two meetings in March and November 2013.

The policies ushered in by the agreement are as follows:

- investments shall not jeopardize the health or safety of employees;
- working conditions shall be monitored to protect the health, safety, and physical and mental integrity of employees. Employee well-being is considered a constant focus for improvement;
- training programs shall be developed in all Group entities to raise each employee's awareness of the importance of wearing appropriate protective gear and behaving in a manner that does not endanger his or her colleagues;
- risk prevention initiatives shall be rolled out as part of a continuous improvement initiative aimed at eliminating accidents and occupational illnesses and improving the management of risks with delayed consequences (chemical risks, musculoskeletal diseases, psychosocial disorders, etc.);
- discussions with trade unions and similar bodies about individual health and safety shall be encouraged;

- employees shall be reminded that no bullying or moral or sexual harassment will be tolerated;
- appropriate indicators shall be set up and reported to employee representatives.

In addition to this European agreement, 25 sites in 13 countries signed health and safety agreements in 2014: three in Germany, three in Spain, three in Italy, three in Mexico, three in China, three in India, one in France, one in Indonesia, one in Japan, one in Thailand, one in the Czech Republic, one in Russia, and one in Tunisia (see "Collective bargaining agreements" in section 4.4.4, page 188).

Frequency and severity of occupational accidents and occupational illnesses GRI LA7

Besides systematically implemented internal and external audits, Valeo uses three indicators to gauge the efficiency of its measures:

- Frequency rate 2 (FR2): number of accidents with or without lost time per million hours worked;
- Frequency rate 1 (FR1): number of accidents with lost time per million hours worked;
- Severity rate (SR1): number of days lost owing to an occupational accident per thousand hours worked.

This indicator covers all Valeo employees whatever their type of employment contract (including temporary staff). The number of days lost is calculated based on calendar days.

Only actual working hours are taken into account in the number of hours worked. Paid vacation and paid or unpaid absences of any kind are not included.

In calculating the severity rate, the number of lost-time days for temporary staff is capped based on the term of the employment contract.

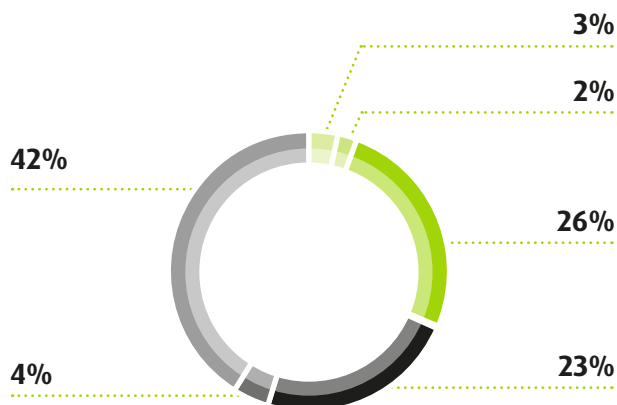
The FR1 ratio at Group level improved between 2008 and 2013 but worsened in 2014, mainly in the Powertrain Systems Business Group. To stop this trend, Safety First training aimed at all Group employees will be deployed in 2015. This training program is designed to raise employee awareness about risky behavior and to highlight their ability to identify, prevent and avoid all accidents.

The Business Groups now monitor the sites with the highest number of accidents to help them improve their safety measures.

Valeo formally analyzes every incident/accident (Safety QRQC) in order to better organize risk prevention and put in place appropriate protective measures for its employees.

In all, 15% of training hours organized within the Group in 2014 were dedicated to safety.

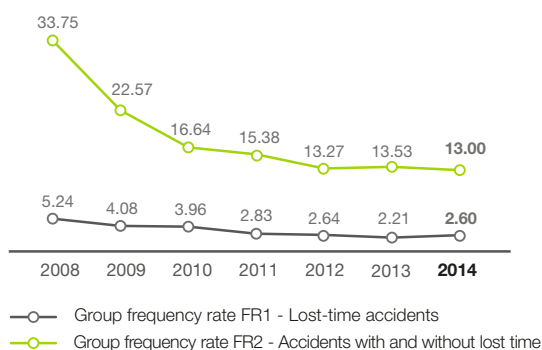
Breakdown of lost-time accidents by cause



- Injuries caused by machines or processes (42%)
- Transport accident outside working hours and other (26%)
- Muscle pain (23%)
- Musculo-skeletal disorders (4%)
- Accidents caused by chemicals (burns, allergies, etc.) (3%)
- Transport accident during working hours (2%)

Valeo aims to improve accident risk prevention and detection in three ways:

- identifying “near misses” at all levels of the organization;
- designing safe and secure equipment, machines and workstations (during project development phases);
- constantly improving standards (continuous improvement initiative) and sharing best safety practices across the entire organization.

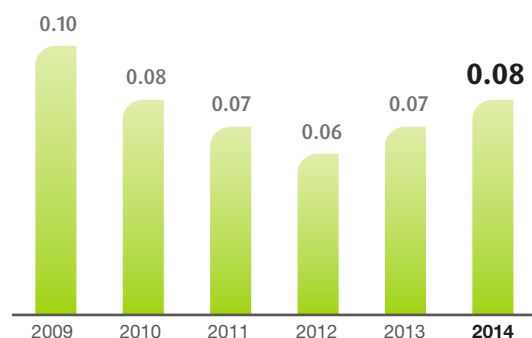
Group frequency rate (FR1⁽¹⁾/FR2⁽²⁾)

(1) Formula for calculating FR1: (number of lost-time accidents x 1,000,000)/number of hours worked.

(2) Formula for calculating FR2: (number of accidents with or without lost time x 1,000,000)/number of hours worked.

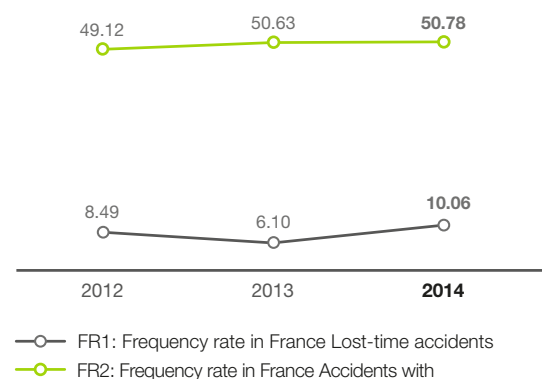
In 2014, the FR1 ratio was 2.60, compared with 5.24 in 2008, illustrating the ongoing improvement in the Group's safety record, with a drop of 50% in accidents over the past six years despite a slight increase in 2014.

In 2014, the number of accidents with or without lost time continued to fall, with an FR2 ratio of 13.00, compared with 33.75 in 2008, representing a 61% improvement over the past six years.

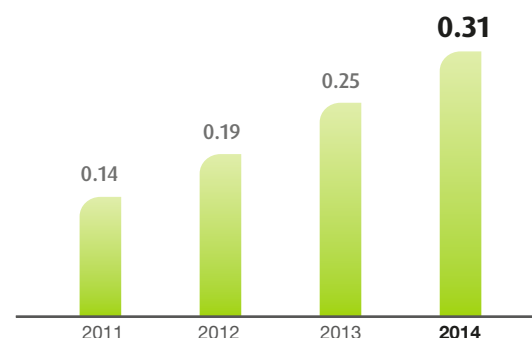
Group severity rate (SR1)⁽¹⁾

(1) Formula for calculating SR1: (number of days lost owing to occupational accidents x 1,000)/number of hours worked.

Frequency rate in France (FR1/FR2)



Severity rate in France (SR1)



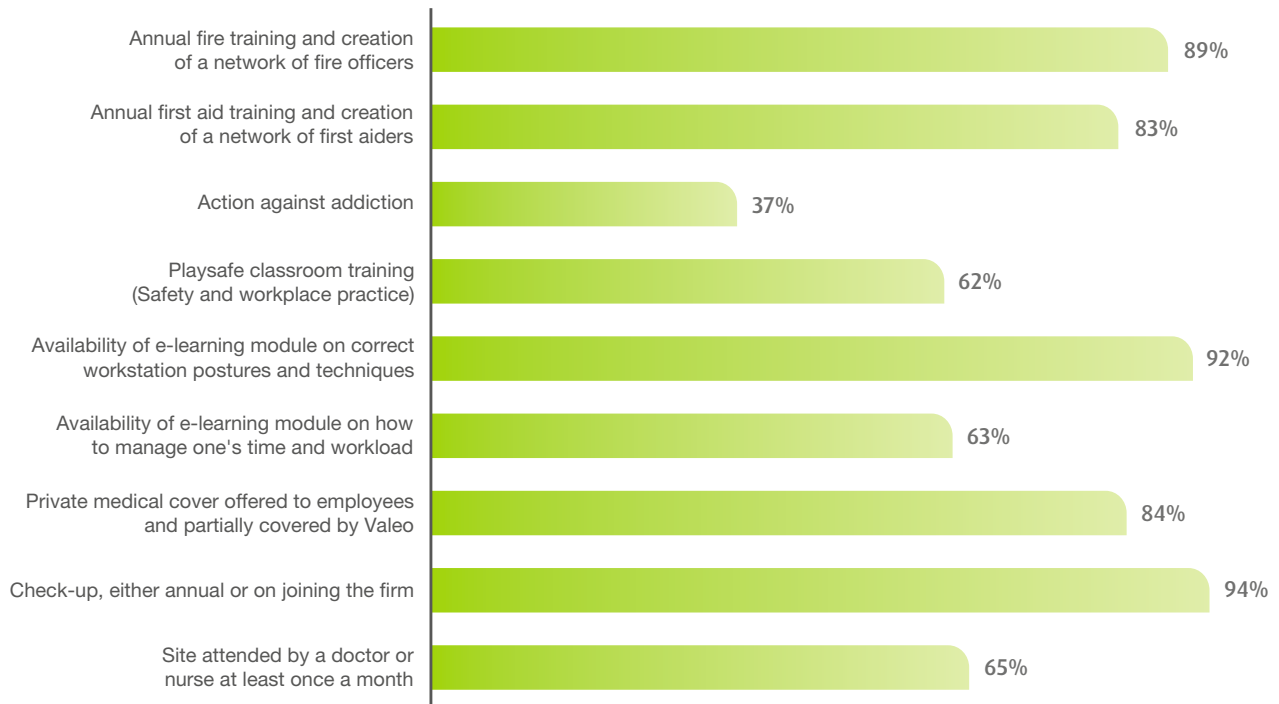
The number of accidents with lost time expressed as a percentage of the total number of accidents reported is an effective way of measuring the reliability of the information provided by sites.

The ratio varies widely between countries: 2% in the United States, 20% in France, 50% in Egypt and 67% in South Korea. In view of these differences, the Group will continue to improve communication on this issue and encourage sites to report all accidents – even those causing no injuries or lost time. Some countries even improved their ratio between 2013 and 2014, such as Germany which is down from 53% to 16%. To encourage this reporting, the Group awarded the year's Safety Prize to the Wemding plant for improving its FR1 (zero lost-time accidents).

ratio and its willingness to report all accidents resulting in no injuries (increase in FR2 ratio). Reporting even minor accidents may help avoid more serious ones in the future, thanks to the analysis of the causes of accidents and the implementation of appropriate action plans.

The Group seeks to raise safety awareness at different levels of its organization. Indicators are presented at Operations Committee and Liaison Committee meetings, as well as at meetings of the Risk Management Committee.

Percentage of sites having implemented health and safety initiatives in 2014

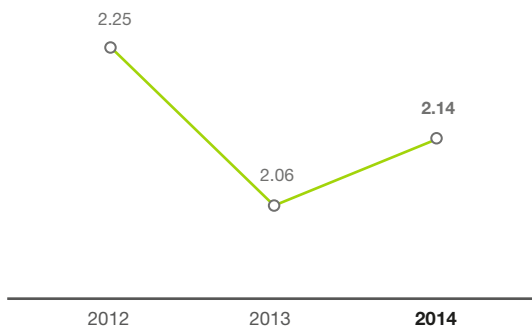


84% of Valeo's sites offer their employees private medical insurance. All sites offer medical insurance in South America and Africa.

Absenteeism GRI LA7

The absenteeism rate includes absences for illness, unjustified absences, authorized absences (unpaid leave, etc.), absences due to occupational accidents and accidents on the way to work, strikes, suspensions or other reasons. The downward trend has continued from 2.25% to 2.14% since 2012, despite a slight increase in 2014.

Group absenteeism rate



Calculation: actual hours of absence expressed as a percentage of total possible working hours. Possible working hours are the number of days worked in the month x the daily working hours (excluding overtime) x month-end registered headcount.

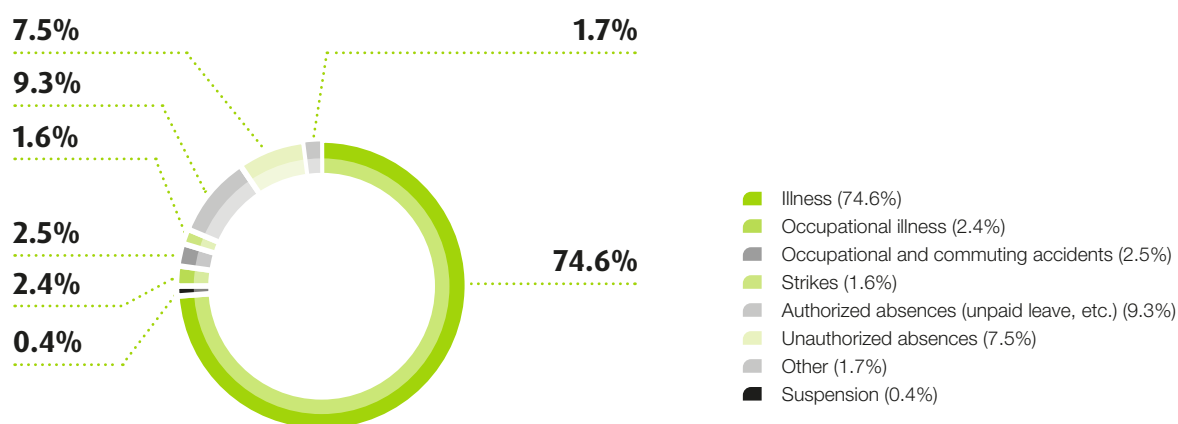
Absenteeism rate by geographic area



The global absenteeism rate rose slightly by 0.08 percentage points between 2013 and 2014.

Although Valeo have a consistent policy for tracking absenteeism, the level of social security coverage and cultural differences has a strong bearing on national rates.

Breakdown of absences by cause



Breakdown of absences by cause and geographic area

Cause/ Geographic area	Authorized absences (exceptional unpaid leave, etc.)							
	Illness	Occupational illness	Commute	Suspension	Strike	Authorized absences (exceptional unpaid leave, etc.)	Unjustified absences	Other
Western Europe	85.4%	5.6%	3.4%	0.0%	2.1%	2.6%	0.7%	0.2%
<i>o/w France</i>	82.6%	5.2%	5.5%	0.1%	2.2%	3.0%	1.2%	0.2%
Eastern Europe	90.9%	0.1%	0.9%	1.0%	0.0%	3.7%	3.2%	0.2%
Africa	71.6%	0.5%	0.1%	2.0%	0.0%	17.1%	7.9%	0.8%
North America	51.2%	0.0%	5.0%	1.2%	0.0%	8.8%	31.1%	2.7%
South America	55.9%	0.2%	0.8%	0.0%	8.6%	15.8%	16.9%	1.8%
Asia	52.8%	0.3%	0.7%	0.0%	0.0%	33.7%	4.8%	7.7%
TOTAL	74.6%	2.4%	2.5%	0.4%	1.6%	9.3%	7.5%	1.7%

Well-Being at Work

Timeline of main initiatives

2004	✓ Risk analysis framework for occupational accidents certified at all Group sites. ✓ Common accident-prevention methodology rolled out as part of Group companies' ongoing improvement initiatives.
2007	✓ Formal ergonomic policy set up and integrated into internal site certification.
2008	✓ Play Safe training module designed, enabling employees to put into practice risk prevention and safety measures both in and outside the workplace.
2009	✓ First discussions regarding a Well-Being at Work initiative, extending risk prevention and treatment to employees' psychological health.
2010	✓ Well-Being at Work agreement signed in France. ✓ List of 63 actions for improving well-being at work circulated to all Group entities. ✓ Labor climate survey launched at all French sites. ✓ Well-Being at Work committees set up at all French sites to adapt and implement action plans at a local level.
2011	✓ Local action plans defined and implemented in response to the findings of the survey. ✓ Well-Being at Work film produced and screened at all French sites.
2012	✓ Well-Being at Work program rolled out worldwide. ✓ Well-Being at Work film subtitled in English.
2013	✓ Play Well training module designed, enabling managers to build an environment favorable to personal development at work and to detect and prevent psychosocial risks, both in and outside the workplace. ✓ Communication with sites on Valeo's Well-Being at Work program and its follow-up (France, Tunisia, etc.). ✓ Systematic inclusion of the criterion of value and respect for individuals in tools used to assess employees' potential and to promote them. ✓ Rollout of individual action plans at each site to boost engagement.
2014	✓ Progress report on the 2010 collective agreement applicable to France and negotiations under way to extend it to other countries. ✓ Second Well-Being at Work survey in France and application at all Group entities worldwide. ✓ Analysis of findings and definition of the four priority areas for each site for the 2015-2016 program.

Well-Being at Work program rolled out worldwide.

The Well-Being at Work program was launched worldwide following the Group-wide HR convention in December 2011.

Its rollout wrapped up at the Group's annual senior management convention in October 2012, with a report describing how the Well-Being at Work program was implemented and adapted by each country.

A survey had been taken of existing best practices at different Group sites to guide the implementation of the program based on the "inquiry, analysis, action" methodology that has been tried and tested at French sites.

Valeo's top management lent its full support to this international rollout to encourage local entities to integrate the program with a lasting impact.

This support included a panel of directors selected by the Group's Operations Committee to oversee communication and application at different sites worldwide.

One-day seminars were held in eleven regions to train regional country directors, site directors and country HR directors to help them integrate the issue and adapt it to their local culture. These local managers formed working groups to come up with concrete action plans for each country and each site.

The communication campaign was launched based on successful local initiatives adapted to the culture while meeting regional requirements. Human resources management tools have also been developed further and since 2012 have included on an international scale:

- the creation of a Group management training module on Well-Being at Work issues, known as "Play Well", along the lines of the previous "Play Safe" training initiative on safety and management;
- a reminder of existing rules and a review of the Code of Ethics at annual appraisal meetings between employees and their line manager;
- the inclusion of behavioral performance on an equal footing with business performance during annual appraisals;

- specific discussions during annual appraisals designed to gauge employees' feelings about workload and their work-life balance;
- a specific channel for reporting any suspicions of harassment, so that they may be treated centrally and a formal objective inquiry carried out before any conclusions are drawn;
- particular emphasis on recognition and reward, including for hard work and progress, as well as actual results;
- the first reporting of employee well-being indicators in the monthly review of operational management's financial performance.

The program is now part of Valeo's management culture.

The Well-Being at Work program has been in place since 2012. Initiatives taken since in each country were monitored at Group level in 2013 and 2014.

Valeo firmly believes that this program:

- meets a global need of all employees;
- is an investment in the future;
- now sets Group performance apart through the involvement of its employees.

Aiming for continuous improvement in 2014

Valeo manages its operations by drawing on a strong culture of continuous improvement.

This culture is put into practice by operating staff on the ground who report information based on real-life situations in order to come up with and apply useful improvements.

Valeo also manages its people based on continuous improvement.

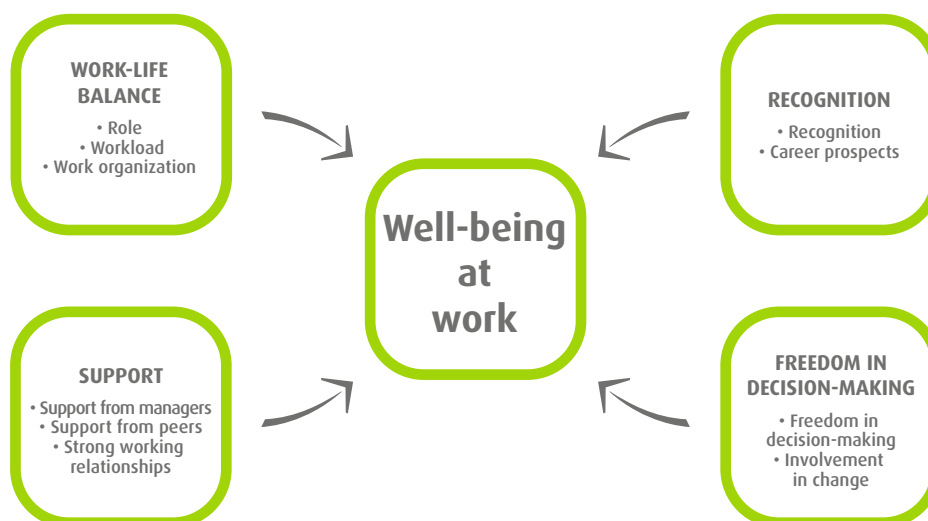
In recent years, Well-Being at Work programs have been developed across all Valeo sites worldwide based on observations and reporting from employees on the ground.

Today, five years since the program launch in France and three years since its international rollout, Valeo has measured its effectiveness for employees and identified areas for improvement to constantly boost well-being and, in turn, productivity.

Local managers focused on two projects in 2014:

- progress reports on the collective agreements signed in 2010 and preparation of the renegotiated terms of a company agreement on the Well-Being at Work program;
- measuring well-being at work through a survey based on a global index.

Ten factors, organized into four categories, were identified as essential to developing the well-being felt by each individual:



Progress report on the collective agreement signed in France in 2010

Overview of initiatives taken per factor

Factor	Number of initiatives taken in 2014	Percentage of initiatives taken out of all site initiatives	The most common initiatives implemented at sites
Work-life balance	51	35%	Affiliation with a nursery, ergonomic improvements to workstations, concierge services, workload reviews, warm-ups, massages, relaxation, training
Recognition	26	18%	Open days, management discussion sessions, employment training, communication on the mobility of productive staff, career management
Freedom in decision-making	8	6%	Information meetings on site outlook in terms of projects, products, workload and earnings, increased participation of operating staff in improvement projects
Support	61	41%	Social worker, redesign of break rooms and common areas, shuttles, Well-Being at Work days, "live my job" programs, forum on labor issues, Play Safe, more balanced meals, partnerships with schools, healthcare services (campaigns), specialized establishments

Most of the work focused on the support and work-life balance factors, with less progress made on the other two factors, recognition and freedom in decision-making.

Due to these uneven results, negotiations with all the French representative trade unions began in the third quarter of 2014 with the objective of defining a three-year agreement as of 2015.

2013-2015 Well-Being at Work survey

Valeo conducted its third engagement survey among its engineers and managers, taken every two years, in late 2013, adding the well-being index that year.

Nurturing the well-being of employees means ensuring their long-term engagement.

In 2014, Valeo extended its well-being index to technicians, administrative staff and other workers. Measuring this index at each entity reveals specifically how employees feel about the four well-being factors: work-life balance, recognition, freedom in decision-making and support.

For France, the results were analyzed against the findings of the 2010 survey, confirming or identifying measures of perceived improvement since then.

For other countries where Valeo operates, this is the first time progress in perceived well-being has been measured since the program was put in place.

In France, survey participation rose considerably in all categories, with 72% participation for engineers and 53% for technicians, administrative staff and other workers. This came to an average of 60%, compared with 54% for the previous survey.

The 2010 survey showed high employee engagement, strong support for the project and balance through a feeling of appropriate recognition to compensate for day-to-day pressure. Areas for improvement focused on increasing independence and reducing pressure on results.

The new survey found that progress has been made:

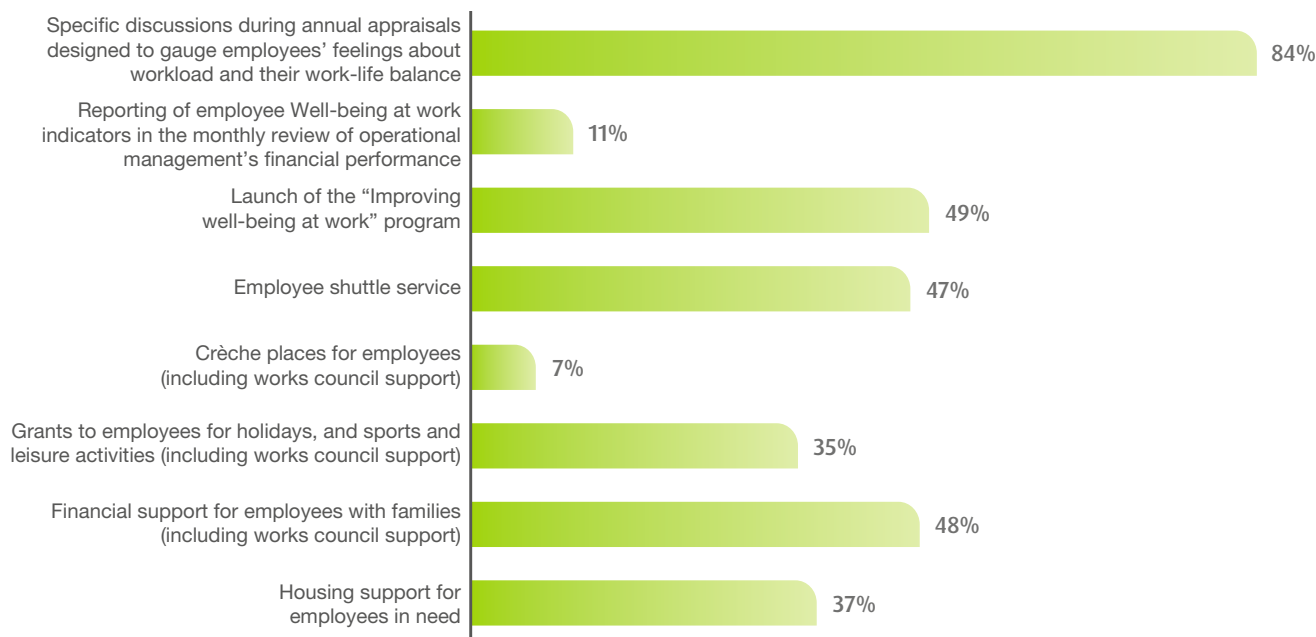
- work-life balance has been enhanced and outstrips comparisons outside the Group. Stress and the feeling of independence (or freedom in decision-making) have also improved;
- support for employees in their work requires further progress in terms of developing tools, simplifying processes and offering guidance;
- new requests have emerged, such as more opportunities in career and skills development at all levels of the company to boost employee fulfillment.

The findings of this survey and the development of action plans with employee representatives in France will form the basis for dialogue between the representative trade unions and be used to align the collective agreement with employee needs.

These surveys were sent to all sites outside France in December 2014.

Survey results will be analyzed in 2015, and the most appropriate action plans defined in 2015 and 2016.

Percentage of sites having implemented Well-Being at Work initiatives in 2014



97% of sites implemented at least one Well-Being at Work initiative in 2014.

The telework program launched in France in the second half of 2014 was implemented internationally starting in the fourth quarter of 2014.

4.4.4 Labor relations and compliance with the Code of Ethics

GRI HR5

Organization of labor relations

Valeo is convinced that sound labor relations are vital for the Company in order to adapt to the vast, swift and deep-seated changes affecting the automotive industry. To meet today's challenges, including the gradual cultural shift from an industrial company to a technology company, Valeo must continue promoting labor relations that provide a platform for exchanging points of view, fostering mutual understanding and finding well-balanced solutions that are in the interests of all stakeholders.

Employee representative bodies

GRI LA4

Group Committee in France

In 1984, Valeo established a Group Committee in France, the members of which are appointed by trade unions from among the elected representatives sitting on Works Councils at entity and site levels. They represent the Group's various French entities. This representative body, which is chaired by the Chief Executive Officer, meets twice annually and is briefed on the business activity, financial position, economic outlook and employment trends and forecasts concerning the Group

and Valeo's French entities. The 26 members of the Group Committee were reappointed in 2013.

European Works Council

In 1999, Valeo also created, by way of agreement, a European Works Council. While not interfering with the work of national representative bodies, the European Works Council provides a forum for exchanging views and establishing dialog between management and the 16 employee representatives from each European country where Valeo has over 150 employees. A committee, comprising nine members, meets quarterly at a European site.

The European Works Council represents 42.4% of the Group's registered headcount, or 30,198 employees.

Annual monitoring was implemented following the signing in July 2012 of the Agreement on Corporate Social Responsibility with the committee members of the European Works Council. A presentation of the first results of the application of this agreement was made to the European Works Council at its March meeting.

International level GRI LA4 GRI LA6

There is no Global Works Council representing the Group's employees worldwide. Each country sets up specific bodies in line with local laws and regulations.

At least one employee holds a mandate as staff or union representative in 26 countries (nearly 90% of the countries in which Valeo operates). A total of 12,750 Valeo employees, accounting for 23% of the permanent headcount worldwide, had at least one such representative in 2014.

In addition, over 75% of Valeo sites have set up a committee dealing with health and safety issues and/or working conditions.

Lastly, 65% of Valeo sites are covered by a collective bargaining agreement, at least for part of their personnel.

Stoppages/strikes

Valeo does not have to contend with many strikes at its sites; strikes account for only 1.6% of absences worldwide. Only 18 of Valeo's sites worldwide (14%) were faced with stoppages or strikes, whether or not production was halted, primarily those in Brazil and France, as part of wage negotiations, Argentina, in response to downsizing in line with a fall in activity, and Italy, as a result of changes in employment legislation. Some sites in France were affected by strikes resulting in production stoppages, generally ranging from 30 minutes to 1.5 hours lost per shift.

Collective bargaining agreements GRI LA9

Valeo has developed an active policy of negotiating with unions. In 2014, agreements were signed on at least one site in 22 countries:

Number of sites to have signed an agreement	Working hours	Compensation	Bonus	Health and safety	Other
Germany	2	5	4	3	2
Argentina	0	1	1	0	0
Belgium	0	1	0	0	0
Brazil	7	7	1	0	0
China	3	3	1	3	3
South Korea	0	2	0	0	0
Spain	3	2	0	3	3
France	8	8	0	1	16
Hungary	1	0	0	0	0
India	1	4	4	3	2
Indonesia	1	1	1	1	1
Italy	3	3	3	3	3
Japan	8	5	4	1	0
Mexico	5	6	4	3	0
Poland	0	2	0	0	1
Czech Republic	2	3	3	1	3
Romania	1	2	2	0	1
United Kingdom	0	0	0	0	3
Russia	0	0	0	1	0
Thailand	1	4	4	1	2
Tunisia	1	1	0	1	1
TOTAL	47	60	32	25	41

Roughly 200 collective bargaining agreements were signed at local level at Valeo's various sites worldwide in 2014. The topics covered by these agreements are as follows:

- 23% on working hours;
- 45% on compensation or bonuses;
- 12% on health and/or safety.

The other agreements bore chiefly on themes related to diversity (*contrat de génération* or generational contract in France, for instance) or site competitiveness.

In France, four group-wide negotiations in 2014 concerned the 12 legal entities and their 31 sites. Those bearing on the profit-sharing bonus agreement and the establishment of a French industrial relations observatory were signed by three trade unions out of the four representative organizations at Group level, representing 63% of staff. Negotiations to harmonize healthcare and life insurance and invalidity care regime costs within the Group in France resulted in the unanimous signing of two agreements by all representative trade unions.

Focus on France: harmonizing life insurance and invalidity care and healthcare costs

Recognizing that the considerable disparity between schemes in place within Valeo's various entities in France is a factor of inequality and an obstacle to internal mobility, management and the representative trade unions launched wide-ranging negotiations in autumn 2012. French employees belong to one of 70 different regimes depending on the Valeo site to which they are affiliated, their professional category or the organization with which they are insured. The goal of the negotiations was to harmonize the level of benefits and contributions, and to appoint a single body to manage healthcare and welfare expenses. A total of 15 negotiating sessions were necessary to put together the two harmonized regimes, which entered into effect on January 1, 2014. The employer's share of the

contribution to healthcare is the only item not to be harmonized from January 1, 2014. A transitional period has been set out, with the aim of achieving full harmonization within three years. Valeo's French employees, whether management or staff, now all benefit from the same systems in respect of medical expenses and life insurance and invalidity care.

Following the signing of the aforementioned agreements on October 24, 2013, action was taken to inform all staff through poster campaigns, briefings, the delivery of specialized documentation and interviews with HR services to ensure implementation on January 1, 2014.

An equal treatment issue concerning supplementary pension benefits was negotiated in 2014, resulting in a majority agreement and a communication campaign. The plan will be implemented as of January 1, 2015.

Labor relations in 2014 and 2015

	Achievements in 2014	On the agenda for 2015
France	✓ Talks on the 2014 French statutory additional profit-sharing bonus. ✓ Renegotiation of the Group profit-sharing plan. ✓ Talks on an agreement to harmonize supplementary pension rates. ✓ Talks on the establishment of a French industrial relations observatory for labor relations.	✓ Talks on the Quality of life at work agreement: arduous work, disability, well-being at work and psychosocial risks. ✓ Second agreement signed to establish a French industrial relations observatory for labor relations on January 28, 2015. ✓ Talks on Workforce Planning and Equal Opportunity: mobility, generational contract, specialists, training, gender equality.
Europe	✓ CSR agreement monitoring arrangements.	✓ CSR agreement monitoring arrangements – Joint working group on implementing a training and awareness program with the European Works Council.
World	✓ Nationwide wage negotiations. ✓ Rollout of the disability policy. ✓ Rollout of the CSR agreement. ✓ Well-Being at Work survey conducted among non-management employees.	✓ Nationwide wage negotiations. ✓ Action plan resulting from the Well-Being at Work survey.

Promoting and respecting the core conventions **GRI HR6** **GRI HR7**

Valeo's corporate social responsibility policy is part of a universal framework of international commitments designed to guarantee the dignity of individuals and fundamental social rights.

United Nations

- Universal Declaration of Human Rights (UN – 1948);
- Declaration of the Rights of the Child (UN – 1959);
- Declaration on the Elimination of Discrimination against Women (UN – 1967).

Valeo adheres to the UN Global Compact and reports each year to the United Nations on its progress in the area of corporate social responsibility. It accordingly publishes an annual document entitled "Communication on Progress" on the

Global Compact website (available at the following address: <http://www.unglobalcompact.org/COPs/detail/23400>).

This underlines Valeo's commitment to the Ten Principles set out in the July 2000 Global Compact, which are echoed in its own Code of Ethics.

International Labour Organization (ILO) Core Conventions

The Group respects the ILO's Conventions on basic principles and rights at work:

- discrimination (employment and occupation) (Conventions 100 and 111);
- child labor (Conventions 138 and 182);
- forced labor (Conventions 29 and 105);
- freedom of association and collective bargaining (Conventions 87 and 98);

- protection of workers' representatives and union members (Convention 135);
- equal rights and opportunities for workers with family responsibilities (Convention 156).

The Group also adheres to the OECD's Guiding Principles for multinationals, adopted on June 27, 2000 and revised on May 25, 2011.

Code of Ethics

In 2005, the commitments listed above were enshrined in an updated Code of Ethics distributed by Valeo worldwide. The Code of Ethics is binding on all Group employees and sets out the rules applicable in all of the Group's legal entities and in every country without exception.

The Code of Ethics covers issues such as child labor, the employment of people with disabilities, discrimination, harassment and health and safety in the workplace. It demonstrates the Group's commitment to sustainable development issues including the environment, human resources, labor relations and freedom of expression, as well as the development of employee potential. It covers corporate citizenship commitments (professional training, new employment assistance, reindustrialization), business conduct and professional conduct. Finally, the Code states that Valeo service providers, consultants and subcontractors are obliged to act in accordance with the ethical rules outlined by the Group (see section 4.5.2, "Business Ethics and Compliance Program", page 208).

4.4.5 Employee profit-sharing and share ownership policy

Compensation GRI EC5

To boost its image as an employer of choice, Valeo is intent on determining "fair" compensation levels in each country where it operates. Valeo's compensation policy must not only respect all applicable laws, regulations and collective bargaining agreements, but also – and more importantly – enhance its appeal as a leading employer in each of its Business Groups. The economic climate in each country, and even at each site, is a major consideration in attempting to protect the competitive edge of Group entities, irrespective of their location.

Compensation policies are defined based on a broad range of reliable sources such as government forecasts, Valeo's financial services, National Directorates or national HR Directors, the OECD and specialized consulting firms. Valeo favors individually tailored compensation packages to bolster motivation through individual recognition. The more senior the employee, the more tailored the package.

<i>(in millions of euros)</i>	2012	2013	2014	Change 2013-2014
Payroll costs excluding social contributions and temporary staff	1,764	1,736	1,839	+5.9%
Social contributions	458	434	459	+5.8%
Pension costs under defined benefit plans	32	40	43	+7.5%
Pension expenses under defined contribution plans	70	78	91	+16.7%
Loaded payroll costs	2,324	2,288	2,432	+6.3%
Loading rate	29.9%	29.5%	29.9%	

<i>(in millions of euros)</i>	2012	2013	2014	Change 2013-2014
Loaded personnel costs (including temporary staff)	2,495	2,588	2,730	+5.5%
As a % of sales	21.2%	21.4%	21.5%	

Breakdown by geographic area in 2014

(in millions of euros)	France	Europe (excl. France)	Outside Europe
Payroll costs excluding social contributions and temporary staff	617	592	630
Social contributions	237	131	91
Loaded payroll costs (excluding pension costs)	854	723	721
Loading rate	38.4%	22.1%	14.4%

Financial instruments GRI LA3 GRI EC3

Statutory profit-sharing

All of Valeo's French companies have implemented profit-sharing agreements. In 2015, a total of 257,000 euros will be paid to the employees of one company for 2014.

Profit-sharing plans

The Group's French companies are now all covered pursuant to the Group agreement signed in June 2014.

Using the formulas set out by this agreement, a total of 10.6 million euros should be paid to employees in the Group's twelve French entities in respect of 2014.

French statutory additional profit-sharing bonus

In 2014, the Group's Management renewed its talks with trade unions regarding the profit-sharing bonus. Under the terms of the agreement that was signed by three representative trade unions at Group level, each French entity paid a gross bonus of 120 euros per employee during the fourth quarter of 2014.

Improvement bonus

For many years, most Valeo entities worldwide have offered an improvement bonus. The purpose of this arrangement is to encourage employees to play an active part in helping achieve growth targets. For French employees, this variable component of their compensation represented a total of 5.6 million euros, equating to an annual average of approximately 460 euros per employee.

Employee savings plans

Three different employee savings plans introduced by collective bargaining agreements are available to Valeo's employees in France. Savings totaled 73.5 million euros on employees' accounts. Company contributions amounted to 1.5 million euros in 2014.

The annual individual contribution limit breaks down as follows for each plan:

- Group savings plan (*Plan d'épargne groupe* – PEG): 275 euros gross;
- Collective pension savings plan (*Plan d'épargne pour la retraite collectif* – PERCO): 750 euros gross;
- Valeo employee share ownership plan: 350 euros gross.

These three amounts can be combined.

At December 31, 2014, 11,785 employees in France, or 97% of the registered headcount in France, had signed up to PEG, while 2,543 employees in France, or 21% of the registered headcount in France, had signed up to PERCO. 27% of former employees have kept their savings in employee savings plans.

Employee share ownership

For the fourth consecutive year, based on recommendations by the Group's Management, on March 27, 2014 the Board of Directors of Valeo decided to grant each eligible employee three free Valeo shares. The operation took place during the second quarter of 2014 and benefited 56,638 employees.

4.4.6 Promoting diversity and equal opportunities at work

Valeo is convinced of the importance and interest represented by broader diversity at all levels and in every profession of the Company, not only as a question of social responsibility, but also a tool for improving performance, developing competences and promoting creativity and performance.

In 2012, a diversity committee, chaired by the Group HR Senior Vice-President, was established at the initiative of General Management. Four special committees (Gender, Disability, Social and Cultural, and Generational) were created, comprising employees from different countries and different functions, and led by four managers with diverse backgrounds, tasked with making suggestions for improvement.

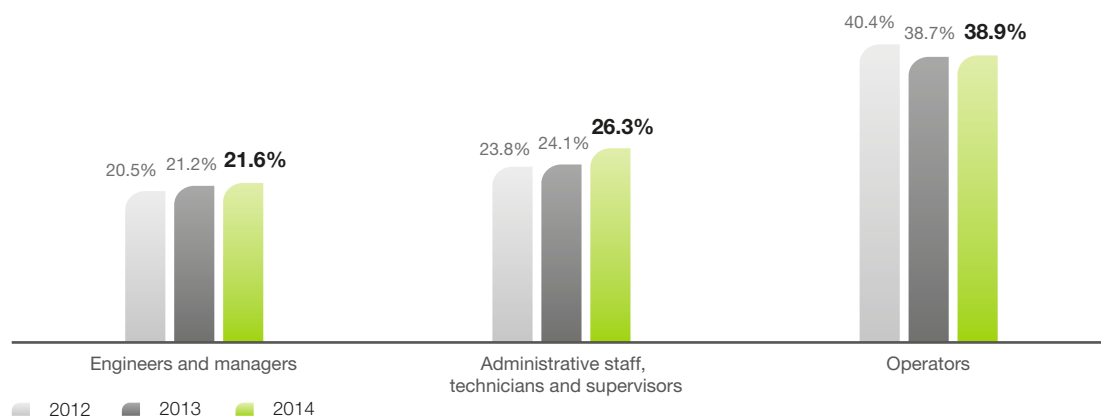
In 2014, the work of the four special diversity committees gave managers a better understanding of the strategic importance of diversity. A number of measures to promote diversity were taken worldwide. The Group's diversity guidelines were defined and deployed. Each country now has a diversity component in its strategic medium-term human resources plan that applies Group strategy while adapting to the local culture. The new Recruitment Guide has integrated these guidelines to help those involved in the recruitment process and to factor in all forms of diversity right starting with the applicant search and selection process.

In early 2015, diversity committees were set up in each country and at different levels of operational management, with a designated diversity leader, generally the Human Resources Manager. A diversity portal available to all employees was developed and will be online in the first half of 2015.

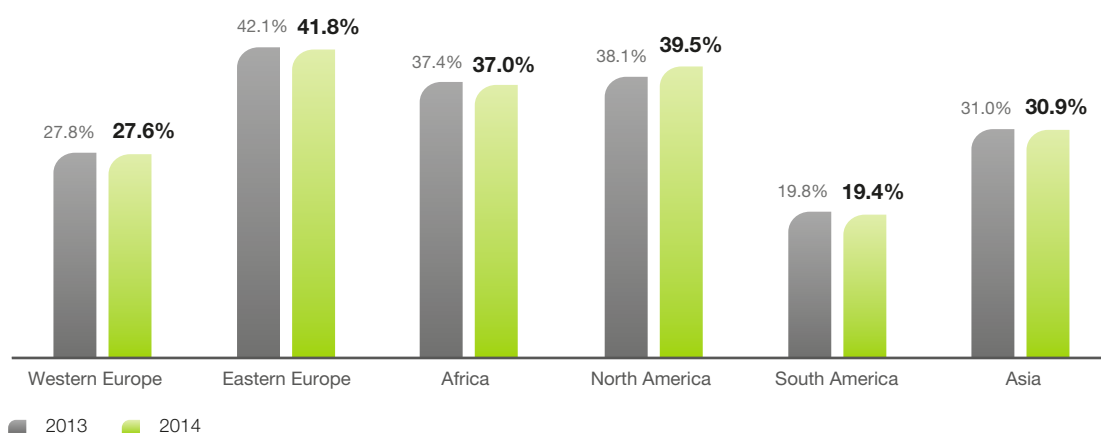
Women at Valeo GRI LA13

In endeavoring to be an employer of choice, Valeo aims to attract, promote and retain the best talent in a fiercely competitive market. To this end, Valeo joined the French Association of Diversity Management (*Association française du management de la diversité* – AFMD) in 2013. With more than 100 different nationalities within the Group, Valeo boasts a diverse mix of cultural backgrounds and is committed to gender parity in comparable situations (career development, training possibilities, compensation, etc.). It should be noted, however, that women are not as well represented as men in the automotive industry.

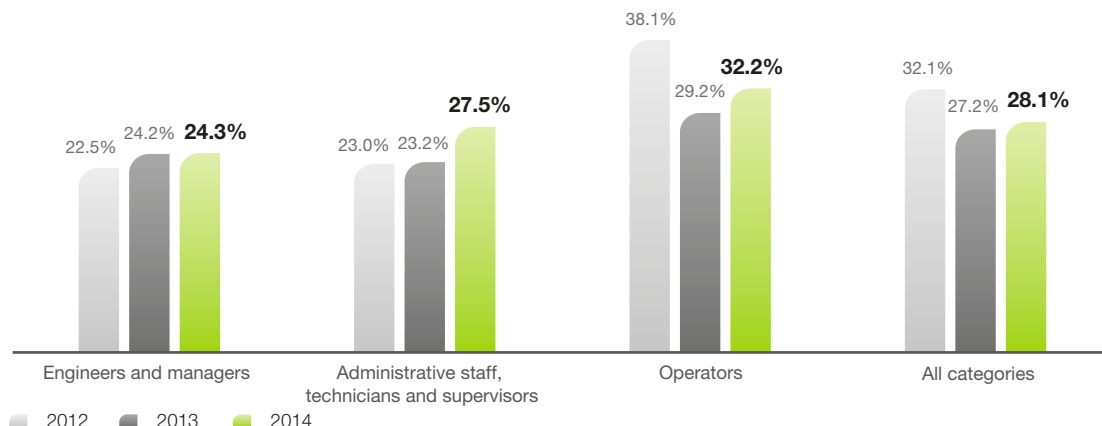
Breakdown of women by socio-professional category



Breakdown of women by geographic area (registered headcount)



Proportion of women among new hires on permanent contracts over three years



The proportion of women engineers and managers among new hires increased to 24.30% in 2014, a gain of 0.1 percentage point. In some countries enjoying particularly strong growth, such as China, women represented 32% of new hires.

Raising the profile of women

The first main focus of 2014 was to improve the visibility of women at various levels of the organization and for Valeo's top management.

Some Business Groups such as Visibility Systems and Powertrain Systems led a number of "meet and share" initiatives by organizing an annual meeting, debates and monthly lunches.

The Functional Departments have also taken action to promote gender diversity, such as the Supplier Quality Assurance network, which initiated an awareness campaign on three continents (Europe, Asia and North America) and set up a collaborative website.

The special working group organized debates in Japan, Egypt and Mexico where Group policy and guidelines were presented to over 250 of Valeo's female employees.

All of these initiatives were supported by a communication drive: annual campaign, intranet articles and in-house magazine tied into events such as International Women's Day or Diversity Week in November 2014.

The second main focus was to raise the profile of women outside the Group. To reflect its commitment and build its reputation in terms of gender equality, Valeo moved forward with the project launched in 2013 in partnership with *Compañeros* and the engineering schools ENSAM, ENSAE, Supelec, UTC and Ecole Centrale de Nantes. The purpose of the project is to educate students on gender issues using an interactive platform, turning students into diversity advocates from the beginning of their career. This project reached out to around 100 students and about ten managers.

Still in partnership with the association *Elles Bougent*, Valeo promotes careers in engineering among female high school students and takes part in numerous actions led by the association every quarter. For example, during every quarter of the year:

- Valeo participated in the forum for young female science and technology students and graduates, *Forum Réseaux et Carrières au Féminin*, the *Journée Sciences de l'Ingénieur au Féminin* event for young women in engineering sciences in high schools, and the Paris Motor Show, where 100 young women got the chance to visit the Valeo stand.
- Valeo female mentors – with twice as many women participating in the program in 2014 – showed their involvement and dedication: on-site initiatives were organized by the Thermal Systems Business Group along with meet and share events with the mentors.

The projects took on an international dimension with partnerships developed with schools and universities in Poland:

- production site visits were organized to boost industry appeal for women. This gave over 60 students from top schools and universities the chance to see that a manufacturing environment could offer career development potential for women;
- workshops to find out more about the field of engineering were organized for about 40 schoolchildren, who learned that technical jobs are not just for men;
- as a result of these partnerships, 43% of interns in Poland are women.

These programs, which attracted over ten volunteers, develop employee awareness and engagement with respect to gender diversity.

The special working group will continue this program in 2015, with plans to create a communication brochure to give greater insight into the place of women at Valeo. The brochure will be distributed at recruitment forums and events with students or employment organizations.

The 2015 internal communication program includes the launch of a gender diversity intranet page.

Changing mindsets across the world

Under its Talent Strategy program, Valeo's diversity approach in its main countries ties gender equality in with cultural diversity.

The Group's recruitment guide was updated to integrate gender diversity factors.

Programs designed specifically to strengthen gender and cultural diversity were introduced in 2014. The Powertrain Systems Business Group implemented the five-year "W.In - Women In" program in seven countries (China, India, France, Turkey, Poland, Egypt and Mexico), which aims to recruit 40 young women and prepare them to become future managers.

The recruitment process is broken down into two phases. The first began in September 2014 and the second will launch in 2015.

The goal is to improve gender and cultural diversity to strengthen talent in order to underpin Valeo's competitiveness and boost growth.

These talented young women will join fields, such as R&D, production and project development, where women remain underrepresented.

In addition, an interdisciplinary team worked on identifying training courses to raise managers' awareness about gender diversity. The goal for 2015 will be to offer diversity training geared to changing mindsets.

In France, 31 women have benefited from the adjustments to work time organization, in particular telework arrangements. This policy will be implemented in all Group countries in 2015, empowering women to take charge of their career by addressing one of their prime concerns: striking the right work-life balance.

Strengthening women's leadership skills

To achieve a more even balance in management and leadership, personal development processes now systematically integrate gender balance issues. Valeo has decided to include an additional step by setting up the Mentoring program with the specialized consulting firm Idem per Idem.

In 2014, 15 female Group managers enrolled in a 12-month program to develop their leadership skills alongside a specially trained mentor from the Group's top management.

The initial positive feedback from both mentors and mentees has led to the launch of a new program in 2015 to build expertise and reverse stereotypes.

Meanwhile, the Gender Diversity Committee has developed a global training program designed to hone the leadership skills of high-potential female employees. An initial pilot session was conducted in France in collaboration with the Krauthammer consulting firm.

Awareness, training, managerial guidance and communication will be the focuses of Valeo's 2015 gender diversity policy.

The Valeo Women Connected network launched in 2012 now has more than 1,000 members, both women and men, in 12 countries (France, United States, Mexico, Brazil, Germany, Poland, Italy, Spain, Turkey, China, Japan and India).

Valeo Women Connected provides a platform for dialog and communication dedicated to promoting networks formed by the women of Valeo, bringing together women (and men) at all levels of the organization with a view to identifying and encouraging talent internally by providing information on possible career paths and professional development options.

Valeo Women Connected is now expanding internationally. In each of the 12 countries where the network is active, two employees (women and/or men) act as the network's ambassadors and coordinate events. Four events provide an annual forum allowing the network to meet globally and share best practices, thereby fostering the consideration of cultural factors, another focus of diversity.

Network members began developing this initiative on a site-by-site basis in 2014, encouraging ideas and proposals within each site. In 2015, the network plans to continue extending into other countries where Valeo operates.

Valeo Women Connected works closely with the Gender Diversity Committee.

Measures promoting the employment and integration of people with disabilities

In France

The first three-year agreement for the professional and social integration of people with disabilities signed in France on May 29, 2012 underscores Valeo's commitment to its corporate social responsibility and diversity policies. The target was to raise the employment rate of disabled workers from 4.37% to 5% in three years. At the end of 2014, the uncapped rate stood at 6.43%, and the capped rate at 6.07%.

In 2014, Valeo moved forward in its initiatives to help people with disabilities, with the aim of significantly and sustainably improving employment rates at Group level.

Recruit people with disabilities

Over the past three years, 48 disabled workers have been hired at Valeo out of the 105 targeted in the agreement. This figure reflects the particularly challenging competitive and economic environment in France and the difficulty in aligning Valeo's job vacancies – often requiring engineering or advanced technical expertise in research and development – with the profiles of disabled job seekers.

Based on this initial experience in recruiting people with disabilities and the conclusions drawn by the Disability Diversity working group, work-study programs offer the best way of successfully integrating disabled workers. We can focus on nurturing and developing the expertise of young disabled students to potentially hire them in the future. Meanwhile, partnerships with specialist firms and associations were signed to help the French sites hire people with disabilities in numbers more consistent with the Company's expectations.

Maintain and develop employment

All Group entities have taken steps to keep people with disabilities in employment. The Group has completed 180 initiatives for disabled workers since the agreement was signed, including 89 in 2014, for a total of 156 disabled workers.

Improve integration and training

Employees with disabilities have access to all courses offered by the various sites, in the same way as other employees. Adjustments are sometimes necessary to give employees with disabilities access to this training.

Adapt jobs to new technologies

No such training was required in 2014. However, employees with disabilities can take part in all training courses related to technological change and the introduction of new working methods, in the same way as other employees.

Talk openly about disability and raise the awareness of all stakeholders

In 2014, Valeo continued to roll out the disability training and awareness programs initiated in 2013. After reaching out to nearly 1,500 employees involved in monitoring people with disabilities (Management Committee members, managers, disability assessors, Human Resources teams, Health, Safety and Working Conditions Committee members, occupational health teams), Valeo wanted to strengthen its policy of employing disabled workers by raising the awareness of all other employees in France.

In-house instructors were selected and trained at each French entity to ensure that this awareness campaign would be implemented successfully. The campaign had reached nearly 15% of Valeo's French staff by the end of December 2014 and aims to raise the awareness of all French employees by the end of the first half of 2015.

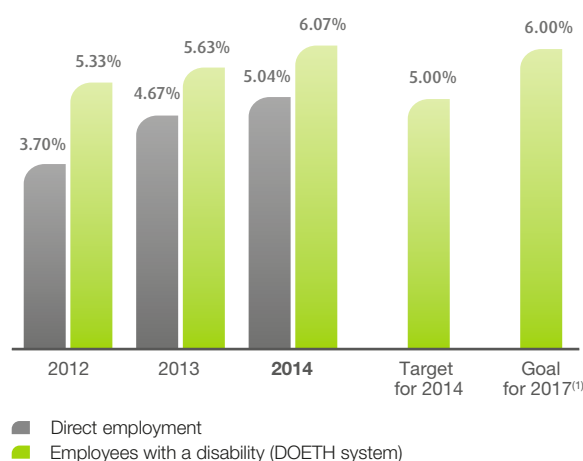
To support these measures, a large-scale communication campaign was implemented throughout the year to promote disability diversity. The campaign featured two Operation Disability Diversity posters, a leaflet summarizing the main points of the first agreement and the Week for the Employment of People with Disabilities (*Semaine pour l'emploi des personnes en situation de handicap* – SEPH) focusing on sensory disabilities.

This awareness program is gradually strengthening employee trust in Valeo's policy, convincing 245 people to come forward with their disability since the agreement was signed (of which 57 in 2014).

Step up cooperation with the sheltered sector

In 2014, 206 units⁽¹⁾ (223 en 2013) used the services of organizations that help people with disabilities back into work – ESATs (*établissements et services d'aide par le travail*) – and sheltered employment providers or EA (*entreprises adaptées*), of which 152 (140 in 2013) were included in the calculation of the employment rate due to the legal limit.

Percentage of Valeo employees with disabilities in France



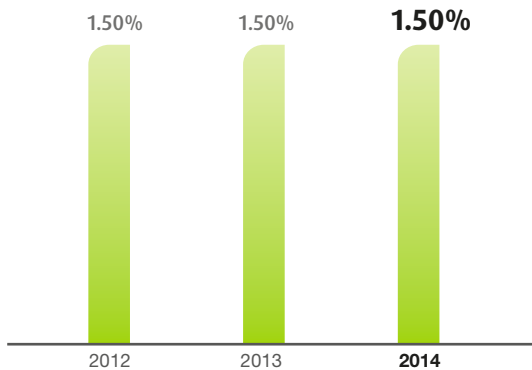
(1) Regulatory threshold in France.

The second three-year agreement for the professional and social integration of people with disabilities to be signed in France is currently being negotiated. Valeo expects the final agreement to be signed in June 2015. The discussions with employee representatives have expanded to cover broader topics such as quality of life at work.

(1) One unit equals the full-time equivalent of a disabled employee billed to a Valeo company in France by an ESAT or an EA.

Internationally

Percentage of Valeo employees with disabilities worldwide (direct employment)



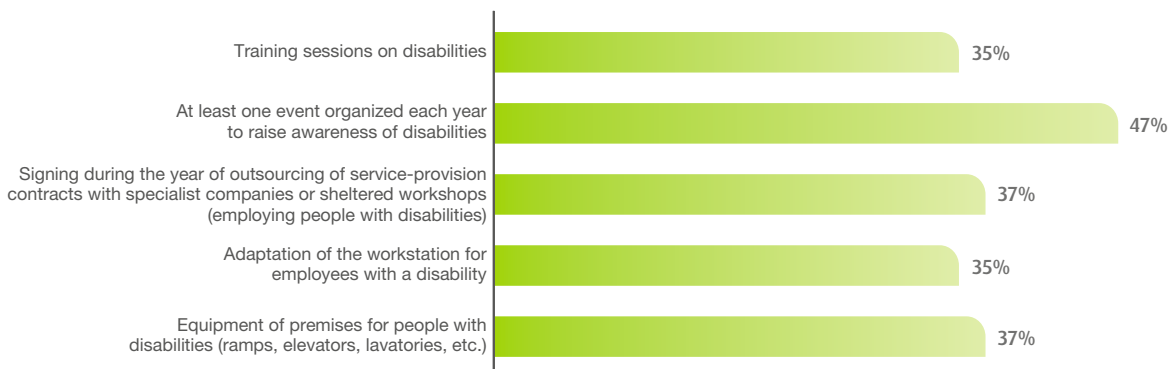
The definition of disability used is that which applies in the countries where the Group is based.

In 2013, a group of international projects was established to expand the disability policy to the global scope from the beginning of 2014.

The global disability policy, called "DiversAbility", has six objectives:

- appoint one diversity correspondent per site, as well as one coordinator by Business Group and by country;
- launch an awareness campaign on the integration of people with disabilities in the workplace targeting all staff at all sites;
- design and implement a training and awareness plan for all stakeholders affected by disabilities at each site;
- achieve, within three years and in all countries, a level of 1.5% of workers with disabilities (if national legislation requires a percentage higher than 1.5%, the target will be the legal rate);
- adapt workstations and premises so as to keep employees with disabilities in their jobs, and hire, train and promote employees with disabilities;
- increase by 5% per annum sales with companies specializing in facilitating the employment of people with disabilities until they reach a maximum of 50% of the legal requirement or the minimum rate set by Valeo.

Percentage of sites having implemented disability initiatives



71% of sites implemented at least one disability initiative in 2014.

Valeo's policy for young and older workers GRI LA11

Professional integration of young people

Valeo has maintained close relations with higher education establishments, in particular by developing selective partnerships with schools and universities of international renown, and fostering diversity within its workforce. In 2014, Valeo took part in many events to make contacts with future graduates at school forums including Audencia, Centrale-Supelec, Collegium (ENSEA, EISTI and Supméca), EDHEC, ENSAM,

ESEO, ESTACA, École des Mines de Douai, École Polytechnique, Sup'Optique, Skema, UPMC, UTC (France), the VIE⁽¹⁾ forum organized by UbiFrance, the *Horizon Chine* forum for Chinese students in France and about ten forums in Germany. The Group was also present at events held in 32 universities in China (Shanghai, Nanjing, Guangzhou, Wuhan, Chengdu, Changchun, etc.), the Czech Republic, India, Italy, Mexico, the United States (MIT), Poland and Thailand. Valeo sponsors the student association ShARE, for students from the most prestigious Asian universities.

Valeo also sponsors the Engineers' and Managers' curriculum of Audencia Nantes, which allows graduate engineers to qualify at this renowned business school through a specific program.

(1) *Volontariat International en Entreprises.*

These initiatives in favor of youth employment and the integration of young people in the workplace allowed the Group to welcome 1,321 interns, 867 people on apprenticeships or training contracts and 133 people on VIE programs. The five countries attracting the highest number of interns, trainees and people on VIE programs were France, Mexico, Brazil, Germany and Poland. At the end of their various contracts, 555 young people were hired (24% of people going through the Group).

The Group was also represented at the Top Women, Top Careers forum in Brussels, with the objective of attracting applications from female engineers or women seeking a career in industry. Valeo accordingly sponsors the *Elles Bougent* association, which promotes careers in the transportation sector among female high school and university students by organizing business presentation events with the active involvement of Valeo mentors.

Valeo partnered with *Tremplin*, an association that works with the disability missions of French schools and offers support for young students with disabilities (from different schools and all levels from high-school to PhD), helping them find job vacancies within the Group. Valeo also took part in the *Handi2day*, *ESSEC-Hanploi* and *Village Handicap* forums, three events promoting the employment of people with disabilities in France.

In late 2014, Valeo launched the second Valeo Innovation Challenge, initiated in 2013. This event encourages students in scientific and technical fields throughout the world to submit and present an innovation that will revolutionize cars in 2030, offering a first prize of 100,000 euros. Nearly 1,000 teams from 55 countries participated in the first Valeo Innovation Challenge, with the winners, a Brazilian team, announced at the Paris Motor Show in October 2014.

Policy towards older workers

Valeo is committed to employing older workers, and this is an important part of its career development policy. It is also central to its policy for encouraging diversity.

Hiring older workers gives access to important know-how while making it possible to anticipate changes, pass on skills and expertise, and promote integration among all generations at Group entities.

Longer working lives give employees genuine opportunities for personal development. It is important to sustain job motivation among employees and develop each employee's employability throughout their career by providing them with the means to build up competences or, if so desired, change career paths.

In 2014, Valeo had a total of 8,935 employees worldwide over the age of 50 (compared with 8,376 in 2013 and 8,443 in 2012), representing 13% of the registered headcount. In France, it had 2,766 employees over the age of 50 (compared with 2,768 in 2013 and 2,951 in 2012), representing 22.8% of the registered headcount in the country.

Intergenerational contracts GRI LA13

The professional induction of young people and the employability of older workers are the foundations of Valeo's policy in respect of intergenerational diversity.

France

All of the Group's French companies held negotiations on the *Contrat de génération* or generational contract in 2013. Five of its 13 legal entities signed a three-year generational contract, while eight signed an action plan.

In 2014, negotiations on the generational contract were incorporated into central France talks on Workforce Planning and Equal Opportunity (see section 4.4.4, "Labor relations in 2014 and 2015", page 190).

These agreements or action plans are intended to promote:

- the hiring and professional induction of young people within the Company;
- the hiring, retaining and retraining of qualified older employees;
- interaction between these two groups.

Internationally

The special working group set up to promote intergenerational diversity at Valeo continued its work worldwide, meeting nine times in 2014.

It focused its activities on the following areas:

- cultural differences in perception and legal aspects related to the notion of "young" and "older" in different countries;
- possible differences in the expectations of members of what are generally referred to as the baby boom (born between 1946 and 1964), X (1965 and 1980) and Y (1980 and 1995) generations in respect of their professional development and work-life balance;
- the fit between the needs expressed or expected by each generation and their level of satisfaction;
- shared components that unite various generations within Valeo, in particular the common business and corporate values;
- maintaining motivation throughout employees' careers, regardless of age;
- mentoring of older employees by younger managers and tutoring. Worldwide, 46% of Valeo sites have implemented a tutoring system. In Asia, 84% of sites have done so;
- gradual integration of the replacement of older employees in succession plans as retirement approaches;
- adapting workstations to take into account aging employees;
- reasons for the departure of young people and the retention policy;
- creation of a training and awareness module devoted to intergenerational diversity.

The working group suspended its program for 2015 to concentrate on:

- examining intergenerational perception in various countries to increase understanding and awareness of cultural differences regarding generations. Ten countries (one per month) with highly contrasting demographics and population structure were studied;
- analyzing the different generations: baby boomers (born between 1946 and 1964) and generations X (between 1965 and 1980) and Z (or Alpha depending on the author, born after 1995, who will be hitting the job market within the next two to four years);
- studying cultural differences in perception of the age of women or men in the workplace;
- preparing leaflets to raise awareness of new aspects of intergenerational diversity, for circulation every six to eight weeks;
- holding generational diversity training and awareness sessions at various Valeo sites worldwide.

Cultural diversity within the Group

Valeo's operations, spanning 29 countries, strongly promote diversity.

The ten most prevalent nationalities within the Group are Chinese, French, Mexican, Polish, German, Thai, American, Spanish, Brazilian and Japanese.

The countries where Valeo has the largest number of different nationalities are France (72 nationalities), Germany (54 nationalities), Ireland (32 nationalities), the United States (30 nationalities) and the Czech Republic (25 nationalities).

Valeo counts among its ranks a total of 365 expatriates and former expatriates who have signed a local contract. The five countries attracting the highest number of expatriate employees and former expatriates who have signed a local contract are China, France, Thailand, the United States and Mexico. Furthermore, 30% of site managers are not nationals of the country in which their site is located.

Valeo recognizes cultural and social diversity as a real factor of performance that should be nurtured and structured. Accordingly, a working group was created at the global level in 2013. It has set a twofold objective:

- succeed in naturally accommodating multicultural teams through the respect and acceptance of differences of origin, religion, perceptions and feelings, sexual orientation, etc.;
- ensure the cohesion and efficiency of multicultural teams and avoid potential conflicts by training management in this regard.

Various lines of work and action plans were identified to achieve these goals:

- raise staff awareness in respect of cultural and social diversity: information on the principles of equality and non-discrimination, distribution of articles, etc.;
- train as required: from general training to practical cases of conflict management in a multicultural team. In 2014, Valeo organized training sessions on intercultural management in 38% of its sites;
- assign the management of cultural and social diversity to local teams so as to ensure a better grasp of the sensitive issues and the priorities appropriate to each country. Actions taken in each country must naturally be fully consistent with the Group's overall policy;
- create appropriate tools to facilitate group work in multicultural teams;
- foster the mobility of Engineers and Managers: a major avenue for the promotion of cultural and social diversity;
- promote the use of English in some countries as a common working language to facilitate and boost exchanges.

In 2014, the working group completed the development of a number of projects and tools:

- indicators were defined to measure cultural openness per site/country;
- four pilot sessions on intercultural training were developed and launched (France, Egypt, Ireland and Germany) for members of multi-cultural project teams;
- a communication plan and information campaign were defined for May 21, UNESCO's World Day for Cultural Diversity for Dialogue and Development since 2001;
- specific tools were developed for certain themes.

The working group confirmed how country management teams had played a significant role by actively participating in preparing content for a future internal portal on cultural and social diversity.

Other projects, such as a cultural diversity survey, are still being developed.

Concurrently, to supplement Valeo's social initiatives, activities targeting the most disadvantaged people in each country (sponsorship, training assistance, reintegration activities, etc.) are already offered. 37% of Valeo's sites have agreements with local employment agencies to boost the employability of low-skilled, young and older workers and people seeking vocational retraining.

4.4.7 Engagement and competences development for all Group employees

Feedback from engagement survey of engineers and managers

The global engagement survey among engineers and managers in 2013 indicated a significant improvement in perception since the last study two years ago. As a group, they have a more optimistic view about the Group and their position within it.

The main subjects they put in a particularly positive light were the strategy and the bolstering of Valeo's image, top management and diversity. These factors helped achieve a substantial increase in engagement among engineers and managers.

Overall, the results improved consistently throughout the organization. The improvement was particularly perceptible among Group executive managers. Management style is now seen as more innovative and more focused on decision-making.

Targeted action plans have been developed at each site to further employee engagement based on three themes:

- autonomy: encourage the delegation of decision-making and focus on the potential benefits of risk-taking;
- organizational efficiency: reduce red tape and simplify the decision-making process;
- learning and development: develop career paths, especially in logistics networks, production, and R&D.

Valeo decided to conduct this survey every two years (odd years) among engineers and managers, like the Well-Being at Work survey of all employees, which is conducted in even years.

Promoting internal mobility GRI LA11

To offer attractive career prospects to the engineers and managers employed by Valeo, the Group aims to fill at least three out of four vacant positions internally.

A succession and development plan is drawn up each year, in order to identify the next stages in the career path of each engineer and manager. This plan is implemented by each Group entity via a committee responsible for making decisions on the internal candidates for open positions. The process was strengthened in 2011, when succession plans were drawn up in the main countries where the Group operates to promote the development and mobility of local talent.

To prepare employees for success in their next career step, Valeo has a standard "individual development plan", which compares the competences acquired with those required

in the next position. This allows very detailed individual action plans to be drawn up. The plan is based on the "3 E" approach (Education, Exposure, Experience), which favors structured experience and first-hand knowledge in addition to more traditional training and education. The Group has also developed career interviews to help identify potential career developments for each engineer and manager, based on an analysis of their personal and professional interests.

At their mid-year or year-end appraisal, the next steps in their suggested career path are provided in line with both the employee's and managers' goals. Managers receive special "SDP feedback" training to communicate this information clearly.

Using these tools, nearly 3,546 engineers and managers benefited from career opportunities in 2014, the average length of service of Valeo engineers and managers being eight years.

To facilitate the return to study, vocational retraining and business creation, 61% of Valeo sites have implemented support systems if needed.

To encourage the transfer of cultures, technologies and working methods, and to offer international career opportunities, the Group must be able to send almost 100 experienced managers abroad every year. In order to be effective, Valeo's international mobility policy must be both competitive on the employment market and contribute to the optimization of costs associated with these moves. With this in mind, the Group has set up a shared services center for managing international mobility, which ensures a high level of support for expatriates and their families.

Training GRI HR3 GRI LA10 GRI LA11 GRI S03

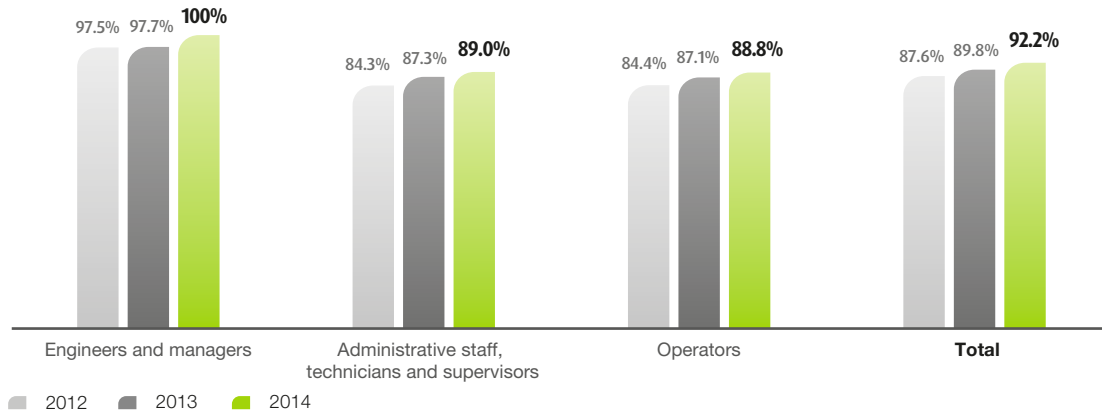
In 2014, spending on training amounted to 27,947,715 euros, an increase compared with 2013. Training expenditure represented 1.51% of personnel expenses, excluding social security contributions (1.45% in 2013). In absolute terms, the numbers of training hours and trainees rose by 6% and 6.4% respectively year on year.

The Group continued to extend its training policy to include as many employees as possible. In all 92.2%⁽¹⁾ of employees took part in at least one training session during the year, compared with 89.8% in 2013. All engineers and managers attended training, while training participation rose in 2014 to 88.4% for operators and 98.8% for administrative staff, technicians and supervisors.

⁽¹⁾ Calculation of the ratio: All employees trained during the year (including those no longer in the Group)/Total headcount at end-December.

	2012	2013	2014
Number of training hours provided	1,119,584	1,304,090	1,382,154
Expenditure on training (<i>in millions of euros</i>)	23.3	25.1	27.9
Number of employees trained	56,954	59,992	65,603

Percentage of employees trained



It should be noted that the above figures do not include on-the-job training provided by Valeo employees (mainly for operators).

New-entrant and job-instruction training rose from 59% in 2013 to 64% in 2014, as the Group's organization stabilized. Training initiatives dedicated to the development of transversal competences for internal mobility purposes or for advancement within one of the Group's Business Groups fell to 36% in 2014 from 41% in 2013.

For operators, 40% of Valeo sites have implemented measures aimed at identifying career paths specific to their category and creating value from their experience. 67% of sites have implemented a training program aimed at developing new competences among operators.

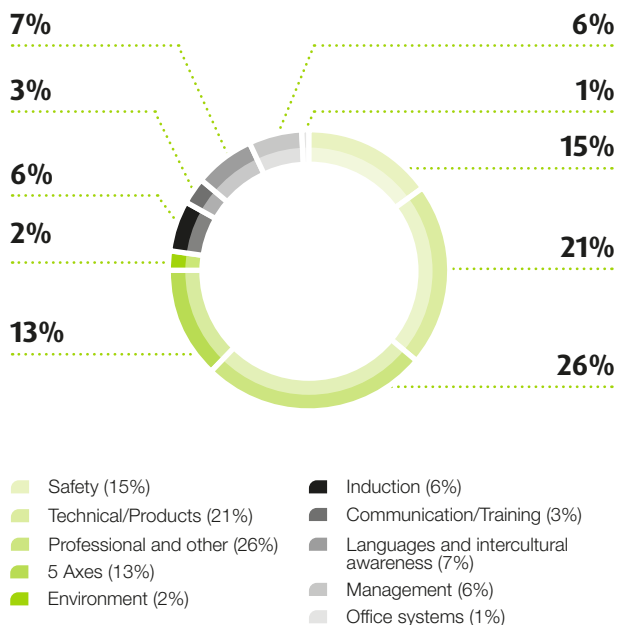
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Average number of training hours per socio-professional category

	2012	2013	2014
Engineers and managers	30	36	38
Administrative staff, technicians and supervisors	26	26	27
Operators	13	14	11
TOTAL	20	22	21

The average number of training hours per employee trained fell slightly from 22 hours in 2013 to 21 hours in 2014.

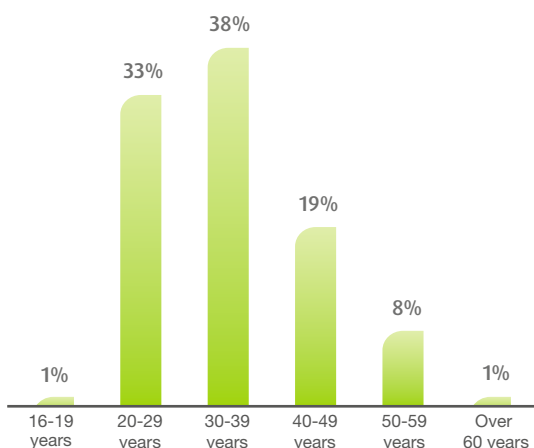
Breakdown of training hours by subject category



Employees trained by subject category

	2014
5 Axes	11%
Environment	6%
Induction	5%
Communication	7%
Languages and intercultural awareness	3%
Management	5%
Office systems	3%
Safety	20%
Technical/Products	16%
Professional and other	24%

Breakdown of training hours by age group



Training requirements are analyzed based on competence assessments and overall trends in the business and organization. Individual Career Development Plans are drafted to support talent development in three stages: (i) theory, (ii) practical application, and (iii) mentoring and practice-sharing.

To support Valeo's innovation and technological development policy, programs relating to materials, products and production systems and processes account for 21% of the total training hours given in 2014. These programs, led by Group technical Experts or independent specialists, are constantly evolving under the guidance of the R&D and Industrial Departments as well as the Valeo Technical Institutes.

As in previous years, safety training initiatives continued apace, and safety training now accounts for 15% of total training hours. The deployment of the Play Safe module and the continued deployment by the 5 Axes schools of specific

Safety First training contributed to the increase in the number of employees trained. The Safety First module will be revised in 2015 in collaboration with the HSE network to facilitate its international deployment.

The Group's training policy is based on several pedagogical means in order to accommodate varying requirements in terms of time and geographical mobility and provide resources suited to the subjects addressed, the methods used and the individual pace of learning.

Alongside classroom training or distance learning (virtual classroom, visioconference or telephone courses) conducted by external instructors or Valeo Experts, field training initiatives have also been developed involving local management in order to increase operators' versatility and range of competences. Training is also given by the 5 Axes schools to enhance expertise in Valeo's specific working methods and tools. A new 5 Axes school was established in Mexico in 2014, with a view to strengthening the Group's training effort in North America.

The Group designs its training sessions drawing on the complementary nature of these training methods to provide effective instruction, while also helping to support international growth and meet cross-cultural challenges.

The 5 Axes training path (representing 13% of total training hours), along with induction programs for new hires (representing 6% of training hours) characterizes this multi-modal training policy. The 5 Axes path combines distance learning (e-learning, virtual classrooms), in-class training (a mix of traditional learning with practical experience and games) and projects mentored by managers, providing trainees with the competences and knowledge required for their work at Valeo.

The Compliance Program rolled out in 2012 also uses a combination of e-learning modules (two on anti-corruption and four on anti-trust practices). It provides attendees with theoretical knowledge and face-to-face training based on practical cases and allows them to discuss these issues with legal experts. This program was one of the Group's key training initiatives in 2014, with 24,666 employees trained on the two new modules launched in 2014. As part of the annual update to the training program, two new e-learning modules on compliance will be added worldwide in the first quarter of 2015.

All training offered to managers at Valeo includes an e-learning activity (either upstream and/or post-training) and an in-class session, allowing trainees to experience real-life situations and improve personal development. Management training accounts for 6% of total training hours and includes modules designed to enhance managerial skills, as well as leadership development programs in Europe, Asia and the Americas operated in association with CEDEP⁽¹⁾.

Growth in both tutored and untutored e-learning modules stabilized in 2014, particularly those relating to the Group's corporate culture (including compliance modules). In 2014, more than 150,000 hours of training courses were taught on the Valeo C@mpus, the Group's online training portal.

The Group's international scale and the growth of its business outside France underline the importance of language and intercultural training (7% of training hours in 2014). A special module to develop insight into intercultural relations will be integrated as of 2015 at sites featuring high cultural diversity.

The training programs falling under the "Professional and other" category (26% of total training hours) cover the professional training given through the Business Group Academies (Purchasing, Quality, R&D, HR, Projects, etc.) by in-house instructors or experts or through external organizations selected by the Group's functional networks. For example, this category includes training on Quality and the Valeo Production System.

4.5 Commitment to corporate citizenship

4.5.1 Application of corporate social responsibility principles in purchasing processes

Key figures in 2014

- 1,165 suppliers account for 95% of the amount attributable to direct purchases (manufacturing purchases).
- French suppliers: 557.
- 50 suppliers account for 27% of the amount attributable to indirect purchases (maintenance, subcontracting, travel, supplies, etc.).

Presentation of the structure of the Purchasing function at Valeo and supplier relations

As a tier-one⁽²⁾ automotive supplier, Valeo lies at the heart of the automotive industry supply chain. While representing an order-giver to tier-two and lower-tier suppliers, the Group is also a supplier of technologies or systems to automakers.

In dealing with its suppliers, the Group places priority on:

- quality;
- industrial sites;
- competitiveness.

This is achieved in accordance with standards and laws in force while also meeting Valeo's sustainable development, ethics and compliance requirements.

Management of the supplier list

The Group's Purchasing Department is based on two major priorities:

- commodity/segment (product family), focusing on specific commodity purchasing strategies;
- project and mass production, focusing on day-to-day operations (initiation of projects using cost-effective parts, implementation of technical manufacturing efficiencies, diversification of suppliers).

Regional purchasing departments in each Group region (Europe, Middle East, Africa, China, India, Japan, ASEAN⁽³⁾, North America and South America) interact continuously with the commodity/segment priority to ensure that efficient, meaningful purchasing strategies are applied.

One of the ways in which Valeo sought closer interaction with its suppliers in 2014 was through the supplier conventions it held in Turkey, for global suppliers (foundry, aluminum, plastics, etc.) and local suppliers to the Valeo Group's Turkish sites. There were more than 60 delegates at each convention. Valeo also ran 35 Tech'Day events, during which suppliers were able to present their innovations to the Group's R&D correspondents.

(1) European Center for Executive Development.

(2) The tier corresponds to the automotive supplier's position relative to the automakers, thus a tier-one supplier delivers directly to the automaker and a tier-two supplier delivers to the tier-one automotive supplier.

(3) ASEAN: Association of Southeast Asian Nations.

Becoming a Valeo supplier GRI HR1

GRI HR2

Selection and award meetings chaired by the global **segment** buyers are held to screen all proposals from suppliers based on a number of objective and rigorous award criteria.

The criteria for selecting suppliers and awarding bids and contracts include:

- economic factors;
- financial risks;
- logistics;
- corporate governance;
- environmental issues and protection;
- social issues (respect for human rights, environmental protection and employee health and safety).

Over 90% of the mandatory items in the supplier qualification questionnaire relate to non-economic criteria. For instance, **sustainable development criteria are given a weighting of 20% in the supplier's final score**, and any failure to meet these criteria automatically disqualifies suppliers from Valeo's supplier list.

Before any supply agreement is awarded, suppliers must qualify based on the following process:

- each supplier is required to complete a detailed questionnaire to enable Valeo to identify potential risks and to determine the overall level of risk. Based on these evaluations, Valeo checks the main requirements, highlights potential weaknesses and decides whether it needs to examine certain issues further during a visit to the supplier's plant. If so, an audit team composed of Group buyers, quality specialists and engineers, is selected and sent to the site to verify the supplier's statements. Following the site visit, the team decides whether or not the supplier can be included on the list, possibly following the implementation of an improvement plan, jointly agreed with the supplier;
- after the award meeting, the supplier is officially listed, and the specific requirements for the deliverable components are set out in Valeo's specifications. A Supplier Quality Engineer from the project team, monitors the development and industrialization of components and guides the supplier through the final component qualification. If necessary, Valeo's laboratories review the intermediate design stages, run tests and take any special measures required. In any event, Valeo always performs an on-site audit.

In order to be included on the list, all suppliers must meet Valeo's ethics, integrity and sustainable development requirements and sign the Supplier Sustainable Development Commitments Charter. This document incorporates all the fundamental principles of the UN Global Compact, the Valeo Code of Ethics and the fundamental principles of human rights, including the freedom of association, the elimination of forced labor, the fight against corruption and occupational health and safety. Any supplier that fails to respect these rules of conduct is likely to be sanctioned, ranging from temporary suspension from new Valeo projects to definitive exclusion from the supplier list. No sanctions of this type were imposed in 2014.

At the end of 2014, over 80% of Valeo's direct suppliers⁽¹⁾ had signed the Charter. The Group aims to have all its suppliers sign, particularly its long-standing suppliers that were not required to make these sustainable development commitments when they originally qualified for the list.

Valeo's supplier list breaks down into several categories based on the supplier's performance level in a given product family. In the event of critical performance or non-compliance with Valeo requirements, a supplier can be placed on "probation" for a maximum of one year with the enforcement of an action plan. If the probation period is not successful, the supplier may not be retained in the supplier panel.

New suppliers are also placed on probation for at least two years. During this period, the number of projects assigned remains under strict supervision to protect the supplier against the risk of becoming overly dependent on Valeo.

With this system, Valeo aims to better control its supply chain while building trusting relationships with its suppliers through cooperation on remedial action or improvement programs that are aimed at preventing or limiting operating risks.

Progress in suppliers' sustainable development practices

In 2013, as part of the Group's policy to reinforce the support offered to its suppliers along the entire supply chain, the Sustainable Development & Public Affairs, Purchasing and Quality Departments ran a survey on Corporate Social Responsibility (CSR) choices, across a representative sample of suppliers, representing 750 million euros in sales with Valeo. In 2014, this evaluation was extended to cover around 400 major suppliers, accounting for 44% of Valeo's production purchasing. The suppliers that responded to the survey represent a purchasing amount of more than a third of the total amount across the sample.

⁽¹⁾ Raw materials and components purchases.

The survey results showed that, in addition to meeting Valeo's CSR requirements, three quarters of the respondent suppliers also have their own CSR policy based on a charter, a Code of conduct, best practices and a set of guidelines. A large majority of Valeo suppliers responding to the survey have initiated voluntary certification and labeling programs for their sustainable development policies⁽¹⁾, and more than three quarters have already been audited by a third-party on these criteria.

For two thirds of the survey respondents, commitment to sustainable development and CSR also involves communicating their own sustainable development and CSR standards to their pool of suppliers.

With this type of questionnaire, Valeo hopes to transmit its CSR experience to its suppliers by communicating quality and responsibility requirements, which are important aspects in risk management and to set an example to encourage its suppliers to apply the same principles throughout the supply chain.

In addition to evaluating a significant number of its suppliers, the Sustainable Development Department also ran three case studies to investigate, with their managements' agreement, the sustainable development approaches of three suppliers of different sizes and activities to emphasize Valeo's long-term relationship with them as suppliers.

Case study of a small French business: Amiens Automotive

Amiens Automotive is a very small company (net sales of 5 million euros), with a workforce of 70 across three industrial sites in France. It is both a Valeo Service supplier (for speed and pressure sensor systems) and a new Valeo prototyping partner on decorative items for new passenger compartment lighting systems.

In addition to its compliance with Valeo's Supplier Commitment to Sustainable Development, the Amiens Automotive management wished to highlight the following specific points with regard to its sustainable development approach:

- the adoption of best practices in the use of solvents during the manufacture of plastic parts;
- an initiative for optimizing eco-design practices in the firm's contribution to prototype lighting systems. This initiative is increasingly widespread on all projects concerning vehicle decorative parts.

The case of Amiens Automotive indicates that smaller businesses are committed to sustainable development, especially those involved in innovative economic opportunities, even where relatively small volumes are involved.

Case study of a research provider: AVL GmbH

AVL is a family group with operations spanning more than twenty countries worldwide, and sales of more than 1.3 billion euros. It provides Valeo with research into new systems and functions for reducing vehicle fuel consumption and emission levels.

Cooperation between the two groups, in both Europe and China, generates time savings, enhances response to the multi-range needs of certain automaker customers, and helps improve competitive performance through the development of wider-reaching and lower cost organic solutions.

Economic and environmental principles are clearly stated in this case of cooperation between research provider and tier-one automotive equipment supplier.

AVL responded very positively to Valeo's request for the case study, seeing it as an opportunity to highlight its practices, which meet the most demanding standards and are scrupulously rolled out across AVL's network, beyond its operational headquarters in Graz (Austria).

Like Valeo, the AVL group strictly covers all key points as regards social and environmental responsibility, ethics and compliance, and takes up a proactive, responsible and forward-looking approach to them in its dealings with all stakeholders, and with customers, such as Valeo, in particular⁽²⁾.

Case of major supplier: Infineon

Infineon, a major Valeo supplier of electronic parts (chips) for several systems and finished assemblies, is listed on the Frankfurt stock market and posts sales of over 5 billion euros.

In the sustainable development evaluation carried out under Valeo's supplier relations policy, Infineon achieved a satisfaction score approaching 95% across the 40 questions in the survey.

As well as being a signatory to Valeo's Supplier Commitment to Sustainable Development, Infineon applies its own absenteeism evaluation procedure and its own Code of ethics.

Infineon is among the most advanced in its field in terms of sustainable development, and the two groups share best practices on sustainable development reporting in order to maintain their high standards. This includes a proactive approach to extra-financial regulations on sustainable development declarations⁽³⁾.

(1) For example, environmental management certification with ISO 14001 and health/safety certification with OHSAS 18001.

(2) Additional information on the AVL sustainable development policy is available at: <https://www.avl.com/fr/quality-environment-safety>

(3) Additional information on the Infineon sustainable development policy is available at: <http://www.infineon.com/cms/en/about-infineon/sustainability/>

North American diversity programs applied to suppliers

The diversity programs in North America (United States and Canada) concerning minorities have added the criteria for the integration of women and minorities in business of Minority Business Enterprises (MBE) and Women's Business Enterprises (WBE), to evaluation criteria for US and Canadian suppliers. These criteria apply to both the supplier qualification processes and the selection and award meetings held to review entities located in North America. In 2014, Valeo developed sales with **over 50 suppliers that meet the WBE or MBE diversity criteria**.

Conflict minerals

In 2013, Valeo's Purchasing Department adapted its sourcing processes in line with the American Dodd-Frank Wall Street Reform and Consumer Protection Act of July 21, 2010 on conflict

minerals (title XV) in a joint effort to end violent conflict in the Democratic Republic of the Congo (DRC) and neighboring countries, which is financed in part by mining and the mineral trade. Valeo requires all its suppliers to comply with the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act.

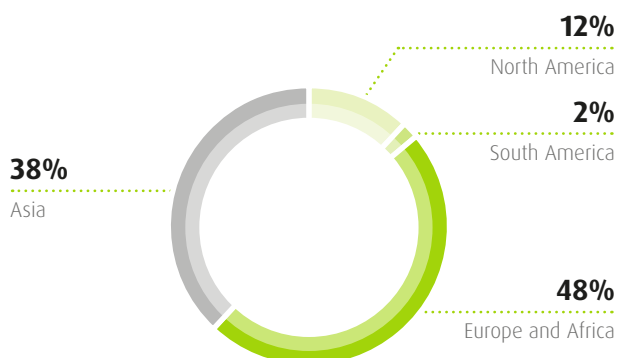
A specific initiative introduced in conjunction with the R&D Department allows the Group to better identify potential sources of conflict minerals. By applying these measures, in 2014 Valeo collected reports on conflict minerals for more than 50% of its potential sources.

To help suppliers to apply the Group's ethics and compliance principles, the Purchasing and the Ethics and Compliance Departments have provided manuals on Valeo's website to raise awareness about both the substantial legal risks of anti-competitive practices and corruption and about Valeo's compliance policies and requirements.

Purchasing location by consumption area

GRI EC6

Breakdown of direct purchases by geographic area of origin



Due to its historical presence in Europe, Valeo consumes 52% of its purchases in this region, where 48% of its suppliers are located. As a direct result of the Group's growth strategy in emerging countries, Asia ranks second, both in terms of consumption (28%) and number of suppliers (38%).

The geographic breakdown by area of consumption and by area of origin shows that the Group generally favors a location strategy compatible with the demands of economic competitiveness, and that it participates in local economic integration. This strategy applies across all of the regions in which Valeo operates, and allows the Group to:

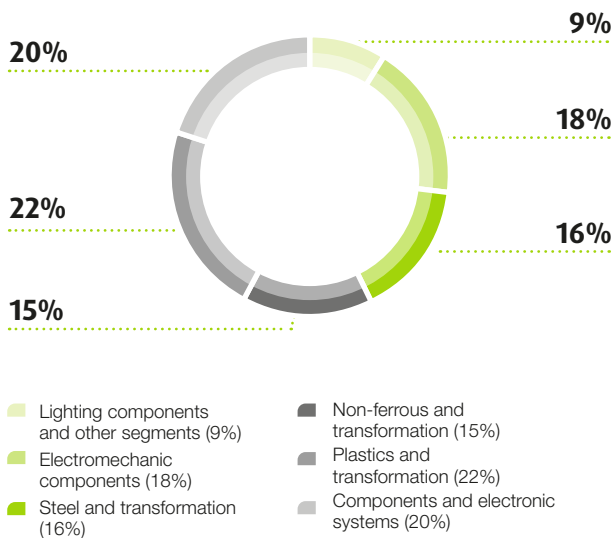
Breakdown of direct purchases by geographic area of consumption



- reduce transportation-related CO₂ emissions;
- support local employment by developing competences;
- meet the expectations of local stakeholders (customers, local and national governments) that increasingly encourage local integration.

Furthermore, the policy to reduce risks, in particular of currency fluctuations, has led Valeo to favor local suppliers that comply with its supplier selection criteria.

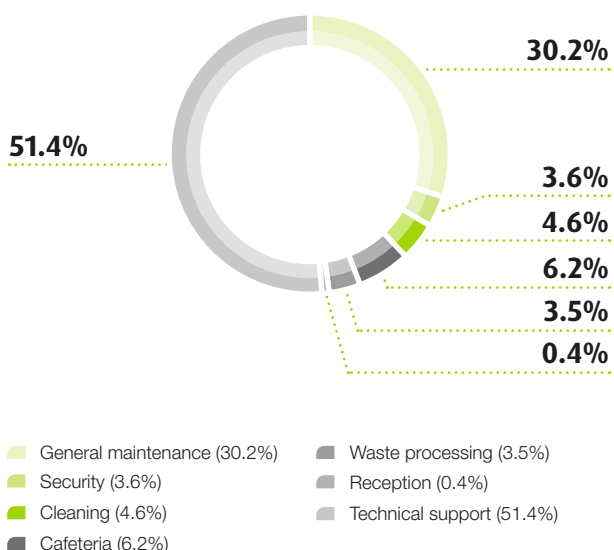
Breakdown of 2014 purchases by commodity



The Group's purchases can be divided into six main categories of components or systems, referred to as commodities. Strategic decisions relating to these categories (steel and transformation, non-ferrous metals and transformation, plastics and transformation, electronic components and systems, electromechanic components, and indirect purchases) are centralized at Group level, where they are each managed by a designated Commodity Manager.

Subcontracting

Total subcontracting expenditure by category



Valeo engages subcontractors to perform specific services at its many sites. As a result, the Group ensures that its subsidiaries comply with the provisions of national labor law and international agreements from the ILO in their dealings with their subcontractors and requires them to share with their subcontractors the provisions of the Valeo Code of Ethics, in particular, the articles concerning fundamental human rights.

Subcontracting amounted to over 300 million euros in purchases in 2014. Technical support services are significant and account for more than 51% of this expenditure due to the IT services provided by outside companies (hardware, networks, services, computer applications). General maintenance costs represent 30% of expenditure due to the industrial nature of Valeo's activities.

Automotive sector working group on Corporate Social Responsibility in France

Since 2012, Valeo has participated in the CSR working group set up by professional organizations of French automakers and automotive suppliers. The participants include France's two major automakers and the tier-one⁽¹⁾ automotive suppliers, including Valeo. The principle objective is take stock of the CSR practices currently being implemented by each member company and then to harmonize them in order to make them easier to apply throughout the industry. A major part of the work focuses on responsible purchasing policies – the procedures and methods employed by the members to monitor and support suppliers – with a view to standardizing practices and ultimately developing a set of industry guidelines.

Presence of an internal mediator on the initiative of the French ministry of economy and finance

Following the initiative of the French ministry of economy and finance which sought to improve relations between large order-givers and their suppliers (micro enterprises and SMEs), Valeo signed the Charter of Intercompany Relations on January 10, 2012.

At the end of January 2015, 540 companies had signed the charter, representing nearly 480 billion euros of purchases. The aim is to construct balanced long-term relationships between the large corporations and their suppliers, with each party acknowledging and respecting the rights and obligations of the other.

The charter requires that each signatory appoints a supplier representative to act as an internal mediator to facilitate the settlement of any disputes with suppliers and to help develop healthy long-term relationships. A mediator was appointed on March 13, 2012.

(1) The tier corresponds to the automotive supplier's position relative to the automakers, thus a tier-one supplier delivers directly to the automaker and a tier-two supplier delivers to the tier-one automotive supplier.

Ongoing sustainability commitment through the Automotive Suppliers' Modernization Fund (FMEA) Tier 2⁽¹⁾

Since the FMEA Tier 2 was set up in 2010, Valeo has been involved, alongside the Public Investment Bank (*Banque Publique d'Investissement* – BPI) and other automotive suppliers (Bosch France, Faurecia, Hutchinson, Plastic Omnium), in providing the fund with capital, selecting automotive suppliers and assisting the fund in acquiring a minority stake in their share capital to support them in their growth and investments. The fund was set up to take non-controlling interests in automotive companies engaged in industrial projects and creating value.

In this way, the fund gives these companies medium- and long-term visibility, consolidates the automotive value chain while strengthening a number of these SMEs, which depend heavily on orders from automakers and tier-one automotive suppliers. This initiative has helped limit fractures in the industry supply chain in France.

The fund's assets stand at 50 million euros, contributed in equal measures by automotive suppliers and the BPI. Valeo has contributed 2.1 million euros. This funding has been channeled into financial investments led by tier-one suppliers.

In 2014, the FMEA Tier 2 was involved in the governance of 11 companies in which it has previously invested, and which need stronger industrial rollout in a competitive international environment. As FMEA gives way to Automotive Future Fund (*Fonds Avenir Automobile* – FAA), the fund continues to work on selecting potential SMEs whose core businesses address the automotive industry of the future.

4.5.2 Ethics and compliance

GRI S02

GRI S03

GRI S04

GRI HR3

Since it was set up, the Ethics and Compliance Department has been developing a special comprehensive program to fight against corruption and anti-competitive practices.

The program entails integrating and applying a clear set of internal rules designed to:

- prohibit illegal practices;
- define the conditions and prerequisites for acceptable conduct regarding business relationships and alliances;
- implement them and check their efficacy in preventing and detecting risks.

The program set up by the Ethics and Compliance Department addresses the whole of the Valeo workforce, with particular emphasis on engineers and managers as regards their interaction with business and technical partners.

They are based on strict business ethics and compliance requirements.

They involve a set of instructions and decision-making aids designed to prevent corruption and anti-competitive behaviors and practices. In 2014, Valeo updated and expanded a number of the systems it had set up in 2012. The result is a permanent process of education, training and prevention.

A comprehensive framework

The Code of Ethics, first introduced in 1997 then updated in 2005, is available to all employees and subcontractors in 17 languages. It is the primary reference for personnel education and awareness and forms the cornerstone of the Group's ethics and compliance policy. The latest update, from 2014, is issued worldwide in strict compliance with labor relations principles and regulations with a view to group-wide phase-in during 2015.

Since 2012, the Ethics and Compliance program also includes Valeo rules on combating corruption and anti-competitive practices, along with **manuals, definitions, examples, guides and short films** designed to help Valeo personnel apply them in their everyday work.

(1) The tier corresponds to the automotive supplier's position relative to the automakers, thus a tier-one supplier delivers directly to the automaker and a tier-two supplier delivers to the tier-one automotive supplier.

These resources are made available Group-wide and:

- are regularly updated to cover specific situations liable to arise in a major international group;
- take into account the legal and cultural requirements of each country, in the same way as the tools used in the fight against corruption;
- aim to provide decision-making assistance, helping employees recognize non-compliance risks and determine who to contact in the event of doubt or difficulty, ensuring appropriate decisions, in the best interests of the Group; and
- are permanently accessible via the Ethics & Compliance intranet portal, with most available in the Group's 13 languages.

A practical, accessible awareness program

Active awareness on ethics and compliance is an integral part of team and project management, and is a key component of an awareness program supported by top management and managers in the field.

In 2014, to improve the access, understanding and commitment of personnel on ethics and compliance issues, a "Compliance Champion Team" was set up, under coordination by the ethics and compliance manager. The team is **made up of 70 experienced managers respected by their peers and their teams for their knowledge in these matters** within their networks and functions and in their countries.

These "**compliance champions**" keep their teams informed about the program, provide guidance on ethics and compliance issues and act as ambassadors for the program.

Training and information for risk control

To ensure proper implementation of these rules and tools and full personnel involvement, **in-depth training on legal risks and Valeo's responses to them is provided on an annual basis, either in the classroom (in 15 languages) or by e-learning (in 13 languages)**. Attendance is compulsory through new e-learning modules.

This training covers understanding, detection and prevention of anti-competitive, corrupt or fraudulent practices.

Independently of their sector (sales, marketing, quality, purchasing, R&D) and context, training addresses engineers, managers and all other persons exposed by virtue of their duties to risks of noncompliance. New arrivals are trained within a month of induction. In 2014, training was given to 99.4% of this target population.

Detection, prevention and alerts

In 2014, the Ethics and Compliance Department set up a **worldwide alert line** enabling personnel to alert management, through any of various channels (phone interviews, internet portal, email, letters), on actual or potential noncompliance with regulations or internal rules on anti-competitive practices and the combat against corruption and fraud.

The alert line is open to all personnel in all countries, in all of the Valeo Groups' languages. It offers anonymity if requested and is free of charge. It is run by a specialist third-party company and guarantees confidentiality and anonymity compliant with regulations.

Alert processing is coordinated to a set procedure by the Ethics and Compliance manager in liaison with the Internal Audit Department and an Alerts Committee that was set up with the alert line in 2014.

Business relationships with third parties or intermediaries representing Valeo

Third parties liable to represent Valeo undergo a rigorous selection procedure with a view to forming long-lasting, trust-based partnerships.

In 2013, the Ethics and Compliance Department introduced an awareness-raising program specifically addressing third parties, to ensure that Valeo standards are known as requirements that are shared and recognized by Valeo's various partners.

Two awareness handbooks have been prepared for third parties:

- the first is designed to raise their awareness about competition law and Valeo's Compliance Program;
- the second addresses intermediaries and aims to raise their awareness about corruption risks and the fight against corruption at Valeo.

In 2014, Valeo introduced an e-learning program to provide all third parties representing Valeo with a full understanding of the Group's expectations on integrity and the fight against anti-competitive practices and corruption.

These many initiatives seek to establish long-lasting, trust-based business relationships. Non-compliance with these rules represents grounds for withdrawal from all contractual relationships.

From 2015, these arrangements will be supplemented by the Valeo Business Partner Code, which will have to be accepted by Valeo's potential partners before entering into a business relationship.

4.5.3 Voluntary commitment to local communities

GRI EC9

GRI LA8

GRI S01

GRI S05

GRI S06

Consistent with its size and worldwide scope, Valeo takes a firm stance on responsibility and commitment in its relationships with its many and varied stakeholders.

The quality of the initiatives implemented at Valeo's sites is a major factor in Valeo's corporate citizenship endeavor. The table below lists the main initiatives undertaken in 2014.

Summary of main corporate citizenship initiatives at Valeo sites

Social commitment	Partners	Examples of initiatives
Dialog on scientific research	French-Japanese scientific and academic communities	Support for program on exchange of research scientists
Aid for local communities	Local populations	- Donations to local populations - Donations for disabled persons, orphanages, etc.
Support for Valeo employees in difficulty	Valeo employees and families	- Aid for families of employees in financial difficulty - Support for employment of disabled persons - Transport (security for women employees)
Development of local capital	Local populations/Valeo Group employees	Promotion of local management

Valeo practices on relationships with institutions

Relationships with official trade and professional organizations

As an independent, global tier-one automotive equipment supplier, Valeo is a member of the main organizations that represent the interests of initial-fit and after market equipment suppliers on the world's main automotive markets:

- in Europe: CLEPA (European Association of Automotive Suppliers);
- in the United States: OESA (Original Equipment Supplier Association);
- in France: FIEV (*Fédération des Industries des Équipements pour Véhicules*);
- in Germany: VDA (*Verband der Automobilindustrie*);
- in Spain: Sernauto (*Asociación Española de Fabricantes de Equipos y Componentes para Automoción*);
- in Italy: ANFIA (*Associazione Nazionale Fra Industrie Automobilistiche*);
- in Japan: JAPIA (Japan Autoparts Industries Association);
- in Brazil: Sindipeças (Brazil Association of Autoparts Manufacturers).

Valeo's interests are expressed through these organizations and are the only activities that could be qualified as "lobbying".

Relationships with governmental organizations

Valeo develops institutional relationships with relevant administrations (at international, national and local level), through regular dialogs, such as:

- dialog with international organizations (UN Global Compact, OECD, World Bank);
- consultations on request:
 - from the European Commission (Directorate-Generals for Industry, Research, Transport, and the Environment),
 - from Ministries of Industry (France, China, Spain), the Economy (France, Poland, Japan, Germany), Research (France, China), Energy (France, United States), Transport (France, Germany, United States), and Employment (all countries where there are Valeo sites);
- co-construction/co-management of jointly financed projects, especially through participation in the governance bodies of European Union public-private partnerships.

Institutional relationships are coordinated under the responsibility of two people at Head Office, and relayed locally, as required, by management in the country or region concerned. Valeo did not call upon public affairs consultancy services in 2014.

In addition, in accordance with its Code of Ethics, Valeo does not participate in sponsorship activities nor does it contribute or lobby political parties.

Confirmation of a special dialog between France and Japan in 2014

Support for academic cooperation in social sciences between France and Japan

In 2014, for the 50th anniversary of the Maison Franco-Japonaise in Tokyo, the EHESS Social Sciences University set up the Advanced French-Japanese Studies Center in Paris, which runs programs inviting Japanese research scientists and specialists in Japan to Paris.

Given Valeo's operations in Japan, the Group set up and finances the center's "innovative technologies for sustainable transport" chair to support university exchanges with France, including visits to France by Japanese specialists in the following subjects:

- technological organizations for an aging society;
- robotization;
- human-machine interfaces for connected and automated mobility solutions.

The funding is intended to support research on subjects relating to social life changes and the impacts they have on aging industrialized societies, against a background of shifting world economy paradigms, changing needs for citizen support, and changing habits and lifestyles in transport, connectivity and consumption in everyday life. Valeo, alongside other stakeholders, is actively involved in these developments. Its privileged relationship with Japan is reflected in the French-Japanese business club that Jacques Aschenbroich has co-chaired since October 2013.

Valeo sites, contributing to the local economy

Valeo's sites contribute to the economic and social fabric of the regions where the Group operates. Its sites have multiple impacts. They are consumers, employers, spending centers and local economic agents aiming to improve human capital and attract new businesses through transfers of competences.

Valeo has a policy of encouraging its sites to take responsibility and to support local initiatives around the world. Each site organizes local plant initiatives which reflect locally identified needs. With the assistance of the site Human Resources Departments, the site managers decide on actions that can be carried out to help the local population and employees. The Group suggests possible areas for study by sending out internal questionnaires and examples of best practice.

At the end of each year, Valeo takes stock of the actions undertaken at its sites. The most effective and useful initiatives are showcased via internal and external communication channels to encourage other sites to support the same sort of actions. For example, the "Valeonline Employee News" sent by email to Group employees highlights some of the outstanding site initiatives. Valeo also highlights local plant engagement in official documents, such as the management report, by explaining and developing the purpose and results of their initiatives. For the second year running, each of Valeo's sites has run at least one corporate citizenship operation. These various initiatives seek to improve the living conditions for Valeo employees while also having a positive impact on the region's local development.

Valeo, contributing to local development

Valeo sites, promoting industry-awareness among the younger generations

In 2014, many Valeo sites all over the world, in countries of widely differing cultures, ran various initiatives supporting education for small children and awareness-raising of the industry for children and youngsters:

- at Foshan (China), support in 2014 took the form of finance or equipment donations to schools and other youth-oriented organizations, as well as employees' voluntary work on specific operations addressing children in need or disabled children;
- at Timisoara (Romania), the Valeo site was opened for a week to children from two local primary schools as part of the "Another type of school: learn more, be better" program;
- at L'Isle-d'Abeau (France), the Valeo site invited local schools enabling youngsters to find out what the site does, and the jobs people do there. The young visitors were even able to attend an induction training session normally taken by new recruits.

Valeo sites and employees involved in local community operations

In 2014, employees at over half of Valeo Group sites worldwide took part in volunteer operations to help local communities. These chiefly involved time spent on educational activities (see above) or as expert speakers at local seminars, schools and universities, as well as at technical training sessions. At over a third of Valeo sites worldwide, these volunteer activities took place during working hours. This kind of initiative forms a part of the local community involvement programs at many Valeo sites.

Valeo site donations to local cultural and educational activities

Each Valeo site determines its own donation policy, which depends on the specific local environment, its involvement in the fabric of the local economy and its own culture.

In general, donations for educational and cultural activities have developed at the Group's various sites worldwide. Employees at the Valeo's Shanghai site organized a donation of books for a municipal library, and of school equipment for two local primary schools.

Support for Valeo site employees and their families

Family assistance and leisure activities

Employees' benefits in kind impact the local economy. These benefits include financial assistance for holidays, sports and family leisure activities and for employees with children.

In Asia, where nearly one-third of all Valeo employees are located, close to half of the sites offer their employees financial assistance to fund leisure activities, sports and holidays. Similarly, close to two thirds of Valeo's European sites provide financial assistance for employees with children.

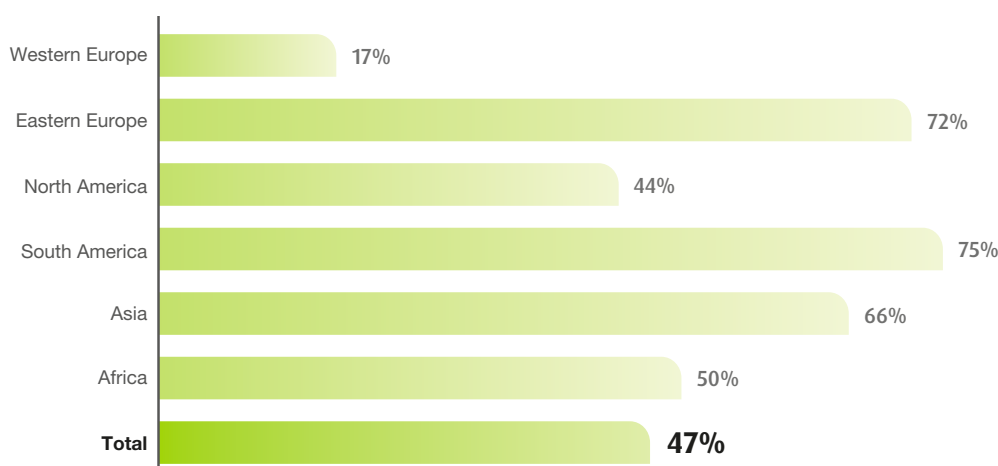
Many sites like Chennai in India, run special events for their employees' children, with features including presentations of the site's work along with artistic, cultural and leisure activities.

Solidarity fund for employees in financial difficulty

In line with Valeo's 5 Axes program, in which staff involvement serves as the basis for the Group's corporate culture, sites have developed solidarity initiatives between employees to take action in special situations (illness, disaster, death, etc.). In Central and Eastern Europe, more than half of the sites have set up special funds for employees faced with all types of difficulties. More than one-third of Valeo sites worldwide have done the same.

Valeo collective transport: contribution to travel expenses and employee safety while commuting

Many Valeo sites have introduced a shuttle system, to reduce the economic cost of employees' daily commute to the workplace and increase security (in particular to counter the risk of aggression suffered by women employees).

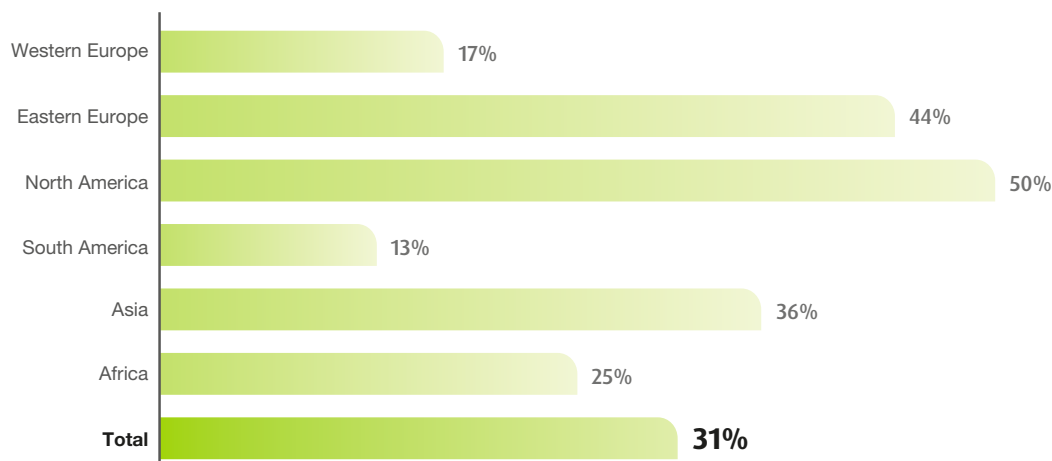


Valeo sites involved in dialog with local stakeholders

Open days at Valeo sites

To boost their local operations, a number of sites have held open days to present their activities, company details and products to members of local communities.

Proportion of sites that held an open day in 2014



Valeo site dialog with local authorities

In 2014, over half of Valeo sites worldwide were in talks on various projects with local authorities or other administrations. This was the case at close to three quarters of Valeo sites in Central and Eastern Europe, over half of Valeo sites in Western Europe and North America, and close to half of Valeo sites in Asia.

Supporting the roles of local players

Assisting in the employability of disabled persons

Valeo sites have developed policies designed to increase the employability of people with disabilities (see section 4.4, "Labor-related indicators", pages 195 to 197) and to support the development of ESATs.

In France, over 75% of Valeo sites work with organizations adapted to workers with disabilities or ESATs for their subcontracting needs. These business relationships help boost the regional economies and promote the value of employees' individual profiles and competences.

Valeo's historic link with the Garches Foundation

In Garches, France, Valeo assists with development at the foundation's wheelchair selection and test center. The Group is a founding member of *Institut Garches*, which was founded in 1988 and became a foundation in May 2005. The organization works to encourage the independence and professional and personal integration of people with motor disabilities. The foundation has put together a considerable network of expertise, including doctors, heads of motor disability associations and heads of partner companies. Valeo works alongside professionals from the foundation's wheelchair selection and test center.

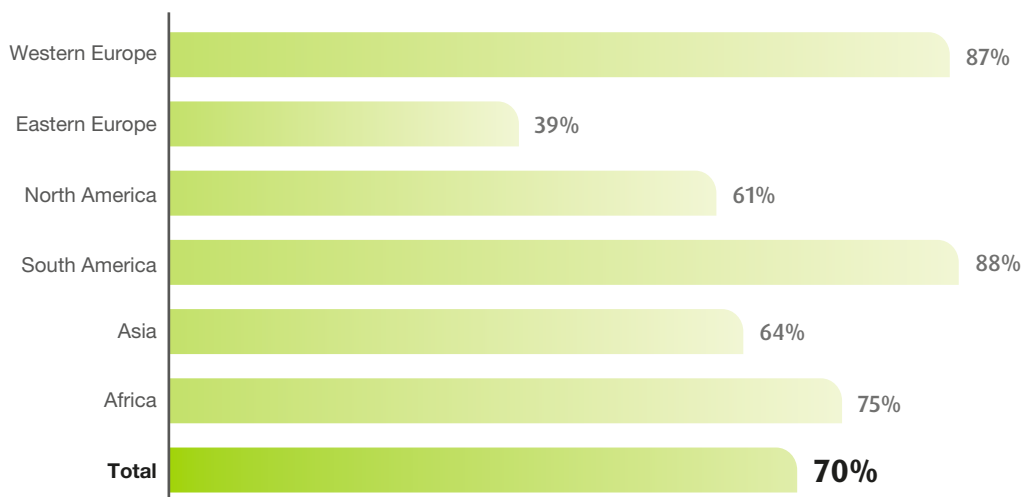
Going a step further than sponsorship funding, in 2007 Valeo set up a skills sponsorship program to develop the technological link between the automobile and the wheelchair. The Group's R&D Department thus launched a technological innovation program to build an obstacle detection system to fit into wheelchairs. The system will allow people who occasionally lose control of their movements to drive a wheelchair and offer them a certain degree of mobility. Valeo suggested adapting ultrasonic sensors that signal the approach of an obstacle and that can slow or stop the wheelchair. Research remains in the early phases, but promises considerable potential for a number of users.

To mark its return to the CAC 40 index in June 2014, the Valeo Group made an additional contribution of 10,000 euros to the Garches Foundation.

Local management GRI EC7

In an effort to promote management with knowledge of the local culture and language, Valeo prefers to hire local managers. As a result, most Group site managers are from the country where they work.

In 2014, 88% of site managers in South America were nationals of the site country. In Asia, 64% are nationals of the country where they work.



4.6 Methodology and international guidelines

4.6.1 Sustainable development reporting methodology

Environmental reporting methodology

In view of the lack of public guidelines applicable to the automotive supplier business, environmental indicators were reported in compliance with internal procedures developed by the Group. The main methodology rules used to prepare the indicators published in this Registration Document are described below.

Scope and consolidation

Scope

Published environmental data concern **all plants and distribution platforms** managed by Valeo worldwide, excluding research centers not located at production plants, administrative sites, vehicle front-end assembly sites located

at or near the automaker site, and subsidiaries in which the Group has a non-controlling interest. In all, a total of **118 sites** report environmental indicators.

In order to publish data within the required time frame, Valeo considers that the reporting year begins on December 1 of the prior year and ends on November 30 of the reporting year.

Calculation of the ISO 14001, ISO 50001 and OHSAS 18001 certification indicators takes into account **all plants and distribution platforms** managed by Valeo worldwide, excluding research centers not located at production plants, administrative sites, vehicle front-end assembly sites located at or near the automaker site, and subsidiaries in which the Group has a non-controlling interest.

All the sites concerned are required to obtain these certifications by the third year of inclusion in the Group reporting scope. Accordingly, there are **128 sites likely to obtain ISO 14001, ISO 50001 and OHSAS 18001 certification** in 2014.

Changes in scope

Data for sites newly consolidated in a given year (i.e., new sites or sites in which the Group increases its interest and gains control) are only consolidated as of the following year.

Sites that have been sold or shut down during the reporting year are excluded entirely from that year's data. However, their data for previous years are retained.

Consolidation rules

The environmental impacts generated by sites which are up to 50% held or controlled by Valeo are included on the basis of a 50% share. The impacts of sites that are controlled or held at over 50% are included on the basis of a 100% share.

Most indicators are expressed in absolute value (total quantity) as well as a ratio to sales. The ratio per million euros is calculated by dividing total quantity by sales for the relevant sites.

In 2014, data for the three sites in Turkey are included in the figures for Europe.

Source of data

Environmental data are collected by a centralized online application (VRI⁽¹⁾) except for environmental indicators relating to the consumption of raw materials, ISO 14001, ISO 50001 and OHSAS 18001 certification and indirect greenhouse gas emissions relating to logistics and inputs. The other above-mentioned data are collected from the relevant internal department and consolidated by the RIE department.

Financial data (sales) are sent directly by the Finance Department.

Controls and external verification

Consistency checks on data for each site in the scope are performed by the Business Groups' HSE managers, the RIE department and an external service provider. These controls include reviews of year-on-year changes, comparisons between sites in the same Business Group, and an analysis of major events during the year. Furthermore, VRI applies automatic upstream controls designed to prevent data entry errors and allow sites to provide reporting information with regard to material differences versus previous years.

Certain environmental data are also subject to external verification by the Statutory Auditors.

Ernst & Young, an independent audit firm, performed an engagement to verify the environmental data which resulted in a report including a statement of completeness and an opinion as to the accuracy of the information contained therein.

Methodological limits

Methodologies relating to certain environmental indicators may be limited due to:

- the lack of harmonized definitions and national or international legislation, especially concerning hazardous substances and waste;
- estimates used where measurements are not possible, for example for atmospheric VOC emissions;
- the limited availability of external data required in particular for calculating indirect greenhouse gas emissions (logistics and transport).

Assembly plants for vehicle front-end modules located directly on manufacturers' sites cannot always report their waste quantities or water and electricity consumption.

Precise definitions of indicators included in VRI and user guides have been prepared in French and English, to improve the reliability of reporting and reduce unreliable sources. These definitions and user guides are regularly updated and distributed to all contributors.

Reporting methodology for labor-related indicators

The labor-related indicators were prepared using the obligations and recommendations of Articles L.225-102-1 and R.225-105-1 of the French Commercial Code resulting from the "Grenelle 2" decree of April 24, 2012.

Scope and consolidation

Scope

The Group has opted to include its entire worldwide scope of consolidation (133 plants, 16 research centers, 34 development centers and 15 distribution platforms, located in the 29 countries where Valeo operates), except for the Interior Niles China Fuzhou FNE joint venture.

This covers all countries and Business Groups, including Valeo Service.

In 2014, reporting of labor-related indicators is aligned with financial reporting; workforce figures are consolidated to IFRS 11 "Partnerships" standard (see Note 1.3.1.2 in Notes on consolidated financial statements, page 247). This means joint ventures are not included in reporting on labor-related indicators. On the other hand, Valeo Sylvania (North America), Valeo Samsung Thermal Systems Co. Ltd (Korea) and Nanjing Valeo Clutch Co. Ltd (China) are consolidated at 100% following Valeo's acquisition of a full or controlling interest in 2014 (see Note 2.2.1 in consolidated financial statements, page 254).

Valeo reports its labor-related indicators for the calendar year, i.e., January 1 to December 31 of the year in question.

(1) See "Centralized environmental reporting" in section 4.3.3, page 156.

Changes in scope of consolidation

Data for companies newly consolidated during the current year and presented at December 31 are included where such data are available.

Sites that have been sold or shut down during the reporting year are excluded entirely from that year's data. However, their data for previous years are retained.

Consolidation rules

All data for companies that are 100% consolidated by Valeo are reported in their entirety. Data for joint ventures are included based on the Group's percentage of interest.

Source of data

Labor-related indicators are collected by the Business Groups' Human Resources Departments and are consolidated in QlikView, Access and Excel applications by the Group's Human Resources Department.

Financial data are sent directly by the Group Finance Department.

Controls and external verification

Consistency checks on data for each site in the scope are performed by the site and the Business Group Human Resources Department. Furthermore, the consolidation application applies automatic upstream controls designed to prevent data entry and consolidation errors and also to check for consistency.

All labor-related indicators have been audited by Ernst & Young and are also subject to external verification by the Statutory Auditors.

Precise definitions of indicators included in the Excel application and user guides have been prepared in French and English, to improve the reliability of reporting and reduce unreliable sources. These definitions and user guides are regularly updated and distributed to all contributors.

Reporting methodology for social indicators

The social indicators were prepared using the obligations and recommendations of Articles L.225-102-1 and R.225-105-1 of the French Commercial Code as well as the Global Reporting Initiative (GRI).

Scope and consolidation

The Group's worldwide scope of consolidation includes its 133 plants and 15 distribution platforms located in the 29 countries where it operates.

Valeo reports its social indicators for the calendar year, i.e., January 1 to December 31 of the year in question.

Source of data

Social data are collected as follows:

- data on the local "Plants' Initiatives" which allows the Group to monitor initiatives aimed at local populations and communities are reported through an internal questionnaire system. As all the sites addressed responded to this questionnaire, the published data covers the Group's entire scope of consolidation. The Group overhauled the Plants' Initiatives questionnaire in 2014 to better understand some of the data and initiatives taken by the sites throughout the world;
- data concerning Valeo's purchases and suppliers were collected and analyzed jointly by the Purchasing and Sustainable Development Departments. The sustainable development performance of the Group's suppliers was assessed by a survey entitled "Supplier Evaluation on Sustainable Development Practices", involving an online questionnaire to be completed by the supplier. Valeo has defined a representative sample of its main suppliers, covering 44% of the total value of the Group's production purchasing.
- data concerning fair practices and compliance were prepared with the Ethics and Compliance Department. Quantified data on training on risks related to corruption and unfair competition practices were collected by the Human Resources network which regularly records and analyzes training data.

Specifications

"Megatrends" studies quoted in section 4.2.1, page 137, refer to forecasts on future passenger behavior. These surveys are carried out by the Marketing Department with stakeholders (consumers, associations, automakers) in order to improve forecasts of social trends among users. The Group's R&D teams use these results to develop technology in line with market expectations. Valeo sells its products primarily to automakers and to a lesser extent, through the Valeo Service activity, to end consumers through the after market distribution network. The Group only rarely engages in advertising or promotional campaigns for the general public.

Controls and external verification

All social indicators in the report have been audited by Ernst & Young in the form of a statement of completeness and a limited assurance report, and are also subject to external verification by the Statutory Auditors.

4.6.2 Cross-reference with national and international guidelines

GRI code	GRI indicator	Relevant article of the French Commercial Code	Chapters/Sections	Pages
STRATEGY AND ANALYSIS				
1.1	○ Statement from the most senior decision-maker of the organization	-	N/A	
1.2	● Description of key impacts, risks and opportunities	-	4.1	132-135
ORGANIZATIONAL PROFILE				
2.1 to 2.6	● Name of the organization, products and services, operational structure of the organization, headquarters, countries where the organization operates, ownership and legal form	-	1.3, 1.4, 6.6.1, 7.1.1 and 7.1.2	18-50, 356, 366
2.7	● Markets served	-	1.4	38-58
2.8	● Scale of the reporting organization	-	1.1, 1.3.2 and 4.4.2	6-9, 21-22, 173
2.9	○ Significant changes during the reporting period regarding size, structure, or ownership	-	1.3.1, 5.1.4 and 6.4	18-20, 235-239, 399-352
2.10	● Awards received in the reporting period	-	1.3.3	23-24
REPORT PARAMETERS				
3.1	● Reporting period	-	01/01/2014 – 12/31/2014	
3.2	● Date of most recent previous report	-	12/31/2013	
3.3	● Reporting cycle	-	Annual	
3.4	● Contact point	-	6.2.2	349
3.5	● Process for defining report content	-	Through committees	
3.6	● Boundary of the report	-	Group	
3.7	● State any specific limitations on the scope or boundary of the report	-	4.6.1	214-216
3.8	● Basis for reporting on subsidiaries, joint ventures and other entities that can significantly affect comparability from period to period and/or between organizations	-	4.6.1	214-216
3.9	● Data measurement techniques and the bases of calculations	-	Reporting	
3.10	● Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	-	N/A	
3.11	● Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	-	N/A	
3.12	● Table identifying the location of the Standard Disclosures in the report	-	4.6.2	217-222
3.13	● Policy and current practice with regard to seeking external assurance for the report	-	4.8	226-227
GOVERNANCE, COMMITMENTS AND ENGAGEMENT				
4.1	● Governance structure of the organization	-	3.2	76-105
4.2	● Independence of the Chairman of the Board of Directors	-	3.2.1	76-90
4.3	● Number of Independent Directors	-	3.2.1	76-90

Legend:
The basic indicators are in bold.
● Full indicator.
● Partial indicator.
○ Indicator not applied.

	GRI code	GRI indicator	Relevant article of the French Commercial Code	Chapters/Sections	Pages
4.4	●	Mechanisms for shareholders and employees to provide recommendations to highest governing body	-	7.1.10	367
4.5	●	Relationship between compensation for members of highest governing body and corporate officers and the organization's performance (including social and environmental performance)	-	3.3	106-121
4.6	●	Processes in place for the highest governance body to ensure conflicts of interest are avoided	-	3.2.3	100
4.7	●	Process for determining the composition of the highest governing body and its specialized Committees, and the qualifications and expertise of its members	-	3.2.1 and 3.2.2	76-90, 91-94
4.8	●	Internally developed codes of conduct and principles relevant to the organization's economic, social and environmental performance	-	3.2.2 and 3.4.3	91-99, 123-126
4.9	●	Procedures defined by the highest governing body for overseeing the organization's identification and management of economic, environmental and social performance	-	3.2.2	91-99
4.10	●	Processes for evaluating the highest governing body's own performance	-	3.2.2	91-99
4.11	○	Explanation of Valeo's implementation of the precautionary principle		N/A	-
4.12	●	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	-	3.2.4	101
4.13	●	Memberships in associations and/or national/international advocacy organizations	-	4.5.3	210-213
4.14	●	List of stakeholder groups engaged by the organization	-	4.1.2	134-135
4.15	●	Basis for identification and selection of stakeholders with whom to engage	-	4.1.2	134-135
4.16	●	Engagement with different stakeholder groups	-	4.1.2	134-135
4.17	●	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns	-	4.1.2	134-135

ECONOMY

EC1	●	Direct economic value generated and distributed by Valeo	-	1.1	6-9
EC2	●	Financial implications and other risks and opportunities due to climate change	-	2.1, 4.3.2 and 4.3.6	61, 150-152, 167-170
EC3	●	Coverage of the organization's defined benefit plan obligations	-	Note 5 Finance	271-272
EC4	●	Significant financial assistance received from government	-	5.4.3 and 5.4.6 (Note 4.5.2)	242-265
EC5	●	Ratios of standard entry level wage compared to local average wage		4.4.5	191-192
EC6	●	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	Art. R. 225-105-1-I-3°-a), c)	4.5.1	206-208
EC7	●	Procedures for local hiring and proportion of senior management hired from the local community at sites outside France	Art. R. 225-105-1-I-1°-a)	4.4.2 and 4.5.3	175-179, 214
EC8	●	Impact of infrastructure investments and services	Art. R. 225-105-1-I-3°-a)	5.1.4	235-238
EC9	●	Indirect economic impacts	Art. R. 225-105-1-I-3°-a)	4.5.3	210-213

Legend:

The basic indicators are in bold.

● Full indicator.

● Partial indicator.

○ Indicator not applied.

GRI code	GRI indicator	Relevant article of the French Commercial Code	Chapters/Sections	Pages
ENVIRONMENT				
EN1	● Consumption of raw materials	Art. R. 225-105-1-I-2°-c)	4.3.5	163-164
EN2	● Percentage of materials used that are recycled input materials	Art. R. 225-105-1-I-2°-c)	4.3.5	164
EN3	● Direct energy consumption by primary energy source	Art. R. 225-105-1-I-2°-c)	4.3.5	165-166
EN4	● Indirect energy consumption by primary energy source	Art. R. 225-105-1-I-2°-c)	4.3.5	165-166
EN5	● Energy saved due to conservation and efficiency improvements	Art. R. 225-105-1-I-2°-c)	4.3.5	166
EN6	● Initiatives to provide energy-efficient or renewable energy-based products and services	Art. R. 225-105-1-I-2°-c)	4.2.3 and 4.2.5	166, 147-148
EN7	○ Initiatives to reduce indirect energy consumption and reductions achieved		N/A	
EN8	● Total water withdrawal by source	Art. R. 225-105-1-I-2°-c)	4.3.5	162
EN9	● Water sources significantly affected by withdrawal of water	Art. R. 225-105-1-I-2°-c)	4.3.5	162
EN10	● Percentage and total volume of water recycled and reused	Art. R. 225-105-1-I-2°-c)	4.3.5	163
EN11	● Location and size of land owned, leased or managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Art. R. 225-105-1-I-2°-e)	4.3.7	171
EN12	● Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Art. R. 225-105-1-I-2°-e)	4.3.7	171
EN13	○ Habitats protected or restored		N/A	
EN14	● Strategies, current actions and future plans for managing impacts on biodiversity	Art. R. 225-105-1-I-2°-e)	4.3.7	171
EN15	○ Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations		N/A	
EN16	● Total direct and indirect greenhouse gas emissions (metric tons CO₂ eq.)	Art. R. 225-105-1-I-2°-d)	4.3.6	167-168
EN17	● Other relevant indirect greenhouse gas emissions (metric tons CO₂ eq.)	Art. R. 225-105-1-I-2°-d)	4.3.6	168-169
EN18	● Initiatives to reduce greenhouse gas emissions and reductions achieved	Art. R. 225-105-1-I-2°-d)	4.3.6	169
EN19	● Emissions of ozone-depleting substances	Art. R. 225-105-1-I-2°-b)	4.3.4	159-160
EN20	● Emissions of nitrogen oxides (NO_x) and sulfur oxides (SO_x) and other significant air emissions	Art. R. 225-105-1-I-2°-b)	4.3.4	159
EN21	● Total water discharge by quality and destination	Art. R. 225-105-1-I-2°-b)	4.3.4	160
EN22	● Total weight of waste by type and disposal method	Art. R. 225-105-1-I-2°-b)	4.3.4	160-161
EN23	● Total number and volume of significant spills	Art. R. 225-105-1-I-2°-b)	4.3.4	160
EN24	● Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention	Art. R. 225-105-1-I-2°-b)	4.3.4	161
EN25	○ Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by Valeo's discharges of water and runoff			

Legend:
The basic indicators are in bold.
● Full indicator.
● Partial indicator.
○ Indicator not applied.

	GRI code	GRI indicator	Relevant article of the French Commercial Code	Chapters/Sections	Pages
EN26	●	Initiatives to mitigate environmental impacts of products and services	Art. R. 225-105-1-I-2°-c)	4.3.5	164
EN27	●	Percentage of products sold and their packaging materials that are reclaimed by category	Art. R. 225-105-1-I-2°-c)	4.3.5	165
EN28	●	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Art. R. 225-105-1-I-2°-a)	4.3.2	156
EN29	●	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	Art. R. 225-105-1-I-2°-d)	4.3.6	169-170
EN30	●	Total environmental protection expenditures and investments by type	Art. R. 225-105-1-I-2°-a)	4.3.2	156

LABOR PRACTICES AND DECENT WORK

LA1	●	Total workforce by employment type, employment contract and region	Art. R. 225-105-1-I-1°-a)	4.4.2	173-175
LA2	●	Total number and rate of new employee hires and employee turnover	Art. R. 225-105-1-I-1°-a)	4.4.2	175-179
LA3	●	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Art. R. 225-105-1-I-1°-a)	4.4.5	192
LA4	●	Percentage of employees covered by collective bargaining agreements	Art. R. 225-105-1-I-1°-c)	4.4.4	188-189
LA5	○	Minimum notice period(s) regarding significant operational changes		N/A	
LA6	●	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs		4.4.4	188-189
LA7	●	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities	Art. R. 225-105-1-I-1°-b), c)	4.4.3	181-183
LA8	●	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	Art. R. 225-105-1-I-1°-d)	4.5.3	212
LA9	●	Health and safety topics covered in formal agreements with trade unions	Art. R. 225-105-1-I-1°-d)	4.4.3 and 4.4.4	181, 189-190
LA10	●	Average hours of training per year per employee	Art. R. 225-105-1-I-1°-e)	4.4.7	200-203
LA11	●	Programs for competences management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Art. R. 225-105-1-I-1°-e)	4.4.6 and 4.4.7	193-199, 200-203
LA12	○	Percentage of employees receiving regular performance and career development reviews		N/A	
LA13	●	Composition of governance bodies and breakdown of employees per employee category according to gender, age group and other indicators	Art. R. 225-105-1-I-1°-f)	3.2.1, 4.4.2 and 4.4.6	78, 173-179, 198-199
LA14	○	Ratio of basic salary and remuneration of women and men by employee category		N/A	

Legend:

The basic indicators are in bold.

● Full indicator.

● Partial indicator.

○ Indicator not applied.

GRI code	GRI indicator	Relevant article of the French Commercial Code	Chapters/Sections	Pages
HUMAN RIGHTS				
HR1	● Percentage and total number of significant investment agreements and contracts that include human rights clauses	Indicator not applied	N/A	
HR2	● Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken	Art. R. 225-105-1-I-3°-b), c)	4.5.1 4.5.2	204-205
HR3	● Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained		4.4.7	200-203
HR4	○ Total number of incidents of discrimination and corrective actions taken		N/A	
HR5	● Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights	Art. R. 225-105-1-I-1°-f)	4.4.4	188-191
HR6	● Prohibition of child labor. Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	-	4.4.4	190-191
HR7	● Abolition of forced and compulsory labor. Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	-	4.4.4	190-191
HR8	○ Percentage of security personnel trained in Valeo's policies or procedures concerning aspects of human rights that are relevant to operations		N/A	
HR9	○ Total number of incidents of violations involving rights of indigenous people and actions taken		N/A	
SOCIETY				
S01	● Percentage of operations with implemented local community engagement, impact assessments, and development programs	Art. R. 225-105-1-I-3°-a)	4.5.3	210-214
S02	● Percentage and total number of business units analyzed for risks related to corruption	Art. R. 225-105-1-I-3°-d)	2.1	60-69
S03	● Percentage of employees trained in the organization's anti-corruption policies and procedures	Art. R. 225-105-1-I-3°-d)	4.4.7, 4.5.2	203, 208-209
S04	● Actions taken in response to incidents of corruption	Art. R. 225-105-1-I-3°-d)	4.5.2	208-209
S05	○ Public policy positions and participation in public policy development and lobbying	Art. R. 225-105-1-I-3°-b)	4.5.3	210
S06	● Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	Art. R. 225-105-1-I-3°-b)	4.5.3	210
S07	○ Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes		N/A	
S08	○ Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		N/A	

Legend:
The basic indicators are in bold.
● Full indicator.
● Partial indicator.
○ Indicator not applied.

GRI code	GRI indicator	Relevant article of the French Commercial Code	Chapters/Sections	Pages
PRODUCT RESPONSIBILITY				
PR1	● Life cycle stages in which health and safety impacts of products and services are assessed for improvement		4.2.4	144-147
PR2	○ Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes		N/A	
PR3	● Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements		4.2.4	144-147
PR4	○ Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes		N/A	
PR5	○ Results of surveys measuring customer satisfaction		N/A	
PR6	○ Programs for adherence to laws, standards and voluntary codes related to marketing communications		N/A	
PR7	○ Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications		N/A	
PR8	○ Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data		N/A	
PR9	○ Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services		N/A	

Legend:

The basic indicators are in bold.

● Full indicator.

● Partial indicator.

○ Indicator not applied.

4.7 Summary of Valeo's CSR performance

4.7.1 Summary of environmental performance

The indicators are presented in the order that they appear in section 4.3.

	Unit	2012	2013	2014
Scope⁽¹⁾				
Total sales across all sites in reporting scope	€m	11,626	11,779	12,492
Number of sites in reporting scope	-	126	122	118
General policy on environmental issues				
Number of sites able to obtain ISO 14001 and OHSAS 18001 certification ⁽¹⁾	-	121	116	128
ISO 14001-certified sites	%	96	94	95
ISO 50001-certified sites	%	-	2	5
OHSAS 18001-certified sites	%	88	88	90
Functional expenditure allocated to environment	€k	13,911	11,853	19,367
Capital expenditure allocated to environment, excluding cleanup costs	€k	1,884	4,343	2,613
Cleanup costs, sites in operation	€k	447	3,171	4,615
Total provisions allocated to environmental risks	€m	20	17	16.2
Number of fines and compensation awards	-	2	5	5
Amount of fines and compensation awards	€k	3	38	14
Prevention of pollution and management of waste				
Atmospheric NO _x emissions	metric tons	134	132	119
Atmospheric NO _x emissions/Sales	kg/€m	11.5	11.2	9.53
Atmospheric VOC emissions ⁽¹⁾	metric tons	1,360	1,369	1,444
Atmospheric VOC emissions/Sales	kg/€m	119	125	119
Atmospheric TCE emissions	metric tons	249	19.4	11.9
Atmospheric TCE emissions/Sales	kg/€m	21.5	1.6	0.95
Atmospheric lead emissions	kg	6	9.5	17
Atmospheric lead emissions/Sales	g/€m	0.5	0.8	1.36
Emissions of ozone-depleting substances	kg eq. CFC-11	478	567	632
Volume of industrial effluents treated	thousand cubic meters	604	807	816
Heavy metal content in these effluents	kg	55	269	253
Number of significant spills	-	0	1	1
Total waste generated	thousands of metric tons	197.3	199.9	213.7
Of which hazardous waste	%	12	10	9
Of which non-hazardous waste	%	88	90	91
Total waste generated/Sales	metric t/€m	17	17	17.11
Waste recovery rate	%	79	75	86
Total waste exported	metric tons	748	319	803
Ratio of total waste exported/Total waste generated	%	0.4	0.2	0.4
Number of environmental complaints	-	5	4	4

(1) Data may vary slightly with the rate of site response on specific indicators (see section 4.3.3, page 157).

	Unit	2012	2013	2014
Sustainable use of resources				
Total water consumption	thousand cubic meters	2,502	2,484	2,731
Total water consumption/Sales	m ³ /€m	215	211	219
Packaging materials consumption	thousands of metric tons	71.4	77.6	78.6
Proportion of plastic packaging	%	8	8	9.4
Proportion of cardboard packaging	%	63	63	57.7
Proportion of wood packaging	%	28	27	29.3
Proportion of other types of packaging	%	1	2	3.6
Packaging materials consumption/Sales	metric t/€m	6.1	6.6	6.3
Consumption of raw materials – metals	thousands of metric tons	877	907	954
Consumption of raw materials – plastics and resins	thousands of metric tons	195	202	223
Consumption of heavy metals	metric tons	19	16.6	15.35
Consumption of heavy metals/Sales	kg/€m	1.6	1.4	1.22
Consumption of chlorinated solvents	metric tons	273	261	240.5
Consumption of chlorinated solvents/Sales	kg/€m	23.5	22.2	19.25
Consumption of CMR substances ⁽¹⁾	metric tons	279	265	168.1
Consumption of CMR substances/Sales	kg/€m	24.0	23.5	19.4
Consumption of recycled plastics	thousands of metric tons	11.7	9.8	9.6
Total energy consumption	GWh	1,841	1,862	1,946
Proportion of electricity	%	70	70.8	74.9
Proportion of natural gas	%	27	27.0	23.3
Proportion of fuel oil	%	2	1.5	1.2
Proportion of other energy sources	%	1	0.7	0.6
Total energy consumption/Sales	MWh/€m	158	158	156
Direct energy consumption/Sales	MWh/€m	46	45	38
Indirect energy consumption/Sales	MWh/€m	112	113	118
Energy efficiency: expected gain	MWh	23,582	26,308	35,699
Fight against climate change				
Direct greenhouse gas emissions (GHG) ⁽¹⁾	thousands of metric tons CO ₂	153.2	168.4	164.7
Indirect GHG emissions	thousands of metric tons CO ₂	506.4	534.1	627.7
Other relevant indirect GHG emissions	thousands of metric tons CO ₂	4,738	4,975	5,489

(1) See Sustainable Development Glossary, page 386.

4.7.2 Summary of labor-related indicators

The indicators shown below are not exhaustive.

	2012	2013	2014
Valeo Group headcount			
Engineers and managers	15,929	16,855	18,488
Administrative staff, technicians and supervisors	9,333	9,559	10,235
Operators	39,748	40,709	42,514
Registered headcount	65,010	67,123	71,237
Temporary staff	7,590	7,647	7,258
Total headcount	72,600	74,770	78,495
Permanent staff	60,708	52,922	56,297
Non-permanent staff	11,892	21,848	22,198
Based on the scope of labor-related indicators⁽¹⁾			
Number of new hires on permanent contracts	10,991	8,278	7,125
Engineers and managers	3,301	2,252	3,127
Administrative staff, technicians and supervisors	967	856	896
Operators	6,723	5,170	3,102
Number of new hires on fixed-term contracts	5,569	9,233⁽²⁾	10,770
Engineers and managers	175	814	397
Administrative staff, technicians and supervisors	132	341	1,224
Operators	5,262	8,078	9,149
Departures			
Layoffs	2,234	2,697	4,006
o/w layoffs	211	375	623
Resignations	4,260	4,498	4,668
Early retirement	90	52	80
Retirement	415	404	434
Overtime (hours)	12,265,653	16,413,063	12,352,548
Number of part-time employees	1,070	1,170	1,209
Rate of absenteeism	2.25%	2.06%	2.14%
Breakdown of women by occupational category (%)			
Engineers and managers	20.5%	21.2%	21.6%
Administrative staff, technicians and supervisors	23.8%	24.1%	26.3%
Operators	40.4%	38.7%	38.9%
Number of lost-time occupational accidents per million hours worked, Group (frequency rate FR1)	2.64	2.21	2.60
Number of occupational accidents, with or without lost time, per million hours worked, Group (frequency rate FR2)	13.27	13.53	13.00
Number of days lost owing to an occupational accident per thousand hours worked, Group (severity rate SR1)	0.06	0.07	0.08
Percentage of training hours devoted to safety	15%	13%	15%
Percentage of employees attending at least one training session devoted to safety	65%	41%	48%
Number of training hours provided	1,119,584	1,304,090	1,382,154
Expenditure on training (in millions of euros)	23.3	25.1	27.9
Number of employees trained	56,954	59,992	65,603
Percentage of employees with disabilities	1.5%	1.5%	1.5%
Number of interns	1,611	1,403	1,321
Number of apprentices	882	935	867
Number of international corporate volunteers	129	126	133

(1) Scope of consolidation defined in section 4.4.1, page 172.

(2) Year-on-year increase mainly due to changes in the rules for determining the number of employees in China (see section 4.4.2, page 173).

4.8 Independent verifier's report on consolidated social, environmental and societal information presented in the management report

Year ended December 31, 2014

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

To the Shareholders,

In our quality as an independent verifier accredited by the COFRAC⁽¹⁾, under the number 3-1050, and as a member of the network of one of the statutory auditors of the company Valeo, we present our report on the consolidated social, environmental and societal information established for the year ended on the December 31, 2014 presented in Chapter 4 of the management report, hereafter referred to as the "CSR Information," pursuant to the provisions of the article L.225-102-1 of the French Commercial Code (*Code de commerce*).

Responsibility of the company

It is the responsibility of the Board of Directors to establish a management report including CSR Information referred to in the article R. 225-105-1 of the French Commercial Code (*Code de commerce*), in accordance with the protocols used by the company (hereafter referred to as the "Criteria"), and available on request at the company's headquarters.

Independence and quality control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession as well as the provisions in the article L. 822-11 of the French Commercial Code (*Code de commerce*). In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

Responsibility of the independent verifier

It is our role, based on our work:

- to attest whether the required CSR Information is present in the management report or, in the case of its omission, that an appropriate explanation has been provided, in accordance with the third paragraph of R. 225-105 of the French Commercial Code (*Code de commerce*) (Attestation of presence of CSR Information);
- to express a limited assurance conclusion, that the CSR Information, overall, is fairly presented, in all material aspects, in according with the Criteria;

Our verification work was undertaken by a team of five people between September 2014 and February 2015 for an estimated duration of five weeks.

We conducted the work described below in accordance with the professional standards applicable in France and the Order of 13 May 2013 determining the conditions under which an independent third-party verifier conducts its mission, in accordance with the international standard ISAE 3000⁽²⁾.

(1) Range of accreditation is available at www.cofrac.fr.

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

1. Attestation of presence of CSR Information

We obtained an understanding of the company's CSR issues, based on interviews with the management of relevant departments, a presentation of the company's strategy on sustainable development based on the social and environmental consequences linked to the activities of the company and its societal commitments, as well as, where appropriate, resulting actions or programmes.

We have compared the information presented in the management report with the list as provided for in the Article R. 225-105-1 of the French Commercial Code (*Code de commerce*).

In the absence of certain consolidated information, we have verified that the explanations were provided in accordance with the provisions in Article R. 225-105, paragraph 3, of the French Commercial Code (*Code de commerce*).

We verified that the information covers the consolidated perimeter, namely the entity and its subsidiaries, as aligned with the meaning of the Article L.233-1 and the entities which it controls, as aligned with the meaning of the Article L.233-3 of the French Commercial Code (*Code de commerce*).

Based on this work, we confirm the presence in the management report of the required CSR information.

2. Limited assurance on CSR Information

Nature and scope of the work

We undertook six interviews with the people responsible for the preparation of the CSR Information in the different departments (Group Risk Insurance Environment, Industrial relations, Public affairs and sustainability), in charge of the data collection process and, if applicable, the people responsible for internal control processes and risk management, in order to:

- Assess the suitability of the Criteria for reporting, in relation to their relevance, completeness, reliability, neutrality, and understandability, taking into consideration, if relevant, industry standards;
- Verify the implementation of the process for the collection, compilation, processing and control for completeness and consistency of the CSR Information and identify the procedures for internal control and risk management related to the preparation of the CSR Information.

We determined the nature and extent of our tests and inspections based on the nature and importance of the CSR Information, in relation to the characteristics of the Company, its social and environmental issues, its strategy in relation to sustainable development and industry best practices.

For the CSR Information which we considered the most important⁽¹⁾:

- At the level of the consolidated entity, we consulted documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions, etc.), we implemented analytical procedures on the quantitative information and verified, on a test basis, the calculations and the compilation of the information, and also verified their coherence and consistency with the other information presented in the management report;
- At the level of the representative selection of sites that we selected⁽²⁾, based on their activity, their contribution to the consolidated indicators, their location and a risk analysis, we undertook interviews to verify the correct application of the procedures and undertook detailed tests on the basis of samples, consisting in verifying the calculations made and linking them with supporting documentation. The sample selected therefore represented on average 12% of the total workforce and between 15% and 21% of the quantitative environmental information.

For the other consolidated CSR information, we assessed their consistency in relation to our knowledge of the company.

Finally, we assessed the relevance of the explanations provided, if appropriate, in the partial or total absence of certain information.

We consider that the sample methods and sizes of the samples that we considered by exercising our professional judgment allow us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work. Due to the necessary use of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the risk of non-detection of a significant anomaly in the CSR Information cannot be entirely eliminated.

(1) **Quantitative environmental information (indicators):** number of ISO 14001 certified sites, hazardous and non-hazardous wastes production in tons, valorisation rate, electric and thermal energy consumed in MWh, direct and indirect greenhouse gases emissions in tons, volatile organic compounds emissions in tons, and packaging material consumption in tons.

Qualitative Environmental and societal information: approaches to evaluation and certification, preventative measures, recycling and waste management, energy consumption, measures undertaken to improve energy efficiency and to promote the use of renewable energy, raw material consumption and measures undertaken to enhance resource efficiency; importance of subcontracting and the consideration of environmental and social issues in purchasing policies and relations with suppliers and subcontractors.

Quantitative social information (indicators): total headcount and breakdown, hiring and terminations, remunerations and their evolution, number of absence hours and absenteeism rate, frequency and severity rate of work accidents, total number of training hours.

Social information: employment, absenteeism, work accidents, training policies.

(2) VIS Foshan (China), THS San Luis Potosi (Mexico), PTS San Luis Potosi (Mexico), PTS Bursa (Turkey), VIS Skawina (Poland), THS Laval (France), CDA Tuam (Ireland).

SUSTAINABLE DEVELOPMENT

Independent verifier's report on consolidated social, environmental and societal information presented in the management report

Conclusion

Based on our work, we have not identified any significant misstatement that causes us to believe that the CSR Information, taken together, has not been fairly presented, in compliance with the Criteria.

Observations

Without qualifying our conclusion above, we draw your attention to the following points:

- For emissions of volatile organic compounds (VOCs), specific actions have been deployed to improve the homogeneity of calculation methods applied by concerned entities. The continuation of these actions is considered as necessary to reach satisfactory precision at consolidated level.
- The information reported excludes, for certain sites in China, waste not intended for recovery. This does not put into question the indicators on waste generation and waste recovery.
- For the frequency and severity rate indicators, hours worked definition is applied heterogeneously. Without calling into question the information provided, reinforcing controls on consolidated social data is considered as necessary.

Paris-La Défense, February 24, 2015

French original signed by

Independent Verifier

ERNST & YOUNG et Associés

Éric Mugnier

Partner, Sustainable Development

Bruno Perrin

Partner

5 FINANCIAL AND ACCOUNTING INFORMATION

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AFR Information from the Annual Financial Report is clearly identified in the table of contents by the AFR symbol

 **12.7**
billion euros
Sales

 **+9%**
Growth in OE sales
Like-for-like (constant Group structure and exchange rates)

 **7.2%**
Operating margin
Including share in net earnings of equity-accounted companies

 **327**
million euros
Free cash flow

5.1 Analysis of 2014 consolidated results AFR

The Group's consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as approved by the European Union. The accounting principles are explained in detail in the notes to the 2014 consolidated financial statements in section 5.4.6, page 245.

The standards and amendments on consolidation (IFRS 10, 11 and 12) were adopted by the European Union in December 2012 and are mandatorily applicable for reporting periods beginning on or after January 1, 2014. The most significant impact for Valeo related to the application of IFRS 11, which eliminates the proportionate consolidation method and requires that all companies not controlled by Valeo be accounted for using the equity method. This standard was applied on a retrospective

basis. In the 2014 consolidated financial statements, many of the figures shown for 2013 were adjusted from those published in February 2014 to reflect the impacts of applying the new consolidation standards as from January 1, 2014 (see Note 1.3.1 to the consolidated financial statements, section 5.4.6, page 247).

At the same time as the entry into force of IFRS 11, Valeo changed the presentation of its statement of income in order to reflect the nature of the activities carried out by the Group's equity-accounted companies. The Group considered that it would be more appropriate to classify the share in net earnings of equity-accounted companies within operating margin. This represents a voluntary change in accounting policy within the meaning of IAS 8, which allows such changes if they lead to more relevant and reliable information (see Note 1.3.2 to the consolidated financial statements, section 5.4.6, page 248).

5.1.1 Business review

Order intake⁽¹⁾

The order intake jumped 18% to 17.5 billion euros in 2014, confirming the Group's strong growth potential. By major automotive production region, Europe accounted for 44% of the order intake, Asia 34% (China 24%) and North America 18%.

Innovative products accounted for a significant 35% of the order intake, vindicating the Group's technology strategy.

Global automotive production

Growth in automotive production was balanced in the main production regions.

Automotive production rose 2.7% year-on-year, buoyed by growth in Asia (up 4%) on the back of strong production momentum in China (up 8%), continued expansion in North America (up 5%) and an upturn in the European market (up 3%). Production in South America fell sharply however (down 16%).

Change in automotive production
(versus the same period in 2013)

	Second-half 2014 ^(*)	Full-year 2014 ^(*)
TOTAL	+1.5%	+2.7%
Europe & Africa	0%	+3%
Asia	+2%	+4%
China	+6%	+8%
Asia (excl. China), Middle East & Oceania	-2%	0%
North America	+6%	+5%
South America	-15%	-16%

^(*) LMC & Valeo automotive production estimates.

⁽¹⁾ See Financial Glossary, page 385.

Sales

Sales for the year advanced 9% (up 8% like-for-like), to 12,725 million euros.

Changes in exchange rates had a negative impact of 0.9% while **changes in Group structure** had a positive impact of 2.2% (positive impacts of 1.2% and 4.2%, respectively, in the second half):

- over the year as a whole, the exchange rate impact reflects the depreciation of the yen, the Brazilian real and the

Argentine peso; in the fourth quarter, exchange rates had a positive 2.4% impact owing to the fall in the value of the euro against the dollar and the yuan;

- changes in Group structure chiefly reflect Valeo's acquisition (effective January 1, 2014) of Osram's 50% stake in the Sylvania joint venture, which is now fully consolidated (100%) in the Group's financial statements, and the sale of the Access Mechanisms business (effective April 30, 2013).

Sales (in millions of euros)	As a % of total 2014 sales	Second-half			Like-for-like change ^(**)	Full-year			Like-for-like change ^(**)
		2013 ^(*)	2014	Change		2013 ^(*)	2014	Change	
of which:									
Original equipment	85%	4,797	5,458	+14%	+7%	9,834	10,890	+11%	+9%
Aftermarket	12%	738	742	+1%	-3%	1,487	1,495	+1%	+0%
Miscellaneous	3%	183	178	-3%	+10%	341	340	0%	+13%
TOTAL	100%	5,718	6,378	+12%	+6%	11,662	12,725	+9%	+8%

^(*) The sales figures shown for 2013 differ from those presented in the consolidated financial statements published in February 2014 since they have been adjusted to reflect the first-time application of the new consolidation standards as from January 1, 2014.

^(**) Constant Group structure and exchange rates.

Original equipment sales came out at 10,890 million euros (85% of total sales), up 9% on a like-for-like basis. This performance reflects the gradual entry into production of the high order intake recorded by the Group over the last few years.

Aftermarket sales (12% of total sales) remained stable on a like-for-like basis despite a challenging economic environment in Europe, buoyed by continued expansion in Asia and emerging countries. By market, the fall in sales of original equipment spares (OES), due primarily to inventory run-downs by certain customers, was offset by good sales of replacement parts to the Independent Aftermarket (IAM).

Miscellaneous sales (3% of total sales), mainly consisting of tooling revenues related to the launch of new projects, increased by 13% like-for-like.

Trends in original equipment sales by location of sales compared with global automotive production

Original equipment sales jumped 9% on a like-for-like basis (including 28% growth in China), beating global automotive production by 6.5 percentage points.

Valeo delivered market-beating growth in each of the main production regions, driven by:

- an improved product mix resulting from technological innovations (new features and the roll-out of the Group's technologies for CO₂ emissions reduction and improved vehicle performance as well as intuitive driving);
- its positioning with regard to German and Asian customers; and
- business expansion in Asia and emerging countries.

Original equipment sales (by location of sales, in millions of euros)	Second-half				Full-year			
	2013 ^(*)	2014	Like-for-like change	Difference vs. market ^(**)	2013 ^(*)	2014	Like-for-like change	Difference vs. market ^(**)
Europe & Africa	2,440	2,649	+9%	+9 pts	5,162	5,483	+9%	+6 pts
China	576	755	+21%	+15 pts	1,053	1,370	+28%	+20 pts
Asia (excl. China), Middle East & Oceania	678	712	+1%	+3 pts	1,338	1,407	+6%	+6 pts
North America	888	1,166	+6%	0 pts	1,785	2,267	+8%	+3 pts
South America	215	176	-19%	-4 pts	496	363	-16%	+0 pts
TOTAL	4,797	5,458	+7.3%	+5.8 PTS	9,834	10,890	+9.2%	+6.5 PTS

(*) The sales figures shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the first-time application of the new consolidation standards as from January 1, 2014.

(**) Based on LMC & Valeo automotive production estimates.

The Group delivered consistent market-beating growth across the main production regions:

- in **China**, the Group's significant level of investment spending and the gradual entry into production of the high order intake recorded over the last few years powered a 28% jump in like-for-like original equipment sales, beating automotive production by 20 percentage points;
- in **Europe** (including Africa), like-for-like original equipment sales advanced 9%, lifted by an attractive portfolio of products with high technological value and a favorable customer mix, beating automotive production by 6 percentage points;
- in **North America**, like-for-like original equipment sales climbed 8%, beating automotive production by 3 percentage points.

Valeo continues to realign its businesses geographically⁽¹⁾...

The share of original equipment sales produced in North America increased by 2 percentage points to 20%.

The share of original equipment sales produced in China increased by 1 percentage point to 14% of total original equipment sales.

The share of original equipment sales produced in Western Europe decreased by 1 percentage point to 36%.

... and maintain a balanced, more diverse customer portfolio⁽¹⁾

German customers represented 30% of original equipment sales, stable versus 2013.

Asian customers accounted for 26% of original equipment sales, down 1 percentage point.

US customers accounted for 22% of original equipment sales, up 1 percentage point.

French customers accounted for 16% of original equipment sales, stable versus 2013.

5.1.2 Results

The **gross margin** for 2014 increased 10% to 2,203 million euros, or 17.3% of sales (up 0.1 percentage points on 2013).

This reflects:

- a positive volume/inflation effect of 0.7 percentage points;
- higher depreciation charges against a backdrop of strong organic growth (negative impact of 0.2 percentage points);
- economic difficulties in South America (negative impact of 0.2 percentage points);

- non-recurring items and the adverse effect of changes in Group structure (negative impact of 0.2 percentage points).

Valeo continued its **research and development** efforts in response to its high order intake. In 2014, gross research and development expenditure was up 8% to 1,130 million euros. Net research and development expenditure rose 12% to 685 million euros, representing 5.4% of sales, up 0.1 percentage points versus 2013.

(1) Including proportionately consolidated joint ventures.

Administrative and selling expenses came in at 5.2% of sales, down 0.2 percentage points on 2013. Administrative expenses and overheads alone represented 3.5% of sales for the period, down 0.2 percentage points on 2013.

The share in net earnings from equity-accounted companies was 51 million euros. It includes the gain on remeasuring the Group's previously held interest in Valeo Sylvania to fair value, along with non-recurring expenses, resulting in a net positive impact of 18 million euros.

Operating margin⁽¹⁾:

- **in the second half**, operating margin moved up 15% to 471 million euros, or 7.4% of sales (up 0.2 percentage points);
- **over the year as a whole**, the operating margin gained 15% to 913 million euros, or 7.2% of sales (up 0.4 percentage points).

Operating income⁽²⁾ for the Group rose 19% to 859 million euros, or 6.8% of sales, after taking into account restructuring programs in South America and Japan for an aggregate amount of 29 million euros (14 million euros in the second half) and impairment losses taken against non-current assets for 15 million euros (3 million euros in the second half).

The cost of net debt totaled 91 million euros, down 7% on 2013.

Net attributable income jumped 28% to 562 million euros, or 4.4% of sales. The effective tax rate came out at 19% following the recognition of a portion of deferred tax assets due to the improved profitability of the Group's operations in North America.

Excluding non-recurring items, net attributable income⁽²⁾ moved up 18% to 593 million euros, or 4.7% of sales.

The return on capital employed (ROCE⁽²⁾) and return on assets (ROA⁽²⁾) stood at 31% and 20%, respectively.

5.1.3 Segment reporting

Strong growth in the Comfort & Driving Assistance Systems Business Group and above-market growth in the three other Business Groups

As is the case for the consolidated Group, the sales performance for the Business Groups reflects the specific product, geographic and customer mix and the relative weighting of the aftermarket in their activity as a whole.

Sales by Business Group ^(*) (in millions of euros)	Second-half				Full-year			
	2013 ^(**)	2014	Change sales	Change OE sales ^(***)	2013 ^(**)	2014	Change sales	Change OE sales ^(***)
Comfort & Driving Assistance Systems	1,046	1,187	+13%	+14%	2,238	2,311	+3%	+15%
Powertrain Systems	1,570	1,641	+5%	+2%	3,161	3,337	+6%	+5%
Thermal Systems	1,669	1,823	+9%	+5%	3,372	3,637	+8%	+8%
Visibility Systems	1,472	1,813	+23%	+9%	2,967	3,614	+22%	+9%

(*) Including intersegment sales.

(**) The sales figures shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the first-time application of the new consolidation standards as from January 1, 2014.

(***) Constant Group structure and exchange rates.

(1) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 385.

Change in the presentation of the consolidated statement of income:

With the application of IFRS 11, the Group changed the presentation of the consolidated statement of income with the definition of a new indicator "Operating margin including share in net earnings of equity-accounted companies", which not only includes the share in net earnings of associates but also the share in net earnings of joint ventures which are now accounted for by the equity method.

All companies consolidated using the equity method, either joint ventures or associates (which were already previously consolidated using the equity method), contribute to the Group's operations and belong to one of its four operating segments. As a result, the Group considered that it would be more appropriate to recognize the share in net earnings of equity-accounted companies within operating income.

Since the operating margin is one of the main indicators used to monitor the Group's performance, the share in net earnings of equity-accounted companies is now included in a new statement of income account, "Operating margin including share in net earnings of equity-accounted companies".

(2) See Financial Glossary, page 385.

Like-for-like original equipment sales for the **Comfort & Driving Assistance Systems Business Group** increased 15%, buoyed by the market's growing interest in intuitive driving products (vision, radar, and parking assistance systems). Sales as reported were up 3% on the prior year, hit by the sale of the Access Mechanisms business as of April 30, 2013.

Like-for-like original equipment sales for the **Thermal Systems and Visibility Systems Business Groups** climbed 8% and 9%, respectively, buoyed by the ramp-up in innovative CO₂ emissions reduction solutions such as air intake, engine cooling and LED lighting technologies. Total sales for the Visibility Systems Business Group increased 22% following the acquisition (effective January 1, 2014) of Osram's 50% stake in the joint venture Valeo Sylvania, which is now fully consolidated.

Original equipment sales for the **Powertrain Systems Business Group** outperformed automotive production by 2 percentage points, despite the postponement of certain customer projects until 2015.

EBITDA⁽¹⁾

In the second half, consolidated EBITDA came in 19% higher at 786 million euros, or 12.3% of sales.

Over the year as a whole, EBITDA gained 15% at 1,526 million euros, or 12.0% of sales.

EBITDA (in millions of euros and as a % of sales)	Second-half			Full-year		
	2013 ^(*)	2014	Change	2013 ^(*)	2014	Change
Comfort & Driving Assistance Systems	147	176	+20%	297	336	+13%
	14.1%	14.8%	+0.7 pts	13.3%	14.5%	+1.2 pts
Powertrain Systems	160	200	+25%	333	410	+23%
	10.2%	12.2%	+2.0 pts	10.5%	12.3%	+1.8 pts
Thermal Systems	204	204	-	398	404	+2%
	12.2%	11.2%	-1.0 pts	11.8%	11.1%	-0.7 pts
Visibility Systems	149	214	+44%	294	382	+30%
	10.1%	11.8%	+1.7 pts	9.9%	10.6%	+0.7 pts
GROUP	661	786	+19%	1,327	1,526	+15%
	11.6%	12.3%	+0.7 pts	11.4%	12.0%	+0.6 pts

^(*) The segment information shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis and the change in the definition of EBITDA in the Group's internal reporting.

The **Comfort & Driving Assistance Systems Business Group** contributed to consolidated EBITDA growth thanks to a good operating performance amid strong sales growth; EBITDA came in at 14.5% of sales (up 1.2 percentage points), and represented 14.8% of sales for the second half.

The **Powertrain Systems Business Group** reported a sharp improvement in EBITDA, to 12.3% of sales (up 1.8 percentage points), reflecting the upward trend in the Business Group's profitability.

The **Thermal Systems Business Group** saw its EBITDA margin narrow to 11.1% of sales (down 0.7 percentage points) following the recognition of a non-recurring item.

Profitability for the **Visibility Systems Business Group** improved in line with the turnaround plan begun in 2012; EBITDA came in at 10.6% of sales (up 0.7 percentage points) and represented 11.8% of sales in the second half, consistent with the performance of the Group as a whole.

⁽¹⁾ See Financial Glossary, page 385.

5.1.4 Cash flow and financial position

Stockholders' equity

At December 31, 2014, consolidated stockholders' equity amounted to 2,949 million euros versus 2,528 million euros at December 31, 2013. The net 421 million euro increase primarily reflects consolidated net income for the period of 593 million euros and translation gains of 144 million euros

resulting from the appreciation in the Chinese yuan, South Korean won and US dollar against the euro in 2014. This rise in stockholders' equity was partially offset by actuarial losses of 180 million euros arising on pension obligations recognized in the statement of comprehensive income net of deferred taxes, and by the payment of a 132 million euro dividend to the Group's shareholders in respect of 2013.

Provisions

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Provisions for pensions and other employee benefits	1,059	778
Provisions for product warranties	160	153
Provisions for restructuring costs	49	43
Provisions for tax-related disputes	23	47
Environmental provisions	16	17
Provisions for loss-making contracts	3	5
Provisions for employee-related and other disputes	83	80
PROVISIONS	1,393	1,123
Of which long-term portion (more than one year)	1,160	900

(1) The amounts shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of the first-time application of the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3 to the consolidated financial statements, section 5.4.6, pages 246 and 247).

The statement of financial position at December 31, 2014 shows total provisions of 1,393 million euros (including a non-current portion of 1,160 million euros), compared with 1,123 million euros at end-2013 (including a non-current portion of 900 million euros). The 270 million euro net increase in provisions over the period is mainly due to the significant rise in pension obligations.

Provisions for pensions and other employee benefits totaled 1,059 million euros (including a non-current portion of 985 million euros) at December 31, 2014, compared to 778 million euros at end-2013 (including a non-current portion of 710 million euros). Due to the lower discount rates used to calculate obligations in Europe and to a lesser extent in the United States, actuarial differences led to a 225 million euro increase in pension provisions in 2014. Translation differences also increased provisions for pensions and other employee benefits by 32 million euros. Other provisions (including provisions for restructuring costs) fell to 334 million euros at December 31, 2014 from 345 million euros at December 31, 2013. They include 160 million euros relating to product warranties, 49 million euros relating to provisions for restructuring costs, and 125 million euros relating to other risks and disputes.

Provisions for product warranties increased to 160 million euros at end-2014 from 153 million euros at end-2013. Sales growth outpaced the increase in these provisions, testifying to the ongoing improvement in the quality delivered by the Group to its customers.

The total amount of provisions for restructuring costs rose to 49 million euros at December 31, 2014 versus 43 million euros at December 31, 2013. Restructuring costs in 2014 chiefly include the costs of two new plans announced in the first half of the year: one in South America (Brazil and Argentina) and the other in Japan.

Provisions for tax-related disputes were down significantly, falling to 23 million euros at end-2014 from 47 million euros one year earlier. Provisions for tax-related disputes at December 31, 2013 included a 27 million euro provision set aside for a tax dispute with the French tax authorities brought by Valeo before the administrative court in September 2003. This dispute was based on the allegedly unlawful nature of the dividend withholding tax paid on dividend payouts made in 2000. In a ruling handed down in late December 2007, the court found in favor of Valeo, which was reimbursed in an amount of 27 million euros in April 2008. Since the tax authorities had lodged an appeal against this decision, Valeo had set aside a provision for the full amount received. Following the tax deficiency notice received by Valeo in May 2014, this amount was paid over to the French tax authorities and the provision written back.

Environmental provisions remained stable over the year.

Provisions for employee-related and other disputes totaled 83 million euros at December 31, 2014 (80 million euros at end-2013) and are intended to cover asbestos-related risks

arising in connection with former employees, intellectual property disputes and various other disputes related to Valeo's operating activities across the globe.

Cash flows and debt

<i>(in millions of euros)</i>	2014	2013 restated ⁽¹⁾
Gross operating cash flows	1,430	1,219
Income taxes paid	(163)	(144)
Changes in working capital	40	252
Net cash flows from operating activities	1,307	1,327
Net payments for purchases of intangible assets and property, plant and equipment	(936)	(872)
Elimination of change in sales of non-recurring accounts and notes receivable	(44)	(114)
FREE CASH FLOW	327	341
Change in sales of non-recurring accounts and notes receivable	44	114
Net change in non-current financial assets	(3)	(11)
Acquisitions of investments with gain of control, net of cash acquired	(104)	(5)
Disposals of investments with loss of control, net of cash transferred	(5)	170
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(144)	(129)
Sale (purchase) of treasury stock/Dividend withholding tax	(81)	53
Net interest paid/received	(83)	(100)
Acquisitions of investments without gain of control	-	(4)
Premiums on bond exchange transactions	(91)	-
NET CASH FLOW	(140)	429

(1) The amounts shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of the first-time application of the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3 to the consolidated financial statements, section 5.4.6, pages 246 and 247).

Gross operating cash flows jumped 17% from 1,219 million euros in 2013 to 1,430 million euros in 2014. However, net cash flows from operating activities were down 2% on the previous year, at 1,307 million euros in 2014 compared to 1,327 million euros in 2013.

The rise in gross operating cash flows was offset by higher tax payments than in 2013 and a smaller year-on-year fall in working capital requirement. The sharp fall in working capital requirement in 2013 resulted in a cash inflow of 252 million euros (40 million euros in 2014), partly reflecting the 2013 sale by Valeo of its research tax credit receivables in respect of 2010, 2011 and 2012 for an amount of 152 million euros. In 2014, the sale of the 2013 research tax credit and the CICE tax credits for 2013 and 2014 added 80 million euros to working capital.

Acquisitions of property, plant and equipment and intangible assets in 2014 represented a net cash outflow of 936 million euros, a 64 million euro increase on 2013 (872 million euros). Given the record order intake over the past three years, investments rose sharply in both 2013 and 2014.

Free cash flow, which corresponds to net cash from operating activities of 1,307 million euros less net outflows on property, plant and equipment and intangible assets (936 million euros) and additional sales of non-recurring accounts and notes receivable in 2014 compared to 2013 (44 million euros), amounted to 327 million euros (341 million euros in 2013).

In 2014, cash outflows arising on acquisitions of investments with gain of control, net of cash acquired, represented 104 million euros (cash outflows of 5 million euros in 2013). These cash outflows of 104 million euros essentially reflect the cash impact resulting from the Group's purchase of Osram GmbH's stake in Valeo Sylvania. In 2013, the amount of 170 million euros recorded on "Disposals of investments with loss of control" related mainly to the cash received on the sale of the Access Mechanisms business in May 2013.

Net cash flow in 2014 amounted to an outflow of 140 million euros and corresponds to free cash flow (327 million euros) less (i) additional sales of non-recurring receivables in 2014 for 44 million euros, (ii) cash flows in respect of investing

activities, relating to acquisitions with gain of control and disposals of investments with loss of control (net outflow of 104 million euros and 5 million euros, respectively) and changes in certain items shown in non-current financial assets (outflow of 3 million euros), and (iii) cash flows in respect of financing activities, relating to dividends paid (outflow of 144 million euros), repayment of the dividend withholding tax (28 million euros), treasury share purchases and sales (net outflow of 53 million euros), interest paid and received (net outflow of 83 million euros), and payment of premiums on bond exchange transactions (outflow of 91 million euros).

In 2014, cash flows relating to financing activities mainly included dividends paid to Valeo shareholders for 132 million euros, payment of dividend withholding tax for 28 million euros (Valeo repaid the amount it had been refunded in 2008 following a tax deficiency notice received in May 2014), net interest paid in an amount of 83 million euros, net treasury share purchases for 53 million euros, repayments of long-term loans and borrowings for 650 million euros (including 354 million euros on the bond issue maturing in 2017, 226 million euros on the bond issue maturing in 2018 and 56 million euros relating to the second installment on the European Investment Bank loans), premiums on transactions exchanging 2017 and 2018 bonds totaling 91 million euros, and new long-term loans and borrowings taken out for 702 million euros (essentially the 700 million euro 10-year bonds issued in early 2014). In all, financing activities resulted in a net outflow of 347 million euros in 2014 compared with a net outflow of 559 million euros in 2013.

Net consolidated cash and cash equivalents were down 7 million euros (up 40 million euros at end-2013).

At December 31, 2014, net debt⁽¹⁾ stood at 341 million euros, stable compared to end-2013 (351 million euros). The leverage ratio (net debt/EBITDA) came out at 0.2 times EBITDA and the gearing ratio (net debt/stockholders' equity excluding non-controlling interests) stood at 12% of equity compared to 15% at end-2013.

Investments over the past three years

2014

To support the record order intake achieved in the past few years, investments recorded in 2014 were up 7% on 2013 at 956 million euros, or 7.5% of sales. Investments concerned property, plant and equipment for 616 million euros⁽²⁾ and intangible assets for 340 million euros⁽²⁾ (including 298 million euros in capitalized development expenditure)⁽²⁾.

The Group continued to invest in fast-growing regions such as Asia, Eastern Europe and North America, which accounted for 32%, 17% and 13%, respectively, of investments in property,

plant and equipment. Investments remained significant in Western Europe (35%) as growth reported by Valeo outpaced market growth. Significant investments were also undertaken in 2014 to set up and extend capacity of plants in China, South Korea and Poland. Capital expenditure was mainly earmarked for the Lighting Systems, Transmission Systems, Driving Assistance, Powertrain Thermal Systems and Electrical Systems Product Groups.

In line with its development strategy in the area of innovative technologies focusing on the reduction of CO₂ emissions and improved vehicle performance, intuitive driving and geographic expansion in high-growth regions, on January 21, 2014, Valeo confirmed it had completed its acquisition of Osram's 50% stake in Valeo Sylvania pursuant to the agreement dated June 13, 2013. In early January 2014, Osram GmbH had exercised its put option to sell Valeo its entire stake in this North American joint venture for a price of 104 million US dollars (equivalent to three times estimated 2014 EBITDA). Valeo now holds all of Osram's capital. The acquisition of the shares in Valeo Sylvania not already owned by the Group represents a major strategic step in bolstering Valeo's global leadership in automotive lighting systems (see Note 2.2.1.1 to the 2014 consolidated financial statements, section 5.4.6, page 254).

In a further move consistent with the foregoing strategy, on February 18, 2014 Valeo confirmed the sale of the Access Mechanisms business of its Indian joint venture to Minda Capital Limited (see Note 2.2.1.3 to the 2014 consolidated financial statements, section 5.4.6, page 255).

2013⁽³⁾

To support the record order intake achieved in the past few years, investments recorded in 2013 were up on 2012 at 896 million euros, or 7.7% of sales. Investments concerned property, plant and equipment for 586 million euros⁽²⁾ and intangible assets for 310 million euros⁽²⁾ (including 286 million euros in capitalized development expenditure)⁽²⁾.

The Group continued to invest in fast-growing regions such as Asia, Eastern Europe and North America, which accounted for 35%, 18% and 10%, respectively, of investments in property, plant and equipment. Investments remained significant in Western Europe (32%) as growth reported by Valeo outpaced market growth. Significant investments were also undertaken in 2013 to set up and extend capacity of plants in China, South Korea and Poland. Capital expenditure was mainly earmarked for the Lighting Systems, Transmission Systems, Interior Controls, Powertrain Thermal Systems and Driving Assistance Product Groups.

(1) See Financial Glossary, page 385.

(2) Acquisitions (see Notes 6.2 and 6.3 to the 2014 consolidated financial statements, section 5.4.6, pages 281 and 282).

(3) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis.

In line with its development strategy in the area of technologies focusing on the reduction of CO₂ emissions, on September 30, 2013 Valeo announced the acquisition of Eltek Electric Vehicles, a Norwegian company fully dedicated to designing, developing, manufacturing, assembling and marketing worldwide high efficiency on-board chargers for passenger cars and commercial vehicles. This acquisition, consolidated in the Group's financial statements with effect from October 1, 2013, enabled Valeo to accelerate and expand the development of its offer for hybrid and electric vehicles and consolidate its offering with high efficiency invertors developed alongside a number of top original equipment manufacturers.

In a further move consistent with the Group's CO₂ emissions reduction strategy and plan to step up expansion in Asia and emerging markets, Valeo sold its Access Mechanisms business (excluding the Indian entity) to Japan-based U-Shin for an enterprise value of 203 million euros, with effect from April 30, 2013 for accounting purposes. The sale of this business (previously part of the Comfort & Driving Assistance Business Group), primarily mechanical-based and with a strong base in Europe and South America, had a net impact of 428 million euros on the consolidated statement of financial position at December 31, 2013 (see Note 2.2.2.1 to the 2014 consolidated financial statements, section 5.4.6, page 255).

2012

To support the record order intake achieved in the past few years, investments recorded in 2012 were up 23% on 2011 at 879 million euros, or 7.5% of sales. Investments concerned property, plant and equipment for 607 million euros⁽¹⁾, and intangible assets for 272 million euros⁽¹⁾ (including 244 million euros in capitalized development expenditure).

The Group continued to invest in fast-growing regions such as Asia, Eastern Europe and Mexico, which accounted for 28%, 17%, and 12%, respectively, of investments in property, plant and equipment. Investments remained significant in Western Europe (35%) as growth reported by Valeo outpaced market growth. Significant investments were also undertaken in 2012 to set up and extend the capacity of plants in China, Mexico, South Korea and Poland. Capital expenditure was mainly earmarked for the Lighting Systems, Torque converters, Electrical Systems and Heat exchangers Product Groups and Lines.

In line with its development strategy in Asia and emerging countries and in the area of technologies focusing on the reduction of CO₂ emissions, Valeo announced the following transactions:

- on October 25, 2012, the creation of the company Detroit Thermal Systems (DTS) with V. Johnson Enterprises to acquire the Climate Control business of Automotive Components Holdings (ACH), currently based at Sheldon Road, Michigan, in the United States;
- on September 7, 2012, an agreement to strengthen its Lighting alliance with Ichikoh by creating a joint venture to which the two companies are to contribute their respective Chinese Lighting operations. The joint venture is 85%-owned by Valeo and 15%-owned by Ichikoh;
- on April 23, 2012, the acquisition of the non-controlling interests in its China-based subsidiary Valeo Automotive Air Conditioning Hubei, previously 55%-owned. Following this acquisition, Valeo holds all of the capital and voting rights of the subsidiary.

Commitments

The table below shows the main commitments given:

<i>(in millions of euros)</i>	December 31, 2014	December 31, 2013 ⁽¹⁾	December 31, 2012
Lease commitments	174	133	119
Guarantees given	14	8	3
Non-cancelable asset purchase commitments	272	199	222
Other commitments given	64	66	53
TOTAL	524	406	397

⁽¹⁾ The amounts shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of the first-time application of the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3 to the consolidated financial statements, section 5.4.6, pages 246 and 247).

In 2014, Valeo entered into new commitments to lease additional premises, particularly in China, accounting for much of the rise in lease commitments.

Non-cancelable asset purchase commitments remained significant at the end of 2014, reflecting a sustained investment program relating to the very high order intake.

Other commitments given relate to guarantees granted by Valeo in connection with divestments. They mainly include commitments given on the sale of the Wiring harness business in 2007 (expired on January 1, 2015) and on the sale of the Access Mechanisms business in 2013.

At December 31, 2014, Valeo received a total of 70 million euros in guarantees (60 million euros at end-December 2013) in connection with its acquisitions. Changes in the period result mainly from the guarantee received in connection with the acquisition of Osram GmbH's shares in Valeo Sylvania.

Details of these commitments are provided in Note 2.3 to the consolidated financial statements (page 256) for commitments given and received in relation to the consolidated Group, and Note 6.5 to the consolidated financial statements for commitments relating to non-current assets and leases (page 287).

⁽¹⁾ Acquisitions (see Notes 6.2 and 6.3 to the 2013 consolidated financial statements, section 5.4.6, pages 252 to 255).

5.2 Subsequent events

February 20, 2015 – Valeo announces the signing of a technological cooperation agreement with Peiker, a leading supplier of on-board telematics and connectivity solutions.

The agreement will enable Valeo, a market leader in driving assistance systems, to broaden its range of automotive geolocation and mobile connectivity solutions.

With Valeo's global presence and know-how in on-board electronics allied to the technological expertise of Peiker, this agreement will allow both partners to offer automakers new telematic systems adapted to the needs of this high-growth market.

The partners' primary objective is to pool their research and development capabilities to create innovative new products compatible with forthcoming LTE Advanced mobile broadband services.

This agreement allows Valeo to further cement its leadership in the fields of autonomous vehicles and connectivity.

March 11, 2015 – Mobileye NV, the global leader in front-facing camera based driving assistance systems, and Valeo, world leader in driving assistance systems and specifically laser scanner technology, have joined forces to combine

Mobileye's EyeQ® family of microprocessors and computer vision algorithms with Valeo's driving assistance sensor portfolio.

Under the cooperation agreement, Valeo will design and industrialize a range of front-facing camera solutions and sensor fusion products using Mobileye's EyeQ® family of microprocessors and computer vision algorithms. During the term of the agreement, the front-facing camera technology offered by Valeo will be based solely on Mobileye's EyeQ® family of microprocessors and computer vision algorithms.

In addition, Mobileye and Valeo have joined forces in an exclusive cooperation to develop an innovative joint product proposition for the automated driving market, combining vision and laser scan. The combination of Valeo's global presence and excellent technology portfolio, including market-leading Laser Scan Technology, with Mobileye's unique expertise on image processing technology will allow both partners to create unique solutions for future autonomous cars.

The relationship with Mobileye is expected to further strengthen Valeo's leadership on the path towards autonomous and intuitive cars.

5.3 Trends and outlook

Based on the following assumptions:

- a rise of around 3% in global automotive production, including an increase of around 2% in Europe excluding Russia;
- raw material prices and exchange rates in line with current levels;

Valeo has set the following objectives for 2015:

- sales growth higher than the market in the main production regions;
- a slight increase in operating margin⁽¹⁾ (as a percentage of sales) compared to 2014.

The objectives of the strategic plan are set out in Chapter 1, section 1.2.6 on page 16.

⁽¹⁾ Including share in net earnings of equity-accounted companies, see Financial Glossary, page 385.

5.4 2014 consolidated financial statements RFA

In accordance with Article 28 of European Regulation No. 809/2004 dated April 29, 2004, the following information is incorporated by reference in this Registration Document:

- the consolidated financial statements and the Statutory Auditors' report for the year ended December 31, 2013, set out on pages 218 to 290 and 291 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 28, 2014 under number D.14-0234;
- the consolidated financial statements and the Statutory Auditors' report for the year ended December 31, 2012, set out on pages 198 to 268 and 269 of the Registration Document registered with the AMF on March 28, 2013 under number D.13-0246;

5.4.1 Consolidated statement of income

(in millions of euros)	Notes	2014	2013 restated ⁽¹⁾
SALES	4.1	12,725	11,662
Cost of sales	4.3	(10,522)	(9,653)
GROSS MARGIN	4.3	2,203	2,009
<i>% of sales</i>		17.3%	17.2%
Research and Development expenditure, net	4.5.1	(685)	(614)
Selling expenses		(207)	(193)
Administrative expenses		(449)	(436)
OPERATING MARGIN		862	766
<i>% of sales</i>		6.8%	6.6%
Share in net earnings of equity-accounted companies	4.5.3.1	51	26
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	4.5	913	792
<i>% of sales</i>		7.2%	6.8%
Other income and expenses	4.6.2	(54)	(67)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	4.6.1	859	725
Interest expense	8.2.1	(101)	(107)
Interest income	8.2.1	10	9
Other financial income and expenses	8.2.2	(46)	(46)
INCOME BEFORE INCOME TAXES		722	581
Income taxes	9.1	(129)	(113)
NET INCOME FOR THE YEAR		593	468
Attributable to:			
• Owners of the Company		562	439
• Non-controlling interests	10.1.7	31	29
Earnings per share:			
• Basic earnings per share (in euros)	10.2	7.23	5.71
• Diluted earnings per share (in euros)		7.23	5.71

(1) The consolidated statement of income shown for the year ended December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis, and a change in the presentation of the share in net earnings of equity-accounted companies in the statement of income (see Notes 1.1.1 and 1.3, section 5.4.6, pages 246 and 247).

The Notes are an integral part of the consolidated financial statements.

5.4.2 Consolidated statement of comprehensive income

(in millions of euros)	2014	2013 restated ⁽¹⁾
NET INCOME FOR THE YEAR	593	468
Share of changes in comprehensive income from equity-accounted companies recycled to income	10	(3)
<i>o/w income taxes</i>	-	-
Translation adjustment	136	(164)
Cash flow hedges:		
• Gains (losses) taken to equity	16	(19)
• (Gains) losses transferred to income for the year	7	16
<i>o/w income taxes</i>	(4)	1
Remeasurement of available-for-sale financial assets	-	-
<i>o/w income taxes</i>	-	-
Other comprehensive income (loss) recycled to income	169	(170)
Share of changes in comprehensive income from equity-accounted companies not recycled to income	(2)	10
<i>o/w income taxes</i>	-	-
Actuarial gains (losses) on defined benefit plans	(180)	95
<i>o/w income taxes</i>	45	(6)
Other comprehensive income (loss) not recycled to income	(182)	105
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	(13)	(65)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	580	403
Attributable to:		
• Owners of the Company	532	381
• Non-controlling interests	48	22

(1) The consolidated statement of comprehensive income shown for the year ended December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, section 5.4.6, pages 246 and 247).

The Notes are an integral part of the consolidated financial statements.

5.4.3 Consolidated statement of financial position

<i>(in millions of euros)</i>	<i>Notes</i>	December 31, 2014	December 31, 2013 restated⁽¹⁾
ASSETS			
Goodwill ⁽²⁾	6.1	1,374	1,210
Other intangible assets ⁽²⁾	6.2	1,012	829
Property, plant and equipment	6.3	2,497	2,080
Investments in equity-accounted companies	4.5.3.2	167	201
Other non-current financial assets	8.1.1	59	72
Deferred tax assets	9.2	359	238
NON-CURRENT ASSETS		5,468	4,630
Inventories, net	4.4	938	810
Accounts and notes receivable, net	4.2	1,681	1,460
Other current assets	4.5.2	366	402
Taxes recoverable		25	33
Other current financial assets	8.1.1	44	35
Cash and cash equivalents	8.1.3.2	1,497	1,500
Assets held for sale		-	2
CURRENT ASSETS		4,551	4,242
TOTAL ASSETS		10,019	8,872
EQUITY AND LIABILITIES			
Share capital	10.1.1	238	238
Additional paid-in capital	10.1.2	1,434	1,434
Translation adjustment	10.1.3	145	18
Retained earnings	10.1.4	923	691
STOCKHOLDERS' EQUITY		2,740	2,381
Non-controlling interests	10.1.7	209	147
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		2,949	2,528
Provisions for pensions and other employee benefits – long-term portion	5.3	985	710
Other provisions – long-term portion	7.1	175	190
Long-term debt – long-term portion	8.1.2.1	1,458	1,491
Other financial liabilities – long-term portion	8.1.1	5	7
Subsidies and grants – long-term portion		20	24
Deferred tax liabilities	9.2	37	26
NON-CURRENT LIABILITIES		2,680	2,448
Accounts and notes payable		2,700	2,347
Provisions for pensions and other employee benefits – current portion	5.3	74	68
Other provisions – current portion	7.1	159	155
Subsidies and grants – current portion		8	13
Taxes payable		57	52
Other current liabilities		920	879
Current portion of long-term debt	8.1.2.1	124	108
Other financial liabilities – current portion	8.1.1	91	21
Short-term debt	8.1.2.2	257	253
CURRENT LIABILITIES		4,390	3,896
TOTAL EQUITY AND LIABILITIES		10,019	8,872

(1) The consolidated statement of financial position shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, section 5.4.6, pages 246 and 247).

(2) The amounts of goodwill and other intangible assets shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the final purchase price accounting for Eltek Electric Vehicles (see Note 2.2.2.2, section 5.4.6, page 256).

The Notes are an integral part of the consolidated financial statements.

5.4.4 Consolidated statement of cash flows

(in millions of euros)	Notes	2014	2013 restated ⁽¹⁾
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		593	468
Share in net earnings of equity-accounted companies		(51)	(26)
Net dividends received from equity-accounted companies		36	19
Expenses (income) with no cash effect	11.1	632	548
Cost of net debt		91	97
Income taxes (current and deferred)		129	113
GROSS OPERATING CASH FLOWS		1,430	1,219
Income taxes paid		(163)	(144)
Changes in working capital	11.2	40	252
NET CASH FLOWS FROM OPERATING ACTIVITIES		1,307	1,327
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(338)	(310)
Acquisitions of property, plant and equipment		(620)	(565)
Disposals of property, plant and equipment and intangible assets		22	3
Net change in non-current financial assets		(3)	(11)
Acquisitions of investments with gain of control, net of cash acquired	11.3	(104)	(5)
Disposals of investments with loss of control, net of cash transferred	11.3	(5)	170
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(1,048)	(718)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(132)	(115)
Dividends paid to non-controlling interests in consolidated subsidiaries		(12)	(14)
Dividend equalization tax	7.1	(28)	-
Sale (purchase) of treasury stock		(53)	53
Issuance of long-term debt	11.4	702	18
Interest paid		(93)	(110)
Interest received		10	10
Bond exchange premiums	11.4	(91)	-
Repayments of long-term debt	11.4	(650)	(397)
Acquisitions of equity interests without gain of control		-	(4)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(347)	(559)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		81	(10)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(7)	40
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,247	1,207
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		1,240	1,247
o/w:			
• Cash and cash equivalents		1,497	1,500
• Short-term debt		(257)	(253)

(1) The consolidated statement of cash flows shown for the year ended December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, section 5.4.6, pages 246 and 247).

The Notes are an integral part of the consolidated financial statements.

5.4.5 Consolidated statement of changes in stockholders' equity

Number of shares <i>(in millions of euros)</i>	Share capital	Addi- tional paid-in capital	Translation adjustment	Retained earnings	Total stockholders' equity including non-controlling interests restated ⁽¹⁾			
					Stockholders' equity	Non-controlling interests	Total	
STOCKHOLDERS' EQUITY								
76,103,667	238	1,434	183	197	2,052	138	2,190	
AT JANUARY 1, 2013								
1,539,151	Dividends paid	-	-	-	(115)	(115)	(14)	(129)
	Treasury stock	-	-	-	54	54	-	54
	Capital increase	-	-	-	-	-	-	-
	Share-based payment	-	-	-	9	9	-	9
	Other movements	-	-	-	-	-	1	1
TRANSACTIONS WITH OWNERS		-	-	-	(52)	(52)	(13)	(65)
	Net income for the year	-	-	-	439	439	29	468
	Other comprehensive income (loss), net of tax	-	-	(165)	107	(58)	(7)	(65)
TOTAL COMPREHENSIVE INCOME (LOSS)		-	-	(165)	546	381	22	403
STOCKHOLDERS' EQUITY								
77,642,818	238	1,434	18	691	2,381	147	2,528	
AT DECEMBER 31, 2013								
124,400	Dividends paid	-	-	-	(132)	(132)	(10)	(142)
	Treasury stock ⁽²⁾	-	-	-	(54)	(54)	-	(54)
	Capital increase	-	-	-	-	-	-	-
	Share-based payment	-	-	-	14	14	-	14
	Other movements	-	-	-	(1)	(1)	24	23
TRANSACTIONS WITH OWNERS		-	-	-	(173)	(173)	14	(159)
	Net income for the year	-	-	-	562	562	31	593
	Other comprehensive income (loss), net of tax	-	-	127	(157)	(30)	17	(13)
TOTAL COMPREHENSIVE INCOME (LOSS)		-	-	127	405	532	48	580
STOCKHOLDERS' EQUITY								
77,767,218	238	1,434	145	923	2,740	209	2,949	
AT DECEMBER 31, 2014								

(1) The consolidated statement of changes in equity shown for the year ended December 31, 2013 differs from that presented in the 2013 interim and annual consolidated financial statements published in July 2013 and February 2014, respectively, since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, section 5.4.6, pages 246 and 247).

(2) In 2014, changes in stockholders' equity attributable to treasury stock include the impact of the share buyback program entered into with an investment services provider on May 27, 2014 for 74 million euros (see Note 10.1.6, section 5.4.6, page 308).

The Notes are an integral part of the consolidated financial statements.

5.4.6 Notes to the consolidated financial statements

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Note 1 Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2014 include:

- the accounts of Valeo;
- the accounts of its subsidiaries;
- Valeo's share in the net assets and earnings of equity-accounted companies (joint ventures and associates).

Valeo is an independent group fully focused on the design, production and sale of components, integrated systems and modules for the automotive sector. As a technology company, Valeo proposes innovative products and systems that contribute to the reduction of CO₂ emissions and to the development of intuitive driving. Valeo is one of the world's leading automotive suppliers and is a partner to all automakers across the globe.

Valeo is a French legal entity listed on the Paris Stock Exchange. Its head office is at 43 rue Bayen, 75017 Paris, France.

Valeo's consolidated financial statements for the year ended December 31, 2014 were authorized for issue by the Board of Directors on February 24, 2015.

They will be submitted for approval to the next Annual Shareholders' Meeting.

1.1 Accounting standards applied

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union. The IFRS as adopted by the European Union can be consulted on the European Commission's website⁽¹⁾.

1.1.1 Standards, amendments and interpretations adopted by the European Union and obligatorily applicable for reporting periods beginning on or after January 1, 2014

1.1.1.1 Standards and amendments dealing with consolidation

The IASB published the following standards and amendments on consolidation:

- IFRS 10 – "Consolidated Financial Statements";
- IFRS 11 – "Joint Arrangements";
- IFRS 12 – "Disclosure of Interests in Other Entities";
- IAS 27 (revised) – "Separate Financial Statements";
- IAS 28 (revised) – "Investments in Associates and Joint Ventures";
- Amendments to IFRS 10, IFRS 11 and IFRS 12 – "Transition Guidance";
- Amendments to IFRS 10, IFRS 12 and IAS 27 – "Investment Entities".

These standards and amendments on consolidation adopted by the European Union in December 2012 lead to certain adjustments and restatements in the Group's consolidated financial statements. These are discussed in more detail in Note 1.3.1, page 247.

1.1.1.2 Other standards, amendments and interpretations

The IASB also published the following amendments:

- Amendments to IAS 32 – "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities";
- Amendment to IAS 36 – "Recoverable Amount Disclosures for Non-Financial Assets";
- Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting".

These amendments do not have a material impact on the Group's consolidated financial statements.

1.1.2 Standards, amendments and interpretations adopted by the European Union and obligatorily applicable for reporting periods beginning after January 1, 2014 and not early adopted by the Group

On June 14, 2014, the European Union adopted IFRIC 21 – "Levies". This interpretation is obligatorily applicable for reporting periods beginning on or after June 17, 2014, i.e., as of January 1, 2015 for Valeo, whose reporting period is consistent with a calendar year.

IFRIC 21 provides guidance on when to recognize a liability for a levy (other than income tax), and specifies that the obligating event giving rise to this liability is the activity that triggers the payment of the levy, as identified by the legislation. This interpretation may result in limited adjustments to the Group's consolidated financial statements as it could change the date on which a liability for a levy is recognized, based on whether or not a present obligation exists at the reporting date. In France, this is the case for the additional social security levy (*Contribution Sociale de Solidarité des Sociétés* – C3S), which is currently recognized when the sales representing the basis for the tax are made. Under IFRIC 21 however, this levy should be recognized at January 1 of the following reporting period, i.e., when it falls due. The additional social security levy amounted to 6 million euros for 2014. An analysis of the Group's other countries is currently in progress.

The following standards, amendments and interpretations have also been published by the IASB and adopted by the European Union:

- Amendments to IAS 19 – "Defined Benefit Plans: Employee Contributions";
- Annual improvements to IFRS for 2010-2012 and 2011-2013.

These new publications are not expected to have a material impact on the Group's consolidated financial statements.

(1) http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

1.1.3 Standards, amendments and interpretations published by the IASB but not yet adopted by the European Union

The following standards, amendments and interpretations have been published by the IASB but not yet adopted by the European Union:

- IFRS 9 – “Financial Instruments”, along with amendments to IFRS 9;
- IFRS 15 – “Revenue from Contracts with Customers”;
- Amendments to IAS 1 – “Disclosure Initiative”;
- Amendments to IAS 16 and IAS 38 – “Clarification of Acceptable Methods of Depreciation and Amortization”;
- Amendments to IFRS 11 – “Accounting for Acquisitions of Interests in Joint Operations”;
- Amendments to IFRS 10 and IAS 28 – “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”;
- Annual improvements to IFRS for 2012-2014.

On July 24, 2014, the IASB published the full version of IFRS 9, marking the completion of its project to replace IAS 39 on financial instruments. IFRS 9 introduces some important changes to IAS 39:

- the approach for classifying and measuring financial assets is now based on an analysis of both the business model for each asset portfolio and the contractual terms of the financial asset in question;
- the impairment model no longer uses the current approach based on identified losses but an approach based on expected losses;
- the accounting for hedges has been significantly improved and more closely aligned with an entity’s risk management strategy.

The IASB has set the effective date of IFRS 9 at January 1, 2018, with earlier adoption permitted.

IFRS 15 was published on May 28, 2014 and is expected to apply for reporting periods beginning on or after January 1, 2017. It replaces IAS 11, IAS 18 and the related IFRIC and SIC interpretations on revenue recognition, and introduces a new model for accounting for revenue from contracts with customers.

A preliminary analysis of the main impacts of these two new standards on the Group’s consolidated financial statements will be conducted in 2015 to assess any adjustments and restatements that may be necessary.

The other new publications are not expected to have a material impact on the Group’s consolidated financial statements.

1.2 Basis of preparation

The financial statements are presented in euros and are rounded to the closest million.

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets, liabilities, income and expenses.

These estimates and assumptions concern both risks specific to the automotive supply business such as those relating to quality and safety, as well as more general risks to which the Group is exposed on account of its industrial operations across the globe.

The Group exercises its judgment based on past experience and other factors considered to be decisive given the circumstances. The estimates and assumptions used are revised on an ongoing basis. In view of the uncertainties inherent in any assessment, the final amounts reported in Valeo’s future financial statements may differ from the amounts resulting from these current estimates.

Key estimates and assumptions adopted by the Group to prepare its financial statements for the year ended December 31, 2014 chiefly concern:

- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6, page 280) ;
- estimates of provisions, particularly for pensions and other employee benefits and for risks linked to product warranties (see Notes 5.3 and 7.1, pages 272 and 288);
- the likelihood that deferred tax assets will be able to be recovered (see Note 9.2, page 306).

1.3 Restatement of prior-year financial information

1.3.1 First-time application of new consolidation standards

1.3.1.1 IFRS 10 – “Consolidated Financial Statements”

IFRS 10 – “Consolidated Financial Statements” replaces IAS 27 – “Consolidated and Separate Financial Statements” in its provisions applicable to consolidated financial statements, along with SIC 12 – “Consolidation – Special Purpose Entities”. IFRS 10 provides a revised definition of control based on a new single framework.

The nature of control over entities held by Valeo either directly or indirectly was reviewed in light of the criteria defined by IFRS 10. The findings of this review did not significantly differ from those resulting from the control reviews carried out prior to the first-time application of IFRS 10.

Accordingly, the first-time application of IFRS 10 at January 1, 2014 does not impact the Group’s consolidated financial statements.

1.3.1.2 IFRS 11 – “Joint Arrangements”

IFRS 11 – “Joint Arrangements” replaces IAS 31 – “Interests in Joint Ventures” and SIC 13 – “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”. IFRS 11 sets out the principles of accounting for arrangements of which two or more parties have joint control.

Depending on the rights and obligations of each party, joint arrangements can be classified as:

- a joint operation, if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement: in this case, the Group recognizes its share of the assets, liabilities, revenue and expenses of the joint operation relating to its involvement in the associated rights and obligations; or
- a joint venture, if the rights and obligations represent rights to the net assets of the arrangement: in this case, the joint venture is accounted for using the equity method (proportionate consolidation is no longer permitted).

The Group previously accounted for its joint ventures using the proportionate consolidation method. Following an analysis of the underlying contracts, the Group classified all of its joint arrangements as joint ventures and not joint operations. Accordingly, joint ventures are now accounted for using the equity method in accordance with the new standard. The retrospective application of IFRS 11 requires the 2013 interim and annual consolidated financial statements to be restated. This information is set out in Note 1.3.3, page 249.

Upon the first-time application of IFRS 11, the portion of goodwill allocated to cash-generating units (CGUs) comprising joint ventures previously accounted for using proportionate consolidation was reallocated and reclassified within investments in equity-accounted joint ventures. Goodwill was reallocated based on the carrying amounts of the joint venture and group of CGUs concerned at January 1, 2013. The value of investments in equity-accounted companies and goodwill after these restatements are presented in Notes 4.5.3 and 6.1, pages 266 and 280.

After taking into account this goodwill reallocation, Valeo analyzed whether there were any indications that these new CGUs excluding the joint ventures were impaired. No additional impairment tests were required as a result, besides those performed for the 2013 reporting period and at January 1, 2013.

The changes resulting from the retrospective application of IFRS 11 did not alter the findings of the impairment tests on the goodwill allocated to each Business Group or on the portion of goodwill allocated to investments in equity-accounted joint ventures.

1.3.1.3 IFRS 12 – “Disclosure of Interests in Other Entities”

IFRS 12 – “Disclosure of Interests in Other Entities” sets out all of the disclosures required about an entity’s interests in subsidiaries, joint arrangements, associates and unconsolidated “structured” entities, regardless of the degree of control or influence exercised over these entities.

The objective of IFRS 12 is to describe for financial statement users the nature of, and risks associated with, interests in other entities (joint ventures, associates and non-controlling investments) and the effects of those interests on the entity’s financial position, financial performance and cash flows.

Valeo has carried out both a quantitative and qualitative analysis of its interests in other entities, based on which it determined the relevant and material disclosures to be included in the notes to its consolidated financial statements. No specific risks associated with its interests in other entities came to light as a result of the qualitative analysis other than those already existing within the Group’s subsidiaries (see Note 8.3, page 300). Based on the quantitative analysis, no interests taken individually were identified as being material with regard to consolidated income or total consolidated assets/liabilities. Overall, therefore, the application of IFRS 12 has only a limited impact on the Group, although it results in more comprehensive disclosures in the notes to the consolidated financial statements. These disclosures are included in the 2014 consolidated financial statements in Notes 4.5.3 and 10.1.7, pages 266 and 309.

1.3.2 Change in the presentation of the consolidated statement of income

In accordance with IAS 1, Valeo should retain the presentation and classification of items in the consolidated financial statements from one period to the next, unless it is apparent that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8.

At the time IFRS 11 came into effect, Valeo changed the presentation of its statement of income in order to reflect the nature of the activities carried out by the Group’s equity-accounted companies.

All companies consolidated using the equity method, either joint ventures discussed in the Note above or associates (which were already previously accounted for using the equity method), contribute to the Group’s operations and belong to one of its four operating segments.

The Group thus considered that it would be more appropriate to classify the share in net earnings of equity-accounted companies within operating income. This represents a voluntary change in accounting policy within the meaning of IAS 8, which allows such changes if they lead to more relevant and reliable information.

Since the operating margin is one of the main indicators used to monitor the Group’s performance, the share in net earnings of equity-accounted companies is now included in a new statement of income account, “Operating margin including share in net earnings of equity-accounted companies”.

This new line corresponds to the “Operating margin” heading (determined as operating income before other income and expenses) shown in the statement of income published in February 2014, plus the share in net earnings of all equity-accounted companies.

This latter caption includes:

- the share in net earnings of associates (caption presented on a separate line in the statement of income published in February 2014); and
- the share in net earnings of joint ventures now accounted for using the equity method.

The resulting impact on the consolidated statement of income for the six months ended June 30, 2013 and the year ended December 31, 2013 is presented in Note 1.3.3, page 249.

1.3.3 Impact of changes on the 2013 consolidated financial statements

The following tables show the impacts of the retrospective application of IFRS 11 (see Note 1.3.1, page 247) on the entire consolidated financial statements at June 30, 2013 and December 31, 2013, and of the changes in presentation in the consolidated statement of income for the six months ended June 30, 2013 and the year ended December 31, 2013 (see Note 1.3.2, page 248), in relation to the financial statements presented in the accounts published in July 2013 and February 2014.

1.3.3.1 Consolidated statement of income

(in millions of euros)	First-half 2013 published	IAS 8 Change in presentation of statement of income	First-time application of IFRS 11	First-half 2013 restated	Full-year 2013 published	IAS 8 Change in presentation of statement of income	First-time application of IFRS 11	Full-year 2013 restated
CONTINUING OPERATIONS								
SALES	6,166	-	(222)	5,944	12,110	-	(448)	11,662
Cost of sales	(5,129)	-	196	(4,933)	(10,037)	-	384	(9,653)
GROSS MARGIN	1,037	-	(26)	1,011	2,073	-	(64)	2,009
% of sales	16.8%		0.2 pts	17.0%	17.1%		0.1 pts	17.2%
Research and Development expenditure, net	(332)	-	14	(318)	(643)	-	29	(614)
Selling expenses	(99)	-	2	(97)	(196)	-	3	(193)
Administrative expenses	(222)	-	1	(221)	(439)	-	3	(436)
OPERATING MARGIN	384	-	(9)	375	795	-	(29)	766
% of sales	6.2%		0.1 pts	6.3%	6.6%			6.6%
Share in net earnings of equity-accounted companies		4	4	8		7	19	26
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES				383				792
% of sales				6.4%				6.8%
Other income and expenses	(41)	-	-	(41)	(67)	-	-	(67)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	343	4	(5)	342	728	7	(10)	725
Interest expense	(56)	-	1	(55)	(108)	-	1	(107)
Interest income	6	-	-	6	8	-	1	9
Other financial income and expenses	(22)	-	1	(21)	(47)	-	1	(46)
Share in net earnings of equity-accounted companies	4	(4)	-		7	(7)	-	
INCOME BEFORE INCOME TAXES	275	-	(3)	272	588	-	(7)	581
Income taxes	(71)	-	3	(68)	(119)	-	6	(113)
NET INCOME FOR THE PERIOD	204	-	-	204	469	-	(1)	468
Attributable to:								
• Owners of the Company	190	-	-	190	439	-	-	439
• Non-controlling interests	14	-	-	14	30	-	(1)	29

1.3.3.2 Consolidated statement of financial position

<i>(in millions of euros)</i>	June 30, 2013 published	First-time application of IFRS 11	June 30, 2013 restated	Dec. 31, 2013 published	First-time application of IFRS 11	Dec. 31, 2013 restated
ASSETS						
Goodwill	1,286	(44)	1,242	1,248	(40)	1,208
Other intangible assets	780	(14)	766	850	(20)	830
Property, plant and equipment	2,123	(105)	2,018	2,181	(101)	2,080
Investments in equity-accounted companies	103	89	192	103	98	201
Other non-current financial assets	55	-	55	72	-	72
Deferred tax assets	219	(9)	210	246	(8)	238
NON-CURRENT ASSETS	4,566	(83)	4,483	4,700	(71)	4,629
Inventories, net	830	(43)	787	848	(38)	810
Accounts and notes receivable, net	1,810	(83)	1,727	1,521	(61)	1,460
Other current assets	468	14	482	386	16	402
Taxes recoverable	31	-	31	33	-	33
Other current financial assets	3	-	3	36	(1)	35
Cash and cash equivalents	1,454	(14)	1,440	1,510	(10)	1,500
Assets held for sale	8	(6)	2	8	(6)	2
CURRENT ASSETS	4,604	(132)	4,472	4,342	(100)	4,242
TOTAL ASSETS	9,170	(215)	8,955	9,042	(171)	8,871
EQUITY AND LIABILITIES						
Share capital	238	-	238	238	-	238
Additional paid-in capital	1,434	-	1,434	1,434	-	1,434
Translation adjustment and retained earnings	461	-	461	708	1	709
STOCKHOLDERS' EQUITY	2,133	-	2,133	2,380	1	2,381
Non-controlling interests	139	(5)	134	153	(6)	147
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS	2,272	(5)	2,267	2,533	(5)	2,528
Provisions for pensions and other employee benefits – long-term portion	801	(16)	785	721	(11)	710
Other provisions – long-term portion	228	3	231	191	(1)	190
Long-term debt – long-term portion	1,564	(8)	1,556	1,520	(29)	1,491
Other financial liabilities – long-term portion	10	-	10	7	-	7
Subsidies and grants – long-term portion	20	(1)	19	23	1	24
Deferred tax liabilities	28	-	28	26	-	26
NON-CURRENT LIABILITIES	2,651	(22)	2,629	2,488	(40)	2,448
Accounts and notes payable	2,601	(139)	2,462	2,441	(94)	2,347
Provisions for pensions and other employee benefits – current portion	49	(1)	48	70	(2)	68
Other provisions – current portion	176	(2)	174	160	(5)	155
Subsidies and grants – current portion	18	(1)	17	13	-	13
Taxes payable	36	(2)	34	54	(2)	52
Other current liabilities	995	(24)	971	902	(24)	878
Current portion of long-term debt	110	(17)	93	110	(2)	108
Other financial liabilities – current portion	17	-	17	21	-	21
Short-term debt	239	4	243	246	7	253
Liabilities held for sale	6	(6)	-	4	(4)	-
CURRENT LIABILITIES	4,247	(188)	4,059	4,021	(126)	3,895
TOTAL EQUITY AND LIABILITIES	9,170	(215)	8,955	9,042	(171)	8,871

1.3.3.3 Consolidated statement of cash flows

(in millions of euros)	First-half 2013 published	First-time application of IFRS 11	First-half 2013 restated	Full-year 2013 published	First-time application of IFRS 11	Full-year 2013 restated
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income for the year	204	-	204	469	(1)	468
Share in net earnings of equity-accounted companies	(4)	(4)	(8)	(7)	(19)	(26)
Net dividends received from equity-accounted companies	3	11	14	7	12	19
Expenses (income) with no cash effect	320	(8)	312	569	(21)	548
Cost of net debt	50	(2)	48	100	(3)	97
Income taxes (current and deferred)	71	(3)	68	119	(6)	113
GROSS OPERATING CASH FLOWS	644	(6)	638	1,257	(38)	1,219
Income taxes paid	(70)	3	(67)	(151)	7	(144)
Changes in working capital	49	-	49	232	20	252
NET CASH FLOWS FROM OPERATING ACTIVITIES	623	(3)	620	1,338	(11)	1,327
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of intangible assets	(158)	4	(154)	(316)	6	(310)
Acquisitions of property, plant and equipment	(292)	19	(273)	(598)	33	(565)
Disposals of property, plant and equipment and intangible assets	6	-	6	5	(2)	3
Net change in non-current financial assets	(6)	(2)	(8)	(7)	(4)	(11)
Acquisitions of investments with gain of control, net of cash acquired	(1)	-	(1)	(5)	-	(5)
Disposals of investments with loss of control, net of cash transferred	171	-	171	170	-	170
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(280)	21	(259)	(751)	33	(718)
CASH FLOWS FROM FINANCING ACTIVITIES						
Dividends paid to owners of the Company	-	-	-	(115)	-	(115)
Dividends paid to non-controlling interests in consolidated subsidiaries	(13)	-	(13)	(14)	-	(14)
Issuance of share capital	-	-	-	-	-	-
Sale (purchase) of treasury stock	23	-	23	53	-	53
Issuance of long-term debt	21	(1)	20	25	(7)	18
Interest paid	(80)	-	(80)	(111)	1	(110)
Interest received	6	-	6	9	1	10
Repayments of long-term debt	(323)	-	(323)	(397)	-	(397)
Acquisitions of equity interests without gain of control	-	-	-	(4)	-	(4)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(366)	(1)	(367)	(554)	(5)	(559)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(3)	(1)	(4)	(9)	(1)	(10)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(26)	16	(10)	24	16	40
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,239	(32)	1,207	1,239	(32)	1,207
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,213	(16)	1,197	1,263	(16)	1,247
o/w:						
• Cash and cash equivalents	1,454	(14)	1,440	1,510	(10)	1,500
• Short-term debt	(239)	(4)	(243)	(246)	(7)	(253)
• Portion of cash-related assets and liabilities held for sale	(2)	2	-	(1)	1	-

Note 2 Scope of consolidation

2.1 Accounting policies relating to the scope of consolidation

2.1.1 Consolidation methods

Due to the adoption of the new consolidation standards, the consolidation methods used differ from those presented in the 2013 consolidated financial statements published in February 2014. The new consolidation principles used in the consolidated financial statements are described below.

2.1.1.1 Full consolidation

The accounts of companies under Valeo's direct and indirect control are included in the consolidated financial statements using the full consolidation method. Control is deemed to exist when the Group:

- has power over an investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to affect those returns through its power over the investee's relevant activities.

All significant intercompany transactions are eliminated, as are gains on intercompany disposals of assets, intercompany profits included in inventories and intercompany dividends.

The earnings of subsidiaries acquired are consolidated as from the date the Group has control.

2.1.1.2 Equity-method accounting for joint ventures and associates

Joint arrangements organize the sharing of control of an entity by two or more parties. Under IFRS 11, applicable with effect from January 1, 2014 on a retrospective basis, these arrangements are known as joint ventures when the parties that have control of the arrangement have rights to the net assets of that arrangement.

Valeo also exercises significant influence over certain entities, known as associates. Significant influence is the power to participate in decisions affecting the entity's financial and operating policies, but is not control or joint control over those policies. Significant influence is deemed to exist when Valeo holds over 20% of the voting rights of another entity.

Joint ventures and associates are accounted for using the equity method. Under the equity method, an investment in an equity-accounted company is recognized in the consolidated statement of financial position on the date on which the entity becomes an associate or joint venture.

The investment is initially recognized at acquisition cost and adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the investee. These may be adjusted in line with Group accounting policies.

In 2014, Valeo changed the classification of its share in the net earnings of equity-accounted companies in the consolidated statement of income in accordance with the provisions of IAS 8 (see Note 1.3.2, page 248). The impacts of this change are presented in Note 1.3.3, page 249.

Goodwill arising on the acquisition of associates or joint ventures is included in the carrying amount of investments in equity-accounted companies. Due to the first-time application of IFRS 11, the Group allocated goodwill to equity-accounted joint ventures at January 1, 2013 (see Notes 1.3.1.2 and 6.1, pages 247 and 280).

The procedure used to test investments in equity-accounted companies for impairment is governed by IAS 39 – "Financial Instruments: Recognition and Measurement" and IAS 28 (revised) – "Investments in Associates and Joint Ventures".

Any impairment losses taken against investments in equity-accounted companies, along with any gains or losses on remeasuring the previously-held equity interest at fair value (upon acquisition of a controlling interest in an equity-accounted company) are recorded in "Share in net earnings of equity-accounted companies".

2.1.2 Foreign currency translation

2.1.2.1 Foreign currency financial statements

The Group's consolidated financial statements are presented in euros.

The financial statements of each consolidated Group company are prepared in its functional currency. The functional currency is the currency of the principal economic environment in which it operates, and is generally the local currency.

The financial statements of foreign subsidiaries whose functional currency is not the euro are translated into euros as follows:

- statement of financial position items are translated into euros at the year-end exchange rate;
- statement of income items are translated into euros at the exchange rates applicable at the transaction dates or, in practice, at the average exchange rate for the period, as long as this is not rendered inappropriate as a basis for translation by major fluctuations in the exchange rate during the period;
- unrealized gains and losses arising from the translation of the financial statements of foreign subsidiaries are recorded under "Translation adjustment" in other comprehensive income to be recycled to income.

2.1.2.2 Foreign currency transactions

General

Transactions carried out in a currency other than Valeo's functional currency are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Non-monetary assets and liabilities denominated in a foreign currency are recognized at the historical exchange rate prevailing at the transaction date.

Differences arising from the translation of foreign currency transactions are generally recognized in income.

Net investment

Certain foreign currency loans and borrowings are considered in substance to be an integral part of the net investment in a subsidiary whose functional currency is not the euro when settlement is neither planned nor likely to occur in the foreseeable future. The foreign currency gains and losses arising on these loans and borrowings are recorded under "Translation adjustment" in other comprehensive income for their net-of-tax amount. This specific accounting treatment applies until the disposal of the net investment, or when partial or full repayment of these loans or borrowings is highly probable.

When the net investment is derecognized, the translation adjustment arising after said date is taken to other financial income and expenses in the consolidated statement of income. Translation adjustments previously recognized in other comprehensive income are only recycled to income when the foreign operation is partially or fully disposed of. The Group examines if these partial or full repayments of loans or borrowings equate to a partial or full disposal of the subsidiary.

2.1.3 Business combinations

Since January 1, 2010, the Group has prospectively applied IFRS 3 (revised) - "Business Combinations".

Business combinations are accounted for using the acquisition method, whereby:

- the cost of a combination is determined as the acquisition-date fair value of the consideration transferred, including any contingent consideration. Any subsequent changes in the fair value of contingent consideration is recognized in income or in other comprehensive income as appropriate, in accordance with the applicable standards;
- the difference between the consideration transferred and the acquisition-date fair value of the net identifiable assets acquired and liabilities assumed is classified as goodwill within assets in the statement of financial position.

Adjustments to the provisional fair value of identifiable assets acquired and liabilities assumed resulting from independent analyses in progress or supplementary analyses are recognized

as a retrospective adjustment to goodwill if they are made within 12 months of the acquisition date ("measurement period") and result from facts and circumstances that existed as of that date. The impact of any adjustments made after the measurement period is recognized directly in income as a change of accounting estimate or correction of an error.

For each business combination in which the acquirer holds less than 100% of the equity interests in the acquiree at the acquisition date, the amount of the non-controlling interest is measured:

- either at fair value: in this case, goodwill is recognized on the non-controlling interest ("full goodwill method");
- or at the proportionate share in the recognized amounts of the acquiree's net identifiable assets, in which case goodwill is recognized only on the interest acquired ("partial goodwill method").

Costs directly attributable to the combination are expensed as incurred.

Since January 1, 2010, adjustments to contingent consideration in a business combination are measured at the acquisition-date fair value, even if the consideration is not expected to materialize. After the acquisition date, changes to the estimated fair value of contingent consideration involve an adjustment to goodwill only if they are made within the measurement period (up to 12 months after the date of the combination) and result from facts and circumstances that existed as of that date. In all other cases, such changes are recognized in income or in other comprehensive income as appropriate, in accordance with the applicable standard.

In a business combination achieved in stages, the Group's previously-held interest in the acquiree is remeasured at its acquisition-date fair value in income. To determine goodwill at the acquisition date, the fair value of the consideration transferred (e.g., price paid) is increased by the fair value of any interest previously held by the Group. The amount previously recognized within other comprehensive income in respect of the previously-held interest is recycled to the statement of income.

2.1.4 Transactions involving non-controlling interests

The revised IAS 27 (effective as of January 1, 2010) modified the accounting treatment applicable to non-controlling interests, and changes in non-controlling interests that do not result in a change of control have been recognized in equity since that date. In the event of an acquisition of additional shares in an entity already controlled by the Group, the difference between the acquisition price of the shares and the additional interest acquired by the Group in consolidated equity is recorded in stockholders' equity. The value of the entity's identifiable assets and liabilities (including goodwill) for consolidation purposes remains unchanged.

2.1.5 Assets and liabilities held for sale and discontinued operations

When the Group expects to recover the value of an asset or a group of assets through its sale rather than through continuing use, such assets are presented separately under "Assets held for sale" in the statement of financial position. Any liabilities related to such assets are also presented under a separate caption within liabilities in the statement of financial position. Assets classified as held for sale are valued at the lower of their carrying amount and their estimated sale price less costs to sell, and are therefore no longer subject to depreciation and amortization.

In accordance with IFRS 5, a discontinued operation is a component of an entity that has either been disposed of or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;

- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the date of sale or at an earlier date if the business meets the criteria to be recognized as an asset held for sale. Income or losses generated by these operations, as well as any capital gains or losses on disposal, are presented net of tax on a separate line of the statement of income. To provide a meaningful year-on-year comparison, the same treatment is applied to these items in the previous year.

For assets not classified as discontinued operations, any related impairment losses or proceeds from their disposal are recognized through operating income.

2.2 Changes in the scope of consolidation

2.2.1 Transactions carried out in 2014

2.2.1.1 Acquisition of Osram GmbH's shares in Valeo Sylvania

On June 13, 2013 Valeo and Osram GmbH agreed on an option contract by which, if the reciprocal options were exercised by Osram or Valeo in early 2014, Valeo would acquire or would be committed to acquire Osram's shares in the companies' joint operations in North America, Valeo Sylvania LLC. Until then, Valeo and Osram would continue operating under a 50%-50% joint venture and the governance of this entity would not be modified.

In accordance with this agreement, in early 2014 Osram GmbH exercised its put option to sell Valeo its entire stake in their joint venture for an enterprise value of 104 million US dollars (equivalent to three times estimated 2014 EBITDA). Since January 21, 2014, Valeo has therefore owned all of the capital of Valeo Sylvania LLC in the US, and of its subsidiary Valeo Sylvania Iluminacion in Mexico.

These entities were therefore fully consolidated as from January 1, 2014 and were accounted for using the equity method in the 2013 comparative financial statements, consistent with the first-time application of IFRS 10 and IFRS 11 at January 1, 2014.

In accordance with the revised IFRS 3 dealing with business combinations carried out in stages, the Group's previous interest in the two entities was remeasured to fair value at the acquisition date. The resulting 21 million euro gain was recognized under "Share in net earnings of equity-accounted companies" in the consolidated statement of income for the six months ended June 30, 2014.

As a result of the fair value measurement of the assets acquired and liabilities assumed of the two entities, Valeo revalued its property, plant and equipment, including property assets, in an amount of 12 million euros, and recognized provisions chiefly in respect of specific quality risks, in an amount of 10 million euros. After these adjustments and restatements had been accounted for in the statement of financial position at the acquisition date, the definitive purchase price accounting led to the recognition of 80 million euros in goodwill. This goodwill chiefly reflects the operating and tax synergies expected to result from the transaction, which will allow Valeo to develop the Lighting business within its Visibility Systems Business Group in North America, in both the original equipment business with Valeo's long-standing customers and in the aftermarket business. The transaction also aims to improve industrial performance and the efficiency of the purchasing and Research and Development networks of this business.

Including the cash and cash equivalents acquired, the acquisition resulted in a net outflow of 111 million euros, which is shown within "Acquisitions of investments with gain of control, net of cash acquired" in the consolidated statement of cash flows for the year ended December 31, 2014.

These companies contributed 442 million euros to consolidated sales in 2014.

2.2.1.2 Acquisition of a controlling interest in Valeo Samsung Thermal Systems Co. Ltd

An addendum to the partnership agreement signed on January 9, 2014 changed the governance arrangements for this company and granted control to Valeo which has the majority of votes on the Board of Directors. The Board takes decisions on the relevant activities of the company.

Previously a joint venture, Valeo Samsung Thermal Systems Co. Ltd has been fully consolidated in the Group's consolidated financial statements as of this date. The company is accounted for by the equity method in the comparative 2013 financial statements pursuant to the first-time application of IFRS 11 as from January 1, 2014.

Valeo acquired control of this company – which operates within its Thermal Systems Business Group – without any outflow of cash or cash equivalents.

All of the assets acquired and liabilities assumed of the acquiree were measured at fair value. Property assets were revalued by almost 9 million euros, a customer relationship recognized for 9 million euros and provisions for 10 million euros booked in the statement of financial position at the date on which control was obtained. The gain on remeasuring the equity interest held prior to the date control was acquired in stages is not material.

Goodwill as calculated under the partial goodwill method amounted to 7 million euros at the acquisition date and reflects the operating synergies expected to derive from the transaction, which will cement the Group's position in the Thermal systems business in Asia.

Valeo Samsung Thermal Systems Co. Ltd contributed 43 million euros to consolidated sales in 2014.

2.2.1.3 Sale of the interest in Minda Valeo Security Systems

On February 18, 2014, Valeo completed the sale of its entire interest in the India-based 50%-50% joint venture (part of the former Access Mechanisms business) to Minda Capital Limited. This sale did not have a material impact on the Group's 2014 consolidated financial statements.

This investment was classified in assets held for sale in the 2013 financial statements.

2.2.1.4 Acquisition of a controlling interest in Nanjing Valeo Clutch Co. Ltd

In early July 2014, the Chinese authorities approved an amendment to the partnership agreement signed in respect of Nanjing Valeo Clutch Co. Ltd which changed the approval process for certain decisions. Previously, the non-controlling shareholder's right to veto decisions regarding the relevant activities meant that Valeo did not have exclusive control over this entity. Based on the changes provided for in the governance agreement, Valeo now has exclusive control over the decisions regarding the entity's relevant activities (approval of the budget and decisions regarding the appointment of key management personnel), and its partner now holds only protective rights.

Nanjing Valeo Clutch Co. Ltd, previously a joint venture, has been fully consolidated in the Group's consolidated financial statements since July 1, 2014. The company is accounted for by the equity method in the comparative 2013 financial statements and 2014 interim financial statements, pursuant to the first-time application of IFRS 11 as of January 1, 2014.

Valeo acquired control of this company – which operates within its Powertrain Systems Business Group – without any outflow of cash or cash equivalents.

In accordance with the revised IFRS 3 dealing with business combinations carried out in stages, and consistent with the treatment of the controlling interest acquired in Valeo Sylvania, the Group's previous interest in this entity was remeasured to fair value at the date control was acquired. The resulting 15 million euro gain was recognized under "Share in net earnings of equity-accounted companies" in the consolidated statement of income in the six months ended December 31, 2014.

The fair value measurement of the assets acquired and liabilities assumed of the entity resulted chiefly in Valeo recognizing a customer relationship in an amount of 5 million euros. After these adjustments and restatements were recorded in the statement of financial position at the acquisition date, 15 million euros in goodwill as determined under the partial goodwill method was recognized, reflecting mainly the operating synergies expected to derive from the transaction, namely the development of the Clutch business within the Powertrain Systems Business Group in China.

Nanjing Valeo Clutch Co. Ltd contributed 27 million euros to consolidated sales in the second half of 2014.

2.2.2 Transactions carried out in 2013

2.2.2.1 Sale of the Access Mechanisms business

On June 25, 2012, Valeo announced that it was in negotiations to sell its Access Mechanisms business (Comfort & Driving Assistance Systems Business Group) to Japan-based U-Shin. In accordance with IFRS 5, the assets and liabilities relating to the Access Mechanisms business were therefore classified as assets and liabilities held for sale in the consolidated statement of financial position from June 30, 2012.

This reclassification within assets and liabilities held for sale also led to the discontinuation of depreciation and amortization of the property, plant and equipment and intangible assets dedicated to this business from that date.

In a particularly uncertain economic environment across Europe, on November 30, 2012 Valeo announced the execution of a contract for the sale of its Access Mechanisms business for an enterprise value of 223 million euros. In the year ended December 31, 2012, the Group estimated the likely consequences of the sale of the Access Mechanisms business and as a result, recognized an impairment loss totaling 44 million euros in other income and expenses.

The sale was approved by the anti-trust authorities on February 7, 2013 and was completed on May 24, 2013 (with effect from April 30, 2013) for an enterprise value of 203 million euros. At this date, it did not include the interest in the Indian joint venture, which was sold on February 18, 2014 (see Note 2.2.1.3, page 255). In 2013, an additional expense of 28 million euros was recognized in other income and expenses – 20 million euros of which were recorded in the first half of the year (see Note 4.6.2.1, page 270) – relating mainly to the adverse impacts of the delay in the sale of the Indian Access Mechanisms entity and the change in the net assets sold over the period.

The main items in the statement of financial position of this business that were sold at April 30, 2013 are set out below:

<i>(in millions of euros)</i>	April 30, 2013 ⁽¹⁾		April 30, 2013 ⁽¹⁾
ASSETS		EQUITY AND LIABILITIES	
Goodwill	128	Translation adjustment	16
Other intangible assets	25	Retained earnings	209
Property, plant and equipment	109	Stockholders' equity	225
Other non-current financial assets	-	Provisions – long-term portion	16
Deferred tax assets	4	Deferred tax liabilities	2
Non-current assets	266	Non-current liabilities	18
Inventories, net	38	Accounts and notes payable	119
Accounts and notes receivable, net	107	Provisions – current portion	4
Other current assets	14	Taxes payable	4
Taxes recoverable	3	Other current liabilities	43
Cash and cash equivalents	-	Short-term debt	15
Current assets	162	Current liabilities	185
TOTAL ASSETS	428	TOTAL EQUITY AND LIABILITIES	428

(1) The items sold at April 30, 2013 do not include the assets and liabilities of the Indian entity which were sold in the first half of 2014 (see Note 2.2.1.3, page 255).

In first-half 2013 and up to the date of the sale, the Access Mechanisms business (excluding the Indian entity) contributed 189 million euros to consolidated sales and 4 million euros to the consolidated operating margin.

Including cash and cash equivalents transferred, the sale resulted in a net inflow of 171 million euros, which is shown within "Disposals of investments with loss of control, net of cash transferred" in the consolidated statement of cash flows for the year ended December 31, 2013.

This divestment is aligned with Valeo's strategy of refocusing on products that reduce CO₂ emissions and of stepping up its expansion in Asia and emerging markets. The Access Mechanisms business, which is primarily mechanical-based, comprises products such as locksets, steering column locks, handles and latches.

2.2.2.2 Acquisition of Eltek Electric Vehicles

On September 30, 2013, Valeo announced that it had acquired all of the capital of Eltek Electric Vehicles, a Norwegian company fully dedicated to designing, developing, manufacturing (under subcontracting agreements), assembling and commercializing worldwide high efficiency on-board chargers for passenger cars and commercial vehicles.

The purchase price included payment of a fixed amount of 3 million euros and a maximum earnout payment of 12 million euros, calculated on the basis of the order intake between 2013 and 2020. The provisional valuation of this earnout payment led the Group to recognize a purchase price of 14 million euros, including an earnout of 11 million euros, recorded in other current liabilities in the consolidated statement of financial position at December 31, 2014.

The purchase price was allocated on a provisional basis to Eltek Electric Vehicles' assets and liabilities over the last quarter of 2013 in accordance with the revised IFRS 3. The purchase price accounting was finalized in the first half of 2014 and chiefly led to the recognition of 9 million euros in goodwill at the acquisition date, essentially reflecting the synergies to be derived from combining the acquiree's technological expertise with the Group's commercial strength. This acquisition was incorporated within the Powertrain Systems Business Group and will enable Valeo to accelerate and expand the development of its offer for hybrid and electric vehicles. Valeo will also complete its offer in power electronics by adding high efficiency conversion solutions to the ongoing development of high efficiency inverters with several top original equipment manufacturers.

Prior to the acquisition, Eltek Electric Vehicles reported sales of 3 million euros in the first three quarters of 2013. It contributed 2 million euros to consolidated sales in 2014.

2.3 Off-balance sheet commitments relating to the scope of consolidation

2.3.1 Commitments given

2.3.1.1 Put option granted in respect of Detroit Thermal Systems

Valeo and V. Johnson Enterprises set up the company Detroit Thermal Systems in 2012. At December 31, 2014, Valeo and V. Johnson Enterprises had a respective 49% and 51% interest in this company.

V. Johnson Enterprises has a put option that may be exercised under certain conditions unrelated to either changes in shareholdings or to the level of earnings. The option is exercisable in the event that Valeo is unable to contribute to the financing of the venture or if it sold all or part of its interest to a third party. If the put is exercised, all of the shares owned by V. Johnson Enterprises at that time will be sold to Valeo, with the price to be determined according to the provisions of the agreement defining the company's governance arrangements.

The Group reviewed the contingency clauses governing the exercise of this option in light of the present situation and considered that the conditions underlying these clauses were unlikely to materialize. No liability was therefore recognized in this respect.

2.3.1.2 Put option granted in respect of Valeo Unisia Transmissions

At December 31, 2014, Valeo and Hitachi owned 66% and 34%, respectively, of Japanese firm Valeo Unisia Transmissions K.K.

Hitachi has a put option that may be exercised if its interest in the company falls below 15%. If the put is exercised, all of the shares it owns will be sold to Valeo, with the price to be fixed by Valeo and Hitachi or by an independent expert if the parties fail to reach an agreement.

If Valeo sells all or some of its shares representing more than 51% of the shares of this subsidiary (or a lower percentage of shares if the sale deprives Valeo of its right to appoint the

majority of the members of the subsidiary's Board of Directors), Hitachi reserves the right to offer its own shares to said third parties ("drag-along" right). If said third parties refuse to buy the shares, Hitachi may sell them to Valeo.

As the Group deems that the conditions underlying the contingency clause governing the exercise of the option are unlikely to materialize, no liability has been recognized in this respect.

2.3.1.3 Other commitments given

Other commitments given relate to guarantees granted by Valeo in connection with divestments. They represented 64 million euros at December 31, 2014 (66 million euros at December 31, 2013) and mainly include commitments given on the sale of the Wiring harness business in 2007 (expired on January 1, 2015) and on the sale of the Access Mechanisms business (see Note 2.2.2.1, page 255) in 2013.

2.3.2 Commitments received

Commitments received totaled 70 million euros at December 31, 2014 (60 million euros at December 31, 2013) and correspond to guarantees granted to Valeo in connection with its acquisitions. Changes in the period result mainly from the guarantee received in connection with the acquisition of Osram GmbH's shares in Valeo Sylvania (see Note 2.2.1.1, page 254).

Note 3 Segment reporting

In accordance with IFRS 8 – "Operating Segments", the Group's segment information below is presented on the basis of internal reports that are regularly reviewed by the Group's General Management in order to allocate resources to the segments and assess their performance. General Management represents the chief operating decision maker within the meaning of IFRS 8.

Four reportable segments have been identified, corresponding to Valeo's organization into Business Groups. There is no aggregation of operating segments.

The Group's four reportable segments are:

- Comfort & Driving Assistance Systems, comprising three Product Groups: Driving Assistance, Interior Electronics and Interior Controls. The Business Group develops interfaces between the driver, the vehicle and the surrounding environment, and helps improve safety and comfort.
- Powertrain Systems, comprising four Product Groups: Electrical Systems, Transmission Systems, Combustion Engine Systems and Electronics. This Business Group develops innovative powertrain solutions aimed at reducing fuel consumption and CO₂ emissions without compromising on the pleasure and dynamics of driving. These innovations cover a comprehensive range of products, from the optimization of internal combustion engines through to the varying levels of vehicle electrification, and from Stop-Start systems to electric vehicles.

- Thermal Systems, comprising four Product Groups: Climate Control, Powertrain Thermal Systems, Climate Control Compressors, and Front End Modules. This Business Group develops and manufactures systems, modules and components to ensure thermal energy for the management of powertrain and comfort for each passenger at all stages in the use of a vehicle.
- Visibility Systems, comprising two Product Groups: Lighting Systems and Wiper Systems. This Business Group develops and manufactures efficient and innovative systems which support the driver at all times, day and night, so that the driver has perfect visibility, thus improving the safety of the driver and passengers.

Each of these Business Groups is also responsible for manufacturing and for the distribution of the products for the aftermarket. Income and expenses for Valeo Service, which sells almost exclusively products manufactured by the Group, have been reallocated among the Business Groups identified.

In addition to these four Business Groups, the "Other" line includes holding companies, disposed businesses and eliminations between the four operating segments.

3.1 Key segment performance indicators

The Group revised the definitions of EBITDA and segments assets during the period further to the first-time application of the new consolidation standards (see Note 1.3.1, page 247), leading to changes in its internal reporting.

The key performance indicators for each segment as presented in the tables below are as follows:

- sales;
- EBITDA, which represents operating income (excluding share in net earnings of equity-accounted companies)

before depreciation and amortization expense, impairment losses (included in the operating margin), other income and expenses and dividends paid by equity-accounted companies;

- Research and Development expenditure, net;
- investments in property, plant and equipment and intangible assets;
- segment assets, comprising property, plant and equipment and intangible assets (including goodwill), investments in equity-accounted companies and inventories.

2014

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales:						
• segment (excluding Group)	2,291	3,292	3,598	3,515	29	12,725
• intersegment (Group)	20	45	39	99	(203)	-
EBITDA	336	410	404	382	(6)	1,526
Research and Development expenditure, net	(201)	(146)	(153)	(173)	(12)	(685)
Investments in property, plant and equipment and intangible assets	249	255	178	243	31	956
Segment assets	1,244	1,731	1,292	1,656	65	5,988

2013 restated

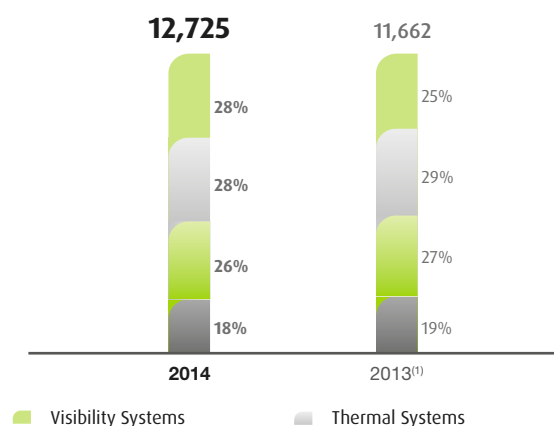
(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales:						
• segment (excluding Group)	2,217	3,119	3,340	2,958	28	11,662
• intersegment (Group)	21	42	32	9	(104)	-
EBITDA	297	333	398	294	5	1,327
Research and Development expenditure, net	(166)	(154)	(152)	(132)	(10)	(614)
Investments in property, plant and equipment and intangible assets	232	239	174	233	18	896
Segment assets	1,125	1,532	1,137	1,290	46	5,130

The segment information shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation

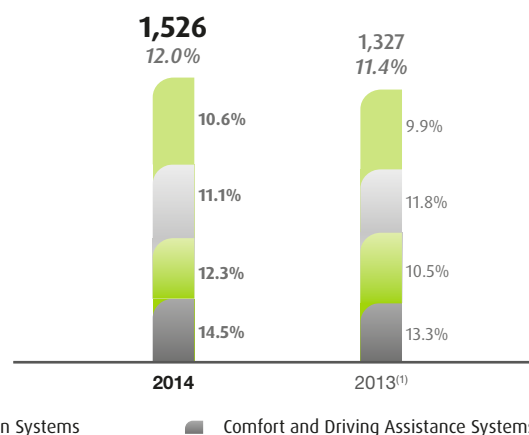
standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247) and the change in the definition of EBITDA and segment assets in the Group's internal reporting.

Segment data

Breakdown of sales by Business Group
(including intersegment sales)
(in millions of euros and as a % of total sales)



EBITDA by Business Group
(in millions of euros and as a % of total sales)



(1) The segment information shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247) and the change in the definition of EBITDA in the Group's internal reporting.

3.2 Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating income:

(in millions of euros)	2014	2013 restated ⁽¹⁾
EBITDA	1,526	1,327
Dividends paid by equity-accounted companies	(36)	(19)
Share in net earnings of equity-accounted companies	51	26
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses ⁽²⁾	(628)	(542)
Other income and expenses	(54)	(67)
Operating income including share in net earnings of equity-accounted companies	859	725

(1) The segment information shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247) and the change in the definition of EBITDA and segment assets in the Group's internal reporting.

(2) Impairment losses recorded in operating margin only.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Segment assets	5,988	5,130
Accounts and notes receivable	1,681	1,460
Other current assets	366	402
Taxes recoverable	25	33
Assets held for sale	-	2
Financial assets	1,600	1,607
Deferred tax assets	359	238
TOTAL GROUP ASSETS	10,019	8,872

(1) The Group's assets at December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

3.3 Reporting by geographic area

Non-current assets consist of property, plant and equipment, intangible assets (excluding goodwill) and investments in equity-accounted companies. Goodwill balances cannot be broken down by geographic area as they are allocated to Business Groups which belong to several areas.

2014

<i>(in millions of euros)</i>	External sales by market	Sales by production area	Non-current assets
France	1,119	2,756	907
Other European countries and Africa	5,518	4,230	1,087
North America	2,454	2,436	491
South America	455	400	95
Asia	3,179	3,419	1,096
Eliminations	-	(516)	-
TOTAL	12,725	12,725	3,676

2013 restated

<i>(in millions of euros)</i>	External sales by market ⁽¹⁾	Sales by production area ⁽¹⁾	Non-current assets ⁽¹⁾
France	1,154	2,796	903
Other European countries and Africa	5,159	3,870	953
North America	1,977	1,828	297
South America	602	536	92
Asia	2,770	3,012	865
Eliminations	-	(380)	-
TOTAL	11,662	11,662	3,110

⁽¹⁾ The geographic segment information shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

3.4 Breakdown of sales by major customer

In 2014, two global automakers represented 30.9% of the Group's sales, and each of these individually accounts for more than 10% of the Group's sales.

In 2013, two global automakers represented 32.0% of the Group's sales, and each of these individually accounted for more than 10% of the Group's sales.

Note 4 Operating data

4.1 Sales

In accordance with IAS 18, sales primarily include sales of finished goods and all tooling revenues. Sales are measured at the fair value of the consideration received, net of any trade discounts and volume rebates and excluding any VAT or other taxes. Sales are recognized at the date on which the Group transfers substantially all the risks and rewards of ownership to the buyer and retains neither continuing managerial involvement nor effective control over the goods sold.

In cases where the Group retains control of the future risks and rewards related to tooling, any contributions received from customers are recognized over the duration of the manufacturing phase of the project, within the limit of four years.

Group sales rose 9.1% to 12,725 million euros in 2014 from 11,662 million euros in 2013. Sales figures shown for 2013 differ from the amounts presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Like-for-like (comparable Group structure and exchange rate basis), consolidated sales for 2014 climbed 7.8% on the previous year. Changes in the scope of consolidation in the period (see Note 2.2.1, page 254) had a favorable impact of 2.2% on sales, while exchange rate fluctuations had a negative impact of 0.9%.

4.2 Accounts and notes receivable

Accounts and notes receivable are current financial assets which are initially recognized at fair value and subsequently carried at amortized cost, less any accumulated impairment losses. The fair value of accounts and notes receivable is deemed to be their nominal amount, since payment periods are generally less than three months.

Accounts and notes receivable may be written down for impairment. Impairment is recognized when it is probable that the receivable will not be recovered and when the amount of the loss can be measured reliably. Impairment is estimated taking into account historical loss experience, the age of the receivables, and a detailed risk assessment. It is recognized in operating income or in other financial income and expenses if it relates to a risk of insolvency of the debtor.

For recurring or one-off transactions, accounts and notes receivable may be discounted and sold to banks. In

accordance with the principles of IAS 39 on the derecognition of financial assets, an analysis is performed at the time of these transactions to determine the extent to which the risks and rewards inherent to ownership of the receivables have been transferred, particularly in terms of credit, late payment and dilution risks. If the analysis shows that both the contractual rights to receive the cash flows relating to the receivables and substantially all of the risks and rewards have been transferred, the accounts and notes receivable are removed from the consolidated statement of financial position and all of the rights created or retained on transfer are recognized.

If this is not the case, the accounts and notes receivable continue to be carried on the consolidated statement of financial position and a financial liability is recorded for the discounted amount.

Accounts and notes receivable can be analyzed as follows:

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Accounts and notes receivable, gross	1,697	1,475
Impairment	(16)	(15)
Accounts and notes receivable, net	1,681	1,460

(1) Accounts and notes receivable shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

At December 31, 2014, Valeo's largest customer accounted for 14% of the Group's accounts and notes receivable (16% at December 31, 2013).

The average days' sales outstanding stood at 45 days at December 31, 2014, stable compared with December 31, 2013.

The Group's credit rate risk management policy is described in Chapter 2, section 2.1.4, page 67.

The table below presents an aged analysis of accounts and notes receivable at the end of the reporting period:

(in millions of euros)		December 31, 2014	December 31, 2013 restated ⁽¹⁾
 1,697 in 2014	94.2% – Not yet due	1,599	1,391
	2.8% – Less than 1 month past due	48	44
	2.5% – More than 1 month but less than 1 year past due	42	34
	0.5% – More than 1 year past due	8	6
	Accounts and notes receivable, gross	1,697	1,475

(1) Accounts and notes receivable shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Gross accounts and notes receivable not yet due and less than one month past due at December 31, 2014 totaled 1,599 million euros and 48 million euros, respectively, and represented 97% of total gross accounts and notes receivable, the same percentage as at December 31, 2013. Past due receivables were written down in an amount of 16 million euros at December 31, 2014 (15 million euros at December 31, 2013).

Accounts and notes receivable falling due after December 31, 2014 for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position, represent an amount of 236 million euros at December 31, 2014 versus 185 million euros at December 31, 2013. A total of 68 million euros out of this amount of 236 million euros relates to transfer operations carried out on a recurring basis (61 million euros at December 31, 2013). The financial cost of these transactions, recognized in cost of net debt, amounted to just over 3 million euros in both 2014 and 2013.

4.3 Gross margin and cost of sales

Gross margin is defined as the difference between sales and cost of sales.

Cost of sales may include insurance indemnities paid out for claims made within the scope of the Group's operations. These claims can relate to product quality issues or property damage following unusually severe weather. In accordance with IAS 16 dealing with property, plant and equipment and consistent with the accounting treatment of other claims,

an insurance gain is recognized in the statement of income at the date of the claim, if it is demonstrated that the claim is duly covered by a valid insurance policy. If this right is contingent on the subsequent completion of repairs or on the acquisition of new assets (contingent claim), the associated gain should be recognized at the time the aforementioned repairs or acquisition are made.

Gross margin totaled 2,203 million euros in 2014, or 17.3% of sales (17.2% of sales in 2013).

Cost of sales can be analyzed as follows:

(in millions of euros and as a % of sales)		2014	2013 restated ⁽¹⁾
 (10,522) in 2014	58.3% ⁽³⁾ – Raw materials consumed	(7,423)	(6,837)
	12.9% ⁽³⁾ – Labor	(1,642)	(1,509)
	8.6% ⁽³⁾ – Direct production costs and production overheads	(1,092)	(979)
	2.9% ⁽³⁾ – Depreciation and amortization ⁽²⁾	(365)	(328)
	Cost of sales	(10,522)	(9,653)

(1) Cost of sales shown for 2013 differs from the amount presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

(2) This amount does not include amortization charged against capitalized development costs, which is recognized in Research and Development expenditure, net.

(3) As a % of sales.

4.4 Inventories

Inventories are stated at the lower of cost and net realizable value. Impairment losses are set aside when the probable realizable value of inventories is lower than their cost price.

Inventories of raw materials and goods for resale are carried at purchase cost.

Inventories of finished products and work-in-progress are carried at production cost. Production cost includes the cost of raw materials, supplies and labor used in production, and other direct production and indirect plant costs, excluding overheads not related to production. These costs are determined by the "First-in-First-out" (FIFO) method which, due to the rapid inventory turnover rate, approximates the latest cost at the end of the reporting period.

Tooling used in the production of a specific project is subjected to an economic analysis of contractual relations with the automaker in order to determine which party has control over the associated future risks and rewards. Tooling is capitalized in the consolidated statement of financial position (see Note 6.3, page 282 on property, plant and equipment) when Valeo has control over these risks and rewards, or is carried in inventories (until it is sold) if no such control exists. A provision is made for any potential loss on the tooling contract (corresponding to the difference between the customer's contribution and the cost of the tooling) as soon as the amount of the loss is known.

At December 31, 2014, inventories break down as follows:

(in millions of euros)	December 31, 2014			December 31, 2013 restated ⁽¹⁾
	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	412	(67)	345	285
Work-in-progress	104	(11)	93	75
Finished goods, supplies and specific tooling	570	(70)	500	450
Inventories, net	1,086	(148)	938	810

⁽¹⁾ Inventories shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Impairment losses taken against inventories amounted to 148 million euros at December 31, 2014 (127 million euros at December 31, 2013), including an allowance (net of reversals) of 8 million euros during the period. Allowances to provisions for impairment of inventories net of reversals amounted to 7 million euros in 2013.

4.5 Operating margin including share in net earnings of equity-accounted companies

Operating margin is equal to gross margin less net Research and Development expenditure and selling and administrative expenses.

As set out in Note 1.3.2, page 248, a new operating margin sub-total, "Operating margin including share in net earnings of equity-accounted companies", is now included in the consolidated statement of income. This new line corresponds to the operating margin plus the share in net earnings of all equity-accounted companies.

This caption totaled 913 million euros in 2014, or 7.2% of sales (6.8% of sales in 2013).

Share in net earnings of equity-accounted companies amounts to 51 million euros in 2014 and 26 million euros in 2013. See Note 4.5.3, page 266 for more information.

4.5.1 Research and Development expenditure

4.5.1.1 Capitalized development costs

Innovation can be analyzed as either Research or Development. Research is an activity which can lead to new scientific or technical knowledge and understanding. Development is the application of research findings with a view to creating new products, before the start of commercial production.

Research costs are recognized in expenses in the period in which they are incurred.

Development costs are capitalized where the Group can demonstrate that:

- it has the intention and the technical and financial resources to complete the development, evidenced mainly by an engagement letter from the customer stating that Valeo has been chosen as supplier for the project;

- the intangible asset will generate future economic benefits, i.e., based on whether the project is expected to generate an adequate margin; and
- the cost of the intangible asset can be measured reliably.

Capitalized development costs therefore correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above. Costs incurred before the formal decision to develop the product are included in expenses for the period. Costs incurred after the launch of volume production are considered as production costs.

They are subsequently amortized on a straight-line basis over a maximum period of four years as from the start of volume production.

Changes in capitalized development expenditure in 2014 and 2013 are analyzed below:

<i>(in millions of euros)</i>	2014	2013 restated ⁽¹⁾
GROSS CARRYING AMOUNT AT JANUARY 1	1,493	1,243
Accumulated amortization and impairment	(864)	(741)
GROSS CARRYING AMOUNT AT JANUARY 1	629	502
Capitalized development expenditure	298	286
Disposals	(1)	-
Changes in scope of consolidation	19	4
Impairment	(16)	(10)
Amortization	(174)	(139)
Translation adjustment	13	(12)
Reclassifications	(2)	(2)
NET CARRYING AMOUNT AT DECEMBER 31	766	629

⁽¹⁾ Capitalized development expenditure shown for 2013 differs from the amount presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

4.5.1.2 Research and Development expenditure, net

Net Research and Development expenditure comprises the costs incurred during the period, including amortization charged against capitalized development costs, less contributions received from customers in respect of development costs, sales of prototypes, research tax credits and the portion of Research and Development subsidies granted to the Group and taken to income. Contributions

received from customers along with subsidies and grants received are recognized in income in line with the stage of completion of the projects to which they relate. Contributions received from customers relating to projects for which development costs are capitalized are taken to income over the period during which the corresponding products are sold, within a maximum period of four years.

Net Research and Development expenditure can be analyzed as follows for 2014 and 2013:

(in millions of euros)	2014	2013 restated ⁽¹⁾
Research and Development expenditure	(1,130)	(1,045)
Contributions received and subsidies	323	294
Capitalized development expenditure	298	286
Amortization and impairment of capitalized development expenditure	(176)	(149)
Research and Development expenditure, net	(685)	(614)

(1) Net Research and Development expenditure shown for 2013 differs from the amount presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3., pages 246 and 247).

The Group continued to step up its Research and Development efforts in 2014 to meet the significant increase in its order book over the past few years and in line with its strategy geared to products incorporating innovative technologies.

The research tax credit in France is calculated based on certain research expenditure on "eligible" projects and is paid by the French State, regardless of the entity's income tax position. If the company collecting the research tax credit is liable for income tax, the credit will be deducted from its income tax liability. Otherwise, it will be paid by the French State within a period of three years. This tax credit does not therefore fall within the scope of IAS 12 – "Income Taxes" and is recognized as a deduction from Research and Development expenditure within the Group's operating margin.

The tax credit in France represented income of 55 million euros in 2014, of which 3 million euros related to the additional amount for the 2013 research tax credit (52 million euros in 2013).

4.5.2 Other current assets

Consistent with the treatment for accounts and notes receivable, amounts receivable in respect of the French research tax credit or CICE tax credit (*Crédit d'Impôt pour la Compétitivité et l'Emploi* – see Note 5.2, page 271) may be discounted and sold to banks. By analogy, the Group has applied the principles set out in IAS 39 on the derecognition of financial assets. An analysis is performed to determine the extent to which the risks and rewards inherent to ownership of the receivables are transferred. If the analysis shows that substantially all of the risks and rewards are transferred, these receivables are removed from the consolidated statement of financial position. If this is not the case, the receivables continue to be carried on the consolidated statement of financial position and a financial liability is recorded for the discounted amount.

At December 31, 2014, amounts receivable for the CICE tax credit in respect of 2013 and 2014 and for the 2013 French research tax credit are no longer shown in the consolidated statement of financial position, which now includes only the 52 million euros receivable under the 2014 research tax credit.

The 2013 CICE and French research tax credit receivables were transferred on June 19, 2014 for an amount of 10 million euros and 55 million euros, respectively, while the receivable in respect of the 2014 CICE tax credit was transferred on December 16, 2014 for 15 million euros. The cost of these transfers for the Group, recognized in cost of net debt was slightly less than 4 million euros.

At December 31, 2013, French research tax credit receivables for 2010, 2011 and 2012 were no longer carried on the consolidated statement of financial position. The research tax credit receivable in respect of 2010 was transferred on June 28, 2013 and those in respect of 2011 and 2012 on December 4, 2013. The receivables were transferred for a total amount of 152 million euros. The cost of these transfers for the Group, recognized in cost of net debt was slightly less than 4 million euros.

4.5.3 Associates and joint ventures

4.5.3.1 Share in net earnings of equity-accounted companies

<i>(in millions of euros)</i>	2014	2013 restated ⁽¹⁾
Share in net earnings (losses) of associates	(18)	3
Share in net earnings of joint ventures	69	23
Share in net earnings of equity-accounted companies	51	26

(1) The share in net earnings of equity-accounted companies shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

As indicated in Note 1.3.2, page 248, all companies consolidated using the equity method, either joint ventures or associates, contribute to the Group's operations and belong to one of its four operating segments. They are included in the Group's internal reporting within the meaning of IFRS 8 and their

operating performance is reviewed at the level of the Business Groups to which they belong. Accordingly, the Group considered that it would be appropriate to recognize the share in net earnings of equity-accounted companies within operating margin.

Share in net earnings (losses) of associates

<i>(in millions of euros)</i>	2014	2013 restated ⁽¹⁾
Ichikoh Industries Limited	(18)	5
Detroit Thermal Systems	1	-
Valeo Pyeong Hwa Metals Co. Ltd	(1)	(2)
Share in net earnings (losses) of associates	(18)	3

(1) The share in net earnings (losses) of associates shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Ichikoh Industries Limited is listed on the Tokyo Stock Exchange and has a March 31 year-end. The financial statements of this associate used to apply the equity method are now prepared at a different date to that of the consolidated financial statements. The difference between the year-end of the associate and the Group's own year-end is three months, which

is permitted by the revised IAS 28. Accordingly, in 2014, the share in net earnings of this associate only takes into account nine months of activity instead of twelve, i.e., from January 1 to September 30, 2014, and includes the restatements and adjustments made over this period to bring it into line with the accounting policies used by the Valeo Group.

Share in net earnings of joint ventures

<i>(in millions of euros)</i>	2014	2013 restated ⁽¹⁾
Share in net earnings		
• Chinese joint ventures	32	30
• Other joint ventures	1	(7)
Gain (loss) on previously-held interests		
• Valeo Sylvania LLC/Valeo Sylvania Iluminacion ⁽²⁾	21	-
• Nanjing Valeo Clutch Co. Ltd ⁽³⁾	15	-
• Valeo Samsung Thermal Systems Co. Ltd	-	-
Share in net earnings of joint ventures	69	23

(1) The share in net earnings of joint ventures shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

(2) See Note 2.2.1.1, page 254.

(3) See Note 2.2.1.4, page 255.

4.5.3.2 Investments in equity-accounted companies

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Investments in associates	55	73
Investments in joint ventures	112	128
Investments in equity-accounted companies	167	201

(1) Investments in equity-accounted companies shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Investments in associates

Changes in the "Investments in associates" caption can be analyzed as follows:

(in millions of euros)	2014	2013 restated ⁽¹⁾
INVESTMENTS IN ASSOCIATES AT JANUARY 1	73	74
Share in net earnings (losses) of associates	(18)	3
Dividend payments	(1)	-
Impact of changes in scope of consolidation	-	4
Translation adjustment	2	(12)
Other	(1)	4
INVESTMENTS IN ASSOCIATES AT DECEMBER 31	55	73

(1) Investments in associates shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

The Group's investments in associates are detailed below:

	% interest		Carrying amount (in millions of euros)	
	December 31, 2014	December 31, 2013 restated ⁽¹⁾	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Ichikoh Industries Limited	31.6	31.6	40	61
Detroit Thermal Systems	49.0	49.0	15	12
Valeo Pyeong Hwa Metals Co. Ltd	49.0	49.0	-	-
Investments in associates			55	73

(1) Investments in associates shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Ichikoh Industries Limited is listed on the Tokyo Stock Exchange. The market value of Valeo's interest in Ichikoh was 53 million euros at December 31, 2014 and 35 million euros at

December 31, 2013. The carrying amount of the investment in the Group's consolidated financial statements at December 31, 2013 was justified by its value in use for Valeo.

Investments in joint ventures

Changes in the "Investments in joint ventures" caption can be analyzed as follows:

(in millions of euros)	2014	2013 restated ⁽¹⁾
INVESTMENTS IN JOINT VENTURES AT JANUARY 1	128	129
Net earnings of joint ventures	69	30
Dividend payments	(26)	(28)
Impact of changes in scope of consolidation	(70)	-
Translation adjustment	11	(3)
INVESTMENTS IN JOINT VENTURES AT DECEMBER 31	112	128

(1) Investments in joint ventures shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

The Group's investments in joint ventures are detailed below:

	% interest		Carrying amount (in millions of euros)	
	December 31, 2014	December 31, 2013 restated ⁽¹⁾	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Other Chinese joint ventures			106	90
Valeo Sylvania LLC /Valeo Sylvania Iluminacion	100.0	50.0	-	-
Nanjing Valeo Clutch Co. Ltd	55.0	55.0	-	17
Valeo Samsung Thermal Systems Co. Ltd	50.0	50.0	-	15
Other			6	6
Investments in joint ventures			112	128

(1) Investments in joint ventures shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

In 2014, the Group acquired a controlling interest in Valeo Sylvania (see Note 2.2.1.1, page 254), Nanjing Valeo Clutch Co. Ltd (see Note 2.2.1.4, page 255) and Valeo Samsung Thermal Systems Co. Ltd (see Note 2.2.1.2, page 254). These companies are now fully consolidated by the Group.

4.5.3.3 Information on equity-accounted companies

This information is presented based on a 100% holding and according to IFRS.

Information for equity-accounted companies is provided on an aggregate basis since the entities are not material taken individually.

Associates

Summarized financial data in respect of associates are set out in the table below:

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Non-current assets	320	341
Current assets	300	267
Non-current liabilities	290	192
Current liabilities	230	244

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

(in millions of euros)	2014	2013 restated ⁽¹⁾
Sales	597	676
Operating expenses	(651)	(688)

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Joint ventures

Summarized financial data in respect of joint ventures are set out in the table below:

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Non-current assets	120	260
Current assets	275	513
Non-current liabilities	22	101
Current liabilities	218	534

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

(in millions of euros)	2014	2013 restated ⁽¹⁾
Sales	650	1,213
Operating expenses	(571)	(1,145)

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

4.5.3.4 Transactions with equity-accounted companies (related parties)

The consolidated financial statements include transactions carried out in the normal course of operations between the Group and its associates and joint ventures. These transactions are carried out at arm's length.

Transactions with associates

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Accounts and notes receivable	5	3
Accounts and notes payable	13	13
Net debt (cash)	11	11

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

(in millions of euros)	2014	2013 restated ⁽¹⁾
Sales of goods and services	11	13
Purchases of goods and services	(49)	(37)
Interest and dividends received	1	-

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Transactions with joint ventures

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Accounts and notes receivable	12	72
Accounts and notes payable	3	37
Net debt (cash)	10	(44)

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

(in millions of euros)	2014	2013 restated ⁽¹⁾
Sales of goods and services	22	99
Purchases of goods and services	(9)	(112)
Interest and dividends received	25	27

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

The sharp year-on-year fall in transactions with joint ventures in 2014 results from the controlling interests acquired in three former joint ventures during the period (see Note 2.2.1, page 254).

4.6 Operating income and other income and expenses

4.6.1 Operating income

Operating income includes all income and expenses other than:

- interest income and expense;
- other financial income and expenses;
- income taxes.

Operating margin including share in net earnings of equity-accounted companies totaled 859 million euros in 2014 versus 725 million euros in 2013.

4.6.2 Other income and expenses

In order to facilitate interpretation of the statement of income and Group performance, unusual items that are material to the consolidated financial statements are presented separately within operating income under "Other income and expenses".

This caption mainly includes:

- capital gains and losses arising on changes in the scope of consolidation (acquisitions and disposals);
- major litigation and disputes unrelated to the Group's operations (this therefore excludes the costs of any disputes relating to the quality of products sold, customers, suppliers or contract losses);
- costs relating to restructuring plans;
- impairment losses on fixed assets chiefly recognized as a result of impairment tests on cash-generating units (CGUs) and goodwill.

Other income and expenses can be analyzed as follows in 2014 and 2013:

<i>(in millions of euros)</i>	<i>Notes</i>	2014	2013 restated ⁽¹⁾
Capital gains and losses arising on changes in the scope of consolidation	4.6.2.1		
• Acquisition fees		(1)	-
• Sale of the Access Mechanisms business		(1)	(28)
Claims and litigation:	4.6.2.2		
• Anti-trust proceedings		(3)	(16)
• Other disputes		(4)	(4)
Restructuring plans	4.6.2.3	(29)	(16)
Impairment of fixed assets	4.6.2.4	(15)	-
Other		(1)	(3)
Other income and expenses		(54)	(67)

⁽¹⁾ Other income and expenses shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

4.6.2.1 Capital gains and losses arising on changes in the scope of consolidation

In the year ended December 31, 2012, the Group estimated the likely consequences of the sale of the Access Mechanisms business (see Note 2.2.2.1, page 255) and as a result, recognized an impairment loss for 44 million euros. A total of 5 million euros in costs already incurred in connection with the sale transaction was also booked. An additional expense of 28 million euros was recognized in 2013, relating mainly to the adverse impacts of the delay in the sale of the Indian Access Mechanisms entity and to the change in the net assets sold over the period.

4.6.2.2 Claims and litigation

At the end of July 2011, anti-trust investigations were initiated against numerous automotive suppliers (including Valeo) by the US and European anti-trust authorities in the area of components and systems supplied to the automotive industry. In 2013, the Group booked 10 million euros in respect of a settlement indemnity paid by Valeo Japan Co. Ltd (see Note 7.2, page 290) and 6 million euros in legal fees in connection with these proceedings.

In 2014, the 3 million euros in expenses related solely to legal fees incurred in connection with these proceedings.

4.6.2.3 Restructuring plans

Restructuring costs for 2014 represent an amount of 29 million euros and essentially relate to the costs of two restructuring plans in South America and Japan launched in the first half of 2014, and to the cost of early retirement plans in Germany in the period.

Restructuring costs for 2013 chiefly included expenses relating to a restructuring plan in Japan announced in the second quarter of the year, additional costs relating to restructuring operations at a site in South Korea, and expenses relating to early retirement plans in place at certain plants in Germany.

4.6.2.4 Impairment of fixed assets

As a result of the cash-generating unit (CGU) impairment tests carried out in the year ended December 31, 2014, an impairment loss of 15 million euros was recognized against the Interior Electronics Product Group (see Note 6.4, page 285).

Note 5 Personnel expenses and employee benefits

5.1 Headcount

The Group had a total headcount of 78,500 at December 31, 2014 including temporary staff (70,900 at December 31, 2013). The headcounts shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements

published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

5.2 Employee benefits

Employee benefits are measured in accordance with the amended IAS 19, effective as of January 1, 2014. They comprise both short- and long-term benefits.

Group employees are entitled to short-term benefits such as paid annual leave, paid sick leave, bonuses and other benefits (other than termination benefits), payable within 12 months of the end of the period in which the corresponding services are rendered by employees.

These benefits are shown in current liabilities and expensed in the period when the related service is rendered by the employee.

Long-term benefits cover two categories of employee benefits:

- post-employment benefits, which include statutory retirement bonuses, supplementary pension benefits,

and coverage of certain medical costs for retirees and early retirees;

- other long-term benefits payable (during employment), corresponding primarily to long-service bonuses.

Benefits offered to each employee depend on local legislation, collective bargaining agreements, or other agreements in place in each Group entity.

These benefits are broken down into:

- defined contribution plans, under which the employer pays fixed contributions on a regular basis and has no legal or constructive obligation to pay further contributions. These are recognized in expenses based on calls for contributions;
- defined benefit plans, under which the employer guarantees a future level of benefits. An obligation under defined benefit plans (see Note 5.3, page 272) is recognized in liabilities in the statement of financial position.

The statement of income presents personnel expenses by function. They include the following items:

(in millions of euros)	2014	2013 restated ⁽¹⁾
Wages and salaries ⁽²⁾	2,184	2,010
Social security charges	459	420
Share-based payment	14	9
Pension expenses under defined contribution plans	87	83
TOTAL	2,744	2,522

(1) Personnel expenses shown for 2013 differ from the amounts presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

(2) Including temporary staff.

In France, the amended Finance Law for 2013 introduced a new tax credit: *Crédit d'impôt pour la compétitivité et l'emploi* (CICE), with effect from January 1, 2014. The CICE tax credit is partly calculated on the basis of employee compensation paid by French companies. It is paid by the French State, regardless of an entity's income tax position. If an entity is not liable for income tax, it is paid by the State within a period of three years.

The CICE tax credit does not therefore fall within the scope of IAS 12 – "Income Taxes". It is recognized as a deduction from personnel expenses within consolidated operating income and represented income of 15 million euros in 2014 (10 million euros in 2013).

Pension expenses under defined benefit plans are set out in Note 5.3, page 272.

Provisions for restructuring plans and employee disputes are set out in Note 7.1, page 288.

5.3 Provisions for pensions and other employee benefits

As indicated in Note 5.2, page 271, long-term benefits arising under defined benefit plans give rise to an obligation which is recognized in provisions for pensions and other employee benefits.

The pension provision is equal to the present value of Valeo's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits. An asset is only recognized on overfunded plans if it represents future economic benefits that are available to the Group.

The provision for other long-term benefits is equal to the present value of the future benefit obligation. The expected cost of these benefits is recorded in personnel expenses over the employee's working life in the Company.

The calculation of these provisions is based on valuations performed by independent actuaries using the projected unit credit method and end-of-career salaries. These valuations incorporate both macroeconomic assumptions specific to each country in which the Group operates (discount rate, increases in salaries and medical costs) and demographic assumptions, including rate of employee turnover, retirement age and life expectancy.

Discount rates are determined by reference to market yields at the valuation date on high quality corporate bonds with a term consistent with that of the employee benefits concerned.

The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses. Actuarial gains and losses arising on long-term benefits payable during employment are recognized immediately in income. However, actuarial gains and losses arising on post-employment benefits are taken directly to other comprehensive income net of deferred tax.

Past service costs resulting from the adoption of a new plan or change in an existing defined benefit plan are recognized immediately in income.

The expense recognized in the statement of income includes:

- service cost for the period, past service costs, and the impact of any plan curtailments or settlements recorded in operating income;
- net interest cost on pension obligations and plan assets recognized in financial income and expenses.

5.3.1 Description of the plans in force within the Group

The Group has set up a large number of defined benefit plans covering most of its current and former employees. The specific characteristics of these plans (benefit formula, funded status) varies depending on the laws and regulations prevailing in each country in which its employees work. At December 31, 2014, 95% of provisions relate to post-employment benefits, while the remaining 5% cover other long-term benefits.

The main post-employment defined benefit plans concern:

- supplementary pension benefits in Germany, Japan, the United Kingdom and the United States, which top up the statutory pension plans in force in those countries:

Pension entitlement is calculated based on end-of-career salaries and number of years' service within the Group. Certain plans are pre-funded due to local legal requirements in some countries (United Kingdom/United States) or as a result of the choice made by the company on setting up the plan (Japan).

Most plans in the US have been frozen and no longer give rise to any additional benefits;

- retirement termination benefits in France or severance benefits in South Korea, Mexico and Italy:

These benefits are fixed amounts and are calculated depending on the number of years' service and the employee's annual compensation, either at the retirement date (as in France) or at the date the employee leaves the company for whatever reason (retirement, resignation or redundancy) – as in Italy, Mexico and South Korea;

- health cover during retirement in the United States:

Valeo pays into health plans and life insurance plans for certain retired employees in the US. These plans are not funded and have all been frozen (the last plan was frozen as of January 1, 2012). Accordingly, no additional benefits have since been offered by these plans to plan participants still working for the Group;

- top-up retirement plans for certain Group managers and executives in France. Only one such plan is still in operation (since January 1, 2010) and concerns a specific level of Valeo management (*cadres hors catégorie*); the portion of these obligations relating to the Group's executive managers in France is detailed in Note 5.5, page 279.

The table below shows the average duration of the Group's main plans and the employees covered by these plans in each region at December 31, 2014:

	France	Other European countries	North America	Asia	Total
Active Valeo employees	12,308	13,340	7,747	7,047	40,442
Active employees having left the Group	-	1,831	3,100	6	4,937
Retirees	-	4,002	3,063	1	7,066
Total employees	12,308	19,173	13,910	7,054	52,445
Average duration of the defined benefit plans (in number of years)	12	21	14	9	17

The Group also grants other long-term benefits, chiefly long-service bonuses or loyalty awards in France, Germany, Japan and South Korea.

All of these plans are accounted for as described above.

5.3.2 Actuarial assumptions

To calculate discount rates for the year ended December 31, 2014, the Group used the same benchmarks as in previous years.

The discount rates used in the countries representing the Group's most significant obligations were as follows:

Country	Benchmark index (%)	December 31, 2014	December 31, 2013
Eurozone	iBoxx Euro-Corporate AA 10-year+	1.7	3.3
United Kingdom	iBoxx E-Corporate AA 15-year+	3.8	4.4
United States	Citigroup Pension Discount Curve	3.8	4.5
Japan	10-year government bonds	0.9	0.9
South Korea	10-year government bonds	3.0	3.5

The weighted average long-term salary inflation rate was around 2.5% at December 31, 2014, slightly down from December 31, 2013.

The rate of increase for medical costs in the US used to value the Group's main obligations was 8.0% at December 31, 2014

(8.5% at December 31, 2013), gradually reducing to 5% by 2032. This assumption is largely similar to that used in 2013.

The sensitivity of the Group's main obligations to a 0.5 point rise or fall in discount rates and inflation rates is set out in Note 5.3.7, page 277.

5.3.3 Breakdown and movements in obligations

Pension obligations and provisions break down as follows by major geographic area:

2014

(in millions of euros)	France	Other European countries	North America	Asia	Total
Present value of unfunded obligations	215	471	115	48	849
Present value of funded obligations	33	92	489	89	703
Market value of plan assets	(6)	(72)	(345)	(70)	(493)
Provisions recognized at December 31, 2014	242	491	259	67	1,059
Permanent employees at December 31, 2014 ⁽¹⁾	12,010	20,121	9,890	11,420	53,441

(1) Permanent employees shown in the tables above do not include permanent staff in South America, for which no obligation was recognized in respect of pensions or other long-term benefits. The Group's pension obligations in North America are significant, since a large portion of these obligations relates to retired personnel or employees having left the Group.

2013

(in millions of euros)	France	Other European countries	North America ⁽²⁾	Asia ⁽²⁾	Total
Present value of unfunded obligations	186	335	92	50	663
Present value of funded obligations	24	77	304	78	483
Market value of plan assets	(6)	(60)	(248)	(54)	(368)
Provisions recognized at December 31, 2013	204	352	148	74	778
Permanent employees at December 31, 2013 ⁽¹⁾	12,067	18,921	7,128	9,265	47,381

(1) Permanent employees shown in the tables above do not include permanent staff in South America, for which no obligation was recognized in respect of pensions or other long-term benefits. The Group's pension obligations in North America are significant, since a large portion of these obligations relates to retired personnel or employees having left the Group.

(2) Pension obligations and provisions and other employee benefits shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Movements in obligations in 2014 and 2013 are shown in the tables below by major geographic area:

2014

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2014	210	412	396	128	1,146
Actuarial gains and losses recognized in other comprehensive income	30	133	65	2	230
Benefits paid	(14)	(16)	(30)	(14)	(74)
Translation adjustment	-	6	70	5	81
Changes in scope of consolidation ⁽¹⁾	-	-	79	1	80
Expenses (income) for the year:	22	28	24	15	89
• service cost	14	11	3	12	40
• interest cost	6	14	22	3	45
• other	2	3	(1)	-	4
BENEFIT OBLIGATIONS AT DECEMBER 31, 2014	248	563	604	137	1,552

(1) Changes in the scope of consolidation in the period chiefly reflect the acquisition of Osram GmbH's shares in Valeo Sylvania at January 1, 2014, accounted for using the equity method in the 2013 comparative financial statements (see Note 2.2.1.1, page 254).

Actuarial losses totaling 230 million euros in 2014 primarily reflect the impacts of the fall in discount rates in eurozone countries and to a lesser extent in the United States, as well as revisions to the mortality table used for the US.

2013

(in millions of euros)	France	Other European countries	North America ⁽¹⁾	Asia ⁽¹⁾	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2013	205	424	472	152	1,253
Actuarial gains and losses recognized in other comprehensive income	(1)	(20)	(53)	(1)	(75)
Benefits paid	(15)	(14)	(24)	(12)	(65)
Translation adjustment	-	(2)	(18)	(24)	(44)
Expenses (income) for the year:	21	24	19	13	77
• service cost	16	12	3	11	42
• interest cost	6	13	16	2	37
• other	(1)	(1)	-	-	(2)
BENEFIT OBLIGATIONS AT DECEMBER 31, 2013	210	412	396	128	1,146

(1) The benefit obligations in North America and Asia shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Actuarial gains and losses totaling 82 million euros in 2013 primarily reflected the impacts of the rise in discount rates in the United States (56 million euros) and to a lesser extent, in eurozone countries.

5.3.4 Movements in provisions

Movements in provisions in 2014 and 2013 are shown in the table below:

(in millions of euros)	France	Other European countries	North America ⁽¹⁾	Asia ⁽¹⁾	Total
PROVISIONS AT JANUARY 1, 2013	197	371	222	105	895
Actuarial gains and losses recognized in other comprehensive income	(1)	(24)	(71)	(6)	(102)
Amounts used during the year	(13)	(16)	(7)	(22)	(58)
Translation adjustment	-	(1)	(7)	(15)	(23)
Expenses (income) for the year:	21	22	11	12	66
• service cost	16	12	3	11	42
• net interest cost	6	11	8	1	26
• other	(1)	(1)	-	-	(2)
PROVISIONS AT DECEMBER 31, 2013	204	352	148	74	778
Actuarial gains and losses recognized in other comprehensive income	30	130	66	(1)	225
Amounts used during the year	(14)	(17)	(14)	(24)	(69)
Translation adjustment	-	1	28	3	32
Changes in scope of consolidation	-	-	21	1	22
Expenses (income) for the year:	22	25	10	14	71
• service cost	14	11	3	12	40
• net interest cost	6	11	8	2	27
• other	2	3	(1)	-	4
PROVISIONS AT DECEMBER 31, 2014	242	491	259	67	1,059
Of which current portion (less than one year)	24	18	11	21	74

(1) Provisions for North America and Asia shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

An expense of 71 million euros was recognized in 2014 in respect of pensions and other employee benefits (66 million euros in 2013), of which 44 million euros were included in operating margin and 27 million euros in other financial income and expenses.

5.3.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2014 and 2013 is shown in the tables below:

2014

(in millions of euros)	France	Other European countries	North America	Asia	Total
Cash at bank	-	-	7	26	33
Shares	6	41	202	15	264
Government bonds	-	16	30	12	58
Corporate bonds	-	15	106	17	138
Breakdown of plan assets at December 31, 2014	6	72	345	70	493

2013

(in millions of euros)	France	Other European countries	North America ⁽¹⁾	Asia ⁽¹⁾	Total
Cash at bank	-	-	9	18	27
Shares	6	35	137	13	191
Government bonds	-	13	27	10	50
Corporate bonds	-	12	75	13	100
Breakdown of plan assets at December 31, 2013	6	60	248	54	368

(1) Plan assets in North America and Asia shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

These assets are managed by specialized asset management companies.

In managing the risk arising on these assets, the diversification of the funds among the different asset classes (equities, bonds, cash equivalents) is defined by the Investment Committees or trustees specific to each country concerned, acting on

recommendations from external advisors. Asset allocation decisions depend on the market outlook and the characteristics of the pension obligations. These committees carry out regular reviews of the investments made and of their performance.

The Group is not exposed to margin calls on its pension obligations due to the nature of its plan assets.

Movements in the value of plan assets in 2014 and 2013 can be analyzed as follows:

2014

<i>(in millions of euros)</i>	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2014	6	60	248	54	368
Expected return on plan assets	-	3	14	1	18
Contributions paid to external funds	-	4	6	17	27
Benefits paid	-	(3)	(22)	(7)	(32)
Actuarial gains and losses	-	3	(1)	3	5
Translation adjustment	-	5	42	2	49
Changes in scope of consolidation ⁽¹⁾	-	-	58	-	58
PLAN ASSETS AT DECEMBER 31, 2014	6	72	345	70	493

(1) Changes in the scope of consolidation in the period chiefly reflect the acquisition of Osram GmbH's shares in Valeo Sylvania at January 1, 2014, accounted for using the equity method in the 2013 comparative financial statements (see Note 2.2.1.1, page 254).

The sharp increase in the fair value of plan assets at December 31, 2014 chiefly reflects changes in the scope of consolidation, movements in the US dollar exchange rate and the actual return on plan assets (23 million euros). The difference between actual returns and the 18 million euros in expected returns, recognized in other financial income and

expenses, accounts for the 5 million euros in actuarial gains resulting from experience adjustments. These actuarial gains were recognized within other comprehensive income in 2014.

Contributions of 27 million euros were paid to external funds in 2014. Contributions in 2015 are estimated at 26 million euros.

2013

<i>(in millions of euros)</i>	France	Other European countries	North America ⁽¹⁾	Asia ⁽¹⁾	Total
PLAN ASSETS AT JANUARY 1, 2013	8	53	250	47	358
Expected return on plan assets	-	2	8	1	11
Contributions paid to external funds	4	4	1	17	26
Benefits paid	(6)	(2)	(18)	(7)	(33)
Actuarial gains and losses	-	4	18	5	27
Translation adjustment	-	(1)	(11)	(9)	(21)
PLAN ASSETS AT DECEMBER 31, 2013	6	60	248	54	368

(1) Plan assets in North America and Asia shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

5.3.6 Data for previous years

Benefit obligations, financial assets and actuarial gains and losses for previous years can be analyzed as follows:

(in millions of euros)	2014	2013 ⁽¹⁾	2012 ⁽¹⁾	2011	2010
Benefit obligations	1,552	1,146	1,253	1,132	988
Financial assets	(493)	(368)	(358)	(351)	(330)
Net benefit obligations	1,059	778	895	781	658
Actuarial (losses) and gains recognized in other comprehensive income	(225)	102	(153)	(90)	(30)

(1) The data shown for December 31, 2013 and 2012 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Actuarial gains and losses recognized in other comprehensive income in 2014 include:

- 226 million euros in actuarial losses on assumptions regarding benefit obligations, due to the sharp fall in discount rates in the eurozone and the United States and the revision of the mortality table used for the United States;
- 4 million euros in actuarial losses resulting from experience adjustments on benefit obligations; and
- 5 million euros in actuarial gains resulting from experience adjustments arising on the return on plan assets.

5.3.7 Sensitivity of obligations

The discount rates and inflation rates applied in each geographic area or country have a significant impact on the amount of the Group's benefit obligations.

A 0.5 point increase or decrease in these rates would have the following impact on the projected benefit obligation at December 31, 2014:

(in millions of euros)	France	Other European countries	North America	Asia	Total
Discount rate					
Impact of a 0.5 point rise	(14)	(55)	(39)	(6)	(114)
Impact of a 0.5 point fall	15	59	41	6	121
Salary inflation rate					
Impact of a 0.5 point rise	15	30	2	3	50
Impact of a 0.5 point fall	(13)	(29)	(2)	(3)	(47)

At December 31, 2014, the value of the Group's benefit obligation is less sensitive to changes in the salary inflation rate than to changes in the discount rate, particularly in the United States and the United Kingdom. This is due to the existence of plans which have now been frozen and which only bear obligations in relation to the Group's former employees.

Changes in the discount and inflation rates only have a limited impact on 2014 service cost. A 0.5 point decrease in the discount rate would lead to an additional expense of 3 million euros, while a 0.5 point increase in the discount rate would reduce the expense by 3 million euros.

A 1 point rise or fall in the rate of increase for medical costs in the United States would not have a material impact on the benefit obligation or expense for the period.

5.3.8 Estimated payouts over the next 10 years

Payouts due over the next ten years in respect of pension plans and other employee benefits can be estimated as follows:

(in millions of euros)	France	Other European countries	North America	Asia	Total
2015	24	15	33	10	82
2016	13	16	33	11	73
2017	13	17	33	11	74
2018	11	15	32	12	70
2019	24	16	31	13	84
2020/2024	73	90	158	70	391
TOTAL	158	169	320	127	774

5.4 Share-based payment

Some Group employees receive equity-settled compensation in the form of share-based payment.

The cost of these free share and stock purchase or subscription plans is recorded in personnel expenses. This expense corresponds to the fair value of the instrument issued and is recognized over the applicable vesting period. Fair value

is estimated on the basis of valuation models adapted to the characteristics of the instruments (Black-Scholes-Merton model for options). The Group regularly reviews the number of potentially exercisable options. Where appropriate, the impact of any changes in these estimates is recorded in the statement of income.

The terms and conditions of the shareholder-approved employee stock option and free share plans operated by Valeo at December 31, 2014 were as follows:

Terms and conditions of stock option plans

Year in which the plan was set up	Number of shares under option	of which subject to conditions ⁽¹⁾	Option exercise price (in euros) ⁽²⁾	Outstanding options not yet exercised at Dec. 31, 2014	Expiration date
2007	250,000	-	36.97	-	2015
2007	1,677,000	174,250	36.82	242,406	2015
2008	426,750	-	31.41	84,925	2016
2010	1,000,000	611,365	24.07	366,594	2018
2011	292,840	210,370	42.41	143,595	2019
2012	367,160	265,230	40.78	331,810	2020
TOTAL	4,013,750	1,261,215		1,169,330	

(1) These stock options are subject to the Group meeting performance conditions.

(2) The exercise price equals 100% of the average Valeo share price over the 20 trading days preceding the Board of Directors' meeting granting the options, or 100% of the average purchase price of treasury shares held if this is higher than the Valeo quoted share price.

Terms and conditions of free share plans

Year in which the plan was set up	Number of free shares authorized	of which subject to conditions ⁽¹⁾	Outstanding shares not yet transferred at Dec. 31, 2014	Year of vesting ⁽²⁾
2011	326,860	126,480	91,727	2014/2016
2012	213,140	117,220	191,081	2015/2017
2013	473,814	223,314	432,831	2016/2018
2014	323,480	105,590	307,622	2017/2019
TOTAL	1,337,294	572,604	1,023,261	

(1) These free shares are subject to the Group meeting performance conditions.

(2) The vesting year varies depending on the country in which the plan's beneficiaries are based.

Movements in stock option and free share plans in 2014 and 2013 are detailed below:

2014

	Number of options and free shares granted	Weighted average exercise price
OPTIONS NOT EXERCISED AT JANUARY 1, 2014	3,067,140	21.86
Options granted/Free shares to be transferred	323,480	-
Options canceled	(234,553)	19.72
Options expired	(76,436)	26.68
Options exercised	(887,040)	22.94
OPTIONS NOT EXERCISED/FREE SHARES NOT TRANSFERRED AT DECEMBER 31, 2014	2,192,591	18.26
OPTIONS THAT CAN BE EXERCISED AT DECEMBER 31, 2014	837,520	31.65

2013

	Number of options and free shares granted	Weighted average exercise price
OPTIONS NOT EXERCISED AT JANUARY 1, 2013	4,213,131	28.59
Options granted/Free shares to be transferred	473,814	-
Options canceled	(103,659)	24.04
Options expired	(33,495)	28.46
Options exercised	(1,482,651)	33.62
OPTIONS NOT EXERCISED/FREE SHARES NOT TRANSFERRED AT DECEMBER 31, 2013	3,067,140	21.86
OPTIONS THAT CAN BE EXERCISED AT DECEMBER 31, 2013	1,411,528	30.10

The main data and assumptions underlying the valuation of equity instruments at fair value were as follows:

	2014		2013	
	France	Other countries	France	Other countries
Free shares				
Share price at grant date (in euros)	100.3	100.3	42.6	42.6
Risk-free rate (%)	0.6	1.0	0.6	0.9
Dividend rate (%)	2.9	-	5.8	-
Fair value of equity instruments (in euros)	86.8	87.4	35.6	32.7

An expense of 14 million euros was booked in 2014 in respect of stock option and free share plans (9 million euros in 2013).

5.5 Executive compensation (Related party transactions)

At December 31, 2014, executives comprise the 14 members of the Group's Operations Committee, and the Chief Executive Officer. Compensation paid to executives not holding corporate office (Operations Committee, excluding the CEO) amounted to 11 million euros in 2014 and 8 million euros in 2013.

Valeo's Board of Directors approved a number of agreements resulting in the Chief Executive Officer's eligibility for:

- a termination benefit in the event of termination related to a change in control or of strategy (except on the grounds of gross misconduct in the performance of his duties) equal to twice his annual fixed and target variable compensation and based on a scale which takes into account the partial or total fulfillment of five performance criteria;

- a non-competition payment over a period of 12 months in the event of his departure from the Company. If this clause is adopted, the Chief Executive Officer will receive a non-competition payment equal to 12 months of compensation (calculated on the same basis as the termination benefit). If Valeo invokes this clause, the amount owed will reduce his termination benefit.

The Group recognized an expense of 2 million euros in 2014 (1 million euros in 2013) in respect of stock subscription and purchase options and free share grants awarded to its executives. An expense was also recorded in relation to pension obligations for executive personnel in an amount of 3 million euros in 2014 (2 million euros in 2013). At December 31, 2014, provisions included in the Group's statement of financial position in respect of these pension obligations amounted to 17 million euros (14 million euros at December 31, 2013).

Note 6 Intangible assets and property, plant and equipment

6.1 Goodwill

Goodwill is initially recognized on business combinations, as described in Note 2.1.3, page 253.

Goodwill is not amortized but is tested for impairment at least once a year and whenever there is an indication that it may be impaired. Impairment tests in 2014 and 2013 were carried out as described in Note 6.4, page 285.

Changes in goodwill in 2014 and 2013 are analyzed below:

(in millions of euros)	2014	2013 restated ⁽¹⁾
NET GOODWILL AT JANUARY 1	1,210	1,283
Acquisitions during the year	102	11 ⁽²⁾
Translation adjustment	62	(84)
NET GOODWILL AT DECEMBER 31	1,374	1,210
Including accumulated impairment losses at December 31	-	-

(1) Goodwill shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

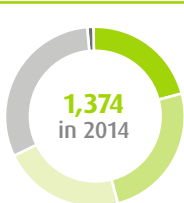
(2) The amount of goodwill shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the final purchase price accounting for Eltek Electric Vehicles (see Note 2.2.2.2, page 256).

Acquisitions in 2014 relate to the controlling interest acquired in Valeo Sylvania (80 million euros – see Note 2.2.1.1, page 254), Nanjing Valeo Clutch Co. Ltd (15 million euros – see Note 2.2.1.4, page 255) and Valeo Samsung Thermal Systems Co. Ltd (7 million euros – see Note 2.2.1.2, page 254).

The decrease in goodwill in 2013 resulted from the impact of exchange rate fluctuations totaling 84 million euros, of which 62 million euros related to the depreciation of the yen.

The translation adjustment in 2014 primarily reflects the impacts of fluctuations in the US dollar exchange rate (39 million euros) and the South Korean won (11 million euros).

The main goodwill balances are broken down by Business Group as follows:

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
 21% – Comfort & Driving Assistance Systems 25% – Powertrain Systems 22% – Thermal Systems 31% – Visibility Systems 1% – Other 1,374 in 2014		
Goodwill	1,374	1,210

(1) Goodwill shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

(2) The amount of goodwill shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the final purchase price accounting for Eltek Electric Vehicles (see Note 2.2.2.2, page 256).

6.2 Other intangible assets

Separately acquired intangible assets are initially recognized at cost in accordance with IAS 38. Intangible assets acquired as part of a business combination are recognized at fair value, separately from goodwill. Intangible assets are subsequently carried at cost, less accumulated amortization and impairment losses. They are tested for impairment using the methodology described in Note 6.4, page 285.

Capitalized development costs recognized within other intangible assets in the statement of financial position correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for

capitalization described in Note 4.5.1.1, page 264. Costs incurred before the formal decision to develop the product are included in expenses for the period. Costs incurred after the launch of volume production are considered as production costs.

Intangible assets are amortized on a straight-line basis over their expected useful lives:

- software 3 to 5 years
- patents and licenses based on their useful lives or duration of protection
- capitalized development expenditure 4 years
- customer relationships acquired up to 25 years
- other intangible assets 3 to 5 years

Other intangible assets can be analyzed as follows:

(in millions of euros)	December 31, 2014			December 31, 2013 restated ⁽¹⁾
	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	212	(185)	27	20
Patents and licences	96	(68)	28	25
Capitalized development expenditure	1,792	(1,026)	766	629
Customer relationships and other intangible assets	314	(123)	191	155
Other intangible assets	2,414	(1,402)	1,012	829

(1) Other intangible assets shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Changes in intangible assets in 2014 and 2013 are analyzed below:

2014

(in millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Customer relationships and other intangible assets	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2014	191	104	1,493	249	2,037
Accumulated amortization and impairment	(171)	(79)	(864)	(94)	(1,208)
NET CARRYING AMOUNT AT JANUARY 1, 2014	20	25	629	155	829
Acquisitions	12	6	298	24	340
Disposals	1	-	(1)	(1)	(1)
Changes in scope of consolidation	-	-	19	14	33
Impairment	-	-	(16)	-	(16)
Amortization	(12)	(4)	(174)	(14)	(204)
Translation adjustment	-	1	13	6	20
Reclassifications	6	-	(2)	7	11
NET CARRYING AMOUNT AT DECEMBER 31, 2014	27	28	766	191	1,012

Customer relationships recognized at December 31, 2014 include those valued in the year in connection with the controlling interests acquired in Valeo Samsung Thermal Systems Co. Ltd and Nanjing Valeo Clutch Co. Ltd (see Notes 2.2.1.2 and

2.2.1.4, pages 254 and 255) for 14 million euros. Capitalized development expenditure includes expenditure recognized in connection with the acquisition of Osram GmbH's shares in Valeo Sylvania (see Note 2.2.1.1, page 254).

2013 restated⁽¹⁾

<i>(in millions of euros)</i>	Software	Patents and licenses	Capitalized development expenditure	Customer relationships and other intangible assets	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2013	190	108	1,243	261	1,802
Accumulated amortization and impairment	(176)	(77)	(741)	(85)	(1,079)
NET CARRYING AMOUNT AT JANUARY 1, 2013	14	31	502	176	723
Acquisitions	6	-	286	18	310
Disposals	-	-	-	(1)	(1)
Changes in scope of consolidation	-	-	4	-	4
Impairment	-	-	(10)	(1)	(11)
Amortization	(10)	(4)	(139)	(14)	(167)
Translation adjustment	(1)	(4)	(12)	(14)	(31)
Reclassifications	11	2	(2)	(9)	2
NET CARRYING AMOUNT AT DECEMBER 31, 2013	20	25	629	155	829

(1) Other intangible assets shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

6.3 Property, plant and equipment

Separately acquired property, plant and equipment are initially recognized at cost in accordance with IAS 16. Cost includes expenses directly attributable to the acquisition of the asset and the estimated cost of the Group's obligation to rehabilitate certain assets, where appropriate. Property, plant and equipment acquired as part of a business combination are recognized at fair value, separately from goodwill.

Property, plant and equipment are subsequently carried at cost, less accumulated depreciation and impairment losses. Material revaluations, recorded in accordance with laws and regulations applicable in countries in which the Group operates, have been eliminated in order to ensure that consistent valuation methods are used for all capital assets in the Group.

Any subsequent costs incurred in respect of property, plant and equipment are expensed as incurred, unless they are designed to extend the asset's useful life.

Property, plant and equipment are tested for impairment using the methodology described in Note 6.4, page 285.

Depreciation method and useful life

All property, plant and equipment except land are depreciated over their estimated useful lives using the components approach.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

- buildings 20 years
- fixtures and fittings 8 years
- machinery and industrial equipment 8 to 15 years
- other property, plant and equipment 3 to 8 years

Tooling

Tooling specific to a given project is subjected to an economic analysis of contractual relations with the automaker in order to determine which party has control over the associated future risks and rewards. Tooling is capitalized in the consolidated statement of financial position when Valeo has control over these risks and rewards, or is carried in inventories (until it is sold) if no such control exists.

Any financing received from customers in respect of capitalized tooling is recognized under liabilities in the statement of financial position and taken to income under "Sales" as and when depreciation is charged against the related assets.

Tooling is depreciated on a straight-line basis over its estimated useful life, not exceeding four years.

Other property, plant and equipment can be analyzed as follows:

(in millions of euros)	December 31, 2014			December 31, 2013 restated ⁽¹⁾
	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	208	(14)	194	182
Buildings	1,179	(776)	403	374
Machinery and industrial equipment	4,731	(3,535)	1,196	941
Specific tooling	1,601	(1,428)	173	146
Other property, plant and equipment	480	(406)	74	71
Property, plant and equipment in progress	458	(1)	457	366
Property, plant and equipment	8,657	(6,160)	2,497	2,080

(1) Property, plant and equipment shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

No material amounts of property, plant and equipment had been pledged as security at December 31, 2014.

Changes in property, plant and equipment in 2014 and 2013 are analyzed below:

2014

(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT							
AT JANUARY 1, 2014	196	1,067	4,202	1,420	471	369	7,725
Accumulated depreciation and impairment	(14)	(693)	(3,261)	(1,274)	(400)	(3)	(5,645)
NET CARRYING AMOUNT							
AT JANUARY 1, 2014	182	374	941	146	71	366	2,080
Acquisitions	1	24	204	49	19	319	616
Disposals	(2)	-	(7)	(1)	-	(4)	(14)
Changes in scope of consolidation	14	19	92	3	2	6	136
Impairment	-	-	(3)	(1)	(1)	-	(5)
Depreciation	-	(48)	(250)	(91)	(28)	-	(417)
Translation adjustment	7	22	57	6	3	18	113
Reclassifications	(8)	12	162	62	8	(248)	(12)
NET CARRYING AMOUNT							
AT DECEMBER 31, 2014	194	403	1,196	173	74	457	2,497

Changes in the scope of consolidation during the period chiefly reflect the controlling interest acquired in Valeo Sylvania and Valeo Samsung Thermal Systems Co. Ltd, and include revalued property assets (see Notes 2.2.1.1 and 2.2.1.2, page 254).

2013 restated⁽¹⁾

<i>(in millions of euros)</i>	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT							
AT JANUARY 1, 2013	217	1,027	4,111	1,459	475	389	7,678
Accumulated depreciation and impairment	(14)	(685)	(3,260)	(1,321)	(410)	(2)	(5,692)
NET CARRYING AMOUNT							
AT JANUARY 1, 2013	203	342	851	138	65	387	1,986
Acquisitions	5	57	158	52	27	287	586
Disposals	-	2	(6)	(4)	-	(4)	(12)
Changes in scope of consolidation	-	-	1	1	1	-	3
Impairment	-	-	4	1	-	-	5
Depreciation	(1)	(45)	(219)	(73)	(31)	-	(369)
Translation adjustment	(23)	(16)	(42)	(6)	(3)	(14)	(104)
Reclassifications	(2)	34	194	37	12	(290)	(15)
NET CARRYING AMOUNT							
AT DECEMBER 31, 2013	182	374	941	146	71	366	2,080

(1) Property, plant and equipment shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Finance leases

Finance leases transferring substantially all the risks and rewards related to ownership of the leased asset to the Group are accounted for as follows:

- the leased assets are recognized in property, plant and equipment in the Group's statement of financial position at the inception of the lease, at an amount equal to the lower of the fair value of the leased asset and the present value of future minimum lease payments. This amount is then reduced by depreciation and by any impairment losses;

- the corresponding financial obligation is recorded in debt;
- lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

Leases in which the lessor retains substantially all the risks and rewards related to ownership of the leased asset are classified as operating leases. Lease payments under an operating lease are recognized as an operating expense on a straight-line basis over the lease term. Outstanding lease payments are detailed in Note 6.5.1, page 287.

Finance leases included within property, plant and equipment can be analyzed as follows:

<i>(in millions of euros)</i>	December 31, 2014	December 31, 2013
Buildings	5	5
Machinery and industrial equipment	5	5
Other property, plant and equipment	4	4
TOTAL	14	14

6.4 Impairment losses on non-current assets

Property, plant and equipment and intangible assets with definite useful lives are tested for impairment whenever objective indicators exist that they may be impaired. Goodwill and intangible assets not yet ready to be brought into service are tested for impairment at least once a year and whenever there is an indication that they may be impaired.

Cash-generating units (CGUs) and goodwill

CGUs are operating entities that generate independent cash flows. Based on the Group's organizational structure, CGUs generally correspond to groups of production sites belonging to the same Product Line or Product Group. A total of 25 CGUs had been identified at the end of December 2014. CGUs represent the level at which all property, plant and equipment and intangible assets are tested for impairment if there is an indication that they may be impaired. However, specific impairment tests may be carried out on certain idle property, plant and equipment and intangible assets.

Idle non-current assets are tested for impairment by comparing the asset's net carrying amount with the fair value less costs to sell. Impairment losses are recognized as appropriate.

Goodwill is tested for impairment at the level of the Business Groups, as set out in Note 3 on segment information. The Business Groups are groups of CGUs and correspond to the level at which management monitors goodwill.

At the end of the reporting period, goodwill is tested for impairment using the same methodology and assumptions as those used for CGUs and as described below.

Impairment tests

Impairment tests compare the recoverable amount of a non-current asset with its net carrying amount. If the asset's carrying amount is greater than its recoverable amount, it is written down to its recoverable amount. The recoverable amount of an asset or group of assets is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is determined using available information allowing Valeo to establish a best estimate of the selling price net of the costs necessary to make the sale, between knowledgeable, willing parties in an arm's length transaction.

Value in use corresponds to the present value of the future cash flows expected to be derived from an asset or group of assets, taking into account its residual value.

Since there is seldom a reliable basis to measure the fair value less costs to sell of a group of assets belonging to Valeo, the Group uses value in use for CGUs and goodwill impairment tests to determine the recoverable amount of such assets or groups of assets, unless otherwise specified.

The value in use of CGUs and goodwill is determined as follows:

- post-tax cash flow projections covering a period of five years, prepared on the basis of the budgets and medium-term business plans drawn up by Group entities and approved by General Management, are discounted;
- cash flows beyond the five-year period are extrapolated by applying a perpetuity growth rate to normative forecast cash flows, corresponding to the last year of the medium-term plan adjusted where applicable for non-recurring items;
- cash flows are discounted based on a rate which reflects current market assessments of the time value of money and the risks specific to the asset (or group of assets). This rate corresponds to the post-tax weighted average cost of capital (WACC). The use of a post-tax rate applied to post-tax cash flows results in recoverable amounts that are similar to those that would have been obtained by applying pre-tax rates to pre-tax cash flows.

The impairment loss to be recognized against a CGU is allocated to the CGU's assets in proportion to their net carrying amount.

Impairment losses recognized for goodwill may not be reversed.

Impairment losses recognized for assets other than goodwill may only be reversed if there are indications that the impairment may no longer exist or may have decreased. If this is the case, the carrying amount of the asset is increased to its revised estimated recoverable amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset.

6.4.1 Impairment testing

The tests are carried out using the following assumptions:

- the projections used are based on past experience, macroeconomic data for the automotive market, order books and products under development;
- a perpetuity growth rate of 1%, which is the same as that used in 2013 and remains below the average long-term growth rate for the Group's business sector;

- a post-tax discount rate (WACC) of 8.5% (unchanged from 2013), calculated using the method established by an independent expert in 2007. This method is based on a sample of around 20 automotive suppliers. The WACC includes a market risk premium of 5.5% (5.0% in 2013), a risk-free interest rate of 1.3% (1.6% in 2013), and an industry beta of 1.3 (1.4 in 2013).

The key assumptions underpinning the perpetuity growth rate and the discount rate are the same for each group of CGUs to which goodwill has been allocated. Business Groups were created in the organization set up in 2010 to adapt to the increasing globalization of automotive markets and customers. Business Groups are largely similar in terms of market and positioning, and enjoy a global geographic base as well as relations with the world's leading automakers.

To prepare these medium-term business plans and the budgets used to perform impairment tests on CGUs and goodwill, the Group based itself in particular on projected data for the automotive market, as well as its own order book and its development prospects on emerging markets.

Forecasts are made at the smallest level (for each CGU), based on detailed projections of the automotive market by automaker, country and model, taking into account expected product developments in the CGU's order book.

The medium-term business plans for 2015-2019 are underpinned by the following assumptions:

- world automotive production of 101 million vehicles in 2019, representing average annual growth of 3.2% over the term of the business plan. This is consistent with several independent external forecasts available in October 2014, when the business plan was revised. At the end of the period covered by the business plan, Asia and the Middle East should represent 54% of global production, Europe and Africa 24%, North America 17% and South America 5%;
- exchange rate assumptions are based on projections of a panel of banks. The exchange rates used for the main currencies featured in the business plan are 1 euro for: 1.28 US dollars, 8 yuan, 150 yen, 1,318 South Korean won and 3.46 Brazilian real at the end of the plan;

- Group sales were forecast based on the orders known at the time the business plan was drawn up and by reference to an estimate of the orders to be taken over the term of the business plan. These target order numbers represent less than 30% of cumulative original equipment sales over the five-year forecast period and less than 60% of original equipment sales for the final year.

6.4.2 Goodwill

No impairment losses were recognized against goodwill in 2014 as a result of the impairment tests carried out at the level of Business Groups in line with the methodology described above. This was also the case in 2013.

6.4.3 Sensitivity of goodwill impairment tests

A one-year pushback in medium-term business plans would have no impact on the results of goodwill impairment tests.

Changes in the three main assumptions were used to check the sensitivity of goodwill impairment tests:

- 0.5 point increase in the discount rate;
- 0.5 point decrease in the perpetuity growth rate;
- 0.5 point decrease in the rate of operating income over sales used to calculate the terminal value.

No additional impairment losses would be recognized as a result of these changes in assumptions, either individually or taken as a whole.

The margin of the tests, representing the difference between the value in use and the net carrying amount, as well as the impacts of changes in key assumptions on this margin, are presented by Business Group in the table below:

	Margin of the test	Impact on the margin of the test			
	Based on assumptions for 2014	WACC of 9.0% (+0.5 points)	Perpetuity growth rate of 0.5% (-0.5 points)	Decrease of 0.5 points in the operating margin rate used to calculate the terminal value	Combination of the three factors
<i>(in millions of euros)</i>					
Comfort & Driving Assistance Systems	1,409	(177)	(140)	(119)	(401)
Powertrain Systems	2,485	(268)	(213)	(190)	(616)
Thermal Systems	2,381	(223)	(177)	(163)	(517)
Visibility Systems	1,692	(207)	(165)	(175)	(500)

6.4.4 Property, plant and equipment and intangible assets (excluding goodwill)

The main impairment indicators used by the Group as the basis for impairment tests of cash-generating units (CGUs) are a negative operating margin for 2014 or a fall of more than 20% in 2014 sales compared to 2013.

The scope of the CGUs tested for impairment was defined at the end of October 2014 and remained unchanged at the end of the period, since no adverse events occurred. Three CGUs were selected:

- the Components Product Line (part of the Powertrain Systems Business Group);
- the Electronics Product Group, including the Engine Control Units Product Line (part of the Powertrain Systems Business Group);
- the Interior Electronics Product Group (part of the Comfort & Driving Assistance Systems Business Group).

The impact on this margin of changes in key assumptions is set out in the following table for each of the three CGUs tested for impairment:

(in millions of euros)	Margin of the test	Impact on the margin of the test			
	Based on assumptions for 2014	WACC of 9.0% (+0.5 points)	Perpetuity growth rate of 0.5% (-0.5 points)	Decrease of 0.5 points in the operating margin rate used to calculate the terminal value	Combination of the three factors
Components Product Line	139	(18)	(14)	(16)	(44)
Electronics & Engine Control Unit	331	(42)	(34)	(31)	(99)
Interior Electronics Product Group	(15)	(2)	(2)	(6)	(9)

For the Components Product Line CGU, whose test margin was lower than that of the Electronic and Engine Control Unit CGU, the recoverable amount would be equal to the net carrying amount if the rate of operating margin over sales used to calculate the terminal value fell by more than 4 points or if the WACC increased by 7 points.

6.5 Off-balance sheet commitments relating to operating activities

6.5.1 Lease commitments

Future minimum lease commitments in force at December 31, 2014 and 2013 (excluding capital leases) are as follows:

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Less than 1 year	52	44
1 to 5 years	91	81
More than 5 years	31	8
TOTAL	174	133

(1) The amounts shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Lease rentals recognized as expenses in the period in respect of outstanding lease agreements (excluding payments under finance leases) totaled 65 million euros in 2014 and 57 million euros in 2013.

Lease commitments in respect of capital leases are as follows at December 31, 2014 and 2013:

<i>(in millions of euros)</i>	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Future minimum lease payments:		
Less than 1 year	3	3
1 to 5 years	8	8
More than 5 years	-	-
TOTAL	11	11
Of which interest charges	(1)	-
Present value of future lease payments:		
Less than 1 year	3	3
1 to 5 years	7	8
More than 5 years	-	-
TOTAL	10	11

(1) The amounts shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

6.5.2 Other commitments given

Valeo had given binding asset purchase commitments totaling 272 million euros at December 31, 2014 (199 million euros at December 31, 2013).

The following items recognized in assets in the Group's statement of financial position have been pledged as security:

<i>(in millions of euros)</i>	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Property, plant and equipment	11	1
Financial assets	3	7
TOTAL	14	8

(1) The amounts shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Note 7 Other provisions and contingent liabilities

7.1 Other provisions

A provision is recognized when:

- the Group has a present legal or constructive obligation resulting from a past event;
- it is probable that future outflows of resources embodying economic benefits will be necessary to settle the obligation; and
- the amount of the obligation can be estimated reliably.

Provisions are measured in accordance with IAS 37 and take into account assumptions deemed most probable.

Provisions for warranties are set aside to cover the estimated cost of returns of goods sold and are computed either on a statistical basis or based on specific quality risks. Statistical warranty provisions cover risks related to contractual warranty obligations, and are determined based on both historical data and probability calculations. The provision for specific

quality risks covers costs arising in specific situations not covered by usual warranties. The corresponding expense is recognized in cost of sales.

Commitments resulting from restructuring plans are recognized when an entity has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or by announcing its main features.

A provision for loss-making (onerous) contracts is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received by the Group under said contract.

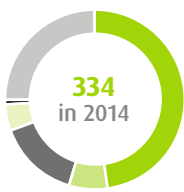
Provisions intended to cover commercial, employee and tax risks and disputes arising in the ordinary course of operations are also included in this caption.

Movements in provisions in 2014 and 2013 are shown in the table below:

(in millions of euros)	2014	2013 restated ⁽¹⁾
PROVISIONS AT JANUARY 1	345	419
Amounts used during the year	(145)	(104)
Impact of changes in scope of consolidation	23	-
Translation adjustment	10	(16)
Reclassification	5	-
Additions	134	135
Reversals	(38)	(89)
PROVISIONS AT DECEMBER 31	334	345
Of which current portion (less than one year)	159	155

(1) Provisions shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

At December 31, 2014 and 2013, provisions break down as follows:

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
 48% – Provisions for product warranties 7% – Provisions for tax-related disputes 14% – Provisions for restructuring costs 5% – Environmental provisions 1% – Provisions for loss-making contracts 25% – Provisions for employee-related and other disputes		
	160	153
	23	47
	49	43
	16	17
	3	5
	83	80
Provisions for other contingencies	334	345

(1) Provisions shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Provisions for tax disputes at December 31, 2013 included a 27 million euro provision set aside for a tax dispute with the French tax authorities brought by Valeo before the administrative court in September 2003. This dispute was based on the allegedly unlawful nature of the dividend withholding tax paid on dividend payouts made in 2000. In a ruling at the end of December 2007, the administrative court found in favor of Valeo, which was reimbursed in an amount of 27 million euros in April 2008. Since the tax authorities had

lodged an appeal against this decision, Valeo had set aside a provision for the full amount received. Valeo received a tax deficiency notice in late May 2014 and this amount was paid over to the French tax authorities in the second half of that year.

The 83 million euros recognized within “Provisions for employee-related and other disputes” at December 31, 2014 chiefly include provisions for employee-related risks and various disputes arising in connection with Valeo’s operating activities across the globe.

7.2 Contingent liabilities

Unlike a provision (see definition above), a contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

The Group has contingent liabilities relating to legal or arbitration proceedings arising in the normal course of its business. Known or ongoing claims and litigation involving Valeo or its subsidiaries were reviewed at the end of the reporting period. Based on the advice of legal counsel, all necessary provisions have been made to cover the related risks.

At the end of July 2011, anti-trust investigations were initiated against several automotive suppliers (including Valeo) by the US and European anti-trust authorities in the area of components and systems supplied to the automotive industry.

In the US, an out-of-court settlement was reached on September 20, 2013 between the Department of Justice and the Japanese subsidiary Valeo Japan Co. Ltd, which agreed to pay a fine of 13.6 million US dollars. In return, this agreement, which was ratified by the United States District Court for the Eastern District of Michigan on November 5, 2013, terminated any proceedings instituted or likely to be instituted by the US federal authorities against the Valeo Group for practices that came to light during their investigations.

Three class actions were filed against Valeo Group companies with the United States District Court for the Eastern District of Michigan, and three other class actions in Canada. Due to the state of these proceedings, we are unable to assess their likely outcome. However, Valeo cannot rule out that they could have a material adverse impact on the Group's future earnings. Outside the US, investigations by the European antitrust authorities are still in progress. At this stage, the Group is unable to predict the outcome of these investigations or of any compensation claims. However, it cannot rule out that they may have a material adverse impact on its future earnings.

Note 8 Financing and financial instruments

8.1 Financial assets and liabilities

Financial assets and liabilities mainly comprise:

- long- and short-term debt and bank overdrafts, which make up gross debt (see Note 8.1.2, page 292);
- loans and other long-term financial assets, cash and cash equivalents, which are deducted from gross debt to obtain net debt (see Note 8.1.3, page 294);
- derivative instruments (see Note 8.1.4, page 296);
- other current and non-current financial assets and liabilities (see Note 8.1.5, page 299).

8.1.1 Fair value of financial assets and liabilities

(in millions of euros)	2014 carrying amount under IAS 39			Dec. 31, 2014	Dec. 31, 2013 restated ⁽¹⁾
	Amortized cost	Fair value through equity	Fair value through income	Carrying amount	Carrying amount
ASSETS					
Non-current financial assets:					
● Investments in non-consolidated companies	-	4	-	4	4
● Loans	1	-	-	1	1
● Deposits and guarantees	-	-	18	18	15
● Other non-current financial assets	-	-	8	8	9
● Trading derivatives	-	-	28	28	43
Accounts and notes receivable	1,681	-	-	1,681	1,460
Other current financial assets:					
● Hedging derivatives	-	19	-	19	1
● Trading derivatives	-	-	25	25	34
Cash and cash equivalents	-	-	1,497	1,497	1,500
LIABILITIES					
Non-current financial liabilities:					
● Other non-current financial liabilities	-	-	1	1	-
● Hedging derivatives	-	4	-	4	7
Bonds	1,030	-	-	1,030	993
Syndicated loan	249	-	-	249	249
EIB (European Investment Bank) loans	187	-	-	187	228
Other long-term debt	116	-	-	116	129
Accounts and notes payable	2,700	-	-	2,700	2,347
Other current financial liabilities:					
● Hedging derivatives	-	4	-	4	11
● Trading derivatives	-	-	87	87	10
Short-term debt	257	-	-	257	253

(1) Financial assets and liabilities shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

IFRS 13 establishes a hierarchy of valuation techniques for financial instruments. The following categories are identified:

- Level 1: inputs directly based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: prices established using valuation techniques drawing on non-observable inputs.

The fair value of bonds is calculated based on prices quoted on an active bond market. This method corresponds to Level 1 in the fair value hierarchy.

The fair value of bonds totaled 1,279 million euros at December 31, 2014 versus 1,124 million euros at December 31, 2013.

The fair value of the syndicated loan and EIB loans is estimated by discounting future cash flows at the market interest rate at the end of the reporting period, taking into account the Group's issuer spreads. The issuer spreads reflect the spread on Valeo's five-year credit default swaps. This method corresponds to Level 2 in the fair value hierarchy.

These issuer spreads were estimated (source: Markit Reuters) at:

- 0.17% for the 250 million euro syndicated loan;
- 0.17% for the 113 million euro EIB loan;
- 0.6% (five-year CDS including the US dollar/euro basis swap of 0.17%) for the EIB (European Investment Bank) loan drawn in US dollars.

At December 31, 2014, the fair value of these items was estimated at 254 million euros for the syndicated loan and 189 million euros for the EIB loans (252 million euros and 244 million euros, respectively, at December 31, 2013).

The fair value of other components of Group debt, as well as of accounts and notes payable and receivable, is equal to their carrying amount.

IFRS 13, effective as of January 1, 2013, prescribes the methods for assessing fair value and for taking into account the credit risk on uncollateralized derivatives, through:

- a Credit Value Adjustment (CVA), which is a component of the market value of a derivative financial instrument that reflects the exposure in the event of counterparty default;
- a Debit Value Adjustment (DVA), which is an adjustment to fair value reflecting the entity's own credit risk.

The net impact of taking into account credit risk was calculated according to the probabilities of default issued by Reuters.

At December 31, 2014 and 2013, this has only a minimal impact on the Group.

8.1.2 Gross debt

Gross debt includes long- and short-term debt and bank overdrafts.

At December 31, 2014, the Group's gross debt can be analyzed as follows:

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Long-term debt – long-term portion	1,458	1,491
Current portion of long-term debt	124	108
Short-term debt	257	253
Gross debt	1,839	1,852

(1) Gross debt shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

8.1.2.1 Long-term debt

This caption primarily includes bonds and other borrowings.

Bonds and other borrowings are valued at amortized cost. The amount of interest recognized in financial expenses is calculated by applying the loan's effective interest rate to its carrying amount. Any difference between the expense

calculated using the effective interest rate and the actual interest payment impacts the value at which the loan is recognized.

Hedge accounting is generally applied to debt hedged by interest rate swaps.

Analysis of long-term debt

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Bonds	1,030	993
Syndicated loan	249	249
EIB (European Investment Bank) loans	187	228
Lease obligations	10	11
Other borrowings	64	71
Accrued interest	42	47
Long-term debt	1,582	1,599

(1) Long-term debt shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Long-term debt was stable year-on-year, at 1,582 million euros at December 31, 2014 versus 1,599 million euros at December 31, 2013. However, Valeo carried out several transactions early in the year aimed at extending the average maturity of its debt. On January 22, 2014, it issued 700 million euros worth of ten-year bonds under the Euro Medium Term Note financing program. Valeo also launched a bond redemption offer and redeemed a portion of its 2017 and 2018 bond issues at 114.25% and 114.49% of par, respectively. It also redeemed 354,400 notes of its Euro Medium Term Note 5.75% issue of January 19, 2012 maturing in 2017, and 226,500 notes of its 4.875%, seven-year issue of May 12, 2011.

Since the redemptions involved an exchange of old for new bonds which did not substantially modify the terms or nature of the liability, all of the costs and fees incurred in the transactions were treated as an accounting adjustment to the liability for the new issue and are amortized over their terms in accordance with IAS 39. The effective interest rate on the new bond issue was therefore calculated taking into account all of the costs relating to the redemption of the existing bonds and notes (87 million euros) along with issue costs and other brokers' fees (4 million euros), and came out at 4.99%.

At December 31, 2014, long-term debt chiefly includes:

- 700 million euros worth of ten-year bonds issued on January 22, 2014 and maturing in 2024 under a Euro Medium Term Note financing program. The bonds pay a fixed coupon of 3.25%;
- 273 million euros worth of seven-year bonds maturing in 2018 also issued under the Euro Medium Term Note program. The original amount of the May 12, 2011 issue was 500 million euros and paid a fixed coupon of 4.875%. In January 2014, Valeo redeemed part of this issue and exchanged a nominal amount of 226 million euros of this issue for a new issue. The effective interest rate on these bonds remains unchanged at 5.09%;
- 146 million euros in bonds maturing in 2017 issued by Valeo on January 19, 2012. These bonds, issued under the Euro Medium Term Note program for an initial amount of 500 million euros and paying a coupon of 5.75%, were partly redeemed in January 2014 for a nominal amount of 354 million euros. The effective interest rate remains unchanged, at 5.92%;
- a syndicated loan for 250 million euros contracted by the Group on June 30, 2011 with three banks as part of a club deal. This loan was taken out to finance Valeo's acquisition of Japanese group Niles.

It matures in 2016 and bears variable interest at 3-month Euribor +1.3%. A euro/yen cross currency swap for 237 million euros was set up on inception of the loan for the same maturity. This swap was unwound in December 2013 in an amount of 35 million euros, and later in October and then November 2014 for 52 million euros and 17 million euros, respectively;

- two loans taken out with the European Investment Bank (EIB) for a total amount of 300 million euros. These EIB (European Investment Bank) reduced-rate loans were granted as part of funding for costs incurred by the Group in research projects looking at ways to reduce fuel consumption and CO₂ emissions and improve active safety, and consist of:

- a first 225 million euro loan (on which an amount of 113 million euros was outstanding at December 31, 2014 following repayment of two 56 million euro installments), taken out on August 5, 2009 for a seven-year term and repayable in four equal annual installments as from 2013. This loan bears variable interest at 6-month Euribor +2.46%. An interest rate swap was taken out in respect of the loan, exchanging Euribor for a fixed rate of 3.37%;
- a second loan, drawn down in USD in an amount of 103 million dollars, was taken out for a seven-year term on November 3, 2011, repayable in four equal annual installments as from 2015. This loan bears variable interest at 6-month USD Libor +1.9%. The EIB loan is in US dollars and hedges internal loans denominated in the same currency.

In accordance with IAS 20, a subsidy was calculated as the difference between the market interest rate for a similar loan at the date the loan was granted, and the interest rate granted by the EIB (European Investment Bank):

- for the first 225 million euro loan, the subsidy was initially estimated at 28 million euros and was recognized within liabilities in the statement of financial position. It is subsequently booked against Research and Development expenditure in line with the completion of the projects it is intended to finance. The impact on income in 2014 is 4 million euros. At December 31, 2014, the loan is carried at amortized cost for an amount of 106 million euros;
- for the second 103 million US dollar loan, the subsidy was estimated at 6 million euros and is recognized within liabilities in the statement of financial position. The impact on income in 2014 is 1 million euros. At December 31, 2014, the loan is carried at amortized cost for an amount of 81 million euros;
- other loans chiefly comprise debt contracted by Group subsidiaries at reduced rates in Spain.

Covenants relating to borrowings and debt are detailed in Note 8.3.2, page 303.

Maturities of long-term debt – long term portion

(in millions of euros)	2016	2017	2018	2019	2020 and beyond	Total
Bonds	-	145	272	-	613	1,030
Syndicated loan	249	-	-	-	-	249
EIB (European Investment Bank) loans	74	20	21	-	-	115
Lease obligations	1	-	-	5	1	7
Other borrowings	18	6	5	5	23	57
TOTAL	342	171	298	10	637	1,458

Current portion of long-term debt

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
EIB loans (European Investment Bank)	72	52
Lease obligations	3	3
Other borrowings	7	6
Accrued interest	42	47
Current portion of long-term debt	124	108

(1) The current portion of long-term debt shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

At December 31, 2014, the current portion of long-term debt chiefly comprises two annual installments under the EIB (European Investment Bank) loans: the first for 52 million euros due in August 2015 and the second for 20 million euros due in November 2015.

8.1.2.2 Short-term debt

This caption mainly includes credit balances with banks and commercial paper issued by Valeo for its short-term financing needs. Commercial paper has a maximum maturity of three months and is valued at amortized cost.

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Commercial paper	208	109
Short-term loans and overdrafts	49	144
Short-term debt	257	253

(1) Short-term debt shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

The 49 million euros in short-term bank loans relate mainly to overdraft facilities.

8.1.3 Net debt

Net debt is defined as all long-term debt, short-term debt and bank overdrafts, less loans and other non-current financial assets and cash and cash equivalents.

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Long-term debt – long-term portion	1,458	1,491
Current portion of long-term debt	124	108
Long-term loans and receivables	(1)	(1)
Long-term debt	1,581	1,598
Short-term debt	257	253
Cash and cash equivalents	(1,497)	(1,500)
Short-term cash position	(1,240)	(1,247)
Net debt	341	351

(1) Net debt shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

8.1.3.1 Long-term loans and receivables

This category consists essentially of long-term loans, which are measured on an amortized cost basis using the effective interest rate. They are shown in the statement of financial position as non-current financial assets.

8.1.3.2 Cash and cash equivalents

Cash and cash equivalents are comprised of marketable securities such as money market and short-term money market funds, deposits and very short-term risk-free securities maturing within three months which can be readily sold or converted into cash, and cash at bank.

All cash equivalents included in this line are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. These current financial assets are carried at fair value through income and are held with a view to meeting short-term cash requirements.

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Marketable securities	816	815
Cash	681	685
Cash and cash equivalents	1,497	1,500

(1) Cash and cash equivalents shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Marketable securities consist of money market funds (SICAV) for 816 million euros.

Cash equivalents include term deposits for 99 million euros.

These items were measured using Level 1 inputs.

In China and Brazil, where exchange control restrictions may exist, cash and cash equivalents amounted to 204 million euros at December 31, 2014, compared to 187 million euros at

December 31, 2013. In these countries, the Group has set up local cash pooling arrangements and regularly receives dividends from several companies.

The remaining amount of cash and cash equivalents, corresponding to the share of the Group's partners in fully consolidated companies that are not wholly owned by Valeo, totaled 55 million euros at December 31, 2014 and 45 million euros at December 31, 2013.

8.1.3.3 Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

<i>(in millions of euros)</i>	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Euro	611	654
US dollar	87	1
Yen	(65)	(57)
Brazilian real	(21)	21
South Korean won	(64)	(98)
Yuan	(145)	(138)
Other currencies	(62)	(32)
TOTAL	341	351

(1) Net debt shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

8.1.4 Derivative financial instruments

Derivatives are recognized in the statement of financial position at fair value under other non-current financial assets or other non-current financial liabilities when the underlying transaction matures beyond one year, and under other current financial assets or other current financial liabilities when the underlying transaction matures within one year.

The accounting impact of changes in the fair value of these derivative instruments depends on whether or not hedge accounting is applied.

When hedge accounting is applied:

- for fair value hedges of assets and liabilities recognized in the statement of financial position, the hedged item of these assets or liabilities is stated at fair value. Changes in fair value are recognized through income and offset (for the effective portion of the hedge) by symmetrical changes in the fair value of the derivative;
- for future cash flow hedges, changes in fair value of the derivatives relating to the effective portion of the hedge are recognized directly in other comprehensive income, while the ineffective portion is taken to other financial income and expenses.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in other financial income and expenses.

Foreign currency derivatives

Although they may act as hedges, foreign currency derivatives do not always meet the criteria for hedge accounting. In these cases, changes in the fair value of these derivatives are recognized in other financial income and expenses and are generally offset by changes in the fair value of the underlying receivables and payables.

The Group applies hedge accounting to a limited number of highly probable future transactions generally considered significant. In these cases, changes in the fair value of the derivatives are recognized in other comprehensive income for the effective portion of the hedge, and subsequently taken to operating income when the hedged item itself affects operating income. The ineffective portion of the hedge is recognized in other financial income and expenses.

Commodity derivatives

In principle, the Group applies cash flow hedge accounting. Gains and losses relating to the effective portion of the hedge are reclassified from other comprehensive income to operating income when the hedged position itself affects income. Gains and losses relating to the ineffective portion of the hedge are recognized in other financial income and expenses. When a forecast transaction is no longer highly probable, the cumulative gains and losses carried in other comprehensive income are transferred immediately to other financial income and expenses.

Interest rate derivatives

The Group generally applies fair value hedge accounting when it uses interest rate derivatives swapping fixed-rate debt for variable-rate debt.

Changes in the fair value of debt attributable to changes in interest rates, and symmetrical changes in the fair value of the interest rate derivatives, are recognized in other financial income and expenses for the period.

Variable interest rate hedges protect the Group against the impact of fluctuations in interest rates on its interest payments. These hedges are eligible for cash flow hedge accounting.

Hedging instruments are measured at fair value and recognized in the statement of financial position. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income, while changes relating to the ineffective portion are recognized in other financial income and expenses. Amounts carried in other comprehensive income in respect of the effective portion of the hedge are taken to income as and when the hedged interest expenses affect income.

Certain interest rate derivatives are not designated as hedging instruments within the meaning of IAS 39. Changes in the fair value of these derivatives are recognized in other financial income and expenses for the period.

Level 2 is used to measure the fair value of the Group's derivative financial instruments.

The fair values of financial instruments at December 31, 2014 and 2013 are set out below:

<i>(in millions of euros)</i>	December 31, 2014	December 31, 2013 restated ⁽¹⁾
ASSETS		
Trading derivatives:		
• Foreign currency derivatives	28	43
• Interest rate derivatives	-	-
Total other non-current financial assets	28	43
Hedging derivatives:		
• Foreign currency derivatives	17	-
• Commodity derivatives	2	1
Trading derivatives:		
• Foreign currency derivatives	25	34
• Commodity derivatives	-	-
Total other current financial assets	44	35
LIABILITIES		
Hedging derivatives:		
• Foreign currency derivatives	-	-
• Interest rate derivatives	(4)	(7)
Total other non-current financial liabilities	(4)	(7)
Hedging derivatives:		
• Interest rate derivatives	-	-
• Commodity derivatives	(4)	(4)
• Foreign currency derivatives	-	(7)
Trading derivatives:		
• Foreign currency derivatives	(87)	(10)
• Commodity derivatives	-	-
Total other current financial liabilities	(91)	(21)

(1) The fair values of financial instruments shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

The impact of financial instruments on income for the years ended December 31, 2014 and December 31, 2013 is set out in Note 8.3, page 300.

8.1.4.1 Fair value of foreign currency derivatives

(in millions of euros)	December 31, 2014		December 31, 2013 restated ⁽¹⁾	
	Nominal	Fair value	Nominal	Fair value
Forward foreign currency purchases	206	21	35	2
Forward foreign currency sales	(41)	2	(76)	3
Currency swaps	105	19	(488)	29
Cross currency swaps	(133)	28	(202)	43
Total assets	137	70	(731)	77
Forward foreign currency purchases	176	(5)	238	(9)
Forward foreign currency sales	(75)	(4)	(42)	(1)
Currency swaps	(710)	(78)	(359)	(7)
Cross currency swaps	-	-	-	-
Total liabilities	(609)	(87)	(163)	(17)
Net impact	-	(17)	-	60

(1) The fair values of foreign currency derivatives shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

The fair value of foreign currency hedges is computed as follows: future cash flows are calculated using forward exchange rates at the end of the reporting period and are then

discounted using the interest rate of the functional currency. This method corresponds to Level 2 in the fair value hierarchy.

8.1.4.2 Fair value of commodity (non-ferrous metals) derivatives

(in millions of euros)	December 31, 2014		December 31, 2013	
	Nominal	Fair value	Nominal	Fair value
Swaps – Purchases	27	2	50	1
Swaps – Sales	(4)	-	(1)	-
Total assets	23	2	49	1
Swaps – Purchases	87	(4)	74	(4)
Swaps – Sales	-	-	-	-
Total liabilities	87	(4)	74	(4)
Net impact	-	(2)	-	(3)

The fair value of commodity derivatives is computed as follows: future cash flows are calculated using forward commodity prices and forward exchange rates at the end of the reporting

period and are then discounted using the interest rate of the functional currency. This method corresponds to Level 2 in the fair value hierarchy.

8.1.4.3 Fair value of interest rate derivatives

(in millions of euros)	December 31, 2014		December 31, 2013	
	Nominal	Fair value	Nominal	Fair value
Interest rate swaps:				
EIB loans (European Investment Bank)	113	(4)	169	(7)
Total liabilities	113	(4)	169	(7)

The fair value of interest rate swaps is computed by discounting future cash flows based on market interest rates at the end of the reporting period. This method corresponds to Level 2 in the fair value hierarchy.

8.1.5 Other financial assets and liabilities

8.1.5.1 Other non-current financial assets and liabilities

This caption primarily includes guarantee deposits and available-for-sale financial assets.

Guarantee deposits are measured at fair value, with changes in fair value recognized in income.

Available-for-sale financial assets include investments in non-consolidated companies and are initially recognized at fair value with any subsequent changes in fair value recognized through other comprehensive income or in income for the period in the event of a significant or prolonged decline in fair value. Unrealized gains and losses recognized in other comprehensive income are taken to the statement of income on the disposal of these securities.

The fair value of securities listed on an active market is their market value. Unlisted securities whose fair value cannot be estimated reliably are carried at cost, and are classified in non-current financial assets.

8.1.5.2 Other current financial assets and liabilities

Other current financial assets and liabilities include accounts and notes receivable and payable.

Accounts and notes receivable and payable are initially recognized at fair value and subsequently carried at amortized cost, less any accumulated impairment losses. The fair value of accounts and notes receivable and payable is deemed to be their nominal amount, since payment periods are generally less than three months.

Accounts and notes receivable are detailed in Note 4.2, page 261. In the ordinary course of its operations in China, Valeo is paid by its customers or must pay its suppliers using a payment instrument specific to the Chinese market known as a "bank acceptance draft". Owing to their nature, receivables and payables under bank acceptance drafts continue to be recognized within accounts and notes receivable and payable until they fall due. At December 31, 2014, these instruments represented 37 million euros of accounts and notes receivable and 71 million euros of accounts and notes payable (26 million euros and 36 million euros, respectively, at December 31, 2013).

8.2 Financial income and expenses

Financial income and expenses comprise interest income, interest expense (cost of net debt), and other financial income and expenses.

8.2.1 Cost of net debt

Interest expense corresponds to interest recognized on debt, while interest income corresponds to interest earned on cash and cash equivalents.

(in millions of euros)	2014	2013 restated ⁽¹⁾
Interest expense ⁽²⁾	(101)	(107)
Interest income	10	9
Cost of net debt	(91)	(98)

(1) Cost of net debt shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

(2) Including in 2014 finance costs for 4 million euros on undrawn credit lines and financial expenses for 7 million euros arising on discounting accounts and notes receivable and amounts receivable under French research and CICE tax credits.

8.2.2 Other financial income and expenses

Other financial income and expenses notably include:

- gains and losses on interest rate hedging transactions;
- gains and losses on foreign exchange transactions or non-ferrous metals purchases that do not meet the definition of hedges under IAS 39 dealing with financial instruments;
- the cost of credit insurance and write-downs taken in respect of credit risk and losses on bad debts in the event of client default;
- the net interest cost arising on provisions for pensions and other employee benefits, which include the impact of unwinding the discount on the obligations to take into account the passage of time, and financial income related to the expected return on plan assets.

<i>(in millions of euros)</i>	2014	2013
Net interest cost on provisions for pensions and other employee benefits	(27)	(26)
Currency gains (losses)	(15)	(15)
Gains (losses) on commodity derivatives (trading and ineffective portion)	-	(1)
Gains (losses) on interest rate derivatives (ineffective portion)	(1)	-
Other	(3)	(4)
Other financial income and expenses	(46)	(46)

8.3 Risk management policy

A detailed description of the Group's risk management policy is set out in the management report in Chapter 2, page 59.

8.3.1 Market risks

8.3.1.1 Foreign currency risk

A detailed description of the Group's foreign currency risk management policy is set out in the management report in Chapter 2, section 2.1.4, page 68.

Exposure to foreign currency risk

The principal currency hedging instruments used by the Group are forward purchases and sales of foreign currencies, as well as swaps and options. The principal instruments used by the Group to hedge its foreign currency risk are generally not eligible for hedge accounting within the meaning of IAS 39.

Exceptionally, the Group applies hedge accounting to highly probable future cash flows from the date the derivatives are contracted.

At December 31, 2014, a 17 million euro gain was recognized in other comprehensive income in respect of derivatives used as hedging instruments. An unrealized loss of 7 million euros recognized in other comprehensive income at December 31, 2013 in respect of currency hedges was reclassified in full to operating income in 2014.

The Group set up a cross currency swap in yen for 237 million euros on inception of its 250 million euro syndicated loan taken out to finance Japanese group Niles. This derivative is not eligible for hedge accounting within the meaning of IAS 39. This swap was unwound in an amount of 35 million euros in 2013, and subsequently for 52 million euros and then 17 million euros in 2014. The fair value of this cross currency swap was 28 million euros at December 31, 2014.

The Group's net exposure to foreign currency risk based on notional amounts arises on the following main currencies (excluding entities' functional currencies):

<i>(in millions of euros)</i>	December 31, 2014				December 31, 2013
	USD	JPY	EUR	Total	Total
Accounts and notes receivable	135	10	297	442	545
Other financial assets	521	100	96	717	719
Accounts and notes payable	(106)	(22)	(573)	(701)	(649)
Long-term debt	(156)	(11)	(276)	(443)	(417)
Gross exposure	394	77	(456)	15	198
Forward sales	(1,063)	(157)	(79)	(1,299)	(1,573)
Forward purchases	889	100	15	1,004	1,133
Net exposure	220	20	(520)	(280)	(242)

In the table above, the EUR column represents the euro exposure of Group entities whose functional currency is not the euro. Exposure arises chiefly on subsidiaries based in Eastern Europe – mainly the Czech Republic – which are financed in euros by Valeo.

At December 31, 2013, the breakdown by currency of the net exposure in the statement of financial position for a negative amount of 242 million euros is as follows:

- a positive amount of 116 million euros relating to the US dollar;
- a positive amount of 15 million euros relating to the yen;
- a negative amount of 373 million euros relating to the euro.

Analysis of the sensitivity of net equity to foreign currency risk

The sensitivity analysis was based on an exchange rate of 1.21 US dollars, 145.23 yen, and 27.73 Czech koruna for 1 euro at December 31, 2014 (1.38 US dollars, 144.72 yen and 27.43 Czech koruna, respectively, at December 31, 2013).

An increase of 10% in the value of the euro against these currencies at December 31, 2014 and December 31, 2013 would have had the following pre-tax impacts:

(in millions of euros)	December 31, 2014		December 31, 2013	
	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Exposure US dollar	(3)	(19)	(3)	(9)
Exposure yen	(1)	(1)	(2)	(1)
Exposure euro	(10)	(6)	(9)	(3)
TOTAL	(14)	(26)	(14)	(13)

For the purpose of these analyses, it is assumed that all other variables, including interest rates, remained unchanged.

Assuming that all other variables remained unchanged, a 10% fall in the value of the euro against these currencies at December 31, 2014 would have the opposite effect to the one shown above.

8.3.1.2 Commodity risk

The Group's commodity risk management policy is described in Chapter 2, section 2.1.4, page 68.

Exposure to commodity risk

The Group favors hedging instruments which do not involve physical delivery of the underlying commodity, such as swaps and options based on the average monthly price.

Volumes of non-ferrous metals hedged at December 31, 2014 and December 31, 2013 break down as follows:

(in tons)	December 31, 2014	December 31, 2013
Aluminum	28,404	49,548
Secondary aluminum	11,745	10,500
Copper	8,787	7,537
Zinc	763	1,082
TOTAL	49,699	68,667

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized loss of 2 million euros related to existing hedges was recognized directly in other comprehensive income for 2014 in accordance with IAS 39.

An unrealized loss of 3 million euros recognized in other comprehensive income in 2013 and arising on commodity hedges purchased in first-half 2014 was reclassified in full to operating income in 2014.

Analysis of the sensitivity of net equity to metal price risk

The table below shows the pre-tax impact on equity and income of a 10% variation in metal futures prices at December 31, 2014 and 2013.

(in millions of euros)	December 31, 2014		December 31, 2013	
	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Impact of a 10% rise in metal futures prices	-	9	-	10
Impact of a 10% fall in metal futures prices	-	(9)	-	(10)

For the purposes of the sensitivity analysis, it is assumed that all other variables remain unchanged over the period.

8.3.1.3 Interest rate risk

The Group's interest rate risk management policy is described in Chapter 2, section 2.1.4, page 69.

Exposure to interest rate risk

The Group uses interest rate swaps to convert the interest rates on its debt into either a variable or a fixed rate, either at origination or during the term of the loan. Cash and cash equivalents are mainly invested in variable-rate instruments. Debt is essentially at fixed rates.

The interest rate derivatives used by the Group to hedge changes in the value of its fixed-rate debt are designated as fair

value hedges under IAS 39. These derivatives are remeasured at fair value in the statement of financial position, with changes in fair value taken to income. For the effective portion of the hedge, the impact on income is offset by a symmetrical revaluation of the hedged item.

On August 5, 2009, the Group set up an interest rate swap to hedge the variable-rate interest on its EIB loan. This derivative was designated as a cash flow hedge. The fair value of the swap is initially recognized in the statement of financial position, with subsequent changes in fair value taken to other comprehensive income until the hedged interest falls due. In 2014, changes in the fair value of this swap had a positive impact of 3 million euros on other comprehensive income.

At the end of the reporting period, the Group's net interest rate position based on nominal values can be analyzed as follows:

2014

(in millions of euros)	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	51	334	490	370	724	-	1,265	704	1,969
Loans	-	-	-	(1)	-	-	-	(1)	(1)
Cash and cash equivalents	-	(1,497)	-	-	-	-	-	(1,497)	(1,497)
Net position before hedging	51	(1,163)	490	369	724	-	1,265	(794)	471
Derivative instruments	56	(56)	57	(57)	-	-	113	(113)	-
Net position after hedging	107	(1,219)	547	312	724	-	1,378	(907)	471

2013

(in millions of euros)	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	58	307	1,073	411	16	11	1,147	729	1,876
Loans	-	-	-	(1)	-	-	-	(1)	(1)
Cash and cash equivalents	-	(1,500)	-	-	-	-	-	(1,500)	(1,500)
Net position before hedging	58	(1,193)	1,073	410	16	11	1,147	(772)	375
Derivative instruments	56	(56)	113	(113)	-	-	169	(169)	-
Net position after hedging	114	(1,249)	1,186	297	16	11	1,316	(941)	375

Analysis of sensitivity to interest rate risk

At December 31, 2014, 72% of long-term debt is at fixed rates (71% at December 31, 2013).

Fixed-rate debt carried at amortized cost is not included in the calculation of sensitivity to interest rate risk. The Group's exposure to interest rate risk therefore arises solely on its variable-rate debt.

The tables below show the pre-tax impact on income and other comprehensive income of a sudden 1% rise in the interest rates applied to variable-rate financial assets and liabilities, after hedging:

(in millions of euros)	December 31, 2014		December 31, 2013	
	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Impact of a 1% rise in interest rates	12	3	9	5

Similarly, at December 31, 2014, a sudden 1% fall in interest rates would have the opposite impacts for the same amount.

8.3.1.4 Equity risk

The Group's equity risk management policy is described in the management report in Chapter 2, section 2.1.4, page 70.

Assets financing pension plans (plan assets) are detailed in Note 5.3.5, page 275.

The Group's cash and cash equivalents are set out in Note 8.1.3.2, page 295.

8.3.2 Liquidity risk

The Group's liquidity risk management policy is described in the management report in Chapter 2, section 2.1.4, page 67.

The Group looks to maintain very broad access to liquidity in order to meet its commitments and investment requirements. To do this, it borrows from banks and on capital markets, which exposes it to liquidity risk in the event that these markets partly or wholly dry up.

At December 31, 2014 and December 31, 2013, Valeo had 1.5 billion euros in cash and cash equivalents. Cash comprises bank deposits for 681 million euros and cash equivalents (mainly money market funds) for 816 million euros.

Other sources of liquidity were as follows:

- confirmed bank credit lines with an average maturity of 3.8 years, representing an aggregate amount of 1.2 billion euros. None of these credit lines had been drawn down at December 31, 2014. These bilateral credit lines were taken out with nine leading banks with an average rating of A+ from S&P and A1 from Moody's;
- a short-term commercial paper financing program for a maximum amount of 1.2 billion euros. However, given Valeo's debt rating, the regulations applicable to monetary funds currently restrict its access to this market;
- a Euro Medium Term Note financing program for a maximum of 2 billion euros, on which 1.1 billion euros had been drawn at December 31, 2014.

Covenants: the syndicated 250 million euro loan, along with the credit lines and the two EIB (European Investment Bank) loans are subject to a covenant stipulating that the Group's net-debt-to-EBITDA ratio must not exceed 3.25. At December 31, 2014, this ratio calculated over 12 months was 0.22 or 0.23 based on the definitions of the agreements.

The bonds include an option granted to the bondholders who can request early repayment or redemption of their bonds in the event of a change of control at Valeo leading to a withdrawal of the rating or a downgrade in the rating to below investment grade (assuming that the bonds were previously rated investment grade). If Valeo's bonds had previously been rated below investment grade, bondholders may request the early repayment or redemption of their bonds in the event of a change in control at Valeo resulting in a one category downgrade in the rating (e.g., from Ba1 to Ba2).

The 250 million euro syndicated loan also includes a clause allowing the lenders to demand repayment of the loan in the event of a change of control at Valeo. For the two EIB loans, the EIB may ask the borrower to put up security or collateral in the event of a change of control, or otherwise request early repayment of the loans.

The Group's bank credit lines and long-term debt include "cross default" clauses. This means that if a given amount of debt is deemed to be in default, then the other debt amounts may also be deemed to be in default.

At the date of issue of these consolidated financial statements, the Group expects to comply with all debt covenants.

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status:

- on January 12, 2015, Standard & Poor's Rating Services confirmed its "BBB/A-2" long-term and short-term corporate credit ratings for Valeo with a stable outlook;
- on August 15, 2014, Moody's Rating Services confirmed its "Baa3/P3" long-term and short-term corporate credit ratings for Valeo with a positive outlook (upgraded from a stable outlook previously).

Residual contractual maturities of non-derivative financial instruments

The future cash flows presented below, comprising both interest payments and principal repayments, are not discounted. The forward interest rate curve at December 31, 2014 was used for variable-rate interest.

At December 31, 2014

(in millions of euros)	Carrying amount	Contractual cash flows						Total
		2015	2016	2017	2018	2019	2020 and beyond	
Bonds	1,030	44	44	190	310	23	814	1,425
EIB (European Investment Bank) loans	187	82	81	23	22	-	-	209
Syndicated loan	249	3	252	-	-	-	-	255
Other long-term debt	116	52	19	6	5	10	24	116
Accounts and notes payable	2,700	2,700	-	-	-	-	-	2,700
Short-term debt	257	257	-	-	-	-	-	257

Residual contractual maturities of derivative financial instruments

The European Central Bank (ECB) closing rates and forward rates at December 31, 2014 were used to value foreign currency

derivatives. The London Metal Exchange (LME) forward rates at December 31, 2014 were used for commodity derivatives, while the forward interest rate curve at December 31, 2014 was used for interest rate swaps.

At December 31, 2014

(in millions of euros)	Carrying amount	Contractual cash flows						Total
		2015	2016	2017	2018	2019	2020 and beyond	
Forward foreign currency contracts used as hedges:								
• Assets	23	23	-	-	-	-	-	23
• Liabilities	(9)	(8)	-	(1)	-	-	-	(9)
Currency swaps used as hedges:								
• Assets	47	21	28	-	-	-	-	49
• Liabilities	(78)	(78)	-	-	-	-	-	(78)
Commodity derivatives:								
• Assets	2	2	-	-	-	-	-	2
• Liabilities	(4)	(4)	-	-	-	-	-	(4)
Interest rate swaps:								
• Assets	-	-	-	-	-	-	-	-
• Liabilities	(4)	(4)	(2)	-	-	-	-	(6)

8.3.3 Credit risk

The Group's credit risk management policy is described in the management report in Chapter 2, section 2.1.4, pages 69 and 70.

Counterparty risk

The Group is exposed to counterparty risk on financial market transactions carried out for the purposes of managing risks and cash flows. Limits have been set by counterparty, taking into account the ratings of the counterparties provided by rating agencies. This also has the effect of avoiding excessive concentration of market transactions with a limited number of banks.

Customer credit risk

Valeo is exposed to credit risk and, more specifically, the risk of default by its customers. Valeo operates exclusively in the automotive industry and works with all automakers. Valeo continued to closely monitor credit risk notwithstanding the broadly upbeat economic climate (barring South America and India) in 2014.

Note 4.2, page 261, presents an analysis of the amount and age of accounts and notes receivable.

8.4 Off-balance sheet commitments relating to Group financing

Off-balance sheet commitments (covenants) relating to Group financing are detailed in Note 8.3.2, page 303, on liquidity risk.

Note 9 Income taxes

9.1 Income taxes

Income tax expense includes current income taxes and deferred taxes of consolidated companies.

Taxes relating to items recognized directly in other comprehensive income are also recognized in other comprehensive income and not in income.

9.1.1 Breakdown of income tax expense

(in millions of euros)	2014	2013 restated ⁽¹⁾
Current taxes	(171)	(163)
Deferred taxes	42	50
Income tax expense	(129)	(113)

(1) Income tax expense shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

The Group recognized income tax expense of 129 million euros in 2014, corresponding to an effective tax rate of 19.2%.

This includes a positive impact of 52 million euros relating to the recognition of deferred tax assets in Mexico and a positive impact of 22 million euros arising on the partial recognition of deferred tax assets on the tax consolidation group in the United States.

No deferred tax assets had been recognized in the past few years in respect of Valeo's tax consolidation group in the United States. The earnings of this scope and the five-year profitability

outlook according to the tax plan improved significantly as from 2013. In 2014, Valeo therefore recognized a deferred tax asset of 22 million euros on this tax consolidation (51 million euros recognized in 2013).

In Mexico, deferred tax assets were recognized in 2014 owing to the ongoing legal reorganization process.

These positive impacts on income tax expense were partly offset by the cancellation of 20 million euros in deferred taxes previously recognized in Brazil, due to the particularly tough economic climate in the country.

9.1.2 Tax proof

(in millions of euros)	2014	2013 restated ⁽¹⁾
Net income before income taxes excluding share in net earnings (losses) of associates	671	555
Standard tax rate in France ⁽²⁾	(34.4%)	(34.4%)
Theoretical income tax expense	(231)	(191)
Impact of:		
• Unrecognized deferred tax assets and unused tax losses (current year)	(87)	(23)
• Recognition of previously unrecognized deferred tax assets	57	61
• Other tax rates	52	41
• Utilization of prior-year tax losses	90	4
• Permanent differences between accounting income and taxable income	3	7
• Tax credits	2	2
• Cotation sur la Valeur Ajoutée des Entreprises (CVAE)	(15)	(14)
Group income tax expense	(129)	(113)

(1) The amounts shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

(2) The temporary additional 10.7% levy applied in France has not been included for the purposes of calculating the standard tax rate as Valeo does not believe it will be liable for French corporate income tax during the application period.

In 2014, unrecognized deferred tax assets and tax losses for the period not utilized by the Group's main countries relate essentially to France for 26 million euros (20 million euros in 2013) and Brazil for 36 million euros (20 million euros on previously recognized deferred taxes and 16 million euros in respect of deferred taxes for the period).

Previously unrecognized deferred tax assets for 57 million euros essentially relate to deferred tax assets recognized in Mexico in 2014.

The positive 52 million euro impact relating to other tax rates is broken down by major country in the table below:

Country	Tax rate	2014	2013 restated ⁽¹⁾
China	25.0%	22	10
Poland	19.0%	13	12
South Korea	24.2%	12	8
Thailand	20.0%	5	7
Turkey	20.0%	5	5
Czech Republic	19.0%	5	4
Japan	35.6%/38.0% ⁽²⁾	(5)	(1)
United States	40.0%	(8)	(1)
Other		3	(3)
TOTAL		52	41

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

(2) The tax rate in Japan takes into account the decrease in the rate applicable as from 2015.

Utilizations of prior-year tax losses for which no deferred tax assets had been recognized chiefly reflect the use of 63 million euros in tax losses on the US tax consolidation group, 15 million euros in Mexico, and 11 million euros in Japan.

At the end of 2009, Valeo considered that the *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE) tax on Company value added met the definition of income tax set out in IAS 12. Income tax in 2014 therefore includes a net expense of 15 million euros in respect of the CVAE tax (14 million euros in 2013).

9.2 Deferred taxes

Deferred taxes are accounted for using the liability method for all temporary differences between the tax base and the carrying amount of assets and liabilities in the consolidated financial statements, and for all tax loss carryforwards.

The main temporary differences relate to tax loss carryforwards, provisions for pensions and other employee benefits, other temporarily non-deductible provisions and capitalized development costs. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the temporary differences reverse, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are only recognized to the extent that it appears probable that the Valeo Group will generate future taxable profits against which these tax assets will be able to be recovered. The Group reviews the probability of future recovery of deferred tax assets on a periodic basis for each tax entity. This review can, if applicable, lead the Group to derecognize deferred tax assets that it had recognized in

prior years. The probability of recovery is assessed using the approach deemed most appropriate in light of the entity's legal and tax organization, tax history and projected taxable earnings outlook. These are assessed on the basis of a tax plan which uses assumptions consistent with those used in the medium-term business plans and budgets prepared by the Group's entities and approved by General Management. Taxes payable and tax credits receivable on planned dividend distributions by subsidiaries are recorded in the statement of income.

Deferred tax assets and liabilities are offset when a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities concern income taxes levied by the same taxation authority. In France, Valeo elected for tax consolidation. The tax group includes the parent company and its principal French subsidiaries that are eligible for tax consolidation. Valeo also elected for tax consolidation for its subsidiaries in other countries where this is permitted by local legislation (Germany, Spain, the United Kingdom and the United States).

Deferred taxes broken down by temporary differences are shown below:

(in millions of euros)	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Loss carryforwards	1,035	1,045
Capitalized development expenditure	(177)	(154)
Pensions and other employee benefits	236	175
Other provisions	74	59
Inventories	42	39
Provisions for restructuring costs	12	10
Tooling	(1)	4
Non-current assets	46	40
Other	98	105
Total deferred taxes, gross	1,365	1,323
Unrecognized deferred tax assets	(1,043)	(1,111)
Total deferred taxes	322	212
o/w:		
• Deferred tax assets	359	238
• Deferred tax liabilities	(37)	(26)

(1) Deferred taxes shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

No net deferred tax assets were recognized on either tax loss carryforwards or temporary differences arising on the tax consolidation group in France, representing an amount of 525 million euros at December 31, 2014.

A total of 89 million euros in deferred tax assets was recognized in Mexico at December 31, 2014 (51 million euros at December 31, 2013), due to an improved economic outlook. Residual unrecognized net deferred tax assets in connection with this tax consolidation group total 341 million euros at December 31, 2014 (383 million euros at December 31, 2013).

A total of 66 million euros in deferred tax assets was recognized in Mexico at December 31, 2014 owing to the ongoing legal reorganization and Valeo's acquisition of a controlling interest in Valeo Sylvania Illumination.

In contrast, due to particularly tough economic conditions in Brazil, no deferred assets were recognized for this country at December 31, 2014. Net deferred tax assets recognized at December 31, 2013 totaled 20 million euros. Unrecognized net deferred tax assets represented 36 million euros at December 31, 2014.

At December 31, 2014, deferred tax assets not recognized by the Group can be analyzed as follows:

(in millions of euros)	Tax basis	Potential tax saving
Tax losses available for carryforward from 2015 through 2019	49	11
Tax losses available for carryforward in 2020 and thereafter	1,034	400
Tax losses available for carryforward indefinitely	1,701	559
Current tax loss carryforwards	2,784	970
Unrecognized deferred tax assets on temporary differences		73
TOTAL		1,043

Note 10 Stockholders' equity and earnings per share

10.1 Stockholders' equity

10.1.1 Share capital

At December 31, 2014, Valeo's share capital totaled 238 million euros, divided into 79,462,540 shares of common stock with a par value of 3 euros each, all fully paid-up. Shares that have been registered in the name of the same holder for at least four years carry double voting rights (5,149,785 shares at December 31, 2014).

The Group seeks to maintain a solid capital base in order to retain the confidence of investors, creditors and the market, and to secure its future development. Its objective is to strike a balance between levels of debt and equity, and to prevent the net debt to equity ratio from exceeding 100% on a long-term basis.

The Group may be required to buy back treasury shares on the market to cover its obligations with regard to stock option and free share plans, as well as Company savings plans and the liquidity agreement. This liquidity agreement was executed with an investment services provider on April 22, 2004 pursuant to the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* - AFEI). At December 31, 2014, 9,000 shares and 19,302,904 euros had been allocated to this liquidity agreement compared with 3,500 shares and 19,535,815 euros at December 31, 2013. On the date the liquidity agreement was signed, 220,000 Valeo shares and 6,600,000 euros were allocated for its implementation.

10.1.2 Additional paid-in capital

Additional paid-in capital represents the net amount received by the Company, either in cash or in assets, in excess of the par value on issuance of Valeo shares.

10.1.3 Translation adjustment

Movements in the translation adjustment (attributable to the Group) in the year resulted in an unrealized gain of 127 million euros (unrealized loss of 165 million euros at December 31, 2013), mainly reflecting the increase in the value of the yuan (69 million euros) and to a lesser extent, the South Korean and Thai currencies (30 million euros and 19 million euros, respectively) in 2014.

10.1.4 Consolidated retained earnings

Consolidated retained earnings include attributable income for the year of 562 million euros prior to appropriation.

10.1.5 Dividend per share

The balance of the parent company's distributable retained earnings (prior to appropriation of 2014 net income) is 1,819 million euros in 2014 and 1,826 million euros in 2013.

A dividend of 1.70 euros per share was paid in 2014, representing a total payout of 132 million euros. The dividend paid in 2013 was 1.50 euros per share, representing a total payout of 115 million euros.

10.1.6 Stockholders' equity and share buyback program

At December 31, 2014, Valeo owns 1,695,322 of its own shares, representing 2.1% of share capital (1,819,722 shares, representing 2.3% of share capital at December 31, 2013).

Valeo requested the assistance of an investment services provider to meet certain objectives of its share buyback program as authorized by the Ordinary and Extraordinary Shareholders' Meeting of May 21, 2014. The share buyback program will be allocated in full to cover any stock purchase option plans, the allotment of shares to employees under profit-sharing plans, and the implementation of any company savings plans.

Upon expiry of the agreement signed on May 27, 2014, the parties agreed that the investment services provider would sell a certain quantity of Valeo shares to Valeo, who undertook to acquire them at term, within the limit of 75 million euros and 750,000 shares, at an average price determined in an objective and independent manner by the market during the full term of the agreement. This average price could not in any case exceed the maximum purchase price set by the Ordinary and Extraordinary Shareholders' Meeting of May 21, 2014.

This agreement was effective between May 28, 2014 and August 11, 2014. Valeo was entitled to terminate the agreement at any time, except during the restricted period beginning June 30, 2014. At this date, Valeo was therefore bound to purchase all of the treasury shares acquired by the investment services provider over the term of the agreement. A liability was recognized in the financial statements at June 30, 2014 in respect of this commitment, with a corresponding reduction in equity. This liability represented Valeo's best estimate of the cash to be disbursed on expiry of the agreement and amounted to 74 million euros.

The amount of this liability subsequently changed over the term of the program in line with the price of the Valeo share and the number of shares purchased, falling to 73 million euros. The difference attributable to share price fluctuations was recognized as financial income in the income statement for the second half of 2014.

10.1.7 Non-controlling interests

Changes in non-controlling interests can be analyzed as follows:

<i>(in millions of euros)</i>	2014	2013 restated ⁽¹⁾
Non-controlling interests at January 1	147	138
Equity in net earnings	31	29
Dividends paid	(10)	(14)
Capital increase	-	-
Translation adjustment	17	(7)
Actuarial gains (losses) on defined benefit plans	-	-
Changes in scope of consolidation	24	1
Non-controlling interests at December 31	209	147

(1) Non-controlling interests shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Changes in the scope of consolidation in 2014 mainly resulted from the acquisition of controlling interests in Valeo Samsung Thermal Systems Co. Ltd and Nanjing Valeo Clutch Co. Ltd (see Notes 2.2.1.2 and 2.2.1.4, pages 254 and 255). The percent interest held by Valeo in these two companies did not change as a result of these transactions.

Non-controlling interests can be analyzed as follows:

	% interest		Carrying amount of non-controlling interests <i>(in millions of euros)</i>	
	December 31, 2014	December 31, 2013 restated ⁽¹⁾	December 31, 2014	December 31, 2013 restated ⁽¹⁾
Valeo Pyeong Hwa Co. Ltd				
Valeo Pyeong Hwa International Co. Ltd	50.0	50.0	119	93
Ichikoh entities			26	19
Other			64	35
Non-controlling interests			209	147

(1) Non-controlling interests shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

10.2 Earnings per share

Earnings per share (before dilution) are calculated by dividing consolidated net income for the period by the weighted average number of shares outstanding during the year, excluding the average number of shares held in treasury stock.

There is no dilutive impact.

	2014	2013
Net income attributable to owners of the Company <i>(in millions of euros)</i>	562	439
Weighted average number of ordinary shares outstanding <i>(in thousands of shares)</i>	77,705	76,873
Basic earnings per share <i>(in euros)</i>	7.23	5.71

Note 11 Breakdown of cash flows

11.1 Expenses (income) with no cash effect

<i>(in millions of euros)</i>	2014	2013 restated ⁽¹⁾
Depreciation, amortization and impairment of non-current assets	642	542
Net additions to (reversals from) provisions	(15)	(44)
Losses (gains) on sales of non-current assets	(9)	13
Expenses related to share-based payment	14	9
Impairment of assets and liabilities held for sale	-	28
TOTAL	632	548

(1) Income and expenses with no cash effect shown for 2013 differ from those presented in the consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Impairment losses taken against assets and liabilities held for sale mainly related to the 28 million euro impairment loss recognized on the Access Mechanisms business in 2013 (see Note 2.2.2.1, page 255).

11.2 Changes in working capital

Changes in the main components of working capital in 2014 and 2013 are shown in the table below:

<i>(in millions of euros)</i>	2014	2013 restated ⁽¹⁾
Inventories	(56)	(106)
Accounts and notes receivable	(82)	(79)
Accounts and notes payable	186	345
Other receivables and payables	(8)	92
TOTAL	40	252

(1) Changes in working capital shown for 2013 differ from those presented in the consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 246 and 247).

Accounts and notes receivable falling due after December 31, 2014 for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position are detailed in Note 4.2, page 261 (accounts receivable), and in Note 4.5.2, page 265, (French research and CICE tax credit receivables).

11.3 Acquisitions and sales of equity interests with gain or loss of control

Acquisitions of controlling interests in 2014 led to a net cash outflow of 104 million euros, 111 million euros of which relates to the acquisition of Osram GmbH's shares in Valeo Sylvania (see Note 2.2.1.1, page 254).

The main transaction affecting the scope of consolidation in 2013 was the sale of the Access Mechanisms business (see Note 2.2.2.1, page 255), generating a net inflow of 170 million euros.

11.4 Issuance and repayment of long-term debt

In 2014, issuance of long-term debt mainly related to the new 700 million euro bond issue on January 22, 2014. At the time of this bond issue, the Group redeemed and canceled 354 million euros worth of outstanding 2017 bonds and 226 million euros worth of outstanding 2018 bonds. The 581 million euros redeemed are included in "Repayments of long-term debt". This line also includes the repayment of a 52 million euro annual installment on the EIB (European Investment Bank) loans in August 2014. The amount of premiums and expenses paid as part of the bond redemption/exchange transaction represents 91 million euros and is recorded on a specific line in the consolidated statement of cash flows (see Note 8.1.2.1, page 292).

In 2013, repayments of long-term debt chiefly related to the redemption of the 311 million euro bond issue on June 24, 2013 and the partial repayment of the EIB (European Investment Bank) loans in an amount of 56 million euros on August 5, 2013 (see Note 8.1.2.1, page 292).

Note 12 Subsequent events

To Valeo's knowledge, no events have occurred since December 31, 2014 that could have a material impact on the Group's business, financial position or assets and liabilities.

Note 13 List of consolidated companies

Company	December 31, 2014		December 31, 2013	
	% voting rights	% interest	% voting rights	% interest
EUROPE				
France				
Valeo (parent company)				
DAV	100	100	100	100
Équipement 1	100	100	100	100
Équipement 11	100	100	100	100
Équipement 2	100	100	100	100
SC2N	100	100	100	100
Société de Participations Valeo	100	100	100	100
Valeo Bayen	100	100	100	100
Valeo Embrayages	100	100	100	100
Valeo Équipements Électriques Moteur	100	100	100	100
Valeo Comfort and Driving Assistance (formerly Valeo Étude Électroniques)	100	100	100	100
Valeo Finance	100	100	100	100
Valeo Compresseurs ⁽³⁾	-	-	100	100
Valeo Management Services	100	100	100	100
Valeo Matériaux de Friction	100	100	100	100
Valeo Plastic Omnium SNC ⁽¹⁾	50	50	50	50
Valeo Sécurité Habitacle	100	100	100	100
Valeo Service	100	100	100	100
Valeo Systèmes de Contrôle Moteur	100	100	100	100
Valeo Systèmes d'Essuyage	100	100	100	100
Valeo Systèmes Thermiques	100	100	100	100
Valeo Vision	100	100	100	100
Spain				
Telma Retarder España, SA ⁽²⁾	-	-	100	100
Valeo Climatización, SA	100	100	100	100
Valeo España, SA	100	100	100	100
Valeo Iberica SA ⁽³⁾	-	-	100	100
Valeo Iluminación, SA	100	100	100	100
Valeo Plastic Omnium SL ⁽¹⁾⁽³⁾	-	-	50	50
Valeo Service España, SA	100	100	100	100
Valeo Sistemas Electricos, SL ⁽³⁾	-	-	100	100
Valeo Termico, SA	100	100	100	100

(1) Companies accounted for by the equity method.

(2) See Note 2.2.1.1, page 254.

(3) Mergers and liquidations.

(4) See Note 2.2.1.2, page 254.

(5) See Note 2.2.1.3, page 255.

(6) See Note 2.2.1.4, page 255.

Company	December 31, 2014		December 31, 2013	
	% voting rights	% interest	% voting rights	% interest
Portugal				
Cablagens Do Ave ⁽³⁾	-	-	100	100
Italy				
Valeo Service Italia, SpA	99.9	99.9	99.9	99.9
Valeo, SpA	100	100	100	100
Germany				
Valeo Auto-Electric GmbH	100	100	100	100
Valeo GmbH	100	100	100	100
Valeo Klimasysteme GmbH	100	100	100	100
Valeo Schalter und Sensoren GmbH	100	100	100	100
Valeo Service Deutschland GmbH	100	100	100	100
Valeo Wischersysteme GmbH	100	100	100	100
United Kingdom				
Valeo (UK) Limited	100	100	100	100
Valeo Climate Control Limited	100	100	100	100
Valeo Engine Cooling UK Limited	100	100	100	100
Valeo Management Services UK Limited	100	100	100	100
Valeo Service UK Limited	100	100	100	100
Valeo Air Management UK Limited	100	100	100	100
Ireland				
Connaught Electronics Limited	100	100	100	100
Hi-Key Limited	100	100	100	100
Valeo Ichikoh Holding Ireland Limited	85.0	89.7	85.0	89.7
Belgium				
Valeo Service Belgique	100	100	100	100
Valeo Vision Belgique	100	100	100	100
Luxembourg				
Coreval	100	100	100	100
Norway				
Valeo Powertrain Energy Conversion AS	100	100	100	100
Netherlands				
Valeo Holding Netherlands BV	100	100	100	100
Valeo International Holding BV	100	100	100	100
Valeo Service Benelux BV	100	100	100	100
Czech Republic				
Valeo Autoklimatizace ks	100	100	100	100
Valeo Compressor Europe Sro	100	100	100	100
Valeo Vymeniky Tepla ks	100	100	100	100
Poland				
Valeo Autosystemy SpZOO	100	100	100	100
Valeo Electric and Electronic Systems SpZOO	100	100	100	100
Valeo Service Eastern Europe SpZOO	100	100	100	100

(1) Companies accounted for by the equity method.

(2) See Note 2.2.1.1, page 254.

(3) Mergers and liquidations.

(4) See Note 2.2.1.2, page 254.

(5) See Note 2.2.1.3, page 255.

(6) See Note 2.2.1.4, page 255.

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Company	December 31, 2014		December 31, 2013	
	% voting rights	% interest	% voting rights	% interest
Hungary				
Valeo Auto-Electric Hungary LLC	100	100	100	100
Romania				
Valeo Lighting Injection SA	100	100	100	100
Valeo Sisteme Termice SRL	100	100	100	100
Russia				
Valeo Climate Control Tomilino LLC	100	100	100	100
Valeo Service Limited Liability Company	100	100	100	100
Turkey				
Valeo Otomotiv Sistemleri Endustrisi AS	100	100	100	100
AFRICA				
Tunisia				
DAV Tunisie	100	100	100	100
Valeo Embrayages Tunisie SA	100	100	100	100
Valeo Tunisie SA	100	100	100	100
Morocco				
Cablinal Maroc, SA	100	100	100	100
Valeo Vision Maroc SA	100	100	100	100
Egypt				
Valeo Interbranch Automotive Software Egypt	100	100	100	100
South Africa				
Valeo Systems South Africa (Proprietary) Ltd	51	51	51	51
NORTH AMERICA				
United States				
Valeo Climate Control Corp.	100	100	100	100
Valeo North America, Inc	100	100	100	100
Valeo Investment Holdings, Inc. ⁽³⁾	-	-	100	100
Valeo Radar Systems, Inc.	100	100	100	100
Valeo Sylvania, LLC ^{(2) (3)}	-	-	50	50
Detroit Thermal Systems LLC ⁽¹⁾	49	49	49	49
Detroit Thermal Systems Leverage Lender LLC ⁽¹⁾	49	49	49	49
Canada				
Valeo Canada	100	100	-	-
Mexico				
Delmex de Juarez S de RL de CV	100	100	100	100
Valeo Climate Control de Mexico Servicios S de RL de CV	100	100	100	100
Valeo Climate Control de Mexico, SA de CV ⁽³⁾	-	-	100	100
Valeo Sistemas Automotrices de Mexico SA de CV	100	100	-	-
Valeo Sistemas Electricos Servicios S de RL de CV	100	100	100	100
Valeo Sistemas Electricos, SA de CV	100	100	100	100
Valeo Sistemas Electronicos, S de RL de CV	100	100	100	100
Valeo Sylvania Iluminacion, S de RL de CV ^{(2) (3)}	-	-	50	50
Valeo Sylvania Services, S de RL de CV ⁽²⁾	100	100	50	50
Valeo Termico Servicios, S de RL de CV	100	100	100	100
Valeo Transmisiones Servicios de Mexico S de RL de CV	100	100	100	100

(1) Companies accounted for by the equity method.

(2) See Note 2.2.1.1, page 254.

(3) Mergers and liquidations.

(4) See Note 2.2.1.2, page 254.

(5) See Note 2.2.1.3, page 255.

(6) See Note 2.2.1.4, page 255.

Company	December 31, 2014		December 31, 2013	
	% voting rights	% interest	% voting rights	% interest
SOUTH AMERICA				
Brazil				
Valeo Sistemas Automotivos Ltda	100	100	100	100
Argentina				
Cibie Argentina, SA	100	100	100	100
Emelar Sociedad Anonima	100	100	100	100
Valeo Embragues Argentina, SA	100	100	100	100
Valeo Termico Argentina, SA	100	100	100	100
ASIA				
Thailand				
Valeo Automotive (Thailand) Co. Ltd (formerly Valeo Compressor (Thailand) Co. Ltd)	100	98.5	100	98.5
Valeo Compressor Clutch (Thailand) Co. Ltd	100	99.4	100	99.4
Valeo Siam Thermal Systems Co. Ltd	74.9	74.9	74.9	74.9
Valeo Thermal Systems Sales (Thailand) Co. Ltd	74.9	74.9	74.9	74.9
Valeo Niles (Thailand) Co. Ltd (formerly Niles [Thailand] Co. Ltd)	100	100	100	100
South Korea				
Valeo Automotive Korea	100	100	100	100
Valeo Electrical Systems Korea, Ltd	100	100	100	100
Valeo Pyeong HWA Co. Ltd	50	50	50	50
Valeo Pyeong HWA International Co. Ltd	50	50	50	50
Valeo Samsung Thermal Systems Co., Ltd ⁽⁴⁾	50	50	50	50
Valeo Pyeong HWA Metals Co. Ltd ⁽¹⁾	49	49	49	49
Indonesia				
PT Valeo AC Indonesia	100	100	100	100
Taiwan				
Niles CTE Electronic Co. Ltd	51	51	51	51
Japan				
Ichikoh Industries Limited ⁽¹⁾	31.6	31.6	31.6	31.6
Valeo Japan Co. Ltd	100	100	100	100
Valeo Unisia Transmissions KK	66	66	66	66
Nitto Manufacturing Co. Ltd	87.2	87.2	87.2	87.2
China				
Faw-Valeo Climate Control Systems Co. Ltd ⁽¹⁾	36.5	36.5	36.5	36.5
Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd	85	89.7	85	89.7
Guangzhou Valeo Engine Cooling Co. Ltd	100	100	100	100
Huada Automotive Air Conditioner Co. Ltd ⁽¹⁾	45	45	45	45
Valeo Ichikoh (China) Autolighting Co. Ltd (formerly Hubei Valeo Autolighting Co. Ltd)	85	89.7	85	89.7
Nanjing Valeo Clutch Co. Ltd ⁽⁶⁾	75	55	75	55
Shanghai Valeo Automotive Electrical Systems Company Ltd ⁽¹⁾	50	50	50	50
Shenyang Valeo Pyeong-Hwa Transmission Systems Co. Ltd	50	50	50	50
Tianjin Valeo Xinyue Auto Parts Co. Ltd	60	60	60	60
Taizhou Valeo-Wenling Automotive Systems Co. Ltd	100	100	100	100
Valeo Auto Parts Trading (Shanghai) Co. Ltd	100	100	100	100

(1) Companies accounted for by the equity method.

(2) See Note 2.2.1.1, page 254.

(3) Mergers and liquidations.

(4) See Note 2.2.1.2, page 254.

(5) See Note 2.2.1.3, page 255.

(6) See Note 2.2.1.4, page 255.

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Company	December 31, 2014		December 31, 2013	
	% voting rights	% interest	% voting rights	% interest
China				
Valeo Automotive Air Conditioning Hubei Co. Ltd	100	100	100	100
Valeo Automotive Components and System Co.Ltd	100	100	100	100
Valeo Automotive Transmissions Systems (Nanjing) Co. Ltd	100	100	100	100
Valeo Engine Cooling (Foshan) Co. Ltd	100	100	100	100
Valeo Engine Cooling (Shashi) Co. Ltd	100	100	100	100
Valeo Compressor (Changchun) Co. Ltd	100	100	100	100
Valeo Interior Controls (Shenzhen) Co. Ltd	100	100	100	100
Valeo Lighting Hubei Technical Center Co. Ltd	85	89.7	85	89.7
Valeo Management (Beijing) Co. Ltd	100	100	100	100
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd	55	55	55	55
Valeo Management (Shanghai) Co. Ltd	100	100	100	100
Fuzhou Niles Electronic Co. Ltd	51	51	51	51
Valeo Niles Electronics Co. Ltd (Guangzhou) (formerly Guangzhou Niles Electronics Co. Ltd)	100	100	100	100
Guangzhou Niles Trading Co. Ltd	100	100	100	100
Valeo Friction Materials (Nanjing) Co. Ltd ⁽⁶⁾	50	50	-	-
Shenyang Valeo Auto Lighting Co. Ltd	85	89.7	85	89.7
Wuhu Valeo Automotive Lighting Systems	85	89.7	80	71.8
India				
Amalgamations Valeo Clutch Private Ltd ⁽¹⁾	50	50	50	50
Minda Valeo Security Systems Private Ltd ⁽⁵⁾	-	-	50	50
Valeo India Private Ltd	100	100	100	100
Valeo Friction Materials India Ltd	60	60	60	60
Valeo Lighting Systems (India) Private Ltd	100	100	100	100
Valeo Service India Auto Parts Private Ltd	60	60	60	60

(1) Companies accounted for by the equity method.

(2) See Note 2.2.1.1, page 254.

(3) Mergers and liquidations.

(4) See Note 2.2.1.2, page 254.

(5) See Note 2.2.1.3, page 255.

(6) See Note 2.2.1.4, page 255.

5.4.7 Statutory Auditors' report on the consolidated financial statements

This is a free translation into English of the Statutory Auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report also includes information relating to the specific verification of information given in the Group's management report.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Year ended December 31, 2014

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2014, on:

- the audit of the accompanying consolidated financial statements of Valeo;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2014 and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to notes 1.3.1.2, 1.3.2 and 1.3.3 to the consolidated financial statements which outline:

- the effects related to the first application of IFRS 11 – "Joint Arrangements";
- the change in the presentation of the consolidated statement of income.

II. Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French commercial code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- Note 5.3 to the consolidated financial statements specifies the methods of valuing provisions for pensions and other employee benefits. Our work consisted in reviewing the actuarial data and assumptions used as well as the calculations made and verifying that the aforementioned note provide appropriate information.
- Note 6.4 to the consolidated financial statements sets out the methods implemented by your company to test goodwill, to assess whether there is any indication of impairment of the fixed assets and, where applicable, to perform an impairment test for these same assets. Our work consisted in examining the methods and assumptions used by your company during the implementation of these tests and verifying that the notes to the consolidated financial statements provide appropriate information.
- Note 7.1 to the consolidated financial statements describes the methods of valuing provisions intended to cover your company's obligations in respect of guarantees granted to its clients and specific quality risks. Our work consisted in examining the available documentation and the translation into figures of the assumptions used and assessing the reasonableness of the estimates used.
- Note 9.2 to the consolidated financial statements specifies the methods of recognizing and valuing deferred tax assets. Our work consisted in assessing the hypotheses underlying the probability of future recovery of such assets and verifying that the notes to the consolidated financial statements provide appropriate information.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verification

As required by law, we have also verified, in accordance with professional standards applicable in France, the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Courbevoie and Paris-La Défense, February 24, 2015
The Statutory Auditors (*French original signed by*)

MAZARS

Gaël Lamant

Lionel Gotlib

ERNST & YOUNG et Autres

Philippe Berteaux

Gilles Puissechet

5.5 Analysis of Valeo's results AFR

Following the creation of subsidiaries for its industrial activities in 2002, Valeo is now solely a holding and cash management company on behalf of the Group.

Valeo reported a net operating loss of 42 million euros in 2014, compared with a net operating loss of 18 million euros in 2013. The rise in the operating loss in 2014 is essentially due to net expenses on stock option and free share plans. Gains in the Valeo share price in 2014 (up by 29%) led to an increase in the provision for shares to be delivered to beneficiaries under share plans in the future.

Net financial income came in at 228 million euros for 2014, up 69 million euros on 2013 (159 million euros). Dividends received or receivable by the Company rose to 165 million euros from 75 million euros one year earlier, mainly as a result of the rise in the dividend collected from Valeo International Holding BV (up 55 million euros). Net interest income was 62% higher at 76 million euros for 2014 (47 million euros for 2013). This reflects the growth in interest income from the Group's subsidiaries (interest rate and volume effect); the decrease in interest expenses chiefly due to the maturity of the June 2013 bond; the redemption of a portion of the 2017 and 2018 bonds at the beginning of the year, replaced with a new bond paying a lower interest rate; and the impact of lower interest rates on loans taken out with the European Investment Bank. The increase in financial income in 2014 is partly offset by net additions to impairment and provisions for investments in subsidiaries and affiliates totaling 11 million euros, compared to a net reversal of 30 million euros in 2013.

The Company reported non-recurring income of 11 million euros in 2014 versus non-recurring income of 16 million euros in 2013. Non-recurring income in both years results from insurance indemnities collected and from a fall in costs related to disputes with former employees.

Income tax represents a net expense of 23 million euros in 2014 versus a net benefit of 23 million in 2013. Valeo reported a net expense for the year in respect of tax consolidation amounting to 19 million euros versus a net benefit of 26 million euros one year earlier. In 2014, Valeo increased its provision for repayment of tax losses to consolidated subsidiaries by 16 million euros due to their improved profitability outlook over the next few years.

Net income came in at 174 million euros in 2014, compared with 180 million euros in 2013.

Valeo recognized no sumptuary expenses that were not deductible for tax purposes in 2014.

No overheads were added back to income for tax purposes during the year.

At December 31, 2014, Valeo's stockholders' equity stood at 3,619 million euros, up 42 million euros compared to the December 31, 2013 figure. This reflects net income for 2014 less the 132 million euro dividend paid by Valeo to its shareholders in June 2014 in respect of its 2013 earnings.

Since January 1, 2009, Valeo has applied new payment terms in its dealings with suppliers, as required under the French Law on the Modernization of the Economy. Suppliers are paid 45 days after the end of the month of the invoice date for all new orders issued after January 1, 2009, and for open orders on that date. If the payment terms applied before the law came into force called for shorter settlement periods, no changes were made. At December 31, 2014, trade payables less accrued payables totaled 0.7 million euros, including 0.4 million euros payable by end-December 2014 and 0.3 million euros payable in January 2015. At December 31, 2013, trade payables totaled 0.5 million euros, including 0.2 million euros payable by end-December 2013 and 0.3 million euros payable in January 2014.

5.6 2014 parent company financial statements AFR

In accordance with Article 28 of European Regulation No. 809/2004 dated April 29, 2004, the following information is incorporated by reference in this Registration Document:

- the parent company financial statements and the Statutory Auditors' report for the year ended December 31, 2013, set out on pages 295 to 313 and 314 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 28, 2014 under number D.14-0234;
- the parent company financial statements and the Statutory Auditors' report for the year ended December 31, 2012, set out on pages 272 to 290 and 291 of the Registration Document registered with the AMF on March 28, 2013 under number D.13-0246.

5.6.1 Income statement

<i>(in millions of euros)</i>	<i>Notes</i>	2014	2013
Provision reversals and expense transfers	2	101	-
Other operating income	3	37	33
TOTAL OPERATING INCOME		138	33
Other purchases and external charges	4	(118)	(22)
Other taxes		(2)	(2)
Wages and salaries	5	(8)	(2)
Social security charges		(1)	(1)
Depreciation, amortization and provisions	6	(51)	(24)
Total operating expenses		(180)	(51)
OPERATING LOSS		(42)	(18)
Net financial income	7	228	159
INCOME BEFORE TAX AND NON-RECURRING ITEMS		186	141
Non-recurring income	8	11	16
Income tax	9	(23)	23
NET INCOME FOR THE YEAR		174	180

The Notes are an integral part of these financial statements.

5.6.2 Balance sheet

		December 31, 2014			December 31, 2013
(in millions of euros)	Notes	Gross	Depr., amort. & impairment losses	Net	Net
ASSETS					
Property, plant and equipment		5	(4)	1	1
Long-term financial assets	10	4,792	(729)	4,063	3,805
TOTAL NON-CURRENT ASSETS		4,797	(733)	4,064	3,806
Operating receivables	11	64	-	64	86
Other receivables		-	-	-	-
Financial receivables	15.4	1,889	-	1,889	1,887
Cash and cash equivalents	15.5	1,060	-	1,060	977
Prepaid expenses	12	93	-	93	8
TOTAL CURRENT ASSETS		3,106	-	3,106	2,958
TOTAL ASSETS		7,903	(733)	7,170	6,764

(in millions of euros)	Notes	December 31, 2014	December 31, 2013
EQUITY AND LIABILITIES			
Share capital		238	238
Additional paid-in capital		1,434	1,434
Legal reserve		25	25
Untaxed reserves		4	4
Other reserves		263	263
Retained earnings		1,481	1,433
Net income for the year		174	180
STOCKHOLDERS' EQUITY	13	3,619	3,577
Provisions for contingencies and charges	14	100	103
Long-term debt – long-term portion	15.2	1,489	1,437
Current portion of long-term debt	15.2	117	101
Short-term debt	15.3	1,608	1,354
Operating payables	16	7	4
Other payables	16	230	180
Deferred income		-	8
TOTAL LIABILITIES		3,451	3,084
TOTAL EQUITY AND LIABILITIES		7,170	6,764

The Notes are an integral part of these financial statements.

5.6.3 Statement of cash flows

<i>(in millions of euros)</i>	<i>Notes</i>	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		174	180
Expenses (income) with no cash effect			
• depreciation and amortization/deferred charges		(80)	3
• net additions to/(reversals from) impairment and provisions		31	(15)
GROSS OPERATING CASH FLOWS		125	168
Changes in working capital:			
• operating receivables		22	81
• operating payables		3	(3)
• other receivables and payables		42	32
NET CASH FROM OPERATING ACTIVITIES		192	278
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of long-term financial assets	10.1	(185)	(4)
Loans and advances to subsidiaries and affiliates	10.1	(107)	(91)
Disposals of long-term financial assets		-	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(292)	(95)
Net cash generated (used) before financing activities		(100)	183
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	13.1	(132)	(115)
Change in long-term debt:			
• issuance of long-term debt	15.2	700	-
• repayment of long-term debt	15.2	(637)	(367)
NET CASH USED IN FINANCING ACTIVITIES		(69)	(482)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(169)	(299)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15.1	1,510	1,809
CASH AND CASH EQUIVALENTS AT END OF YEAR	15.1	1,341	1,510

The Notes are an integral part of these financial statements.

5.6.4 Notes to the parent company financial statements

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Note 1 Accounting policies

1.1 Basis of preparation

The financial statements of Valeo (the Company) have been prepared in accordance with French generally accepted accounting principles. The accounting policies applied are based on conservative assumptions and are in accordance with the fundamental accounting principles designed to give a true and fair value of the Company (going concern, consistency, cut-off and accrual principles).

Assets and liabilities are measured at historical cost, contribution value or revalued amount.

The accounting principles and policies applied in order to prepare the 2014 financial statements are consistent with those used to prepare the financial statements for the year ended December 31, 2013.

The financial statements are presented in euros and are rounded to the closest million.

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets and liabilities for both Valeo and its subsidiaries and affiliates. These estimates and assumptions concern risks specific to the automotive supply business as well as more general risks to which Group companies are exposed on account of their industrial and commercial operations around the globe. In this persistently uncertain context, particularly in Europe and South America, the Group mainly based the medium-term business plans and budgets on projected data for the automotive market, as well as its own order book and its outlook for emerging markets. These business plans and budgets were used to measure investments in subsidiaries and affiliates (when these measurements are based on subsidiaries' projected data). The medium-term business plans for the period 2015-2019 are based on an average estimated rise of 3.2% in global automotive production per annum, (i.e., an assumed global automotive production of 101 million vehicles by 2019). This is consistent with several independent external forecasts available in October 2014, when the business plans were revised. At the end of the period covered by the business plans, Asia and the Middle East should represent 54% of global production, Europe and Africa 24%, North America 17% and South America 5%.

The estimates and assumptions used are revised on an ongoing basis. In view of the uncertainties inherent in any assessment, the final amounts reported in future financial statements may differ from the amounts resulting from these estimates.

1.2 Investments in subsidiaries and affiliates

Investments in subsidiaries and affiliates are recognized at cost, including transfer duties, fees and commission and legal costs. In accordance with the opinion issued on June 15, 2007 by the French national accounting board's (*Conseil national de la comptabilité* – CNC) Emerging Issues Taskforce (*Comité d'Urgence*), since 2007 the Company has included acquisition costs in the initial recognition cost of the investments concerned.

At the end of the reporting period, the Company measures investments in subsidiaries and affiliates at their value in use. Value in use is determined on the basis of a multi-criteria analysis adapted to the investments concerned. The criteria correspond to projected data from subsidiaries' medium-term business plans, as well as stockholders' equity, outlook, and the Group's strategic interests. If value in use falls below the carrying amount, an impairment provision is recorded corresponding to the difference between these two amounts.

1.3 Marketable securities

Marketable securities are stated at the lower of cost and market value when the related securities correspond to treasury shares purchased for the purpose of stabilizing the Company's share price or shares that have not been allocated to employee share plans.

For shares allocated to stock option and free share plans, the Company applies CNC Opinion No. 2008-17. This opinion sets out the methods applicable for recognizing provisions over the vesting period of plans served by existing shares.

1.4 Pensions and other employee benefit obligations

Pension benefit obligations – which correspond exclusively to supplementary pension benefits paid to former employees – are measured using actuarial methods.

The present value of the related obligations is fully covered by a provision.

1.5 Foreign currency translation

Transactions in foreign currencies are translated using the exchange rates prevailing at the transaction date or the hedging rate, if any.

Assets and liabilities denominated in foreign currencies are translated using the year-end exchange rates or the rate of any hedges allocated to them.

1.6 Financial instruments

Gains and losses on financial instruments used as hedges are recognized on a symmetrical basis with the loss or gain on the hedged item.

Commitments concerning probable future transactions are deemed to be hedging transactions.

1.7 Free shares and stock options

When it is probable that there will be an outflow of resources to cover stock option or free share plans, a provision is recorded on a straight-line basis over the option vesting period. The amount of the provision recognized takes into account whether or not treasury shares have been allocated for the purpose of serving the relevant stock option or free share plans.

Note 2 Provision reversals and expense transfers

<i>(in millions of euros)</i>	2014	2013
Provision reversals	10	-
Expense transfers	91	-
Provision reversals and expense transfers	101	-

The 10 million euro reversal from provisions in 2014 related chiefly to the delivery of shares (i) to non-French beneficiaries under the June 24, 2010 free share plan and (ii) to French beneficiaries under the June 8, 2011 free share plan.

Expense transfers in 2014 related to the January 2014 issuance and exchange of bonds and consist of the costs of redeeming a portion of the 2017 and 2018 bonds along with issue and brokers' fees incurred in connection with the new January 2014 bond issue maturing in 2024. All of these costs will be expensed over the term of the new issue (see Note 15.2, page 330).

Note 3 Other operating income

<i>(in millions of euros)</i>	2014	2013
Trademark license fees	28	26
Other	9	7
Other operating income	37	33

Trademark license agreements, under which Valeo allows some of its French subsidiaries to benefit from the Group's expertise, values, business model and processes, were revised in 2011. These agreements generated income of 28 million euros in the year, broadly similar to 2013 (26 million euros).

The amount recorded under "Other" corresponds to rebillings or accrued rebillings to subsidiaries.

Note 4 Other purchases and external charges

<i>(in millions of euros)</i>	2014	2013
Bond redemption expense and issue fees	(91)	-
Other	(27)	(22)
Other purchases and external charges	(118)	(22)

Other purchases and external charges chiefly comprise bond redemption expense and issue fees totaling 91 million euros. These costs will be amortized over the term of the new January 2014 bond issue (see Notes 2 and 15.2, pages 323 and 330).

Note 5 Wages and salaries

<i>(in millions of euros)</i>	2014	2013
Employee compensation	(3)	(2)
Other personnel expenses	(5)	-
Wages and salaries	(8)	(2)

2014 marked the end of the vesting period for non-French beneficiaries under the 2010 free share plan and for French beneficiaries under the 2011 free share plan. Valeo therefore delivered 229,560 shares and recognized an expense of 7 million euros corresponding to the net carrying amount of the treasury shares delivered. The corresponding provision was also reversed in an amount of 10 million euros (see Note 2, page 323).

Other personnel expenses also include income of 2 million euros arising on the exercise of stock options in 2014.

No free share or stock option plans vested in 2013.

Note 6 Depreciation, amortization and provisions

<i>(in millions of euros)</i>	2014	2013
Risks arising on stock purchase option and free share plans	(41)	(22)
Amortization of bond issue costs	(10)	(2)
Depreciation, amortization and provisions	(51)	(24)

This caption primarily concerns the provision for risks arising on stock option and free share plans. Gains in the Valeo share price in 2014 (up 29%) led to an increase in the provision for shares to be delivered to beneficiaries under these plans in the future.

Note 7 Net financial income

<i>(in millions of euros)</i>	2014	2013
Dividends	165	75
Interest income	157	151
Interest expense	(81)	(104)
Net (additions to)/reversals from provisions for impairment and for investments in subsidiaries and affiliates	(11)	30
Other	(2)	7
Net financial income	228	159

Dividend income in 2014 chiefly relates to the 125 million euro dividend from Valeo International Holding BV and to the 35 million euro dividend collected from Turkish subsidiary Valeo Otomotiv Sistemleri Endustrisi A.S. In 2013, the dividend paid by Valeo International Holding BV amounted to 70 million euros.

Interest expense fell in 2014 on account of the redemption of the bond maturing in 2013 and partial redemptions of the 2017 and 2018 bonds, which were exchanged for a new bond paying lower interest at the beginning of the year.

In 2014, the measurement of the portfolio of investments in subsidiaries and affiliates led to a net addition of

34 million euros to impairment provisions (see Note 10.1, page 326) and a net reversal of 23 million euros from provisions for contingencies relating to subsidiaries. The net balance of this caption therefore represents an expense of 11 million euros. Additions in 2014 chiefly relate to Group subsidiaries Valeo Systèmes de Contrôle Moteur and Valeo Service. Reversals in the year mainly concern investments in (i) the financial holding company Valeo International Holding BV, which benefited from the continued improvement in the performance of its US subsidiaries, and (ii) Valeo Vision, whose recovery continued during the period.

Note 8 Non-recurring income

Non-recurring income totaling 11 million euros in 2014 mainly reflects insurance indemnities collected in the year. Non-recurring income totaling 16 million euros in 2013 also related mainly to insurance income.

Note 9 Income tax

9.1 Tax group and taxable income

Valeo has elected for tax consolidation. The tax group includes the parent company and its principal French subsidiaries.

Valeo repays the tax savings generated by the use of the tax losses of its subsidiaries when these subsidiaries return to profit. At December 31, 2014, the amount of tax savings arising from tax losses transferred to Valeo by its subsidiaries and which are likely to be repaid came to 1,007 million euros

(941 million euros at December 31, 2013). Consequently, a provision is recorded in the Company's financial statements when it is probable that the members of the tax group which have passed on tax losses will return to profit. At December 31, 2014, this provision amounted to 20 million euros compared to 4 million euros at end-2013 (see Note 14.3, page 329), representing an expense of 16 million euros for the period (see Note 9.2, page 325).

9.2 Income tax

<i>(in millions of euros)</i>	2014	2013
Net tax benefit/(expense) arising on tax consolidation	(19)	26
Additional tax on dividend payouts	-	(3)
Net (additions to)/reversals from provisions for tax risks	(4)	-
Income tax	(23)	23

The net tax expense arising on tax consolidation in 2014 (19 million euros) includes the tax benefit received from subsidiaries for 10 million euros, along with an expense of 13 million euros relating to tax payable by Valeo Sécurité Habitacle on the taxable disposal gain arising on the sale of the Access Mechanisms business in 2013. It also includes a net addition of 16 million euros to the provision for repayment of tax losses to subsidiaries in the event of a return to profit.

In the absence of tax consolidation, the Company would have been liable for an income tax expense of 25 million euros in

the financial year ended December 31, 2014 (22 million euros in the year to December 31, 2013).

A provision of 4 million euros was recognized in 2014 in respect of the additional tax on dividend payouts in France.

In 2013, Group relief arising on tax consolidation amounted to 26 million euros, representing the tax benefit received from subsidiaries in an amount of 23 million euros along with a net reversal of 3 million euros from the provision for repayment of tax losses to subsidiaries in the event of a return to profit.

9.3 Deferred tax position

	December 31, 2014		December 31, 2013	
	Tax basis	Corresponding tax	Tax basis	Corresponding tax
<i>(in millions of euros)</i>				
Timing differences between the recognition of income and expenses for accounting and tax purposes	63	21	64	22
Contribution premium	(50)	(17)	(50)	(17)
Provision for repayment of tax losses to subsidiaries in the event of a return to profit	(2,924)	(1,007)	(2,732)	(941)
Tax loss carryforwards	1,471	506	1,430	492
TOTAL	(1,440)	(497)	(1,288)	(444)

Note 10 Long-term financial assets

10.1 Movements

<i>(in millions of euros)</i>	Investments in subsidiaries and affiliates	Loans and advances to subsidiaries and affiliates	Other investment securities	Long-term financial assets
NET CARRYING AMOUNT AT DECEMBER 31, 2012	1,755	1,899	2	3,656
Acquisitions and increase in the share capital of subsidiaries	4	-	-	4
Disposals	-	-	-	-
Changes in impairment losses and other movements	54	91	-	145
NET CARRYING AMOUNT AT DECEMBER 31, 2013	1,813	1,990	2	3,805
Acquisitions and increase in the share capital of subsidiaries	185	-	-	185
Disposals	-	-	-	-
Changes in impairment losses and other movements	(34)	107	-	73
NET CARRYING AMOUNT AT DECEMBER 31, 2014	1,964	2,097	2	4,063

Valeo carried out a 185 million euro share capital increase in its subsidiary Valeo Systèmes de Contrôle Moteur in 2014.

Changes in the securities portfolio led the Company to recognize net additions to impairment provisions for investments in subsidiaries and affiliates totaling 34 million euros.

The 2 million euros invested in the Automotive Suppliers' Modernization Fund (*Fonds de Modernisation des Équipementiers Automobiles* - FMEA) is shown in the "Other investment securities" column.

10.2 Analysis by type

(in millions of euros)	December 31, 2014			December 31, 2013
	Gross	Impairment	Net	Net
Investments in subsidiaries and affiliates	2,693	(729)	1,964	1,813
Loans and advances to subsidiaries and affiliates	2,097	-	2,097	1,990
Other investment securities	2	-	2	2
Long-term financial assets	4,792	(729)	4,063	3,805

Loans and advances to subsidiaries and affiliates comprise current account advances granted to Valeo's holding companies, as well as to direct and indirect Valeo subsidiaries, where the advances are repayable on demand but are unlikely to be repaid within one year.

Note 11 Operating receivables

(in millions of euros)	December 31, 2014	December 31, 2013
Prepaid and recoverable taxes	62	75
Other operating receivables	2	11
Operating receivables	64	86
<i>Of which due beyond 1 year</i>	<i>52</i>	<i>52</i>

At December 31, 2014, prepaid and recoverable taxes include the research tax credit for 2014 amounting to 52 million euros and the tax benefit of 10 million euros arising on the 2014 tax consolidation (see Note 9.2, page 325).

The research tax credit receivable in respect of 2013 was sold by Valeo to several banks in 2014 along with the "CICE" tax credit

(*Crédit d'Impôt pour la Compétitivité et l'Emploi*) in respect of 2013 and 2014, for a total amount of 80 million euros. These receivables, including the 2014 "CICE" receivable at the so-called "seed" stage, were derecognized on the balance sheet and an adjusting entry recorded to cash received.

Note 12 Prepaid expenses

Prepaid expenses totaling 93 million euros at December 31, 2014 relate primarily to deferred charges on bonds.

Note 13 Stockholders' equity

13.1 Movements

<i>(in millions of euros)</i>	Share capital	Additional paid-in capital	Reserves and other	Stockholders' equity
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2012	238	1,434	1,840	3,512
Dividends paid	-	-	(115)	(115)
Capital increase	-	-	-	-
Net income for the year	-	-	180	180
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2013	238	1,434	1,905	3,577
Dividends paid	-	-	(132)	(132)
Capital increase	-	-	-	-
Net income for the year	-	-	174	174
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2014	238	1,434	1,947	3,619

13.2 Share capital

At December 31, 2014, Valeo's share capital totaled 238 million euros, divided into 79,462,540 shares of common stock with a par value of 3 euros each, all fully paid-up. Shares that have been registered in the name of the same holder for at least four years carry double voting rights (5,149,785 shares at December 31, 2014).

The terms and conditions of the shareholder-approved employee stock option and free share plans operated by the Valeo Group at December 31, 2014 were as follows:

13.2.1 Terms and conditions of stock option plans

Year in which the plan was set up	Number of shares under option	<i>of which subject to conditions⁽¹⁾</i>	Option exercise price ⁽²⁾ <i>(in euros)</i>	Outstanding options not yet exercised at December 31, 2014	Expiration date
2007	250,000	-	36.97	-	2015
2007	1,677,000	174,250	36.82	242,406	2015
2008	426,750	-	31.41	84,925	2016
2010	1,000,000	611,365	24.07	366,594	2018
2011	292,840	210,370	42.41	143,595	2019
2012	367,160	265,230	40.78	331,810	2020
TOTAL	4,013,750	1,261,215		1,169,330	

⁽¹⁾ These stock options are subject to the Group meeting performance conditions.

⁽²⁾ The exercise price equals 100% of the average Valeo share price over the 20 trading days preceding the Board of Directors' meeting granting the options, or 100% of the average purchase price of treasury shares held if this is higher than the Valeo quoted share price.

13.2.2 Terms and conditions of free share plans

Year in which the plan was set up	Number of free shares authorized	<i>of which subject to conditions⁽¹⁾</i>	Outstanding shares not yet transferred at December 31, 2014	Year of vesting ⁽²⁾
2011	326,860	126,480	91,727	2014/2016
2012	213,140	117,220	191,081	2015/2017
2013	473,814	223,314	432,831	2016/2018
2014	323,480	105,590	307,622	2017/2019
TOTAL	1,337,294	572,604	1,023,261	

⁽¹⁾ These free shares are subject to the Group meeting performance conditions.

⁽²⁾ The vesting year varies depending on the country in which the plan's beneficiaries are based.

13.3 Additional paid-in capital

Additional paid-in capital represents the net amount received by the Company, either in cash or in assets, in excess of the par value on issuance of Valeo shares.

13.4 Reserves

Reserves available for distribution amounted to 1,819 million euros at December 31, 2014 (1,826 million euros at end-2013) before appropriation of income for the year and after deduction of the net carrying amount of treasury shares held at December 31, 2014 (99 million euros versus 50 million euros at end-2013).

All treasury shares held by the Company are allocated for distribution under employees stock option or free share plans.

Note 14 Provisions for contingencies and charges

14.1 Movements

<i>(in millions of euros)</i>	Provisions for pensions and other employee benefits	Other provisions for contingencies and charges	Total provisions for contingencies and charges	Of which current portion (less than 1 year)
PROVISIONS AT DECEMBER 31, 2012	2	66	68	32
Utilizations	-	(3)	(3)	
Reversals	-	(13)	(13)	
Additions	-	51	51	
PROVISIONS AT DECEMBER 31, 2013	2	101	103	32
Utilizations	-	(59)	(59)	
Reversals	-	(9)	(9)	
Additions	-	65	65	
PROVISIONS AT DECEMBER 31, 2014	2	98	100	6

14.2 Provisions for pensions and other employee benefits

At December 31, 2014, the Company's obligation for pensions and other employee benefits solely corresponds to the requirement to pay supplementary pension benefits to former employees.

The amount of this obligation was calculated on an actuarial basis, using an annual discount rate of 1.70% at

December 31, 2014 and 3.30% at December 31, 2013. Any resulting actuarial gains and losses were taken to income.

The projected benefit obligation includes supplementary pension benefits that have definitively vested for retired employees.

14.3 Other provisions for contingencies and charges

<i>(in millions of euros)</i>	December 31, 2014	December 31, 2013
Provision for repayment of tax losses to subsidiaries in the event of a return to profit	20	4
Other contingencies relating to subsidiaries	2	25
Risks arising on stock purchase option and free share plans	62	31
Miscellaneous contingencies and disputes	14	41
Other provisions for contingencies and charges	98	101

At December 31, 2014, other provisions for contingencies and charges comprise:

- a provision for repayment of tax losses to subsidiaries in the event of a return to profit amounting to 20 million euros (see Note 9.2, page 325);
- a provision for contingencies relating to subsidiaries, representing 2 million euros and intended to cover the negative net equity of certain subsidiaries;
- a provision for risks arising on stock option and free share plans amounting to 62 million euros (see Notes 2 and 6, pages 323 and 324);
- a provision for miscellaneous contingencies and disputes totaling 14 million euros, 27 million euros lower than at end-2013 primarily due to the reversal of the provision set aside in respect of the reimbursement of

dividend withholding tax. It should be recalled that on December 28, 2007, the administrative court had ordered the French State to reimburse Valeo a sum of 27 million euros (including late payment interest) corresponding to the withholding tax paid on dividends received by the Company for 2000 from its European Union-based subsidiaries. Since the French State had lodged an appeal against the administrative court decision, a provision was set aside for the full amount received in April 2008. On May 9, 2014, the Paris administrative appeal court confirmed that Valeo was liable for this amount. Accordingly, the withholding tax was reimbursed by Valeo in 2014. The remaining 14 million euros recorded in provisions for miscellaneous contingencies and disputes essentially relates to employee disputes and decontamination costs at Valeo's former industrial plants.

Note 15 Net debt

15.1 Analysis of net debt

The Company's net debt at December 31 can be analyzed as follows:

<i>(in millions of euros)</i>	December 31, 2014	December 31, 2013
Long-term portion of long-term debt (Note 15.2)	1,489	1,437
Current portion of long-term debt (Note 15.2)	117	101
Total long-term debt	1,606	1,538
Short-term debt (Note 15.3)	1,608	1,354
Financial receivables (Note 15.4)	(1,889)	(1,887)
Cash and cash equivalents (Note 15.5)	(1,060)	(977)
Short-term cash position	(1,341)	(1,510)
Net debt	265	28

15.2 Analysis of long-term debt

<i>(in millions of euros)</i>	December 31, 2014				December 31, 2013
	Less than 1 year	1 to 5 years	More than 5 years	Total	Total
Bonds	-	419	700	1,119	1,000
Syndicated loans	-	250	-	250	250
EIB (European Investment Bank) loans	77	120	-	197	243
Accrued interest	40	-	-	40	45
Long-term debt	117	789	700	1,606	1,538

Valeo carried out several transactions early in the year aimed at extending the average maturity of its debt. On January 22, 2014, it issued 700 million euros worth of ten-year bonds under the Euro Medium Term Note financing program. Valeo also launched a bond redemption offer and redeemed a portion of its 2017 and 2018 bond issues at 114.25% and 114.49% of par, respectively. It also redeemed 354,400 notes of its

5.75% Euro Medium Term Note issue of January 19, 2012 maturing in 2017, and 226,500 notes of its 4.875%, seven-year issue of May 12, 2011. All costs relating to the redemption of the existing bonds (87 million euros) along with issue costs and other brokers' fees (4 million euros) will be expensed over a period of 10 years (see Notes 2 and 4, pages 323 and 324).

At December 31, 2014, long-term debt chiefly includes:

- 700 million euros worth of ten-year bonds issued on January 22, 2014 and maturing in 2024 under a Euro Medium Term Note financing program. The bonds pay a fixed coupon of 3.25%;
- 273 million euros worth of seven-year bonds maturing in 2018 also issued under the Euro Medium Term Note program. The original amount of the May 12, 2011 issue was 500 million euros and paid a fixed coupon of 4.875%. In January 2014, Valeo redeemed part of this issue and exchanged a nominal amount of 226 million euros of this issue for a new issue;
- 146 million euros in bonds maturing in 2017 issued by Valeo on January 19, 2012. These bonds, issued under the Euro Medium Term Note program for an initial amount of 500 million euros and paying a coupon of 5.75%, were partly redeemed in January 2014 for a nominal amount of 354 million euros;
- a syndicated loan for 250 million euros contracted by Valeo on June 30, 2011 with three banks as part of a club deal and intended to finance the acquisition of Japanese group Niles. This loan matures in 2016 and bears variable interest at 3-month Euribor +1.3%. A euro/yen cross currency swap for 237 million euros was set up on inception of the loan for the

same maturity. This swap was unwound in December 2013 in an amount of 35 million euros, and later in October and then November 2014 for 52 million euros and 17 million euros, respectively;

- two loans taken out with the European Investment Bank (EIB) for a total amount of 300 million euros. These EIB reduced-rate loans were granted as part of funding for costs incurred by the Group in research projects looking at ways to reduce fuel consumption and CO₂ emissions and improve active safety, and consist of:
 - a first 225 million euro loan (on which an amount of 113 million euros was outstanding at December 31, 2014 following repayment of two 56 million euro installments), taken out on August 5, 2009 for a seven-year term and repayable in four equal annual installments as from 2013. This loan bears variable interest at 6-month Euribor +2.46%. An interest rate swap was taken out in respect of the loan, exchanging Euribor for a fixed rate of 3.37%;
 - a second loan, drawn down in USD in an amount of 103 million dollars (84 million euros at December 31, 2014), was taken out for a seven-year term on November 3, 2011, repayable in four equal annual installments as from 2015. This loan bears variable interest at 6-month USD Libor +1.9%. A currency swap was taken out at the same time as the loan.

15.3 Analysis of short-term debt

<i>(in millions of euros)</i>	December 31, 2014	December 31, 2013
Borrowings from subsidiaries	1,331	1,243
Commercial paper	208	109
Bank overdrafts	-	2
Other short-term debt	69	-
Short-term debt	1,608	1,354

Short-term debt mainly consists of borrowings from subsidiaries.

Other short-term debt reflects the fair value of financial instruments hedging foreign currency loans granted to subsidiaries (69 million euros at December 31, 2014).

15.4 Analysis of financial receivables

<i>(in millions of euros)</i>	December 31, 2014	December 31, 2013
Loans to subsidiaries	1,735	1,749
Other financial receivables	154	138
Financial receivables	1,889	1,887

Financial receivables consist primarily of loans granted to subsidiaries.

At December 31, 2014, other financial receivables include a dividend receivable from Valeo International Holding BV for

125 million euros (70 million euros at December 31, 2013) and the fair value of financial instruments hedging foreign currency loans granted to subsidiaries amounting to 27 million euros (67 million euros at December 31, 2013).

15.5 Cash and cash equivalents

(in millions of euros)

	December 31, 2014	December 31, 2013
Marketable securities	910	854
Cash	150	123
Cash and cash equivalents	1,060	977

At December 31, 2014, the Company's marketable securities portfolio was made up of money market funds totaling 811 million euros. These were invested in negotiable certificates of deposit with good credit profiles issued by the highest-rated banks, corporations and governments in the eurozone, which have very short maturities and therefore represent a very low capital risk. The portfolio also included 1,695,322 treasury shares with a net carrying amount of 99 million euros. In 2014, the Company purchased 1,409,994 and sold 1,534,394 of its own shares. At December 31, 2013, the Company held 1,819,722 of its own shares with a net carrying amount of 50 million euros.

15.6 Credit lines

At December 31, 2014, the Company had several confirmed bank credit lines with an average maturity of 3.8 years, representing an aggregate amount of 1.2 billion euros. None of these credit lines were drawn down during 2014.

15.7 Financing programs

Valeo has a short-term commercial paper financing program capped at 1.2 billion euros, and a Euro Medium Term Note medium- and long-term financing program representing a maximum of 2 billion euros, under which 1.1 billion euros had been drawn down at December 31, 2014.

In order to extend the average maturity of its debt and take advantage of record low market interest rates, on January 22, 2014 Valeo issued a 700 million euro bond under its Euro Medium Term Note program. This bond is redeemable in January 2024 and pays a coupon of 3.25% (see Note 15.2, page 330).

15.8 Debt rating

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status:

- on January 12, 2015, Standard & Poor's Rating Services confirmed its "BBB/A-2" long-term and short-term corporate credit ratings for Valeo with a stable outlook;
- on August 15, 2014, Moody's Rating Services confirmed its "Baa3/P3" long-term and short-term corporate credit ratings for Valeo with a positive outlook (upgraded from a stable outlook previously).

15.9 Covenants

The 250 million euro syndicated loan, along with the credit lines and the two European Investment Bank loans are subject to a covenant stipulating that Valeo's net-debt-to-EBITDA ratio must not exceed 3.25. At December 31, 2014, this ratio calculated over 12 months was 0.22 or 0.23 based on the definitions set out in the relevant agreements.

The bonds include an option granted to the bondholders who can request early repayment or redemption of their bonds in the event of a change of control at Valeo leading to a withdrawal of the rating or a downgrade in the rating to below investment grade (assuming that the bonds were previously rated investment grade). If Valeo's bonds had previously been rated below investment grade, bondholders may request the early repayment or redemption of their bonds in the event of a change of control at Valeo resulting in a one category downgrade in the rating (e.g., from Ba1 to Ba2).

The 250 million euro syndicated loan also contains a clause allowing lenders to request early repayment in the event of a change of control at Valeo. For the two European Investment Bank loans, the EIB may ask the borrower to put up security or collateral in the event of a change of control, or otherwise request early repayment of the loans.

The Group's bank credit lines and long-term debt include "cross default" clauses. This means that if a given amount of debt is deemed to be in default, then the other debt amounts may also be deemed to be in default.

At the end of the reporting period, the Group expects to comply with all debt covenants over the next 12 months.

Note 16 Operating and other payables

<i>(in millions of euros)</i>	December 31, 2014	December 31, 2013
Trade payables	3	1
Accrued taxes and payroll costs	4	3
Operating payables	7	4
Other payables	230	180
Deferred income	-	8
<i>Of which due beyond 1 year</i>	<i>185</i>	<i>153</i>

"Other payables" primarily include 203 million euros in research tax credits in respect of 2011 (43 million euros), 2012 (53 million euros), 2013 (55 million euros) and 2014 (52 million euros), along with 25 million euros in CICE tax credits in respect of 2013 and 2014, due to subsidiaries that are members of the tax consolidation group.

Note 17 Related party transactions

17.1 Transactions with related companies

The Company's financial statements include transactions carried out in the normal course of business between Valeo and its subsidiaries.

These transactions are carried out at arm's length and represented the following amounts in 2014 and 2013:

<i>(in millions of euros)</i>	2014	2013
Income statement		
Net financial income	309	204
Balance sheet		
Loans and advances to subsidiaries and affiliates	2,097	1,990
Financial receivables	1,735	1,749
Operating and other receivables	11	33
Borrowings from subsidiaries	1,331	1,243
Operating and other payables	228	178

17.2 Transactions with related parties

In 2014, all material related party transactions within the meaning of Article R.123-198 of the French Commercial Code (*Code de commerce*) were carried out at arm's length.

Note 18 Currency, interest rate and commodity hedging

18.1 Currency risk hedging

Certain Group entities may be subject to foreign currency risk on purchases of products, sales billed in currencies other than their functional currencies, or investments carried out in foreign countries.

Subsidiaries primarily hedge their foreign currency risks with the Company, which then hedges the Group's net positions with external counterparties. Hedges of subsidiaries' current

and future commercial transactions and investments are generally for durations of less than 12 months.

The principal hedging instruments used by the Company are forward purchases and sales of foreign currencies, as well as swaps and options.

At December 31, 2014, Valeo's net position in the main foreign currencies was as follows:

(in millions of euros)	December 31, 2014					December 31, 2013
	USD	GBP	JPY	Other	Total	Total
Forward sales with subsidiaries	(381)	(1)	(117)	(59)	(558)	(294)
Forward purchases with subsidiaries	266	5	48	1	320	99
Net position with subsidiaries	(115)	4	(69)	(58)	(238)	(195)
Forward sales with external counterparties	(1,062)	(42)	(157)	(26)	(1,287)	(1,552)
Forward purchases with external counterparties	835	9	101	71	1,016	1,168
Net position with external counterparties	(227)	(33)	(56)	45	(271)	(384)
Total net position	(342)	(29)	(125)	(13)	(509)	(579)

The net position in US dollars includes both hedges of Valeo intercompany loans and hedges of the EIB (European Investment Bank) US dollar loan drawn down in an amount of 103 million dollars. The net position in yen includes a cross currency swap for 133 million euros (after it was partly unwound in an amount of 35 million euros in 2013 and 69 million euros in 2014) taken out to hedge the 250 million euro bank loan contracted in 2011 in connection with the financing of Niles. The net position in pounds sterling reflects hedges of loans granted to Group subsidiaries.

The market value of currency instruments hedging included in the net position with external counterparties represented an unrealized loss of 17 million euros at December 31, 2014 (unrealized gain of 61 million euros at end-2013).

Commodities hedged at December 31, 2014 were as follows:

(in millions of euros)	2014			2013
	With subsidiaries	With external counterparties	Total	Total
Forward sales	-	(84)	(84)	(96)
Forward purchases	84	-	84	96
Total net position	84	(84)	-	-

The market value of instruments hedging metals prices included in the net position with external counterparties represented an unrealized loss of 2 million euros at December 31, 2014 (unrealized loss of 3 million euros at end-2013).

18.2 Commodity risk hedging

In order to reduce the Group's exposure to fluctuations in non-ferrous metal prices, Valeo hedges its future purchases of base metals. Subsidiaries' exposure to these risks is hedged with Valeo.

The materials concerned (aluminum, secondary aluminum, copper and zinc) are quoted on official markets. Valeo favors hedging instruments which do not involve physical delivery of the underlying commodity, such as swaps and options based on the average monthly price.

18.3 Interest rate risk hedging

Valeo uses interest rate swaps to convert interest rates on its debt into a variable or a fixed rate, either at the origination of the loan or during its term.

At December 31, 2014, 80% of long-term debt was at fixed rates, versus 77% at December 31, 2013, after hedging.

(in millions of euros)	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	40	1,685	419	370	700	-	1,159	2,055	3,214
Financial receivables	-	(1,889)	-	-	-	-	-	(1,889)	(1,889)
Cash and cash equivalents	-	(1,060)	-	-	-	-	-	(1,060)	(1,060)
Net position before hedging	40	(1,264)	419	370	700	-	1,159	(894)	265
Derivative instruments	56	(56)	57	(57)	-	-	113	(113)	-
Net position after hedging	96	(1,320)	476	313	700	-	1,272	(1,007)	265

At December 31, 2014, net short-term cash was 1,060 million euros, invested on a variable-rate basis. An interest rate swap was set up for the loan taken out with the European Investment Bank in 2009, under which the variable rate was swapped for a fixed rate (see Note 15.2, page 330).

Note 19 Off-balance sheet commitments

(in millions of euros)	December 31, 2014			December 31, 2013		
	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Commitments given	35	185	220	3	221	224

(in millions of euros)	December 31, 2014			December 31, 2013		
	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Commitments received	4	12	16	-	-	-

“Commitments given” includes a guarantee given in 2005 to the IUE-CWA-Local 509 trade union as part of the agreement signed on September 25, 2005 in relation to the closure of the Rochester plant. At December 31, 2014, the related commitment amounted to 160 million euros (163 million euros at end-2013). It is a first-call guarantee with an indefinite term and covers Valeo Electrical Systems Inc.’s commitments concerning pensions and other employee benefits.

Other commitments given include guarantees granted by Valeo in connection with divestments and mainly include the vendor warranty granted on the sale of the Access Mechanisms

business on May 24, 2013. They also include guarantees given on the sale of the Wiring harness business in 2007 which expired on January 1, 2015.

“Commitments received” includes a vendor warranty for 20 million US dollars (16 million euros at December 31, 2014) granted by Osram GmbH in connection with the acquisition by Valeo Investment Holdings Inc. of Osram’s 50% stake in Valeo Sylvania.

Note 20 Additional information

	2014	2013
Headcount at December 31	2	2
Compensation paid to corporate officers (in thousands of euros)	2,432	1,983
Directors’ fees (in thousands of euros)	555	490

Note 21 List of subsidiaries and affiliates

At December 31

Company (in millions of euros)	Share capital	Other equity ⁽¹⁾	% interest	Carrying amount of shares		Outstanding loans and advances granted	Guarantees and endorsements given	Sales	Net income	Dividends
				Gross	Net					
A – SUBSIDIARIES AND AFFILIATES WITH A GROSS CARRYING AMOUNT IN EXCESS OF 1% OF VALEO’S SHARE CAPITAL										
Société de Participations Valeo Paris – France	749	(152)	100	838	838	549	-	0	3	-
Valeo International Holding BV Amsterdam – Netherlands	129	966	100	435	432	-	-	-	210	125
Valeo Systèmes Thermiques Le Mesnil Saint-Denis – France	37	135	47	216	216	333	-	408	(44)	-
Valeo Systèmes de Contrôle Moteur Cergy Saint-Christophe – France	55	(22)	100	502	30	57	-	450	(27)	-
Valeo Vision Bobigny – France	10	59	90	377	195	-	-	470	3	-
Valeo Embrayages Amiens – France	140	(54)	100	140	86	-	-	214	(4)	-
Valeo Matériaux de Friction Limoges – France	60	21	100	60	60	-	-	67	5	-
Valeo Service Saint-Denis – France	13	15	100	38	29	-	-	275	-	-
Valeo Auto-Electric GmbH Bietigheim – Germany	-	226	5	28	23	-	-	4	-	-
Valeo Otomotiv Sistemleri Endustrisi AS ⁽³⁾ Bursa – Turkey	12	80	100	22	22	16	-	280	31	41
Valeo Pyeong Hwa Co. Ltd ⁽³⁾ Daegu – South Korea Valeo Pyeong Hwa International Co. Ltd Seoul – South Korea	15	184	50	15	15	-	-	368	23	3
Valeo Service Benelux BV Helmond – Netherlands	4	5	100	8	8	-	-	31	2	2
Amalgamations Valeo Clutch Private Ltd ^{(2) (3)} Chennai – India	9	3	50	6	6	-	-	40	-	-
B – OTHER SUBSIDIARIES AND AFFILIATES										
Subsidiaries not listed in A:										
● French subsidiaries (aggregate)	-	-	-	3	1	-	-	-	-	-
● Foreign subsidiaries (aggregate)	-	-	-	5	3	-	-	-	-	1
Affiliates not listed in A:										
● French affiliates (aggregate)	-	-	-	-	-	-	-	-	-	-
TOTAL	-	-	-	2,693	1,964	-	-	-	-	172

(1) Including net income for 2014 before appropriation.

(2) Last financial year ended March 31, 2014.

(3) Translated at closing exchange rates and at average exchange rates for 2014.

Note 22 Subsequent events

To Valeo's knowledge, no events have occurred since December 31, 2014 that could have a material impact on the Company's business, financial position or assets and liabilities.

5.6.5 Statutory Auditors' report on the financial statements

Year ended December 31, 2014

This is a free translation into English of the Statutory Auditors' report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to the shareholders.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2014, on:

- the audit of the accompanying financial statements of Valeo;
- the justification of our assessments;
- the specific verification and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at December 31, 2014 and of the results of its operations for the year then ended in accordance with French accounting principles.

II. Justifications of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matter:

As indicated in paragraph 1.2 of the "Accounting principles" note to the financial statements, investments in subsidiaries and affiliates are stated at acquisition cost and written down where necessary to reflect their value in use, as described in said paragraph. Our work consisted in examining the methods and assumptions used by your company based on available information. We also performed sample-based tests to determine whether these methods and assumptions were properly applied.

These assessments were made as part of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L.225-102-1 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of shareholders and holders of the voting rights has been properly disclosed in the management report.

Courbevoie and Paris-La Défense, March 26, 2015

The Statutory Auditors

MAZARS

Gaël Lamant

Lionel Gotlib

ERNST & YOUNG et Autres

Philippe Berteaux

Gilles Puissochet

5.7 Statutory Auditors' special report on related party agreements and commitments **AFR**

Year ended December 31, 2014

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

To the Shareholders,

In our capacity as Statutory Auditors of your company, we hereby report on certain related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any such agreements and commitments. It is your responsibility, in accordance with Article R.225-31 of the French Commercial Code (*Code de commerce*), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with Article R.225-31 of the French Commercial Code concerning the implementation, during the year, of the agreements and commitments already approved by the General Meeting of Shareholders.

We performed those procedures which we considered necessary to comply with professional guidance issued by the national auditing body (*Compagnie Nationale des Commissaires aux Comptes*) relating to this type of engagement. These procedures consisted in verifying that the information provided to us is consistent with the documentation from which it has been extracted.

Agreements and commitments submitted for approval by the General Shareholders' Meeting

Agreements and commitments authorized during the last year

We are required to inform you, on the basis of the information provided to us, that during the year, there is no authorized agreements or commitments which should be submitted for approval by the General meeting of Shareholders in accordance with Article L.225-38 of the French Commercial Code.

Agreements and commitments authorized after the year-end

We were informed of the following agreements and commitments authorized after the year-end by the Board of Directors.

Commitments involving Mr Jacques Aschenbroich, Chief Executive Officer

The Board of Directors' meeting on February 24, 2015, upon recommendation of the Appointment, Compensation and Governance Committee, decided, on condition that Mr Jacques Aschenbroich's term of office as a member of the Board of Directors is renewed by the General Shareholders' Meeting called to approve the financial statements for the financial year ending December 31, 2014, and that his term of office as Chief Executive Officer is renewed by the Board of Directors at the first meeting following this General Shareholders' Meeting, to change the criteria for payment of:

- the severance benefits as authorized by the Board of Directors on February 24, 2011 and presented in the Statutory Auditors' special report on related party agreements and commitments to the Annual Shareholders' Meeting on June 8, 2011;
- the non-competition payment authorized by the Board of Directors on February 24, 2010 and presented in the Statutory Auditors' special report on related party agreements and commitments to the Annual Shareholders' Meeting on June 3, 2010.

Severance benefits

The following amendments have been made to the agreement granting Mr Jacques Aschenbroich a severance payment in the event of a non-voluntary departure linked to a change of control or strategy (except in the event of gross professional misconduct when performing his duties):

- its maximum amount will be based on twice the average compensation (fixed and variable) paid during the three financial years preceding the year in which the termination occurs instead of the two previous financial years;
- three of the five performance criteria on which the calculation of the severance is based have been modified as follows:
 - the criterion relating to the payment at least twice in the three previous years of all or part of the variable compensation has been replaced by the payment of 50% of the variable compensation on average in the three previous years,
 - the criterion relating to the achievement of an operating margin in the last financial year exceeding 3.6% has been replaced by the achievement of a ROCE (return on capital employed) exceeding 20% on average in the three previous years,
 - the criterion relating to the achievement of an order intake to original equipment sales ratio exceeding 1.3 will be calculated on average during the three previous financial years instead of the two previous financial years,
- the other two criteria as set forth below are unchanged:
 - the criterion relating to the achievement of a positive net income during the last financial year,
 - the criterion relating to the achievement of a gross margin exceeding 16% during the last financial year.

It was also stated that the payment of severance benefits is excluded if the Chief Executive Officer elects to leave your Company in order to hold another position within the same Group or is able to benefit in the near future from pension rights.

Other features remain unchanged as compared to severance benefits approved by the Shareholders' Meeting on June 8, 2011 and are set out below.

The total amount of the termination benefits to be paid will be calculated according to the following scale:

- if five criteria were met: Jacques Aschenbroich would receive 100% of the severance benefits;
- if four criteria were met: Jacques Aschenbroich would receive 80% of the severance benefits;
- if three criteria were met: Jacques Aschenbroich would receive 60% of the severance benefits;
- if two criteria were met: Jacques Aschenbroich would receive 40% of the severance benefits;
- if fewer than two criteria were met: Jacques Aschenbroich would receive 0% of the severance benefits.

The Board of Directors would reduce the severance benefits calculated above by 20% if a plan for significant job cuts was introduced in the year preceding the termination of Mr Jacques Aschenbroich's term of office.

The severance benefits would be paid in a single payment within a month of the Board of Directors' assessment of the fulfillment of the criteria for receiving said benefits.

Non-competition payments

The following amendments have been made to the agreement granting Mr Jacques Aschenbroich a non-competition payment if he were to leave your Company:

- the maximum amount of the non-competition payments will be equal to 12 months of compensation calculated on the basis of the average compensation (fixed and variable) paid during the three financial years preceding the year in which the termination occurs instead of the two previous financial years;
- a prior decision of the Board of Directors is now required to decide on whether or not the non-competition agreement will be upheld at the time the Chief Executive Officer leaves, in particular when the Chief Executive Officer leaves your Company to claim or after having claimed his pension rights.

Other features remain unchanged as compared to non-competition payments approved by the Shareholders' Meeting on June 3, 2010 and are set out below.

If the non-competition clause is invoked, Mr Jacques Aschenbroich will receive a non-competition payment equal to 12 months of compensation (calculated on the same basis as the severance benefits).

The payment will be made in equal monthly installments over the entire period to which the non-competition clause applies.

If your Company invokes the non-competition clause, Mr Jacques Aschenbroich will receive at least the amount of the non-competition payment. As a result, the maximum amounts to be paid to Mr Jacques Aschenbroich in the form of a non-competition payment and/or severance benefits would be equal to 24 months of the reference compensation.

Agreements and commitments already approved by the General Shareholders' Meeting

Agreements and commitments approved in previous years which were not implemented during the year

We have been advised that the following agreements and commitments, which were approved by the General Shareholders' Meeting in prior years, were not implemented during the year.

Agreements and commitments involving Mr Jacques Aschenbroich, Chief Executive Officer

Life insurance

The commitment authorized by the Board of Directors on April 9, 2009 granting Mr Jacques Aschenbroich life insurance covering death, disability or any consequences of any accidents during business travel continued in 2014. Valeo paid a premium of 2,300 euros including VAT for the period from April 30, 2014 to April 30, 2015.

Pension plan

The commitment authorized by the Board of Directors on October 20, 2009 to register Mr Jacques Aschenbroich with the "add-on" defined benefits pension plan for the Group's senior executives from January 1, 2010 by according him five-year length of service continued in 2014. The main features of this plan are as follows:

- the supplementary pension is capped because of the very nature of the plan at 1% of the reference salary per year of service, up to a limit of 20%;
- the supplementary pension is capped with regard to the base used to calculate the entitlements: the supplementary pension, all plans combined, is capped at 55% of the reference salary;
- the reference salary is the end-of-career salary, which is the average of the last 36 months of basic fixed compensation plus, for periods subsequent to February 1, 2014, variable compensation, received for working full time within the Group.

Courbevoie and Paris-La Défense, March 26, 2015

The Statutory Auditors

MAZARS

Gaël Lamant

Lionel Gotlib

ERNST & YOUNG et Autres

Philippe Berteaux

Gilles Puissochet

5.8 Other financial and accounting information AFR

5.8.1 Five-year financial summary

	2010	2011	2012	2013	2014
1 – SHARE CAPITAL AT DECEMBER 31					
Share capital (<i>in millions of euros</i>)	236	238	238	238	238
Number of ordinary shares outstanding	78,628,798	79,269,596	79,462,540	79,462,540	79,462,540
Maximum number of new shares to be issued:					
• on exercise of equity warrants	-	-	-	-	-
• on exercise of stock subscription options	952,792	242,830	-	-	-
• on conversion of bonds into new shares	-	-	-	-	-
2 – RESULTS OF OPERATIONS FOR THE YEAR (<i>in millions of euros</i>)					
Sales	-	-	-	-	-
Income before tax, depreciation, amortization and impairment losses	130	90	76	145	247
Income tax	9	19	13	23	(23)
Employee profit-sharing	-	-	-	-	-
Net income for the year	126	163	205	180	174
Net dividend	91	106	115	132	171
3 – PER SHARE DATA (<i>in euros</i>)					
Net income after tax, but before depreciation, amortization and impairment losses	1.85	1.26	0.99	2.11	2.83
Net income for the year	1.60	2.05	2.58	2.26	2.19
Net dividend	1.20	1.40	1.50	1.70	2.20
4 – HEADCOUNT					
Headcount at December 31	2	2	2	2	2
Wages and salaries	3	2	10	2	8 ⁽¹⁾
Social security charges	1	1	1	1	1

(1) This amount includes an expense of 7 million euros relating to the delivery of free shares to non-French beneficiaries under the June 24, 2010 free share plan and to the delivery of free shares to French beneficiaries under the June 8, 2011 free share plan (see Note 4, page 324).

5.8.2 List of subsidiaries, affiliates and marketable securities

	Number of shares	Net carrying amount (in millions of euros)
Société de Participations Valeo	6,136,601	838
Valeo International Holding BV	2,845,120	432
Valeo Systèmes Thermiques	1,151,133	216
Valeo Vision	620,572	195
Valeo Embrayages	9,335,883	86
Valeo Matériaux de Friction	4,002,550	60
Valeo Systèmes de Contrôle Moteur	5,500,000	30
Valeo Service	860,000	29
Valeo Auto-Electric GmbH	1,305	23
Valeo Otomotiv Sistemleri Endustrisi AS	6,610,059	22
Valeo Pyeong Hwa Co. Ltd/Valeo Pyeong Hwa International Co. Ltd	1,642,698	15
Valeo Service Benelux BV	400	8
Amalgamations Valeo Clutch Private Ltd	35,252,500	6
Other investments with a net carrying amount below 2 million euros		4
Investments in subsidiaries and affiliates		1,964
FMEA		2
Other investment securities		2
CAAM Tresco Corporate	1,651	387
SGAM Monétaire Plus	842	20
CIC Union Cash	83	42
BNP Paribas Deposit	3,560	362
Money market funds		811
Treasury stock	1,695,322	99
TOTAL		2,876

6 SHARE CAPITAL AND OWNERSHIP STRUCTURE

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AFR Information from the Annual Financial Report is clearly identified in the table of contents by the AFR symbol



€2.20

*Dividend per share
(submitted for approval
by the Shareholders'
Meeting)*



29%

*Increase in dividend
compared to 2013*

30%

Payout ratio



June 23, 2014

*Valeo returns to
the CAC 40 index*

6.1 Stock market data

	2014	2013	2012
Market capitalization at year-end <i>(in billions of euros)</i>	8.23	6.39	2.99
Number of shares	79,462,540	79,462,540	79,462,540
Highest share price <i>(in euros)</i>	106.05	81.15	43.31
Lowest share price <i>(in euros)</i>	73.94	37.25	29.80
Average share price <i>(in euros)</i>	93.75	55.22	36.30
Share price at year-end <i>(in euros)</i>	103.60	80.43	37.64

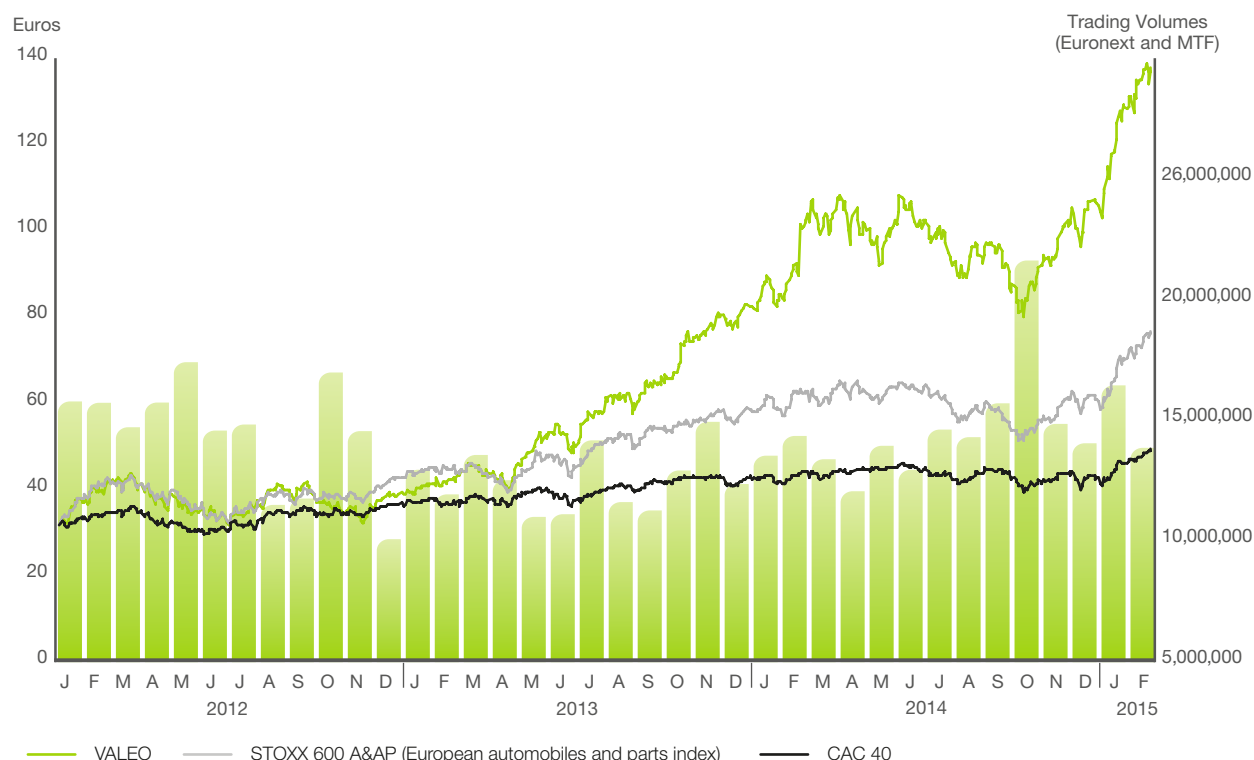
6.1.1 Share performance over 18 months

Date	Price <i>(in euros)</i>			Trading volume <i>(no. of shares)</i>		Volume on Euronext ⁽²⁾ <i>(in millions of euros)</i>
	High	Low	Closing (average)	Volume on Euronext	Volume on MTF ⁽¹⁾	
September 2013	64.430	57.770	61.936	6,323,023	3,643,280	391.35
October 2013	75.000	62.610	68.377	7,337,064	4,603,051	502.82
November 2013	79.720	71.250	75.369	11,297,658	5,771,159	867.09
December 2013	81.150	75.070	77.861	6,304,748	4,277,686	485.17
January 2014	87.030	78.670	82.990	7,054,079	4,957,937	585.06
February 2014	101.850	80.100	90.210	8,596,820	5,432,168	786.99
March 2014	106.050	95.330	100.468	7,449,737	4,872,988	746.72
April 2014	106.050	93.960	100.785	5,062,734	4,104,106	505.77
May 2014	99.200	85.290	95.122	6,498,364	5,195,462	606.54
June 2014	106.000	97.030	101.421	7,449,481	4,619,368	753.08
July 2014	101.300	87.750	96.035	6,832,071	5,585,206	651.51
August 2014	94.770	85.300	90.278	6,952,705	5,402,744	625.42
September 2014	97.210	87.460	92.294	7,620,480	6,216,013	700.62
October 2014	90.500	73.940	83.583	11,901,293	9,645,840	992.71
November 2014	99.590	88.930	93.040	6,081,011	5,721,578	563.44
December 2014	104.850	92.550	100.293	6,201,807	5,256,056	614.10
January 2015	127.250	99.600	114.024	7,415,215	6,647,249	852.60
February 2015	136.000	122.950	130.400	5,918,375	5,146,258	770.14

(1) MTF: includes the ChiX, Turquoise, Bats and Equiduct platforms.

(2) Source: Euronext monthly volume statistics.

6.1.2 Share price and monthly trading volumes



On June 23, 2014, Valeo returned to the CAC 40, Euronext Paris' benchmark index.

6.2 Investor relations

Through the Group Investor Relations Department, Valeo aims to provide clear, accurate and transparent information in real time to its diverse financial community, comprising bond

and equity investors, current and prospective, private and institutional shareholders, as well as their advisors (financial analysts).

6.2.1 Individual shareholder relations

Based on the Company's estimates, individual shareholders, who are mainly based in France, control approximately 5% of Valeo's share capital.

Valeo communicates with these shareholders using the following tools and materials:

- the toll-free line (0 800 814 045, available in France only) available since 1998. In 2014, this service dealt with roughly 120 calls, chiefly relating to changes in Valeo's share price, the Shareholders' Meeting, and the dividend amount and payment date;
- the "Investors and shareholders" section of Valeo's website (www.valeo.com), which provides information to all of the Group's investors and shareholders. It contains the Company's regulatory information, in particular the Registration Document and the Half-year Financial Report,

all of the financial publications (including presentations for the financial community), as well as all of the press releases and information relating to the ownership structure and the Shareholders' Meeting. In this section of the site, an "Individual shareholders" section has been created in which Valeo provides real-time information related to the stock market (including the latest share prices) and dividends (amounts and payment dates), as well as a shareholders' guide that contains a presentation on the Valeo Group and provides information on topics such as types of share ownership and tax treatment (for French taxpayers only);

- three e-newsletters aimed at individual shareholders were published in 2014;
- the "flash" e-newsletter, the first edition of which was sent to shareholders via email in October 2014;

- two half-yearly issues of the shareholders' letter were published in 2014;
- a shareholders' guide made available to shareholders on the Group's website and distributed at the Shareholders' Meeting in 2014;
- the share registrar service has been provided by Société Générale since the end of 2000. This service, used by almost 3,700 shareholders – mainly individual shareholders – provides a share information line on 0 825 820 000 (available in France only), for questions concerning dividends, tax issues and order placing.

Contact

Valeo

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(toll-free from landlines in France)
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Email: valeo@relations-actionnaires.com

6.2.2 Institutional investor relations

The Group's Investor Relations Department serves as an interface between the Group and investors and analysts, in order to keep them informed of Valeo's strategy, products, key events, financial targets and how it plans to achieve them.

Valeo places great importance on holding frequent meetings with investors and analysts. These meetings are organized in major global financial centers (Europe, North America and Asia). They take various forms, including one-on-one meetings, group events, conference calls and subject-specific or general investor conferences. In all, more than 1,000 institutional investors participated in these events during 2014, either individually or in small groups, with a large number of participants meeting the Group's Management.

Contact

Thierry Lacorre

Investor Relations Director

Valeo

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Provisional financial communication calendar

- First-quarter 2015 sales: April 23, 2015
- First-half 2015 results: July 27, 2015
- Third-quarter 2015 sales: October 21, 2015
- 2015 results: second half of February 2016

6.3 Dividends

Dividends per share over the past three years were as follows:

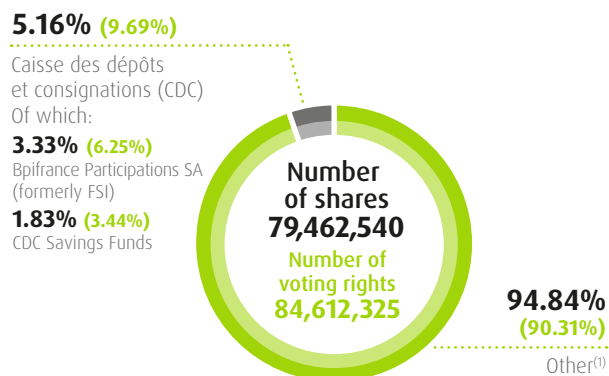
Year	Dividend per share (<i>in euros</i>)	Tax allowance	Total (<i>in millions of euros</i>)
2011	1.40	Eligible for either the 40% tax allowance provided for in Article 158-3-2° of the French Tax Code or the 21% flat rate withholding tax provided for in Article 117 <i>quater</i> of said code	106
2012	1.50	Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code	115
2013	1.70	Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code	132

At the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2014, Valeo's Board of Directors will recommend the payment of a dividend amounting to 2.20 euros for each share eligible for dividends, 29% higher than for the year ended December 31, 2013, representing a payout rate of 30%.

6.4 Share ownership

6.4.1 Ownership structure

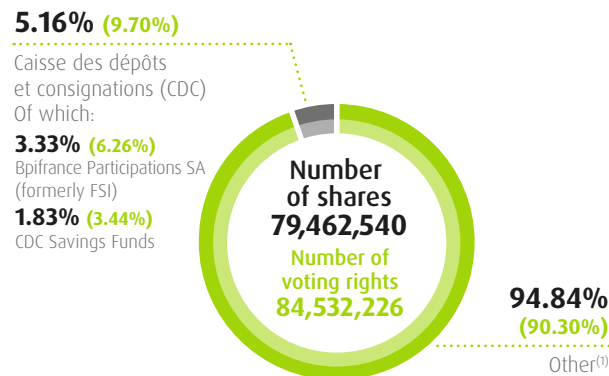
Ownership structure at December 31, 2014



% of share capital (% of voting rights)

(1) Including 1,695,322 treasury shares (2.13% of the share capital).

Ownership structure at February 24, 2015



% of share capital (% of voting rights)

(1) Including 1,616,221 treasury shares (2.03% of the share capital).

6.4.2 Direct or indirect shareholdings in the Company brought to the Company's attention (Articles L.233-7 and L.233-12 of the French Commercial Code)

The following details of the number of shares and voting rights were prepared based on data brought to the attention of the Company pursuant to Articles L.233-7 and L.233-12 of the French Commercial Code (*Code de commerce*), and where applicable, on information voluntarily provided by Company shareholders concerning the percentage of shares and voting rights held by

each shareholder, based on the Company's share capital and voting rights at December 31 of each of the three years under consideration (2012, 2013 and 2014), and at February 24, 2015. The Company's share capital at December 31, 2014 was divided into 79,462,540 shares, representing 84,612,325 voting rights, including 1,695,322 shares held as treasury shares.

	December 31, 2012			
	Number of shares	%	Number of voting rights ⁽¹⁾	%
Fonds stratégique d'investissement	4,620,567	5.81	4,620,567	5.58
Caisse des dépôts et consignations	2,410,992	3.03	4,478,293	5.41
Lazard Asset Management	4,035,616	5.08	4,035,616	4.87
Employee share ownership ⁽²⁾	124,122	0.16	209,972	0.25
Treasury shares ⁽³⁾	3,358,873	4.23	-	-
Other	64,912,370	81.69	69,498,505	83.89
TOTAL	79,462,540	100	82,842,953	100

	December 31, 2013				December 31, 2014			
	Number of shares	%	Number of voting rights ⁽¹⁾	%	Number of shares	%	Number of voting rights ⁽¹⁾	%
Caisse des dépôts et consignations, of which:	7,031,559	8.85	9,098,860	11.02	4,098,929	5.16	8,197,858	9.69
<i>Bpifrance Participations SA</i>	4,620,567	5.82	4,620,567	5.60	2,644,283	3.33	5,288,566	6.25
<i>CDC Savings Funds</i>	2,410,992	3.03	4,478,293	5.42	1,454,646	1.83	2,909,292	3.44
Lazard Asset Management	4,035,616	5.08	4,035,616	4.89	na ^(*)	na ^(*)	na ^(*)	na ^(*)
Employee share ownership ⁽²⁾	126,928	0.16	212,778	0.25	200,073	0.25	285,923	0.34
Treasury shares ⁽³⁾	1,819,722	2.29	-	-	1,695,322	2.13	-	-
Other	66,448,715	83.62	69,226,832	83.84	73,468,216	92.46	76,128,544	89.97
TOTAL	79,462,540	100	82,574,086	100	79,462,540	100	84,612,325	100

(*) Interest representing less than 5% of the share capital or voting rights.

	February 24, 2015			
	Number of shares	%	Number of voting rights ⁽¹⁾	%
Caisse des dépôts et consignations, of which:	4,098,929	5.16	8,197,858	9.70
<i>Bpifrance Participations SA</i>	2,644,283	3.33	5,288,566	6.26
<i>CDC Savings Funds</i>	1,454,646	1.83	2,909,292	3.44
Employee share ownership ⁽²⁾	206,632	0.26	292,482	0.35
Treasury shares ⁽³⁾	1,616,221	2.03	-	-
Other	73,540,758	92.55	76,041,886	89.95
TOTAL	79,462,540	100	84,532,226	100

(1) Registered shares held in the name of the same shareholder for four or more years carry double voting rights (see Chapter 7, section 7.1.11, page 368).

(2) For more information on employee share ownership see section 6.4.5, page 352.

(3) For more information on treasury shares see section 6.5.2, page 353.

Shareholders representing more than 5% of the share capital or voting rights

To the best of the Company's knowledge, there were no shareholders with direct or indirect holdings of 5% or more of the Company's share capital or voting rights at **December 31, 2014**, other than Caisse des dépôts et consignations (CDC) and Bpifrance Participations SA (formerly Fonds stratégique d'investissement – FSI), a wholly-owned subsidiary of BPI Groupe SA, itself a 50%-50% joint venture between Caisse des dépôts et consignations (CDC) and EPIC BPI-Groupe.

To the best of the Company's knowledge, there were no shareholders other than Caisse des dépôts et consignations (CDC) and Bpifrance Participations SA (formerly FSI), a wholly-owned subsidiary of BPI Groupe SA, itself a 50%-50% joint venture between Caisse des dépôts et consignations (CDC) and EPIC BPI-Groupe, with direct or indirect holdings of 5% or more of the Company's share capital or voting rights at **February 24, 2015**.

To the best of the Company's knowledge, at February 24, 2015, Caisse des dépôts et consignations (CDC) held directly 1,454,646 shares in the Company representing 2,909,292 voting rights, i.e., 1.83% of the share capital and 3.44% of the total voting rights, and it held indirectly via Bpifrance Participations SA (formerly FSI) 2,644,283 shares representing 5,288,566 voting rights, i.e., 3.33% of the share capital and 6.26% of the voting rights. Caisse des dépôts et consignations' (CDC) direct and indirect holdings through Bpifrance Participations SA now represent 5.16% of the Company's share capital and 9.70% of the voting rights. To the best of the Company's knowledge, at February 24, 2015, **EPIC BPI-Groupe** held indirectly via Bpifrance Participations SA (formerly FSI) 2,644,283 shares representing 5,288,566 voting rights, i.e., 3.33% of the share capital and 6.26% of the voting rights. Bpifrance Participations SA is a wholly-owned subsidiary of BPI Groupe SA which is itself a 50%-50% joint venture between Caisse des dépôts et consignations (CDC) and EPIC BPI-Groupe.

Crossing of disclosure thresholds

In a letter received on February 6, 2014, followed by a letter received on February 7, 2014, Lazard Asset Management LLC⁽¹⁾, acting on behalf of funds and clients it manages, reported that it had reduced its interest in the Company's share capital and voting rights below the 5% disclosure threshold on January 31, 2014, and held, on behalf of said funds and clients,

2,112,357 shares in the Company, and a corresponding share of the voting rights, i.e., 2.66% of the share capital and 2.56% of the voting rights. This reduction was the result of the disposal of the Company's shares on the market.

In a letter received on March 17, 2014, Caisse des dépôts et consignations (CDC) reported that it had reduced its interest in the Company's voting rights below the 10% disclosure threshold on March 12, 2014, directly and indirectly via Bpifrance Participations SA, which it controls through BPI Groupe SA, and that it held 4,511,584 Valeo shares representing 6,378,885 voting rights, i.e., 5.68% of the Company's share capital and 7.73% of the voting rights. Caisse des dépôts et consignations (Savings Funds) reported that its direct holdings now represent 1,867,301 Valeo shares representing 3,734,602 voting rights, i.e., 2.35% of the Company's share capital and 4.52% of the voting rights. Bpifrance Participations SA holds 2,644,283 Valeo shares representing a corresponding number of voting rights, i.e., 3.33% of the Company's share capital and 3.20% of the voting rights.

In a letter received on March 17, 2014, BPI Groupe, an industrial and commercial public body (*établissement public à caractère industriel et commercial* – EPIC), hereafter EPIC BPI-Groupe, reported that it had reduced its interest in Valeo's share capital and voting rights below the 5% disclosure threshold on March 12, 2014, indirectly via Bpifrance Participations SA, controlled by BPI Groupe SA, and that it held, indirectly, 2,644,283 Valeo shares representing a corresponding number of voting rights, i.e., 3.33% of the Company's share capital and 3.20% of the voting rights. BPI Groupe SA is a 50%-50% joint venture between Caisse des dépôts et consignations (CDC) and EPIC BPI-Groupe.

The disclosures of thresholds crossed on March 12, 2014 described above result from a sale of Valeo shares on the market under an accelerated book building procedure. Bpifrance Participations SA reported that it intended to remain a shareholder of Valeo over the medium term and that from April 21, 2014, it would benefit from double voting rights and would consequently hold over 5% of Valeo's voting rights. It also declared that the disposal of its interest would not entail any change in Bpifrance Participation SA's representation on Valeo's Board of Directors.

In a letter received on April 29, 2014, followed by a letter received on May 2, 2014, EPIC BPI-Groupe reported for regularization purposes that on April 22, 2014 it had crossed over the threshold of 5% of Valeo's voting rights and held 2,644,283 Valeo shares representing 5,288,566 voting rights, i.e., 3.33% of the share capital and 6.08% of the voting rights.

(1) Acting independently in application of Article L.233-9 of the French Commercial Code and Articles 223-12 and 223-12-1 of the AMF's General Regulations.

6.4.3 Directors' interests in Valeo's share capital

At December 31, 2014, Pascal Colombani, Jacques Aschenbroich and other members of the Board of Directors held less than 1% of Valeo's share capital and voting rights in a personal capacity. The number of shares held by each member of the Board of Directors is given in Chapter 3, section 3.2.1, pages 79 to 90.

6.4.4 Transactions carried out by executive managers and corporate officers in the Company's shares

Jérôme Contamine, a director, sold 500 shares in the Company at a unit price of 99 euros on March 12, 2014, 414 shares at a unit price of 100 euros on March 13, 2014 and 86 shares at a unit price of 100 euros on March 18, 2014.

No other directors reported transactions involving the Company's shares.

6.4.5 Employee share ownership

At December 31, 2014, Valeo employees held a total of 200,073 shares under Group employee share ownership plans, directly or through two mutual funds, representing 0.25% of the Company's share capital. At December 31, 2013, they held 126,928 shares, or 0.16% of the share capital.

6.5 Share buyback program AFR

6.5.1 Current share buyback program adopted by the Shareholders' Meeting of May 21, 2014

In accordance with Articles L.225-209 *et seq.* of the French Commercial Code, the Ordinary and Extraordinary Shareholders' Meeting of May 21, 2014, in its eleventh resolution, granted the Board of Directors (with power to subdelegate) an authorization to carry out transactions in the shares issued by the Company, for the following purposes:

- the implementation of any Company stock purchase option plan under the terms of Articles L.225-177 *et seq.* of the French Commercial Code or other similar plan; or
- the allotment of free shares under the terms of Articles L.225-197-1 *et seq.* of the French Commercial Code; or
- the allotment or sale of shares to employees as part of their involvement in the performance of the Company or pursuant to a company or group employee savings plan (or similar plan) in accordance with applicable law, in particular Articles L.3332-1 *et seq.* of the French Labor Code (*Code du travail*); or
- as a general matter, to comply with obligations in respect of stock option plans or other allocations of shares to employees or corporate officers of the issuer or of a related company; or
- the delivery of shares upon the exercise of rights attached to securities giving access to the share capital (*valeurs mobilières donnant accès au capital*) by redemption, conversion, exchange, presentation of a warrant or any other means; or
- the cancelation of all or part of the shares so acquired; or
- the delivery of shares (as exchange consideration, as payment or other) in connection with external growth transactions, mergers, spin-offs or contributions; or
- market-making in the secondary market or maintenance of the liquidity of the Valeo share through an investment services provider pursuant to a liquidity agreement compliant with the code of ethics recognized by the AMF; or
- the implementation of any market practice that may subsequently be permitted by the AMF, and more generally, to carry out any transaction in compliance with the applicable laws and regulations.

The Company may purchase a number of shares such that, at the date of each buyback, the total number of shares purchased by the Company since the beginning of the buyback program (including the shares that are the subject of said buyback) does not exceed 10% of the shares which constitute the Company's share capital at that date, it being specified that the number of shares purchased with a view to their retention for future delivery in connection with a merger, spin-off or contribution may not exceed 5% of the share capital.

The purchase price may not exceed 150 euros per share and the maximum amount that can be spent under the new share buyback program will be fixed at 1,191 million euros, fees and commissions included.

This authorization was given for an 18-month period as of the Shareholders' Meeting of May 21, 2014 and superseded the unused portion of previous delegations given to the Board of Directors to carry out transactions in shares issued by the Company.

A description of the 2014 renewal of the Company's share buyback program was drawn up in accordance with Articles 241-1 *et seq.* of the AMF's General Regulations.

In 2014, Valeo carried out a number of share sale and purchase transactions under the above-mentioned share buyback program, as well as the program authorized at the Shareholders' Meeting of June 4, 2012 (see section 6.5.2 below).

6.5.2 Treasury shares

At December 31, 2014 the Company held, directly or indirectly, 1,695,322 treasury shares (2.13% of the share capital) with a unit value based on the purchase price of 58.16 euros and a par value of 3 euros. At December 31, 2013, Valeo held 1,819,722 treasury shares (2.29% of the share capital).

The shares purchased in 2014 were used exclusively in respect of:

- the implementation of a liquidity agreement; and
- stock option plans or other allocations of shares to employees.

The share purchases were made in accordance with authorizations granted by the Shareholders' Meetings of June 6, 2013 and May 21, 2014 to the Board of Directors to buy back Company shares. The eighth resolution of the Shareholders' Meeting of June 6, 2013 authorized the Board of Directors (with the power to subdelegate) to purchase, or order the purchase of, the Company's shares for the following purposes:

- the implementation of any Company stock purchase option plan under the terms of Articles L.225-177 *et seq.* of the French Commercial Code or other similar plan; or
- the allotment of free shares under the terms of Articles L.225-197-1 *et seq.* of the French Commercial Code; or
- the allotment or sale of shares to employees as part of their involvement in the performance of the Company or pursuant to a company or group employee savings plan (or similar plan) in accordance with applicable law, in particular Articles L.3332-1 *et seq.* of the French Labor Code; or
- as a general matter, to comply with obligations in respect of stock option plans or other allocations of shares to employees or corporate officers of the issuer or of a related company; or
- the delivery of shares upon the exercise of rights attached to securities giving access to the capital by redemption, conversion, exchange, presentation of a warrant or any other means; or
- the cancelation of all or part of the shares so acquired; or
- the delivery of shares (as exchange consideration, as payment or other) in connection with acquisitions, mergers, spin-offs or contributions; or

- market-making in the secondary market or maintenance of the liquidity of the Valeo share through an investment services provider pursuant to a liquidity agreement compliant with the Code of Ethics recognized by the AMF.

This plan is also intended to allow for the implementation of any market practice that may subsequently be permitted by the AMF, and more generally, to carry out any transaction in compliance with the applicable laws and regulations.

The eighth resolution of the Shareholders' Meeting of May 21, 2014 authorized the Board of Directors (with the power to subdelegate) to purchase or order the purchase of the Company's shares with a view to carrying out the aforementioned operations.

Shares to be allocated to stock purchase option and performance share plans

Under the new share buyback program as authorized by the Ordinary and Extraordinary Shareholders' Meeting of May 21, 2014, Valeo acquired 750,000 shares at an average price of 97.1201 euros on August 14, 2014.

At December 31, 2014 the number of treasury shares to be allocated to stock purchase option and performance share plans stood at 1,686,322 compared with 1,816,222 at December 31, 2013.

Shares for use under a liquidity agreement

Treasury shares held at December 31, 2014 and earmarked for use under a liquidity agreement that complies with the Code of Ethics of the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* – AFEI) signed with an investment services provider on April 22, 2004, amounted to 9,000 shares and 19,302,904.34 euros in cash compared with 3,500 shares and 19,535,814.77 euros in cash at December 31, 2013. On the date the liquidity agreement was signed, 220,000 Valeo shares and 6,600,000 euros in cash were allocated for its implementation.

Under the liquidity agreement and via an investment services provider, Valeo acquired 659,994 shares at an average price of 92.69 euros and sold 654,494 shares at an average First-In-First-Out price of 92.49 euros. Trading and transaction fees incurred under the liquidity agreement entered into with an

investment services provider that complies with the Code of Ethics of the AFEI totaled 140,000 euros. These shares were not reallocated to other purposes provided for under the share buyback program.

6.5.3 Share buyback program submitted to the Annual Shareholders' Meeting of May 26, 2015

The Ordinary and Extraordinary Shareholders' Meeting that will be held on May 26, 2015 will be asked to repeal the eleventh resolution approved by the Annual Shareholders' Meeting of May 21, 2014 and to approve a new resolution, authorizing the implementation of a new share buyback program, in accordance with the provisions of Articles L.225-209 *et seq.* of the French Commercial Code, Title IV of Book II of the AMF's General Regulations and European Regulation no. 2273/2003 of December 22, 2003.

The features of the new share buyback program are described below.

Number of shares and percentage of share capital held by the issuer

At January 31, 2015, Valeo directly or indirectly held 1,616,221 shares, representing 2.03% of the Company's share capital.

Breakdown of shares owned by Valeo by purpose

At January 31, 2015:

- 1,611,721 shares are to be allocated to stock purchase option plans;
- 4,500 shares are to be allocated under the liquidity agreement signed on April 22, 2004 with CA Cheuvreux and subsequently amended first by an additional clause on June 24, 2005, and again by an additional clause with Kepler Capital Markets on April 30, 2013. This agreement complies with the Code of Ethics of the AFEI, approved by the AMF on March 22, 2005 (which has since become the Code of Ethics of the French Association of Financial and Investment Firms (*Association française des marchés financiers* – AMAFI) approved by the AMF on October 1, 2008).

Purposes of the new share buyback program

Under the new share buyback program, which will be submitted to the Ordinary and Extraordinary Shareholders' Meeting on May 26, 2015, Valeo plans to buy back, directly or indirectly, its own shares, for the following purposes:

- the implementation of any Company stock purchase option plan under the terms of Articles L.225-177 *et seq.* of the French Commercial Code or other similar plan; or
- the allotment of free shares under the terms of Articles L.225-197-1 *et seq.* of the French Commercial Code; or
- the allotment or sale of shares to employees as part of their involvement in the performance of the Company or pursuant to a company or group employee savings plan (or similar plan) in accordance with applicable law, in particular Articles L.3332-1 *et seq.* of the French Labor Code; or
- as a general matter, to comply with its obligations in respect of stock option plans or other allocations of shares to employees or corporate officers of the issuer or of a related company; or
- the delivery of shares upon the exercise of rights attached to securities giving access to the capital by redemption, conversion, exchange, presentation of a warrant or any other means; or
- the delivery of shares (as exchange consideration, as payment or other) in connection with external growth transactions, mergers, spin-offs or contributions; or
- the cancelation of all or part of the shares so acquired; or
- market-making in the secondary market or maintenance of the liquidity of the Valeo share through an investment services provider pursuant to a liquidity agreement compliant with the Code of Ethics recognized by the AMF; or
- to allow for the implementation of any market practice that may subsequently be permitted by the AMF, and more generally, to carry out any transaction in compliance with the applicable laws and regulations.

Maximum stake in the Company's share capital, maximum number and characteristics of shares that may be purchased under the new share buyback program

The maximum stake that can be purchased under the new share buyback program cannot exceed 10% of the total number of shares making up the Company's share capital (e.g., 79,462,540 shares at January 31, 2015).

In accordance with the provisions of Article L.225-210 of the French Commercial Code, the number of shares that Valeo may hold at any time may not represent over 10% of the Company's share capital at the given date.

Given the number of shares the Company currently owns, i.e., 1,616,221 shares at January 31, 2015 (2.03% of the Company's share capital) and subject to adjustments affecting the number of shares held by the Company and the amount of share capital after the Ordinary and Extraordinary Shareholders' Meeting on May 26, 2015, a total of 6,330,033 shares (7.96% of the Company's share capital at January 31, 2015) could be available for purchase.

The securities covered by the buyback program are exclusively shares.

Maximum purchase price per share

The purchase price of shares under the new share buyback program may not exceed 200 euros per share. This price could be adjusted in the event of a change in the par value of the share, capital increase by capitalization of reserves, allotment of free shares, a stock split or reverse stock split, distribution of reserves, or any other assets, redemption of the share capital, or any other transaction affecting shareholders' equity, so as to take account of the impact of these transactions on the value of the share.

The maximum amount that can be spent under the new share buyback program will be fixed at 1,589,250,800 euros, fees and commissions included. Valeo reserves the right to use the full amount authorized under the program.

Term of the new share buyback program

In accordance with the resolution that will be submitted to the Ordinary and Extraordinary Shareholders' Meeting for approval on May 26, 2015, the new share buyback program would be authorized for an 18-month period as of the meeting, i.e., until November 26, 2016.

6.5.4 Cancellation of treasury shares

In the thirteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of May 21, 2014, the Company's shareholders gave the Board of Directors a 26-month authorization to reduce the Company's share capital by

canceling treasury shares. Under this authorization, the number of shares canceled in any given 24-month period may not exceed 10% of the Company's share capital.

6.6 Additional disclosures concerning the share capital

6.6.1 Changes in share capital

At December 31, 2014, Valeo's share capital comprised 79,462,540 shares with a par value of 3 euros each, fully paid-up and traded on the Euronext Paris regulated market.

At December 31, 2014, there were no longer any plans in place pursuant to which shares could be issued upon exercise of stock subscription options awarded to the Group's employees and corporate officers.

To the best of the Company's knowledge, none of these shares have been pledged.

Changes in the Company's share capital since December 31, 2012 are as follows:

Year	Type of operation	Changes (in millions of euros)			Number of shares	Total number of shares
		Nominal	Premium	Total		
2012	Issuance of shares on exercise of stock subscription options	0.6	4.8	5.4	192,944	79,462,540
2013	-	-	-	-	-	79,462,540
2014	-	-	-	-	-	79,462,540

6.6.2 Authorized, unissued capital AFR

Summary table of powers currently delegated by the Shareholders' Meeting to the Board of Directors with respect to raising new equity and the use made of such delegations during the year

Authorizations granted Date of Shareholders' Meeting (duration of authorization and expiration date)	Maximum amount of issue	Utilization of authorizations during the year
1. Authorization to increase capital <u>with</u> pre-emptive rights		
Issuance of shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allocation of debt securities (A) Shareholders' Meeting of June 6, 2013 – 9 th resolution Expiring on August 6, 2015 (26 months)	40 million euros (A) + (B) + (C) + (D) + (E) + (F) combined ceiling = 101 million euros	None
Capital increase by capitalization of reserves, profits or additional paid-in capital (B) Shareholders' Meeting of June 6, 2013 – 11 th resolution Expiring on August 6, 2015 (26 months)	30 million euros Included in combined ceiling	None
2. Authorization to increase capital <u>without</u> pre-emptive rights		
Issuance of shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allocation of debt securities (C) Shareholders' Meeting of June 6, 2013 – 10 th resolution Expiring on August 6, 2015 (26 months)	23 million euros Included in combined ceiling	None
Issuance of shares and/or securities giving access to the share capital reserved for members of the employee share ownership plan (D) Shareholders' Meeting of May 21, 2014 – 13 th resolution Expiring on July 21, 2016 (26 months)	5 million euros Included in combined ceiling	None
3. Authorization to increase capital <u>with or without</u> pre-emptive rights		
Overall allocation option as part of capital increase <u>with or without</u> pre-emptive rights (E) Shareholders' Meeting of June 6, 2013 – 12 th resolution Expiring on August 6, 2015 (26 months)	The ceiling for each issuance is specified in the applicable regulation (currently 15% of the initial issuance) and is offset against the ceiling applicable to the initial issuance. ● Ceiling <u>with</u> pre-emptive rights: 40 million euros ● Ceiling <u>without</u> pre-emptive rights: 23 million euros Included in combined ceiling	None
4. Authorization to allot free shares		
Allotment of free shares, existing shares or shares to be issued to Group employees and corporate officers (F) Shareholders' Meeting of May 21, 2014 – 12 th resolution Expiring on July 21, 2016 (26 months)	Maximum number of shares (existing or to be issued) allocated: 1,500,000, these shares cannot exceed more than 10% of the share capital at the date of the Board's decision Included in combined ceiling	None

6.6.3 Other securities giving access to the share capital – Stock purchase option plans and allotment of free shares

Stock purchase option plans in force at December 31, 2014

Shareholders' Meetings			Plan characteristics				Options granted				
Date of Shareholders' Meeting	No. of options	Term	Date ⁽¹⁾	Exercise price (€)	No. of grantees	No. of options	O/w granted to corporate officers	O/w granted to exec. corporate officers	O/w granted to exec. managers excl. corporate officers	O/w granted to the top 10 grantees ⁽²⁾	Conditional options
05/03/2005	4,500,000	8 years	11/17/2005	€32.32	1,082	650,000	0	0	94,300	48,900	0
			03/03/2006	€33.75	2	187,000	150,000	150,000	37,000	0	0
			11/20/2006	€32.63	1,298	1,309,250	0	0	251,000	175,000	0
			03/07/2007	€36.97	2	250,000	200,000 ⁽ⁱ⁾	200,000 ⁽ⁱ⁾	50,000	0	0
			11/15/2007	€36.82	1,330	1,677,000	150,000 ^{(i) (ii)}	150,000 ^{(i) (ii)}	350,000 ⁽ⁱⁱ⁾	230,000 ⁽ⁱⁱ⁾	174,250 ⁽ⁱⁱ⁾
			03/20/2008	€31.41	596	426,750	0	0	0	78,000	0
06/03/2010	1,000,000	8 years	06/24/2010	€24.07	728	1,000,000	0	100,000 ^{(i) (iii)}	177,500 ⁽ⁱⁱⁱ⁾	150,000 ⁽ⁱⁱⁱ⁾	611,365 ⁽ⁱⁱⁱ⁾
06/08/2011	660,000	8 years	06/08/2011	€42.41	276	292,840	0	30,300 ^{(i) (iv)}	65,200 ^(iv)	59,200 ^(iv)	210,370 ^(iv)
			03/27/2012	€40.78	283	367,160	0	35,300 ^{(i) (v)}	84,700 ^(v)	77,900 ^(v)	265,230 ^(v)
TOTAL STOCK OPTION PLANS						6,160,000	500,000	665,600	1,109,700	819,000	1,261,215

(1) Date of Board of Directors' meeting.

(2) Including directors who are not corporate officers.

(i) Stock options subject to the holding period described on Chapter 3, section 3.2.5, page 102.

(ii) O/w 50% (for the Chairman and COO) or 25% (for other directors) is conditional: subject to the Group achieving 2008 operating margin equal to at least 3.8% of operating revenue, with proportional and linear allocation of between 3.8% and 4.1%.

(iii) O/w 100% (CEO and Liaison Committee), 50% or 25% (other directors) is conditional. 2010 operating margin less than 4.0% = loss of options, at 4.5% = 70% of options, at 5% = 100% of options, with linear variation between 4.0% and 4.5% and between 4.5% and 5.0%.

(iv) O/w 100% conditional (CEO and Operations Committee) with three criteria: 1 – an average operating margin equal to or greater than 6.5%; 2 – an average return on capital employed (ROCE) equal to or greater than 30%; and 3 – a pre-tax return on assets (ROA) equal to or greater than 12.5%. Three criteria met = 100% of rights; two criteria met = 60% of rights; one criterion met = 30% of rights; 0 criteria met = cancellation of 100% of rights. Including 100% (Liaison Committee) and 50% (other directors) conditional on two criteria [1 and 2]; two criteria met = 100% of rights; one criterion met = 50% of rights; 0 criteria met = cancellation of conditional rights.

(v) O/w 100% conditional (CEO and Operations Committee) with three criteria: 1 – an average operating margin equal to or greater than 6.7%; 2 – an average return on capital employed (ROCE) equal to or greater than 30%; and 3 – a pre-tax return on assets (ROA) equal to or greater than 12.5%. Three criteria met = 100% of rights; two criteria met = 60% of rights; one criterion met = 30% of rights; 0 criteria met = cancellation of 100% of rights. Including 100% (Liaison Committee) and 50% (other directors) conditional on two criteria [1 and 2]; two criteria met = 100% of rights; one criterion met = 50% of rights; 0 criteria met = cancellation of conditional rights.

SHARE CAPITAL AND OWNERSHIP STRUCTURE
Additional disclosures concerning the share capital

Exercise date and conditions		Number of stock purchase option plans							
Start	Expiration date	Options outstanding at Dec. 31, 2013	Exercised in 2014 (year)	Exercised at Dec. 31, 2014 (cumulative)	Canceled in 2014 (year)	Canceled at Dec. 31, 2014 (cumulative)	Options outstanding at Dec. 31, 2014	No. of shares that can be purchased	Residual grantees
50% – 2 years; 100% – 3 years	11/16/2013	0	0	377,570	0	272,430	0	0	0
50% – 2 years; 100% – 3 years	03/02/2014	0	0	187,000	0	0	0	0	0
50% – 2 years; 100% – 3 years	11/19/2014	192,202	129,702	821,500	62,500	487,750	0	0	0
50% – 2 years; 100% – 3 years	03/06/2015	75,000	75,000	250,000	0	0	0	0	0
100% – 3 years	11/14/2015	398,718	144,734	892,263	11,578	542,331	242,406	242,406	282
100% – 3 years	03/19/2016	111,855	26,430	240,325	500	101,500	84,925	84,925	140
100% – 2 years	06/23/2018	635,153	260,959	485,044	7,600	148,362	366,594	366,594	269
100% – 3 years	06/07/2019	249,340	22,055	23,055	83,690	126,190	143,595	143,595	180
100% – 3 years	03/26/2020	342,860	0	1,200	11,050	34,150	331,810	331,810	246
		2,005,128	658,880	3,277,957	176,918	1,712,713	1,169,330	1,169,330	

Free share plans in force at December 31, 2014

Shareholders' Meetings			Plan characteristics				Shares granted				
Date of Shareholders' Meeting	No. of shares	Term	Date ⁽¹⁾	Exercise price (€)	No. of grantees	No. of shares	O/w granted to corporate officers	O/w granted to exec. corporate officers	O/w granted to exec. managers excl. corporate officers	O/w granted to the top 10 grantees ⁽²⁾	Conditional shares
06/03/2010	400,000	-	06/24/2010	-	723	267,000	0	50,000 ^(iv)	55,500 ^(iv)	47,500 ^(iv)	178,769 ^(iv)
			06/24/2010	-	44,333	133,000	0	3 ^(iv)	39 ^(iv)	30 ^(iv)	90 ^(iv)
06/08/2011	540,000	-	06/08/2011	-	276	186,860	0	15,600 ^(v)	34,000 ^(v)	31,000 ^(v)	126,480 ^(v)
			06/08/2011	-	46,666	140,000	0	0	39	30	87 ^(v)
			03/27/2012	-	283	173,140	0	11,400 ^(vi)	32,800 ^(vi)	29,800 ^(vi)	117,220 ^(vi)
			03/27/2012	-	13,333	40,000	0	0	39 ^(vi)	30 ^(vi)	60 ^(vi)
			03/27/2013	-	301	303,814	0	25,634 ^(vii)	74,400 ^(vii)	65,000 ^(vii)	223,314 ^(vii)
06/04/2012	920,000	-	03/27/2013	-	56,666	170,000	0	0	36	30	0
			03/27/2014	-	309	149,480	0	10,505 ^(viii)	31,950 ^(viii)	29,520 ^(viii)	105,590 ^(viii)
			03/27/2014	-	58,000	174,000	0	0	39	30	0
			TOTAL FREE SHARE GRANTS						1,737,294	0	113,142

(1) Date of Board of Directors' meeting.

(2) Including directors who are not corporate officers.

(iv) O/w 100% (CEO and Liaison Committee), 50% or 25% (other directors) is conditional. Criteria over two years; half conditional on 2010 operating margin (less than 4.0% = loss of options, at 4.5% = 70% of options, at 5% = 100% of options, with linear variation between 4.0% and 4.5% and between 4.5% and 5.0%) and half conditional on 2011 operating margin (less than or equal to 4.5% = loss of options, at 5% = 100% of options, with linear variation between 4.5% and 5.0%).

(v) O/w 100% conditional (CEO and Operations Committee) with three criteria: 1 - an average operating margin equal to or greater than 6.5%; 2 - an average return on capital employed (ROCE) equal to or greater than 30%; and 3 - a pre-tax return on assets (ROA) equal to or greater than 12.5%. Three criteria met = 100% of rights; two criteria met = 60% of rights; one criterion met = 30% of rights; 0 criteria met = cancellation of 100% of rights. Including 100% (Liaison Committee) and 50% (other directors) conditional on two criteria [1 and 2]; two criteria met = 100% of rights; one criterion met = 50% of rights; 0 criteria met = cancellation of conditional rights.

(vi) O/w 100% conditional (CEO and Operations Committee) with three criteria: 1 - an average operating margin equal to or greater than 6.7%; 2 - an average return on capital employed (ROCE) equal to or greater than 30%; and 3 - a pre-tax return on assets (ROA) equal to or greater than 12.5%. Three criteria met = 100% of rights; two criteria met = 60% of rights; one criterion met = 30% of rights; 0 criteria met = cancellation of 100% of rights. Including 100% (Liaison Committee) and 50% (other directors) conditional on two criteria [1 and 2]; two criteria met = 100% of rights; one criterion met = 50% of rights; 0 criteria met = cancellation of conditional rights.

(vii) O/w 100% conditional (CEO and Operations Committee) with three criteria: 1 - a pre-tax return on assets (ROA) ratio over the 2013, 2014 and 2015 period equal to or greater than 12.5%; 2 - an operating margin ratio equal to or greater than 5.8% in 2013, such that the average over the three years of the reference period (2013, 2014 and 2015) of the ratio between the actual return achieved and the target return that will be set by the Board of Directors at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one; 3 - a return on capital employed (ROCE) ratio equal to or greater than 23% in 2013, such that the average over the three years of the reference period (2013, 2014 and 2015) of the ratio between the actual return achieved and the target return that will be set by the Board of Directors at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one - three criteria met = 100% of rights; two criteria met = 60% of rights; one criterion met = 30% of rights; 0 criteria met = cancellation of 100% of rights. Including 100% (Liaison Committee) and 50% (other directors) conditional on two criteria [2 and 3]; two criteria met = 100% of rights; one criterion met = 50% of rights; 0 criteria met = cancellation of conditional rights.

(viii) O/w 100% conditional (CEO and Operations Committee) with three criteria: 1 - a pre-tax return on assets (ROA) ratio over the 2014, 2015 and 2016 period equal to or greater than 12.5%; 2 - an operating margin ratio equal to or greater than 6.8% in 2014, such that the average over the three years of the reference period (2014, 2015 and 2016) of the ratio between the actual return achieved and the target return that will be set by the Board of Directors at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one; 3 - a return on capital employed (ROCE) ratio equal to or greater than 28% in 2014, such that the average over the three years of the reference period (2014, 2015 and 2016) of the ratio between the actual return achieved and the target return that will be set by the Board of Directors at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one - three criteria met = 100% of rights; two criteria met = 60% of rights; one criterion met = 30% of rights; 0 criteria met = cancellation of 100% of rights. Including 100% (Liaison Committee) and 50% (other directors) conditional on two criteria [2 and 3]; two criteria met = 100% of rights; one criterion met = 50% of rights; 0 criteria met = cancellation of conditional rights.

SHARE CAPITAL AND OWNERSHIP STRUCTURE

Additional disclosures concerning the share capital

Vesting date and conditions		Number of shares							
Start Vesting period	Expiration date	Remaining to be transferred at Dec. 31, 2013	Transferred In 2014 (year)	Transferred at Dec. 31, 2014 (cumulative)	Canceled In 2014 (year)	Canceled at Dec. 31, 2014 (cumulative)	Remaining to be transferred at Dec. 31, 2014	Number of shares remaining to be transferred	Residual grantees
● France: 2 years ● Other countries: 4 years	-	51,845	47,935	227,085	3,910	39,915	0	0	0
● France – Spain – Italy: 2 years ● Other countries: 4 years	-	67,824	57,798	103,674	10,026	29,326	0	0	0
● France: 3 years ● Other countries: 5 years	-	158,120	80,840	83,580	51,610	77,610	25,670	25,670	66
● France – Spain – Italy: 3 years ● Other countries: 5 years	-	124,938	42,987	42,987	15,894	30,956	66,057	66,057	22,019
● France: 3 years ● Other countries: 5 years	-	160,316	0	672	4,984	17,136	155,332	155,332	246
● France: 3 years	-	39,981	0	0	4,232	4,251	35,749	35,749	11,916
● France: 3 years ● Other countries: 5 years	-	298,334	0	0	8,120	13,600	290,214	290,214	279
● France – Spain – Italy: 3 years ● Other countries: 5 years	-	162,054	0	0	19,437	27,383	142,617	142,617	47,539
● France: 3 years ● Other countries: 5 years	-	0	0	0	1,332	1,332	148,148	148,148	303
● France – Spain – Italy: 3 years ● Other countries: 5 years	-	0	0	0	14,526	14,526	159,474	159,474	53,158
	-	1,063,412	229,560	457,998	134,071	256,035	1,023,261	1,023,261	

6.6.4 Other securities

The Company has participated in a Euro Medium Term Note program since October 2002, last renewed on April 25, 2014, for a maximum amount of 2 billion euros. Under this program Valeo issued:

- 500 million euros' worth of seven-year bonds on May 12, 2011, paying a fixed coupon of 4.875%, repaid in the amount of 227 million euros in January 2014;
- 500 million euros' worth of five-year bonds on January 19, 2012, paying a fixed coupon of 5.75%, repaid in the amount of 354 million euros in January 2014;
- 700 million euros' worth of ten-year bonds on January 22, 2014, paying a fixed coupon of 3.25%.

6.6.5 Other information on the share capital

Change in control

At the date of this Registration Document and to the best of the Company's knowledge, there are no shareholder agreements or other agreements in force that could lead to a change in control of the Company in the future.

Capital under option

At the date of this Registration Document, no capital of any member of the Group was under option or agreed conditionally or unconditionally to be put under option.

Disclosure thresholds

In accordance with Article L.233-7 of the French Commercial Code, any individual or legal entity, acting alone or in concert, that holds a number of shares representing over 5%, 10%, 15%, 20%, 25%, 30%, 33.33%, 50%, 66.66%, 90% or 95% of the Company's share capital or voting rights, is required to disclose to the Company and the AMF by letter that the related disclosure threshold has been exceeded. Said disclosure must be within five trading days from the date the threshold is exceeded and must also state the total number of shares and voting rights held by the shareholders concerned. The disclosures are subsequently published by the AMF. This disclosure obligation also applies when an interest in the Company's share capital and/or voting rights is reduced to below the above-mentioned thresholds. If any shareholder fails to comply with these disclosure requirements, the shares in excess of the relevant threshold will be stripped of voting rights at all Shareholders' Meetings held within the two-year period from the date when the omission is remedied.

Since the Shareholders' Meeting of March 31, 2003, Article 9 of Valeo's articles of association states that, in addition to the applicable statutory disclosure thresholds, any individual or legal entity, acting alone or in concert, that raises or reduces its interest in the Company's share capital or voting rights, directly

or indirectly, to above or below 2% respectively (or any multiple thereof), is required to disclose to the Company by registered letter with return receipt requested that the relevant disclosure threshold has been crossed. Said disclosure must be made within 15 days from the date when the threshold is crossed and the shareholder concerned must state their own identity as well as that of any parties acting in concert with the shareholder. In accordance with the seventh paragraph of Article L.228-1 of the French Commercial Code, this disclosure requirement also applies to shares held through an intermediary.

Non-compliance with the above obligations is subject to the penalties set out in Article L.233-14 of the French Commercial Code, at the request of one or several shareholders together holding at least 2% of the Company's share capital or voting rights, as recorded in the minutes of the Shareholders' Meeting.

Shareholder identification

Registered and bearer shares are recorded in shareholders' accounts in accordance with applicable laws and regulations.

However, a bank, broker or other intermediary may register on behalf of shareholders who are domiciled outside France in accordance with Article 102 of the French Civil Code (*Code civil*). This registration may be made in the form of a joint account or several individual accounts, each corresponding to one shareholder. Any such intermediary must inform the Company or the intermediary managing the Company's account that it is holding the shares on behalf of another party.

The Company is entitled to identify all holders of shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, in accordance with the procedure provided for in Article L.228-2 *et seq.* of the French Commercial Code.

In order to identify holders of bearer shares, in accordance with the applicable laws and regulations, the Company is entitled to request, at any time, from the central depository responsible for its security issues account, in exchange for a fee, the name – or, in the case of corporate shareholders, the company name – nationality, year of birth – or, in the case of corporate shareholders, the year of incorporation – and address of holders of bearer shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, together with details of the number of shares held by each such shareholder and of any restrictions applicable to the securities concerned.

Based on the list provided by the above-mentioned organization, where the Company considers that shares may be held on behalf of third parties, it may request, in accordance with the same conditions, either through the organization or directly from the parties mentioned on the list, the same information concerning the holders of the shares. If one of the parties mentioned on the list is a bank, broker or other intermediary, it must disclose the identity of the shareholders for whom it is acting. The information is provided directly to the financial intermediary managing the Company's share account, which shall pass on said information either to the Company or the above-mentioned central depository, as applicable.

For registered shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares, any intermediary holding the securities on behalf of a third party must disclose the identity of the person or entity for

whom it is acting as well as the number of shares held by each of them, upon simple request by the Company or its representative, which may be made at any time.

The Company may also request from any corporate shareholder holding over 2.5% of the Company's share capital or voting rights, information concerning the identity of persons or companies holding either directly or indirectly over one-third of its share capital or voting rights.

If an individual or corporate shareholder is asked to provide information in accordance with the above conditions and fails to provide it by the applicable deadline, or provides incomplete or incorrect information, the shares or other securities redeemable, exchangeable, convertible or otherwise exercisable for shares recorded in the shareholder's account shall be stripped of voting rights for all Shareholders' Meetings until the identification request has been fulfilled, and the payment of any corresponding dividends shall also be deferred until that date.

In addition, if an individual or company registered in the Company's shareholders' account deliberately ignores their obligations, the Company or one or more shareholders holding at least 5% of the Company's share capital may petition the court of the place in which the Company's registered office is located to obtain an order to totally or partially strip the shares concerned of their voting rights and the corresponding dividend, for a maximum period of five years.

6.6.6 Information likely to have an impact in the event of a public tender offer AFR

Agreements entered into by the Company that would change or terminate if there were a change in control of the Company, with the exception of those agreements whose disclosure would seriously harm its interests (except in the event of a legal obligation to disclose)

As specified in Chapter 2, section 2.1.4, "Liquidity risk", page 67, the balance of 146 million euros of the 500 million euros of the Euro Medium Term Note (EMTN) program expiring

on January 19, 2017, the balance of 273 million euros of the 500 million euros of the EMTN program expiring on May 11, 2018, and the 700 million euros of the EMTN program expiring on January 22, 2024, each include an option allowing bondholders to request early redemption of their bonds in the event of a change of control of Valeo that leads to (i) the note's rating being withdrawn, or (ii) the note's rating being downgraded to below investment grade, assuming it was previously rated in that category, or (iii) if the previous rating was below investment grade, a downgrade of one rating category (e.g., from Ba1 to Ba2).

Some of Valeo's customers have a clause in their general purchasing conditions allowing them to terminate their contract with Valeo in the event of a change in control.

Agreements providing for indemnities payable to employees or members of the Board of Directors if they resign or are dismissed without real or serious cause or if their employment contract is terminated as a result of a public tender offer

As explained in Chapter 3, section 3.3.1, page 112, Jacques Aschenbroich, the Chief Executive Officer, is eligible for termination benefits equal to 24 months of his annual fixed and variable compensation. These benefits would be paid in the event of a non-voluntary departure linked to a change in control or strategy (except in the event of serious professional misconduct). The payment of these benefits is subject to the achievement of the performance criteria.

The Board reserved the right to subject Jacques Aschenbroich to a non-competition clause that would prohibit him from collaborating in any manner whatsoever with an automotive supplier or, more generally for any of Valeo's competitors for 12 months after the end of his term of office as Chief Executive Officer. In this case, Jacques Aschenbroich would be paid a non-competition payment equal to 12 months of compensation (calculated on the same basis as his termination benefits). The Company reserves the right to waive the non-competition clause, in which case no payment will be owed. If the Company invokes the non-competition clause, the amount owed will be offset against his termination benefits.

Agreements that could restrict the transfer of shares and the exercise of voting rights

Relations with Bpifrance Participations SA (formerly FSI)

The Board of Directors' meeting of October 20, 2009 decided to co-opt Michel de Fabiani, whose name was put forward by Fonds stratégique d'investissement (FSI, since renamed Bpifrance Participations SA), as a director, replacing Erich Spitz. On this occasion, and after considering the specific current ownership structure of Valeo, Bpifrance Participations SA, which is a 50%-owned subsidiary of Caisse des dépôts et consignations and included in Caisse des dépôts et consignations' consolidated financial statements, sent a letter dated October 19, 2009 confirming that all of the shares that the Caisse des dépôts et consignations group holds in Valeo will vote the same way at the Shareholders' Meetings, and that it would support the resolutions approved by the Board of Directors and that Bpifrance Participations SA would not increase its holding beyond 15% of the share capital without the consent of Valeo's Board. Bpifrance Participations SA also confirmed that it was now an insider, within the meaning of the applicable regulations, as was Michel de Fabiani, in the context of monitoring Bpifrance Participations SA's equity holding in Valeo and preserving the Group's interest.

Restrictions on the exercise of voting rights

The Company's articles of association provide for a disclosure obligation imposed on any shareholder who acquires or sells a fraction equal to 2% of the share capital or voting rights of the Company or a multiple of this fraction, from the date when one of the thresholds is crossed. If a shareholder fails to comply with the disclosure obligation and one or more shareholders holding 2% of the voting rights submits a request, the voting rights exceeding the relevant threshold that should have been disclosed cannot be exercised at Shareholders' Meetings held within the two-year period from the date when the omission is remedied.

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AFR Information from the Annual Financial Report is clearly identified in the table of contents by the AFR symbol

7.1 Principal provisions of the law and the articles of association

7.1.1 Company name and headquarters

The name of the Company is Valeo and its headquarters are located at 43, rue Bayen, 75017 Paris, France, tel.: +33 (0)1 40 55 20 20.

7.1.2 Legal structure and governing law

Valeo is a joint stock company (*société anonyme*) with a Board of Directors. It is governed by French law, notably the provisions of Book II of the French Commercial Code (*Code de commerce*) and various provisions of the regulatory section of the French Commercial Code.

7.1.3 Corporate governance

With a view to increasing the transparency of information disclosed to the public, the Company has set up a number of procedures to ensure that it complies with best corporate governance practices. Further information is provided in the report of the Chairman of the Board of Directors on the composition of the Board, the application of the principle of

equal representation of women and men, the conditions in which the Board's work is prepared and organized, and the internal control and risk management procedures put in place by the Valeo Group (Chapter 3, section 3.2, pages 76 to 105 and section 3.4, pages 123 to 128).

7.1.4 Date of incorporation and term

The Company was incorporated on February 10, 1923 and its term was extended for a further 99 years on February 10, 1972.

7.1.5 Corporate purpose

The Company's corporate purpose is as follows (Article 3 of the articles of association):

- the research, manufacturing, sale, trade and supply of all products, equipment and services for the industrial and retail sectors, that may be manufactured and developed by factories of the Company or of companies of its Group or that may be of interest to their customers; and
- more generally, engaging in any transactions whatsoever, including industrial, commercial, financial, real estate and other property transactions, sales, acquisitions, capital contributions, etc., directly or indirectly related to the corporate purpose or contributing to its extension or development.

7.1.6 Registration details

The Company is registered at the Paris Trade and Companies Registry under the number 552 030 967 RCS Paris.

7.1.7 Fiscal year

The Company's fiscal year covers a twelve-month period from January 1 to December 31.

7.1.8 Dividends

Each share entitles its holder to a proportion of income equal to the proportion of capital represented by the share.

Distributable income is composed of net income for the year less any prior year losses and amounts appropriated to the legal reserve, plus any income carried forward. Furthermore, shareholders in a Shareholders' Meeting may decide, subject to the conditions set out by law, to distribute amounts taken from available reserves and/or retained earnings. In this case, the related resolution approved by the Shareholders' Meeting must clearly specify the reserve account from which the distributed amounts are to be taken.

Shareholders may resolve to pay out a dividend only after approving the financial statements for the year and noting that amounts are available for distribution. The dividend payment terms are defined by the Annual Shareholders' Meeting or, by default, the Board of Directors.

The Board of Directors may decide to pay an interim dividend for the current year or the year ended before the financial statements are approved, subject to the conditions set out by law, and may set the amount and date of payment.

At the Shareholders' Meeting called to approve the financial statements, shareholders may decide to offer a stock dividend alternative to cash dividends representing all or part of the dividend, or interim dividend, as provided for by law.

Dividends unclaimed after a period of five years from the date they were made payable are paid over to the French State.

7.1.9 Liquidation surpluses

Liquidation surpluses are allocated between the shareholders in proportion to their interests in the Company's share capital.

7.1.10 Shareholders' Meetings

Ordinary and Extraordinary Shareholders' Meetings are called and conduct business in accordance with the conditions set out by law.

In accordance with Article R.225-85 of the French Commercial Code, shareholders may participate in Shareholders' Meetings subject to submitting evidence of ownership of their shares. Share ownership is evidenced by an entry in Valeo's share register in the name of the shareholder (or of the intermediary acting on their behalf) or in the register of bearer shares held by an accredited intermediary. Such entries must be recorded by 00:00 hours (12:00 am) (CET) on the third working day preceding the date of the meeting. In the case of bearer shares, the accredited intermediary shall provide a share ownership certificate for the shareholders concerned, which must be attached to the postal voting or proxy form or to the admission card made out in the name of the shareholder or in the name of the registered intermediary representing the shareholder.

Subject to the above-mentioned conditions, all shareholders are entitled to attend Shareholders' Meetings provided they have settled all capital calls related to their shares.

Shareholders who are unable to attend a meeting in person may choose one of the following three options:

- give proxy to another shareholder, their spouse or partner with whom they have entered into a civil partnership agreement or any other individual or legal entity of their choice;
- cast a postal vote; or
- return the signed proxy form to the Company without naming a person to represent them, in accordance with the applicable laws and regulations.

In compliance with the conditions set out by the applicable laws and regulations, shareholders may send proxy and postal voting forms for any Shareholders' Meetings either in paper format or in electronic form.

Minutes of Shareholders' Meetings are drawn up, and copies and extracts thereof are certified and delivered, in accordance with the law.

7.1.11 Double voting rights

Each shareholder has a number of votes corresponding to the number of shares held or represented by proxy.

However, since the Shareholders' Meeting of June 16, 1992, Article 23 of the Company's articles of association provides that double voting rights are attached to all fully paid shares that have been registered in the name of the same holder for at least four years. In the case of a capital increase paid up by capitalizing reserves, profit or share premiums, the new registered free shares allotted to a shareholder in respect of existing shares with double voting rights will also carry double voting rights from the date of issue. Double voting rights are

automatically stripped from any registered shares that are converted into bearer shares or transferred. However, registered shares are not stripped of voting rights and the above four-year qualifying period continues to run following the transfer of shares included in the estate of a deceased shareholder, or in connection with the settlement of the marital estate, or an inter vivos gift to a spouse or relative in the direct line of succession. Double voting rights may be removed by decision of the Extraordinary General Shareholders' Meeting, subject to the approval of shareholders entitled to double voting rights, at a special meeting held for that purpose.

7.1.12 Changes in share capital and rights attached to shares

Any changes in the Company's share capital or voting rights attached to shares are subject to the applicable laws as the articles of association do not contain any specific provisions in relation to such operations.

7.2 Information on subsidiaries and affiliates

The overall legal and operational structure of the Group is described in Chapter 1, section 1.3.2, page 21.

Following the creation of subsidiaries for its industrial activities in 2002, Valeo is now solely a holding and cash management company for the Group. The Company is the head of the tax consolidation group in France.

As such, Valeo centralizes the management of market risks to which its operating subsidiaries are exposed, including changes in interest rates and fluctuations in exchange rates and the prices of quoted commodities.

Valeo also centralizes the financing requirements of these subsidiaries and is generally the sole counterparty of the financial institutions that provide the funding to cover these requirements. The related assets (cash and marketable securities) and liabilities (external debt) are included in Valeo's balance sheet. Valeo is also responsible for upholding the image of the Valeo brand. To this end, it has entered into agreements with some of its French subsidiaries, under which Valeo allows them to benefit from the Group's expertise, values, business model and processes.

Group-wide control and support functions, encompassing accounting, legal services, information technology, procurement, communication and business development, research and development strategy and management, and quality audits, etc., are performed by the European economic

interest group (*Groupement d'Intérêt Économique*), Valeo Management Services. The purpose of the group is to make common resources available and to implement the necessary means and take the required action to increase savings and optimize the costs of its members. Valeo Management Services is financed by contributions from its 13 members, which consist of companies belonging to the Valeo Group.

The Group's operating assets and liabilities are carried by its subsidiaries, mainly by the industrial and commercial entities listed in the table on the following pages.

The commercial entities listed in this table are active only on the independent aftermarket, in the countries where they operate. Sales to automakers are handled directly by the Business Groups/Product Lines involved in the production process. The commercial activities of the Business Groups/Product Lines with a given customer are coordinated by the networks of the Sales and Business Development Department, described in Chapter 1, section 1.3.5, page 29.

The list of consolidated companies (including their location) is given in the notes to the consolidated financial statements, Chapter 5, section 5.4.6, Note 13, pages 311 to 315. The position of Valeo's direct subsidiaries and interests is presented in the table included in the notes to the parent company financial statements, Chapter 5, section 5.6.4, Note 21, page 336.

ADDITIONAL INFORMATION

Information on subsidiaries and affiliates

Main industrial and commercial entities

Direct and indirect interests by country (% interest at December 31, 2014)

European Union				Europe outside the EU	Africa
France	Germany, Belgium United Kingdom Ireland, Netherlands	Italy Spain	Hungary, Poland Czech Republic Romania	Norway Turkey Russia	Tunisia South Africa Egypt, Morocco
VALEO EMBRAYAGES	VALEO SCHALTER UND SENSOREN GmbH	VALEO S.p.A. (Italy)	VALEO AUTO-ELECTRIC HUNGARY LLC	VALEO POWERTRAIN ENERGY CONVERSION AS (Norway)	VALEO EMBRAYAGES TUNISIE S.A.
100	100	100	100	100	100
VALEO MATÉRIAUX DE FRICTION	VALEO WISCHERSYSTEME GmbH	VALEO SERVICE ITALIA S.p.A.	VALEO ELECTRIC AND ELECTRONIC SYSTEMS Sp.zo.o. (Poland)	VALEO OTOMOTIV SISTEMLERİ ENDÜSTRİSİ A.Ş. (Turkey)	DAV TUNISIE
100	100	100	100	100	100
VALEO ÉQUIPEMENTS ÉLECTRIQUES MOTEUR	VALEO KLIMASYSTE GmbH	VALEO ESPAÑA S.A.	VALEO SERVICE EASTERN EUROPE Sp.zo.o. (Poland)	VALEO CLIMATE CONTROL TOMILINO LLC (Russia)	VALEO SYSTEMS SOUTH AFRICA (Proprietary) Limited
100	100	100	100	100	51
VALEO SYSTÈMES D'ESSUYAGE	VALEO SERVICE DEUTSCHLAND GmbH	VALEO ILUMINACIÓN S.A. (Spain)	VALEO AUTOSYSTEMY Sp.zo.o. (Poland)	VALEO SERVICE LLC (Russia)	VALEO INTERBRANCH AUTOMOTIVE SOFTWARE EGYPT
100	100	100	100	100	100
VALEO VISION	VALEO VISION BELGIUM	VALEO CLIMATIZACIÓN S.A. (Spain)	VALEO VYMENIKY TEPLA k.s. (Czech Republic)		VALEO VISION MAROC S.A.
100	100	100	100		100
DAV	VALEO SERVICE BELGIUM	VALEO SERVICE ESPAÑA S.A.	VALEO AUTOKLIMATIZACE k.s. (Czech Republic)		
100	100	100	100		
SC2N	VALEO SERVICE UK LIMITED	VALEO TERMICO, S.A. (Spain)	VALEO COMPRESSOR EUROPE S.r.o. (Czech Republic)		
100	100	100	100		
VALEO SERVICE	VALEO ENGINE COOLING UK Ltd		VALEO LIGHTING INJECTION S.A. (Romania)		
100	100		100		
VALEO SYSTÈMES THERMIQUES	VALEO AIR MANAGEMENT UK Limited		VALEO SISTEME TERMICE S.r.l. (Romania)		
100	100		100		
VALEO SYSTÈMES DE CONTRÔLE MOTEUR	CONNAUGHT ELECTRONICS LIMITED (Ireland)				
100	100				
VALEO COMFORT AND DRIVING ASSISTANCE	VALEO SERVICE BENELUX B.V. (Netherlands)				
100	100				

Industrial

Commercial



ADDITIONAL INFORMATION

Information on subsidiaries and affiliates

North America		South America	Asia		
United States Canada	Mexico	Brazil Argentina	China	South Korea Japan, Thailand Indonesia, Taiwan	India
VALEO NORTH AMERICA, INC.	VALEO SISTEMAS ELECTRICOS SA de CV	VALEO SISTEMAS AUTOMOTIVOS Ltda (Brazil)	TAIZHOU VALEO-WENLING AUTOMOTIVE SYSTEMS COMPANY Ltd	VALEO ELECTRICAL SYSTEMS KOREA Ltd	VALEO FRICTION MATERIALS INDIA LIMITED
100	100	100	100	100	60
VALEO RADAR SYSTEMS, INC.	DELMEX DE JUAREZ S. de R.L. de CV	VALEO EMBRAGUES ARGENTINA S.A.	VALEO ICHIKOH (China) AUTOLIGHTING Co. Ltd	VALEO PYEONG HWA Co. Ltd (Korea)	AMALGAMATIONS VALEO CLUTCH PRIVATE LIMITED
100	100	100	89.7	50	50
VALEO CLIMATE CONTROL CORP.	VALEO SISTEMAS ELECTRONICOS S. de R.L. de CV	EMELAR Sociedad Anónima (Argentina)	VALEO AUTOMOTIVE AIR CONDITIONING HUBEI Co. Ltd	VALEO PYEONG HWA INTERNATIONAL. Ltd (Korea)	VALEO INDIA PRIVATE Ltd.
100	100	100	100	50	100
DETROIT THERMAL SYSTEMS LLC		CIBIE ARGENTINA S.A.	FAW-VALEO CLIMATE CONTROL SYSTEMS Co. Ltd	VALEO PYEONG HWA METALS Co. Ltd (Korea)	VALEO LIGHTING SYSTEMS INDIA PRIVATE LIMITED
49		100	36.5	49	100
DTS LEVERAGE LENDER LLC			NANJING VALEO CLUTCH Co. Ltd	VALEO SAMSUNG THERMAL SYSTEMS Co. Ltd (Korea)	VALEO SERVICE INDIA AUTO PARTS PRIVATE LIMITED
49			55	50	60
VALEO CANADA			VALEO SHANGHAI AUTOMOTIVE ELECTRIC MOTORS & WIPER SYSTEMS Co. Ltd	VALEO AUTOMOTIVE KOREA Co. Ltd	
100			55	100	
			SHANGHAI VALEO AUTOMOTIVE ELECTRICAL SYSTEMS COMPANY Ltd	VALEO UNISIA TRANSMISSIONS K.K. (Japan)	
			50	66	
			HUADA AUTOMOTIVE AIR CONDITIONER (Hunan) Co. Ltd	VALEO JAPAN Co. Ltd	
			45	100	
			VALEO LIGHTING HUBEI TECHNICAL CENTER Co. Ltd	ICHIKOH INDUSTRIES LIMITED (Japan)	
			89.7	31.6	
			VALEO INTERIOR CONTROLS (Shenzhen) Co. Ltd	NITTO MANUFACTURING Co. Ltd (Japan)	
			100	87.2	
			VALEO COMPRESSOR (Changchun) Co. Ltd	VALEO THERMAL SYSTEMS SALES (Thailand) Co. Ltd	
			100	74.9	
			VALEO ENGINE COOLING (Foshan) Co. Ltd	VALEO SIAM THERMAL SYSTEMS Co. Ltd (Thailand)	
			100	74.9	
			FOSHAN ICHIKOH VALEO AUTO LIGHTING SYSTEMS Co. Ltd	VALEO AUTOMOTIVE (Thailand) Co. Ltd	
			89.7	98.5	
			VALEO AUTO PARTS TRADING (Shanghai) Co. Ltd	VALEO COMPRESSOR CLUTCH Co. Ltd (Thailand)	
			100	99.4	
			VALEO AUTOMOTIVE TRANSMISSIONS SYSTEMS (Nanjing) Co. Ltd	VALEO NILES (Thailand) Co. Ltd	
			100	100	
			GUANGZHOU NILES TRADING Co. Ltd	PT VALEO AC INDONESIA	
			100	100	
			GUANGZHOU VALEO ENGINE COOLING Co. Ltd	NILES CTE ELECTRONIC Co. Ltd (Taiwan)	
			100	51	
			FUZHOU NILES ELECTRONIC Co. Ltd		
			51		
			WUHU VALEO AUTOMOTIVE LIGHTING SYSTEMS Co. Ltd		
			89.74		
			SHENYANG VALEO AUTOLIGHTING Co. Ltd		
			89.7		
			SHENYANG VALEO PYEONG-HWA TRANSMISSIONS SYSTEMS Co. Ltd		
			50		
			TIANJIN VALEO XINYUE AUTO PARTS Co. Ltd		
			60		
			VALEO FRICTION MATERIALS (Nanjing) Co. Ltd		
			50		

7.3 Material contracts

With the exception of the above-mentioned contracts, neither Valeo nor any of the Group's companies signed any major contracts in the last two years other than those related to the ordinary course of their business.

In 2014

An addendum to the partnership agreement signed on January 9, 2014 changed the governance arrangements for Valeo Samsung Thermal Systems Co. Ltd and granted control to Valeo which has the majority of votes on the Board of Directors. The Board takes decisions on the relevant activities of the company.

In order to extend the average maturity of its debt and take advantage of record low market interest rates, on January 22, 2014 Valeo issued a 700 million euro bond. This bond is redeemable in January 2024 and pays a coupon of 3.25%. The new bond issue allowed the Group, by means of an exchange transaction, to buy back and cancel 354 million euros worth of outstanding 2017 bonds and 227 million euros worth of outstanding 2018 bonds.

On February 10, 2014, Valeo signed a cooperation, development and license agreement with LeddarTech, a manufacturer of detection and ranging solutions combining infrared LED and time-of-flight measurement technology.

Pursuant to the agreement signed between Valeo and Osram GmbH on June 13, 2013, in early 2014 Osram GmbH exercised its put option to sell Valeo its entire stake in their joint venture, Valeo Sylvania, for an enterprise value of 104 million US dollars (equivalent to three times estimated 2014 EBITDA). Since January 21, 2014, Valeo has therefore owned all of the share capital of Valeo Sylvania LLC in the US, and of its subsidiary Valeo Sylvania Iluminación in Mexico.

On February 18, 2014, Valeo completed the sale of its entire interest in the India-based 50%-50% joint venture (part of the former Access Mechanisms business) to Minda Capital Limited. This sale did not have a material impact on the Group's 2014 consolidated financial statements.

On May 27, 2014, Valeo entered into an agreement with an investment services provider to meet certain objectives of its share buyback program as authorized by the Shareholders' Meeting of May 21, 2014. Accordingly, on August 14, 2014, Valeo acquired 750,000 shares at an average price of €97.1201. The shares will be allocated in full to cover any stock purchase option plans, the allotment of shares to employees under profit-sharing plans, and the implementation of any company savings plans.

In early July 2014, the Chinese authorities approved an amendment to the partnership agreement signed with Nanjing Valeo Clutch Co. Ltd which changed the approval process for certain decisions. Previously, the non-controlling shareholder's right to veto decisions regarding the relevant activities meant that Valeo did not have exclusive control over this entity. Based on the changes provided for in the governance agreement, Valeo now has exclusive control over the entity's major decisions (approval of the budget and decisions regarding the appointment of key management personnel), and its partner now holds only protective rights.

In 2013

Following the agreement signed with the Japanese group U-Shin on November 30, 2012, the sale of the Group's Access Mechanisms business was completed on May 24, 2013 with effect from April 30, 2013. This excluded the India-based joint venture.

On June 13, 2013, Valeo and Osram GmbH agreed on an option contract by which, if the reciprocal options are exercised by Osram or Valeo in early 2014, Valeo would be committed to acquire Osram's 50% interest in the companies' joint operations in North America: Valeo Sylvania (Visibility Systems Business Group).

On September 4, 2013, Valeo and Safran signed a partnership agreement to conduct research in driving aid and autonomous vehicles. In launching this research program, which is dedicated to human-machine-environment interfaces and automation, the partners aim to pool their skills and expertise to speed up the development of innovative products in the domain of assisted driving and create new markets.

On September 30, 2013, Valeo announced the acquisition of the entire share capital of Eltek Electric Vehicles, a Norwegian company fully dedicated to designing, developing, manufacturing through subcontracting agreements, assembling and marketing worldwide, high efficiency on-board chargers for passenger cars and commercial vehicles. This acquisition will enable Valeo to accelerate and expand the development of its offer for hybrid and electric vehicles and consolidate its offering with high efficiency invertors developed alongside a number of top original equipment manufacturers.

On November 11, 2013, Valeo and leading automotive electronics manufacturer Fujitsu Ten signed a technological partnership contract with the aim of jointly developing sensing technology to detect obstacles in the car's path by combining a radar and a camera.

7.4 Documents on display

The Company's press releases and annual Registration Documents filed with the French financial markets authority (*Autorité des marchés financiers* – AMF), including historical financial information relating to the Company and the Group, as well as any updates thereto can be accessed on the Company's website at www.valeo.com. Copies are also available on request from the Company's headquarters (43, rue Bayen, 75017 Paris).

In accordance with Article 221-3 of the AMF's General Regulations, the regulated information defined in Article 221-1 of these Regulations is posted on the Company's website and remains online for at least five years after the related documents are issued.

In accordance with the AMF's General Regulations, the Board of Directors' Internal Procedures and the Company's articles of association are available on the Company's website. Together with the minutes of Shareholders' Meetings, Statutory Auditors' reports and all other corporate documents, these documents are also available at Valeo's headquarters in accordance with the conditions set out by law and the Company's articles of association.

Notifications of disclosure thresholds crossed are also published on the AMF's website (www.amf-france.org).

7.5 Information related to the Statutory Auditors

7.5.1 Statutory Auditors and alternate Statutory Auditors

Statutory Auditors

- **Ernst & Young et Autres**, represented by Gilles Puissochet and Philippe Berteaux – 1/2, place des Saisons, Paris-La Défense 1, 92400 Courbevoie, France:
 - Member of the Versailles Institute of Statutory Auditors (*Compagnie régionale des commissaires aux comptes de Versailles*),
 - Term of office began: Shareholders' Meeting of June 3, 2010 (first term),
 - End of current term of office: term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2015;
- **Mazars**, represented by Lionel Gotlib and Gaël Lamant – 61, rue Henri Regnault, 92075 Paris-La Défense Cedex, France:
 - Member of the Versailles Institute of Statutory Auditors (*Compagnie régionale des commissaires aux comptes de Versailles*),
 - Term of office began: Shareholders' Meeting of June 3, 2010 (first term),
 - End of current term of office: term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2015;

Alternate Statutory Auditors

- **Auditex** – 1/2, place des Saisons, Paris-La Défense 1, 92400 Courbevoie, France:
 - Member of the Versailles Institute of Statutory Auditors (*Compagnie régionale des commissaires aux comptes de Versailles*),
 - Term of office began: Shareholders' Meeting of June 3, 2010 (first term),
 - End of current term of office: term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2015;
- **Philippe Castagnac** – 44, rue de la Faisanderie, 75116 Paris, France:
 - Member of the Paris Institute of Statutory Auditors (*Compagnie régionale des commissaires aux comptes de Paris*),
 - Term of office began: Shareholders' Meeting of June 3, 2010 (first term),
 - End of current term of office: term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2015.

7.5.2 Fees paid to the Statutory Auditors AFR

(in millions of euros)	Ernst & Young				Mazars			
	Amount (excl. taxes)		%		Amount (excl. taxes)		%	
	2014	2013	2014	2013	2014	2013	2014	2013
AUDIT								
Issuer	0.0	0.0			0.0	0.0		
Consolidated subsidiaries	4.0	3.9			2.6	2.6		
Statutory audit, certification and review of the individual and consolidated financial statements	4.0	3.9	89%	91%	2.6	2.6	93%	96%
Issuer	0.0	0.0			0.0	0.0		
Consolidated subsidiaries	0.5	0.3			0.2	0.1		
Audit-related services	0.5	0.3	11%	7%	0.2	0.1	7%	4%
SUB-TOTAL – AUDIT	4.5	4.2	100%	98%	2.8	2.7	100%	100%
OTHER SERVICES PROVIDED BY MEMBERS OF THE AUDITORS' NETWORKS TO CONSOLIDATED SUBSIDIARIES								
Legal, tax and labor-related advisory services	0.0	0.1			0.0	0.0		
Other	0.0	0.0			0.0	0.0		
SUB-TOTAL – OTHER SERVICES	0.0	0.1	0%	2%	0.0	0.0	0%	0%
TOTAL	4.5	4.3	100%	100%	2.8	2.7	100%	100%

7.6 Person responsible for the Registration Document **AFR**

7.6.1 Name of the person responsible for the Registration Document containing the Annual Financial Report_____

Jacques Aschenbroich, Chief Executive Officer of Valeo.

7.6.2 Declaration by the person responsible for the Registration Document containing the Annual Financial Report_____

"I hereby declare 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 omissions likely to affect its import.

I further declare that, to the best of my knowledge, the accounts have been prepared in accordance with applicable accounting standards and that they give a true and fair view of the assets, liabilities, financial position, and results of the Company and of all the companies included in the consolidation scope, and that the information provided in the management report and listed in the cross-reference table in Chapter 8, section 8.1.3 fairly presents the activity, results and financial position of the Company and of all the companies in the consolidation scope, and of the main risks and uncertainties to which they are exposed.

I obtained a statement from the Statutory Auditors at the end of their engagement in which they affirm that they have read the entire Registration Document, of which this document

is a free translation from the original, and examined the information about the financial position and the accounts contained therein.

The Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2014, presented in this Registration Document, can be found in Chapter 5, section 5.4.7 of this document and contains two emphases of matter concerning changes in accounting policy.

The Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2013 can be found in Chapter 5, section 5.4.7 of the Registration Document filed with the AMF on March 28, 2014 under number D.14-0234 and contains an emphasis of matter concerning changes in accounting policy."

Paris, March 26, 2015

Jacques Aschenbroich
Chief Executive Officer

8 APPENDICES

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8.1 Cross-reference tables

8.1.1 Cross-reference table for the Registration Document

This cross-reference table lists the main headings provided for by European Regulation No. 809/2004 of April 29, 2004 (the "Regulation") and gives reference to the sections and, when appropriate, the chapters in this document where information can be found regarding each of these headings. It also refers to the Registration Document sections and chapters of the fiscal year ended December 31, 2013, registered with the French

financial markets authority (*Autorité des marchés financiers* – AMF) on March 28, 2014, under number D.14-0234 ("2013 RD") and, where necessary, to the Registration Document sections and chapters for the fiscal year ended December 31, 2012, registered with the AMF on March 28, 2013 under number D.13-0246 ("2012 RD").

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
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3.	Selected financial information		
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4.	Risk factors	2	59-71
5.	Information relating to the issuer		
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5.1.2	Place of registration of the issuer and its registration number	7.1.6	366
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5.1.4	Registered office, legal form, legislation under which the issuer operates, its country of incorporation, and the address and telephone number of its registered office	7.1.1 and 7.1.2	366
5.1.5	Important events in the development of the issuer's business	1.3.1	18-21
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6.2	Markets served	1.1, 1.2.1 and 1.4	6; 10-12; 38-58
6.3	Exceptional factors	N/A	
6.4	Dependence on patents, licenses, contracts and manufacturing processes	1.3.5 and 2.1.3	31-34; 64-65
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7.	Organizational structure		
7.1	Brief description of the Group	1.3.2 and 7.2	21-22; 369-371
7.2	List of significant subsidiaries	5.4.6 (Note 2.2 and 13) and 5.6.4 (Note 21), 7.2	254-256; 311-315; 336; 370-371

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
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8.2	Environmental issues that may affect the issuer's utilization of property, plant and equipment	1.3.6, 2.1.2 and 4.3	37; 63-64; 149-171
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9.1	Financial position	5.1.4 Section 5.1.4 of the 2013 RD and 2012 RD	235-238
9.2	Operating results	5.1.1, 5.1.2, 5.1.3 Sections 5.1.1, 5.1.2 and 5.1.3 of the 2013 RD and 2012 RD	230-234
9.2.1	Significant factors materially affecting the issuer's income from operations	5.1 and 2.1.1	230-238; 60-62
9.2.2	Explanation of material changes in net sales or revenues	5.1	230-238
9.2.3	Any policies or factors that have materially affected or could materially affect, directly or indirectly, the issuer's operations	5.1 and 2.1.1	230-238; 60-62
10.	Capital resources		
10.1	Issuer's capital resources	5.1.4, 5.4.5, 5.4.6 (Notes 8.1, 10.1, and 11) and 5.6.4 (Note 13.2), 6.6.1 and 6.6.2	235-238; 244; 290-299; 308-310 328; 356; 357
10.2	Source and amounts of cash flows	5.1.4, 5.4.4 and 5.4.6 (Note 11)	235-238; 243; 310
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10.4	Restrictions on the use of capital resources	2.1.4, 5.4.6 (Note 8.3.2) and 5.6.4 (Note 15.9)	67-70; 303; 332
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12.	Information on trends		
12.1	Most significant recent trends in production, sales and inventory, and costs and selling prices since the end of the last fiscal year	5.2	239
12.2	Known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the issuer's prospects	1.2 and 5.3	10-17; 239
13.	Profit forecasts or estimates		
13.1	Statement setting out the principal assumptions upon which the issuer has based its forecasts or estimate	N/A	
13.2	Report prepared by the auditors	N/A	
13.3	Preparation of the profit forecast or estimate	N/A	
13.4	Statement on the validity of a forecast previously included in a prospectus	N/A	
14.	Administrative, management and supervisory bodies, and senior management		
14.1	Members – statements	3.1, 3.2.1 and 3.2.2	74-75; 76-91; 91-99
14.2	Conflicts of interest	3.2.1, 3.2.2, 3.2.3 and 6.6.6	77; 91-99; 100; 363
15.	Compensation and benefits		
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No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
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16.3	Information about the Audit Committee and Compensation Committee	3.2.1 and 3.2.2	76-78; 94-98
16.4	Statement regarding corporate governance	3.2.4 and 7.1.3	101; 366
17.	Employees		
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17.2	Shareholdings and stock options	3.2.5, 3.3.1, 3.3.3 and 6.4.5	102; 106-118; 120-121; 352
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20.	Financial information concerning the issuer's assets and liabilities, financial position and profits and losses		
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20.5	Age of latest financial information	December 31, 2014	
20.6	Interim and other financial information		
20.6.1	Half-yearly or quarterly financial information	N/A	
20.6.2	Selected financial information for interim periods	N/A	
20.7	Dividend policy	7.1.8	367
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21.1.5	Information about the terms and conditions of any acquisition rights and/or obligations over authorized but unissued capital or an undertaking to increase the capital	6.6.2	357
21.1.6	Information about any capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option	5.4.6 (Note 2.3) and 6.6.5	256-257; 362-363
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21.2.8	Description of the conditions governing changes in the capital, where such conditions are more stringent than is required by law	7.1.12	368
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23.	Third party information and statement by experts and declarations of interest		
23.1	Statement or report attributed to a person as an expert	N/A	
23.2	Information from a third party	N/A	
24.	Documents on display	7.4	373
25.	Information on holdings	1.3.2, 5.4.6 (Notes 2.2, 4.5.3 and 13), 5.6.4 (Note 21) and 7.2	21-22; 254-257 266-269; 311-315 336; 369-371

8.1.2 Cross-reference table for the Annual Financial Report

Annual Financial Report	Chapters/Sections	Pages
1. Parent company financial statements	5.6	318-337
2. Consolidated financial statements	5.4	340-315
3. Management report (French Monetary and Financial Code)		
Article L.225-100 of the French Commercial Code		
• Analysis of business trends	5.1.1 and 5.1.3	230-234
• Analysis of results	5.1.2 and 5.1.3	232-234
• Analysis of financial position	5.1.4	235-238
• Principal risks and uncertainties	2.1	60-70
• Summary table of powers currently delegated by the Annual Shareholders' Meeting to the Board of Directors with respect to capital increases	6.6.2	357
Article L.225-100-3 of the French Commercial Code		
• Information likely to have an impact in the event of a public tender offer	6.6.6	363-364
Article L.225-211 of the French Commercial Code		
• Buyback by the Company of its own shares	6.5	352-355
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7. Statutory Auditors' special report on related party agreements and commitments	5.7	339-341
8. Fees paid to the Statutory Auditors	7.5.2	374
9. Report by the Chairman of the Board on corporate governance, internal control and risk management (Article L.225-37 of the French Commercial Code)	3.2 and 3.4	76-105; 123-128
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8.1.3 Cross-reference table for the management report as provided for by Articles L.225-100 *et seq.* of the French Commercial Code

Management report – French Commercial Code		Chapters/Sections	Pages
Operations report			
1.	Financial position and operations of the Company in the past year	5.5	317
2.	Results of operations of the Company, its subsidiaries and companies under its control	5.1	230-238
3.	Key financial performance indicators	1.1	6-9
4.	Review of the business, results of operations and financial position	5.1	230-238
5.	Material events occurring between the end of the reporting period and the date the report was prepared	5.2	239
6.	Developments and outlook	5.3	239
7.	Research and development activity	1.3.5 and 4.2	31-34; 136-148
8.	Supplier payment cycles	5.5	317
9.	Changes in the presentation of the annual parent company financial statements and methods of measurement	5.4.6 (Note 1) and 5.6.4 (Note 1)	246-251; 322-323
10.	Description of major risks and uncertainties	2.1	60-71
11.	Information on facilities classified as high-threshold Seveso sites	N/A	
12.	Use of financial instruments	5.4.6 (Notes 8.1 and 8.3)	290-299; 300-304
13.	Investments over the past three years	5.1.4	235-238
14.	Material investments or controlling interests taken during the year in companies with registered offices in France	5.1.4	235-238
Corporate Social Responsibility			
15.	Information on how the Company takes into account the social and environmental consequences of its operations	4	131-228
16.	Key environmental and social indicators	4.7	223-225
Governance			
17.	General Management body of the Company	3.1	74
18.	List of all directorships and positions held in companies by each corporate officer during the past fiscal year	3.2	76-105
19.	Compensation and benefits in kind paid to each corporate officer during the past fiscal year	3.3	106-122
20.	Breakdown into the fixed, variable and extraordinary components of such compensation and benefits, and the calculation method	3.3	106-122
21.	Commitments given on behalf of executive corporate officers and other Group executive managers	3.3.1 and 3.3.3	106-118; 119-122
22.	Terms and conditions for transferring free shares to executive corporate officers during their term of office	3.3.1 and 3.3.3	106-118; 119-122
23.	Transactions in the Company's shares carried out by directors and by those with whom they have close relationships	6.4.4	352

	Management report – French Commercial Code	Chapters/Sections	Pages
	Share ownership structure and share capital		
24.	Share ownership structure and changes during the fiscal year	6.4 and 6.5.1	349-352; 352-353
25.	Status of employee share-ownership plans	6.4.5	352
26.	Trading in the Company's shares	6.5	352-355
27.	Name of companies controlled and equity interest	5.4.6 (Note 13)	311-315
28.	Share disposals to adjust reciprocal shareholdings	N/A	
29.	Amount of dividends and other distributed earnings paid during the past three fiscal years	6.3	349
30.	Disclosures likely to be material in the event of a public tender offer	6.6.6	363-364
	Other disclosures		
31.	Sumptuary expenses	5.5	317
32.	Five-year financial summary	5.8.1	342
33.	Injunctions or monetary penalties for anti-competitive practices	N/A	
34.	Information on stock option plans granted to corporate officers and employees	3.2.5, 3.3.4, 5.6.4 (10.1) and 6.6.3	102; 122; 308 358-361
35.	Information on free shares granted to corporate officers and employees	3.2.5, 3.3.4, 5.6.4 (10.1) and 6.6.3	102; 122; 308 358-360
36.	Summary table of powers currently delegated by the Annual Shareholders' Meeting to the Board of Directors with respect to raising new equity and the use made of such delegations during the year	6.6.2	357

8.2 Glossaries

8.2.1 Financial Glossary

Capital employed	"Capital employed" used to determine return on capital employed (ROCE) comprises the following items: ● net property, plant and equipment and intangible assets; ● working capital requirement, including inventories, accounts and notes receivable and other receivables, accounts and notes payable and other payables; ● other capital employed, including operating provisions (in an amount of 244 million euros and 239 million euros, respectively, in 2013 and 2014), deferred tax assets and liabilities, current tax assets and liabilities, other current financial assets, other financial liabilities (portions due beyond one year and within one year), as well as subsidies (portions due beyond one year and within one year); ● investments in equity-accounted companies excluding goodwill (in an amount of 121 million euros and 111 million euros, respectively, in 2013 and 2014). "Capital employed" used to determine the return on assets (ROA) comprises the following items: ● "capital employed" used to determine the ROCE as described above; and ● goodwill (including goodwill of equity-accounted companies).
Free cash flow	Net cash from operating activities (excluding changes in the sale of non-recurring trade receivables) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets.
Net cash flow	Free cash flow less (i) cash flows in respect of investing activities, relating to acquisitions and disposals of investments with a change in control and to changes in certain items shown in non-current financial assets, (ii) cash flows in respect of financing activities, relating to dividends paid, treasury share purchases and sales, interest paid and received, and acquisitions of equity interests without a change in control, and (iii) changes in sales of non-recurring trade receivables.
Operating cash flow	Free cash flow after taking into account interest paid and received.
EBITDA	Corresponds to (i) operating income (excluding share in net earnings of equity-accounted companies) before depreciation, amortization, impairment losses (included in the operating margin), other income and expenses and (ii) net dividends received from equity accounted companies.
Net debt	All long-term debt, short-term debt and bank overdrafts, less loans and other non-current financial assets, and cash and cash equivalents.
Operating margin including share in net earnings of equity-accounted companies	Operating income before other income and expenses.
Order intake	Business awarded by automakers during the period (including joint ventures at least 50%-owned by the Group) less any cancelations, based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans. Order intake for the Access Mechanisms business was not included in order intake for first-half 2013. <i>Unaudited indicator.</i>
Net attributable income excluding non-recurring items	Net attributable income adjusted for "other income and expenses" net of tax and non-recurring income and expenses net of tax included in operating margin including share in net earnings of equity-accounted companies.
ROA	ROA, or return on assets, corresponds to operating income in relation to capital employed (including investments in equity-accounted companies) including goodwill.
ROCE	ROCE, or return on capital employed, corresponds to operating margin (including share in net earnings of equity-accounted companies) in relation to capital employed (including investments in equity-accounted companies) excluding goodwill.

8.2.2 Sustainable Development Glossary

ADEME	French Environment and Energy Management Agency (<i>Agence de l'environnement et de la maîtrise de l'énergie</i>): public body undertaking operations with the aim of protecting the environment and managing energy. www.ademe.fr
CDP	Carbon Disclosure Project: an independent, non-profit organization working to drive greenhouse gas emissions reductions for companies and cities. www.cdproject.net
CFIE	French Business Information Center (<i>Centre Français d'Information sur les Entreprises</i>): the CFIE informs and trains new arrivals in the industry who are interested in corporate social responsibility and sustainable development. www.cfie.net
CMR substance	A carcinogen, mutagen or substance toxic for reproduction.
VOC	Volatile organic compound: VOCs are composed of carbon, oxygen and hydrogen and are readily found as atmospheric gases.
ELV Directive	European Directive no. 2000/53 of September 18, 2000 to reduce end-of-life vehicle waste through prevention, collection, treatment and recycling measures.
GHG	Greenhouse gas: gases which absorb infrared rays emitted by the Earth's surface and contributing to the greenhouse effect.
GRI	Global Reporting Initiative: a non-profit organization which develops internationally-applicable directives on sustainable development. www.globalreporting.org
ISO 14001	International standard on environmental management systems.
ISO 50001	International standard on energy management systems.
Natura 2000	All European natural sites, whether land- or water-based, identified for the rarity or fragility of their wildlife or plant species and their habitat. http://www.developpement-durable.gouv.fr/-Natura-2000,2414-.html
Oekom-Research	Extra-financial rating agency. www.oekom-research.com
OHSAS 18001	International standard on occupational health and safety information.
Open Innovation	Open Innovation is a concept that involves promoting innovation by deriving the maximum possible benefit from the ecosystem surrounding the company, primarily through collaboration between various players (governmental organizations, private, academic and research companies, innovative start-ups, etc.).
QRQC	Quick Response Quality Control: Four step problem resolution method: Detection, Communication, Analysis and Verification.
REACH regulation	European regulation no. 1907/2006 of December 18, 2006 (Registration, Evaluation and Authorization of Chemicals).
RobecoSAM	Sustainable Asset Management: an international investment company focused on sustainable investments. The company jointly manages with Standards and Poor's the Dow Jones Sustainability Indexes, that track the sustainability performance of 2,500 of the largest companies listed on the Dow Jones Global Total Stock Market Index. www.sustainability-index.com
SAE International	Society of Automotive Engineers International: a US-based association. Similarly to the VSA (see below), this organization has defined six levels of driving automation, from 0 (no automation, the driver must control everything) to 5 (full automation, no driver input required). Levels 3 and 4 correspond respectively to "conditional automation" and "high automation".
Seveso	The Seveso European Directive requires European Union member states to identify industrial sites which present risks of major accidents. Companies can be Seveso-classified based on the quantities and types of hazardous products on site.
Sustainalytics	Internationally-renowned research firm specialized in environmental, social and governance analysis. www.sustainalytics.com
VDA	<i>Verband der Automobilindustrie</i> : a German automotive industry association. Similarly to SAE International (see above), this organization has defined six levels of driving automation, from 0 (no automation, the driver must control everything) to 5 (full automation, no driver input required). Levels 3 and 4 correspond respectively to "highly automated" driving and "fully automated" driving.
ZNIEFF	French natural zone of interest for ecology, flora and fauna (<i>Zone naturelle d'intérêt écologique, faunistique et floristique</i>): an inventory program aiming at collecting exhaustive and up-to-date information on the natural environment, whether land- or water-based, whose interest lies either in the balance or richness of the ecosystem, or in the presence of rare or endangered plant or animal species. http://www.centre.developpement-durable.gouv.fr/zone-naturelle-d-interet-r95.html (French only).

Safe Harbor Statement

Statements contained in this Registration Document, which are not historical fact, constitute “Forward-Looking Statements”. Even though Valeo’s management feels that the Forward-Looking Statements are reasonable, investors are put on notice that actual results may differ materially due to numerous important factors, risks and uncertainties to which Valeo is exposed. Such factors include, among others, the Company’s ability to generate cost savings or manufacturing efficiencies to offset or exceed contractually or competitively required price reductions. The risks and uncertainties to which Valeo is exposed mainly comprise the risks resulting from the investigations currently being carried out by the anti-trust authorities as they have been identified in the Registration Document and risks relating to legal action resulting from such investigations, risks which relate to being a supplier in the automotive industry and to the development of new products and risks due to certain global and regional economic conditions. Also included are environmental and industrial risks as well as risks and uncertainties described or identified in the public documents submitted by Valeo to the AMF, including those set out in the “Risk Factors” section of Valeo’s Registration Document.

The Company assumes no responsibility for any estimates made by analysts and any other information prepared by third parties which may be used in this Registration Document. Valeo does not intend or assume any obligation to review or to confirm the estimates of analysts or to update any Forward-Looking Statements to reflect events or circumstances which occur after the date of this Registration Document.

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